PERPETUAL GLOBAL INNOVATION SHARE FUND (MANAGED FUND)

ASX code: IDEA

June 2022

FUND FACTS

Investment objective: Aims to provide investors with long-term capital growth through investment in 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

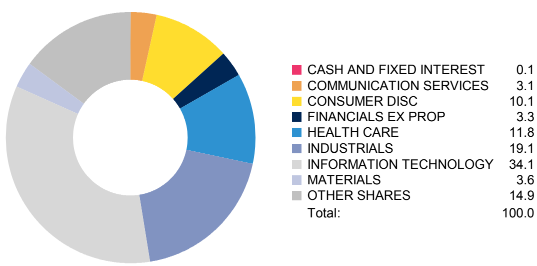
Perpetual employs a bottom-up stock selection approach to investing, where the decision to buy or sell securities uses a fundamental valuation of stocks. The Manager believes that changes in technology and innovation can have a significant impact on future earnings and valuation of companies, and that 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
Suggested minimum investment period:	Seven years or longer

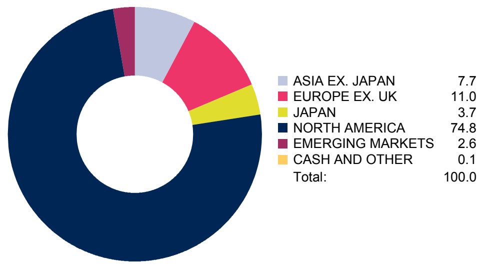
PORTFOLIO SECTORS



TOP 5 STOCK HOLDINGS

	% of Portfolio
Opendoor Technologies Inc	11.4%
IQVIA Holdings Inc	7.5%
Siemens AG	7.5%
Microsoft Corporation	6.2%
GXO Logistics Inc	5.8%

PORTFOLIO REGIONS



NET PERFORMANCE - periods ending 30 June 2022

	Fund	Benchmark	Excess
1 month	-13.81	-4.47	-9.33
3 months	-25.09	-7.90	-17.19
FYTD	-	-	-
1 year	-	-	-
2 year p.a.	-	-	-
3 year p.a.	-	-	-
Since incep.	-44.98	-15.74	-29.24

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	47.9	13.9
Dividend Yield*	2.2%	2.9%
Price / Book	3.0	2.2
Debt / Equity	87.0%	46.6%
Return on Equity*	17.5%	16.5%

^ 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 portfolic 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

Equity markets resumed their downward trend in the June quarter, capping the largest first half-year decline in more than 50 years. Losses extended beyond global equities to credit and sovereign bonds with few, if any, places to hide across the world. Value outperformed growth again this quarter as valuation multiples compressed with higher rates, and inflation weighed heavily on growth stocks, with those in the Information Technology, Consumer Discretionary, and Communication Services sectors leading the way downward.

World growth forecasts for this year have fallen from 4.6% in January to just 3.4%. The ripple effect of higher prices for almost everything—food, gas, rents, and more—has caused consumer confidence to plunge. Coupled with the negative wealth effect from the market declines, consumer spending patterns are beginning to shift downward despite high levels of savings and an incredibly tight labor market. Within the US, job openings continue to outpace job seekers, though investors remain watchful of the growing number of firms announcing layoffs. Business confidence and optimism have also tumbled in recent economic surveys as companies face higher input costs and wages.

Navigating the trends of falling GDP growth amidst higher rates and inflation readings, the US Federal Reserve (Fed) and other central banks remained trapped between difficult choices. Raising rates to fight inflation caused by the money-printing bonanza of the last decade could push a slowing US economy even closer to a recession. Europe is in a similar situation but only began announcing rate rises in July. Higher energy and food costs, as a result of the Russia/Ukraine war, are likely to tip Europe into a recession earlier than the US However, the Fed and other central banks may have to push onward with higher interest rates, given fears of long-term inflation expectations becoming unanchored, being greater than the fears of tipping global economies into a recession. This is not unwarranted as consumer price indexes have come in well above expectations and are at multi-decade highs.

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.

Not holding Electric Vehicle manufacturer Tesla Inc (-31.8%) contributed to relative performance. The stock was heavily impacted by the Covid-related lockdowns in China during April, which halted production at Tesla's most profitable plant. The facility gradually resumed production and ramped up its volume in May and especially June, however, was only able to deliver 254,695 vehicles across the quarter, compared to initial estimates of about 350,000.

Not holding designer of computer graphics processors NVIDIA Corporation (-39.3%) contributed to relative performance. NVDIA was no exception to the general correction in technology stocks during the quarter. The fact that several brokers cut price targets and/or recommendations added to the slide. We remain confident in the Company's longer-term competitive advantage despite the near-term market sentiment.

Not holding tech giant Apple Inc (-14.4%) contributed to relative performance. The stock was also caught up in the broader tech sell-off during the quarter and buttressed by the management announcement of production cuts of lower-end SE phones in the face of slowing consumer demand. In addition, iPhone shipments to China were lower than usual, likely due to Covid-related lockdowns and supply chain shortages.

The overweight position in residential real estate digital platform provider Opendoor Technologies Inc (-40.7%) detracted from relative performance. Despite posting solid growth in its latest quarterly results, the stock incurred a heavy loss as investor sentiment continued to decline over concerns of a potential recession and rising mortgage rates, and how this will impact the housing market and its business model. We continue to hold the stock in the portfolio as we believe the market is now significantly undervaluing the company.

The overweight position in online marketplace operator Airbnb, Inc. Class A (-43.4%) detracted from relative performance. The company delivered an impressive first-quarter earnings report, 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 on the back of a deteriorating economic outlook, spurred by increasing inflationary pressure and rising interest rates.

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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