

Perpetual Investment Funds

PERPETUAL SMALLER COMPANIES FUND

March 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

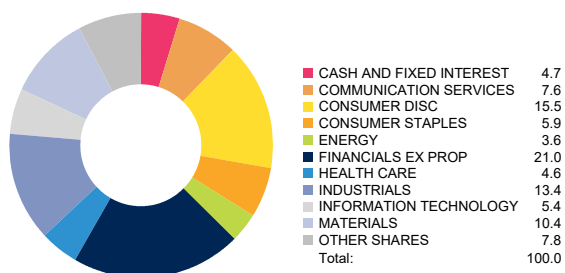
Provides investors with the potential to benefit from the growth of quality smaller or emerging companies, through active management by one of Australia's most experienced investment management teams.

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:	October 1996
Size of Portfolio:	\$622.29 million as at 31 Dec 2023
APIR:	PER0048AU
Management Fee:	1.25%*
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	6.6%
Graincorp Limited	3.0%
Light & Wonder, Inc.	2.8%
EQT Holdings Limited	2.8%
Gold Road Resources Ltd	2.7%

NET PERFORMANCE - periods ending 31 March 2024

	Fund	Benchmark #	Excess
1 month	4.47	4.79	-0.32
3 months	7.56	7.55	+0.01
FYTD	9.54	14.45	-4.91
1 year	8.32	13.83	-5.51
2 year p.a.	2.54	-0.60	+3.13
3 year p.a.	8.93	2.72	+6.21
4 year p.a.	20.98	13.32	+7.66
5 year p.a.	11.57	5.43	+6.14
7 year p.a.	9.88	6.79	+3.09
10 year p.a.	9.53	6.69	+2.84
Since incep.	12.03	5.54	+6.49

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

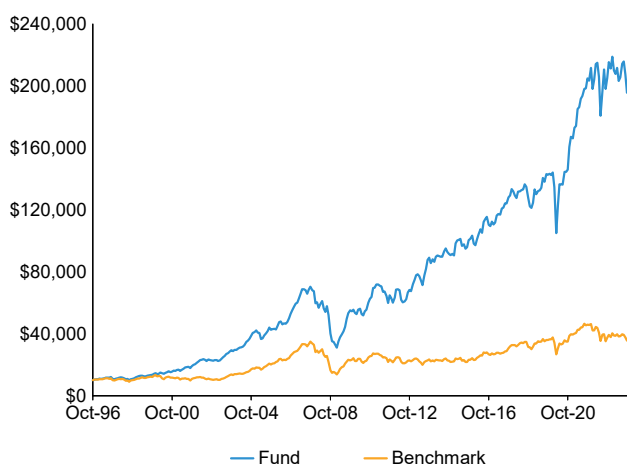
PORTFOLIO FUNDAMENTALS*

	Portfolio	Benchmark
Price / Earnings*	15.0	19.2
Dividend Yield*	4.2%	3.7%
Price / Book	1.7	1.4
Debt / Equity	30.6%	32.1%
Return on Equity*	11.7%	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



— Fund — Benchmark

MARKET COMMENTARY

During the March quarter, the S&P/ASX Small Ordinaries Accumulation Index surged by 7.5%, surpassing the ASX300 by 4.3%. IT (22.7%) and Financials (13.6%) led sectoral gains, while Telecommunications (-1.9%) and Materials (0.4%) lagged behind. Despite concerns over global economic slowdown due to higher rates, demand remained robust, with Australia adding over 116,000 jobs in February. Smaller companies are undergoing a re-rating process after a period of underperformance compared to large caps.

PORTFOLIO COMMENTARY

The portfolio's largest overweight positions include Pacific Current Group Ltd, EQT Holdings Ltd and Enero Group Limited. Conversely, the portfolio's largest underweight positions include CSR Limited, Paladin Energy Ltd and Sandfire Resources Ltd, all of which are not held in the portfolio.

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 position in omni channel apparel retailer Universal Store Holdings contributed to performance as the stock rose 22.8%. The company provided a strong half year update with sales more resilient than feared and cost controls well managed resulting in stronger than anticipated profitability. There was also a noticeable improvement in gross margin reflecting the higher contribution of the private label products. This was a particularly pleasing result in the context of an highly promotional competitor environment where Universal Store stuck to the strategy of keeping inventory holdings nimble and the product offering relevant to drive sales, rather than simply matching competitors through discounting. Universal Store Holdings remains a well-managed, high-quality fashion retailer with an attractive market position. The opportunity to expand the private label offering through the Perfect Stranger and Cheap THRILLS Cycles (CTC) businesses, along with a continued store rollout, further enhance the medium term earnings growth potential of Universal Stores. While near-term challenges exist, the company's disciplined strategy and growth prospects make it a compelling long-term portfolio holding.

The overweight position in gold exploration company Gold Road Resources Ltd (-19.05%) detracted to relative performance after production was impacted by the chronic labour shortage in Western Australia that has restricted material movement required to access the higher grade ore at the bottom of the pit. Additionally, just as material movement was hitting the required rate as the labour crisis in WA eased, guidance for MQ24 was cut after an extreme rain event closed the access road to the mine for a month that required low grade stockpiles to be processed and mill maintenance to be brought forward. Production is now expected to be at the lower end of the previous 2024 guidance range, and costs at the upper end. Despite this, with conflict in the Middle East and Europe as well as tension on the South China Sea, defensive assets such as gold remain a favourable allocation amongst the broader portfolio.

The overweight to Healius detracted from performance over the quarter (-18.96%) although the market reacted positively in March since the appointment of a new CEO. The market was not impressed with the result although the company has pre-released a profit downgrade and market has lost faith in the management team. We are encouraged with the recent change in CEO and CFO. We believe the incoming CEO is more likely to sell assets to crystallise the value of its radiology assets or its clinical trial business Agilex, which is not currently being valued by the market. The Pathology segment continues to track below what the business could and is pressured by inflationary pressures on wages and rent. We are also encouraged by signs of more rationale behaviour by competitors in the consolidation of the pathology collection centre as there has been leakage of value in terms of high rents paid on the collection centre.

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, prioritising 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.

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 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. 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.

MORE INFORMATION

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