PERPETUAL GLOBAL INNOVATION SHARE FUND (MANAGED FUND)

ASX code: IDEA

May 2022

FUND FACTS

Investment objective: Aims to provide investors with long-term capital growth through investment in quality global shares that are benefiting from changes in technology and innovation. To outperform the stated benchmark (before fees and taxes) over rolling 3 year periods.

FUND BENEFITS

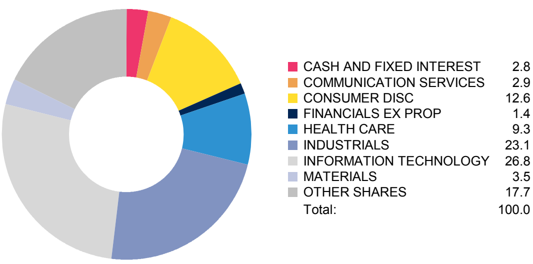
Perpetual employs a bottom-up stock selection approach to investing, where the decision to buy or sell securities uses a fundamental valuation of stocks. The Manager believes that changes in technology and innovation can have a significant impact on future earnings and valuation of companies, and that by focusing on understanding new changes in technology and innovation this can lead to early identification of undervalued stocks.

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:	MSCI AC World Net Total Return Index (AUD)
Inception date of strategy:	June 2017
ASX commencement date:	13 December 2021
Distribution Frequency:	Half-Yearly
Management Fee:	0.99%*
Performance Fee:	20 % of outperformance*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Seven years or longer

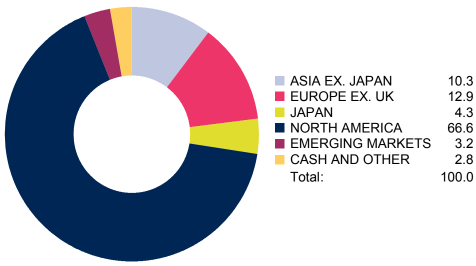
PORTFOLIO SECTORS



TOP 5 STOCK HOLDINGS

	% of Portfolio
Opendoor Technologies Inc	14.2%
Siemens AG	7.8%
IQVIA Holdings Inc	6.1%
GXO Logistics Inc	5.9%
Microsoft Corporation	5.3%

PORTFOLIO REGIONS



NET PERFORMANCE - periods ending 31 May 2022

	Fund	Benchmark	Excess
1 month	-3.88	-0.82	-3.07
3 months	-16.76	-4.81	-11.95
FYTD	-	-	-
1 year	-	-	-
2 year p.a.	-	-	-
3 year p.a.	-	-	-
Since incep.	-36.16	-11.79	-24.37

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	48.5	15.2
Dividend Yield*	1.9%	2.7%
Price / Book	3.0	2.4
Debt / Equity	45.8%	46.6%
Return on Equity*	17.0%	16.3%

^ 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.

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

MARKET COMMENTARY

During May, global markets almost halted the downward trend in returns. The UK benefitted from higher exposure to the energy sector and posted strong returns in the month, up 1.7%. Japan was not far behind, returning 1.6%. Emerging markets again returned modestly positive results in the month, driven by solid performance in commodity-centric countries such as Chile, Brazil, and Columbia. Further, despite the ongoing COVID lockdowns and fears of economic damage, China ceased its meaningful decline year-to-date, returning 1.2% in May. Investor concerns about higher inflation persisted, as there has been no respite given higher food and energy prices. As central banks appear likely to combat the higher inflation with higher interest rates, the markets are also concerned about slowing economic growth, potentially creating a recessionary environment, and are hoping that the strong global job market may help soften the landing. However, despite record low unemployment rates, consumer confidence remains at meaningful lows and could curtail further spending, which could make a soft landing less likely.

With the likelihood of higher rates and slower economic growth, growth stocks continued to stumble in May, with the MSCI All Country World Growth and MSCI World Growth Indexes down -2.0% and -2.3%, respectively, while their value peer indexes were up 1.9% and 2.1%, respectively. The Energy sector continued to post very strong results in May as oil prices pushed higher. Financials stocks did well as central banks recognize the need for higher interest rates, while Utilities and Health Care stocks held up well in what was a volatile month. The consumer sectors were clear losers in the month given concerns about tightening financial conditions on consumers due to higher inflation and concerns about Consumer Staples companies passing along higher costs to consumers. The Real Estate sector also posted challenging results in the month.

PORTFOLIO COMMENTARY

The Fund’s largest overweight positions include Opendoor Technologies Inc, IQVIA Holdings Inc, and Siemens AG. Conversely, the Fund’s largest underweight positions include Apple Inc., Alphabet, Inc. Class A, and Tesla Inc, all of which are not held in the Fund.

The overweight position in residential real estate digital platform provider Opendoor Technologies Inc (+2.0%) contributed to relative performance. The stock was supported over the month by a stronger-than-expected March-quarter financial result. The company reported EPS of US$0.04 (vs consensus of -$0.17) from revenue of $5.15B (vs consensus of $4.29B, and up 590% from last year). Adjusted EBITDA of US$176M also bet consensus of US$35.0M, while its June-quarter revenue was guided at US$4.1-$4.3B (vs consensus of US$3.93B) and up 254% year-on-year.
The overweight position in battery manufacturer LG Chem, Ltd. (+13.4%) contributed to relative performance. The stock price was supported after the company announced that it has agreed to a joint venture (JV) with battery materials producer Tianjin B&M Science and Technology to produce cathode materials for electric vehicle batteries. The JV will be 51%-owned by LG Chem and 49% by B&M, with both companies committed to investing KRW500b (US$404m) by 2025. The JV is scheduled to become operational in the second half of 2024 with an annual production capacity of 60,000 tons of NCMA (nickel, cobalt, manganese, aluminium) cathode materials per year (enough for 500,000 electric vehicles with a driving range of 500km).
The overweight position in multinational conglomerate Siemens AG (+4.6%) contributed to relative performance. The stock benefitted from being awarded a US$8.69 billion high-speed rail deal by Egypt's National Authority for Tunnels. Siemens, and its consortium of partners, signed a contract to build the 2,000km high-speed rail system which, upon completion, will be the sixth-largest tunnel in the world.

The overweight position in online marketplace operator Airbnb, Inc. Class A (-21.8%) detracted from relative performance. The company delivered an impressive first-quarter earnings report at the beginning of the month, reporting continued progress, both in its rebound and in its capabilities to provide alternative vacation ideas. Revenue increased 70% year-on-year to US$1.5 billion, and 'nights booked' increased 59% year-on-year, while a net loss of $19 million improved over the $1.2 billion loss incurred last year. Investor sentiment, however, declined alongside the broader growth segment of the market, spurred by increasing inflationary pressure and rising interest rate expectations.
The overweight position in machine vision technologies provider Cognex Corporation (-29.0%) detracted from relative performance. Despite presenting solid first-quarter 2022 results (hitting the high end of its forecasts), Cognex's second-quarter revenue guidance range (US$265 million to US$285 million) fell short of market consensus (US$293 million). Investors were likely worried by management's disclosure of a slowdown in growth after acknowledging that it is "currently hearing from customers that automation projects are taking longer to deploy and that some are being delayed due to supply chain challenges and staffing shortages."

OUTLOOK

The challenges we have noted in our prior commentaries regarding supply chains, labour shortages, higher inflation, higher interest rates, etc., have not abated. Although we see a strong labour market and the re-opening of some supply chains, with the continued lockdowns in China largely remaining intact, we are unlikely to see further improvements until China loosens its COVID restrictions. Given the continuing war between Russia and Ukraine, pressure on energy and food costs will remain. It will likely result in central banks continuing to pursue higher interest rates for the foreseeable future, with the US and UK continuing to hold to previously announced rate hikes and with the European Central Bank now signalling a likely rate rise in July. We recognise that this market environment has put meaningful pressure on Tech-related stocks, currently our largest weighting in the portfolio. We understand that this pressure is likely to continue, but we believe the companies we own have good balance sheets and pricing power to weather this challenging economic environment, and once markets begin to improve, we believe we will see strong performance from these names. Regardless, as we follow our proven bottom-up, fundamental process, we continue to look for compelling opportunities given the dislocations we are seeing in the markets.

MORE INFORMATION

Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au

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