

Perpetual Investment Funds

PERPETUAL CONCENTRATED EQUITY FUND

March 2023

FUND FACTS

Investment objective: Aims to provide long-term capital growth and income through investment predominantly in quality Australian industrial and resource shares.

FUND BENEFITS

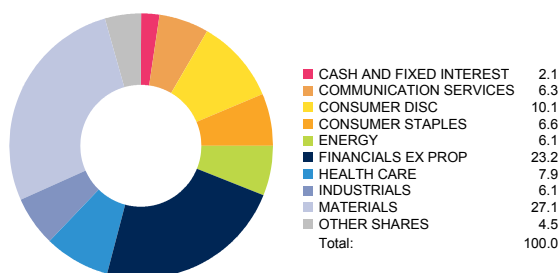
Provides investors with higher potential returns, through the active management of a portfolio of fewer stocks but with higher conviction, than our core Australian equity funds. This concentration may lead to increased short term volatility.

FUND RISKS

All investments carry risk and different strategies may carry different levels of risk. The relevant product disclosure statement or offer document for a fund should be considered before deciding whether to acquire or hold units in that fund. Your financial adviser can assist you in determining whether a fund is suited to your financial needs.

Benchmark:	S&P/ASX 300 Accum. Index
Inception Date:	August 1999
Size of Portfolio:	\$404.30 million as at 31 Mar 2023
APIR:	PER0102AU
Management Fee:	1.10%*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Five years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

	% of Portfolio
Insurance Australia Group Ltd	7.7%
BHP Group Ltd	6.1%
Brambles Limited	5.1%
Santos Limited	5.1%
Orica Limited	5.1%
Commonwealth Bank of Australia	4.8%
Iluka Resources Limited	4.5%
Telstra Group Limited	4.2%
CSL Limited	3.9%
Westpac Banking Corporation	3.9%

NET PERFORMANCE - periods ending 31 March 2023

	Fund	Benchmark #	Excess
1 month	0.34	-0.24	+0.57
3 months	4.29	3.33	+0.95
FYTD	12.97	13.28	-0.31
1 year	4.01	-0.57	+4.58
2 year p.a.	10.48	7.03	+3.45
3 year p.a.	21.71	16.59	+5.12
4 year p.a.	8.61	7.88	+0.73
5 year p.a.	8.07	8.64	-0.57
7 year p.a.	8.30	9.37	-1.07
10 year p.a.	8.01	8.13	-0.12
Since incep.	10.41	8.13	+2.28

Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

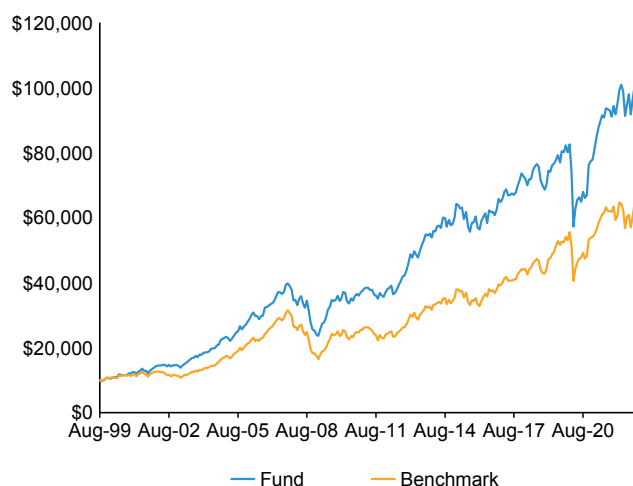
PORTFOLIO FUNDAMENTALS*

	Portfolio	Benchmark
Price / Earnings*	15.2	14.6
Dividend Yield*	4.1%	4.5%
Price / Book	1.9	1.9
Debt / Equity	28.7%	33.1%
Return on Equity*	13.2%	14.0%

* Portfolio Fundamentals are compiled using our methodology and provided only for the purpose of illustrating the Fund's investment style in action. These figures are forecast estimates, calculated based on consensus broker estimates where available, and should not be relied upon. Dividend Yield is a dividend forecast of underlying securities for the portfolio and does not reflect the distributions to be determined for the fund.

* Forward looking 12-month estimate.

GROWTH OF \$10,000 SINCE INCEPTION



— Fund — Benchmark

MARKET COMMENTARY

The Australian equity market strengthened over the March quarter, boosted by strong January performance, which was assisted by the traction behind the disinflation narrative, a rise in expectations for a soft landing, and hopes for a near-term Federal Reserve pause anticipated later in 2023. Investor sentiment was also buoyed by the reopening of China's economy following signs that the latest COVID wave had peaked. However, a mixed set of first-half corporate earnings resulted in weakness across the ASX.

The collapse of Silicon Valley Bank and Credit Suisse in March triggered a bank-led equity sell-off and remained a significant driver of volatility towards the end of the quarter. Meanwhile, Australian retail sales growth slowed notably from January's outsized gain, indicating weakness amid cost-of-living pressures and rising interest rates. Despite these challenges, the ASX rebounded in the final week of March, aided by stabilising bond volatility, easing credit market tensions, and a softer CPI print. Among the sectors, Consumer Discretionary and Communication Services performed the best, while Energy posted the largest decline. Commodity producers fared well, with materials tracking gains in the metals markets and iron ore producers underpinning the sector's strength.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Insurance Australia Group Limited, Orica Limited, and Iluka Resources Limited. Conversely, the Fund's largest relative underweight positions include BHP Group Ltd, Commonwealth Bank of Australia (not held), and Macquarie Group Ltd (not held).

The overweight position in gold and copper miner Newcrest Mining (+33.0%) contributed to relative performance. Newcrest and Newmont Mining have reportedly agreed to terms for talks after Newcrest rejected the latter's \$22.4B takeover offer. Reports indicated that Newmont has decided to engage in talks and standstill agreements during the quarter, allowing the two companies to meet and better understand why Newcrest rejected the prior acquisition proposal. The agreements also facilitated discussions about the potential price that Newcrest and its Board might be willing to consider proceeding with official due diligence.

The overweight position in supply chain services provider Brambles (+12.8%) contributed to relative performance. Brambles reported an underlying first-half NPAT (from continuing operations) of \$334.5M (vs consensus \$321.9M), and an underlying profit of \$548.8M (vs consensus \$511.4M). Management guided full-year sales revenue (to June 2023) of 12% to 14% year-on-year (at constant currency) and underlying profit guidance of 15% to 18% year-on-year at constant currency. Free cash flow after dividends is expected to improve in FY22 but remain a net outflow with a dividend payout ratio of 45-60% of underlying profit after finance costs and tax.

The overweight position in Iluka Resources (+13.5%) contributed to relative performance. The mineral sands miner announcing a December-quarter combined zircon, rutile, and synthetic rutile production of 157Kt (vs consensus estimate of 155kt). Specifically, zircon production of 76.3kt beat consensus of 70kt, and rutile production of 16.6kt beat consensus of 14kt. Synthetic rutile production of 63.9kt, however, missed consensus of 67kt, whereas ilmenite production came in at 151.1kt (vs consensus estimate of 130kt). Mineral sands revenue of \$415.2M fell short of a \$423M consensus, however, its full-year unit cash production costs fell in line with previous guidance.

The overweight position in dairy producer a2 Milk Company (-15.6%) detracted from relative performance. The stock price fell following the completion of the company's on-market 21.7M share buyback at an average price of NZ\$6.87/share. The buyback equated to 2.9% of the issued capital with a total consideration of -NZ\$149M. The stock was subsequently downgraded to 'hold' from 'buy' at Bell Potter after the buyback, with its target price cut to A\$6.80 from A\$7.65.

The overweight position in insurance provider Insurance Australia Group Ltd (-0.0%) detracted from relative performance. The stock underperformed the benchmark after reporting that recent storms and flooding in Auckland may result in an upward review of its FY2023 natural peril costs estimate. As of 30 January 2023, IAG had received more than 5,000 claims across its AMI, State, and NZI brands. The number of claims is expected to rise further as the event unfolds and customers identify damage to their property.

Not holding diversified retailer Woolworths (+14.4%) detracted from relative performance. Management reported its first-half results, with sales in line with forecasts and a slight beat in bottom-line profit. Its Australian food business showed the strongest momentum, attributed to effective cost management and the unwinding of Covid costs. Analysts anticipate growth to slow over the balance of FY23 and into FY24 as food price inflation is expected to unwind. Some analysts also expect top-line earnings momentum for the group in FY24 due to potential volume improvements and inflation, while others are concerned about increased competition against the backdrop of cost-of-living increases for consumers.

OUTLOOK

Economic conditions will continue to evolve, and uncertainty will continue to manifest in markets. The central banks' aggressive attempt to rein in inflation expectations will cause unintended consequences in both economies and the markets. Because central banks have no influence on the supply of goods and materials, they also cannot influence the willingness of companies to invest in expanding supply in response to higher prices. This hesitancy is mostly due to companies seeing this as a significant pull forward of demand from fiscal and monetary largesse. We see the only influence central banks can have is on demand, and to achieve a reduction in demand, we will see a tightening in liquidity and financial conditions. This will force many companies to face up to this new reality with many early phase/profitless companies not surviving.

We have long believed that markets are poised for further rotation to a more value-oriented investment environment as COVID-19 disruptions, waning stimulus, and war combine to keep consumer price inflation at high levels. However, we must also be willing to pivot the portfolio when the markets are pricing in overly aggressive rate expectations. With fear of a deep and long recession, this will be factored into markets, providing opportunities to redeploy capital. In these conditions, our focus on value-style investing and buying quality companies with strong balance sheets trading at reasonable valuations should continue to do well and offer attractive opportunities for investors.

The Ordinaries benchmark prior to 1/4/2000 was the ASX All Ordinaries Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX 300 Accumulation Index.

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The PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website www.perpetual.com.au. No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of any investor's capital. Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for contribution or withdrawal fees or taxation (except in the case of superannuation funds, as applicable). Past performance is not indicative of future performance.

MORE INFORMATION

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