PERPETUAL GLOBAL INNOVATION SHARE FUND (MANAGED FUND)

ASX code: IDEA

September 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

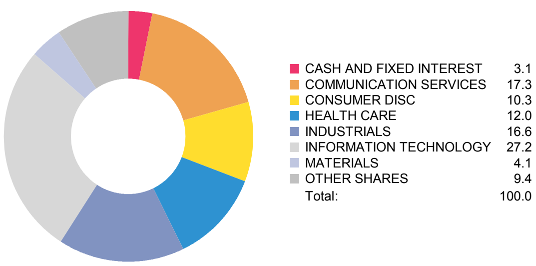
Perpetual employs a bottom-up stock selection approach to investing, where the decision to buy or sell securities uses a fundamental valuation of stocks. The Manager believes that changes in technology and innovation can have a significant impact on future earnings and valuation of companies, and that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

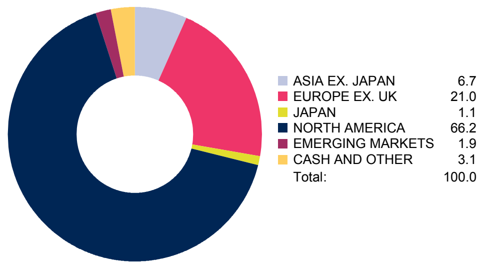
PORTFOLIO SECTORS



TOP 5 STOCK HOLDINGS

	% of Portfolio
Opendoor Technologies Inc	8.9%
GXO Logistics Inc	5.3%
Microsoft Corporation	5.3%
CD Projekt S.A.	5.3%
Siemens AG	5.3%

PORTFOLIO REGIONS



NET PERFORMANCE - periods ending 30 September 2022

	Fund	Benchmark	Excess
1 month	-7.06	-3.58	-3.48
3 months	0.16	-0.34	0.50
FYTD	0.16	-0.34	+0.50
1 year	-	-	-
2 year p.a.	-	-	-
3 year p.a.	-	-	-
Since incep.	-44.89	-16.03	-28.86

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Dividend Yield*	1.8%	3.1%
Price / Book	2.8	2.1
Return on Equity*	15.9%	16.6%

^ 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

The third quarter of 2022 began with a rally but ended in the red, much the same as the prior two quarters. For the first time since 1976, stocks and bonds both declined for three consecutive quarters. Since beginning in March, half the Fed's tightening has come via 75 basis point (bps) rate hikes in each of the last two meetings and marked the fastest pace of tightening in modern history. Not to be left out, the other global central banks – the European Central Bank and the Bank of England – also tightened monetary policy 100 bps or more during the quarter. With even more hikes now expected in the coming year, this collectively sent markets lower around the world, leaving global indexes in bear market territory year-to-date. Amid this volatility, most sectors largely performed within a narrow range of each other excepting Consumer Discretionary and Energy stocks, which outperformed the broader market while Communication Services and Real Estate sectors led the markets downward.

Central banks remain focused on fighting inflation rather than supporting growth, as this remains the number one issue for consumers. Some reprieve in the form of lower gasoline prices, driven by the significant decline in oil prices this quarter, helped lower the burden but, overall, core inflation in the US as measured by the Consumer Price Index (CPI) remains stubbornly high. The Fed has historically stopped tightening when rates exceed CPI, pointing to more rate hikes to come. Rising rates have negatively impacted consumer sentiment broadly. With labour markets remaining tight, wage gains continuing to support consumer spending, and Global PMIs still holding in expansionary territory, there appear to be areas of resiliency in the markets; however, the economic expansion trend appears to be skewed to the downside. Against this backdrop, economic growth seems at best anaemic across the globe, with recession still a possibility in 2023. However, with the markets coming down meaningfully year-to-date, as previously noted, a large portion of this fear may already be priced into the market.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Opendoor Technologies Inc, GXO Logistics Inc, and CD Projekt S.A. 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 global cloud services provider Cloudflare Inc Class A (+35.2%) contributed to relative performance. The stock rose after it published impressive quarterly earnings. The company maintained a high growth rate, notching up a 54% revenue expansion over the prior year to US$234.5M, beating analysts' estimates by US$7.1M. The company's adjusted net income of US$0.3M marked a major improvement from its net loss of US$7.3M a year earlier. It also revised its full-year guidance upwards, increasing its top-line forecast by US$13M and operating income by US$3M.

The overweight position in law enforcement technology company Axon Enterprise (+30.1%) contributed to relative performance. The stock was assisted by a June-quarter EPS result of US$0.44 (vs consensus of US$0.39), with revenue of US$285.6M (vs consensus of $259.0M), and an adjusted EBITDA of US$49.8M (vs consensus of $40.6M). This came as management noted higher labour, freight, and materials costs, which it is working to offset with automation, additional distribution facilities, and engineering R&D on products to lower component costs.

The overweight position in online marketplace operator Airbnb Inc Class A (+26.1%) contributed to relative performance. In the absence of any material company-specific news out of the company, the stock price rose in line with the broader growth segment of the market as spending remained strong. Investors may have anticipated a solid second-quarter earnings report, released in the first week of August, and saw its recent stock price decline as a buying opportunity due to the company's strong operating performance.

The overweight position in residential real estate digital platform provider Opendoor Technologies Inc (-37.0%) detracted from relative performance. The stock sold off over the latter half of the quarter on the back of declining investor sentiment and a sell-off in growth stocks, despite the absence of any negative firm-specific news impacting the company. This came after an initial spike in the stock price following its June-quarter results after reporting an EPS of US$0.09 vs consensus of US$0.03, and an Adjusted EBITDA of $218M which beat consensus of US$174.0M.

The overweight position in supply chain services provider GXO Logistics (-13.3%) detracted from relative performance. During August, the company reported a Q2 EPS of $0.68 vs consensus $0.62, with revenue of $2.20B vs consensus of $2.10B, and Adjusted EBITDA $176M vs consensus of $167.7M. Management reaffirmed its FY EPS Guidance (to Dec 2022) of $2.70-2.90 (vs consensus of $2.78), while Adjusted EBITDA guidance of $715-750M was revised up from $707-742M (vs consensus $720.6M). Organic revenue growth guidance also increased to 12%-16% (previously 11%-15%).

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

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

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