

# PERPETUAL GLOBAL INNOVATION SHARE FUND (MANAGED FUND)

ASX code: IDEA

June 2023

## FUND FACTS

**Investment objective:** Aim to provide investors with long-term capital growth through investment in global shares that are benefiting from technological change and innovation, and outperform the MSCI All Countries World Net Total Return Index (AUD) before fees and taxes over rolling three-year periods.

## FUND BENEFITS

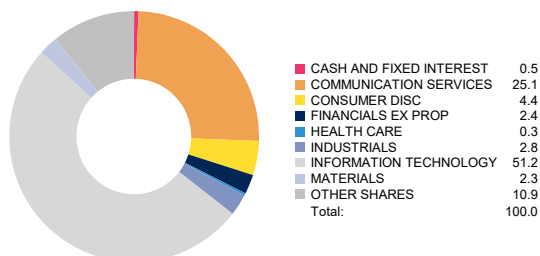
Perpetual employs a bottom-up stock selection approach to investing, where the decision to buy or sell securities is based on a fundamental valuation of stocks, with an emphasis on the potential returns a company can generate. The Manager believes that changes in technology and innovation can have a significant impact on the future earnings and valuation of companies, focusing on understanding new technology and innovation can lead to the early identification of companies with growth potential.

## 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.

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

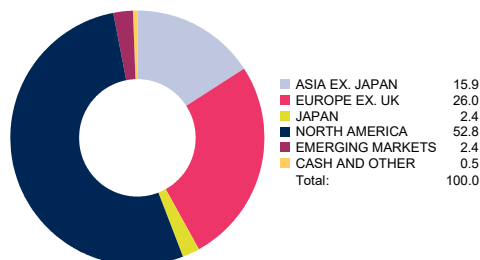
## PORTFOLIO SECTORS



## TOP 5 STOCK HOLDINGS

|                           | % of Portfolio |
|---------------------------|----------------|
| Opendoor Technologies Inc | 10.9%          |
| SES-imagotag SA           | 10.1%          |
| CD Projekt S.A.           | 9.3%           |
| Unity Software, Inc.      | 8.5%           |
| NVIDIA Corporation        | 7.7%           |

## PORTFOLIO REGIONS



## NET PERFORMANCE - periods ending 30 June 2023

|              | Fund   | Benchmark | Excess |
|--------------|--------|-----------|--------|
| 1 month      | 14.89  | 2.87      | 12.03  |
| 3 months     | 20.59  | 6.83      | 13.76  |
| FYTD         | 44.12  | 20.38     | +23.74 |
| 1 year       | 44.12  | 20.38     | +23.74 |
| 2 year p.a.  | -      | -         | -      |
| 3 year p.a.  | -      | -         | -      |
| Since incep. | -13.95 | 0.93      | -14.88 |

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

## PORTFOLIO FUNDAMENTALS<sup>^</sup>

|                   | Portfolio | Benchmark |
|-------------------|-----------|-----------|
| Dividend Yield*   | 0.8%      | 2.7%      |
| Price / Book      | 3.5       | 2.5       |
| Return on Equity* | 13.3%     | 15.6%     |

<sup>^</sup> 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 second quarter of 2023 saw equity markets continue their march higher, fuelled by several shorter-term factors including additional injections of liquidity by the U.S. Federal Reserve (the Fed) in response to the regional bank crisis and debt ceiling debate and investor fears of missing out. Uncertainty remained high, climbing a “Wall of Worry” and fears of recession persisted. Said differently, everyone was bearish, yet everything rallied this year.

Notably, broad market gains were driven by an incredibly narrow handful of companies, primarily in U.S tech. This market concentration around typical growth name is contributing to a spread between value and growth stocks greater than any calendar year since the tech bubble. Secular growth themes in the quarter re-emerged as tailwinds, boosted by the euphoria building for Artificial Intelligence (AI) and largely benefitted the same mega-cap winners of years past.

With the banking situation from earlier this year well-contained, investors have turned their attention back toward the outlook for rates and inflation. Market expectations in the U.S. have flipped from expecting rate cuts later this year to anticipating additional hikes by the Fed while maintaining the view of continued rate increases by other central banks particularly within Europe. The normalization of supply chains and rebalancing of labour markets along with lower cost inputs are starting to filter through in macroeconomic data releases.

## PORTFOLIO COMMENTARY

The Fund's largest overweight positions include Opendoor Technologies Inc, SES-imagotag SA, and CD Projekt S.A. Conversely, the Fund's largest underweight positions include Apple Inc., Alphabet Inc. Class A, and Amazon.com, Inc., all of which are not held in the Fund.

The overweight position in online platform for buying, selling and trading-in residential properties Opendoor Technologies Inc contributed to relative performance over the quarter. The stock was a substantial beneficiary of the rally in US growth stocks over the June quarter, allowing it to recover from its December quarter loss. The sharp bounce was further assisted by optimistic economic data pointing to a recovery in the US housing market.

The overweight position in Schrödinger contributed to relative performance. In its Q1 report, Schrödinger reported an EPS of \$1.75, significantly beating the consensus estimate of \$1.28. Total revenue for the quarter was \$64.8M, essentially on par with consensus forecasts. While software revenue saw a minor drop due to fewer multi-year agreements, drug discovery revenue increased to \$32.6M, with a \$25M milestone from BMS contributing to the rise. The company's cash and equivalents increased to about \$532M from \$456M. For Q2, software revenue is expected to be between \$27M and \$31M. Schrödinger also reaffirmed its FY 2023 guidance, anticipating lower operational expenses and reduced cash used for operating activities.

The overweight position in Palantir Technologies contributed to relative performance after it beat Q1 expectations with an EPS of \$0.05 ex-items and \$525.2M revenue, compared to consensus estimates of \$0.04 and \$505.8M respectively. Although the Q2 revenue guidance falls slightly short of expectations, the full-year guidance was reaffirmed, and the forecast for adjusted operating income was raised. CEO Alexander C. Karp expressed confidence in sustained profitability and noted a high demand for Palantir's new Artificial Intelligence Platform (AIP).

The overweight position in Embracer Group AB Class B detracted from relative performance. Embracer Group's Q4 adjusted EPS of SEK0.35 fell short of the FactSet forecast of SEK0.97, while the revenue of SEK9.36B surpassed the SEK8.25B estimate. The adjusted EBIT was SEK915M, marginally above the preliminary figure. For the FY 2024, the group lowered its adjusted EBIT guidance to SEK7-9B due to changes in release dates for several unannounced titles. These alterations also pushed potential net sales of over SEK1B into FY 2024/25. A major strategic partnership, under negotiation for seven months, failed to materialize.

The overweight position in Frontier Digital Ventures Ltd detracted from relative performance. During May, Frontier successfully concluded its Share Purchase Plan (SPP), receiving applications worth approximately A\$4.1m. In an effort to ensure equitable treatment of retail shareholders and boost balance sheet flexibility, FDV's Board of Directors has agreed to fully accept these applications. The completion of this SPP, combined with the institutional placement, has resulted in the company raising a total gross proceeds of A\$17.1m.

## OUTLOOK

After a busy start to the year, the second half appears as though it may be just as exciting. Monetary policy from central banks typically impacts economies on a lag, typically over 12-18 months. Much of the central banks' efforts to raise rates and quantitatively tighten will just now begin to make an impact. Concurrently, within the U.S., the stimulus provided by the U.S. Treasury during the debt ceiling debate has reversed, removing another potential support to the largest global market. Forecasters remain convinced that the economy will fall into a recession, though the timing remains nebulous. This “Wall of Worry” remains, though offset by vibrant labour markets and a resilient set of markets with a newfound infatuation with AI. Time will tell, but we remain watchful for further signs of deterioration in fundamentals or improvement and broadening of the market rally.

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The product disclosure statement for the ETMF, issued by Perpetual, should be considered before deciding whether to acquire or hold units in the ETMF. The ETMF's PDS (including any supplementary PDS) and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website [www.perpetual.com.au](http://www.perpetual.com.au).

Investment returns, net of management costs have been calculated on the growth of Net Asset Value (NAV) after taking into account all operating expenses (including management costs) and assuming reinvestment of distributions on the ex-date. Distribution return has been calculated based on the ETMF's investment portfolio return less the growth of NAV. No allowance has been made for taxation. Future returns may bear no relationship to the historical information displayed. The returns shown represent past returns only and are not indicative of future returns of an ETMF. Returns on an ETMF can be particularly volatile in the short term and in some periods may be negative. No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of the ETMF or the return of an investor's capital.

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## MORE INFORMATION

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