

## Perpetual Investment Funds

# PERPETUAL SMALLER COMPANIES FUND

October 2022

### 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:** \$656.78 million as at 30 Sep 2022

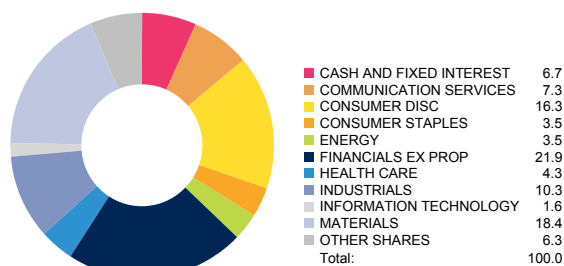
**APIR:** PER0048AU

**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

Stock Holding	% of Portfolio
Pacific Current Group Ltd	5.3%
Healius Limited	3.9%
Bapcor Ltd	3.4%
ALS Ltd.	3.2%
Enero Group Limited	3.1%

### NET PERFORMANCE - periods ending 31 October 2022

	Fund	Benchmark #	Excess
1 month	3.57	6.46	-2.89
3 months	4.21	-4.91	+9.12
FYTD	13.47	5.96	+7.51
1 year	0.18	-18.31	+18.49
2 year p.a.	18.59	3.45	+15.14
3 year p.a.	12.90	1.46	+11.44
4 year p.a.	12.61	4.56	+8.05
5 year p.a.	9.88	4.16	+5.72
7 year p.a.	10.73	7.08	+3.65
10 year p.a.	11.62	5.10	+6.52
Since incep.	12.32	5.21	+7.11

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

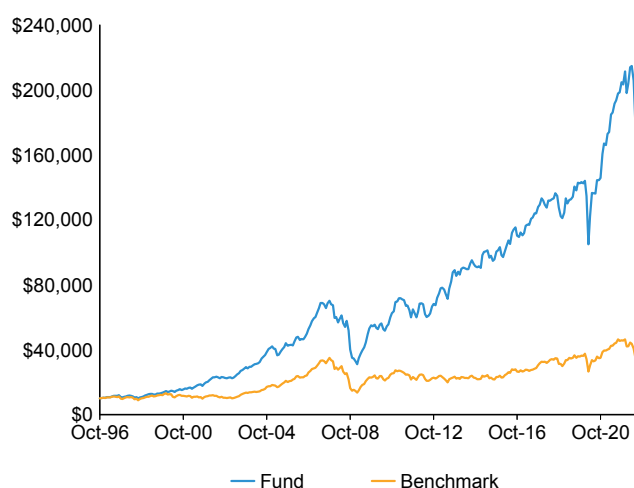
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	10.3	16.5
Dividend Yield*	5.5%	4.5%
Price / Book	1.4	1.5
Debt / Equity	18.3%	26.6%
Return on Equity*	13.7%	11.0%

<sup>^</sup> 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

Australian equities rallied over October following the RBA's smaller-than-expected 25 bp rate hike to 2.60%. The decision underpinned market views that the RBA's front-loading of rate hikes has ended, and that future tightening is expected to be in 25 bp increments. While the RBA reiterated its determination to continue tightening, it signalled that it is becoming more mindful of policy trade-offs and is broadening its focus beyond just controlling inflation. The October RBA meeting minutes revealed that the central bank sees the possibility of more substantial wage growth, just as other economies have experienced, and was also wary of credibility damage if upside risk to inflation materialised. This came as headline inflation accelerated to a 32-year high during the September quarter, with food prices being a significant contributor, spurred by rising input costs and crop damage from the recent floods. Underlying inflation pressures were also evident, driven by housing-related categories such as input shortages, supply chain issues and building cost pass-through, pushed up the price of furnishings and new dwellings. Gas and other fuels have risen the most since 2012, while rental inflation climbed further due to falling vacancy rates.

There were notable moves among the sectors over the month, with Financials being the top performer, led by the major banks. A-REITs significantly outperformed amid a sharp fall in bond yields and after the budget outlined plans to build one million new homes. Utilities also stood out following the government's plans to invest more in green energy and build new transmission lines. Energy also continued to rise sharply, despite the government threatening unprecedented regulatory intervention in the power market to curb price rises. Consumer staples underperformed as continued cost inflation pressures weighed on grocery retailers, whereas Materials were also among the decliners, reflecting weakness among the major miners on the back of falling iron ore prices.

## PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Pacific Current Group, ALS Ltd., and Enero Group. Conversely, the Fund's largest underweight positions include Technology One Limited, Liontown Resources Limited, and Chorus Limited, all of which are not held in the Fund.

The overweight position in Pacific Current Group (+14.6%) contributed to relative performance. The global multi-boutique asset management firm reported during the month that total funds under management within the Group's portfolio had increased from \$169.3b to \$171.2b for the quarter ending 30 September 2022. Management noted, "While falling equity markets, rising interest rates, and slowing economies create a headwind for most asset managers, including ours, we continue to be pleased with the performance and growth of our boutiques. Despite the deteriorating economic environment, we expect our non-GQG boutiques to secure A\$3b-A\$5b of gross new commitments this fiscal year." The overweight position in testing, measurement and inspection services in mining and mineral exploration, equipment maintenance, and food and pharmaceutical quality assurance provider ALS Ltd (+12.9%) contributed to relative performance. The Company provided an update on the successful completion of seven of its acquisitions year-to-date across Life Sciences and Commodities, contributing ~\$78M of revenue on a full-year basis. The total cost of acquisitions is ~\$165M, funded from its balance sheet. The acquisition pipeline for 2H2023 remains strong, with the Company continuing to evaluate opportunities for continued growth.

The overweight position in coal miner Stanmore Resources (+32.7%) contributed to relative performance. A trading update supported the stock price, reporting consolidated September quarter Run of Mine (ROM) production of 5.1Mt and saleable production of 3.2Mt, supported by record monthly ROM production of 814Kt at Poitrel and 406Kt at the Isaac Plains Complex in the month of August. Acquisition of the remaining 20% interest in Stanmore SMC Pty Ltd (SMC) was also reported as completed on 7 October 2022. Management noted that it remains on target to achieve its second-half 2022 guidance despite the continued unseasonal wet weather and inflationary cost pressures experienced during the September quarter.

The overweight position in copper and zinc miner 29Metals (-18.5%) detracted from relative performance. The stock struggled over the month after being downgraded by multiple brokers following a trading update released by the Company. The miner reported Q3 copper equivalent production of 19.8Kt vs quarter-ago 18.2Kt, with Group production (vs quarter-ago) of Copper 12.3Kt vs 11.1Kt, Gold 5.2Koz vs 8.2Koz, Zinc 12.5Kt vs 10.8Kt, and Silver 343Koz vs 351Koz. Management also maintained its full-year guidance.

The overweight position in baby products retailer Baby Bunting Group (-25.9%) detracted from relative performance. The stock fell abruptly after releasing a weaker-than-expected YTD trading update, reporting total sales growth of +12.0% y/y, total transaction growth +15.2%, comparable store sales growth +7.6%, and online sales representing 19.6% of sales vs year-ago 28.6%. For the September quarter, the Company reported a gross profit margin of 37.2%, down 230 bps vs Q1 of FY22, and pro forma NPAT \$3M below Q1 of FY22. The Company also announced that it had opened three new stores and anticipates opening a further five in FY23 (four in Australia and one in New Zealand).

## OUTLOOK

Volatility remains the order of the day. Markets are seemingly hanging on to every word from Fed governors looking for some signs of a "pivot" on interest rate rises and trading in big swings on monthly inflation prints. Such a macro-driven market creates a lot of choppiness and single-stock opportunities for patient investors. As the market trades lower, the opportunity set continues to grow, and several new quality names are being added to the watch list that has not looked appealing for many years. In the years ahead, we think 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. Valuation discipline remains critical though, and in light of comments around persistent valuation dispersion, we are doing the work, but moving forward with some degree of caution. 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.

# 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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## MORE INFORMATION

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