

Perpetual Investment Funds

PERPETUAL SMALLER COMPANIES FUND

August 2023

FUND FACTS

Investment objective: Aims to provide long-term capital growth and income through investment in quality Australian industrial and resource shares which, when first acquired, do not rank in the S&P/ASX 50 Index.

FUND BENEFITS

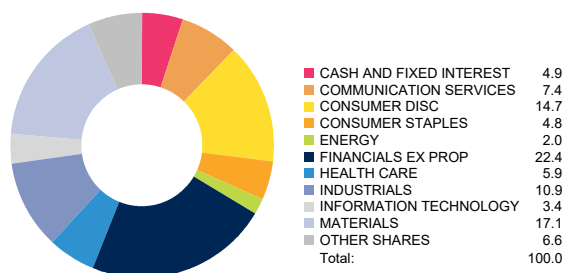
Provides investors with the potential to benefit from the growth of quality smaller or emerging companies, through active management by one of Australia's most experienced investment management teams.

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.

Benchmark:	S&P/ASX Small Ordinaries Accum. Index
Inception Date:	October 1996
Size of Portfolio:	\$672.82 million as at 30 Jun 2023
APIR:	PER0048AU
Management Fee:	1.25%*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Five years or longer

PORTFOLIO SECTORS



TOP 5 STOCK HOLDINGS

	% of Portfolio
Pacific Current Group Ltd	7.4%
Healius Limited	3.6%
Bapcor Ltd	3.2%
Gold Road Resources Ltd	3.2%
Elanor Investors Group	2.8%

NET PERFORMANCE - periods ending 31 August 2023

	Fund	Benchmark #	Excess
1 month	0.66	-1.31	+1.97
3 months	6.14	2.22	+3.92
FYTD	4.99	2.19	+2.80
1 year	2.37	-1.12	+3.49
2 year p.a.	4.36	-8.14	+12.51
3 year p.a.	14.28	3.00	+11.28
4 year p.a.	11.77	2.77	+9.01
5 year p.a.	9.58	2.40	+7.18
7 year p.a.	9.52	5.15	+4.37
10 year p.a.	10.16	5.74	+4.42
Since incep.	12.13	5.22	+6.91

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

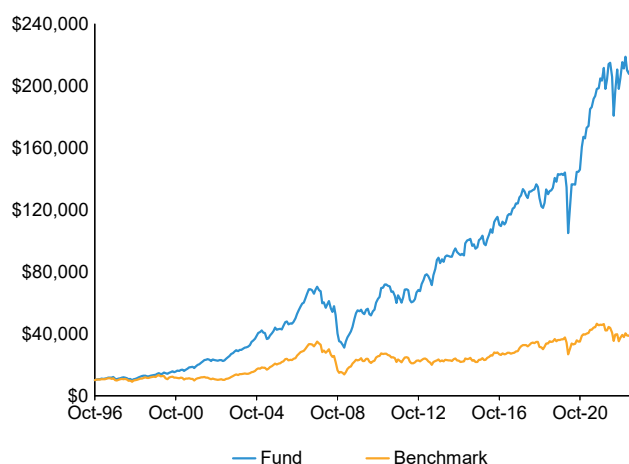
PORTFOLIO FUNDAMENTALS*

	Portfolio	Benchmark
Price / Earnings*	13.4	18.5
Dividend Yield*	4.5%	3.8%
Price / Book	1.4	1.6
Debt / Equity	23.0%	29.8%
Return on Equity*	11.3%	10.0%

* 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



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. A renewed surge in longer dated bonds during August, alongside concerns about the growing US budget deficit and a downgrade in Fitch's US credit rating (from AAA to AA+), added to some volatility in equity markets. Concern also grew about the Chinese economy; the return of deflation sparking comparisons with Japanese stagnation in the 1990s whilst Country Garden was just the latest property giant to teeter on the edge of bankruptcy. Policy stimulus from the PBOC had mixed results and the Australian dollar softened significantly. Somewhat surprisingly iron ore prices remained firm.

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 Pacific Current Group Ltd, Healius Limited and Elanor Investors Group. Conversely, the Fund's largest underweight positions include Liontown Resources Limited, Pro Medicus Limited and Flight Centre Travel Group Limited.

Pacific Current Group contributed during August (8.61%) as fund managers Regal and GQG both competed to acquire the financial services business. We have owned Pacific current Group for a number of years. It is a well-established funds management boutique incubator which owns equity stakes in 15 asset managers. These boutiques include public equities, life settlements, real assets, and private equity. PAC has delivered solid earnings growth in recent years and is seeing strong net inflows across a number of its boutiques, in particular Victory Park and Aether. Prior to the bid PAC traded at a reasonable multiple of 12x next year's earnings with a solid dividend yield of over 5%.

The overweight position in gold exploration company Gold Road Resources Ltd (+16.0%) contributed to relative performance after receiving a boost from the rise in the spot price of gold over the month, particularly in AUD terms.

The overweight to Enero Group detracted to returns during August (-12.85%), which has come after a disappointing update in June and February. Despite the stock falling significantly this year the recent result exhibited a stabilisation in margins following significant cost out actions undertaken by management in recent months. Enero owns boutique media agencies in Australia, the UK and US that specialise in Creative, Public Relations and Data Analytics. Enero also owns a majority stake in OB Media, a programmatic advertising platform.

ARN detracted for the month of August as it reported weak results for H1 2023, with revenue down -2%, EBIT down -27% and earnings per share down -40%. The result reflected the cyclical headwinds currently facing traditional media companies, in combination with significant fixed cost leverage. Whilst there have long been concerns about structural decline it is worth noting that radio as a share of ad revenue has remained at 8% for a long time. ARN Radio itself has been the top performing network for a number of years and the business is highly cash generative, with minimal capital expenditure requirements.

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.

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