

## Perpetual Investment Funds

# PERPETUAL INDUSTRIAL SHARE FUND

March 2024

### FUND FACTS

**Investment objective:** Aims to provide long-term capital growth and regular income through investment predominantly in quality Australian industrial shares.

### FUND BENEFITS

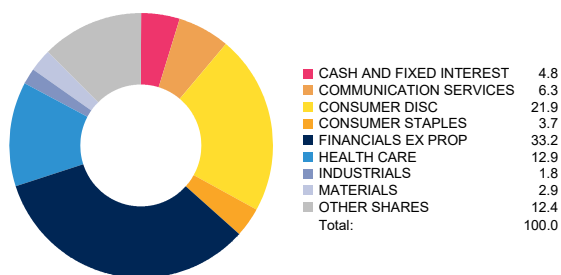
Provides investors with the potential for capital growth and consistent, tax effective income through the active management of quality industrial shares. Investors have been benefitting from this strategy since 1966.

### 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.

<b>Benchmark:</b>	S&P/ASX 300 Industrial Accum. Index
<b>Inception Date:</b>	December 1996
<b>Size of Portfolio:</b>	\$1,004.83 million as at 31 Dec 2023
<b>APIR:</b>	PER0046AU
<b>Management Fee:</b>	0.99%*
<b>Investment style:</b>	Active, fundamental, bottom-up, value
<b>Suggested minimum investment period:</b>	Five years or longer

### PORTFOLIO SECTORS



### TOP 10 STOCK HOLDINGS

	% of Portfolio
Commonwealth Bank of Australia	10.4%
Suncorp Group Limited	6.4%
Goodman Group	6.2%
Flutter Entertainment Plc	6.2%
CSL Limited	5.9%
Wesfarmers Limited	5.6%
National Australia Bank Limited	5.4%
ANZ Group Holdings Limited	4.6%
Premier Investments Limited	3.8%
Westpac Banking Corporation	3.8%

### NET PERFORMANCE - periods ending 31 March 2024

	Fund	Benchmark #	Excess
1 month	2.97	2.96	+0.01
3 months	12.39	9.57	+2.82
FYTD	18.51	17.57	+0.94
1 year	19.74	20.11	-0.37
2 year p.a.	11.45	7.83	+3.62
3 year p.a.	9.80	8.86	+0.94
4 year p.a.	17.33	14.76	+2.57
5 year p.a.	9.65	8.81	+0.84
7 year p.a.	7.20	7.42	-0.22
10 year p.a.	7.32	8.13	-0.81
Since incep.	9.85	9.08	+0.78

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

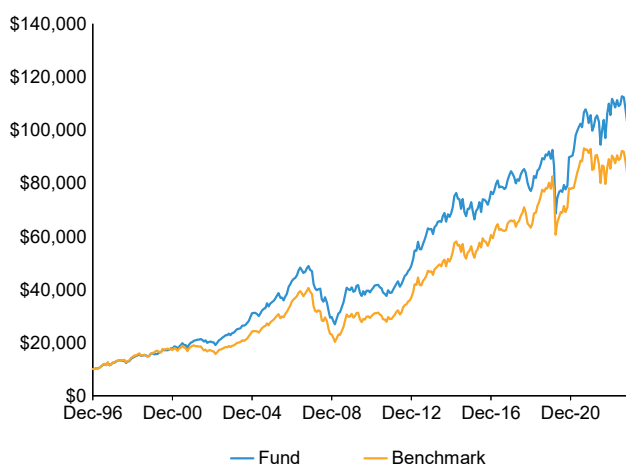
### PORTFOLIO FUNDAMENTALS\*

	Portfolio	Benchmark
Price / Earnings*	20.9	19.8
Dividend Yield*	3.0%	3.6%
Price / Book	2.2	2.2
Debt / Equity	27.4%	52.4%
Return on Equity*	10.5%	11.7%

\* 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



— Fund — Benchmark

## MARKET COMMENTARY

In the March quarter, the S&P/ASX300 saw a substantial 5.4% increase, with Tech (23.6%), Real Estate (14.9%), Consumer Discretionary (13.4%), and Financials (12.1%) leading the pack in terms of sector returns. Conversely, Materials (-6.3%), Telecoms (1.1%), and Consumer Staples (2.1%) struggled to keep pace, marking them as the underperformers. The sector movements during this period reflected various factors at play. Optimism surrounding lower interest rates, spurred by the Federal Reserve, propelled tech stocks and real estate to notable gains, while consumer sectors remained resilient. Concerns regarding China's growth trajectory led to a drop in iron ore prices, impacting the Materials sector negatively.

## PORTFOLIO COMMENTARY

The portfolio's largest overweight positions include Flutter Entertainment PLC, Suncorp Group Limited and Premier Investments Limited. The portfolio's largest underweight positions include Transurban Group Ltd (not held), Woolworths Group Ltd (not held) and Macquarie Group Ltd.

Goodman Group continued to significantly contribute to our relative performance for the quarter, posting a robust 33.64% increase, supported by a favourable half-yearly update and the inclusion into the North American REIT index (NAREIT). The shares experienced a positive re-rate driven by a stronger than expected result and increasing optimism surrounding the company's data centre strategy. Despite the current relatively full valuation compared to our initial position, the investment in data centres offers additional upside potential for future earnings. Our decision to establish a position in Goodman Group late last year proved prescient, capitalizing on market concerns about the performance of large property groups in a rising rate environment. In contrast to some overly leveraged property owners facing challenges, we believed GMG's positioning within key growth sectors in the property industry, its development-driven model and strong management team would enable the company to outperform its peers.

A2 Milk significantly contributed to our returns in the first quarter of 2024 (+46.71%). 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 to Sonic Healthcare Limited detracted from performance over the March quarter (-6.97%) as the company disappointed over reporting season. The base business is returning well with Sonic enjoying a strong portion of specialist work, which has higher reimbursement from Medicare. We are encouraged by Sonics strong topline growth across most regions and their initiatives to get more productivity out of their cost base. We continue to like Sonic given management's strong track record, disciplined acquisition and strong balance sheet. We believe the market continues to undervalue Sonic's holdings in Harrison.ai and Franklin.ai and we are at the cusp of seeing machine learning deployed into Anatomical pathology and Sonic will benefit greatly through its stake in Franklin.ai.

In the March quarter, EVT's performance lagged the market (+2.78%), despite the absence of significant news. February's result was not indicative of the business's quality but rather stemmed from a lack of content for cinemas. Although cinemas lagged, the hotels segment demonstrated robust results and earnings growth. Furthermore, the recent redevelopment of Rydges Melbourne is set to further bolster this division as the property progresses towards its targeted earnings levels in the coming years. As one of the major contributors to the hotels division, this site plays a pivotal role. EVT's diversified property portfolio enhances the company's resilience and supports valuations exceeding the current share price.

## OUTLOOK

With services inflation in the US showing a robust rise of around 5% annually, coupled with indications of persistent and domestically driven inflation in Australia, concerns about a "higher for longer" stance on interest rates have regained prominence. Despite this, the US Federal Reserve is steadfast in its commitment to reducing rates throughout 2024, prioritizing economic growth over inflation worries. This situation poses a challenge for the Reserve Bank of Australia (RBA), given that the Australian economy trails behind the US by several months, and the RBA remains unconvinced that inflation has been effectively managed. While Australian equities are still relatively cheaper compared to their US counterparts, there remains a risk of downward adjustments to earnings, particularly if pressures on margins and interest rates persist without alleviation.

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# Benchmark prior to 1/4/2000 was the ASX All Industrials Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX 300 Industrials Accumulation Index.

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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](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 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.

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## MORE INFORMATION

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