PERPETUAL ESG AUSTRALIAN SHARE FUND (MANAGED FUND)

ASX code: GIVE

November 2022

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

We seek to invest in quality companies that represent the best investment quality, are appropriately priced and meet Perpetual's ESG and values-based 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

CASH AND FIXED INTEREST	9.1
COMMUNICATION SERVICES	12.1
CONSUMER DISC	15.5
CONSUMER STAPLES	2.2
FINANCIALS EX PROP	25.3
HEALTH CARE	7.2
INDUSTRIALS	16.6
INFORMATION TECHNOLOGY	0.5
MATERIALS	8.0
OTHER SHARES	3.4
Total:	100.0

TOP 10 STOCK HOLDINGS

	% of Portfolio
Insurance Australia Group Limited	7.6%
National Australia Bank Limited	5.6%
Brambles Limited	5.4%
Bapcor Ltd	4.3%
Telstra Group Limited	4.1%
Wesfarmers Limited	3.9%
Medibank Private Ltd.	3.9%
Deterra Royalties Ltd	3.8%
Mirvac Group	3.4%
EVT Limited	3.3%

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

NET PERFORMANCE - periods ending 30 November 2022

	Fund	Benchmark	Excess
1 month	1.92	6.49	-4.57
3 months	-0.24	5.74	-5.98
FYTD	10.31	13.35	-3.04
1 year	0.46	4.27	-3.81
2 year p.a.	-	-	-
3 year p.a.	-	-	-
Since incep.	0.27	4.55	-4.28

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	14.4	14.8
Dividend Yield*	4.8%	4.4%
Price / Book	1.8	2.0
Debt / Equity	35.5%	31.6%
Return on Equity*	12.8%	14.0%

^ 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 equities market experience solid returns over the month to close out November higher. Stocks were bolstered early on by the RBA's comparatively milder-than-expected 25-basis point interest rate hike to 2.85% and a cooler-than-expected inflation print. RBA Governor Philip Lowe reiterated that more rate hikes are expected – and did not rule out further 50bp hikes – but said the RBA was also open to keeping policy unchanged. Its CPI forecast for coming years was also revised upwards, with inflation seen above 3% through 2024 and forecast to peak near 8% vs the RBA's prior estimate of 7.75%. Nevertheless, economists expect a longer tightening cycle and a peak cash rate closer to 4% than 3.5%. The upgraded CPI forecasts were based partly on the east coast flooding, adding upward pressure to food prices and an expected jump in utility costs in 2023. Nevertheless, investor apprehension was curtailed as the Reserve Bank reasoned that inflation is expected to fall over coming years as supply disruptions ease, commodity prices stabilise, and higher rates lower aggregate demand.

The RBA also revised down its GDP forecasts, citing a deteriorating global economy and a softer outlook for consumption. However, Governor Lowe expressed confidence that Australia has a better chance of achieving a soft landing than other countries and did not believe that wage growth would reach a level that would trigger a wage-price spiral.

While Australian trimmed mean inflation weakened by more than expected in October, new dwellings drove the rise in underlying inflation amid ongoing input shortages, though the pace of increase appeared to be decelerating from earlier this year. Expectations of another 25 bp rate hike in December strengthened later in the month as the economy added more jobs than projected in October, and unemployment unexpectedly fell to an almost 50-year low, further supporting market confidence. Measures of labour market slack tightened, with underemployment now 2.8% below pre-pandemic levels and the underutilisation rate down to its lowest since March 1982.

PORTFOLIO COMMENTARY

A feature of this Fund is that it applies Perpetual’s ESG process and Values-based investment criteria. The Fund’s largest overweight positions include Insurance Australia Group Ltd, Bapcor Ltd, and Brambles 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 mining royalty firm Deterra Royalties Ltd (+13.0%) contributed to relative performance. The stock rallied strongly, boosted by soaring iron ore prices that rose sharply from a two-year low during the month. This came after the company reported royalty receipts for the September 2022 quarter of $50.9M. Deterra had three revenue- producing royalties over the quarter, comprising its Mining Area C (MAC), which generated iron ore revenue royalties of $50.7M, and two Western Australian mineral sands operations generating $0.2M combined.
The overweight position in dairy producer a2 Milk Company (+17.9%) contributed to relative performance. The stock rose sharply after the US FDA granted the company approval to import, sell, and distribute infant formula products into the US market to assist in alleviating current shortages through to 3 January 2023, with a possible extension until October 2025. As a result, a2 estimates it will ship around one million cans of formula into the country during the second half of FY2023 and believes it can supply upwards of nine million cans in the future, if required.
The underweight position in Commonwealth Bank of Australia (+3.0%) contributed to relative performance. The stock benefited after reporting a Q1 unaudited Cash NPAT A$2.5B, +2%year-onyear. In its Q1 trading update, CBA also reported Unaudited Statutory NPAT of ~A$2.7B, a CET 1 ratio of 11.1%, and loan impairment expense of A$222M, with collective provisions slightly higher. Operating income was 9% higher in the quarter, with net interest income up 16%, partly offset by lower non-interest income.

Not holding iron ore miner BHP Group (+21.8%) detracted from relative performance. The stock was assisted on the back of a sharply rallying iron ore price. BHP also submitted a revised non-binding indicative proposal during the month to acquire 100% of OZ Minerals by way of a scheme of arrangement for a cash price of $28.25 per share, up from its previous offer of $25.00 per share. This further boosted the share price as the OZ Minerals board has advised that it intends to recommend BHP's proposal.
The overweight position in healthcare technology solutions provider Healius (-15.2%) detracted from relative performance. The stock fell following a trading update, reporting total revenue for the four months to October 2022 of $617.5M (vs year-ago $903M) and generating EBITDA of $124.3M (vs year-ago $347.0M). Despite the weaker-than-expected result, management noted that business-as-usual revenues in Pathology are growing steadily and progressively, while Imaging revenues are also growing fast. Management also indicated that the well-publicised headwinds currently affecting the economy and the healthcare sector are considered temporary rather than structural.

OUTLOOK

Volatility remains the order of the day. Markets are seemingly hanging on to every word from Fed governors looking for some signs of a "pivot" on interest rate rises and trading in big swings on monthly inflation prints. Such a macro-driven market creates a lot of choppiness and single-stock opportunities for patient investors. As the market trades lower, the opportunity set continues to grow, and several new quality names are being added to the watch list that has not looked appealing for many years. In the years ahead, we think markets will need to become accustomed to more inflation than previously experienced. This distinct shift in the macro backdrop is already playing out across asset classes. Valuation discipline remains critical though, and in light of comments around persistent valuation dispersion, we are doing the work, but moving forward with some degree of caution. In these conditions, our focus on value-style investing, buying quality companies with strong balance sheets trading at reasonable valuations, should continue to do well and offer attractive opportunities for investors.

MORE INFORMATION

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