Perpetual Investment Funds

PERPETUAL INCOME SHARE FUND

September 2024

FUND FACTS

Investment objective: To provide investors with exposure to a diversified portfolio of tax-effective, high income yielding Australian securities that are also expected to produce some long-term capital growth. To provide above market dividend yield as measured by the S&P/ASX 200 Accumulation Index.

FUND BENEFITS

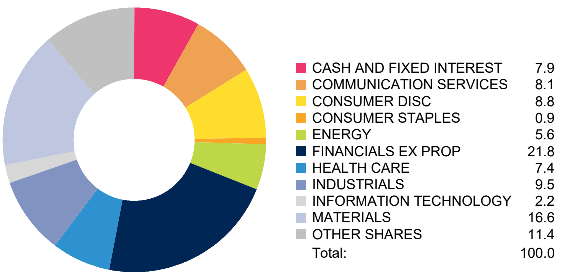
To provide investors with regular income through investment in quality securities.

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 200 Accum. Index
Inception Date:	December 1995
Size of Portfolio:	$160.41 million as at 30 Jun 2024
APIR:	PTC0002AU
Management Fee:	0.99%*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Five years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

	% of Portfolio
BHP Group Ltd	6.2%
Origin Energy Limited	5.6%
Deterra Royalties Ltd	4.9%
GWA Group Limited	4.5%
Ampol Limited	4.2%
Healius Limited	4.2%
National Australia Bank Limited	4.0%
Insurance Australia Group Ltd	3.9%
Telstra Group Limited	3.4%
Premier Investments Limited	3.4%

NET PERFORMANCE - periods ending 30 September 2024

	Fund	Benchmark	Excess
1 month	2.84	2.97	-0.12
3 months	5.64	7.79	-2.15
1 year	15.10	21.77	-6.67
2 year p.a.	14.87	17.54	-2.67
3 year p.a.	8.93	8.45	+0.48
4 year p.a.	14.52	13.60	+0.92
5 year p.a.	8.08	8.38	-0.30
7 year p.a.	7.53	9.74	-2.21
10 year p.a.	8.65	8.93	-0.29
Since incep.	8.96	9.18	-0.22

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

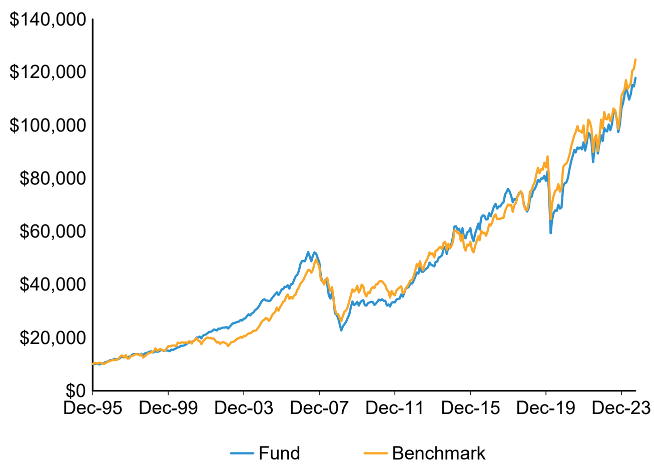
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	16.8	18.6
Dividend Yield*	4.2%	3.6%
Price / Book	1.9	2.3
Debt / Equity	38.7%	35.6%
Return on Equity*	11.1%	12.6%

^ 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 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 Origin Energy Limited, Deterra Royalties Ltd and GWA Group Limited. Conversely, the portfolio's largest underweight positions include Commonwealth Bank of Australia, CSL Limited and Wesfarmers Limited, all of which are not held in the portfolio.

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.

The overweight position in lighting, ceiling fans and light globes retailer Beacon Lighting Group contributed to performance during the period (16.80%). Despite significant pressure on the consumer in the current environment, the FY24 result was generally in line with expectations with no large issues for concern although a notable increase in cost of doing business. We still see the stock as being attractively priced and trading at a significant discount to its intrinsic valuation given the potentially improving macro backdrop and the store rollout. We continue to hold stock in an overweight position within the portfolio.

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.

After a period of very strong performance, Premier Investments suffered a temporary setback towards the end of the period which resulted in the stock detracting from performance. The company reported a -2.9% drop in total retail sales to $1.59 billion. This was still the second highest result for the business, however, and markedly up on pre COVID levels (25.5%). Sales at high margin growth brands like Peter Alexander rose 6.2% whilst Smiggle fell -6.4%. Premier's board also determined that the planned de-merger of Smiggle & Peter Alexander brands, as well as the proposed combination of the Apparel Brands with Myer, warranted further consideration. Chairman Solomon Lew stressed that the board's focus on the strategic review, and any proposals, was to create shareholder value as well as maintaining the potential and integrity of each of the businesses. PMV remains a cornerstone of our core retail investments, renowned for its quality business model, fortified by a robust net cash balance, investments, bank of franking credits and overseen by engaged and experienced executive leadership.

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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