Perpetual Investment Funds

# PERPETUAL INCOME SHARE FUND

## October 2023

### FUND FACTS

**Investment objective:** To provide investors with exposure to a diversified portfolio of tax-effective, high income yielding Australian securities that are also expected to produce some long-term capital growth. To provide above market dividend yield as measured by the S&P/ASX 200 Accumulation Index.

### FUND BENEFITS

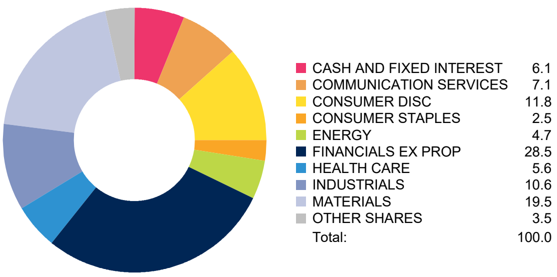
To provide investors with regular income through investment in quality securities.

### 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 200 Accum. Index |
| **Inception Date:** | December 1995 |
| **Size of Portfolio:** | $159.26 million as at 30 Sep 2023 |
| **APIR:** | PTC0002AU |
| **Management Fee:** | 0.99%* |
| **Investment style:** | Active, fundamental, bottom-up, value |
| **Suggested minimum investment period:** | Five years or longer |

### PORTFOLIO SECTORS




### TOP 10 STOCK HOLDINGS

| | % of Portfolio |
|---|---|
| BHP Group Ltd | 7.9% |
| National Australia Bank Limited | 6.0% |
| Insurance Australia Group Ltd | 5.9% |
| ANZ Group Holdings Limited | 4.6% |
| Deterra Royalties Ltd | 4.5% |
| Medibank Private Ltd. | 4.2% |
| Healius Limited | 3.6% |
| EVT Limited | 3.4% |
| Wesfarmers Limited | 3.3% |
| Bapcor Ltd | 3.3% |

### NET PERFORMANCE - periods ending 31 October 2023

| | Fund | Benchmark | Excess |
|---|---|---|---|
| 1 month | -4.90 | -3.78 | -1.13 |
| 3 months | -7.32 | -7.19 | -0.13 |
| FYTD | -2.82 | -4.52 | +1.69 |
| 1 year | 4.49 | 2.95 | +1.53 |
| 2 year p.a. | 3.13 | 0.44 | +2.69 |
| 3 year p.a. | 12.14 | 8.88 | +3.26 |
| 4 year p.a. | 5.09 | 4.35 | +0.74 |
| 5 year p.a. | 6.84 | 7.18 | -0.34 |
| 7 year p.a. | 6.07 | 7.79 | -1.72 |
| 10 year p.a. | 7.27 | 6.60 | +0.67 |
| Since incep. | 8.52 | 8.57 | -0.05 |

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

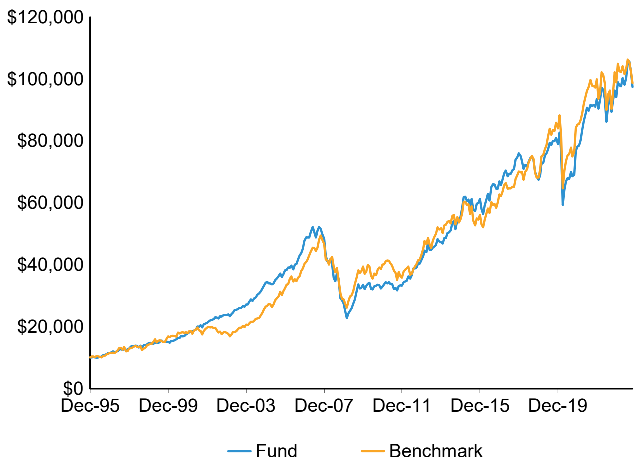
### PORTFOLIO FUNDAMENTALS^

| | Portfolio | Benchmark |
|---|---|---|
| Price / Earnings* | 13.4 | 14.5 |
| Dividend Yield* | 5.0% | 4.5% |
| Price / Book | 1.6 | 1.8 |
| Debt / Equity | 31.0% | 34.0% |
| Return on Equity* | 12.2% | 12.8% |

^ 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 Insurance Australia Group Ltd, Deterra Royalties Ltd and Medibank Private Ltd. Conversely, the portfolio's largest underweight positions include Commonwealth Bank of Australia, CSL Limited (not held) and BHP Group Ltd.

The portfolios underweight to CSL contributed strongly to performance in October as the market darling was further sold off (-7.36%). CSL continued to sell off following a profit downgrade and emerging concerns about performance of Argenx's product Vyvgart Hytrulo (which has proven to be an effective competitor to CSL's IVIG for the treatment of chronic inflammatory demyelinating polyneuropathy (CIDP). Amongst other things an injection of Vyvgart Hytrulo takes just 30-90 seconds vs a 1 hour infusion of IVIG. With CIDP making up 25% of IVIG sales for CSL Behring we think this presents some risk to the company's earnings and longer term growth of IVIG.

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.

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, which leads to lower pathology requests. We believe some of the co-pay introductions are deterring GP visits, consumers continue to defer and there are 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.

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.

## 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.



## MORE INFORMATION

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