Perpetual Pure Series Funds

PERPETUAL PURE MICROCAP FUND - CLASS A

March 2024

FUND FACTS

Investment objective: Aims to provide investors with long term capital growth via an investment in a portfolio of quality Australian microcap companies. Microcap companies are defined as companies with a market capitalisation or free float of less than $300m on acquisition.

FUND BENEFITS

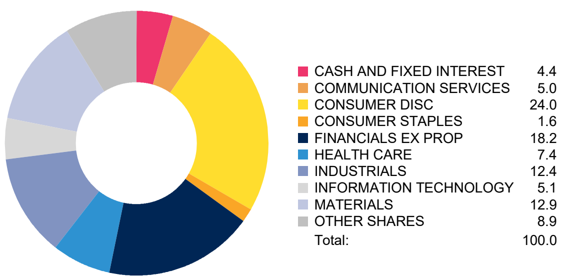
Professionally managed portfolio using Perpetual's bottom up stock selection process The potential for long-term capital growth via an investment in under-researched microcap stocks, which are typically mispriced and undervalued

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:	September 2013
Size of Portfolio:	$112.59 million as at 31 Dec 2023
APIR:	PER0704AU
Management Fee:	1.28%*
Performance Fee:	20.5% of outperformance*
Performance Hurdle:	S&P/ASX Small Ordinaries Accumulation Index
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Seven Years or longer

PORTFOLIO SECTORS



TOP 5 STOCK HOLDINGS

	% of Portfolio
Capral Limited	8.1%
Probiotec Limited	6.4%
MaxiPARTS Limited	5.1%
Pacific Current Group Ltd	5.1%
Gentrack Group Ltd	5.1%

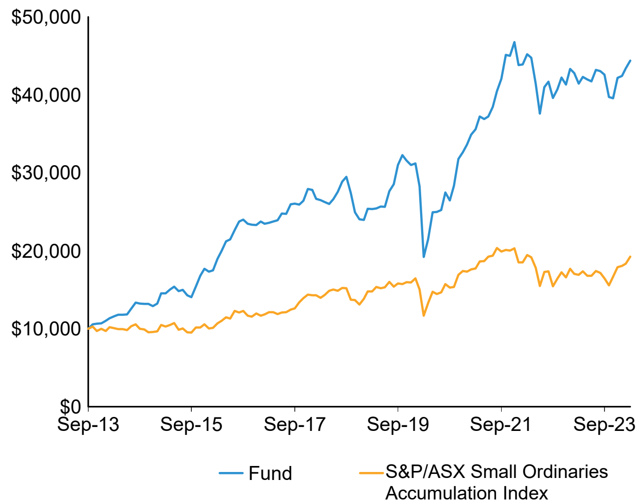
NET PERFORMANCE - periods ending 31 March 2024

	Fund	S&P/ASX Small Ordinaries*
1 month	2.28	4.79
3 months	5.23	7.55
FYTD	6.45	14.45
1 year	7.11	13.83
2 year p.a.	-0.88	-0.60
3 year p.a.	7.63	2.72
4 year p.a.	23.29	13.32
5 year p.a.	11.85	5.43
7 year p.a.	9.46	6.79
10 year p.a.	14.35	6.69
Since incep.	16.21	6.40

*S&P/ASX Small Ordinaries Accumulation Index is the Performance Hurdle.

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

GROWTH OF $10,000 SINCE INCEPTION



*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.

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 Capral Limited, Probiotec Limited and Maxiparts 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.

The overweight position in omni channel apparel retailer Universal Store Holdings contributed to performance as the stock rose 25.88%. 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 portfolio's investment in Servcorp contributed strongly to performance in the March quarter (+12.17%) as the business provided a pleasing update to shareholders. The interim result showed that they are running ahead of their recently upgraded guidance, which in this tough environment is excellent execution. The balance sheet is very strong with approximately $100 million in cash and with a potential spin-off of the Middle East / Europe business in the works, there is plenty of value to be unlocked for shareholders. As the demand for flexible workspaces continues to rise, Servcorp stands as a leader in providing innovative and premium office spaces, catering to evolving workplace dynamics.

Duratec's sold off during the quarter (-25.20) despite first half earnings slightly surpassing expectations, cash flows disappointed due to increased working capital requirements on several major projects. Additionally, the forward Order Book at period end was lower than reported in June – however this is a point-in-time view that can change quickly, and the pipeline of Tender opportunities across key verticals of Defence and Mining remains solid which gives us comfort. Despite this, DUR still presents an attractive investment as a differentiated contractor with strong engineering-orientated capabilities and a favourable mix of end market exposures – namely Defence which remains a core focus of the business, where DUR is well positioned to benefit from the Federal Government's committed $8 billion spend at HMAS Stirling alongside ongoing smaller scale remediation and maintenance capital spend on defence estate assets nationally. DUR has also demonstrated good growth in its Mining and Energy divisions, which should continue to benefit from elevated commodity prices and the well flagged impending replacement capex programs for the major miners in the Pilbara. As an asset-light, predominantly maintenance-orientated contractor DUR remains attractively priced on a standalone basis and relative to listed peers.
MaxiParts experienced a decline over the quarter (-11.81%) following a trading update in January which revealed slightly softer than expected trading, and higher than anticipated lease costs associated with recent acquisition. Although sales typically moderate into the seasonally slow months of December and January, the rate of change was slower than previous years, notwithstanding January still represented strong year-over-year growth for the underlying MaxiPARTS business and February trading has demonstrated strong volume recovery. Subsequently, MXI has maintained FY24 guidance for low double digit growth in the legacy MaxiPARTS business and recently acquired Independant Parts & Forch businesses, as well as an EBITDA margins to be greater than 10%. Our view remains the market underestimates MXI market position and the potential for structural growth, and todays share price represents compelling value.

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.

MORE INFORMATION

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