Perpetual Investment Funds

PERPETUAL CONCENTRATED EQUITY FUND

July 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

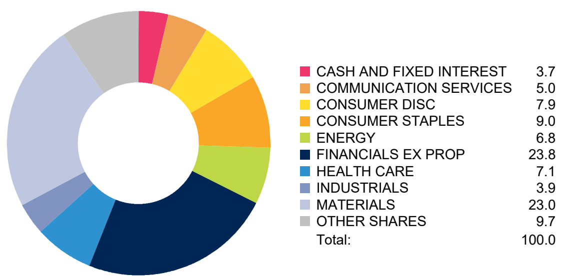
Provides investors with higher potential returns, through the active management of a portfolio of fewer stocks but with higher conviction, than our core Australian equity funds. This concentration may lead to increased short term volatility.

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: $370.40 million as at 30 Jun 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	7.1%
BHP Group Ltd	6.6%
Commonwealth Bank of Australia	5.5%
Santos Limited	4.9%
Orica Limited	4.7%
National Australia Bank Limited	4.7%
Westpac Banking Corporation	4.3%
Deterra Royalties Ltd	3.4%
Goodman Group	3.3%
CSL Limited	3.3%

NET PERFORMANCE - periods ending 31 July 2023

	Fund	Benchmark #	Excess
1 month	2.12	2.89	-0.78
3 months	0.97	2.03	-1.05
FYTD	2.12	2.89	-0.78
1 year	12.30	11.09	+1.21
2 year p.a.	8.29	4.18	+4.11
3 year p.a.	17.91	11.91	+6.00
4 year p.a.	7.66	6.05	+1.61
5 year p.a.	7.04	7.46	-0.41
7 year p.a.	7.97	8.40	-0.43
10 year p.a.	7.87	8.30	-0.42
Since incep.	10.40	8.18	+2.22

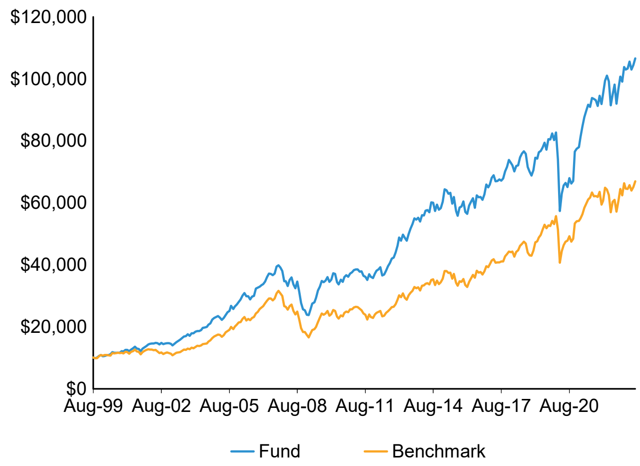
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	16.1	16.2
Dividend Yield*	3.7%	4.0%
Price / Book	1.9	2.0
Debt / Equity	31.7%	35.0%
Return on Equity*	12.2%	13.0%

^ 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



*Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

MARKET COMMENTARY

The S&P/ASX300 Accumulation Index rose 2.9% during the month of July despite the month starting off badly for equities. Australia reported strong building approvals and housing finance for May and the RBA decided not to raise interest rates on the 4th of July. Despite this, the market was hit with a wave of selling in the first week as markets fretted over indebted Chinese property developers and their impact on mainland banks. Hotter than expected ISM and jobs data in the US also created fears of drawn-out central bank tightening. Higher bond yields sparked a sell-off in interest rate sensitive stocks. A Moody's report showed mortgage delinquencies on the rise in Australia.

From the middle of the month equities rallied again however. July Westpac consumer sentiment and NAB business conditions both rose. Markets embraced signs of lower inflation in the US and hopes for a "soft landing" in the economy began to emerge. Chinese policymakers ended a multi year crackdown on the tech sector. The Federal Government announced that Deputy RBA Governor Michelle Bullock would replace incumbent Governor Philip Lowe in September. Another 32,600 jobs were created in June, above the consensus of 15,000, although Q2 inflation came in at 0.8%, below consensus of 1.0%. Headline inflation was 6.0% y/y versus 6.2% expected. Whilst there was some concern about services inflation running at the highest rate since 2001, overall markets tempered expectations of rate hikes towards the end of the month, with equities finishing the month relatively strongly.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Insurance Australia Group Ltd, Orica Limited, and Santos Limited. Conversely, the Fund's largest relative underweight positions include BHP Group Ltd, Macquarie Group Ltd (not held) and ANZ Group Holdings Limited.

The potfolio's overweight to Costa Group contributed to performance over the month as the stock rose 21.7% during July following a bid from private equity. This certainly vindicated our view that there was substantial value in this agricultural name. We had noted that Paine Schwartz had been creeping up the register and that its attractive asset base made it a potential target for private equity. Costa is the leading producer in several categories including mushrooms, tomatoes and best-in-class genetics in the berries segment (especially blueberries). We had recently visited China where we believe Costa has substantial growth prospects, especially in the blueberry market where consumption per capita is a fraction of US and Australian levels and where its IP gave it superior product versus peers.
The portfolio's overweight to Orica contributed to performance over the month as the company rose 6.2% over the month. We have been bullish on the stock with the company trading at a significant discount to previous peaks. Our favourable view of the worlds biggest supplier of commercial explosives is driven by our analysis that they would be able to drive contract re-pricing to more than offset inflation. Indeed we saw this in May when the company reported a 31% increase in first revenue to $4 billion. Earnings rose 32% to $323 million, topping forecasts of a 25% lift. We also think that lower gas and ammonia costs are helping to improve margins. Orica is also looking to benefit from Digital Solutions through the acquisition of Axis Mining Technology and growth in the number of Electronic Blasting Systems (EBS) sold as miners look for productivity gains.

Iluka Resources fell -8% during July, although this comes after an exceptional rise in the share price over the past few years. Iluka is the worlds largest producer of rutile and zircon. These minerals generate the cashflow underpinning the bulk of the current valuation of the company. Iluka also owns a valuable stake in Deterra Royalties, which was spun-off in an IPO, as well as a substantial amount of cash. Iluka is also the recipient of a non-recourse loan of more than $1 billion from the federal government to develop a fully integrated rare earths refinery, making it one of only two outside of China. We believe that this will be the key driver of future value for the company in the decade ahead.
Healius fell -9.8% in July as the market speculated that the bid by smaller rival ACL could be blocked by the ACCC. Healius' assets have attracted interest from private equity and there are activist investors on the register. With the combined value of Healius' radiology and pathology businesses estimated to be around $2.6 billion this represents a substantial uplift from the current market capitalisation of $1.7 billion.

OUTLOOK

A number of challenges loom for markets. In the near term we are focused on the August reporting season and the outlook for corporate earnings. We are also mindful of the ongoing inflation challenge, with services inflation running at the highest level since 2001. Expectations of rising energy prices and strong award wage growth are creating fears that inflation could be stickier in Australia than the US. Unemployment remains just 3.5%, a long way below the 4.5% level that the RBA believes is the NAIRU (non-accelerating inflation rate of unemployment) required to keep inflation under control. It may be 3 more years before inflation falls into the RBA's band, during which the risk of inflation expectations embedding into consumer consciousness remains.

Bond markets are also presenting challenges for investors. Whilst equity markets, led by the NASDAQ, have been exuberant about a soft landing, bond markets have been much more cautious with yields remaining at elevated levels. This may partly reflect scepticism about whether inflation is fully under control although markets may also be becoming more concerned about unsustainable fiscal positions. Just last year bond market vigilantes made short work of Liz Truss' Prime Ministership when she and her Chancellor of the Exchequer delivered unfunded tax cuts. The US 10 Year bond yield has risen back over 4% as the budget deficit expands again. The end of Yield Curve control in Japan will also prove tricky to navigate. A bigger than expected jump in yields could easily hit equities, especially more expensive stocks that have rallied hard.

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.

MORE INFORMATION

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