Perpetual Investment Funds

PERPETUAL SMALLER COMPANIES FUND

November 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

Sector	%
CASH AND FIXED INTEREST	7.0
COMMUNICATION SERVICES	6.6
CONSUMER DISC	15.6
CONSUMER STAPLES	4.4
ENERGY	3.8
FINANCIALS EX PROP	20.6
HEALTH CARE	3.7
INDUSTRIALS	10.4
INFORMATION TECHNOLOGY	1.3
MATERIALS	20.6
OTHER SHARES	6.1
Total:	100.0

TOP 5 STOCK HOLDINGS

	% of Portfolio
Pacific Current Group Ltd	4.7%
Healius Limited	3.2%
29metals Ltd.	3.2%
Capricorn Metals Ltd	3.1%
Mcmillan Shakespeare Limited	3.1%

NET PERFORMANCE - periods ending 30 November 2022

	Fund	Benchmark #	Excess
1 month	4.98	4.92	+0.06
3 months	2.22	-0.81	+3.02
FYTD	19.12	11.17	+7.95
1 year	5.83	-14.03	+19.85
2 year p.a.	15.79	0.91	+14.88
3 year p.a.	14.56	2.57	+11.99
4 year p.a.	15.20	5.92	+9.28
5 year p.a.	10.74	4.36	+6.38
7 year p.a.	11.39	7.81	+3.57
10 year p.a.	12.31	5.87	+6.44
Since incep.	12.49	5.39	+7.10

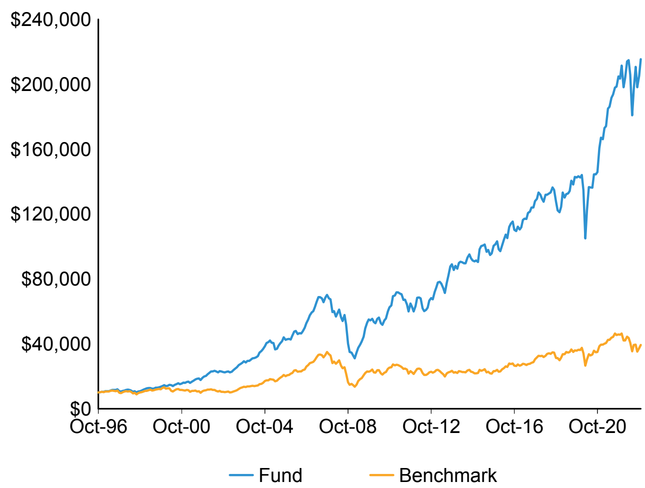
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	11.1	18.0
Dividend Yield*	5.1%	4.3%
Price / Book	1.5	1.6
Debt / Equity	18.4%	27.1%
Return on Equity*	13.3%	10.3%

^ 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 Australian equities market experience solid returns over the month to close out November higher. Stocks were bolstered early on by the RBA's comparatively milder-than-expected 25-basis point interest rate hike to 2.85% and a cooler-than-expected inflation print. RBA Governor Philip Lowe reiterated that more rate hikes are expected – and did not rule out further 50bp hikes – but said the RBA was also open to keeping policy unchanged. Its CPI forecast for coming years was also revised upwards, with inflation seen above 3% through 2024 and forecast to peak near 8% vs the RBA's prior estimate of 7.75%. Nevertheless, economists expect a longer tightening cycle and a peak cash rate closer to 4% than 3.5%. The upgraded CPI forecasts were based partly on the east coast flooding, adding upward pressure to food prices and an expected jump in utility costs in 2023. Nevertheless, investor apprehension was curtailed as the Reserve Bank reasoned that inflation is expected to fall over coming years as supply disruptions ease, commodity prices stabilise, and higher rates lower aggregate demand.

The RBA also revised down its GDP forecasts, citing a deteriorating global economy and a softer outlook for consumption. However, Governor Lowe expressed confidence that Australia has a better chance of achieving a soft landing than other countries and did not believe that wage growth would reach a level that would trigger a wage-price spiral.

While Australian trimmed mean inflation weakened by more than expected in October, new dwellings drove the rise in underlying inflation amid ongoing input shortages, though the pace of increase appeared to be decelerating from earlier this year. Expectations of another 25 bp rate hike in December strengthened later in the month as the economy added more jobs than projected in October, and unemployment unexpectedly fell to an almost 50-year low, further supporting market confidence. Measures of labour market slack tightened, with underemployment now 2.8% below pre-pandemic levels and the underutilisation rate down to its lowest since March 1982.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Pacific Current Group, Whitehaven Coal Limited, and 29metals Ltd. 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 copper and zinc miner 29Metals (+31.9%) contributed to relative performance. The company reported the results of feasibility studies for its Gossan Valley project and pre-feasibility study for its Cervantes project. The studies confirmed the technical viability of Gossan Valley as a third mining front, providing an opportunity to increase operating flexibility and de-risk its Golden Grove production profile. The studies defined higher-grade, near-to-surface project envelope, right-sizing initial development, and capital profile in the context of challenging external market conditions. The pre-feasibility study also confirmed the viability of Cervantes, demonstrating the potential to extend the operating life of its Scuddles underground mine and established infrastructure.
The overweight position in gold miner Capricorn Metals (+23.9) contributed to relative performance. The company provided a trading update, reporting a 32% increase in its Mt Gibson Gold Project Mineral Resource Estimate (MRE) to 2,755,000 ounces from 2,083,000. Management stated, "the updated MRE includes 2,106,000 ounces in the Indicated category, providing a strong basis for the maiden Ore Reserve Estimate targeted later in the current quarter". This came as the company advised that load and haul mining operations have resumed at the Karlawinda Gold Project (KGP) following a fatal incident on 13 October 2022.
The overweight position in gold exploration company Gold Road Resources Ltd (+29.2%) contributed to relative performance. The stock benefitted from rallying gold prices, gaining 7.0% across November. This came as the company reiterated its CY2022 gold production guidance of 150-170Koz, at an All-In Sustaining Costof $1,270-1,470/oz. Reports also emerged during the month speculating that the company has been eyeing gold mining company De Grey Mining Limited for a possible buyout.

The overweight position in Pacific Current Group (-6.9%) detracted from relative performance. The company released an outlook during the month at its AGM, noting that it expects an additional $3B-$5B of gross new allocations and anticipates modest increases in expenses. The decline in equity markets is expected to be felt primarily through GQG and reduced H1 incentive fees for Victory Park. H1 will also show a notable increase in management fee revenues vs last year, but likely lower performance fees. From the beginning of FY24, the company expects VPC to produce consistently higher performance fees and become the largest revenue/earnings contributor for the company.
The overweight position in healthcare technology solutions provider Healius (-15.2%) detracted from relative performance. The stock fell following a trading update, reporting total revenue for the four months to October 2022 of $617.5M (vs year-ago $903M) and generating EBITDA of $124.3M (vs year-ago $347.0M). Despite the weaker-than-expected result, management noted that business-as-usual revenues in Pathology are growing steadily and progressively, while Imaging revenues are also growing fast. Management also indicated that the well-publicised headwinds currently affecting the economy and the healthcare sector are considered temporary rather than structural.

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

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