

WealthFocus Investment Advantage

WEALTHFOCUS PERPETUAL GEARED AUSTRALIAN

July 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

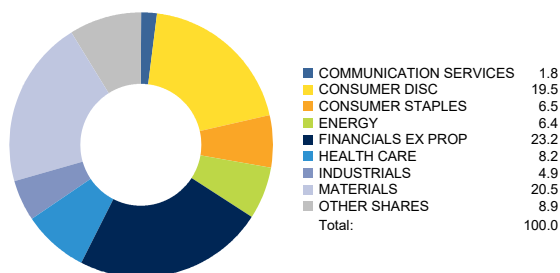
Provides investors with broad market exposure with the potential for higher returns through the use of gearing (borrowing within the fund) and actively managed by one of Australia's most experienced investment management teams.

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:	\$121.80 million as at 30 Jun 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	7.5%
Insurance Australia Group Ltd	6.2%
Flutter Entertainment Plc	5.3%
Santos Limited	5.0%
Westpac Banking Corporation	4.9%
Commonwealth Bank of Australia	4.5%
National Australia Bank Limited	4.1%
La Francaise des Jeux SA	4.0%
CSL Limited	3.7%
Bapcor Ltd	3.3%

NET PERFORMANCE - periods ending 31 July 2023

	Fund	Benchmark #	Excess
1 month	3.85	2.89	+0.95
3 months	-1.02	2.03	-3.04
FYTD	3.85	2.89	+0.95
1 year	23.68	11.09	+12.59
2 year p.a.	10.01	4.18	+5.84
3 year p.a.	33.24	11.91	+21.33
4 year p.a.	7.65	6.05	+1.60
5 year p.a.	7.69	7.46	+0.23
7 year p.a.	9.26	8.40	+0.86
10 year p.a.	9.10	8.30	+0.80

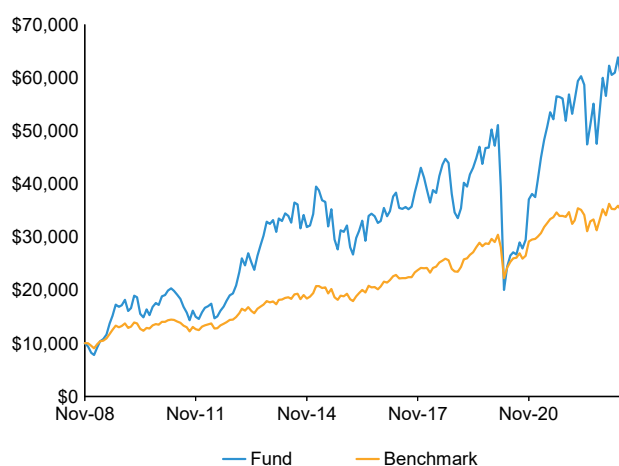
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	16.6	16.2
Dividend Yield*	3.5%	4.0%
Price / Book	2.0	2.0
Debt / Equity	30.9%	35.0%
Return on Equity*	12.5%	13.0%
Gearing Level	54.6%	

[^] 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



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

Domino's Pizza Inc (NYSE:DPZ) was the largest positive contributor to performance in July with the stock rising +16.3%. While we have avoided the ASX listed Domino's Pizza Enterprises (ASX:DMP) on valuation and earnings sustainability concerns, we have watched its US counterpart for a few years through the lens of the Australian business. Domino's Pizza Inc is a high quality business model with a strong global brand and healthy franchisee economics driving a long growth runway for store openings and ultimately Domino's earnings. Whilst inflationary pressures over the past 12-18 months have put pressure on the delivery business, we saw no change to the long-term potential for the company and used the share price volatility to establish a position. Dominos has a fantastic long term track record of earnings growth and shareholder returns and we see a favourable outlook ahead.

Orica rose 6% over the month. Our favourable investment view of the world's biggest supplier of commercial explosives has been driven by a belief that it would be able to re-price customer supply contracts to more than offset cost inflation. Indeed we saw this in May when the company reported a 31% increase in 1H FY23 revenue to \$4bn and a 32% increase in earnings to \$323m, exceeding analyst forecasts. Orica has also benefitted from its investment in Digital Solutions, including the acquisition of Axis Mining Technology, as its mining customers look for productivity gains.

Iluka Resources fell -8% during July due to growing concerns over the health of the Chinese property market and destocking from global pigment producers, although this comes after an exceptional rise in the share price over the past few years. Iluka is the worlds largest producer of rutile that is used to produce pigment (paint) and zircon that is used to produce ceramics (tiles etc). These minerals generate the cashflow underpinning the bulk of the current valuation of the company. Iluka also owns a valuable stake in Deterra Royalties, which was spun-off in an IPO, as well as a substantial amount of cash. Iluka is also the recipient of a non-recourse loan of more than \$1 billion from the federal government to develop a fully integrated rare earths refinery, making it one of only two outside of China. We believe that this will be the key driver of future value for the company in the decade ahead.

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.

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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