

## Perpetual Pure Series Funds

# PERPETUAL PURE EQUITY ALPHA FUND - CLASS A

January 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

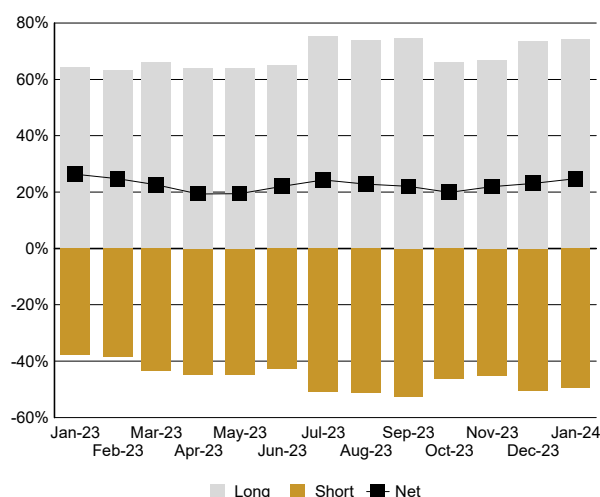
The Fund aims to achieve performance objectives by adopting a bottom-up stock selection process for both long and short positions, combined with a top down approach to managing market exposure. Decisions to buy or sell are based mainly on fundamental stock analysis, complemented by the identification 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:** 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	6.5%
HMC Capital Limited	4.1%
Goodman Group	4.0%
Suncorp Group Limited	3.6%
Servcorp Limited	3.5%

\* 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 January 2024

	Fund	RBA Cash Rate Index*
1 month	3.35	0.37
3 months	2.91	1.10
FYTD	0.14	2.50
1 year	2.37	4.06
2 year p.a.	4.14	2.80
3 year p.a.	7.39	1.89
4 year p.a.	7.53	1.48
5 year p.a.	6.32	1.41
7 year p.a.	6.01	1.44
10 year p.a.	6.00	1.64
Since incep.	6.87	1.86

RBA Cash Rate Index is the Performance Hurdle.

### PORTFOLIO SECTORS

	Long	Short	Net
Communication Services	3.7	-2.3	1.4
Consumer Discretionary	18.1	-9.2	8.9
Consumer Staples	7.9	-5.3	2.7
Energy	1.1	-0.3	0.8
Financials ex Property Trusts	6.3	-10.5	-4.2
Health Care	4.5	-2.5	2.0
Industrials	8.0	-8.7	-0.7
Information Technology	0.0	-2.5	-2.5
Materials	9.6	-4.4	5.2
Other Shares	0.0	0.0	0.0
Property Trusts	0.0	0.0	0.0
Real Estate	13.3	-3.3	10.1
Utilities	1.3	-0.1	1.2
Total	73.8	-49.1	24.8

### PORTFOLIO FUNDAMENTALS^

	Portfolio
Price / Earnings*	17.4
Dividend Yield*	3.3%
Price / Book	1.8
Debt / Equity	28.0%
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 January, the S&P/ASX300 exhibited a 1.1% rise. Notably, the Energy and Financial sectors demonstrated robust recoveries which countered the dominance of growth dominated sectors like healthcare and interest rate-sensitive stocks such as REITs that characterised the closing quarter of 2023. Key players in the Materials sector such as BHP and Rio Tinto, experienced a decline as previously strong iron ore prices began to weaken. The market dynamics shifted with growth and bond proxies rallying strongly into Christmas in response to the Federal Reserve's indication of potential rate cuts. However as January unfolded, uncertainties arose regarding the timing and magnitude of these rate cuts. Economic data surpassed expectations and the late 2023 market rally coupled with improved financial conditions, led to increased questioning of the immediate necessity for rate cuts.

## PORTFOLIO COMMENTARY

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

Flutter PLC strongly contributed to performance as the stock rose (16.82%) over the calendar month. The share price rose in response to a positive trading update in mid-January and in the lead up to the dual listing of FLTR on the NYSE that went live in late January. The trading update highlighted a strong Q4 performance for the key US asset FanDuel where market share increased sequentially in both online sports and online casino betting. Flutter acquired FanDuel (its flagship U.S. brand) in 2018 and since then has realised substantial returns through brand growth, customer acquisition, and market share expansion. This outcome was a timely reminder to investors of the dominant position FanDuel holds in the rapidly growing US market. Flutter PLC also announced it is planning to move its primary listing to the US later this year. We are supportive of the move to list in the US given the increasing materiality of FanDuel's value to the overall valuation of company.

A2 Milk contributed to returns during January (+13.38%). The out-performance was largely driven by better than expected Chinese 2023 birth-rate data in combination with an improving outlook for births and marriages across China as we enter the Dragon year, supportive of IMF sales. In addition, Kantar market share data continues to show A2 gaining market share in both offline and online channels. A2 has transitioned from a fast-growing start-up to an established and professional operator with a brand that resonates well with Chinese consumers. Management of inventory and pricing is sound, and we have growing confidence its investment in marketing is generating solid returns. The company's balance sheet is rock solid with over \$800m in cash, providing it with optionality when navigating the challenging macroeconomic backdrop.

The overweight position in copper and zinc miner 29Metals (-47.70%) detracted from relative performance. The company reported a lower than expected cash balance at 31 December due to a build up of zinc inventory at Golden Grove. The company also gave a disappointing production guidance for Golden Grove due to delayed access to the higher grade stopes that materially increase by-product credits to reduce costs. To further exacerbate the tough update, there remains permitting risk around tailings at Capricorn Copper that are critical for ongoing operation as the mine recovers from the flooding after the extreme weather event in 2023.

Cobram Estate Olives detracted from performance over January (-6.32%), consolidating December's strong performance where the stock was up over 20%. Operationally, Cobram continues to perform well with the US Harvest update release in December highlighting the production of 3.2m litres of olive oil, 89% higher than 2022 and the price of olive oil continuing to climb on the very weak European Harvest.

## OUTLOOK

Current market focus centres on the economic trajectory, with concerns about an imminent recession gradually diminishing. Instead, attention is directed towards assessing whether the Federal Reserve has successfully orchestrated a soft landing, no landing, or potentially a cyclical recovery. Interpretations vary, with some pointing to the robust performance of US tech as indicative of a late 1990s growth market while others underscore the risks associated with a 1970s-like environment characterised by escalating energy costs, geopolitical instability, and shorter economic cycles. In the backdrop, significant challenges persist. These include the potential for higher interest rates and lingering issues in the financial system, such as troubled commercial property loans and fallout from the 2023 US banking crisis.

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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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## MORE INFORMATION

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