PERPETUAL ETHICAL SRI FUND (MANAGED FUND)

ASX code: GIVE

January 2022

FUND FACTS

Investment objective: Aims to provide long-term capital growth and regular income through investment predominantly in quality shares of Australian ethical and socially responsible companies. Aims to outperform the S&P/ASX 300 Accumulation Index (before fees and taxes) over rolling three-year periods.

FUND BENEFITS

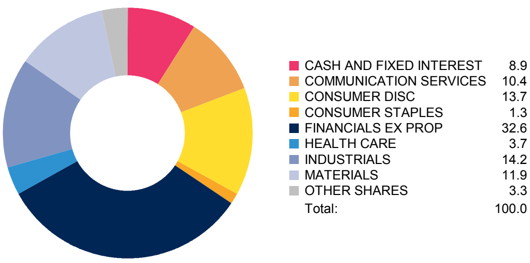
We seek to invest in quality companies that have satisfied our range of ethical and socially responsible investment criteria. Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research from external specialists to analyse socially responsible practices of companies listed on the Australian and overseas exchanges.

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 of strategy:	April 2002
ASX commencement date:	29 November 2021
Distribution Frequency:	Half-Yearly
Management Fee:	0.65%*
Performance Fee:	15 % of outperformance*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Five years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

	% of Portfolio
National Australia Bank Limited	7.2%
ANZ Banking Group Ltd.	6.7%
Orora Ltd.	5.5%
Insurance Australia Group Limited	5.5%
HT&E Ltd	3.7%
Brambles Limited	3.6%
Premier Investments Limited	3.5%
Medibank Private Ltd.	3.5%
Ferguson Plc	3.5%
Wesfarmers Limited	3.1%

*Information on management costs is set out in the relevant PDS

NET PERFORMANCE - periods ending 31 January 2022

	Fund	Benchmark	Excess
1 month	-5.83	-6.45	+0.62
3 months	-	-	-
FYTD	-	-	-
1 year	-	-	-
2 year p.a.	-	-	-
3 year p.a.	-	-	-
Since incep.	-2.54	-3.71	+1.17

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	15.3	16.2
Dividend Yield*	4.3%	4.2%
Price / Book	1.9	2.1
Debt / Equity	27.3%	37.9%
Return on Equity*	12.8%	13.4%

^ 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.

MARKET COMMENTARY

The Australian equity market capped off its worst month since the collapse of March 2020 as volatility rippled across the globe. Central bank policy outlook swung decisively hawkish with economists anticipating the first interest rate increase to occur in around six months. This was bolstered by a hotter-than-expected Australian inflation print, showing underlying CPI rising above the midpoint of the RBA's 2-3% target zone. This was driven by elevated input costs and strengthening labour markets, leading to concerns that rate repricing still has further to go. However, there is also an argument that the Reserve Bank will wait for more evidence of a pickup in wages growth before it begins its tightening policy.

Soaring interest rate pressure intensified scrutiny on the high-valuation/Growth segments of the market that had largely outperformed over the course of the pandemic, especially across IT and healthcare stocks, which were the worst-performing sectors over the month. Discretionary retailers also underperformed as company trading updates highlighted margin pressures from supply chain disruptions.

Coronavirus news continued to dominate headlines though there was no significant shift in the narrative. The Omicron variant intensified the pressure on already-strained supply chains, while isolation requirements exacerbated worker shortages. This placed further focus on rising wages and cost pressures, which adversely impacted business confidence and conditions. The consumer sentiment index, however, registered a smaller-than-feared decline as the worst-hit Omicron states of NSW and Victoria both saw a rise in confidence, offsetting steep falls in Queensland and South Australia.

The market saw some reprieve towards the end of the month, partially recouping its losses as investors considered oversold conditions and depressed sentiment as opportunities to buy.

PORTFOLIO COMMENTARY

A feature of this Fund is that it invests in a screened universe enforced by strict ethical and socially responsible (SRI) investment criteria. The Fund's largest overweight positions include Orora Ltd, Insurance Australia Group Ltd, and HT&E Ltd. Conversely, the Fund's largest underweight positions include CSL Ltd, BHP Group Ltd. (not held), and Commonwealth Bank of Australia.

The overweight position in insurance provider Insurance Australia Group Ltd (-0.5%) contributed to relative performance. The stock avoided most of the broader market sell-off during the month, assisted by several broker increases to its target price, including those by JP Morgan, Morgan Stanley, and Citi.
The overweight position in lenders mortgage insurance provider Genworth Mortgage Insurance Australia Ltd (+4.7%) contributed to relative performance. The stock benefitted from the announcement that the Commonwealth Bank has renewed its three-year exclusive Supply and Service Lenders Mortgage Insurance contract with the company. CBA's current Supply and Service contract with Genworth will expire on 31 December 2022, with the new agreement commencing 1 January 2023 and will continue to form a significant portion of Genworth's revenue stream.
The overweight position in automotive and industrial products manufacturer GUD Holdings (+8.4%) contributed to relative performance. The company announced during the month the completion of its acquisition of Auto Pacific Group (APG) from Pacific Equity Partners for A$744.6m. APG is an industry-leading designer, manufacturer, and distributor of high-quality, engineered and functional automotive and lifestyle accessories. Management cited that the acquisition will positively contribute to the group's earnings and is expected to be low double-digit pro forma CY2022 EPSA accretive on a pre synergy basis.

Not holding iron ore miner BHP Group (+11.7%) detracted from relative performance. The stock strengthened on the back of a solid rally in iron ore prices, with the benchmark 62%-grade material index gaining 16.6% over the month. The commodity was assisted by a combination of fears over tight supply prospects and hopes that China's stepped-up monetary easing would stimulate demand, as well as expectations that it will ease restrictions on steelmakers and other heavy industrial firms once the Beijing Winter Olympics finish.
Not holding oil and gas producer Woodside Petroleum (+14.3%) detracted from relative performance. The stock rallied following a sharp increase in crude oil prices over the month, with WTI and Brent increasing 17.0% and 18.2%, respectively. The commodity climbed on concerns that supplies could tighten due to Ukraine-Russia tensions, threats to infrastructure in the United Arab Emirates and struggles by OPEC+ to hit its targeted monthly output increase.

OUTLOOK

The rotation to economic recovery that favours value stocks remains firmly on track. Looking beyond shorter-term disruptions, it is clear that economic momentum, both home and abroad, remains strong. Admittedly, business and consumer confidence have fallen off recent highs, but the Australian recovery remains one of the most advanced in the world.

Companies we talk to are less concerned about shorter-term restrictions and focus more on longer-term challenges, including higher embedded inflation. This, however, bodes well for value stocks. Many value stocks are only just rising above previous 2007 peaks, while some growth stocks continue to trade at valuation-multiples many times higher than their levels from just a few years ago. We think a combination of all the factors described above suggests a return to sustained global recovery, with higher inflation, higher bond yields, but also a longer and more sustained swing to value. Our focus will remain on screening out balance-sheet, management, earnings, and business risks to ensure our clients are invested in high-quality businesses at reasonable prices.

MORE INFORMATION

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