

Perpetual Investment Funds

PERPETUAL SMALLER COMPANIES FUND

October 2023

FUND FACTS

Investment objective: Aims to provide long-term capital growth and income through investment in quality Australian industrial and resource shares which, when first acquired, do not rank in the S&P/ASX 50 Index.

FUND BENEFITS

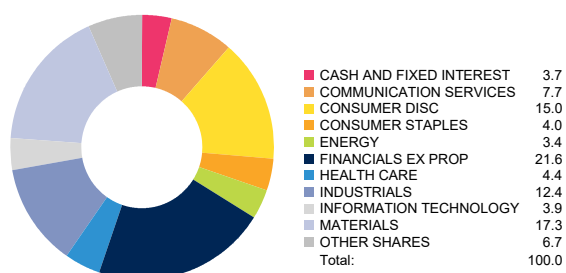
Provides investors with the potential to benefit from the growth of quality smaller or emerging companies, through active management by one of Australia's most experienced investment management teams.

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 Small Ordinaries Accum. Index
Inception Date:	October 1996
Size of Portfolio:	\$614.11 million as at 30 Sep 2023
APIR:	PER0048AU
Management Fee:	1.25%*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Five years or longer

PORTFOLIO SECTORS



TOP 5 STOCK HOLDINGS

	% of Portfolio
Pacific Current Group Ltd	6.6%
Bapcor Ltd	3.3%
Mcmillan Shakespeare Limited	3.2%
Gold Road Resources Ltd	3.0%
Capricorn Metals Ltd	2.9%

NET PERFORMANCE - periods ending 31 October 2023

	Fund	Benchmark #	Excess
1 month	-5.68	-5.45	-0.22
3 months	-8.73	-10.45	+1.73
FYTD	-4.80	-7.28	+2.48
1 year	-4.66	-5.10	+0.44
2 year p.a.	-2.27	-11.95	+9.68
3 year p.a.	10.27	0.52	+9.75
4 year p.a.	8.23	-0.22	+8.45
5 year p.a.	8.92	2.55	+6.37
7 year p.a.	8.52	4.19	+4.33
10 year p.a.	8.18	4.26	+3.92
Since incep.	11.64	4.81	+6.83

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

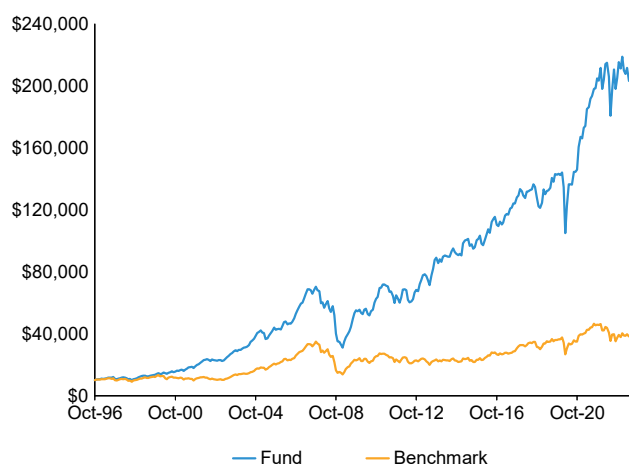
PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	12.1	15.7
Dividend Yield*	5.2%	4.3%
Price / Book	1.3	1.4
Debt / Equity	24.9%	29.9%
Return on Equity*	11.0%	10.1%

[^] 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

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 Pacific Current Group Ltd, Whitehaven Coal Limited and Mcmillan Shakespeare Limited. Conversely, the portfolio's largest underweight positions include Pro Medicus Limited, Flight Centre Travel Group Limited and New Hope Corporation Limited, all of which are not held in the portfolio.

The overweight position in gold exploration company Gold Road Resources Ltd (+16.9%) contributed to relative performance after receiving a boost from the rise in the spot price of gold over the month, particularly in AUD terms. With conflict in the Middle East and Europe as well as tension on the South China Sea, investors are flocking towards defensive assets such as gold.

McMillan Shakespeare contributed strongly to performance in October (+4.0%) as the market ended the month in the red. We think this is on the back of the stock being oversold post results in August as the market came to terms with how the business now looks without the UK division or the Retail Financial Services business. We think the fleeting leasing company has a few tailwinds including supportive organic growth, a net cash balance sheet and a high payout ratio. In addition, the business will generate some supernormal profits from the unwinding of its order book.

IGO Limited detracted from performance in October (-24.88%) as the lithium price continued its descent combined with a mixed operating performance from the mature nickel assets approaching the end of their mine life. Despite commodity price weakness, we still believe Greensbushes to be one of the lowest cost, highest quality hard rock lithium mines globally that has further expansion potential. The new nickel mine in Cosmos will also start producing in 2024 and provide growth and optionality. The new CEO will also have a very strong balance sheet to work with when it comes to improving asset utilisation.

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.

Benchmark prior to 1/4/2000 was the ASX Small Ordinaries Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX Small Ordinaries 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. 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

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email investments@perpetual.com.au

www.perpetual.com.au

