

## Perpetual Investment Funds

# PERPETUAL GEARED AUSTRALIAN SHARE FUND

March 2023

### 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

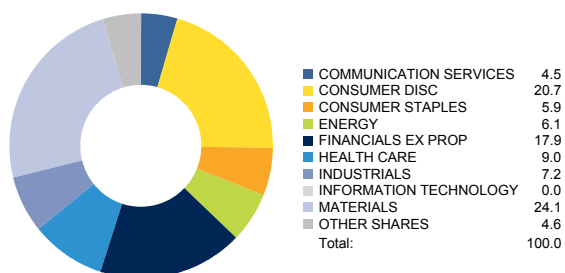
Provides investors with broad market exposure with the potential for higher returns through the use of gearing (borrowing within the fund) and actively managed by one of Australia's most experienced investment management teams.

### 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.

<b>Benchmark:</b>	S&P/ASX 300 Accum. Index
<b>Inception Date:</b>	March 2003
<b>Size of Portfolio:</b>	\$458.00 million as at 31 Mar 2023
<b>APIR:</b>	PER0071AU
<b>Management Fee:</b>	1.17%*
<b>Investment style:</b>	Active, fundamental, bottom-up, value
<b>Suggested minimum investment period:</b>	Seven years or longer

### PORTFOLIO SECTORS



### TOP 10 STOCK HOLDINGS

	% of Portfolio
BHP Group Ltd	7.4%
Insurance Australia Group Ltd	5.4%
Brambles Limited	5.2%
Santos Limited	5.2%
Flutter Entertainment Plc	5.0%
CSL Limited	4.4%
Iluka Resources Limited	4.4%
Telstra Group Limited	4.0%
La Francaise des Jeux SA	3.7%
Westpac Banking Corporation	3.5%

### NET PERFORMANCE - periods ending 31 March 2023

	Fund	Benchmark #	Excess
1 month	0.76	-0.24	+0.99
3 months	7.81	3.33	+4.47
FYTD	28.76	13.28	+15.48
1 year	2.88	-0.57	+3.45
2 year p.a.	17.02	7.03	+9.99
3 year p.a.	45.65	16.59	+29.07
4 year p.a.	12.48	7.88	+4.60
5 year p.a.	11.79	8.64	+3.14
7 year p.a.	11.80	9.37	+2.43
10 year p.a.	10.45	8.13	+2.32
Since incep.	12.47	9.42	+3.05

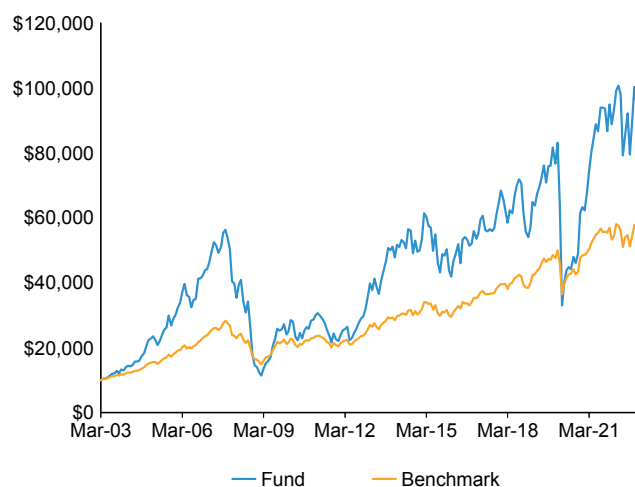
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	15.7	14.6
Dividend Yield*	3.9%	4.5%
Price / Book	2.0	1.9
Debt / Equity	29.9%	33.1%
Return on Equity*	13.4%	14.0%
Gearing Level	56.4%	

<sup>^</sup> 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 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 Ltd, Flutter Entertainment Plc, and Brambles Limited. Conversely, the Fund's largest underweight positions include Transurban Group Ltd, Macquarie Group, 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 (+34.9%) contributed to relative performance. The stock benefitted during the quarter after announcing that it will commence shareholder consultation on an optimal share listing structure based on the Board's view that an additional US listing will yield several long-term strategic and capital market benefits, including; enhancing the group's profile in the US, better enabling the recruitment and retention of US talent, providing access to deeper capital markets and to new US domestic investors, providing greater overall liquidity, and optionality to pursue a primary US listing (one of the criteria for access to US indices).

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 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 cobalt miner Jervois Global (-76.0%) detracted from relative performance. The market was disappointed after an underwhelming December-quarter trading update by the firm, reporting an NPAT loss of \$32.6M, revenue of \$73.0M (down 24%) vs year-ago \$96.0M, and an Adjusted EBITDA of -\$15.4M and with cobalt sales volumes of 1,355 mt. Management, however, expects a return to positive EBITDA if prices stabilise or rise, and is guided to an FY2023 sales volume of 5,300 to 5,600 mt.

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 copper and zinc miner 29Metals (-38.0%) detracted from relative performance. The stock fell abruptly following a disappointing financial result. 29Metals reported a full-year NPAT loss of \$47.2M (vs consensus loss of \$11.5M) from revenue of \$720.7M (vs consensus \$720.7M). The stock price was further impacted by an extreme weather event reported at its Capricorn Copper site. It now expects the interruption to its operations to last three to four months, but this is subject to change. Consequently, 29Metals' 2023 guidance for Capricorn Copper has been withdrawn.

## 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. This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL No 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. 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](http://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

Adviser Services 1800 062 725  
Investor Services 1800 022 033  
Email [investments@perpetual.com.au](mailto:investments@perpetual.com.au)  
[www.perpetual.com.au](http://www.perpetual.com.au)

