Perpetual Investment Funds

PERPETUAL SMALLER COMPANIES FUND

September 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

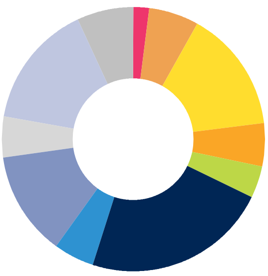
Provides investors with the potential to benefit from the growth of quality smaller or emerging companies, through active management by one of Australia's most experienced investment management teams.

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:	$641.97 million as at 30 Jun 2024
APIR:	PER0048AU
Management Fee:	1.25%*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Five years or longer

PORTFOLIO SECTORS



CASH AND FIXED INTEREST	1.8
COMMUNICATION SERVICES	6.3
CONSUMER DISC	15.0
CONSUMER STAPLES	5.1
ENERGY	4.1
FINANCIALS EX PROP	22.7
HEALTH CARE	5.0
INDUSTRIALS	12.9
INFORMATION TECHNOLOGY	4.8
MATERIALS	15.4
OTHER SHARES	6.9
Total:	100.0

TOP 5 STOCK HOLDINGS

	% of Portfolio
Pacific Current Group Ltd	7.1%
EQT Holdings Limited	2.8%
Universal Store Holdings Ltd.	2.8%
Whitehaven Coal Limited	2.8%
Capricorn Metals Ltd	2.7%

NET PERFORMANCE - periods ending 30 September 2024

	Fund	Benchmark #	Excess
1 month	2.63	5.06	-2.43
3 months	3.22	6.53	-3.32
1 year	9.03	18.79	-9.76
2 year p.a.	6.84	12.66	-5.83
3 year p.a.	4.43	-0.57	+5.00
4 year p.a.	11.85	6.40	+5.45
5 year p.a.	9.60	4.38	+5.22
7 year p.a.	8.95	6.46	+2.49
10 year p.a.	9.30	6.96	+2.34
Since incep.	11.82	5.51	+6.31

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

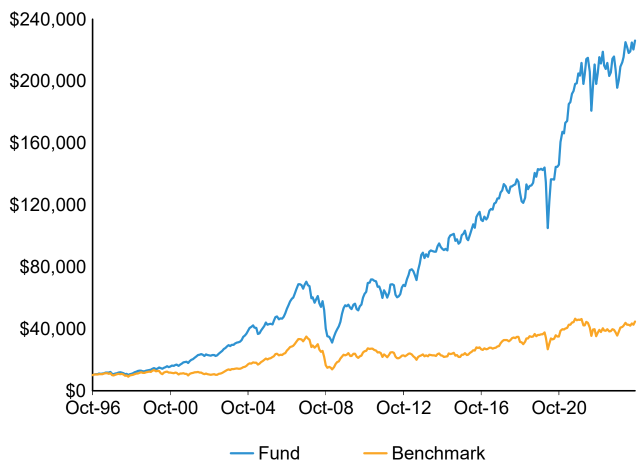
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	15.0	20.2
Dividend Yield*	4.3%	3.8%
Price / Book	1.6	1.7
Debt / Equity	23.4%	29.5%
Return on Equity*	11.3%	9.8%

^ 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



*Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

MARKET COMMENTARY

The S&P/ASX Small Ordinaries rose 6.53% in the quarter ending September. Markets initially were driven by a surge in bank stocks and followed by a significant rotation from defensive to cyclical stocks in late September. As expected, the U.S. Federal Reserve cut interest rates, while China surprised markets with a larger-than-anticipated stimulus package. Although there was scepticism about the long-term effectiveness of China's measures, they had an immediate and notable impact on both Chinese and Australian stock markets. Banks performed well early in the quarter, buoyed by consumer resilience, but faced sharp sell-offs once the stimulus measures were announced, allowing resource stocks to take the lead. The Materials sector soared 6.78% outpacing the broader market and Financials also saw strong gains rising 15.67%.

PORTFOLIO COMMENTARY

The portfolio's largest overweight positions include Pacific Current Group Ltd, Universal Store Holdings Ltd and EQT Holdings Ltd. Conversely, the portfolio's largest underweight positions include Life360, Inc, Ventia Services Group Limited and Alcoa Corporation all of which are not held in the portfolio.

Universal Store Holdings provided strong performance over the period with the stock up 50.91% following strong trading update and guidance. Despite largely being pre-reported, an unexpected improvement in gross margin caused the reporting season rally and highlighted the A-grade management team. The benefit of having a healthy balance sheet was also highlighted the company's net cash position of $14 million allowing management to up the final dividend to 19 cents per share taking the full year dividend to 35.5 cents per share. Universal Store Holdings remains 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.

Servcorp made a significant contribution to the portfolio's performance during the period with the stock rising 25.92% and paying a healthy dividend following a positive shareholder update. The company delivered a strong operating result, marked by solid free cash flow and a net profit before tax well ahead of the previous comparable period. Its strong balance sheet, with a cash balance representing around 25% of its market capitalisation, adds further appeal to investors. Servcorp remains attractively priced and offers additional value potential through the possible separation and listing of the Servcorp Middle East Group, a process that is progressing as planned.

Pacific Current Group detracted from performance over the quarter despite the lack of news flow as the market awaited further clarification around capital management. The company has significant cash on the balance sheet which we expect to be returned to shareholders in the coming months. This is 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.

After a period of strong performance, A2 Milk detracted from performance over the period (-7.83%). 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. This triggered a significant sell-off due to concerns that A2 will miss sales into the crucial 2H CY24 which is expected to see a pick-up in births post-Covid. Although the production and supply chain issue appears to have been largely resolved at the time of writing, the stock price remains depressed. Nonetheless, we remain optimistic about A2 Milk, given its strong balance sheet, ongoing expansion into tier 2 and 3 cities in China, as well as it's entry into the U.S., all of which present substantial growth opportunities.

OUTLOOK

September served as a stark reminder of how quickly market dynamics can shift, particularly when a momentum trend is disrupted. Concerns about Chinese growth and deflation led to excessive bearish sentiment, with the Chinese equity market reaching generational lows. Even quality, world leading businesses like Baidu traded at just 8x earnings, despite having a cash backing amounting to half its market capitalization. In Australia, despite a resilient consumer base, it was increasingly difficult to justify the ~45% rally in Commonwealth Bank shares since October 2023. Meanwhile, BHP was trading at levels reminiscent of 2007. The easing measures from both the Federal Reserve and the People's Bank of China was also a reminder of the role of the US dollar and policy. With US interest rates high and the stock market performing well, the US (and the USD) had been the primary destination for global capital. However, as we potentially enter a rate-cutting cycle and with much of the US equity gains already baked in, global capital could begin to flow outside the US in search of better returns. This trend has historically been beneficial for emerging markets and, by extension, Australian companies, particularly in the resources sector.

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.

MORE INFORMATION

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