

## Perpetual Investment Funds

# PERPETUAL GEARED AUSTRALIAN SHARE FUND

October 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

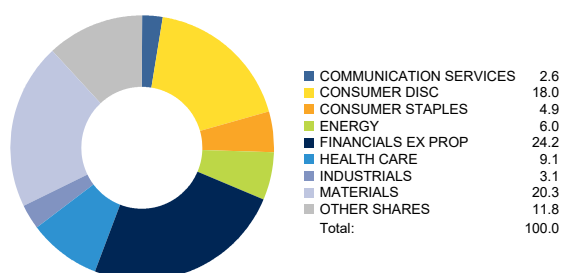
Provides investors with broad market exposure with the potential for higher returns through the use of gearing (borrowing within the fund) and actively managed by one of Australia's most experienced investment management teams.

### 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.

<b>Benchmark:</b>	S&P/ASX 300 Accum. Index
<b>Inception Date:</b>	March 2003
<b>Size of Portfolio:</b>	\$408.77 million as at 30 Sep 2023
<b>APIR:</b>	PER0071AU
<b>Management Fee:</b>	1.17%*
<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
BHP Group Ltd	10.5%
Insurance Australia Group Ltd	6.2%
Commonwealth Bank of Australia	6.1%
Flutter Entertainment Plc	4.8%
Santos Limited	4.7%
National Australia Bank Limited	4.4%
La Francaise des Jeux SA	4.3%
Goodman Group	4.0%
CSL Limited	3.8%
Westpac Banking Corporation	3.5%

### NET PERFORMANCE - periods ending 31 October 2023

	Fund	Benchmark #	Excess
1 month	-12.58	-3.80	-8.78
3 months	-22.58	-7.29	-15.29
FYTD	-19.99	-4.61	-15.38
1 year	-8.48	2.51	-11.00
2 year p.a.	-6.49	-0.08	-6.41
3 year p.a.	18.81	8.68	+10.13
4 year p.a.	1.86	4.27	-2.41
5 year p.a.	5.91	7.15	-1.25
7 year p.a.	6.86	7.73	-0.87
10 year p.a.	4.91	6.57	-1.66
Since incep.	10.91	8.95	+1.96

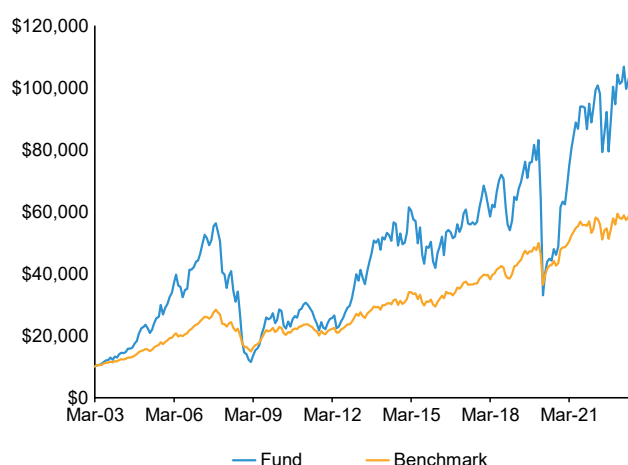
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

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

	Portfolio	Benchmark
Price / Earnings*	14.7	14.5
Dividend Yield*	4.0%	4.5%
Price / Book	1.8	1.8
Debt / Equity	27.5%	34.1%
Return on Equity*	12.4%	12.7%
Gearing Level	59.2%	

<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



\*Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

## MARKET COMMENTARY

The S&P/ASX300 fell -3.8% in October. Rising bond yields was the continuing theme through October as the Australian 10 year extended its run from 4.50% to 4.96%, raising concerns for financial conditions and growth. Hamas' attack on Israel on 7 October sparked renewed geopolitical fears, although the worst expectations for markets were contained and oil fell. RBA Minutes for October noted a low tolerance for slow progress on inflation & Governor Michelle Bullock became more hawkish as October dragged on. Inflation for the September quarter came in hot at 1.2% vs expectations of 1.1% and 0.8% in June, unemployment fell from 3.7% to 3.6% and retail sale rose 0.9% vs 0.3% expected leading all the major banks to predict a rate hike on Melbourne Cup day. Most sectors finished in the red with IT, Healthcare, Industrials, Real Estate and Energy all taking the heaviest hits.

## PORTFOLIO COMMENTARY

The portfolio's largest overweight positions include BHP Group Ltd, Insurance Australia Group Ltd and Flutter Entertainment Plc. Conversely, the portfolio's largest underweight positions include Woodside Energy Group Ltd, Macquarie Group Ltd and Rio Tinto Limited all of which are not held in the Fund.

Origin Energy contributed to portfolio returns in October as the price rose after the ACCC approved the Brookfield/EIG takeover bid. While competitive issues were highlighted, the regulator determined that renewables investments promised by Brookfield if it owned the Origin portfolio (excluding APLNG), were of sufficient public benefit to allow the transaction. The evolution of the energy transition since the consortium's original approach, highlights the value of Origin's suite of assets. With Eraring's life to be extended under an agreement with the state government, the coal fired generator will generate profits for longer at a time of higher wholesale electricity prices. The country's best portfolio of gas peaking plants will be even more valuable given their ability to respond to market volatility. The value of Origin's large client book is emphasised by Brookfield's willingness to invest in renewables as these internal customers provide an integrated hedge. Growth by the Octopus investment, driven by its client management technology, has exceeded expectations and APLNG is generating its strongest cash flows at a time of favourable supply demand dynamics.

AGL Energy Limited defied the falling market and delivered a positive return (+0.19%) for the month, contributing to portfolio performance. Developments related to Origin Energy, highlighted the value of AGL's own comparable businesses. These include low-cost base load coal generators with lives of at least 10 years, flexible gas plants and contracts at very attractive prices. It also includes a large and profitable client base in much demand from renewable investors searching for offtake agreements.

The overweight position in motor vehicle equipment, parts, and servicing supplier Bapcor Ltd (-21.47%) detracted from relative performance in October. The company's AGM update resulted in a sell off with Q1 NPAT tracking down versus expectations with costs coming in higher than expected. This is on the back of a solid FY23 result with significant improvement in cash flow conversion through the second half as BAP was able to reduce inventory whilst maintaining strong gross margins. Management provided additional detail around their Better than Before program and remain committed to the associated return targets. We continue to believe that BAP is a good quality business with material opportunity to improve margins, although volatility could persist with a potentially tough trading environment.

The overweight to Healius detracted from performance in October (-21.30%) as the market continued to speculate 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 in the low \$1 billion range. We are encouraged with the progress Healius has made with improvements in their radiology business under new leadership. Pathology segment continues to track below what the business could achieve given in person GP visits are still around 20% below pre pandemic levels, which leads to lower pathology requests. We believe some of the co-pay introductions are deterring GP visits, consumers continue to defer and there is evidence that primary care screenings are being deferred. We believe GP visits and Pathology volumes will re-bound in the future and that we will start to see pathology segment margins improve from here.

## OUTLOOK

Stickier inflation and higher-for-longer interest rates are playing out as we expected. Whilst longer duration bond prices have been hit very hard in recent months, longer duration stocks have remained stubbornly expensive. Whilst this does not make much sense, only two outcomes are possible; stock prices will eventually decline to reflect broader market moves or the real return on these stocks will be low in the period ahead. Either outcome is not good and we remain invested in quality businesses with good prospects and solid balance sheets trading at much more reasonable valuations.

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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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