

## WealthFocus Investment Advantage

# WEALTHFOCUS PERPETUAL GEARED AUSTRALIAN

September 2024

### FUND FACTS

**Investment objective:** Aims to enhance long-term capital growth through borrowing (gearing) to invest predominantly in quality Australian industrial and resource shares.

### FUND BENEFITS

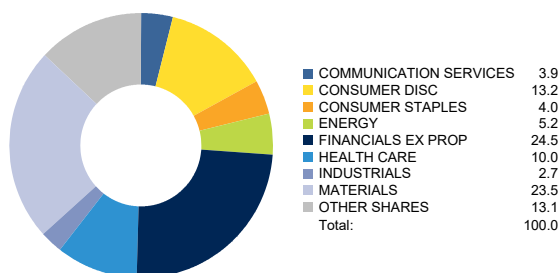
Provides investors with broad market exposure with the potential for higher returns through the use of gearing (borrowing within the fund) and actively managed by one of Australia's most experienced investment management teams.

### 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.

<b>Benchmark:</b>	S&P/ASX 300 Accum. Index
<b>Inception Date:</b>	November 2008
<b>Size of Portfolio:</b>	\$117.76 million as at 30 Jun 2024
<b>APIR:</b>	PER0492AU
<b>Management Fee:</b>	1.23%*
<b>Investment style:</b>	Active, fundamental, bottom-up, value
<b>Suggested minimum investment period:</b>	Seven years or longer

### PORTFOLIO SECTORS



### TOP 10 STOCK HOLDINGS

	% of Portfolio
BHP Group Ltd	11.2%
Commonwealth Bank of Australia	6.9%
Flutter Entertainment Plc	6.0%
ANZ Group Holdings Limited	4.7%
CSL Limited	4.2%
Insurance Australia Group Ltd	3.6%
Goodman Group	3.6%
Origin Energy Limited	3.5%
Westpac Banking Corporation	3.4%
Iluka Resources Limited	3.3%

### NET PERFORMANCE - periods ending 30 September 2024

	Fund	Benchmark #	Excess
1 month	4.94	3.07	+1.87
3 months	11.28	7.81	+3.47
1 year	26.92	21.69	+5.24
2 year p.a.	22.20	17.22	+4.98
3 year p.a.	8.00	8.13	-0.13
4 year p.a.	26.37	13.41	+12.96
5 year p.a.	8.71	8.30	+0.42
7 year p.a.	10.32	9.70	+0.62
10 year p.a.	8.42	8.92	-0.50

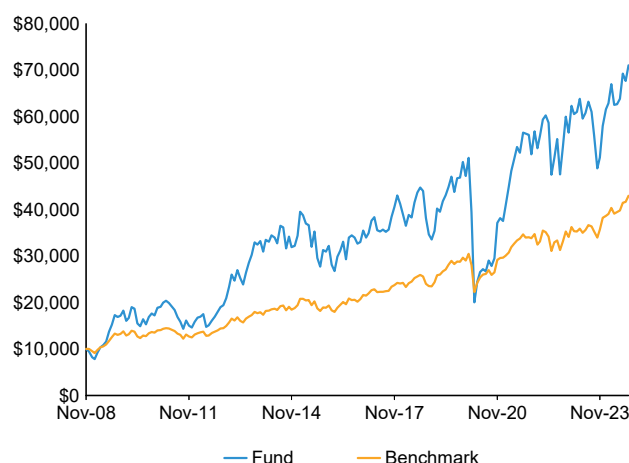
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

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

	Portfolio	Benchmark
Price / Earnings*	18.4	18.9
Dividend Yield*	3.1%	3.6%
Price / Book	2.1	2.3
Debt / Equity	26.6%	35.8%
Return on Equity*	11.0%	12.5%
Gearing Level	52.3%	

<sup>^</sup> 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.

### 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 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 BHP Group Ltd, Flutter Entertainment Plc and Insurance Australia Group Ltd. Conversely, the portfolio's largest underweight positions include Macquarie Group Ltd, Rio Tinto Limited and Woodside Energy Group Ltd, 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.

Origin Energy gave back some of its strong 12 month performance over the past quarter (-5.17%). 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.

Star Entertainment Group detracted from performance over the quarter (-39.80%) after a trading halt in September. Star continues to undergo a transformation after encountering regulatory issues and is currently under regulatory management. Operational challenges and two capital raises to stabilize the balance sheet have further weighed on investor sentiment. Star has a range of quality assets, a small debt load, but with suppressed cashflow as the Queens Wharf development gradually opens in Brisbane, and the Sydney casino operates under regulatory management. The Gold Coast casino is fully operational. The market capitalisation of the business is approximately \$750 million, a substantial discount to our assessed value of the company's assets. CEO Steve McCann has experience working with the regulator (at Crown) and is positioning the business for the future. The position is risk weighted commensurate with the opportunity.

## 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.

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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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## MORE INFORMATION

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