Perpetual Pure Series Funds

PERPETUAL PURE VALUE SHARE FUND - CLASS P

December 2024

FUND FACTS

Investment objective: Aims to provide investors with long-term capital growth and income through investment in quality shares. Whilst the Fund has no formal benchmark, for reporting purposes the Fund is measured against the S&P/ASX 300 Accumulation Index.

FUND BENEFITS

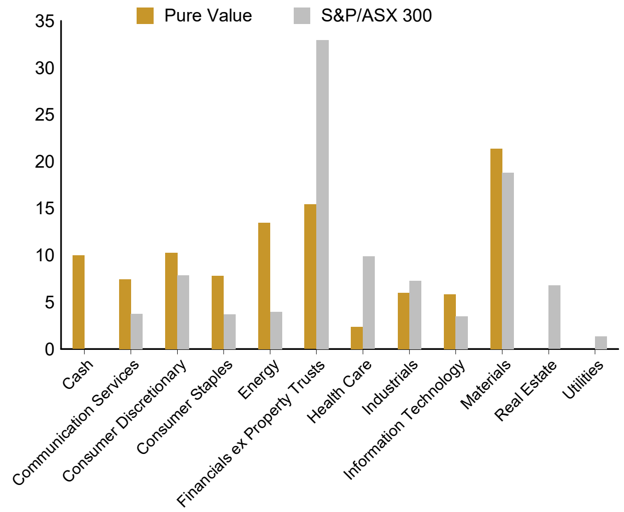
Provides investors with higher potential returns, through the active management of a concentrated portfolio of quality, high conviction stocks. Shares are selected on quality and value, without reference to indices or benchmarks.

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: April 2024
APIR: PER7814AU
Management Fee: 0.75%*
Performance Fee: 15% of outperformance*
Performance Hurdle: S&P/ASX 300 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
Flutter Entertainment Plc	10.3%
EVT Limited	7.4%
Whitehaven Coal Limited	6.5%
GWA Group Limited	6.0%
Infomedia Ltd	5.9%

*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.

SIZE BREAKDOWN

	% of Portfolio
% of S&P/ASX 20	6.9%
% of S&P/ASX 50 less 20	15.1%
% of S&P/ASX Mid 50	22.4%
% of S&P/ASX Small Ords	29.4%
% of Ex-Index	16.2%
% Cash	10.0%

NET PERFORMANCE- periods ending 31 December 2024

	Fund	S&P/ASX 300 Accumulation Index
1 month	-1.71	-3.07
3 months	-3.09	-0.81
1 year	-	-
2 year p.a.	-	-
3 year p.a.	-	-
4 year p.a.	-	-
5 year p.a.	-	-
7 year p.a.	-	-
10 year p.a.	-	-

Past performance is not indicative of future performance.
The Perpetual Pure Value Fund is constructed without reference to any benchmark and doesn't form part of the fund's investment objective. The S&P/ASX 300 Accumulation Index is used for comparison purposes only.

PORTFOLIO FUNDAMENTALS^

	Portfolio
Price / Earnings*	16.2
Dividend Yield*	3.9%
Price / Book	1.5
Debt / Equity	20.4%
Return on Equity*	9.6%

^Portfolio Fundamentals are compiled using our methodology and provided only for the purpose of illustrating Perpetual'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

MARKET COMMENTARY

Markets sold off in December after their strong bounce in November. The S&P/ASX300 Accumulation Index gave up -0.81% with Materials down a significant -11.75% while Real Estate, Energy and Consumer Staples all gave up over 5%. Euphoria over hoped-for tax cuts and de-regulation from the incoming Trump administration were tempered by the growing reality of governing with a narrow Republican majority in the House of Representatives. Squabbling over spending measures nearly forced the US federal government into shutdown before Christmas. Combined with resurgent economic confidence this led to US bond yields rising, with the yield on the US 10 year threatening to rise above the 4.7% peaks in April. The Australian economy sent mixed signals. Employment growth remained robust, at 35,600 in November, pushing the unemployment rate down to 3.9%, but most jobs were being created by government as public spending continued to grow. Meanwhile GDP slowed to just 0.8% for the year ended Q3 with just 0.3% for the quarter. GDP per capita fell -0.3% the seventh consecutive quarterly decline.

PORTFOLIO COMMENTARY

The portfolio's largest overweight positions include Flutter Entertainment PLC, EVT Limited and Whitehaven Coal limited. Conversely, the portfolio's largest relative underweight positions include Commonwealth Bank of Australia, BHP Group Ltd and CSL Limited, all of which are not held in the portfolio.

Insurance Australia Group contributed to performance over the quarter (+14.95%) largely driven by the introduction of strategic protections against potential claims variability in its long-term commercial policies, which carry risks of unpredictable claims outcomes over extended periods. These policies can expose the company to risks like inflation-driven litigation costs and delayed claims. One aspect of IAG's strategy is an Adverse Development Cover (ADC), designed to shield its existing reserves from significant fluctuations. A second layer of protection comes from a reinsurance arrangement focused on natural perils, which provides a buffer against the unpredictable costs of weather-related events. This arrangement is structured to cover most expected scenarios, helping to stabilize the company's claims expenses. Although this layered protection introduces upfront costs, it reduces financial impact over time and is expected to moderate earnings volatility, protect target margins, and enhance long-term returns by lowering capital strain.

Pacific Current Group outperformed the broader market over the quarter up 11.58%. It was a busy period of announcements for the company announcing planned further buybacks and an EGM. This has been a classic case of the sum of the parts equating to a greater value than the whole, with considerable value set to be unlocked as PAC winds up and shareholders receive a significant amount of capital.

The overweight position in Iluka Resources detracted from performance (-27.55%) over the quarter as the market was broadly underwhelmed by the update from the company on the rare earth refinery with particular concern around potential offtake pricing. Iluka is a major producer of rutile and synthetic rutile that is used to produce pigment (paint) and largest producer of zircon that is used to produce ceramics (tiles) and a recovery in these markets can be met by releasing excess inventory and reducing working capital before production is restarted. Iluka has a very strong balance sheet (net cash) and also owns a valuable stake in Deterra Royalties, which was spun-off in an IPO.

BlueScope Steel Limited detracted from performance (-15.81%) as the steel sector continued to face headwinds and downgrades from the sell-side. While short-term steel spread dynamics remain challenging, we believe the share price movement aligns with the longer-term opportunity. Steel pricing has reached a level where there is an asymmetric upside potential, and we are observing positive competitive trends with hot-rolled coil steel prices increasing. At current levels, the company is an attractive opportunity trading neat net tangible asset value. BlueScope remains one of the highest quality steel producers globally, with a capable management team, a significant asset in Port Kembla, and the Colorbond brand, which not only boosts margins but also represents a substantial overseas opportunity.

OUTLOOK

After initially embracing Trumponomics attention is now turning to the challenges of delivery and containing excesses in the economy, including the potential for inflation to return in 2025. The incoming administration will need all its political guile to deliver the much hyped agenda of reduced regulation, tax relief and spending cuts whilst also reducing the budget deficit. Bond vigilantes will no doubt be around to remind markets if they think that this ambitious mix of goals is not being achieved. Whilst bond markets have been wary of the period ahead equity markets in the United States continue to exhibit extreme exuberance and are once again trading at similar valuations to the Dotcom peak in 2000 and the post COVID bubble in 2021. Australian equity valuations, whilst stretched in some sectors, are not as out of kilter overall, especially as resources trade near multi year lows. The big question remains what happens in China where the economy flirts with deflation and whether authorities can pull off a the sustained stimulus that Mario Draghi and Ben Bernanke did in 2012, such as QE3, that allayed market concerns about the commitment to reflating the economy.

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

MORE INFORMATION

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