Perpetual Pure Series Funds

PERPETUAL PURE VALUE SHARE FUND - CLASS A

September 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

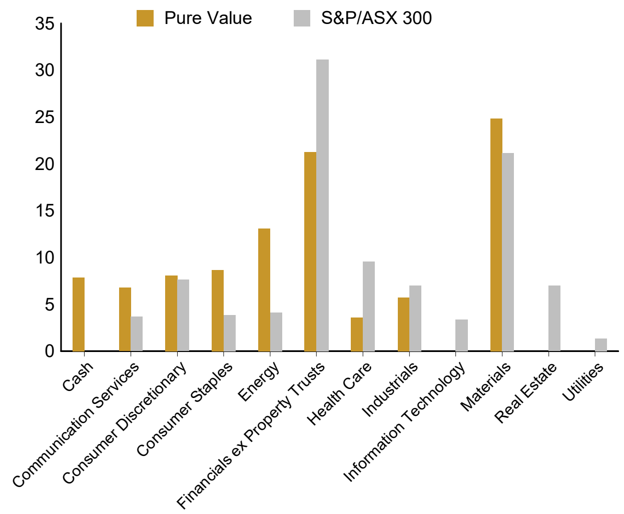
Provides investors with higher potential returns, through the active management of a concentrated portfolio of quality, high conviction stocks. Shares are selected on quality and value, without reference to indices or benchmarks.

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: February 2006
Size of Portfolio: $186.65 million as at 30 Jun 2024
APIR: PER0439AU
Management Fee: 1.20%*
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	8.1%
Insurance Australia Group Ltd	7.7%
Whitehaven Coal Limited	7.6%
EVT Limited	6.8%
GWA Group Limited	5.7%

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

SIZE BREAKDOWN

	% of Portfolio
% of S&P/ASX 20	10.5%
% of S&P/ASX 50 less 20	17.5%
% of S&P/ASX Mid 50	26.3%
% of S&P/ASX Small Ords	24.8%
% of Ex-Index	13.1%
% Cash	7.9%

NET PERFORMANCE- periods ending 30 September 2024

	Fund	S&P/ASX 300 Accumulation Index
1 month	5.70	3.07
3 months	6.98	7.81
1 year	16.21	21.69
2 year p.a.	15.30	17.22
3 year p.a.	9.39	8.13
4 year p.a.	16.77	13.41
5 year p.a.	12.73	8.30
7 year p.a.	8.93	9.70
10 year p.a.	9.70	8.92

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*	16.5
Dividend Yield*	3.5%
Price / Book	1.5
Debt / Equity	18.6%
Return on Equity*	9.4%

^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

The S&P/ASX 300 rose 7.81% in the quarter ending September, driven initially 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 skepticism 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 10.80%, significantly outpacing the broader market. Financials also saw strong gains, rising 8.27%. Real estate, consumer, and industrial stocks all participated in the rally.

PORTFOLIO COMMENTARY

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

The portfolio's overweight to Orora Limited strongly contributed to performance over the past 3 months as the stock rallied 41.35% attributed to the sale of the North American packaging solutions business to Lone Star for a solid price for investors. This comes after a challenging period of performance post the Saverglass acquisition which the market perceived as ill-conceived. We took a position in Orora following the worst of the downgrades when the stock was priced attractively and we felt we were paying a reasonable valuation for the Australasian and North American businesses and a discounted valuation for Saverglass which will require some attention from management to improve. Orora remains a high quality global packaging manufacturer, distributor and visual communication solutions company.

After a challenging period, Healius made a positive contribution to performance during the third quarter of the calendar year reporting season, with the stock rising 15.00%. 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.

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.

MORE INFORMATION

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