

# WEALTHFOCUS PERPETUAL ESG AUSTRALIAN SHARE

February 2024

## FUND FACTS

**Investment objective:** Aims to provide long-term capital growth and regular income through investment predominantly in quality Australian shares that meet Perpetual's ESG and values-based criteria. Aims to outperform the S&P/ASX 300 Accumulation Index (before fees and taxes) over rolling three-year periods.

## FUND BENEFITS

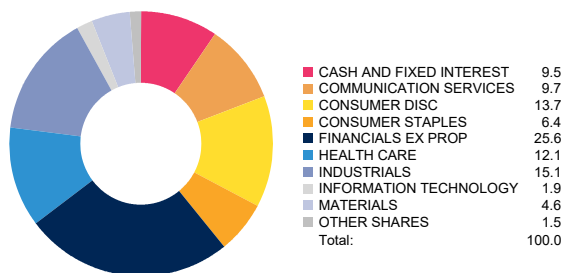
The Fund has two exclusion screens, with which we assess companies. A values-based exclusionary screen for involvement in certain activities, and a ESG exclusionary screen based on an evaluation of companies overall performance on ESG issues.

## 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 2008  
**Size of Portfolio:** \$65.47 million as at 31 Dec 2023  
**APIR:** PER0491AU  
**Management Fee:** 1.43%\*  
**Investment style:** Active, fundamental, bottom-up, value  
**Suggested minimum investment period:** Five years or longer

## PORTFOLIO SECTORS



## TOP 10 STOCK HOLDINGS

Stock Holding	% of Portfolio
Insurance Australia Group Ltd	5.6%
a2 Milk Company Limited	5.5%
GWA Group Limited	5.3%
National Australia Bank Limited	4.4%
Telstra Group Limited	4.1%
Bapcor Ltd	4.1%
EVT Limited	3.9%
Healius Limited	3.4%
CSL Limited	3.1%
Westpac Banking Corporation	3.0%

## NET PERFORMANCE - periods ending 29 February 2024

	Fund	Benchmark #	Excess
1 month	4.19	0.98	+3.21
3 months	13.51	9.46	+4.05
FYTD	12.08	9.70	+2.38
1 year	13.89	10.53	+3.37
2 year p.a.	8.26	8.52	-0.26
3 year p.a.	10.62	9.09	+1.53
4 year p.a.	12.65	8.58	+4.07
5 year p.a.	10.05	8.61	+1.44
7 year p.a.	7.48	8.60	-1.12
10 year p.a.	7.56	7.94	-0.38

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

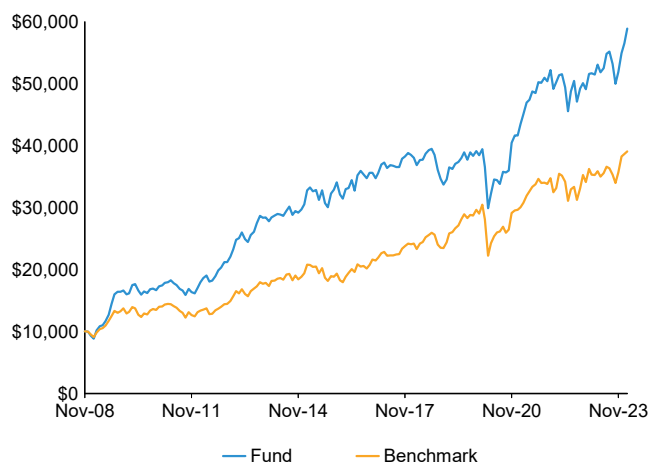
## PORTFOLIO FUNDAMENTALS\*

	Portfolio	Benchmark
Price / Earnings*	18.7	16.7
Dividend Yield*	3.3%	4.0%
Price / Book	2.3	2.0
Debt / Equity	31.7%	36.4%
Return on Equity*	11.7%	12.7%

\* 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

In February, the S&P/ASX 300 experienced a 0.98% increase. The dominating theme throughout the month was the reporting season, where key focus areas included the challenges of rising costs and the resilience of the consumer. Amidst this, traditional value sectors such as Energy (-5.9%) and Materials (-4.8%) faced difficulties, grappling with uncertainties surrounding China's economic growth. In contrast, the relatively modest but lively IT sector recorded a remarkable surge of +19.7%, mirroring the tech boom observed internationally. The performance of significant resource players like Fortescue (-9.6%), Woodside (-6.3%), and Rio (-8.1%) exerted downward pressure on the index. Conversely, sectors such as Consumer, Real Estate, and Financials emerged as strong performers during this period.

## PORTFOLIO COMMENTARY

A feature of this portfolio is that it applies Perpetual's ESG process and values-based investment criteria. The portfolio's largest overweight positions include a2 Milk Company Limited, GWA Group Limited and Insurance Australia Group Ltd. Conversely, the portfolio's largest underweight positions include BHP Group Ltd (not held), Commonwealth Bank of Australia, and Macquarie Group Ltd (not held).

The overweight position in GWA Group contributed to performance over the month (20.66%). The result for the first half of FY24 saw volume growth in the core Australian business for the first time in many years thanks to investment in re-engaging with the plumbers. The company also benefitted from deflationary tailwinds from manufacturers in China. This, combined with the ability to further push prices saw gross margins expand almost 300bps. GWA Group's diverse product portfolio, encompassing bathroom and kitchen fixtures, along with its robust relationship with distributors, positions the company for sustained growth. The prevailing trend of mergers and acquisitions in the building suppliers sector is also a further potential source of upside.

A2 Milk significantly contributed to our returns in February (+19.88%). This outperformance can be attributed to a strong 1H24 result where sales and operating margin held despite the backdrop of a shrinking China IMF market. A2 upgraded full year FY24 forecast fuelled by robust sales in mother-baby stores and cross-border e-commerce. Moreover, Kantar market share data underscores A2's increasing market presence in both offline and online channels. A2 Milk has successfully evolved from a rapid-growth startup to a well-established, professionally managed entity with a brand that resonates with Chinese consumers. The company exhibits adept inventory and pricing management, and our confidence in the returns generated from its marketing investments is growing. With a robust balance sheet boasting over \$790 million in cash, A2 is well-positioned for strategic manoeuvring in the face of the challenging macroeconomic landscape.

The overweight to Healius detracted from performance over the month (-19.86%) but has since recovered +15% since end of February following the appointment of a new CEO. The market was not impressed with the result and although the company has pre-released a profit downgrade, the market has lost faith in the management team. We are encouraged with the recent change in CEO and CFO. We believe the incoming CEO is more likely to sell assets to crystallise the value of its radiology assets or its clinical trial business Agilex, which is not currently being valued by the market. The Pathology segment continues to track below what the business could and is pressured by inflationary pressures on wages and rent. We are also encouraged by signs of more rational behaviour by competitors in the consolidation of the pathology collection centre as there has been leakage of value in terms of high rents paid on the collection centre.

In February, EVT experienced a decline of 7.14%, primarily attributed to disappointing results in the cinema business. This is a business with substantial operating leverage and a lack of content late in 2023 meant a weak result relative to expectations. Despite cinema's underperformance, the hotels segment exhibited strong results and earnings growth. This division will be boosted further by the recent redevelopment of Rydges Melbourne, as this property matures toward targeted earnings levels over coming years. This site is among the largest contributors to the hotels division. The company's diversified property portfolio adds resilience to the company and supports valuations in excess of the current share price.

## OUTLOOK

Considerable uncertainty looms on the horizon. Despite appearing subdued in the US, inflation is displaying renewed vigour, potentially serving as a precursor to further inflationary pressures in Australia. Consequently, inquiries about the Federal Reserve (Fed) and Reserve Bank of Australia (RBA) contemplating rate cuts are gaining prominence, introducing elements of uncertainty regarding their timing and pace. Australia finds itself more vulnerable to the unpredictable growth trajectory in China, where policymakers grapple with subdued consumer sentiment and an enduring property downturn. Additionally, geopolitical and policy risks add complexity to the landscape. In navigating these turbulent waters, our strategy remains centred on identifying high-quality businesses with reasonable valuations.

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# 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. This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL No 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. 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.

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## MORE INFORMATION

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