Perpetual Pure Series Funds

PERPETUAL PURE EQUITY ALPHA FUND - CLASS A

February 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

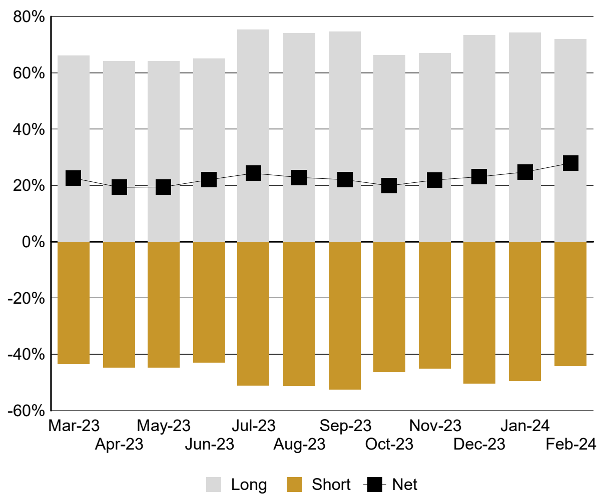
The Fund aims to achieve performance objectives by adopting a bottom-up stock selection process for both long and short positions, combined with a top down approach to managing market exposure. Decisions to buy or sell are based mainly on fundamental stock analysis, complemented by the identification 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:	$247.94 million as at 31 Dec 2023
APIR:	PER0668AU
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	6.2%
Servcorp Limited	4.0%
HMC Capital Limited	3.3%
Cobram Estate Olives Ltd.	3.1%
Goodman Group	3.0%

* 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 29 February 2024

	Fund	RBA Cash Rate Index*
1 month	2.84	0.35
3 months	6.31	1.09
FYTD	2.99	2.86
1 year	4.84	4.16
2 year p.a.	4.99	2.97
3 year p.a.	7.15	2.00
4 year p.a.	8.86	1.55
5 year p.a.	6.67	1.45
7 year p.a.	6.48	1.47
10 year p.a.	6.35	1.65
Since incep.	7.07	1.88

RBA Cash Rate Index is the Performance Hurdle.

PORTFOLIO SECTORS

	Long	Short	Net
Communication Services	3.1	-2.6	0.5
Consumer Discretionary	17.8	-7.3	10.6
Consumer Staples	8.5	-4.1	4.4
Energy	0.7	-0.3	0.4
Financials ex Property Trusts	5.8	-11.9	-6.1
Health Care	4.5	-2.7	1.8
Industrials	8.0	-7.6	0.4
Information Technology	0.0	-0.7	-0.7
Materials	9.2	-3.4	5.8
Other Shares	0.0	0.0	0.0
Property Trusts	0.0	0.0	0.0
Real Estate	11.7	-3.1	8.6
Utilities	2.4	0.0	2.3
Total	**71.6**	**-43.6**	**27.9**

PORTFOLIO FUNDAMENTALS^

	Portfolio
Price / Earnings*	17.1
Dividend Yield*	3.3%
Price / Book	1.7
Debt / Equity	27.1%
Return on Equity*	12.1%

^ 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

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 positions include Flutter Entertainment Plc, Servcorp Limited and HMC Capital Limited. Conversely, the portfolio's largest short positions vary across sectors but include selected Financials and Infrastructure names.

The portfolio's investment in Servcorp contributed strongly to performance in February (+15.15%) as the business provided a pleasing update to shareholders. The interim result showed that they are running ahead of their recently upgraded guidance, which in this tough environment is excellent execution. The balance sheet is very strong with approximately $100 million in cash and with a potential spin-off of the Middle East / Europe business in the works, there is plenty of value to be unlocked for shareholders. As the demand for flexible workspaces continues to rise, Servcorp stands as a leader in providing innovative and premium office spaces, catering to evolving workplace dynamics.

The overweight position in Light & Wonder (+20.05%) substantially contributed to the portfolio's outperformance as it re-rated on the back of an impressive fourth quarter result. Light & Wonder delivered a result ahead of analyst expectations, driven primarily by outperformance in the core land-based gaming division. The strong performance of one of its new release games, Dragon Train, in the home Australian market is of particular note. Dragon Train is showing strong early signs of success with leading game performance translating to market share gains. Management highlighted in the result that the game will be imminently released into the larger US market, providing a solid foundation for anticipated earnings growth in 2024. Over the past few years, Light & Wonder has undergone a transformative journey, resulting in a repositioned company with a robust balance sheet, an exceptional management team, creative talent, and a clear strategic vision. Pleasingly, recent operational results suggest that the foundational changes made in the business are translating to better products for customers and ultimately better earnings and overall outcomes for shareholders. Despite the recent re-rate, we maintain that the company trades at an attractive valuation relative to its attainable growth prospects.

In February, Stanmore Resources detracted from relative performance as the stock declined -15.70%, following a period of notable strength. The headline coking coal price remained strong through the month due to supply disruptions, but discounts for some of the lower quality coking coals produced by Stanmore remained well above historical levels due to Russian coal of this quality trying to find a home in markets still willing to take this coal. Stanmore also purchased an interest in the Eagle Downs project that has a chequered history of development. The upfront cost is only US$15m and there are significant synergies around capex to be unlocked from Stanmore mines that are close by (Poitrel) so we think this adds another organic growth option to the portfolio. Looking ahead, coking coal is anticipated to face a structural deficit given insufficient supply to meet the escalating steel demand in India and other Southeast Asian countries. In light of these developments, we maintain our perspective on the significant value inherent in Stanmore Resources' assets.

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 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.

MORE INFORMATION

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