

## Perpetual Pure Series Funds

# PERPETUAL PURE MICROCAP FUND - CLASS A

September 2024

### FUND FACTS

**Investment objective:** Aims to provide investors with long term capital growth via an investment in a portfolio of quality Australian microcap companies. Microcap companies are defined as companies with a market capitalisation or free float of less than \$300m on acquisition.

### FUND BENEFITS

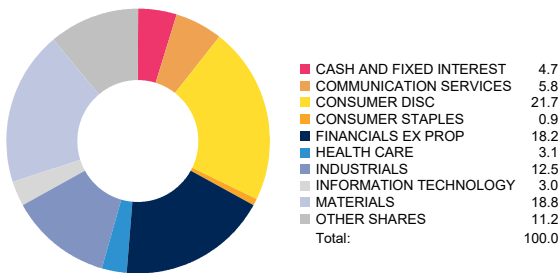
Professionally managed portfolio using Perpetual's bottom up stock selection process. The potential for long-term capital growth via an investment in under-researched microcap stocks, which are typically mispriced and undervalued.

### 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>Inception Date:</b>	September 2013
<b>Size of Portfolio:</b>	\$101.95 million as at 30 Jun 2024
<b>APIR:</b>	PER0704AU
<b>Management Fee:</b>	1.28%*
<b>Performance Fee:</b>	20.5% of outperformance*
<b>Performance Hurdle:</b>	S&P/ASX Small Ordinaries Accumulation Index
<b>Investment style:</b>	Active, fundamental, bottom-up, value
<b>Suggested minimum investment period:</b>	Seven Years or longer

### PORTFOLIO SECTORS



### TOP 5 STOCK HOLDINGS

	% of Portfolio
Capral Limited	8.0%
Pacific Current Group Ltd	5.9%
Servcorp Limited	5.4%
Enero Group Limited	4.9%
MaxiPARTS Limited	4.8%

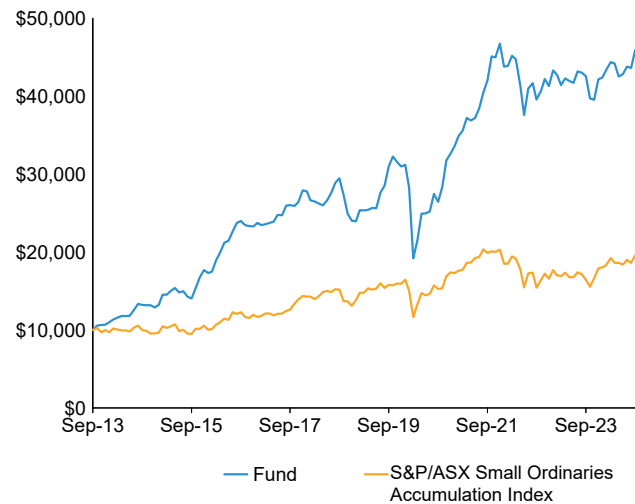
### NET PERFORMANCE - periods ending 30 September 2024

	Fund	S&P/ASX Small Ordinaries*
1 month	5.23	5.06
3 months	7.21	6.53
1 year	7.87	18.79
2 year p.a.	7.69	12.66
3 year p.a.	2.98	-0.57
4 year p.a.	14.76	6.40
5 year p.a.	8.16	4.38
7 year p.a.	8.43	6.46
10 year p.a.	13.24	6.96
Since incep.	15.78	6.27

\*S&P/ASX Small Ordinaries Accumulation Index is the Performance Hurdle.

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

### GROWTH OF \$10,000 SINCE INCEPTION



\*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.

## MARKET COMMENTARY

The S&P/ASX Small Ordinaries rose 6.53% in the quarter ending September. Markets initially were driven 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 6.78% outpacing the broader market and Financials also saw strong gains rising 15.67%.

## PORTFOLIO COMMENTARY

The portfolio's largest overweight positions include Capral Limited, Pacific Current Group Ltd and Servcorp Limited. Conversely, the portfolio's largest relative underweight positions include Life360 Inc, Ventia Services Group Limited and Alcoa Corporation.

Universal Store Holdings provided strong performance over the period with the stock up 50.91% following strong trading update and guidance. Despite largely being pre-reported, an unexpected improvement in gross margin caused the reporting season rally and highlighted the A-grade management team. The benefit of having a healthy balance sheet was also highlighted the company's net cash position of \$14 million allowing management to up the final dividend to 19 cents per share taking the full year dividend to 35.5 cents per share. Universal Store Holdings remains well-managed, high-quality fashion retailer with an attractive market position. The opportunity to expand the private label offering through the Perfect Stranger and Cheap THRILLS Cycles (CTC) businesses, along with a continued store rollout, further enhance the medium-term earnings growth potential of Universal Stores. While near-term challenges exist, the company's disciplined strategy and growth prospects make it a compelling long-term portfolio holding.

Servcorp made a significant contribution to the portfolio's performance during the period 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.

Pacific Current Group detracted from performance over the quarter despite the lack of news flow as the market awaited further clarification around capital management. The company has significant cash on the balance sheet which we expect to be returned to shareholders in the coming months. This is a classic case of the sum of the parts equating to a greater value than the whole, with considerable value set to be unlocked as PAC winds up and shareholders receive a significant amount of capital.

LGI rallied across the second half of FY24 period as a result of new contract wins & organic growth on existing sites. As a result, there was a material amount of earnings upside priced into the name leading into the result. The underperformance following the release of the full year FY24 results was in part an outcome of single digit underperformance vs consensus expectations in the period with an outcome at the lower end of guidance. In conjunction there was a delay in expected full run rate timing for the material pipeline of green & brownfield developments. The combination of these factors resulted in consensus earnings downgrades for FY25 which took some heat out of the short-term with the stock down in a strong market. Since the end of the period the stock has retraced the post result pricing outcome. Whilst the stock is trading at a premium valuation, this is reflective of the quality of the business & the short to medium term growth opportunity in a sector with strong tailwinds.

## 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 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

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email [investments@perpetual.com.au](mailto:investments@perpetual.com.au)

[www.perpetual.com.au](http://www.perpetual.com.au)

