

Perpetual Investment Funds

PERPETUAL GEARED AUSTRALIAN SHARE FUND

September 2022

FUND FACTS

Investment objective: Aims to enhance long-term capital growth through borrowing (gearing) to invest predominantly in quality Australian industrial and resource shares.

FUND BENEFITS

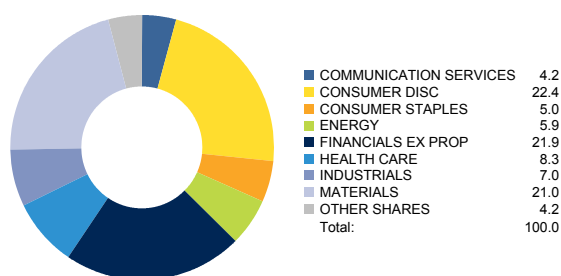
Offers investors broad market exposure with the potential for higher returns through the use of gearing (borrowing within the fund) and actively managed by one of Australia's most experienced investment management teams. A geared fund has benefits over gearing into a fund because there are no margin calls, no credit checks, no need for collateral or assets as security.

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: March 2003
Size of Portfolio: \$399.65 million as at 30 Sep 2022
APIR: PER0071AU
Management Fee: 1.17%*
Investment style: Active, fundamental, bottom-up, value
Suggested minimum investment period: Seven years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

Stock Holding	% of Portfolio
BHP Group Ltd	6.9%
Insurance Australia Group Limited	6.1%
Santos Limited	5.9%
Flutter Entertainment Plc	5.6%
La Francaise des Jeux SA	4.9%
Brambles Limited	4.8%
Westpac Banking Corporation	4.5%
Commonwealth Bank of Australia	4.2%
Iluka Resources Limited	4.2%
Wesfarmers Limited	3.9%

NET PERFORMANCE - periods ending 30 September 2022

	Fund	Benchmark #	Excess
1 month	-13.78	-6.29	-7.48
3 months	0.31	0.45	-0.14
FYTD	0.31	0.45	-0.14
1 year	-15.36	-8.00	-7.37
2 year p.a.	31.28	9.73	+21.55
3 year p.a.	1.58	2.73	-1.15
4 year p.a.	2.96	5.10	-2.14
5 year p.a.	7.00	6.83	+0.17
7 year p.a.	9.10	8.07	+1.03
10 year p.a.	11.24	8.38	+2.86
Since incep.	11.38	9.00	+2.38

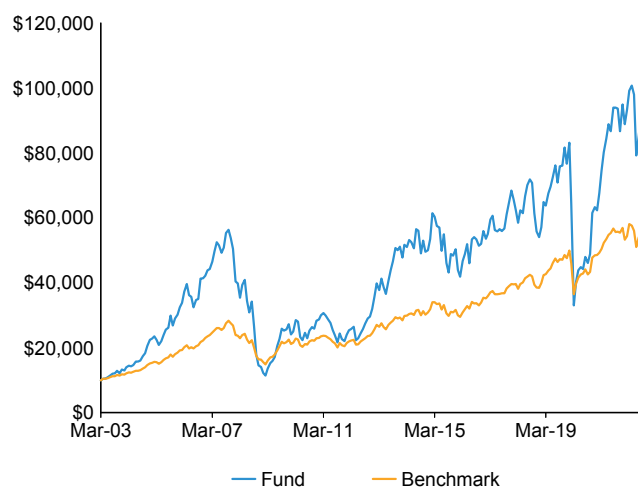
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	13.1	12.8
Dividend Yield*	4.7%	5.1%
Price / Book	1.8	1.7
Debt / Equity	35.0%	30.5%
Return on Equity*	13.8%	14.2%
Gearing Level	56.8%	

[^] Portfolio Fundamentals are compiled using our methodology and provided only for the purpose of illustrating Perpetual'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 Australian equity market finished the September quarter marginally higher after returning most of its earlier gains in the latter half. Energy and Health Care sectors were the standouts, whereas Utilities and REITS were significant laggards. The Energy sector rallied amid the prospect of OPEC+ announcing more production cuts, while mining producers impressed despite underlining concerns about the outlook for steel demand. The Resources sector outperformed on stronger-than-expected results, spurred by M&A activity and record cash flows over the past year, despite significant declines in commodity markets and crude oil trading at its lowest since January. Consumer Staples ended worse after results from food and grocery companies confirmed prevailing headwinds from inflation. All in all, this allowed Value stocks to slightly edged-out Growth stocks over the quarter.

Market sentiment was supported early in the quarter by an unexpected rebound in business confidence and conditions, suggesting that demand had remained resilient in the face of economic headwinds. This came as Australian employment rebounded in August, despite the jobless rate unexpectedly rising for the first time in 10 months. This strengthened the case for the RBA to slow the pace of tightening in October and acknowledge that rates are nearing a normal setting. Investors, however, remained alert to the more significant market issues, including the outlook for monetary policy after central bankers emphasised that they are a long way from a policy pivot. This came after three consecutive cash rate rises over the quarter, totalling 150 basis points. Sentiment was weighed down later in the quarter by an increasingly hawkish central bank rate outlook, tightening financial conditions, and volatility in FX and bond markets. Furthermore, concerns of a surge in utility prices and the expiration of the fuel excise cut are expected to put more upward pressure on inflation over the December quarter. Europe's energy crunch, UK policy uncertainty, China's Covid lockdowns, and speculation of a global recession further contributed to a deteriorating outlook for global growth and consensus earnings estimates, which stoked September-quarter local market volatility.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include, Santos Limited, Insurance Australia Group Limited, and Flutter Entertainment Plc. Conversely, the Fund's largest underweight positions include Woodside Petroleum Ltd, Macquarie Group Limited, and Woolworths Group Ltd, all of which are not held in the Fund.

The overweight position in online betting and gaming provider Flutter Entertainment Plc (+18.5%) contributed to relative performance. The stock rallied upon release of a stronger-than-expected half year result. Flutter saw an 11% rise in revenue compared to the first half of 2021, however, adjusted EBITDA fell 19%. Positive revenue momentum was driven by recreational player growth, with average monthly players up 14% at the group level. In the US, its sports betting market share accelerated to 51% in the June quarter, driven by FanDuel's efficient customer acquisition and strong operational execution. However, its UK & Ireland June-half performance reflected safer gambling initiatives.

The overweight position in dairy producer a2 Milk Company (+23.0%) contributed to relative performance. During the quarter, the company reported a 19.8% increase in its full-year FY2022 revenue to NZ\$1.446.2M, leading to a 42.3% jump in net profit after tax to NZ\$114.7M and beating the market consensus estimate of NZ\$113.9M. This was driven mainly by double-digit infant formula sales growth from both its China and English label products, reflecting a2's significant increase in marketing investment, which prompted further gains in brand health metrics and record market shares. Investors were further pleased with the announcement of a NZ\$150M on-market share buyback.

The overweight position in insurance provider Insurance Australia Group Ltd (+6.7%) contributed to relative performance. The stock rallied hard late in the quarter to recover most of its earlier losses incurred leading up to the release of its preliminary full-year financial results. While IAG's growth of 5.7% was in line with its mid-single digit growth guidance, its reported insurance profit margin came in at 7.4%, down 6.1% year-on-year and missing its 10% to 12% guidance. Management blamed the miss on its net natural peril costs of \$1.119B, which were \$354M above the original allowance of \$765M.

The overweight position in healthcare services and hospital operator Ramsay Health Care (-21.2%) detracted from relative performance. The stock fell after the KKR-led consortium confirmed that it had ceased discussions with Ramsay regarding a potential acquisition. Ramsay's board advised KKR to increase its offer to \$88 per share for due diligence to be granted. However, the consortium advised that it would not proceed with an alternative proposal on the belief that the business had materially deteriorated over the past six months. Ramsay indicated that it remains open to engaging in talks relating to a change of control.

The overweight position in explosives and blasting systems manufacturer Orica Ltd. (-16.2%) detracted from relative performance. The stock fell during the quarter following its successful \$650M equity capital raise to partly fund the acquisition of geospatial tools manufacturer Axis Mining Technology in a deal worth up to \$350M for an up-front cash consideration of \$260M. The excess capital raised will be used to fund incremental trade working capital requirements arising from global supply chain dislocations and to help strengthen its balance sheet.

OUTLOOK

We have long believed that markets are poised for further rotation to a more value-oriented investment environment as Covid disruptions, waning stimulus, and war combine to keep consumer price inflation at high levels. Until June this year, equity markets were resilient in the face of the rate hikes, but bond markets have priced in tighter monetary policy much more aggressively. Historically, when the bond market and equity market disagreed, the bond market was usually correct. In our view, rising bond yields will eventually lead overpriced growth stocks into a more sustained and overdue correction, challenging investors with large growth exposures. We think, in the years ahead, markets will need to become accustomed to more inflation than previously experienced. This distinct shift in the macro backdrop is already playing out across asset classes. In these conditions, our focus on value style investing, 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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