

## Perpetual Investment Funds

# PERPETUAL CONCENTRATED EQUITY FUND

March 2024

### FUND FACTS

**Investment objective:** Aims to provide long-term capital growth and income through investment predominantly in quality Australian industrial and resource shares.

### FUND BENEFITS

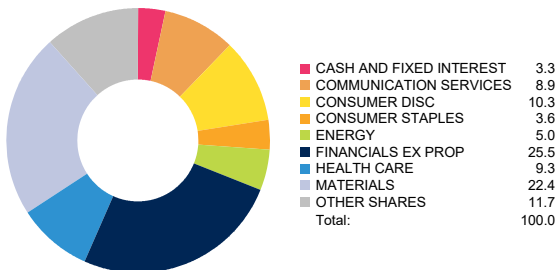
Provides investors with higher potential returns, through the active management of a portfolio of fewer stocks but with higher conviction, than our core Australian equity funds. This concentration may lead to increased short term volatility.

### 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>	August 1999
<b>Size of Portfolio:</b>	\$339.90 million as at 31 Dec 2023
<b>APIR:</b>	PER0102AU
<b>Management Fee:</b>	1.10%*
<b>Investment style:</b>	Active, fundamental, bottom-up, value
<b>Suggested minimum investment period:</b>	Five years or longer

### PORTFOLIO SECTORS



### TOP 10 STOCK HOLDINGS

	% of Portfolio
BHP Group Ltd	7.1%
Commonwealth Bank of Australia	6.9%
National Australia Bank Limited	6.6%
Origin Energy Limited	5.4%
Goodman Group	5.4%
Insurance Australia Group Ltd	5.0%
Telstra Group Limited	4.3%
CSL Limited	4.2%
Santos Limited	3.5%
Premier Investments Limited	3.1%

### NET PERFORMANCE - periods ending 31 March 2024

	Fund	Benchmark #	Excess
1 month	4.28	3.26	+1.02
3 months	7.70	5.43	+2.27
FYTD	9.60	13.28	-3.68
1 year	10.74	14.40	-3.66
2 year p.a.	7.32	6.66	+0.67
3 year p.a.	10.57	9.43	+1.13
4 year p.a.	18.87	16.04	+2.83
5 year p.a.	9.04	9.15	-0.12
7 year p.a.	7.70	8.60	-0.90
10 year p.a.	7.43	8.27	-0.84
Since incep.	10.42	8.37	+2.05

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

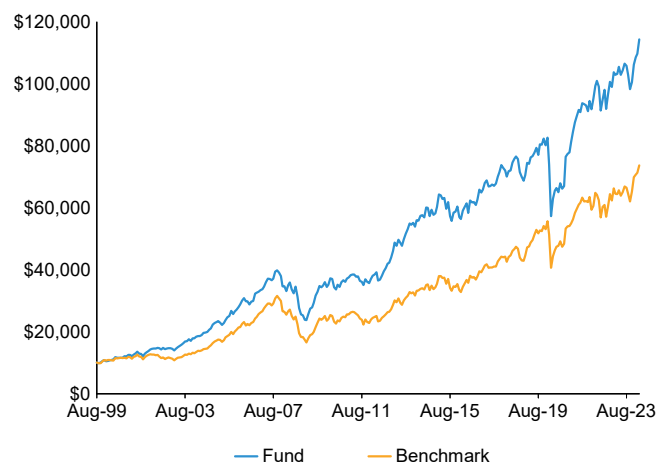
### PORTFOLIO FUNDAMENTALS\*

	Portfolio	Benchmark
Price / Earnings*	17.4	17.0
Dividend Yield*	3.3%	3.9%
Price / Book	2.2	2.1
Debt / Equity	29.8%	36.9%
Return on Equity*	12.4%	13.0%

\* 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

In the March quarter, the S&P/ASX300 saw a substantial 5.4% increase, with Tech (23.6%), Real Estate (14.9%), Consumer Discretionary (13.4%), and Financials (12.1%) leading the pack in terms of sector returns. Conversely, Materials (-6.3%), Telecoms (1.1%), and Consumer Staples (2.1%) struggled to keep pace, marking them as the underperformers. The sector movements during this period reflected various factors at play. Optimism surrounding lower interest rates, spurred by the Federal Reserve, propelled tech stocks and real estate to notable gains, while consumer sectors remained resilient. Concerns regarding China's growth trajectory led to a drop in iron ore prices, impacting the Materials sector negatively.

## PORTFOLIO COMMENTARY

The portfolio's largest overweight positions include Origin Energy Limited, Insurance Australia Group Ltd and Premier Investments Limited. Conversely, the portfolio's largest relative underweight positions include Macquarie Group Ltd (not held), Woodside Energy Group Ltd (not held) and BHP Group Ltd.

Goodman Group continued to significantly contribute to our relative performance for the quarter, posting a robust 33.64% increase, supported by a favourable half-yearly update and the inclusion into the North American REIT index (NAREIT). The shares experienced a positive re-rate driven by a stronger than expected result and increasing optimism surrounding the company's data centre strategy. Despite the current relatively full valuation compared to our initial position, the investment in data centres offers additional upside potential for future earnings. Our decision to establish a position in Goodman Group late last year proved prescient, capitalising on market concerns about the performance of large property groups in a rising rate environment.

A2 Milk significantly contributed to our returns in the first quarter of 2024 (+46.71%). This outperformance can be attributed to a strong 1H24 result where sales and operating margins held despite the backdrop of a shrinking China IMF market. A2 upgraded its full year FY24 forecast fuelled by robust sales in mother-baby stores and cross-border e-commerce. Moreover, Kantar market share data underscores A2's increasing market presence in both offline and online channels. The company exhibits adept inventory and pricing management, and our confidence in the returns generated from its marketing investments is growing.

The overweight position in Light & Wonder substantially contributed to the portfolio's outperformance over the quarter as it re-rated (+32.25%) on the back of an impressive fourth quarter result. Light & Wonder delivered a result ahead of analyst expectations, driven primarily by outperformance in the core land-based gaming division. Over the past few years, Light & Wonder has undergone a transformative journey, resulting in a repositioned company with a robust balance sheet, an exceptional management team, creative talent, and a clear strategic vision. Pleasingly, recent operational results suggest that the foundational changes made in the business are translating to better products for customers and ultimately better earnings and overall outcomes for shareholders. Despite the recent re-rate, we maintain that the company trades at an attractive valuation relative to its attainable growth prospects.

The overweight to Healius detracted from performance over the quarter (-18.96%) although the market reacted positively in March since the appointment of a new CEO. The market was not impressed with the result although the company has pre-released a profit downgrade. The market has lost faith in the management team however we are encouraged with the recent change in CEO and CFO. We believe the incoming CEO is more likely to sell assets to crystallise the value of its radiology assets or its clinical trial business Agilex.

The overweight position in mining royalty firm Deterra Royalties Ltd (-3.64%) detracted from relative performance over the quarter. After rallying through January, iron ore prices corrected in February and have now fallen back to <US\$100/t driven by increased supply from Australia and Brazil and a slow recovery in Chinese steel production post Lunar New Year. The MAC mine operated by BHP that Deterra owns a royalty over, had a 4% decrease in production in the December quarter QoQ due to tie-in activity from the expansion to 145mtpa (million tonnes per annum). However, it is expected to ramp up to full production through 2024 that will be a partial offset to lower iron ore prices.

AGL detracted from performance over the quarter (-9.28%) despite delivering a first half result well above expectations and lifting guidance. Earnings were better mainly due to strong operational execution (including generation flexibility), solid wholesale prices and conservative analyst forecasts due to challenges with AGL's financial transparency. While costs were relatively high, these are being expended to defend the customer base and into building the infrastructure to support the business as energy transition evolves. The share price weakness was due to milder weather conditions over summer, rather than the forecasted El Nino environment, which depressed prices. While this is a headwind for uncontracted supply, AGL is almost completely hedged for FY24 and at least 75% in FY25.

## OUTLOOK

With services inflation in the US showing a robust rise of around 5% annually, coupled with indications of persistent and domestically driven inflation in Australia, concerns about a "higher for longer" stance on interest rates have regained prominence. Despite this, the US Federal Reserve is steadfast in its commitment to reducing rates throughout 2024, prioritising economic growth over inflation worries. This situation poses a challenge for the Reserve Bank of Australia (RBA), given that the Australian economy trails behind the US by several months, and the RBA remains unconvinced that inflation has been effectively managed. While Australian equities are still relatively cheaper compared to their US counterparts, there remains a risk of downward adjustments to earnings, particularly if pressures on margins and interest rates persist without alleviation.

# 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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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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