Perpetual Investment Funds

PERPETUAL SMALLER COMPANIES FUND

September 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

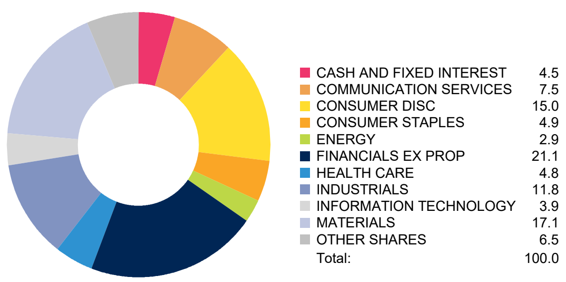
Provides investors with the potential to benefit from the growth of quality smaller or emerging companies, through active management by one of Australia's most experienced investment management teams.

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	7.0%
Bapcor Ltd	3.2%
Healius Limited	3.0%
Gold Road Resources Ltd	3.0%
Mcmillan Shakespeare Limited	2.9%

NET PERFORMANCE - periods ending 30 September 2023

	Fund	Benchmark #	Excess
1 month	-3.87	-4.04	+0.17
3 months	0.93	-1.94	+2.86
FYTD	0.93	-1.94	+2.86
1 year	4.68	6.85	-2.17
2 year p.a.	2.20	-9.04	+11.24
3 year p.a.	12.81	2.57	+10.24
4 year p.a.	9.74	1.06	+8.68
5 year p.a.	8.98	1.63	+7.35
7 year p.a.	8.72	4.31	+4.41
10 year p.a.	8.98	5.13	+3.85
Since incep.	11.92	5.04	+6.88

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

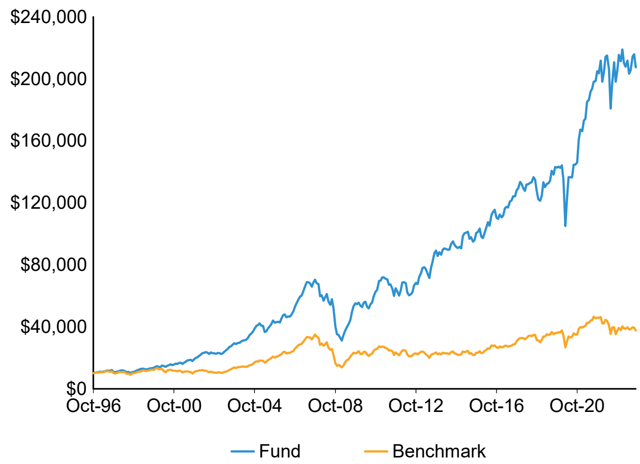
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	12.7	16.6
Dividend Yield*	4.8%	4.0%
Price / Book	1.4	1.5
Debt / Equity	23.2%	29.2%
Return on Equity*	11.1%	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



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

MARKET COMMENTARY

The S&P/ASX300 Accumulation Index fell -2.89% during September. Bond yields continued their steady ascent, crippling equity markets. Conversely, the Australian dollar continued its steady descent against the USD. The Australian cash rate remained unchanged for the quarter at 4.10%, with newly installed governor Michelle Bullock seeing no need to act at her debut meeting. Recent data suggests inflation is past the peak but well above the desired range. Energy was the best performing sector, with the sector rising +2.2% as oil and coal prices rose. Real Estate Investment Trusts (-8.5%), Information Technology (-7.7%) and Healthcare (-6.4%) all fell sharply in response to rising rates.

PORTFOLIO COMMENTARY

The portfolio's largest overweight positions include Pacific Current Group Ltd, Elanor Investors Group and PSC Insurance Group Ltd. Conversely, the Fund's largest underweight positions include Pro Medicus Limited, Flight Centre Travel Group Limited and Paladin Energy Ltd, all of which are not held.

Stanmore Resources contributed to performance in September (+13.15%) as the price of coal rallied. Stanmore Resources owns and operates two major coal mines in Australia, the Isaac Plains Complex as well as South Walker Creek. South Walker Creek is one of the highest performing PC products given its high-quality. Stanmore also has multiple projects in the pipeline which look to provide future growth opportunities. The company has a track record of value accretive mergers and acquisitions with management demonstrating good price discipline.

Despite a decline in thermal coal prices after the massive surge in 2020-2022, the fund's overweight to Whitehaven contributed to performance in September (+16.75%). The company rallied as Whitehaven confirmed it is in the running to acquire BHP's major Daunia and Blackwater coal mines in Queensland. Whitehaven had traded in the $0.80 to $0.90 range in 2020 before reaching nearly $11 in 2022 as prices and demand for coal skyrocketed. Despite trading at artificially low multiples, the inevitable fade in the coal price would eventually normalise the P/E longer term. Meanwhile Whitehaven racked up billions in surplus cash during the boom, which management will need to decide how to deploy in the best interests of shareholders which could still buttress the share price against excessive falls if capital is managed well.

The overweight to Healius detracted from performance in September (-17.86%) as the market continued to speculate 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. We are encouraged with the progress Healius has made with improvements in their radiology business under new leadership. Pathology segment continues to track below what the business could achieve given in person GP visits are still around 20% below pre pandemic, which leads to lower pathology requests. We believe some of the co-pay introduction are deterring GP visits, consumers continue to defer and there are evidence that primary care screenings are being deferred. We believe GP visits and Pathology volumes will re-bound in the future and that we will start to see pathology segment margins improve from here.

Pacific Current Group detracted to performance in September (-9.00%) as fund manager Regal pulled out of it's potential acquisition. The company is still being suited by GQG to acquire the listed fund manager. 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%.

OUTLOOK

The importance of interest rates on valuation cannot be understated - it is the fundamental driver of valuation. Yet as the yield curve has moved steadily higher over 2023 the equity market has taken a peculiar response, acknowledging the impact of rising discount rates in some sectors but not others. Pockets of growth stocks remain completely oblivious to the move in yields. Goldman Sachs strategist Matt Ross recently highlighted that many Australian growth stocks have held up better than offshore peers and continue to trade at elevated multiples. This could all be rendered irrelevant if the recent move in bonds is indeed an aberration, inflation plummets and yields settle lower. But if we are in a higher for longer world, there could yet be more pain to come for the "expensive defensives" and growth stocks that have been the darlings of the market in the last decade. The psychological temptation to buy a high quality company that has fallen 20% is ever present but if yields remain here, or even march higher, than there is every chance that this valuation unwind is far from complete.

MORE INFORMATION

Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au

Perpetual