

Perpetual Investment Funds

PERPETUAL SMALLER COMPANIES FUND

June 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

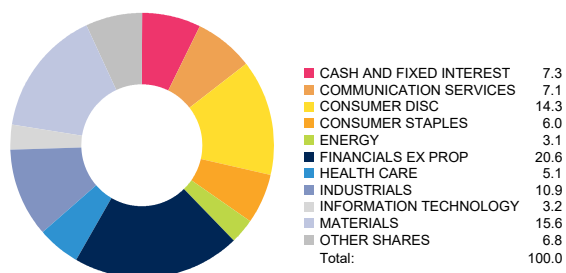
Provides investors with the potential to benefit from the growth of quality smaller or emerging companies, through active management by one of Australia's most experienced investment management teams.

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

	% of Portfolio
Pacific Current Group Ltd	4.7%
Healius Limited	3.8%
Graincorp Limited Class A	3.4%
Bapcor Ltd	3.3%
Whitehaven Coal Limited	3.1%

NET PERFORMANCE - periods ending 30 June 2023

	Fund	Benchmark #	Excess
1 month	1.09	0.03	+1.06
3 months	-1.11	-0.54	-0.57
FYTD	13.63	8.45	+5.18
1 year	13.63	8.45	+5.18
2 year p.a.	3.52	-6.58	+10.10
3 year p.a.	14.63	5.16	+9.47
4 year p.a.	11.21	2.34	+8.88
5 year p.a.	9.14	2.25	+6.88
7 year p.a.	10.03	5.83	+4.20
10 year p.a.	11.13	6.81	+4.33
Since incep.	12.00	5.17	+6.84

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

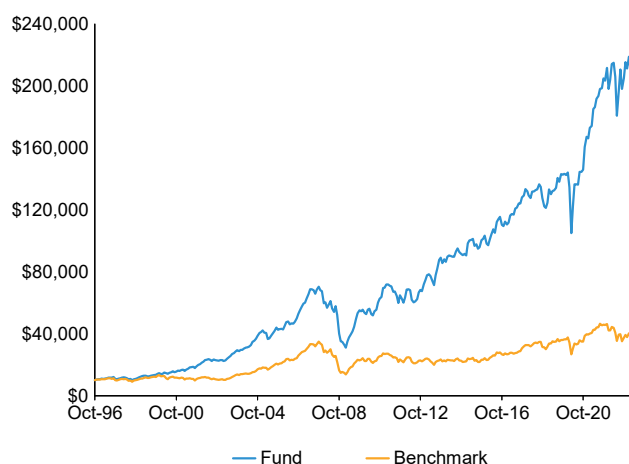
PORTFOLIO FUNDAMENTALS*

	Portfolio	Benchmark
Price / Earnings*	11.4	17.3
Dividend Yield*	5.4%	4.1%
Price / Book	1.3	1.5
Debt / Equity	25.4%	28.8%
Return on Equity*	11.8%	10.6%

* 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 rose +1.0% during the quarter ending June. Equity markets stabilised and rallied through April. The RBA paused its rate hike cycle as it sought to assess the impact of recent monetary tightening. March employment surged 53,000, more than double consensus and kept the unemployment rate at a record low level of 3.5%. Meanwhile an expert review of the RBA recommended a new expert policy board be established, that the RBA Governor holds regular press conferences, board members be allowed to speak publicly and that it would maintain its inflation target of 2-3%. Early May was defined by growth stock momentum, 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. Signs of strength were evident across the economy: Australian housing market valuations rose, March housing finance soared, better than expected job advertisements and March retail sales beat expectations. This was despite the US debt ceiling crisis casting a cloud over the second half of the month. Confidence resumed in June as the US debt ceiling crisis resolved and China’s Caixin manufacturing index expanded more than expected. Australian home prices accelerated in May at a faster pace than March and April. Meanwhile the Fair Work Commission announced a hike to minimum wages of 5.75% but also an 8.7% hike for those on the lowest rate. All this bullish data added to creeping expectations of a rate hike however, which the RBA duly delivered on the 6th of June when it lifted the cash rate by 0.25% to 4.10%, sending equities into a spin. Bond yields ratcheted higher through the quarter, with the yield curve becoming fully inverted in late June. Despite some equity momentum in mid June the rally faded towards the end of the month as commodity prices softened and hopes around China stimulus faded. In the US Fed Chair Powell reiterated that more rate hikes were likely and European central banks delivered outsized rate rises, putting paid to the idea that the monetary tightening was over. A softer inflation read for May (5.6% versus 6.1% consensus and 6.8% in April) provided some hope of a reprieve from the RBA but concerns about sticky inflation remain and retail sales for May came in at a solid 0.7% versus 0.1% expected. The IT sector surged 21% over the quarter, far outpacing the broader benchmark.

PORTFOLIO COMMENTARY

The Fund’s performance broadly kept pace with the market over the June quarter despite a resurgence in growth and momentum stocks for much of the period as markets became enraptured with all things AI.

The Fund’s largest overweight positions include Pacific Current Group, Whitehaven Coal Limited & Healius Limited. Conversely, the Fund’s largest underweight positions include Liontown Resources Limited, Chorus Limited and Pro Medicus Limited, all of which are not held in the Fund.

Pacific Current 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. Earning growth has grown consistently in recent years. The company has no debt and \$20m cash on its balance sheet. Despite the strong quarter (+11.4%), PAC continues to trade at a reasonable multiple of 12x next years earnings a solid dividend yield of over 5%.

McMillan Shakespeare rallied strongly during the June quarter (+25.4%). We think the fleeting leasing company has a few tailwinds including supportive organic growth, a net cash balance sheet and a high payout ratio. In addition, the business will generate some supernormal profits from the unwinding of its order book. The announcement that Eager Automotive had acquired 5.7% of stock helped push the stock up mid-month.

Universal Store Holdings the high quality fashion retailer detracted (-41.4%) during the June quarter with a trading update in May the main catalyst for the selloff. There does not appear to be any fundamental fault with management of execution of the business, but the company has been caught up in a sharp deterioration in the macroeconomic environment and the discretionary consumer. At 8x with a solid dividend, good balance sheet and conservative management, this remains a long term candidate for the portfolio.

Enero Group is an owner of boutique media agencies in Australia, the UK and US that specialise in Creative, PR and Data Analytics. The boutiques are highly regarded and have strong customer lists in high growth and resilient sectors including Healthcare, Tech and Consumer Staples. Despite this, the stock has fallen significantly over June quarter (-18.7%), although it now trades at exceptional value on a P/E ratio of 5x and with a dividend yield of 8.9%.

OUTLOOK

The economic and market outlook remains uncertain as central banks around the world continue to tighten monetary policy to bring “stickier” core inflation back down to lower levels. At the same time aggressive rate rises run the risk of tipping the economy into recession. Despite this equity market indices remain relatively sanguine and we think there are risks to the downside, especially in cyclical sectors with markets yet to yet to fully price any downturn in earnings over the year ahead. There is still the possibility of a “soft landing” or even “no landing” economic scenario due to the resilience of consumers and strength of labour markets, buttressed by years of stimulus of emerging structural shortages. The challenge to this thinking is that it would likely come at the cost of core inflation embedding even more. This would necessitate even higher interest rates. So far during this cycle central banks have consistently underestimated the extent of underlying inflation. Furthermore in a world of rising geopolitical risks, de-globalisation and pressure to decarbonise through higher cost renewable energy, we still believe the risks of higher structural inflation remain. Our quality and value process continues to point us towards a range of reasonably priced businesses with solid balance sheets and good prospects able to deliver long term returns with lower than market risk.

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. 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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