

# WEALTHFOCUS PERPETUAL SMALLER COMPANIES

February 2024

## 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

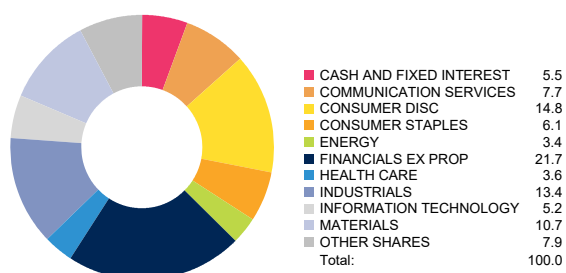
Provides investors with the potential to benefit from the growth of quality smaller or emerging companies, through active management by one of Australia's most experienced investment management teams.

## 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:** August 1995  
**Size of Portfolio:** \$30.26 million as at 31 Dec 2023  
**APIR:** PER0008AU  
**Management Fee:** 1.03%\*  
**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	7.1%
Graincorp Limited	3.2%
EQT Holdings Limited	3.0%
EVT Limited	2.8%
Gold Road Resources Ltd	2.7%

## NET PERFORMANCE - periods ending 29 February 2024

	Fund	Benchmark #	Excess
1 month	1.52	1.72	-0.20
3 months	7.91	10.05	-2.15
FYTD	6.05	9.22	-3.17
1 year	3.80	7.84	-4.04
2 year p.a.	4.00	-0.37	+4.37
3 year p.a.	8.73	1.39	+7.34
4 year p.a.	13.43	5.13	+8.30
5 year p.a.	10.88	4.42	+6.46
7 year p.a.	10.53	6.48	+4.05
10 year p.a.	9.72	6.07	+3.66

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

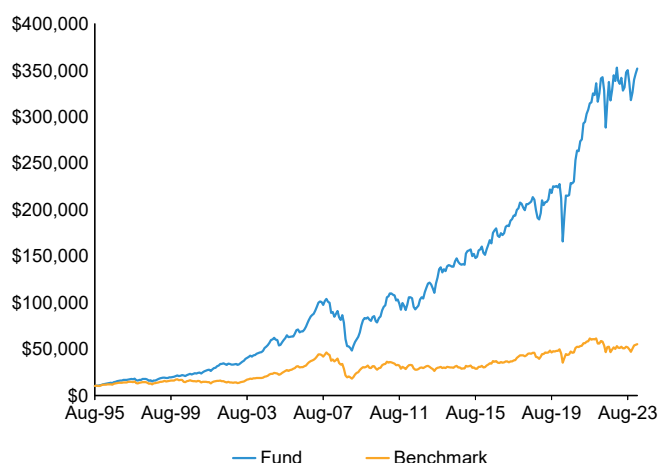
## PORTFOLIO FUNDAMENTALS\*

	Portfolio	Benchmark
Price / Earnings*	13.5	18.3
Dividend Yield*	4.6%	3.7%
Price / Book	1.6	1.4
Debt / Equity	29.6%	32.0%
Return on Equity*	12.1%	10.3%

\* 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



## 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 Pacific Current Group Ltd, EQT Holdings Ltd and PSC Insurance Group Ltd. Conversely, the portfolio's largest underweight positions include Pro Medicus Limited, CSR Limited and Flight Centre Travel Group 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.

The overweight position in GWA Group contributed to performance over the month (20.66%). The result for the first half of FY24 saw volume growth in the core Australian business for the first time in many years thanks to investment in re-engaging with the plumber. The company also benefitted from deflationary tailwinds from manufacturers in China. This, combined with the ability to further push prices saw gross margins expand almost 300bps. GWA Group's diverse product portfolio, encompassing bathroom and kitchen fixtures, along with its robust relationship with distributors, positions the company for sustained growth. The prevailing trend of mergers and acquisitions in the building suppliers sector is also a further potential source of upside.

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.

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.

## 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.

# 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.

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The product disclosure statement (PDS) for the Perpetual WealthFocus Superannuation Fund ABN 41 772 007 500, issued by PSL, should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website [www.perpetual.com.au](http://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 an investor's capital.

Total returns shown for the Perpetual WealthFocus Superannuation Fund 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 taxation. Past performance is not indicative of future performance.

## MORE INFORMATION

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