Perpetual

Creating change with the Perpetual Strategic Capital Fund

By Perpetual Asset Management

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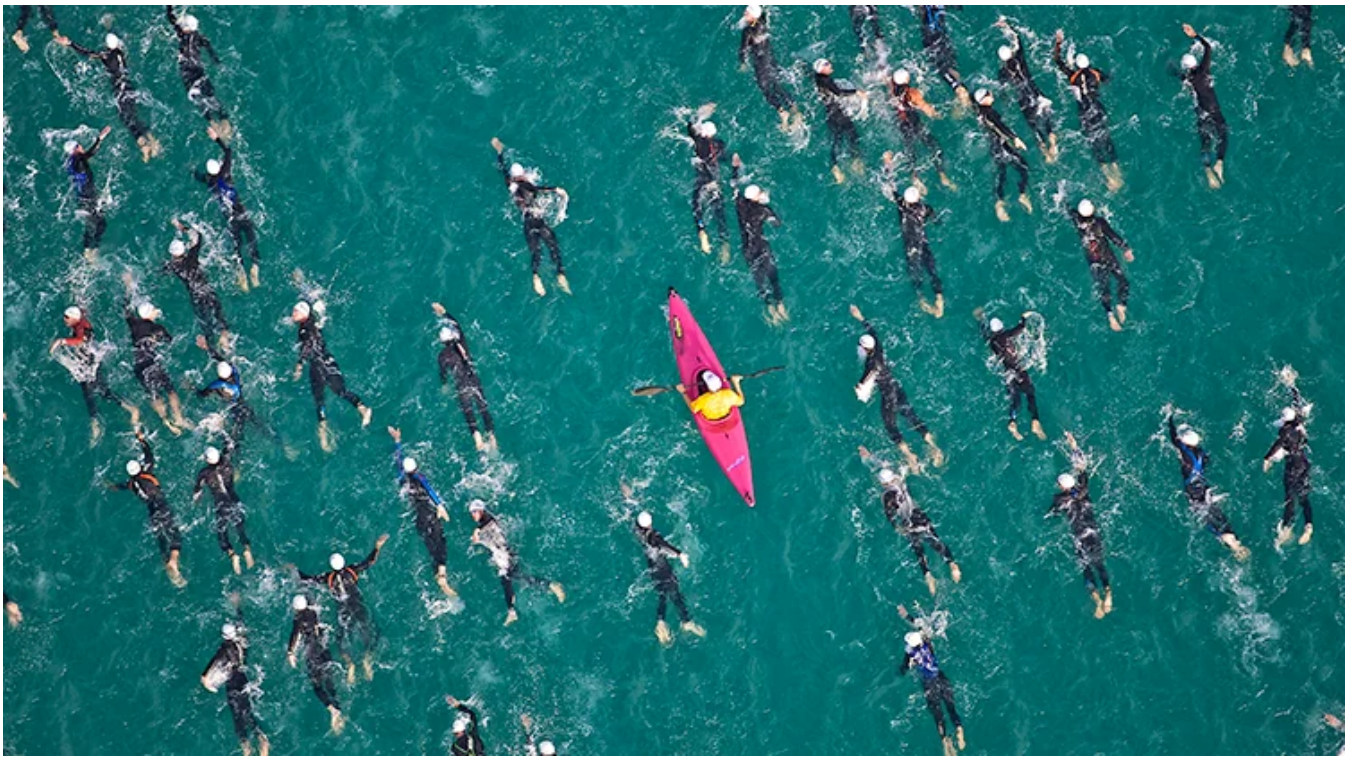

The Perpetual Australian Equities team can identify – and create – catalysts for change to help improve company outcomes. Here's how, according to head of equities Vince Pezzullo

- Active owners are prepared to create catalysts for change
- Perpetual is one of the few Aussie managers embracing active ownership
- Learn more about the Perpetual Strategic Capital Fund

Perpetual Asset Management has a long history of active ownership, engaging with ASX-listed company boards and management to extract value for shareholders.

Now, the team is offering Perpetual Strategic Capital Fund – a concentrated, high-conviction portfolio focused on activist targets.

This isn't about buying undervalued stocks and waiting for a turn in the economic cycle to boost earnings.

Perpetual's Aussie equities team sets about creating a catalyst for change that will improve the trajectory of a stock.

"It's about ensuring boards and management teams prioritise shareholders and shareholders' returns by using capital wisely," says Pezzullo, Perpetual's head of equities.

Active investors buy stocks they believe to be undervalued and, generally, wait for a turn in the economic cycle to boost earnings.

Active owners, like the team behind Perpetual's Strategic Capital Fund, are prepared to create a catalyst for change within a company – one that will improve the trajectory of a stock's earnings.

Over several decades, Perpetual's active ownership has driven de-mergers, strategic alternatives, special dividends, capital returns, acquisitions, board changes, recapitalisation and has blocked mergers and acquisitions, Pezzullo says.

Companies that Perpetual has actively engaged with to create change include Grain Corp, Woolworths, Boral, Suncorp, Brambles and Iluka.

"The concept of active ownership has been reborn more recently," Pezzullo explains.

"It has been growing for a decade in the highly contested US market. It has also grown in Japan, where the government has encouraged greater contestability."

It has taken longer to emerge in Australia, but Perpetual is one of the few, large managers embracing active ownership.

"We envisage one to two years of activism to achieve our desired outcomes, and two to four years of ownership to realise gains for investors.

"It is about creating strategic catalysts to unlock value for investors," says Pezzullo.

Perpetual's Strategic Capital Fund is an active owner of quality and value stocks. Its benchmark is the S&P/ASX300 Accumulation Index.

No stock comprises more than 15 per cent absolute weighting, while the fund holds between 50 per cent and 10 per cent Australian shares, up to 30 per cent international shares, and up to 10 per cent hybrids.

At no point will cash exceed 30 per cent of the fund.

How stocks are chosen

More than 450 ASX-listed stocks are eligible for inclusion in Perpetuals' Strategic Capital Fund. That's the "top of the funnel".

Eligible stocks are then tested based on four criteria – management, debt levels, quality of business and recurring earnings. That criteria normally reduces the number of eligible listed

companies to fewer than 300.

Perpetual's experienced portfolio managers then rank stocks, value them, consider their risk controls and governance frameworks, and undertake an ESG audit.

At the end of the process, the fund invests in 10 to 20 stocks.

Working behind the scenes

Perpetual's investment team prefers to engage co-operatively with management of companies.

"Behind-the-scenes engagement yields the best results," Pezzullo says.

"But when progress becomes difficult, we can publish research, work with other investors, and use our scale and voting power at annual general meetings or extraordinary general meetings.

"We have a big stick we carry but mostly we don't need to use it; most of their time, to their credit, companies will engage.

"There might also be a management team that feels it doesn't have shareholder support – they like speaking to us, because we invest for the medium to long term."

Up to half the portfolio at any given time will be current activist opportunities, with the balance comprising future opportunities or best investment ideas, Pezzullo says. 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

Vince Pezzullo

Head of Australian Equities, Portfolio Manager

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The product disclosure statement (PDS) for the Perpetual Strategic Capital Fund (Fund), issued by PIML, should be considered before deciding whether to acquire, dispose, or hold units in the Fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website www.perpetual.com.au.

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