Perpetual: The power of active investment

By Perpetual Asset Management

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As the original quality and value investor in the Australian share market, Perpetual Australian Equities has established a proven, decades-long methodology.

- A long history of active ownership
- A consistent, decades-long investment process
- Find out more about the Perpetual Strategic Capital Fund

Consistent investment process

Perpetual's equities investment process has been largely consistent for 60 years.
The team initially filters companies by four key factors. A company must pass all filters before being included in the Perpetual universe and considered an investment opportunity:

1. Quality of business

What are the products or services a company offers and how operationally efficient is it? What is the competitive landscape and where does the target company sit in the competitive set? What is the industry structure – monopoly, duopoly or more players – and what are the barriers to entry and a company's competitive advantage? Significantly, what ESG factors might impact the current or future financial performance of the company?

2. Balance sheet

Strong balance sheets help ensure a company is sustainable across economic cycles. Perpetual considers quantitative measures. Is debt-to-equity less than 50 per cent? Is interest cover – pre-tax earnings over interest payments due – more than three times?

3. Sound management

Good companies have good management. Perpetual considers the track record of a company's management, including the use of shareholder capital and corporate governance practices.

4. Recurring earnings

Does a company have a track record of generating earnings and how sustainable is the business for the future.

Valuations

Once a company has passed these initial four filters, Perpetual derives a valuation for it.

"We have a flexible approach to valuation," says Vince Pezzullo, head of equites at Perpetual.

"Different methods suit different stocks or sectors. It is important to recognise the different nature of companies operating in different industries."



A company might be valued on a business break-up valuation, or on the net present value over the life of a company's asset.

For other companies, their price-to-earnings ratio (PE) and dividend yield, relative to other stocks in their universe, matter.

The valuation might reflect the potential PE based on a restructure of an organisation, or what the PE would be in normalised conditions.

Experience matters

A competitive advantage of the Perpetual team is experience and continuity. Pezzullo is just the seventh head of equities in nearly four decades.

Bottom-up value investing with a contrarian leaning needs well-travelled managers, and the portfolio managers on the team have – on average – 20 years' experience in the market, including eight at Perpetual.

An investment strategy that focuses on active ownership

Perpetual's Aussie equities team are not just active investors. They are active owners.

Perpetual has a history of active ownership over many decades, engaging with boards, management and championing corporate actions to extract value for shareholders.

The team has a long list of case studies – including Woolworths and Healius – where they have invested and worked with management to help turn companies around.

Now, our Australian equities team is offering **Perpetual Strategic Capital Fund** – a concentrated, high-conviction portfolio with activist targets as a focal point.

Perpetual's Strategic Capital Fund holds between ten and 20 stocks with at least 50 per cent local listed shares and up to 30 per cent international shares.

At any time, up to half of the portfolio will be current activist opportunities, with the balance comprising future opportunities or best investment ideas.

A longer ownership timeframe of stocks means both lumpier returns and lower portfolio turnover.

Find out more about Perpetual Strategic Capital Fund

About Vince Pezzullo and Perpetual Strategic Capital Fund

Vince is Perpetual's head of equities and portfolio manager of Perpetual Strategic Capital Fund.

Vince has more than 30 years of experience in financial services including global experience as an analyst and portfolio manager.

Perpetual Strategic Capital Fund is a concentrated, high conviction portfolio with a focus on active ownership.

Perpetual is a pioneer in Australian quality and value investing, with a heritage dating back to 1886.

We have a track record of contributing value through "active ownership" and deep research.

Find out more about Perpetual Strategic Capital Fund
Browse Perpetual's Australian equities capabilities
Want to know more? Contact a Perpetual account manager

Portfolio Manager





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