

Perpetual Investment Funds

PERPETUAL SMALLER COMPANIES FUND

December 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: \$698.17 million as at 31 Dec 2022

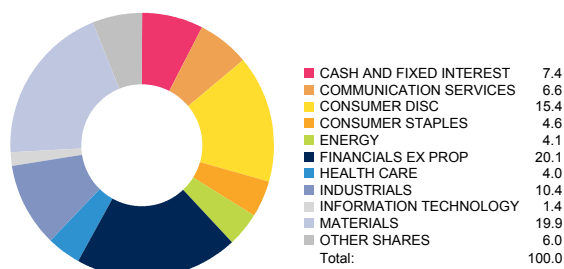
APIR: PER0048AU

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	4.5%
Healius Limited	3.5%
NIB Holdings Ltd	3.0%
Enero Group Limited	3.0%
Gold Road Resources Ltd	2.9%

NET PERFORMANCE - periods ending 31 December 2022

	Fund	Benchmark #	Excess
1 month	-1.88	-3.73	+1.85
3 months	6.69	7.54	-0.85
FYTD	16.88	7.03	+9.85
1 year	-0.14	-18.38	+18.25
2 year p.a.	12.42	-2.32	+14.75
3 year p.a.	14.05	1.38	+12.67
4 year p.a.	14.91	6.04	+8.86
5 year p.a.	9.64	2.92	+6.72
7 year p.a.	10.77	6.64	+4.13
10 year p.a.	11.37	5.13	+6.24
Since incep.	12.37	5.22	+7.15

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

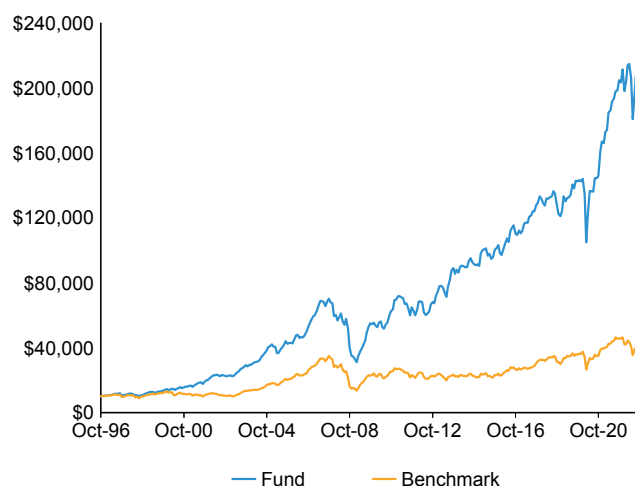
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	11.3	16.6
Dividend Yield*	5.1%	4.5%
Price / Book	1.4	1.5
Debt / Equity	18.7%	27.3%
Return on Equity*	13.4%	10.7%

[^] 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 Australian equity market ended the December quarter higher, as it made ground throughout October and November but returned some of these gains in December. While all sectors ended in positive territory, Utilities was the top performing sector, boosted by the Federal Government's announcement of plans to invest more in green energy and build new transmission lines. Resources stocks did a lot of the heavy lifting upon a sharp rally in commodity prices, and iron ore miners stood out following Covid reopening steps and pro-growth messaging from China. Real Estate also outperformed amid a sharp fall in bond yields after the Federal Budget outlined plans to build one million new homes. The market was further bolstered over the quarter by milder-than-expected, consecutive 25-basis point interest rate hikes by the RBA across each month. Despite reiterating its determination to continue tightening, the decisions underpinned market views that the RBA's front-loading of rate hikes has ended and signalled that it is becoming more mindful of policy trade-offs.

Optimism surrounding a slowdown in the pace of central bank tightening gave way in December to renewed concerns of a deteriorating global economy and downside risks to earnings estimates. This preceded a recent run of downbeat economic data and corporate commentary, heightening the risk of a recession in 2023. Concerns also remained of a resilient labour market and persistently elevated inflation. This reaffirmed expectations that the RBA will follow with another 25 basis points increase in February as the Reserve Bank repeated its intent to return inflation to its 2-3% target range while avoiding a wage-price spiral.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Pacific Current Group, Enero Group Limited, and Whitehaven Coal Limited. Conversely, the Fund's largest underweight positions include Technology One Limited, Perseus Mining Limited, and Chorus Limited, all of which are not held in the Fund.

The overweight position in gold miner Capricorn Metals (+53.3) contributed to relative performance. The company released a trading update during the quarter, 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 laboratory testing services provider ALS Ltd (+22.9%) 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 businesses, contributing ~\$78M of revenue on a full-year basis. The total cost of acquisitions was ~\$165M, funded from its balance sheet. The acquisition pipeline for 2H2022 remains strong as the company continues to evaluate opportunities for continued growth.

The overweight position in gold exploration company Gold Road Resources Ltd (+32.0%) contributed to relative performance. The stock benefitted from rallying gold prices, gaining 9.5% across the quarter. This came as the company reiterated its CY2022 gold production guidance of 150-170Koz, at an All-In Sustaining Cost of \$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 copper and zinc miner 29Metals (-15.9%) detracted from relative performance. The stock price fell sharply following an FY2023 guidance update. Copper and zinc production is expected to be in the lower half of its guidance, while gold and silver production is expected to be at or above the top end of its guidance range. Total capital and site costs are expected to be in the top half of the guidance range. Management noted that its FY2023 guidance reflects updates to the mine plans at both of its sites and the impact of a reduction in milling rates at its Capricorn Copper site.

The overweight position in healthcare technology solutions provider Healius (-8.9%) detracted from relative performance. The stock fell following the release of 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.

The overweight position in Australia and New Zealand media and online publishing company HT&E (-19.6%) detracted from relative performance. The stock price trended down over the quarter following speculation that HT&E and Seven West Media had held merger talks. Reports indicate that both sides are interested. However, there are multiple hurdles to a deal proceeding, including languishing share prices and that HT&E holders would want cash, while Seven West would be reluctant to accrue any more debt.

OUTLOOK

Volatility remains the order of the day. Markets are seemingly hanging on to every word from central bank 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. 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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