

WealthFocus Investment Advantage

WEALTHFOCUS PERPETUAL GEARED AUSTRALIAN

May 2023

FUND FACTS

Investment objective: Aims to enhance long-term capital growth through borrowing (gearing) to invest predominantly in quality Australian industrial and resource shares.

FUND BENEFITS

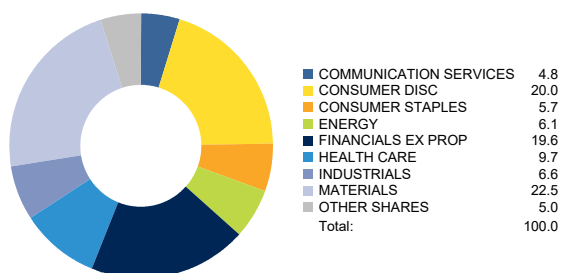
Provides investors with broad market exposure with the potential for higher returns through the use of gearing (borrowing within the fund) and actively managed by one of Australia's most experienced investment management teams.

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 300 Accum. Index
Inception Date:	November 2008
Size of Portfolio:	\$126.71 million as at 31 Mar 2023
APIR:	PER0492AU
Management Fee:	1.23%*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Seven years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

	% of Portfolio
BHP Group Ltd	6.7%
Insurance Australia Group Ltd	6.1%
Flutter Entertainment Plc	5.7%
CSL Limited	5.3%
Santos Limited	5.1%
Brambles Limited	4.3%
Telstra Group Limited	4.2%
Iluka Resources Limited	4.2%
La Francaise des Jeux SA	3.7%
Commonwealth Bank of Australia	3.5%

NET PERFORMANCE - periods ending 31 May 2023

	Fund	Benchmark #	Excess
1 month	-6.69	-2.53	-4.16
3 months	-1.59	-0.96	-0.63
FYTD	25.52	12.45	+13.07
1 year	1.52	2.37	-0.84
2 year p.a.	8.22	3.53	+4.69
3 year p.a.	30.92	11.33	+19.59
4 year p.a.	8.44	6.57	+1.88
5 year p.a.	9.24	7.43	+1.82
7 year p.a.	8.76	8.27	+0.50
10 year p.a.	8.98	8.10	+0.88

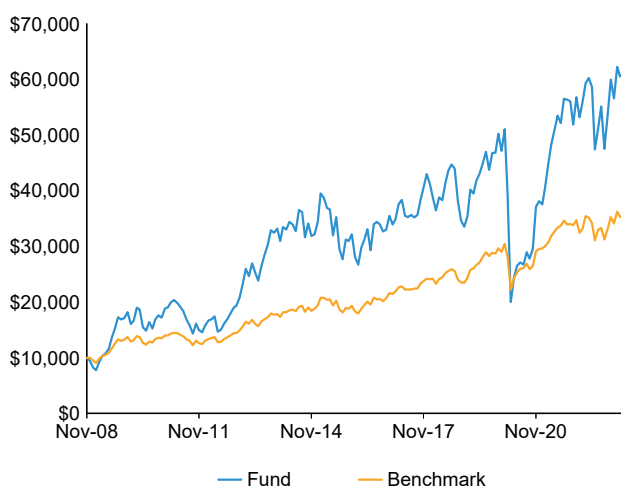
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	15.9	14.4
Dividend Yield*	3.7%	4.5%
Price / Book	2.0	1.9
Debt / Equity	30.7%	33.9%
Return on Equity*	13.1%	13.7%
Gearing Level	57.1%	

[^] Portfolio Fundamentals are compiled using our methodology and provided only for the purpose of illustrating Perpetual'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 weaker, with May 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.

A string of softer numbers later in the month, including the May Westpac consumer sentiment index (which dropped from 85.8 to 79), a slight uptick in unemployment from 3.5% to 3.7%, and flatter retail numbers for April appeared to make the case for a rate pause stronger. However, hotter wages growth (3.7% in Q1 vs 3.6% prior) and fears that the Fair Work Commission would sign off on record wage rises in June presaged a shock inflation read for April of +6.8%, way above consensus of +6.4% and well above the +6.3% reported in March. This all but sealed the case for further tightening by the RBA. It has not escaped our notice that despite the exuberance of growth equities, bond yields have also been rising through the month, hinting at more inflation or growth in contrast to hopes of lower interest rates from long duration equities.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include, Insurance Australia Group Ltd, Flutter Entertainment Plc, and Santos Limited. Conversely, the Fund's largest underweight positions include Transurban Group Ltd, Macquarie Group, and Woolworths Group Ltd, all of which are not held in the Fund.

The overweight position in insurance provider Insurance Australia Group Ltd (+4.2%) contributed to relative performance. The stock finished higher after being upgraded to 'overweight' from 'neutral' at JPMorgan, with its target price increased to A\$5.75 from A\$5, representing a 20% upside to its price at the time of the upgrade.

The overweight position in mineral sands miner Iluka Resources (+2.5%) contributed to relative performance. The stock price rose sharply after being upgraded to 'outperform' from 'neutral' by Macquarie analysts, with its target price increasing to A\$12.30 from A\$12, representing a 12% upside to its price at the time of the upgrade.

The overweight position in healthcare technology solutions provider Healius (+5.7%) contributed to relative performance. During the month, the Healius Board 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 retail outlet investment company Premier Investments Ltd (-13.9%) detracted from relative performance. The stock fell on the back of signals of a deteriorating consumer environment from Apr/May-23, as discretionary retail conditions deteriorated in April/May-23, evidenced by four listed retail updates showing sales, on average, moving from -1% y/y in January/February 2023 to -14% y/y in March-May 2023.

The overweight position in gold and copper miner Newcrest Mining (-11.7%) detracted from relative performance. The stock was hampered after announcing that its Cadia mine was under investigation regarding its management of emissions of dust and other pollutants. Newcrest's Cadia Holdings mine in Central West NSW has been issued with a draft pollution Prevention Notice and a draft licence variation regarding the management of the emissions of dust and other pollutants as part of a new investigation commenced by the NSW Environment Protection Authority. The EPA has also written to the NSW Chief Health Officer requesting a full health risk analysis to determine if mine dust is impacting the health of the community.

The overweight position in healthcare services and hospital operator Ramsay Health Care (-11.3%) detracted from relative performance. Ramsay Health Care has announced its preliminary NPAT (net profit after tax) for the first nine months of FY23, which stands at A\$235.1M. This marks an increase of 17% compared to the same period last year, where it was A\$201.6M. The revenue for the 9M period was A\$11.24B, which is an 11% increase from A\$10.14B in the previous year. Additionally, EBITDA for the period was A\$1.47B, a 7% increase from A\$1.38B in the previous year. Looking ahead, the company expects a gradual recovery in earnings through FY23 and more normalised conditions in FY24.

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.

The Ordinaries benchmark prior to 1/4/2000 was the ASX All Ordinaries Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX 300 Accumulation Index.

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