WealthFocus Super

# WEALTHFOCUS PERPETUAL CONCENTRATED EQUITY

February 2025

## FUND FACTS

**Investment objective:** Aims to provide long-term capital growth and income through investment predominantly in quality Australian industrial and resource shares.

## FUND BENEFITS

Provides investors with higher potential returns, through the active management of a portfolio of fewer stocks but with higher conviction, than our core Australian equity funds. This concentration may lead to increased short term volatility.

## 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.

| | |
|---|---|
| **Benchmark:** | S&P/ASX 300 Accum. Index |
| **Inception Date:** | November 2003 |
| **Size of Portfolio:** | $12.58 million as at 31 Dec 2024 |
| **APIR:** | PER0221AU |
| **Management Fee:** | 0.98%* |
| **Investment style:** | Active, fundamental, bottom-up, value |
| **Suggested minimum investment period:** | Five years or longer |

## PORTFOLIO SECTORS


## TOP 10 STOCK HOLDINGS

| | % of Portfolio |
|---|---|
| BHP Group Ltd | 8.4% |
| Commonwealth Bank of Australia | 8.2% |
| Wesfarmers Limited | 4.3% |
| CSL Limited | 4.0% |
| ANZ Group Holdings Limited | 3.6% |
| a2 Milk Company Limited | 3.6% |
| GPT Group | 3.5% |
| Westpac Banking Corporation | 3.3% |
| Bluescope Steel Limited | 3.3% |
| EVT Limited | 3.1% |

## NET PERFORMANCE - periods ending 28 February 2025

| | Fund | Benchmark # | Excess |
|---|---|---|---|
| 1 month | -1.78 | -3.79 | +2.01 |
| 3 months | -1.79 | -2.59 | +0.79 |
| 1 year | 6.28 | 9.65 | -3.38 |
| 2 year p.a. | 6.51 | 10.09 | -3.58 |
| 3 year p.a. | 7.06 | 8.89 | -1.83 |
| 4 year p.a. | 9.39 | 9.23 | +0.16 |
| 5 year p.a. | 9.23 | 8.79 | +0.44 |
| 7 year p.a. | 7.05 | 8.50 | -1.45 |
| 10 year p.a. | 6.05 | 7.51 | -1.45 |

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

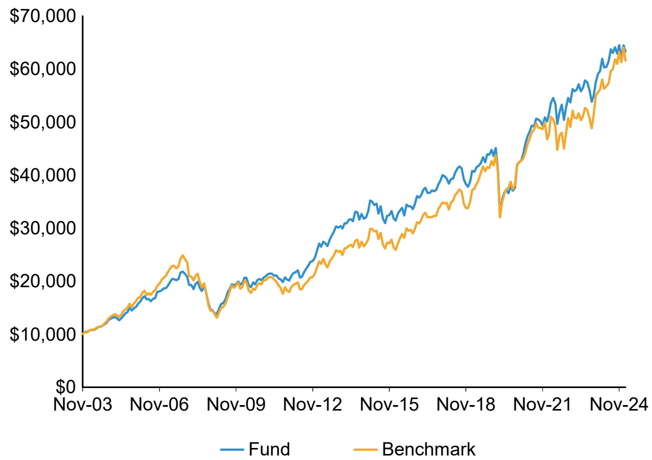
## PORTFOLIO FUNDAMENTALS^

| | Portfolio | Benchmark |
|---|---|---|
| Price / Earnings* | 18.2 | 17.9 |
| Dividend Yield* | 3.1% | 3.7% |
| Price / Book | 2.1 | 2.2 |
| Debt / Equity | 33.4% | 37.5% |
| Return on Equity* | 11.3% | 12.6% |

^ Portfolio Fundamentals are compiled using our methodology and provided only for the purpose of illustrating the Fund'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.

## GROWTH OF $10,000 SINCE INCEPTION




*Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

## MARKET COMMENTARY

The S&P/ASX300 fell -3.8% in February buffeted by wild swings as company results were reported. Large caps in particular disappointed, often in relation to outlook rather than reported results. It also marked a major break in momentum with many companies that had had a strong run in the previous year struggling. Amongst the biggest reversals were NAB (-12.1%), Wisetech (-27.7%), Cochlear (-19.0%) and Fortescue (-11.1%). On a sector basis Utilities (+3.2%), Communications (+2.8%) and Consumer Staples (+1.4%) performed best. Information Technology (-12.3%) was the worst sector. Healthcare (-7.6%) and Real Estate (-6.2%) were also laggards. The sell-off in the market accelerated in the last half of the month in sympathy with a declining US market which increasingly worried about the frenetic and sometimes disruptive pace of White House initiatives, particularly in relation to tariffs.

## PORTFOLIO COMMENTARY

The portfolio's largest overweight positions include a2 Milk Company Limited, GPT Group and EVT Limited. Conversely, the portfolio's largest relative underweight positions include Commonwealth Bank of Australia, Telstra Group Limited (not held) and Woodside Energy Group Ltd (not held).

A2 Milk contributed strongly to returns in February, with the stock rising by 35.3%. The management team has proven it's ability to execute strategically through supply constraints and other external and market headwinds. The company reported a stronger than expected first half 25 result and Financial Year 2025 guidance was upgraded and implies that A2 Milk sales and margins will accelerate and expand further in the second half of the year. We remain optimistic about A2 Milk, given its strong balance sheet, ongoing expansion into tier 2 and 3 cities in China, as well as it's entry into the U.S., all of which present substantial growth opportunities.

Light & Wonder contributed to performance over February (+22.6%) after reporting solid operational performance despite disruptions. U.S. gaming operations grew, with units up 850 sequentially and better-than-expected sales, while international sales were weaker due to timing leading to a 1,500-unit decline. Management attributed slower growth to a live ops strategy misstep, now corrected. I-gaming performed in line, and LNW divested its live casino segment due to pricing pressure. Looking ahead, LNW continues to expand globally, with a growing U.S. presence and rapid Australian market share gains. The company's experienced management team, strong content pipeline, and improving balance sheet position it well for future growth. The CY25 outlook remains positive, with double-digit EBITDA growth expected despite a softer Q1 due to international sales timing.

BlueScope Steel Limited contributed to performance in February (+15.4%) as the company outlined it's medium-term plan which outlined Free Cash Flow stepping up materially from FY27. Positive sentiment around the stock grew further as signs of a cyclical recovery grew with Colorbond in Australia set to continue and US steel spreads showing favourable signs. We were further encouraged by management delaying midstream investment options which we believe could allow the firm to take advantage of opportunistic situations In the US. Steel pricing has reached a level where there is an asymmetric upside potential, and we are observing positive competitive trends with hot-rolled coil steel prices increasing. BlueScope remains one of the highest quality steel producers globally, with a capable management team, a significant asset in Port Kembla, and the Colorbond brand, which not only boosts margins but also represents a substantial overseas opportunity.

!Insurance Australia Group detracted from relative performance (-12.8%) despite a very strong net profit after tax beat. The company reported premium rate increases moderating in response to reducing claims inflation arising question marks around how the company will continue to grow earnings in the medium term. Despite this, there remains an opportunity for the firm to continue to take cost out. We also favourably view IAG's Adverse Development Cover (ADC) strategy, designed to shield its existing reserves from significant fluctuations. A second layer of protection comes from a reinsurance arrangement focused on natural perils, which provides a buffer against the unpredictable costs of weather-related events. This arrangement is structured to cover most expected scenarios, helping to stabilize the company's claims expenses. Although this layered protection introduces upfront costs, it reduces financial impact over time and is expected to moderate earnings volatility, protect target margins, and enhance long-term returns by lowering capital strain.

The overweight to Myer detracted from portfolio performance (-17.4%) during February. Despite the noise, we believe cost synergies are highly likely from the announced combination which could come from debt refinancing, COGS sourcing, rent reductions, and CODB efficiencies, with additional optionality from internal margin initiatives. Revenue synergies, while harder to realise, could stem from integrating Apparel Brands online, expanding MyerOne, and store consolidation. Despite the noise, we view the combination with Premier's Apparel Brands Just Jeans, Jay Jays, Portmans, Dotti and Jacqui E as favourable. The combination has created a leading omni-channel retail platform that brings enhanced scale and significant operating leverage benefits. Myer will also benefit from the expected addition of Retail Stalwart Solomon Lew's potential addition to the board.

Fortescue Metals Group detracted from performance over the month of February (-11.14%). The company delivered a weaker-than-expected first half 2025 result with EBITDA down 3% and NPAT falling 11%. Free cash flow exceeded expectations by 30% though this was driven by deferred capex into second half 2025. The interim dividend of A$0.50 per share missed estimates by 7%. Consequently, earnings forecasts for FY25-26 have been trimmed by 1-2% across the market. The company's decision to scale back energy spending was largely seen as a positive, particularly the 20% cut in FY25 green energy capex, partially offsetting higher costs in the Metals division. However, the dividend miss was notable given FMG's retail shareholder base. Additionally, a review of the Iron Bridge ramp-up timeline raises concerns about operational challenges. Meanwhile, FMG faces a potential A$1.8 billion land compensation claim from the Yindjibarndi people.

## OUTLOOK

Equity markets had looked expensive going into February with Australian growth stocks, like their US counterparts, had been trading at elevated P/E ratios. Many of these stocks bore the brunt of the sell-off as the world market potentially enters a new phase. Markets had broadly welcomed the pro business Trump administration choosing to focus on a welcome agenda of tax cuts, de-regulation and budget savings which they expected would boost economic growth whilst also containing inflation. Meanwhile Trumps much vaunted love of tariffs was widely considered to be, in the most part, a bargaining tool in trade negotiations. However there are some fears that headline-grabbing cuts to government spending could be increasingly hurting consumer sentiment whilst on-and-off tariffs on allies and close trading partners could be having a more profound pre-emptive impact on business confidence and supply side chains than fully appreciated.

# The Ordinaries benchmark prior to 1/4/2000 was the ASX All Ordinaries Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX 300 Accumulation Index.

## MORE INFORMATION

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