

# PERPETUAL GEARED AUSTRALIAN

October 2022

## 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

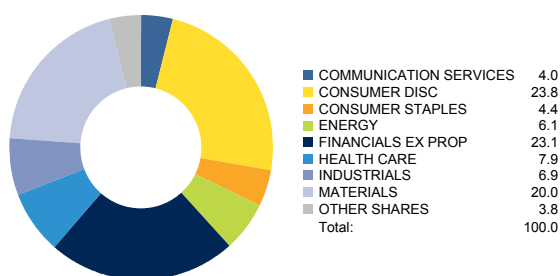
Offers investors broad market exposure with the potential for higher returns through the use of gearing (borrowing within the fund) and actively managed by one of Australia's most experienced investment management teams. A geared fund has benefits over gearing into a fund because there are no margin calls, no credit checks, no need for collateral or assets as security.

## 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.

<b>Benchmark:</b>	S&P/ASX 300 Accum. Index
<b>Inception Date:</b>	November 2008
<b>Size of Portfolio:</b>	\$97.34 million as at 30 Sep 2022
<b>APIR:</b>	PER0492AU
<b>Management Fee:</b>	1.23%*
<b>Investment style:</b>	Active, fundamental, bottom-up, value
<b>Suggested minimum investment period:</b>	Seven years or longer

## PORTFOLIO SECTORS



## TOP 10 STOCK HOLDINGS

	% of Portfolio
Flutter Entertainment Plc	6.3%
Santos Limited	6.1%
Westpac Banking Corporation	5.7%
Insurance Australia Group Limited	5.5%
BHP Group Ltd	5.4%
La Francaise des Jeux SA	5.1%
Brambles Limited	4.7%
Commonwealth Bank of Australia	4.5%
Wesfarmers Limited	4.1%
Mirvac Group	3.8%

## NET PERFORMANCE - periods ending 31 October 2022

	Fund	Benchmark #	Excess
1 month	12.53	5.96	+6.56
3 months	4.76	0.46	+4.29
FYTD	12.77	6.44	+6.32
1 year	-4.59	-2.61	-1.98
2 year p.a.	34.74	11.90	+22.84
3 year p.a.	4.52	4.86	-0.34
4 year p.a.	8.83	8.34	+0.48
5 year p.a.	6.83	7.23	-0.39
7 year p.a.	7.98	8.30	-0.32
10 year p.a.	10.90	8.69	+2.20

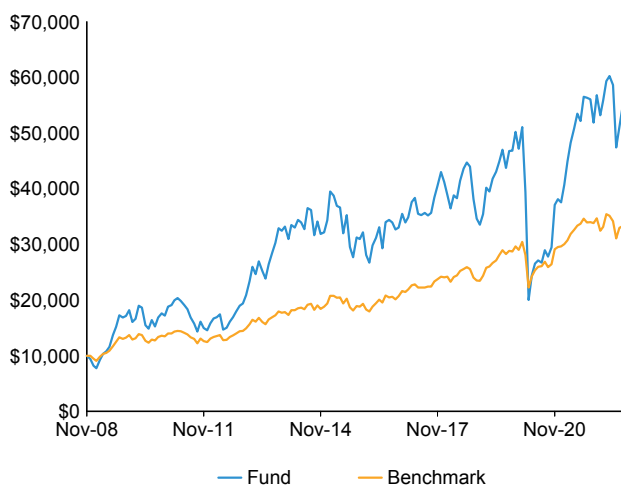
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

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

	Portfolio	Benchmark
Price / Earnings*	13.9	13.6
Dividend Yield*	4.4%	4.8%
Price / Book	1.8	1.9
Debt / Equity	34.2%	31.1%
Return on Equity*	13.6%	14.2%
Gearing Level	53.8%	

<sup>^</sup> 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

Australian equities rallied over October following the RBA's smaller-than-expected 25 bp rate hike to 2.60%. The decision underpinned market views that the RBA's front-loading of rate hikes has ended, and that future tightening is expected to be in 25 bp increments. While the RBA reiterated its determination to continue tightening, it signalled that it is becoming more mindful of policy trade-offs and is broadening its focus beyond just controlling inflation. The October RBA meeting minutes revealed that the central bank sees the possibility of more substantial wage growth, just as other economies have experienced, and was also wary of credibility damage if upside risk to inflation materialised. This came as headline inflation accelerated to a 32-year high during the September quarter, with food prices being a significant contributor, spurred by rising input costs and crop damage from the recent floods. Underlying inflation pressures were also evident, driven by housing-related categories such as input shortages, supply chain issues and building cost pass-through, pushed up the price of furnishings and new dwellings. Gas and other fuels have risen the most since 2012, while rental inflation climbed further due to falling vacancy rates.

There were notable moves among the sectors over the month, with Financials being the top performer, led by the major banks. A-REITs significantly outperformed amid a sharp fall in bond yields and after the budget outlined plans to build one million new homes. Utilities also stood out following the government's plans to invest more in green energy and build new transmission lines. Energy also continued to rise sharply, despite the government threatening unprecedented regulatory intervention in the power market to curb price rises. Consumer staples underperformed as continued cost inflation pressures weighed on grocery retailers, whereas Materials were also among the decliners, reflecting weakness among the major miners on the back of falling iron ore prices.

## PORTFOLIO COMMENTARY

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

The overweight position in online betting and gaming provider Flutter Entertainment Plc (+20.8%) contributed to relative performance. The stock was assisted by the announcement that its CFO, Jonathan Hill, is to take on the new Group COO role. Paul Edgecliffe-Johnson, currently CFO and Group Head of Strategy at InterContinental Hotels Group, will join as CFO and Executive Director of the group in H1 of 2023. The company indicated that given Jonathan's expertise, knowledge of the business, and role in shaping Flutter's strategy, he is well placed to set up the new Group COO function for success.

The overweight position in Westpac Bank (+16.8%) contributed to relative performance. The stock was boosted over the month from a rallying banking sector, supported by a further rise in interest rates early on. The bank's stock price was also assisted by the announcement that it is in preliminary discussions with Australian payment terminals business Tyro Payments Ltd to acquire 100% of its shares, and has hired investment bank, JP Morgan, to advise it on a bid. Tyro has since confirmed that it has received approaches from several parties expressing interest in a potential change of control transaction; however, these approaches are non-binding and highly conditional.

The overweight position in air transportation services provider Qantas (+16.3%) contributed to relative performance. The stock price was supported by a optimistic trading update with management revealing that due to its forward bookings, current fuel prices, and second-quarter assumptions, it now expects its underlying profit before tax to be well ahead of the market's previous expectations of between \$1.2B and \$1.3B for the first half of FY2023. Management also expects the company's net debt to fall to between \$3.2B and \$3.4B by 31 December, which is below its target of \$3.9B.

The overweight position in mineral sands miner Iluka Resources (-4.5%) detracted from relative performance. The miner reported Zircon production of 69.7 Kt vs quarter-ago 80.4 Kt, Rutile 24.9 Kt (vs quarter-ago 48.3 Kt), Synthetic Rutile 59.2 Kt (vs quarter-ago 59.8 Kt), and Ilmenite 150.9 Kt (vs quarter-ago 170.7 Kt). Mineral sands revenue of \$357.3M fell from \$540.9M a quarter ago despite robust zircon demand from Iluka customers. Sales were also impacted by production and logistics constraints, softness in the Chinese ceramics market, and high energy costs affecting tile production.

The overweight position in the a2 Milk Company (-2.6%) detracted from relative performance. During the month, the dairy producer repeated its FY23 guidance of generating high single-digit revenue growth this year and noted that it remains on track to grow sales to NZ\$2.00B in the medium term (before FY26). This followed the company's announcement that Shareef Khan has resigned from his position as COO and will finish up in his role at the end of December. The Company plans to introduce a new Chief Supply Chain Officer role to lead a2's end-to-end supply chain in all categories and markets.

## OUTLOOK

Volatility remains the order of the day. Markets are seemingly hanging on to every word from Fed governors looking for some signs of a "pivot" on interest rate rises and trading in big swings on monthly inflation prints. Such a macro-driven market creates a lot of choppiness and single-stock opportunities for patient investors. As the market trades lower, the opportunity set continues to grow, and several new quality names are being added to the watch list that has not looked appealing for many years. In the years ahead, we think markets will need to become accustomed to more inflation than previously experienced. This distinct shift in the macro backdrop is already playing out across asset classes. Valuation discipline remains critical though, and in light of comments around persistent valuation dispersion, we are doing the work, but moving forward with some degree of caution. In these conditions, our focus on value-style investing, buying quality companies with strong balance sheets trading at reasonable valuations, should continue to do well and offer attractive opportunities for investors.

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# 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. This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL No 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. 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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