Perpetual Investment Funds

PERPETUAL SMALLER COMPANIES FUND

July 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:	$672.82 million as at 30 Jun 2023
APIR:	PER0048AU
Management Fee:	1.25%*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Five years or longer

PORTFOLIO SECTORS

CASH AND FIXED INTEREST	6.0
COMMUNICATION SERVICES	7.8
CONSUMER DISC	14.0
CONSUMER STAPLES	5.8
ENERGY	2.9
FINANCIALS EX PROP	21.8
HEALTH CARE	5.3
INDUSTRIALS	11.7
INFORMATION TECHNOLOGY	2.8
MATERIALS	15.9
OTHER SHARES	5.9
Total:	100.0

TOP 5 STOCK HOLDINGS

	% of Portfolio
Pacific Current Group Ltd	6.3%
Healius Limited	3.3%
Graincorp Limited Class A	3.3%
Bapcor Ltd	3.1%
Whitehaven Coal Limited	2.9%

NET PERFORMANCE - periods ending 31 July 2023

	Fund	Benchmark #	Excess
1 month	4.30	3.54	+0.76
3 months	1.21	0.20	+1.01
FYTD	4.30	3.54	+0.76
1 year	8.85	0.77	+8.08
2 year p.a.	5.20	-5.26	+10.46
3 year p.a.	16.31	5.89	+10.42
4 year p.a.	11.10	2.10	+9.00
5 year p.a.	9.97	3.18	+6.79
7 year p.a.	9.69	5.11	+4.58
10 year p.a.	10.68	6.18	+4.50
Since incep.	12.14	5.29	+6.85

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

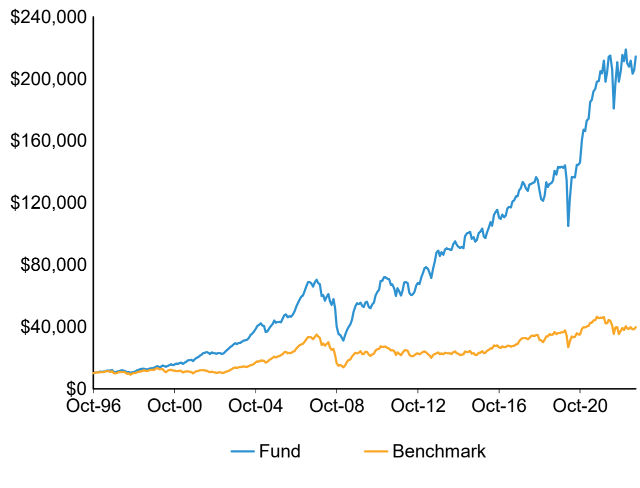
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	12.8	18.4
Dividend Yield*	4.6%	3.9%
Price / Book	1.4	1.6
Debt / Equity	25.1%	30.2%
Return on Equity*	12.3%	10.5%

^ 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 2.9% during the month of July despite the month starting off badly for equities. Australia reported strong building approvals and housing finance for May and the RBA decided not to raise interest rates on the 4th of July. Despite this, the market was hit with a wave of selling in the first week as they fretted over indebted Chinese property developers and their impact on mainland banks. Hotter than expected ISM and jobs data in the US also created fears of drawn-out central bank tightening. Higher bond yields sparked a sell-off in interest rates sensitive stocks. In Australia a Moody's report showed mortgage delinquencies on the rise.

From the middle of the month however equities rallied again. July Westpac consumer sentiment and NAB business conditions both rose. Markets embraced signs of lower inflation in the US and hopes for a "soft landing" in the economy began to emerge. Chinese policymakers ended a multi year crackdown on the tech sector. The Federal Government announced that Deputy RBA Governor Michelle Bullock would replace incumbent Governor Philip Lowe in September. Another 32,600 jobs were created in June, above the consensus of 15,000, although Q2 inflation came in at 0.8%, below consensus of 1.0%. Headline inflation was 6.0% y/y versus 6.2% expected. Whilst there was some concern about services inflation running at the highest rate since 2001, overall markets tempered expectations of rate hikes towards the end of the month, with equities finishing the month relatively strongly.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Pacific Current Group Ltd, Whitehaven Coal Limited and Elanor Investors Group. 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.

Pacific Current Group rose 37.9% over the month of July as fund managers Regal and GQG both competed to acquire the financial services business. We have owned Pacific current Group for a number of years. It 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. Prior to the bid PAC traded at a reasonable multiple of 12x next year's earnings with a solid dividend yield of over 5%.
Enero Group rose 22.6% during July, although this came after a disappointing trading update in June and poor February results. The stock subsequently fell significantly through the year and traded at exceptional value on a P/E ratio of 5x and with a dividend yield of 8.9% before its recent rally. Enero 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.
The overweight position in online and offline clothing store operator Universal Store Holdings contributed to performance as the stock rose 20.1%. This is on the back of the business being sold off quite heavily in June primarily due to a trading update in May and the flow on effect of a sharp deterioration in the macroeconomic environment and the discretionary consumer. Universal Store Holdings remains a resilient and well-managed high-quality fashion retailer. Acquisitions like Cheap THRILLS Cycles (CTC) and the promising performance of the Worship brand further enhance its earnings growth potential. While near-term challenges exist, the company's prudent strategy and growth prospects make it a compelling long-term portfolio addition.

PSC Insurance fell -14.6 % during July, reversing a strong run the month before. However it has more or less range traded around $5 for the past year. We have been owners of the stock for several years now. The company has been underpinned by solid 15% revenue growth from H12022 to H12023. Growth has come from both organic and acquisitive sources and has driven a rising Return on Equity and solid profit margins. We continue to believe that it trades at a reasonable price to earnings ratio given the earnings growth.
Healius fell -9.8% in July as the market speculated that the bid by smaller rival ACL could be blocked by the ACCC. Healius' assets have attracted interest from private equity and there are activist investors on the register. With the combined value of Healius' radiology and pathology businesses estimated to be around $2.6 billion this represents a substantial uplift from the current market capitalisation of $1.7 billion.

OUTLOOK

A number of challenges loom for markets. In the near term we are focused on the August reporting season and the outlook for corporate earnings. We are also mindful of the ongoing inflation challenge, with services inflation running at the highest level since 2001. Expectations of rising energy prices and strong award wage growth are creating fears that inflation could be stickier in Australia than the US. Unemployment remains just 3.5%, a long way below the 4.5% level that the RBA believes is the NAIRU (non-accelerating inflation rate of unemployment) required to keep inflation under control. It may be 3 more years before inflation falls into the RBA's band, during which the risk of inflation expectations embedding into consumer consciousness remains.

Bond markets are also presenting challenges for investors. Whilst equity markets, led by the NASDAQ, have been exuberant about a soft landing, bond markets have been much more cautious with yields remaining at elevated levels. This may partly reflect scepticism about whether inflation is fully under control although markets may also be becoming more concerned about unsustainable fiscal positions. Just last year bond market vigilantes made short work of Liz Truss' Prime Ministership when she and her Chancellor of the Exchequer delivered unfunded tax cuts. The US 10 Year bond yield has risen back over 4% as the budget deficit expands again. The end of Yield Curve control in Japan will also prove tricky to navigate. A bigger than expected jump in yields could easily hit equities, especially more expensive stocks that have rallied hard.

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.

MORE INFORMATION

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