Perpetual Investment Funds

PERPETUAL GEARED AUSTRALIAN SHARE FUND

February 2024

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

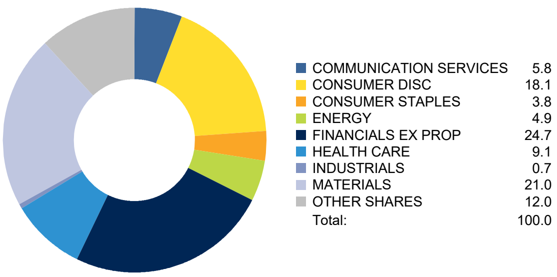
Provides investors with broad market exposure with the potential for higher returns through the use of gearing (borrowing within the fund) and actively managed by one of Australia's most experienced investment management teams.

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.

Benchmark:	S&P/ASX 300 Accum. Index
Inception Date:	March 2003
Size of Portfolio:	$426.56 million as at 31 Dec 2023
APIR:	PER0071AU
Management Fee:	1.17%*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Seven years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

	% of Portfolio
BHP Group Ltd	9.8%
Commonwealth Bank of Australia	7.2%
Flutter Entertainment Plc	5.8%
National Australia Bank Limited	5.2%
Goodman Group	4.7%
Origin Energy Limited	4.7%
CSL Limited	4.6%
Insurance Australia Group Ltd	4.5%
La Francaise des Jeux SA	4.5%
Westpac Banking Corporation	4.1%

NET PERFORMANCE - periods ending 29 February 2024

	Fund	Benchmark #	Excess
1 month	2.07	0.98	+1.09
3 months	22.75	9.46	+13.29
FYTD	2.86	9.70	-6.85
1 year	3.92	10.53	-6.61
2 year p.a.	6.22	8.52	-2.30
3 year p.a.	15.89	9.09	+6.80
4 year p.a.	13.18	8.58	+4.60
5 year p.a.	10.16	8.61	+1.55
7 year p.a.	9.69	8.60	+1.09
10 year p.a.	7.36	7.94	-0.58
Since incep.	12.06	9.53	+2.54

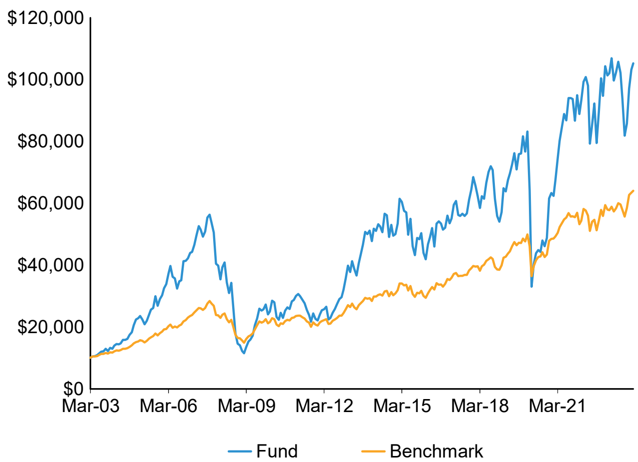
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	17.1	16.7
Dividend Yield*	3.4%	4.0%
Price / Book	2.1	2.0
Debt / Equity	25.3%	36.4%
Return on Equity*	12.2%	12.7%
Gearing Level	50.3%	

^ 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

In February, the S&P/ASX 300 experienced a 0.98% increase. The dominating theme throughout the month was the reporting season, where key focus areas included the challenges of rising costs and the resilience of the consumer. Amidst this, traditional value sectors such as Energy (-5.9%) and Materials (-4.8%) faced difficulties, grappling with uncertainties surrounding China's economic growth. In contrast, the relatively modest but lively IT sector recorded a remarkable surge of +19.7%, mirroring the tech boom observed internationally. The performance of significant resource players like Fortescue (-9.6%), Woodside (-6.3%), and Rio (-8.1%) exerted downward pressure on the index. Conversely, sectors such as Consumer, Real Estate, and Financials emerged as strong performers during this period.

PORTFOLIO COMMENTARY

The portfolio's largest overweight positions include Flutter Entertainment PLC, BHP Group Ltd and La Francaise des Jeux SA. Conversely, the portfolio's largest underweight positions include Macquarie Group, Ltd, Woodside Energy Group Ltd and Rio Tinto Limited all of which are not held in the portfolio.

A2 Milk significantly contributed to our returns in February (+19.88%). 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.

Goodman Group continued to significantly contribute to our relative performance for the month, posting a robust 16.80% increase, supported by a favourable half-yearly update and the potential 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. In contrast to some overly leveraged property owners facing challenges, we believed GMG's positioning within key growth sectors in the property industry, its development-driven model and strong management team would enable the company to outperform its peers.

The overweight to Healius detracted from performance over the month (-19.86%) but has since recovered +15% since end of February following the appointment of a new CEO. The market was not impressed with the result and although the company has pre-released a profit downgrade, the 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 rational 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 month (-17.09%). Thermal coal prices were initially lower through the start of the month, however the underperformance was more driven by risks to the balance sheet from the decision to only sell down one of the assets being acquired from BHP as part of the transition from a largely thermal coal producer to a largely coking/metallurgical coal producer. Whitehaven is acquiring the Blackwater and Duania mines from BHP for a total consideration of US$4.1b, and is looking to sell down a 20-30% interest in these assets to key customers as part of the deleveraging process. 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. We remain comfortable that WHC has enough funding in place to complete the acquisition and will deleverage from cash flow and bringing in a JV partner to Blackwater in 2Q24 (completion 2H24). With the stigmatism attached to thermal coal from the global goal of reducing carbon emissions, increasing exposure to coking coal used in steel production has the potential to drive a re-rating of Whitehaven.

OUTLOOK

Considerable uncertainty looms on the horizon. Despite appearing subdued in the US, inflation is displaying renewed vigour, potentially serving as a precursor to further inflationary pressures in Australia. Consequently, inquiries about the Federal Reserve (Fed) and Reserve Bank of Australia (RBA) contemplating rate cuts are gaining prominence, introducing elements of uncertainty regarding their timing and pace. Australia finds itself more vulnerable to the unpredictable growth trajectory in China, where policymakers grapple with subdued consumer sentiment and an enduring property downturn. Additionally, geopolitical and policy risks add complexity to the landscape. In navigating these turbulent waters, our strategy remains centred on identifying high-quality businesses with reasonable valuations.

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.

MORE INFORMATION

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