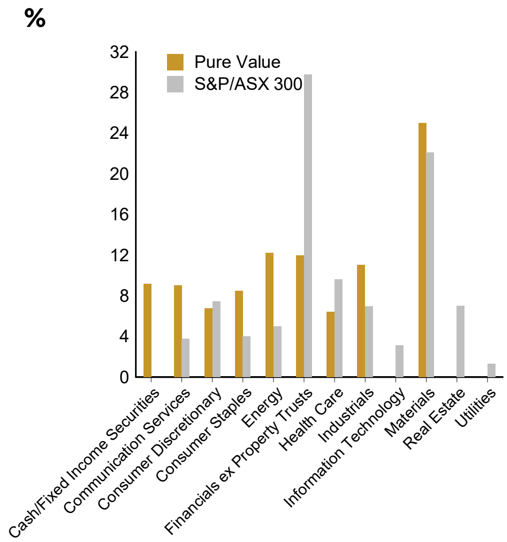
Perpetual Pure Series Funds

PERPETUAL PURE VALUE SHARE FUND

March 2024

PORTFOLIO SECTORS



NET PERFORMANCE- periods ending 31 March 2024

	Fund	S&P/ASX 300 Accumulation Index
1 month	4.01	3.26
3 months	9.78	5.43
FYTD	8.20	13.28
1 year	11.94	14.40
2 year p.a.	7.08	6.66
3 year p.a.	11.19	9.43
4 year p.a.	21.57	16.04
5 year p.a.	12.28	9.15
7 year p.a.	8.89	8.60
10 year p.a.	9.34	8.27
Since incep.	14.22	7.04

Past performance is not indicative of future performance.
The Perpetual Pure Value Fund is constructed without reference to any benchmark and doesn't form part of the fund's investment objective. The S&P/ASX 300 Accumulation Index is used for comparison purposes only.

TOP 5 STOCK HOLDINGS

	% of Portfolio
Insurance Australia Group Ltd	7.1%
Flutter Entertainment Plc	6.8%
Santos Limited	6.7%
GWA Group Limited	6.0%
Iluka Resources Limited	5.9%

PORTFOLIO FUNDAMENTALS^

	Portfolio
Price / Earnings*	15.3
Dividend Yield*	3.3%
Price / Book	1.7
Debt / Equity	29.3%
Return on Equity*	11.5%

^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

SIZE BREAKDOWN

	% of Portfolio
% of S&P/ASX 20	14.6%
% of S&P/ASX 50 less 20	14.1%
% of S&P/ASX Mid 50	25.7%
% of S&P/ASX Small Ords	28.2%
% of Ex-Index	8.2%
% Cash	9.2%

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 Flutter Entertainment PLC, Insurance Australia Group Ltd and GWA Group Limited. Conversely, the portfolio's largest underweight positions include Commonwealth Bank of Australia (not held), CSL Limited (not held) and BHP Group Ltd.

A2 Milk significantly contributed to our returns in the first quarter of 2024 (+7.94%). This outperformance can be attributed to a strong 1H24 result where sales and operating margin held despite the backdrop of a shrinking China IMF market. A2 upgraded 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. A2 Milk has successfully evolved from a rapid-growth startup to a well-established, professionally managed entity with a brand that resonates with Chinese consumers. The company exhibits adept inventory and pricing management, and our confidence in the returns generated from its marketing investments is growing. With a robust balance sheet boasting over $790 million in cash, A2 is well-positioned for strategic manoeuvring in the face of the challenging macroeconomic landscape.

The overweight position in GWA Group contributed to performance over the quarter (22.82%). The result for the first half of FY24 saw volume growth in the core Australian business for the first time in many years thanks to investment in re-engaging with the plumber. The company also benefitted from deflationary tailwinds from manufacturers in China. This, combined with the ability to further push prices saw gross margins expand almost 300bps. GWA Group's diverse product portfolio, encompassing bathroom and kitchen fixtures, along with its robust relationship with distributors, positions the company for sustained growth. The prevailing trend of mergers and acquisitions in the building suppliers sector is also a further potential source of upside.

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 and market has lost faith in the management team. 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, which is not currently being valued by the market. The Pathology segment continues to track below what the business could and is pressured by inflationary pressures on wages and rent. We are also encouraged by signs of more rationale behaviour by competitors in the consolidation of the pathology collection centre as there has been leakage of value in terms of high rents paid on the collection centre.

The overweight to Whitehaven detracted from performance over the quarter (-3.62%). The underperformance was driven by a correction in thermal coal prices that is the current primary driver of earnings for the company. Coal exports from Australia have increased due to less inclement weather and another mild winter in Europe has left utilities well supplied with LNG/coal. Despite the correction coal prices remain robust at ~US$130/t. Another driver of the underperformance was the recently concluded US$4.1b purchase of the Blackwater/Duania assets in Queensland from BHP. This transaction will increase the exposure to metallurgical coal used in steel making, but will move the company from a net cash to net debt position. A sell-down of a 20-30% interest in the Blackwater mine to a JV partner in the current quarter should allay some market concerns over the balance sheet by reducing debt when completed in 2H24. Whitehaven recently received initial approvals for its Winchester South project that is adjacent to Daunia, which has delayed the sell down of that asset as it will take a couple of years to work through an integration proposal for those assets.

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, prioritizing 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.

MORE INFORMATION

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