

Perpetual Pure Series Funds

PERPETUAL PURE EQUITY ALPHA FUND - CLASS A

September 2024

FUND FACTS

Investment objective: Aims to generate positive returns over a market cycle irrespective of market conditions by investing in both long and short positions of predominantly Australian shares.

FUND BENEFITS

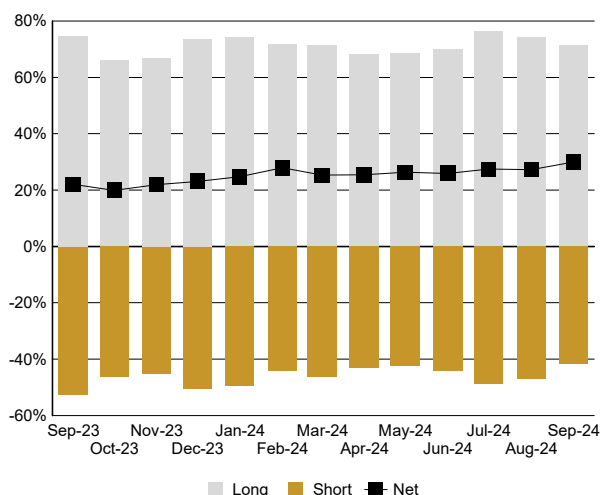
The Fund aims to achieve performance objectives by adopting a bottom-up stock selection process for both long and short positions, combined with a top down approach to managing market exposure. Decisions to buy or sell are based mainly on fundamental stock analysis, complemented by the identification of special opportunities.

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:	March 2012
Size of fund:	\$278.04 million as at 30 Jun 2024
APIR:	PERo668AU
Fund Managers:	Anthony Aboud
Management Fee:	1.28%*
Performance Fee:	20.5% of outperformance*
Performance Hurdle:	RBA Cash Rate Index
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Five years or longer

HISTORICAL MARKET EXPOSURE



TOP 5 STOCK HOLDINGS (LONG)

Stock Holding	% of Portfolio
Flutter Entertainment Plc	8.4%
Servcorp Limited	5.4%
Goodman Group	3.2%
Suncorp Group Limited	3.0%
Cobram Estate Olives Ltd.	2.9%

* Information on Management Costs (including estimated indirect costs) and a full description of the Fund's performance fee is set out in the Fund's PDS.

GEOGRAPHIC LOCATION OF MATERIAL ASSETS

The Fund holds no single international asset representing more than 10% of the Fund's net asset value.

NET PERFORMANCE- periods ending 30 September 2024

	Fund	RBA Cash Rate Index*
1 month	1.29	0.36
3 months	-0.34	1.10
1 year	7.82	4.43
2 year p.a.	4.83	4.00
3 year p.a.	5.00	2.85
4 year p.a.	8.16	2.16
5 year p.a.	7.49	1.82
7 year p.a.	6.28	1.71
10 year p.a.	5.89	1.76
Since incep.	6.89	2.00

RBA Cash Rate Index is the Performance Hurdle.

PORTFOLIO SECTORS

	Long	Short	Net
Communication Services	3.4	-0.9	2.5
Consumer Discretionary	16.6	-9.0	7.7
Consumer Staples	8.9	-5.8	3.1
Energy	1.8	-0.7	1.1
Financials ex Property Trusts	9.1	-11.9	-2.7
Health Care	2.3	-0.7	1.6
Industrials	10.1	-9.1	1.0
Information Technology	0.0	-0.8	-0.8
Materials	8.4	-0.7	7.6
Other Shares	0.0	0.0	0.0
Property Trusts	0.0	0.0	0.0
Real Estate	8.6	-2.1	6.5
Utilities	2.5	0.0	2.5
Total	71.6	-41.7	30.0

PORTFOLIO FUNDAMENTALS^

	Portfolio
Price / Earnings*	16.6
Dividend Yield*	3.4%
Price / Book	2.0
Debt / Equity	35.1%
Return on Equity*	13.2%

^ 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 positions include Flutter Entertainment Plc, Servcorp Limited and Cobram Estate Olives Ltd. Conversely, the portfolio's largest short positions vary across sectors but include selected Financials, Consumer Staples and Infrastructure names.

with the stock rising 25.92% and paying a healthy dividend following a positive shareholder update. The company delivered a strong operating result, marked by solid free cash flow and a net profit before tax well ahead of the previous comparable period. Its strong balance sheet, with a cash balance representing around 25% of its market capitalisation, adds further appeal to investors. Servcorp remains attractively priced and offers additional value potential through the possible separation and listing of the Servcorp Middle East Group, a process that is progressing as planned.

HMC positively impacted portfolio performance during the period, with its stock rising 14.57% following a strong result during reporting season. Earnings per share slightly exceeded consensus expectations, and the company emphasized its substantial growth potential, adding \$3 billion in additional funds under management (FUM) during the period. HMC aims to double its assets under management (AUM) in its private credit platform over the next year. The company also reported increasing transactional activity in real estate and a promising pipeline in infrastructure and energy transition, presenting significant opportunities for its newly formed Energy Transition Fund.

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.

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 its 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.

The performance fee is equal to 20.50% of daily outperformance over the hurdle rate of return. The current hurdle rate is the Reserve Bank of Australia cash rate. Performance fees are accrued daily and payable six monthly, however will only be paid in the event that the Fund's return over the performance fee calculation period is positive and the performance fee accrual is positive. For further information on the calculation of the performance fee please consult the Fund's PDS.

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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. 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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