

Perpetual Pure Series Funds

PERPETUAL PURE EQUITY ALPHA FUND - CLASS A

July 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

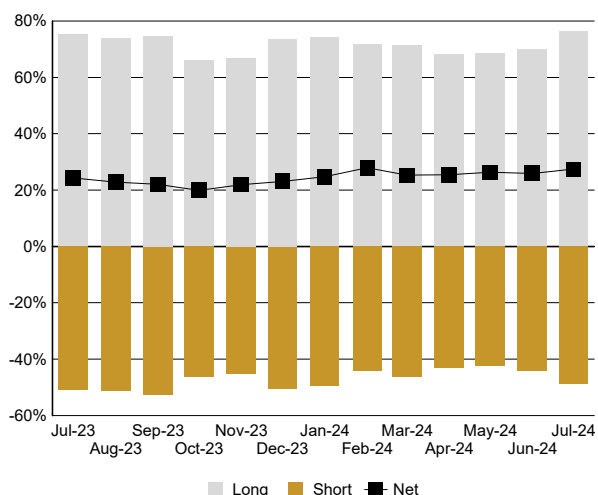
The Fund aims to achieve performance objectives by adopting a bottom-up stock selection process for both long and short positions, combined with a top down approach to managing market exposure. Decisions to buy or sell are based mainly on fundamental stock analysis, complemented by the identification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

	% of Portfolio
Flutter Entertainment Plc	6.6%
Servcorp Limited	4.6%
Suncorp Group Limited	4.4%
Premier Investments Limited	3.6%
Goodman Group	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 31 July 2024

	Fund	RBA Cash Rate Index*
1 month	-0.65	0.37
3 months	0.39	1.10
FYTD	-0.65	0.37
1 year	5.84	4.39
2 year p.a.	6.68	3.80
3 year p.a.	6.47	2.61
4 year p.a.	8.33	1.99
5 year p.a.	7.39	1.71
7 year p.a.	6.25	1.65
10 year p.a.	6.03	1.73
Since incep.	6.96	1.97

RBA Cash Rate Index is the Performance Hurdle.

PORTFOLIO SECTORS

	Long	Short	Net
Communication Services	3.9	-2.2	1.6
Consumer Discretionary	17.6	-8.9	8.7
Consumer Staples	9.7	-7.9	1.8
Energy	1.7	-1.0	0.8
Financials ex Property Trusts	7.7	-11.7	-3.9
Health Care	2.1	-1.6	0.5
Industrials	10.6	-9.7	0.9
Information Technology	0.0	-0.3	-0.3
Materials	9.2	-0.5	8.8
Other Shares	0.0	0.0	0.0
Property Trusts	0.0	0.0	0.0
Real Estate	10.2	-5.2	5.0
Utilities	3.7	0.0	3.7
Total	76.4	-48.9	27.4

PORTFOLIO FUNDAMENTALS^

	Portfolio
Price / Earnings*	17.2
Dividend Yield*	3.1%
Price / Book	2.1
Debt / Equity	29.2%
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 rallied strongly in July, rising by 4.1%. The Australian market benefited from a global rotation favouring cyclicals over technology. This shift saw Financials soar by 6.25%, contributing nearly half of the benchmark return. The Consumer Discretionary and Real Estate sectors were also significant contributors, along with healthcare. The backdrop was reasonably benign, with strong domestic employment growth and high hopes for a soft landing in the US. While concerns about high inflation persisted at month-end, a consensus quarterly inflation number alleviated fears of further rate hikes and boosted markets.

PORTFOLIO COMMENTARY

The portfolio's largest positions include Flutter Entertainment Plc, Servcorp Limited and Suncorp Group Limited. Conversely, the portfolio's largest short positions vary across sectors but include selected Financials, Consumer Staples and Infrastructure names.

Mainfreight Limited significantly contributed to the portfolio's performance over the month, with the stock rallying 10.17%, outperforming the broader ASX 300, which was up 4.13%. We began purchasing stock in Mainfreight in June 2024, drawn by a cyclical downturn in New Zealand which culminated in a research trip to the country. Mainfreight is a high-quality logistics company operating globally, with a success-driven culture established by its founder and carefully maintained by a strong management team. CEO Don Braid, who has been with the company for 29 years, exemplifies this culture, which permeates the entire organization down to the most junior employees. The company has robust succession planning, ensuring the continuity of its cultural framework, which has consistently led to significant success. Mainfreight places a strong emphasis on quality service, providing transparent KPI reporting to both customers and shareholders. A key KPI is the number of customers using all three divisions. As of FY23, 37% of the top 500 customers utilized all three divisions, a figure that has steadily increased over time. Outside of New Zealand, the company's performance in Australia is strong, with the potential to achieve New Zealand-level margins by adapting to local conditions. While the Americas and Europe currently lag behind, MFT is confident in its strategic approach and foundational capabilities to capitalize on these larger markets. The company has announced plans for significant investments in these regions, supported by a strong balance sheet (net cash) and retained earnings. MFT's impressive track record in New Zealand and disciplined capital management inspire confidence. However, we acknowledge the risks associated with entering highly competitive markets where network intensity is crucial and where volatile cost pressures can significantly impact margins.

The overweight to Premier Investments continued to contribute to performance rallying 6.39% for the month and taking the 1 year return to 56.50%, greatly outperforming the broader Consumer Discretionary sector which is up 28.76% for the year. Despite negative industry trends and heightened consumer pressures, Premier has demonstrated its strength through consistently robust trading outcomes. PMV has been a cornerstone of our core retail investments, renowned for its quality business model, fortified by a robust net cash balance and overseen by engaged and experienced executive leadership. PMV's strategic review signals proactive measures to assess and potentially enhance the corporate, operating, and capital structure, reinforcing its commitment to sustained excellence. The strategic review has resulted in a potential demerger and separate listings of its Smiggle and Peter Alexander brands. Further to this, the approach from Myer to acquire Premier's Apparel Brands is a further opportunity to unlock value for shareholders. Although future outcomes remain uncertain, they are expected to reflect Premier's commitment to maintaining its high-quality standing in the market.

Cobram Estate Olives detracted from performance over July (-6.70%) although has still performed strongly for the year up over 20%. Several years of drought across Europe has resulted in a significant increase in the price of olive oil. While the current European crop looks healthy and global olive oil prices have stabilised, we believe the market has underestimated the earnings leverage that Cobram will reap from the 25-40% price increases taken across its range in Woolworths and Coles over the past 12 months.

The overweight position in Iluka Resources detracted to performance over July as the stock fell -7.48%. Although rutile and zircon pricing was largely stable, negative sentiment around global GDP levels and negative sentiment around a CAPEX increase for the rare earths refinery led to the stock falling. Iluka is a major producer of rutile and synthetic rutile that is used to produce pigment (paint) and largest producer of zircon that is used to produce ceramics (tiles) and a recovery in these markets can be met by releasing excess inventory and reducing working capital before production is restarted. Iluka has a very strong balance sheet (net cash) and also owns a valuable stake in Deterra Royalties, which was spun-off in an IPO so is able to buffer these periods of demand distortion that is a feature of these markets. The next catalyst for the company is the update on the funding for the increased capex of the fully integrated rare earths refinery being built in WA to break China's stronghold on these markets. The project is largely funded from a non-recourse loan of more than \$1 billion from the federal government that has a \$200 million overrun facility.

OUTLOOK

Markets finished July on a high note, but difficulties are emerging. A sudden deterioration in economic data in the US during the first week of August led to a sharp sell-off in US and other equity markets. This accelerated the rotation in equities that began in July and raised the spectre of a recession for the first time in months. Coinciding with this was the Bank of Japan's decision to raise interest rates to near generational highs, which appeared to trigger a reappraisal of asset allocation and a potential unwind of the multi-trillion-dollar Japanese "carry trades" that have been in place for many years. The Nikkei had its worst day since 1987, though it bounced back a day later. Nonetheless, the sharp correction in markets, with the NASDAQ repeatedly underperforming the Dow and S&P, increases the risk that a broader realignment could finally be here.

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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