

# WEALTHFOCUS PERPETUAL CONCENTRATED EQUITY

August 2024

## FUND FACTS

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

## FUND BENEFITS

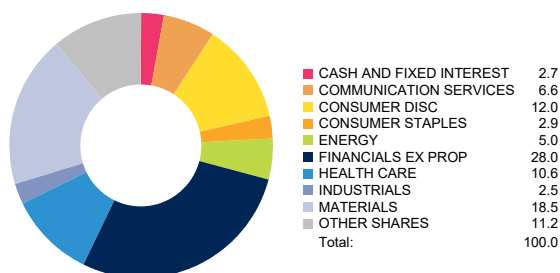
Provides investors with higher potential returns, through the active management of a portfolio of fewer stocks but with higher conviction, than our core Australian equity funds. This concentration may lead to increased short term volatility.

## 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 Accum. Index
<b>Inception Date:</b>	November 2008
<b>Size of Portfolio:</b>	\$30.74 million as at 30 Jun 2024
<b>APIR:</b>	PER0488AU
<b>Management Fee:</b>	1.23%*
<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	8.7%
BHP Group Ltd	7.8%
Insurance Australia Group Ltd	6.4%
National Australia Bank Limited	4.9%
Origin Energy Limited	4.8%
CSL Limited	4.3%
Premier Investments Limited	3.8%
Bluescope Steel Limited	3.3%
Westpac Banking Corporation	3.3%
Goodman Group	3.1%

## NET PERFORMANCE - periods ending 31 August 2024

	Fund	Benchmark #	Excess
1 month	-1.21	0.44	-1.65
3 months	4.40	5.55	-1.16
1 year	9.60	14.65	-5.05
2 year p.a.	8.66	11.77	-3.11
3 year p.a.	7.24	6.37	+0.88
4 year p.a.	14.13	11.53	+2.60
5 year p.a.	8.21	8.05	+0.16
7 year p.a.	7.64	9.23	-1.60
10 year p.a.	6.20	7.99	-1.80

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

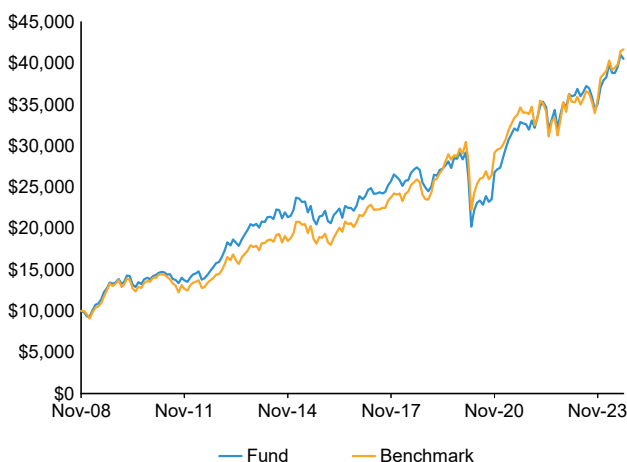
## PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	18.6	18.1
Dividend Yield*	3.0%	3.7%
Price / Book	2.2	2.2
Debt / Equity	32.8%	37.0%
Return on Equity*	11.2%	12.5%

<sup>^</sup> 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

The S&P/ASX300 Accumulation Index delivered a relatively flat return for August, masking a tumultuous month. Early in the month, recession fears spiked in the US due to weak data, including a contraction in the Purchasing Managers' Index and disappointing payroll numbers. The Bank of Japan's decision to raise rates to their highest level since 2007 triggered a sharp sell-off in the Nikkei 225, marking its worst decline since 1987. However, the market rebounded in the second week as data, including improved services PMI and jobless claims, alleviated recession concerns. Financials were the strongest performer, rising 1.85% and now representing 31.7% of the index. Technology also saw gains, up 7.2%, though it remains a smaller component of the index, contributing modestly. Industrials and Communications both rose by more than 3%. In contrast, concerns about slower growth in China weighed on materials and energy sectors, with energy falling 6.17% and materials dropping 1.7%.

## PORTFOLIO COMMENTARY

The portfolio's largest overweight positions include Insurance Australia Group Ltd, Origin Energy Limited and Premier Investments Limited. Conversely, the portfolio's largest relative underweight positions include Macquarie Group Ltd, Woodside Energy Group Ltd and Woolworths Group Ltd, all of which are not held in the portfolio.

The overweight to IAG was a contributor to performance over the month with the stock up 4.36%. IAG is one of our largest domestic overweight positions, and the stock has been a beneficiary of rising insurance premiums. During reporting season, the company was able to confirm that prices would rise, continuing to grow revenues and that investments made in the company in recent years would now result in realised productivity and efficiency benefits which should aid margins.

Premier Investments delivered strong performance during reporting season up 6.49%. This marks a period of very strong performance for the stock which has outperformed the broader market by more than 3 times, up 43.50%. Premier delivered record sales and operating EBIT ahead of consensus which was further supported from their stake in Breville which delivered a good result against a subdued consumer environment. The upside in the business has been further exacerbated by the proposal for a combination of Myer and Premier's Apparel Brands business comprising Just Jeans, Jay Jays, Portmans, Jacqui E and Dotti. This could be materially beneficial for both businesses as additional quality sales are incorporated under a cheaper rental format and with strong retail management expertise.

After a challenging period, Healius made a positive contribution to performance during reporting season, with the stock rising 10.60%. The company is showing signs of recovery under new management following a stretch of underperformance. Operational improvements in both Pathology and Imaging led to higher EBIT in the second half, resulting in a beat on expectations. This aligns with our earlier view that sustainable pathology margins would exceed consensus estimates. Looking ahead, we see further upside from the potential rationalisation of Healius' portfolio, including the sale of Lumus Imaging at a favourable price, possible capital returns, and topline growing stronger in FY 2025.

After a period of strong performance, A2 Milk detracted from results in August, with the stock declining by -21.93%. Despite this, it has still outperformed the broader market by 8.21% over the year. The company's results met both its guidance and consensus expectations and showed that A2 navigated the China label product transition well. However, concerns arose regarding a production disruption at its key supplier, Synlait, which provides 90% of A2 Milk's infant formula and holds critical licenses for importing these products into China. Although the production and supply chain issue appears to have been largely resolved at the time of writing, the stock price remains depressed.

Origin Energy gave back some of its strong outperformance in the month of August falling -5.05%. The FY24 announcement was mixed with a decent result but guidance that disappointed. This was explained by higher Energy Markets costs to serve, broadly across the business in terms of lines and markets, although bad debts were a focus. Eraring's performance and the impact on gas peakers are also likely contributors. These suggest underperformance in aggregate versus AGL. APLNG was solid but cost expectations lifted there too. While the operational momentum was not as forecast, we back management to improve execution and benefit further from the transition in both its own portfolio and the energy market overall.

The overweight position in healthcare services and hospital operator Ramsay Health Care detracted from relative performance over August with the stock falling -10.59%. The Australian segment underperformed, with weaker EBIT margins, while the UK division showed strong revenue growth and a slight margin improvement. Looking ahead, challenges such as slower activity, rising costs, and pricing that lags inflation have led to downgrades for FY25 through FY27. While the company continues to perform better than unlisted peers, hospital indexation is less than required to offset wage pressure and FY25 guidance of some profit growth.

## OUTLOOK

Despite markets recovering from the August turbulence, confidence remains fragile. Early September saw another decline in US stocks, particularly in the tech sector. After reaching \$130 on August 19, Nvidia's share price dropped to \$106 in early September, driven by weak manufacturing PMI data and a decrease in job openings, fuelling concerns about a slowing US economy. In Australia, GDP growth for the second quarter of 2024 was a mere 0.2%, marking the slowest expansion since the early 1990s, excluding the COVID period. GDP per capita fell for the sixth consecutive quarter. The economy has been propped up only by increased government spending and high migration rates, while consumers grapple with persistent inflation and elevated interest rates. Despite these challenges, markets remain near all-time highs, underscoring the need for continued vigilance.

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# 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.

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