Perpetual Investment Funds

# PERPETUAL INCOME SHARE FUND

## March 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

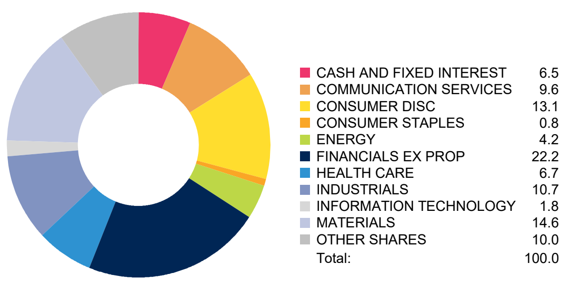
To provide investors with regular income through investment in quality securities.

## 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:** | $160.99 million as at 31 Dec 2023 |
| **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 | 7.3% |
| Insurance Australia Group Ltd | 5.5% |
| Origin Energy Limited | 5.1% |
| GWA Group Limited | 4.9% |
| National Australia Bank Limited | 4.9% |
| Telstra Group Limited | 4.5% |
| EVT Limited | 3.7% |
| Healius Limited | 3.6% |
| Premier Investments Limited | 3.5% |
| Bapcor Ltd | 3.4% |

## NET PERFORMANCE - periods ending 31 March 2024

| | Fund | Benchmark | Excess |
|---|---|---|---|
| 1 month | 3.64 | 3.27 | +0.37 |
| 3 months | 8.09 | 5.33 | +2.76 |
| FYTD | 14.78 | 13.30 | +1.48 |
| 1 year | 17.84 | 14.45 | +3.40 |
| 2 year p.a. | 8.81 | 7.03 | +1.78 |
| 3 year p.a. | 11.26 | 9.62 | +1.65 |
| 4 year p.a. | 18.03 | 16.00 | +2.04 |
| 5 year p.a. | 9.53 | 9.15 | +0.38 |
| 7 year p.a. | 7.48 | 8.59 | -1.11 |
| 10 year p.a. | 9.00 | 8.27 | +0.73 |
| Since incep. | 9.03 | 9.10 | -0.07 |

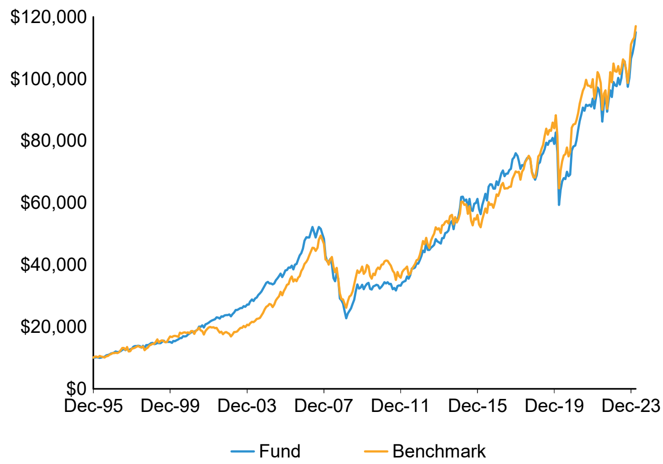
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

## PORTFOLIO FUNDAMENTALS^

| | Portfolio | Benchmark |
|---|---|---|
| Price / Earnings* | 15.7 | 16.9 |
| Dividend Yield* | 4.2% | 3.9% |
| Price / Book | 1.8 | 2.1 |
| Debt / Equity | 33.5% | 36.6% |
| Return on Equity* | 12.0% | 13.1% |

^ 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

In the March quarter, the S&P/ASX300 saw a substantial 5.4% increase, with Tech (23.6%), Real Estate (14.9%), Consumer Discretionary (13.4%), and Financials (12.1%) leading the pack in terms of sector returns. Conversely, Materials (-6.3%), Telecoms (1.1%), and Consumer Staples (2.1%) struggled to keep pace, marking them as the underperformers. The sector movements during this period reflected various factors at play. Optimism surrounding lower interest rates, spurred by the Federal Reserve, propelled tech stocks and real estate to notable gains, while consumer sectors remained resilient. Concerns regarding China's growth trajectory led to a drop in iron ore prices, impacting the Materials sector negatively.

## PORTFOLIO COMMENTARY

The portfolio's largest overweight positions include GWA Group Limited, Insurance Australia Group Ltd and Origin Energy Limited. Conversely, the portfolio's largest underweight positions include Commonwealth Bank of Australia, CSL Limited (not held) and Macquarie Group, Ltd (not held).

The overweight position in GWA Group contributed to performance over the quarter (22.82%). The result for the first half of FY24 saw volume growth in the core Australian business for the first time in many years thanks to investment in re-engaging with the plumber. The company also benefitted from deflationary tailwinds from manufacturers in China. This, combined with the ability to further push prices saw gross margins expand almost 300bps. GWA Group's diverse product portfolio, encompassing bathroom and kitchen fixtures, along with its robust relationship with distributors, positions the company for sustained growth. The prevailing trend of mergers and acquisitions in the building suppliers sector is also a further potential source of upside.

The significant overweight position in Beacon Lighting Group contributed to the portfolio's relative performance (+27.59%). Although the first-half results were weaker compared to last year, sales surpassed market expectations. Moreover, the balance sheet remains robust, with a net financial debt position of $0 and over $25 million in cash and working capital facility. Beacon Lighting Group is efficiently managed, demonstrating a proven capability to execute strategies effectively. With 72 more stores in the pipeline to meet its targets, the business outlook remains promising. Consequently, we maintain our overweight position in the stock within our portfolio.

The overweight to Healius detracted from performance over the quarter (-18.96%) although the market reacted positively in March since the appointment of a new CEO. The market was not impressed with the result although the company has pre-released a profit downgrade and market has lost faith in the management team. We are encouraged with the recent change in CEO and CFO. We believe the incoming CEO is more likely to sell assets to crystallise the value of its radiology assets or its clinical trial business Agilex, which is not currently being valued by the market. The Pathology segment continues to track below what the business could and is pressured by inflationary pressures on wages and rent. We are also encouraged by signs of more rationale behaviour by competitors in the consolidation of the pathology collection centre as there has been leakage of value in terms of high rents paid on the collection centre.

AGL detracted from performance over the quarter (-9.28%) despite delivering a first half result well above expectations and lifting guidance. Earnings were better due mainly to strong operational execution (including generation flexibility), solid wholesale prices and conservative analyst forecasts due to challenges with AGL's financial transparency. While costs were relatively high, these are being expended to defend the customer base and into building the infrastructure to support the business as energy transition evolves. The share price weakness was due to milder weather conditions over summer, rather than the forecasted El Nino environment, which depressed prices with both new renewables and old coal fired generators operating at higher utilisation levels. Victoria, where AGL is long power, was the most affected with the other eastern states less impacted. While this is a headwind for uncontracted supply, AGL (which has an undisclosed arrangement with the Victorian government regarding its Loy Yang asset) is almost completely hedged for FY24 and at least 75% in FY25. Trading on a P/E well below 10x, EV/EBIT of around 7x and providing a full franked yield above 6%, AGL remains misunderstood but outstanding value.

## OUTLOOK

With services inflation in the US showing a robust rise of around 5% annually, coupled with indications of persistent and domestically driven inflation in Australia, concerns about a "higher for longer" stance on interest rates have regained prominence. Despite this, the US Federal Reserve is steadfast in its commitment to reducing rates throughout 2024, prioritizing economic growth over inflation worries. This situation poses a challenge for the Reserve Bank of Australia (RBA), given that the Australian economy trails behind the US by several months, and the RBA remains unconvinced that inflation has been effectively managed. While Australian equities are still relatively cheaper compared to their US counterparts, there remains a risk of downward adjustments to earnings, particularly if pressures on margins and interest rates persist without alleviation.



## MORE INFORMATION

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