

# WEALTHFOCUS PERPETUAL CONCENTRATED EQUITY

September 2024

## FUND FACTS

**Investment objective:** Aims to provide long-term capital growth and income through investment predominantly in quality Australian industrial and resource shares.

## FUND BENEFITS

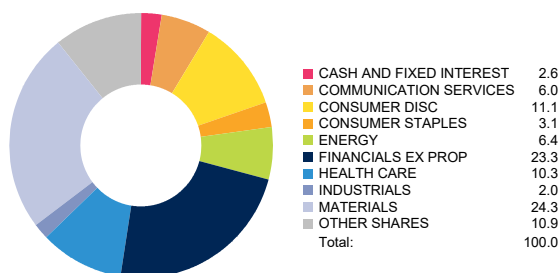
Provides investors with higher potential returns, through the active management of a portfolio of fewer stocks but with higher conviction, than our core Australian equity funds. This concentration may lead to increased short term volatility.

## 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>	\$30.74 million as at 30 Jun 2024
<b>APIR:</b>	PER0488AU
<b>Management Fee:</b>	1.23%*
<b>Investment style:</b>	Active, fundamental, bottom-up, value
<b>Suggested minimum investment period:</b>	Five years or longer

## PORTFOLIO SECTORS



## TOP 10 STOCK HOLDINGS

	% of Portfolio
BHP Group Ltd	10.3%
Commonwealth Bank of Australia	6.8%
ANZ Group Holdings Limited	4.5%
CSL Limited	4.0%
Bluescope Steel Limited	3.6%
National Australia Bank Limited	3.5%
Goodman Group	3.5%
Premier Investments Limited	3.4%
Insurance Australia Group Ltd	3.4%
Origin Energy Limited	3.3%

## NET PERFORMANCE - periods ending 30 September 2024

	Fund	Benchmark #	Excess
1 month	1.88	3.07	-1.19
3 months	4.25	7.81	-3.56
1 year	14.87	21.69	-6.82
2 year p.a.	13.33	17.22	-3.89
3 year p.a.	8.05	8.13	-0.08
4 year p.a.	15.48	13.41	+2.06
5 year p.a.	7.69	8.30	-0.61
7 year p.a.	7.79	9.70	-1.91
10 year p.a.	6.89	8.92	-2.03

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

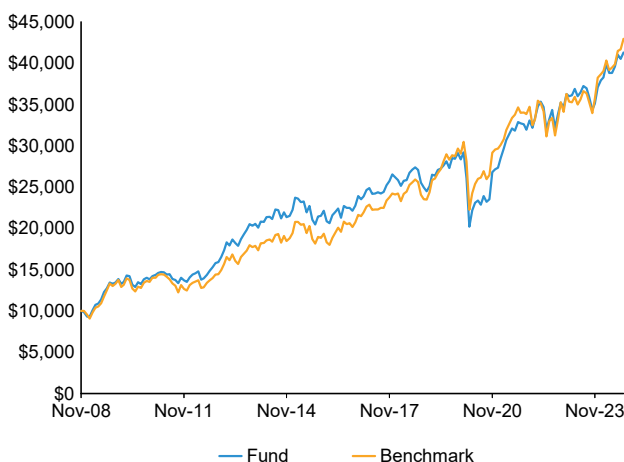
## PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	18.7	18.9
Dividend Yield*	2.9%	3.6%
Price / Book	2.2	2.3
Debt / Equity	31.0%	35.8%
Return on Equity*	11.3%	12.5%

<sup>^</sup> 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



## 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 scepticism 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 Premier Investments Limited, BlueScope Steel Limited and Iluka Resources Limited. Conversely, the portfolio's largest relative underweight positions include Macquarie Group Ltd (not held), Commonwealth Bank of Australia and Rio Tinto Limited (not held).

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.

Newmont Corporation contributed to performance over the period as the stock steadily rallied resulting in a 23.36% uplift in the share price as gold continued its upward ascension to its current all time high. Newmont was also able to deliver on its asset sales and get a buyback underway earlier than the market anticipated. Newmont remains a favourable exposure to gold as a low-cost producer with long life assets and brownfield exploration upside. We believe management to be experienced and capable and the movement of the gold price aside, able to execute on keeping costs in line, finding synergies and optimising the portfolio of assets.

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.

The overweight position in Light & Wonder (-16.58%) detracted from the portfolio's performance following a judge's order to cease operations of its Dragon Train cabinet which represented a significant growth opportunity for the company into the future. We remain optimistic on Light & Wonder and at the time of writing the company has confirmed that it is developing a new, legally compliant version of its Dragon Train offering. Over the past few years, Light & Wonder has undergone a transformative journey, resulting in a repositioned company with a robust balance sheet, an exceptional management team, creative talent, and a clear strategic vision. Pleasingly, recent operational results suggest that the foundational changes made in the business are translating to better products for customers and ultimately better earnings and overall outcomes for shareholders. Despite the recent re-rate, we maintain that the company trades at an attractive valuation relative to its attainable growth prospects.

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. This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL No 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. 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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