

Perpetual Pure Series Funds

PERPETUAL PURE EQUITY ALPHA FUND - CLASS A

August 2024

FUND FACTS

Investment objective: Aims to generate positive returns over a market cycle irrespective of market conditions by investing in both long and short positions of predominantly Australian shares.

FUND BENEFITS

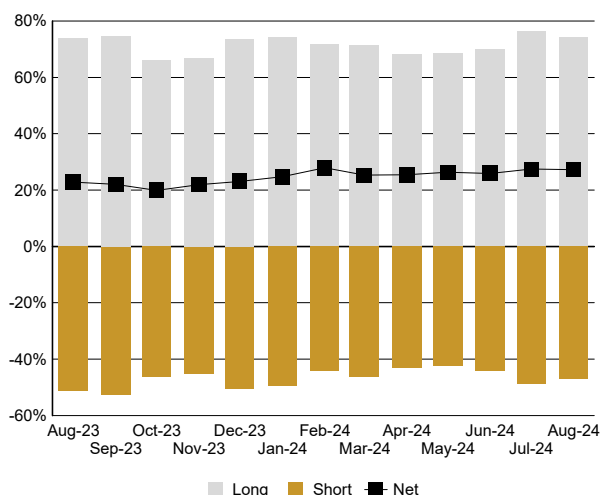
The Fund aims to achieve performance objectives by adopting a bottom-up stock selection process for both long and short positions, combined with a top down approach to managing market exposure. Decisions to buy or sell are based mainly on fundamental stock analysis, complemented by the identification of special opportunities.

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.

Inception Date:	March 2012
Size of fund:	\$278.04 million as at 30 Jun 2024
APIR:	PERo668AU
Fund Managers:	Anthony Aboud
Management Fee:	1.28%*
Performance Fee:	20.5% of outperformance*
Performance Hurdle:	RBA Cash Rate Index
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Five years or longer

HISTORICAL MARKET EXPOSURE



TOP 5 STOCK HOLDINGS (LONG)

	% of Portfolio
Flutter Entertainment Plc	6.9%
Servcorp Limited	5.1%
Suncorp Group Limited	4.0%
Premier Investments Limited	3.5%
Goodman Group	2.9%

* Information on Management Costs (including estimated indirect costs) and a full description of the Fund's performance fee is set out in the Fund's PDS.

GEOGRAPHIC LOCATION OF MATERIAL ASSETS

The Fund holds no single international asset representing more than 10% of the Fund's net asset value.

NET PERFORMANCE- periods ending 31 August 2024

	Fund	RBA Cash Rate Index*
1 month	-0.96	0.37
3 months	-1.46	1.10
1 year	5.48	4.41
2 year p.a.	3.75	3.91
3 year p.a.	5.37	2.73
4 year p.a.	7.87	2.08
5 year p.a.	7.42	1.77
7 year p.a.	6.14	1.68
10 year p.a.	5.89	1.75
Since incep.	6.83	1.98

RBA Cash Rate Index is the Performance Hurdle.

PORTFOLIO SECTORS

	Long	Short	Net
Communication Services	3.6	-0.9	2.7
Consumer Discretionary	17.6	-8.1	9.5
Consumer Staples	8.9	-7.8	1.1
Energy	1.7	-0.8	0.9
Financials ex Property Trusts	8.9	-12.6	-3.7
Health Care	2.1	-1.3	0.7
Industrials	10.4	-10.0	0.4
Information Technology	0.0	-0.4	-0.4
Materials	8.4	-1.1	7.3
Other Shares	0.0	0.0	0.0
Property Trusts	0.0	0.0	0.0
Real Estate	10.2	-4.1	6.2
Utilities	2.6	0.0	2.6
Total	74.2	-47.0	27.2

PORTFOLIO FUNDAMENTALS^

	Portfolio
Price / Earnings*	16.8
Dividend Yield*	3.2%
Price / Book	2.1
Debt / Equity	29.8%
Return on Equity*	12.7%

^ 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.

MARKET COMMENTARY

The S&P/ASX300 Accumulation Index delivered a relatively flat return for August, masking a tumultuous month. Early in the month, recession fears spiked in the US due to weak data, including a contraction in the Purchasing Managers' Index and disappointing payroll numbers. The Bank of Japan's decision to raise rates to their highest level since 2007 triggered a sharp sell-off in the Nikkei 225, marking its worst decline since 1987. However, the market rebounded in the second week as data, including improved services PMI and jobless claims, alleviated recession concerns. Financials were the strongest performer, rising 1.85% and now representing 31.7% of the index. Technology also saw gains, up 7.2%, though it remains a smaller component of the index, contributing modestly. Industrials and Communications both rose by more than 3%. In contrast, concerns about slower growth in China weighed on materials and energy sectors, with energy falling 6.17% and materials dropping 1.7%.

PORTFOLIO COMMENTARY

The portfolio's largest positions include Flutter Entertainment Plc, Servcorp Limited and Premier Investments Limited. Conversely, the portfolio's largest short positions vary across sectors but include selected Financials, Consumer Staples and Infrastructure names.

Servcorp made a significant contribution to the portfolio's performance during the August reporting season, with the stock rising 10.53% following a positive shareholder update. The company delivered a strong operating result, marked by solid free cash flow and a net profit before tax well ahead of the previous comparable period. Its strong balance sheet, with a cash balance representing around 25% of its market capitalisation, adds further appeal to investors. Servcorp remains attractively priced and offers additional value potential through the possible separation and listing of the Servcorp Middle East Group, a process that is progressing as planned.

HMC positively impacted portfolio performance during the reporting season, with its stock rising 9.16% following a strong result. Earnings per share slightly exceeded consensus expectations, and the company emphasized its substantial growth potential, adding \$3 billion in additional funds under management (FUM) during the period. HMC aims to double its assets under management (AUM) in its private credit platform over the next year. The company also reported increasing transactional activity in real estate and a promising pipeline in infrastructure and energy transition, presenting significant opportunities for its newly formed Energy Transition Fund.

After a period of strong performance, A2 Milk detracted from results in August, with the stock declining by -21.93%. Despite this, it has still outperformed the broader market by 8.21% over the year. The company's results met both its guidance and consensus expectations and showed that A2 navigated the China label product transition well. However, concerns arose regarding a production disruption at its key supplier, Synlait, which provides 90% of A2 Milk's infant formula and holds critical licenses for importing these products into China. This triggered a significant sell-off due to concerns that A2 will miss sales into the crucial 2H CY24 which is expected to see a pick-up in births post-Covid. Although the production and supply chain issue appear to have been largely resolved at the time of writing, the stock price remains depressed. Nonetheless, we remain optimistic about A2 Milk, given its strong balance sheet, ongoing expansion into tier 2 and 3 cities in China, as well as its entry into the U.S., all of which present substantial growth opportunities.

Whitehaven Coal Limited detracted from performance during August as the stock fell -13.34%. One of the key highlights of the result was the announced sale of 30% of its Blackwater asset for US\$1.08 billion to Nippon Steel and JFE Steel. This deal significantly reduces the company's leverage, offering more flexibility for capital management over the next few years and initially drove a 6% rally in the share price. Offsetting this was the higher than expected cost guidance for FY25 and lower than expected production guidance for the NSW assets, Qld volume guidance was in-line, and fall in the metallurgical coal price that is now the key earnings driver for the company, in conjunction with the thermal coal price. Management's FY25 guidance was impacted by higher unit costs and conservative estimates for coal sales, leading to a large drop in forecasted earnings for FY25. While there is unfortunately a near-term impact to earnings, part of the driver of higher costs is increased stripping to de-risk delivering increased production in the future, which will also drive lower operating costs. Management's ability to deliver this increased production and lower costs in FY26+ will be closely watched by the market, along with the return of excess cash to shareholders on top of the dividend payout of 50% of thermal coal earnings.

OUTLOOK

Despite markets recovering from the August turbulence, confidence remains fragile. Early September saw another decline in US stocks, particularly in the tech sector. After reaching \$130 on August 19, Nvidia's share price dropped to \$106 in early September, driven by weak manufacturing PMI data and a decrease in job openings, fuelling concerns about a slowing US economy. In Australia, GDP growth for the second quarter of 2024 was a mere 0.2%, marking the slowest expansion since the early 1990s, excluding the COVID period. GDP per capita fell for the sixth consecutive quarter. The economy has been propped up only by increased government spending and high migration rates, while consumers grapple with persistent inflation and elevated interest rates. Despite these challenges, markets remain near all-time highs, underscoring the need for continued vigilance.

The performance fee is equal to 20.50% of daily outperformance over the hurdle rate of return. The current hurdle rate is the Reserve Bank of Australia cash rate. Performance fees are accrued daily and payable six monthly, however will only be paid in the event that the Fund's return over the performance fee calculation period is positive and the performance fee accrual is positive. For further information on the calculation of the performance fee please consult the Fund's PDS.

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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. 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.

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