

Perpetual Investment Funds

PERPETUAL CONCENTRATED EQUITY FUND

August 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

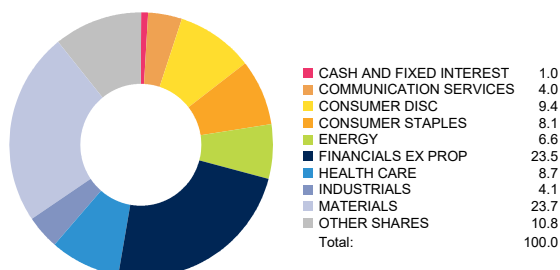
Provides investors with higher potential returns, through the active management of a portfolio of fewer stocks but with higher conviction, than our core Australian equity funds. This concentration may lead to increased short term volatility.

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
BHP Group Ltd	7.8%
Insurance Australia Group Ltd	7.2%
Commonwealth Bank of Australia	5.4%
Orica Limited	4.8%
Santos Limited	4.7%
National Australia Bank Limited	4.7%
Westpac Banking Corporation	4.1%
Goodman Group	3.8%
Origin Energy Limited	3.6%
CSL Limited	3.4%

NET PERFORMANCE - periods ending 31 August 2023

	Fund	Benchmark #	Excess
1 month	-0.68	-0.76	+0.08
3 months	2.77	3.88	-1.11
FYTD	1.42	2.11	-0.69
1 year	7.89	8.96	-1.07
2 year p.a.	6.23	2.45	+3.78
3 year p.a.	15.91	10.51	+5.39
4 year p.a.	8.25	6.46	+1.79
5 year p.a.	6.69	6.99	-0.30
7 year p.a.	7.99	8.53	-0.53
10 year p.a.	7.45	7.95	-0.50
Since incep.	10.33	8.12	+2.21

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

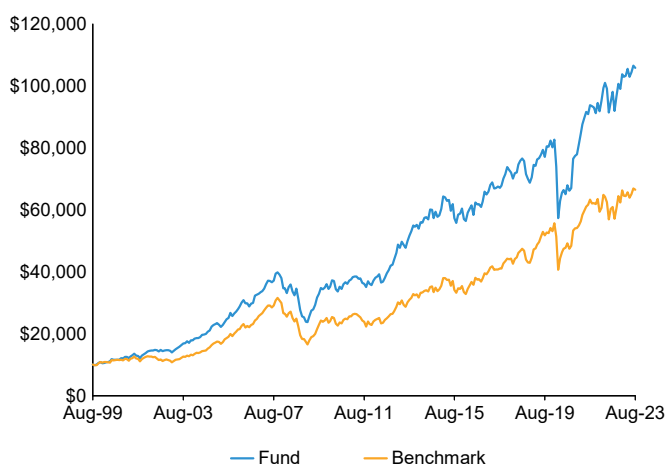
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	16.4	16.0
Dividend Yield*	3.7%	4.1%
Price / Book	2.0	2.0
Debt / Equity	27.9%	34.3%
Return on Equity*	12.1%	12.5%

[^] 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



MARKET COMMENTARY

The S&P/ASX300 Accumulation Index fell -0.76% during the month of August. The RBA left the official cash rate unchanged at 4.10% on the first day of the month, triggering a series of downgrades to future rate hike expectations as inflation fell and hopes of a soft landing grew. Despite the central bank news, corporate reporting season dominated the month, especially towards the end. After a fairly lacklustre start the number of stocks disappointing the market grew as the month went on. Companies reporting full year results saw revenue rise a respectable 8.9%, however expenses typically rose 13.9%, contributing to a sharp decline in profitability. Whilst stocks like Wesfarmers (+10.6%) and Goodman Group (+13.7%) led the market index, stocks as varied as BHP (-2.5%), Transurban (-7.5%), Resmed (-24.0%), Wisetech (-19.0%) and Coles (-10.6%) dragged the market down towards the end of the month. It was a case of resilient companies with pricing power faring well versus those caught by rising costs, especially rising interest bills. Some companies forced to cut dividends were heavily punished. In terms of sectors consumer discretionary fared the best despite the challenges facing consumers, whilst Utilities, Consumer Staples, Industrials and Materials fared the worst.

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 Macquarie Group Ltd (not held), ANZ Group Holdings Limited & CSL Limited.

The overweight to Premier Investments (+16.14%) strongly contributed during August. Premier like most retail has struggled with its share-price since early May as pressures on the consumer increased resulting in negative industry sales, not aided by significant cost headwinds. All while cycling very strong comparative trading outcomes. Market analysts were very uncertain about just how bad FY23 & FY24 outcomes might be. PMV has long been part of our core retail investments- it is a quality business, supported by a particularly strong net cash balance sheet and overseen by engaged and experienced executive leadership personnel. The business also has future growth potential across several offshore geographies with the retail sector normalising post the widespread 2020/2021 covid restrictions.

The overweight to Goodman Group contributed strongly to performance in August (+13.73%) as the company reported a solid result and provided an upbeat update highlighting their current and potential investments into data-centre development. We took the opportunity to establish a position in Goodman Group late last year when the market was generally worried about large property groups' performance in a rising rate environment. However, Goodman's focus on the Industrial & logistics segment has delivered strong results driven by tenants' e-commerce expansion and supply chain optimisation in an environment of limited supply of modern and well-located warehouses. We believe that Goodman will continue to grow earnings across its global portfolio supported by profitable development and ongoing rental increases with a conservatively geared balance sheet.

The overweight to Brambles (+6.40%) contributed during August. We believe this was driven by the company's better-than-expected FY23 result and associated outlook commentary. More specifically, the result demonstrated Brambles' significant pricing power, to ensure that CHEP's increased cost-to-serve was being more than recovered (e.g. CHEP Americas reported an 18% rise in revenue from Price/Mix benefits during the period). In addition, improved working capital management as well as lower capex/sales ratio, drove a Free Cashflow increase of US\$412m to US\$498m in FY23 – thus addressing what has been a key analyst/investor concern, Brambles' historic poor track record of Free Cashflow generation. Finally, FY24e guidance for underlying earnings growth in cc-terms of 9-12%, plus Free cashflow of US\$450 - \$550m, positively surprised non-holders.

Iluka Resources fell -16.54% during August due to growing concerns over the health of the Chinese property market and destocking from global pigment producers. This comes after an exceptional rise in the share price over the past few years. Iluka is the world's largest producer of rutile that is used to produce pigment (paint) and zircon that is used to produce ceramics (tiles etc). These minerals generate the earnings and cashflow for the company currently, and the company has responded to soft near-term demand by idling some production to avoid inventory and working capital build. Iluka has a very strong balance sheet (net cash) and also owns a valuable stake in Deterra Royalties, which was spun-off in an IPO, so is able to buffer these periods of demand distortion that is a feature of these markets.

The funds overweight to Costa Group detracted from performance as the stock fell 13.9% during August as a profit warning due to the wet and cold weather impacting its citrus crop and weak tomato pricing sparked speculation that potential acquirer Paine Schwartz may cut or walk away from its \$3.50 bid. Costa is the leading producer in several agricultural categories including mushrooms, tomatoes and has best-in-class genetics in the berries segment (especially blueberries). We 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 funds overweight to Endeavour Group (-8.28%) detracted from performance over the month. Endeavour has struggled over recent months as it matures into its standalone status after demerger from Woolworths, faces into continuing erratic sell-down of the residual WOW shareholding, cycles inconsistent covid impacted trading in its retail and hotel divisions and mostly remains vulnerable to numerous erratic political responses to gaming regulation. Given all these mixed headwinds it has been difficult for the market to discern what normalised future trading might look like. For its part, Endeavour has struggled to articulate its actions, and at this still early stage, to demonstrate outcomes around its existing asset base. As an active investor we purposefully interact and engage with the company, particularly around capital allocation and return hurdles and will continue to do so. Regardless Endeavour possesses significant assets, capable management, and a solid balance sheet.

OUTLOOK

The economic and market outlook remains uncertain. Central banks are hoping they are at the end of their tightening cycles. Bond markets are still not fully convinced, with yields remaining near multi-year highs. Despite this, equity market indices remain relatively sanguine and we think there are risks to the downside, especially in cyclical sectors with markets yet to fully price any downturn in earnings over the year ahead. There is still the possibility of a "soft landing" or even "no landing" economic scenario due to the resilience of consumers and strength of labour markets, buttressed by years of stimulus and structural shortages. The challenge to this thinking is that it would likely come at the cost of core inflation embedding even more which would necessitate even higher interest rates. So far during this cycle central banks have consistently underestimated the extent of underlying inflation. We are also conscious of the macroeconomic gap globally, with the US about six months ahead of the Australian cycle. Furthermore in a world of rising geopolitical risks, de-globalisation and pressure to decarbonise through higher cost renewable energy, we still believe the risks of higher structural inflation remain. The US Inflation Reduction Act, for example, continues to drive much higher than anticipated industrial activity, which could yet manifest in the form of inflation and interest rates. Our quality and value process continues to point us towards a range of reasonably priced businesses with solid balance sheets and good prospects able to deliver long term returns with lower than market risk.

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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