

## Perpetual Investment Funds

# PERPETUAL SMALLER COMPANIES FUND

May 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:** \$689.00 million as at 31 Mar 2023

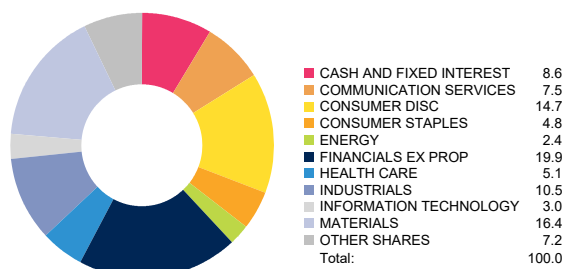
**APIR:** PER0048AU

**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

Stock Holding	% of Portfolio
Pacific Current Group Ltd	4.3%
Healius Limited	3.8%
Bapcor Ltd	3.4%
Graincorp Limited Class A	3.3%
Gold Road Resources Ltd	3.1%

### NET PERFORMANCE - periods ending 31 May 2023

	Fund	Benchmark #	Excess
1 month	-4.02	-3.26	-0.76
3 months	-3.20	-1.29	-1.91
FYTD	12.40	8.42	+3.99
1 year	-1.26	-5.77	+4.51
2 year p.a.	4.46	-5.17	+9.62
3 year p.a.	14.17	4.46	+9.71
4 year p.a.	11.26	2.56	+8.69
5 year p.a.	9.02	2.46	+6.56
7 year p.a.	9.55	5.62	+3.92
10 year p.a.	10.57	6.01	+4.55
Since incep.	12.00	5.18	+6.81

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

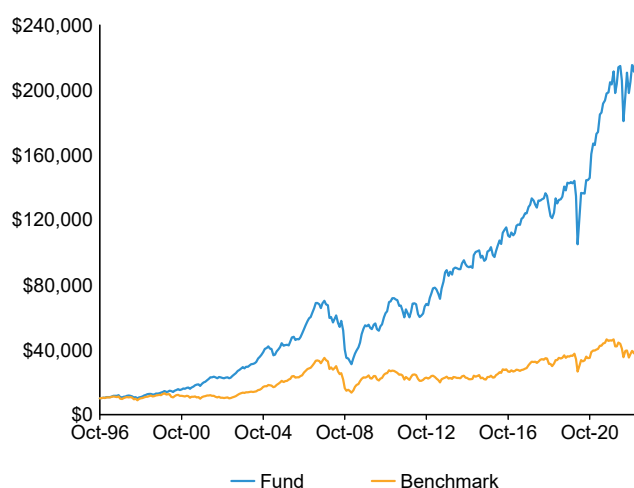
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	10.7	17.0
Dividend Yield*	5.4%	4.2%
Price / Book	1.3	1.6
Debt / Equity	23.8%	28.4%
Return on Equity*	12.4%	10.8%

<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

The Australian equities market ended the month lower, with the S&P/ASX300 Accumulation Index falling by 2.5%. May was defined by a return to favour of growth and momentum equities, driven by a belief that the central banks were near the end of their tightening cycle and rising hopes of a "soft landing" in the global economy. This was despite the US debt ceiling crisis casting a cloud over the second half of the month. Signs of strength were evident across the economy: Australian housing market valuations rose (with national home prices rising in March and April after 10 straight months of falls), March housing finance soared +4.9% vs -0.3% consensus, better than expected job advertisements and March retail sales beat expectations. A budget surplus of \$4.2 billion for 2022/23 was handed down on 9 May. Massive downward revisions to the deficit over recent months were driven by booming jobs and commodity prices. Some market economists thought the \$14.6 billion in cost-of-living assistance in the budget added incrementally to fears of further rate hikes.

## PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Pacific Current Group, NIB Holdings Ltd, and Healius Limited. Conversely, the Fund's largest underweight positions include Liontown Resources Limited, Flight Centre Travel Group Limited, and Chorus Limited, all of which are not held in the Fund.

The overweight position in grain distributor GrainCorp (+12.2%) contributed to relative performance. Its H1 earnings report showed an 18% improvement in revenue compared to the same period last year, leading to a 5.3% stock increase. The stock continued to rise throughout the session, closing 10% higher on strong volume. Prior to the report, the stock had been stagnant for two months. Analysts saw the report as positive and noted strong EBITDA and NPAT beats. However, some expressed concern about potential weather patterns affecting future results. Overall, GNC outperformed both the ASX Agribusiness index and the ASX300 since the release.

The overweight position in private health insurer NIB Holdings (+9.5%) contributed to relative performance. The stock benefitted after reporting a predicted 4-5% net growth in policyholders for FY23, with ancillary claims returning to normal and hospital claims showing modest improvement. The company expects strong net margins and a gradual return to its 6-7% target over the long term. IHH is on the road to recovery with improving margins, and student policyholders are rebounding. In New Zealand, net PHI policyholder growth of 4-5% is expected for FY23, with OrbitProtect's student and worker policies driving growth.

The overweight position in healthcare technology solutions provider Healius (+5.7%) contributed to relative performance. During the month, the Healius Board has unanimously decided to recommend that Healius shareholders reject an unsolicited, all scrip takeover offer received from ACL on 20 March 2023 (the ACL Offer). The Healius Board believes that the ACL Offer is plainly inadequate, highly conditional and highly uncertain. The Healius Board reiterated that it is not opposed to engaging in discussions with ACL, or another party, in relation to a control transaction or merger proposal that is in the best interests of Healius shareholders.

The overweight position in online and offline clothing store operator Universal Store Holdings (-39.8%) detracted from relative performance. The retailer issued guidance for its Full Year revenue, predicting that it will be between A\$258-261M. This is lower than the consensus of A\$275.5M. The company also provided a trading update, stating that the Universal Store business is set to achieve record sales. It added that the Perfect Stranger retail format is performing well, and recent acquisition Cheap THRILLS Cycles (CTC) will deliver record sales and solid earnings, with the emerging Worship brand showing particularly encouraging performance. However, the company has observed that trading conditions have tightened in April and May and expects the subdued environment to continue for the rest of FY23 and into FY24.

The overweight position in copper and zinc miner 29Metals (-40.5%) detracted from relative performance. A strategic update on the recovery of its Capricorn Copper business and a revised outlook for its Golden Grove business saw the stock fall sharply during the month. There were concerns around the need for additional capital to restart production and unlock growth, putting pressure on the stock. Several highlighted the risks of operational disruptions and the tight financial position of 29Metals, exerting caution until further clarity on a return to positive cash flow is provided. The uncertain timing of the restart and the success of the de-watering and recovery plan, remain as critical components for any re-rating of the stock.

The overweight position in out-of-home advertising solutions provider oOh!media (-25.8%) detracted from relative performance. The stock fell sharply following a trading update during the month, reporting a 3% increase in Q1 revenues over Q1 2022, despite a significant softening in March due to a decline in the macroeconomic environment in Australia and New Zealand. The decline was attributed to a decrease in short-term in-month bookings, especially in the government spend category. However, Road and Fly (roadside billboards and airport terminal advertising) categories continued to grow strongly year on year.

## OUTLOOK

Economic conditions will continue to evolve, and uncertainty will continue to manifest in markets. The central banks' aggressive attempt to rein in inflation expectations will cause unintended consequences in both economies and the markets. Because central banks have no influence on the supply of goods and materials, they also cannot influence the willingness of companies to invest in expanding supply in response to higher prices. This hesitancy is mostly due to companies seeing this as a significant pull forward of demand from fiscal and monetary largesse. We see the only influence central banks can have is on demand, and to achieve a reduction in demand, we will see a tightening in liquidity and financial conditions. This will force many companies to face up to this new reality with many early phase/profitless companies not surviving.

# 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](http://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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