

## Perpetual Pure Series Funds

# PERPETUAL PURE VALUE SHARE FUND - CLASS A

June 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:** \$213.33 million as at 31 Mar 2024

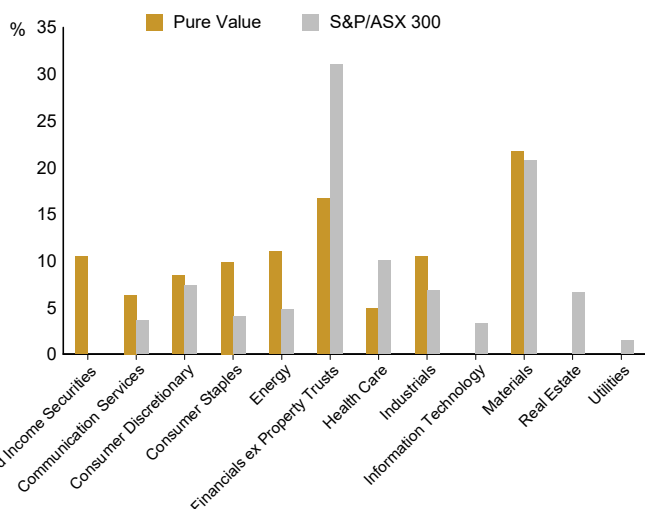
**APIR:** PER0439AU

**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
Insurance Australia Group Ltd	9.7%
Flutter Entertainment Plc	8.5%
EVT Limited	6.3%
GWA Group Limited	6.2%
Santos Limited	5.6%

### SIZE BREAKDOWN

	% of Portfolio
% of S&P/ASX 20	10.9%
% of S&P/ASX 50 less 20	17.0%
% of S&P/ASX Mid 50	23.6%
% of S&P/ASX Small Ords	25.9%
% of Ex-Index	12.1%
% Cash	10.5%

### NET PERFORMANCE- periods ending 30 June 2024

	Fund	S&P/ASX 300 Accumulation Index
1 month	0.28	0.92
3 months	-2.20	-1.20
FYTD	5.82	11.92
1 year	5.82	11.92
2 year p.a.	12.40	13.15
3 year p.a.	8.27	6.08
4 year p.a.	15.81	11.28
5 year p.a.	12.12	7.22
7 year p.a.	8.37	8.65
10 year p.a.	8.89	8.04

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<sup>^</sup>

	Portfolio
Price / Earnings*	14.5
Dividend Yield*	3.7%
Price / Book	1.6
Debt / Equity	26.8%
Return on Equity*	11.5%

<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

## MARKET COMMENTARY

The S&P/ASX 300 largely traded within a range throughout the June quarter finishing down a modest -1.20%. Australia's Q1 GDP growth unexpectedly slowed to 0.1% for the quarter, down from 0.2% in the previous quarter. On an annual basis, GDP grew by 1.1%, falling slightly short of the consensus estimate of 1.2%. In May, employment rose by 39,700 jobs, surpassing the consensus estimate of 30,000 and the 38,500 increase seen in April. Concurrently, the unemployment rate dropped to 4.0%. Monthly inflation in Australia increased to 4.0% year-over-year in May, up from 3.6% in April, exceeding the consensus forecast of 3.8%. This marks the third consecutive increase, bringing inflation to its highest level since December 2023. Despite this, the Reserve Bank of Australia (RBA) has maintained the cash rate at 4.35%, keeping its options open due to ongoing inflation risks and the influence of recent state and federal budgets on inflation. Sector-wise, Utilities and Financials led the market higher, while Energy and Real Estate were the biggest laggards. Major contributors to this drag were Woodside Energy Group Ltd, down 7.51%, and Mirvac Group, down -18.14%, both of which weighed heavily on the index.

## PORTFOLIO COMMENTARY

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

The overweight to IAG was a strong contributor to performance over the quarter as the stock was up 11.51% in a falling market. IAG is one of our largest domestic overweight positions, and the stock has been a beneficiary of rising insurance premiums. Rising interest rates are also a tailwind for the business as it translates into higher investment returns on their balance sheet. Whilst insurance margins have been improving, we believe there is more upside here. In addition, towards the end of the month IAG announced reinsurance agreements with Berkshire Hathaway and Canada Life which reduced earnings volatility risk. Additionally, Suncorp's focus on cost efficiencies has delivered superior profitability and we think there is a substantial upside to IAG if it was able to target a similar level of operating efficiency. IAG's renewed focus on capital management, re-instating the share buyback at the end of May 2023 has also helped bolster the share price.

After a tough period of performance, the overweight to Healius contributed to performance over the quarter with the stock up 13.21%. With the first quarter under the new CEO Paul Anderson's belt, we have seen progress across operational improvements and a focus to bringing the balance sheet back to a net cash position. Looking forward we continue to see upside in the stock from the rationalisation of the company's portfolio (sale of Lumus imaging for a favourable price) with a potential return of some capital as well as a reduction in overhead costs. We also anticipate a recalibration of the pathology operating model. This is already in train and quite a detailed process, encapsulating everything from the authorised collection centre (ACC) footprint, opening hours, staff rostering, lab scheduling, and looking for efficiencies in middle management layers. Our view is that sustainable pathology margins are in excess of consensus expectations.

The overweight position in healthcare services and hospital operator Ramsay Health Care detracted from relative performance over the quarter (-16.04%). There is growing concern over reimbursements the hospital providers receive not keeping up with both wage inflation as well as higher medical supply costs. The overseas operations are under further pressure as French government initially provided Ramsay Sante with a lower-than-expected tariff indexation, which they have since adjusted upwards to match the inflationary environment. The UK Government has provided only a 0.6% indexation, and Ramsay UK are currently negotiation for a higher rate of indexation. Despite this, activity level trends are normalising, and the balance sheet is much healthier post the sale of Sime Darby.

During the June quarter, EVT experienced a decline of 6.44%, largely in the absence of significant news flow. The upcoming FY24 results are anticipated to be lower than the prior comparable period, primarily due to a lack of box office content and the impact of the Euros in Germany. With substantial operating leverage, the absence of content in late 2023 resulted in a weaker performance relative to expectations. Despite the underperformance of the cinema segment, the hotels division showed strong results and earnings growth. This segment is expected to benefit further from the recent redevelopment of Rydges Melbourne, as the property matures towards its targeted earnings levels over the coming years. This site is among the largest contributors to the hotels division. The company's diversified property portfolio adds resilience and supports valuations that exceed the current share price.

## OUTLOOK

Markets are contending with a range of challenges, including consumer pressure, high interest rates, and resurgent inflation. Although the Australian market does not have the same concentration of technology companies as the U.S, there are still pockets of exuberance with sky high valuations. It is still important to remain disciplined about the prices we pay for quality investments, a strategy that has been crucial in consistently delivering superior returns with lower risk over time.

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The PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website [www.perpetual.com.au](http://www.perpetual.com.au). No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of any investor's capital. Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for contribution or withdrawal fees or taxation (except in the case of superannuation funds, as applicable). Past performance is not indicative of future performance.

## MORE INFORMATION

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