Perpetual Private

PERPETUAL SELECT INTERNATIONAL SHARE FUND

June 2024

FUND FACTS

Investment objective: Long-term capital growth through investment in a diversified portfolio of international shares.

Suggested length of investment: Five years or longer

BENEFITS

Offers investors access to returns from companies overseas. Investing internationally allows investors the ability to diversify their portfolio, reducing overall volatility.

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.

INVESTMENT APPROACH

The Fund combines specialist investment managers with different investment styles and philosophies. This can help reduce the volatility of the Fund by avoiding over exposure to a particular specialist investment manager.
The currency exposure of international assets is monitored and hedging strategies may be implemented (using derivatives) with the aim of reducing the impact of adverse currency movements.

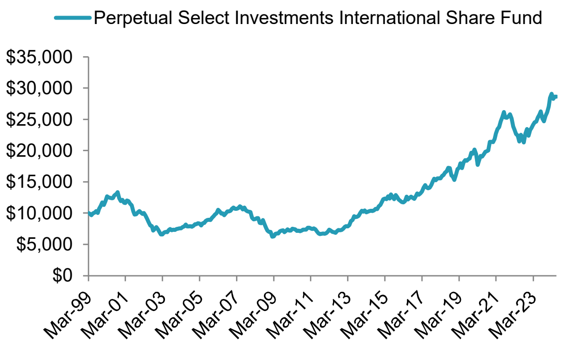
TOTAL RETURNS % (AFTER FEES) AS AT 30 JUNE 2024

	APIR CODE	1 MTH	3 MTHS	6 MTHS	1 YR PA	3 YRS PA	5 YRS PA
Perpetual Select Investments International Share Fund	PER0256AU	0.0	-1.7	9.5	13.0	5.0	9.6
Perpetual Select Super International Share Fund	WDL0009AU	-0.1	-1.5	8.8	12.2	4.8	8.9
MSCI All Country World Index - Net Return (unhedged in AUD)		1.8	0.5	13.7	19.0	9.6	11.9

Past performance is not indicative of future performance

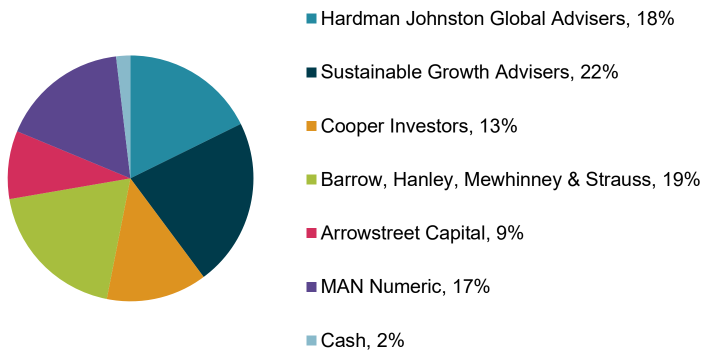
February 2022 onwards, Mercer Super/Pension International Shares Median is no longer published by Mercer

GROWTH OF $10,000 SINCE INCEPTION*



*The Growth of $10,000 chart includes reinvestment of dividends and capital gains, but does not reflect the effect of any applicable sales or redemption charges which would lower these figures.

PORTFOLIO EXPOSURES^



Source: State Street

^Portfolio exposures represent the Perpetual Select Investments International Share Fund

TOP 10 STOCK HOLDINGS	WEIGHTS (%)
Microsoft Corporation	3.2
Alphabet Inc.	2.9
Amazon.com, Inc.	2.5
Visa Inc.	2.1
NVIDIA Corporation	1.9
Novo Nordisk A/S	1.4
Mastercard Incorporated	1.3
UnitedHealth Group Incorporated	1.3
ASML Holding NV	1.3
HDFC Bank Limited	1.3

MANAGER INVESTMENT APPROACH	
MAN Numeric	Concentrated portfolio, quantitative global large to mega cap
Barrow, Hanley, Mewhinney & Strauss	Diversified portfolio, mid to large cap value
Hardman Johnston Global Advisers	Concentrated portfolio, mid to large cap growth
Cooper Investors	Concentrated portfolio, mid to large cap quality
Arrowstreet Capital	Quantitative core global small cap
Sustainable Growth Advisers	Concentrated portfolio, mid to large cap growth

MARKET COMMENTARY

International shares continued their positive run in Q2 2024, though momentum was tepid, with the MSCI All Country World Index (ACWI) delivering a 0.5% return in Australian Dollar (AUD) terms. In local currency terms, however, the index performed much better, achieving a 3.4% return. The ongoing strength of the artificial intelligence (A.I.) fuelled tech rally, particularly in the U.S., was a key driver, with Nvidia adding 36% over the quarter and, at one point, briefly becoming the largest company in the world. However, sectors and markets not directly linked to the technology sector or 'A.I.' thematic generally experienced softer performance.

Large Caps outperformed Small Caps during the quarter, with the MSCI AC World Small Cap Index returning -3.8%, halting their early 2024 momentum as higher global bond yields in April and economic growth concerns later in the quarter weighed more heavily on smaller names. Unlike the broad rally seen in Q1, the past quarter saw lagging performance in the UK, Japan, and the Eurozone, highlighting divergent economic fortunes as the blend of and success in, taming inflation and maintaining growth, plays out at varying speeds.

From an investment style standpoint, Growth stocks outperformed Value, with Growth returning 3.5% compared to Value's -3.9%. Sector performance was narrow, with only three of the eleven MSCI ACWI sectors finishing the quarter in positive territory. Technology (+8.8%) and Communication Services (+5.6%) were the best-performing sectors, driven by strong earnings from A.I.-linked companies like Nvidia, Microsoft, and Amazon. Utilities (+1.2%) also posted modest gains, attracting investors with high yields and resilient business models amid rising economic growth concerns. In contrast, Energy (-3.1%), Materials (-5.4%), and Industrials (-4.1%) lagged, reflecting anxiety about future economic growth.

Internationally, Emerging markets (+2.6%) outperformed Developed markets ex-North America (-2.7%) in Q2, driven by renewed optimism toward Chinese economic growth and strong performance from A.I. exposed markets, Korea and Taiwan. Concerns about the timing and number of Bank of England and European central bank rate cuts, along with French and German political concerns, acted as headwinds over the period.

PORTFOLIO COMMENTARY

The Perpetual Implemented International Share Portfolio underperformed its benchmark in the second quarter on a net of fees basis.

The current market structure, whereby the large and mega-cap segment of the market are making up an ever-increasing component of the benchmark has meant we adjusted the portfolio construction to allow our manager's highest conviction positions, particularly in that large and mega cap part of the market to influence portfolio outcomes. During the quarter, we terminated two managers, being those that had more consistent 'broad cap' styles, while adding two managers who have more tightly defined investment mandates; i) large and mega caps (Man Numeric) and ii) small caps (Arrowstreet). These changes allow for better control of our exposures relative to the benchmark via changes to our manager weights, while allowing the manager's to focus on stock and / or sector selection to drive performance outcomes.

Arrowstreet Capital was appointed during the quarter to run a Global Small Cap mandate for unitholders.

Artisan Partners was terminated during the quarter.

Barrow Hanley underperformed the benchmark in Q2 2024, with security and sector allocation detracting from relative performance. The main detractors at the sector level were underweight exposures to Information Technology, while overweight positions in Materials also detracted. At the stock level, the main contributors were Great Wall Holdings, Vertiv Holdings, and SharkNinja. The main detractors were Seven & I Holdings, VINCI SA and Comcast.

Black Creek was terminated during the quarter.

Cooper Investors underperformed the benchmark in Q2 2024, with stock selection and sector allocation detracting from relative performance. At the sector level, the main detractors were the material underweight allocation to Information Technology, and overweight positions in Consumer Discretionary and Consumer Staples. At the stock level, the main detractors were Ulta Beauty, CDW Corporation, and Yum China, while the main contributors were Alphabet (Google), New York Times Company, and HDFC Bank.

Hardman Johnston outperformed the benchmark in Q2 2024, with stock selection and currency contributing to relative performance. Sector-wise, the main detractor was an overweight to Health Care, while underweight positions in Financials, and Consumer Staples contributed. At the stock-level, the largest contributors to performance were TSMC, Universal Display Corporation and Alphabet (Google). The largest detractors were Elanco Animal Health, IQVIA Holdings, and Coty Inc.

SGA underperformed the benchmark in Q2 2024, with currency and sector allocation contributing to relative performance, while stock selection detracted. At the sector level, overweight exposure to Information Technology contributed, as did an underweight to Industrials and Materials. At the stock level the main contributors HDFC Bank, Novo Nordisk and Alphabet (Google). The main detractors for the quarter were Workday Inc, Canadian Pacific Kansas City, and MSCI Inc.

RETURNS BREAKDOWN (INVESTMENTS)

	FY 2024	FY 2023	FY 2022
Growth Return %	-1.0%	17.4%	-18.6%
Distribution Return %	14.0%	0.5%	5.5%
Total Return %	13.0%	18.0%	-13.1%

DISTRIBUTION BREAKDOWN

	FY 2024	FY 2023	FY 2022
Cents per unit	20.9956	0.6966	8.7614

PRODUCT FEATURE

	SUPER	INVEST.
Inception date	Dec 94	Mar 99
Management/Investment Fee (p.a.)*	0.92%	1.30%
Ongoing fee discount	Yes	No
Admin fee	0.10%	0.00%
Buy spread	0.22%	0.22%
Sell spread	0.00%	0.00%
Contribution fee	0.00%	0.00%
Withdrawal fee	$0.00	$0
Monthly member fee	$0.00	$0
Min. initial contribution	$3,000	$2,000
Min. additional contribution	$0	$0
Savings plan	Yes	Yes
Withdrawal plan	No	Yes
Distribution frequency	N/A	Quarterly
Contact information	1800 022 033	

*Additional fees and costs generally apply. Please refer to the Product Disclosure Statement for further details.

Man Numeric was appointed during the quarter to manage a portfolio of large and mega cap stocks on behalf of unitholders.

OUTLOOK

Last quarter, we spoke to how 'narrow' equity markets had been during Q1 2024. The continued enthusiasm for A.I. related stocks drove a large proportion of index outcomes during the quarter. For example, Nvidia reported sales and profits in May which was well ahead of Wall Street's expectations. This saw the stock rise 36% during the quarter, leaving it up 149% for the year. Furthermore, Nvidia has accounted for over 30% of the S&P 500's return in 2024. That said, increasingly we are of the view that global equity markets are too complacent. We say this for a few reasons:

The market appears to be wedded to the 'soft landing' narrative and the expectation of several near-term interest rate. cuts. This explains the higher price to earnings ratios evident in markets at the moment, yet, at the same time macro-economic data has begun to weaken.

The market is focused on the growth prospects for the Information Technology sector, which has in recent months become an even larger component of commonly quoted indices. (Information Technology is now ~26% of the MSCI ACWI.) According to FactSet estimates, EPS for the MSCI USA Index is expected to grow 12.7% over the coming 12 months, while the Information Technology sector is expected to grow its earnings by 18.9% over the same forward period.

The market is not extrapolating themes permeating from earnings season across the broader market, but rather assuming any negative news is solely specific to the company in question. Individual stock prices are reacting poorly to this news, resulting in material volatility below the surface.

To put this dynamic in context, here are a few anecdotes:

Despite strong index level outcomes over the quarter, most stocks have been underwhelming in terms of performance. For example, the average stock within the S&P 500 is up just 4.1% this year, while the index is up over 14%. Furthermore, six of the eleven sectors in the S&P 500 delivered negative performance, including Financials, Energy and Industrials.

Both the CBOE S&P 500 Dispersion Index, and our internal proprietary measure of 'dispersion', which measures cross sector volatility, had been moving lower up until recently. Recent weeks have seen this move moderate, and even tick up slightly. (A lower level of dispersion implies a greater number of sectors / stocks are moving in the same direction by similar amounts.)

The markets are pricing for perfection and even small misses versus guidance or lower than expected future guidance is being punished heavily by the market. For example, Salesforce fell ~20% upon the announcement of weaker than expected first quarter results, and Nike fell around 13% after it forecast lower revenue in CY 2025.

These big moves have typically been seen in companies which are more closely linked to the 'real economy', and indicate an increasingly two speed economy, whereby A.I. powered enthusiasm continues, yet consumers and businesses are increasingly judicious around their spending plans.

Given the dynamics outlined above and looking toward the coming period, we are focused on the nexus between valuations and revenue/earnings outcomes, particularly in the large and mega cap part of the market. As markets extend their rally, we consider corporate's 'margin for error' in terms of revenue and earnings outcomes to narrow markedly. Misses are likely to see the trend of sharp drawdowns on specific stocks continue. We believe that avoiding names where this risk is elevated will be key to delivering strong outcomes.

Finally, outside the Large and Mega cap part of the market we are seeing an increasing number of opportunities in sectors and regions which have not benefited from the rally to date. It is worth noting that these opportunities tend to possess greater 'relative value' when compared to other market segments, rather than 'screamingly cheap' in their own right (e.g. Global Small Caps). As such, some exposure is warranted, but it remains too early to materially lean into these ideas.

Key:

[1] MSCI World Index Growth (Unhedged AUD)
[2] MSCI World Index Value (Unhedged AUD)
[3] MSCI Emerging Markets (Unhedged AUD)
[4] MSCI EAFE (Unhedged AUD)

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