

## Perpetual Investment Funds

# PERPETUAL ESG AUSTRALIAN SHARE FUND

September 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

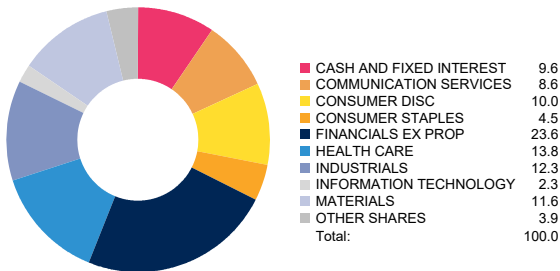
The Fund has two exclusion screens, with which we assess companies. A values-based exclusionary screen for involvement in certain activities, and a ESG exclusionary screen based on an evaluation of companies overall performance on ESG issues.

### 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:** April 2002  
**Size of Portfolio:** \$606.91 million as at 30 Jun 2024  
**APIR:** PER0116AU  
**Management Fee:** 1.18%\*  
**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
Healius Limited	5.2%
GWA Group Limited	4.9%
Deterra Royalties Ltd	4.4%
National Australia Bank Limited	4.1%
Insurance Australia Group Ltd	4.0%
EVT Limited	3.9%
Westpac Banking Corporation	3.8%
Telstra Group Limited	3.5%
Medibank Private Ltd.	3.4%
a2 Milk Company Limited	3.4%

### NET PERFORMANCE - periods ending 30 September 2024

	Fund	Benchmark #	Excess
1 month	1.56	3.07	-1.52
3 months	5.96	7.81	-1.85
1 year	17.66	21.69	-4.03
2 year p.a.	15.39	17.22	-1.83
3 year p.a.	7.85	8.13	-0.28
4 year p.a.	15.36	13.41	+1.94
5 year p.a.	10.42	8.30	+2.13
7 year p.a.	8.64	9.70	-1.06
10 year p.a.	8.89	8.92	-0.03
Since incep.	10.86	8.53	+2.33

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

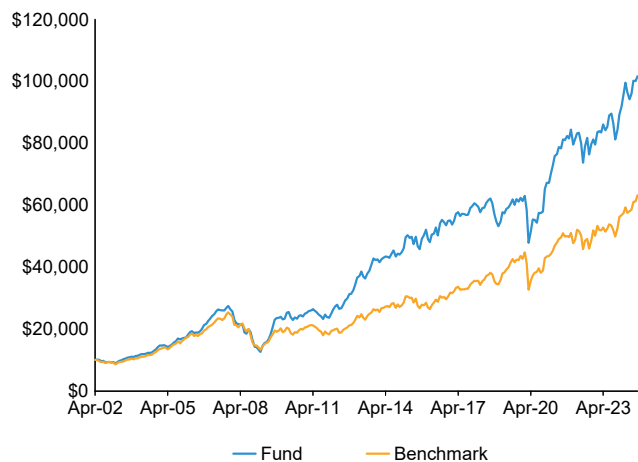
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	19.8	18.9
Dividend Yield*	3.4%	3.6%
Price / Book	2.1	2.3
Debt / Equity	30.8%	35.8%
Return on Equity*	10.1%	12.5%

<sup>^</sup> 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/ASX 300 rose 7.81% in the quarter ending September, driven initially by a surge in bank stocks and followed by a significant rotation from defensive to cyclical stocks in late September. As expected, the U.S. Federal Reserve cut interest rates, while China surprised markets with a larger-than-anticipated stimulus package. Although there was skepticism about the long-term effectiveness of China's measures, they had an immediate and notable impact on both Chinese and Australian stock markets. Banks performed well early in the quarter, buoyed by consumer resilience, but faced sharp sell-offs once the stimulus measures were announced, allowing resource stocks to take the lead. The Materials sector soared 10.80%, significantly outpacing the broader market. Financials also saw strong gains, rising 8.27%. Real estate, consumer, and industrial stocks all participated in the rally.

## 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 Healius Limited, GWA Group Limited and Deterra Royalties Ltd. The portfolio's largest underweight positions include BHP Group Ltd (not held), Commonwealth Bank of Australia, and Macquarie Group Ltd (not held).

After a challenging period, Healius made a positive contribution to performance during the third quarter of the calendar year reporting season, with the stock rising 15.00%. The company is showing signs of recovery under new management following a stretch of underperformance. Operational improvements in both Pathology and Imaging led to higher EBIT in the second half, resulting in a beat on expectations. This aligns with our earlier view that sustainable pathology margins would exceed consensus estimates. Looking ahead, we see further upside from the potential rationalisation of Healius' portfolio, including the sale of Lumus Imaging at a favourable price, possible capital returns, and topline growing stronger in FY 2025.

The portfolio's overweight to Orora Limited strongly contributed to performance over the past 3 months as the stock rallied 41.35% attributed to the sale of the North American packaging solutions business to Lone Star for a solid price for investors. This comes after a challenging period of performance post the Saverglass acquisition which the market perceived as ill-conceived. We took a position in Orora following the worst of the downgrades when the stock was priced attractively and we felt we were paying a reasonable valuation for the Australasian and North American businesses and a discounted valuation for Saverglass which will require some attention from management to improve. Orora remains a high quality global packaging manufacturer, distributor and visual communication solutions company.

After a period of strong performance, A2 Milk detracted from performance over the period (-7.83%). The company's results met both its guidance and consensus expectations and showed that A2 navigated the China label product transition well. However, concerns arose regarding a production disruption at its key supplier, Synlait, which provides 90% of A2 Milk's infant formula and holds critical licenses for importing these products into China. This triggered a significant sell-off due to concerns that A2 will miss sales into the crucial 2H CY24 which is expected to see a pick-up in births post-Covid. Although the production and supply chain issue appears to have been largely resolved at the time of writing, the stock price remains depressed. Nonetheless, we remain optimistic about A2 Milk, given its strong balance sheet, ongoing expansion into tier 2 and 3 cities in China, as well as its entry into the U.S., all of which present substantial growth opportunities.

After a period of very strong performance, Premier Investments suffered a temporary setback towards the end of the period which resulted in the stock detracting from performance. The company reported a -2.9% drop in total retail sales to \$1.59 billion. This was still the second highest result for the business, however, and markedly up on pre COVID levels (25.5%). Sales at high margin growth brands like Peter Alexander rose 6.2% whilst Smiggle fell -6.4%. Premier's board also determined that the planned de-merger of Smiggle & Peter Alexander brands, as well as the proposed combination of the Apparel Brands with Myer, warranted further consideration. Chairman Solomon Lew stressed that the board's focus on the strategic review, and any proposals, was to create shareholder value as well as maintaining the potential and integrity of each of the businesses. PMV remains a cornerstone of our core retail investments, renowned for its quality business model, fortified by a robust net cash balance, investments, bank of franking credits and overseen by engaged and experienced executive leadership.

## OUTLOOK

September served as a stark reminder of how quickly market dynamics can shift, particularly when a momentum trend is disrupted. Concerns about Chinese growth and deflation led to excessive bearish sentiment, with the Chinese equity market reaching generational lows. Even quality, world leading businesses like Baidu traded at just 8x earnings, despite having a cash backing amounting to half its market capitalization. In Australia, despite a resilient consumer base, it was increasingly difficult to justify the ~45% rally in Commonwealth Bank shares since October 2023. Meanwhile, BHP was trading at levels reminiscent of 2007. The easing measures from both the Federal Reserve and the People's Bank of China was also a reminder of the role of the US dollar and policy. With US interest rates high and the stock market performing well, the US (and the USD) had been the primary destination for global capital. However, as we potentially enter a rate-cutting cycle and with much of the US equity gains already baked in, global capital could begin to flow outside the US in search of better returns. This trend has historically been beneficial for emerging markets and, by extension, Australian companies, particularly in the resources sector.

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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.  
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## MORE INFORMATION

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