PERPETUAL ESG AUSTRALIAN SHARE FUND (MANAGED FUND)

ASX code: GIVE

September 2023

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

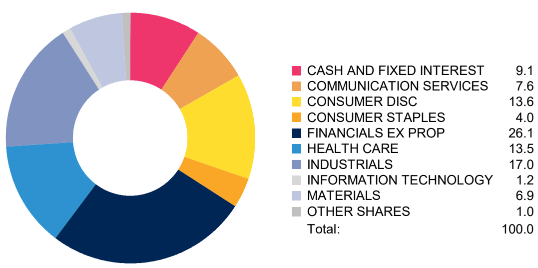
We seek to invest in quality companies that represent the best investment quality, are appropriately priced and meet Perpetual's ESG and values-based criteria. Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research 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



TOP 10 STOCK HOLDINGS

	% of Portfolio
National Australia Bank Limited	6.1%
Insurance Australia Group Ltd	5.4%
Bapcor Ltd	4.7%
Healius Limited	4.5%
Deterra Royalties Ltd	4.3%
Medibank Private Ltd.	4.2%
Ramsay Health Care Limited	4.1%
Reliance Worldwide Corp. Ltd.	3.7%
ANZ Group Holdings Limited	3.7%
a2 Milk Company Limited	3.5%

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

NET PERFORMANCE - periods ending 30 September 2023

	Fund	Benchmark	Excess
1 month	-3.45	-2.89	-0.56
3 months	1.08	-0.84	1.93
FYTD	1.08	-0.84	+1.93
1 year	13.50	12.92	+0.58
2 year p.a.	-	-	-
3 year p.a.	-	-	-
Since incep.	3.59	2.50	1.09

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	16.2	15.3
Dividend Yield*	3.9%	4.3%
Price / Book	2.1	1.9
Debt / Equity	30.7%	34.5%
Return on Equity*	12.5%	12.6%

^ 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.

MARKET COMMENTARY

The S&P/ASX300 Accumulation Index fell -2.89% during September. Bond yields continued their steady ascent, crippling equity markets. Conversely, the Australian dollar continued its steady descent against the USD. The Australian cash rate remained unchanged for the quarter at 4.10%, with newly installed governor Michelle Bullock seeing no need to act at her debut meeting. Recent data suggests inflation is past the peak but well above the desired range. Energy was the best performing sector, with the sector rising +2.2% as oil and coal prices rose. Real Estate Investment Trusts (-8.5%), Information Technology (-7.7%) and Healthcare (-6.4%) all fell sharply in response to rising rates.

PORTFOLIO COMMENTARY

A feature of this portfolio is that it applies Perpetual's ESG process and values-based investment criteria. The portfolio's largest overweight positions include Insurance Australia Group Ltd, Bapcor Ltd and Healius Limited. Conversely, the portfolio's largest underweight positions include BHP Group Ltd (not held), Commonwealth Bank of Australia, and Westpac Banking Corporation (not held).

The overweight position in mining royalty firm Deterra Royalties Ltd (+7.64%) contributed to relative performance. Deterra Royalties performed strongly as Iron ore prices remained resilient through the month defying other commodities which in large ended the month lower. Despite BHP's Q3 operational review reporting a decrease in production of 3.9% compared to the prior quarter, in general MAC continues to ramp up as expected with full production expected to be reached by end FY24. The company receives an ongoing royalty of 1.232% of Australian dollar-denominated quarterly free on board revenue from the MAC royalty area. The business has growth levers through M&A however they are yet to execute on any to date.

The overweight position in healthcare services and hospital operator Ramsay Health Care contributed to performance in September (+1.32%).Ramsay Health Care announced its financial year result at the end of August and there has been material improvement in Revenue and Net Profit after tax. The revenue for the period was A$11.24B, which is an 11% increase from the previous year. Looking ahead, the company expects a gradual recovery in earnings through FY23 and more normalised conditions in FY24. Activity levels in July indicate trends are normalising, however, nursing wage pressure is a headwind and the company is negotiating with the payors to achieve a net neutral outcome on this headwind. We feel that the Balance sheet will look much better once we see the conclusion of sale of Sime Darby. We see substantial upside to the current share price based on our fundamental analysis of the business.

The overweight to Healius detracted from performance in September (-17.86%) as the market continued to speculate that the bid by smaller rival ACL could be blocked by the ACCC. Healius' assets have attracted interest from private equity and there are activist investors on the register. With the combined value of Healius' radiology and pathology businesses estimated to be around $2.6 billion this represents a substantial uplift from the current market capitalisation of $1.7 billion. We are encouraged with the progress Healius has made with improvements in their radiology business under new leadership. Pathology segment continues to track below what the business could achieve given in person GP visits are still around 20% below pre pandemic, which leads to lower pathology requests. We believe some of the co-pay introduction are deterring GP visits, consumers continue to defer and there are evidence that primary care screenings are being deferred. We believe GP visits and Pathology volumes will re-bound in the future and that we will start to see pathology segment margins improve from here.

Our holding in Orora Limited detracted from fund performance in September (-14.51%). Despite delivering a relatively good FY23 operating performance in August, the Board then shocked investors by announcing in September that it had entered an agreement to acquire French-based glass packaging maker, Saverglass SAS, for $2.2bn. The associated equity raising was completed at a deep share price discount of >20%, significantly diluting returns. Most shareholders were disappointed by this outcome. Headquartered in Melbourne, Australia, Orora Limited specializes in creating sustainable packaging, printing, and visual communication products. With a strong presence in Australasia and North America, Orora's dedication to innovation, customer-centric approach, and commitment to sustainability make it a prominent player in the packaging industry, historically delivering value to both customers and shareholders. However, we think the acquisition of Saverglass SAS fundamentally changes the company.

OUTLOOK

The importance of interest rates on valuation cannot be understated - it is the fundamental driver of valuation. Yet as the yield curve has moved steadily higher over 2023 the equity market has taken a peculiar response, acknowledging the impact of rising discount rates in some sectors but not others. Pockets of growth stocks remain completely oblivious to the move in yields. Goldman Sachs strategist Matt Ross recently highlighted that many Australian growth stocks have held up better than offshore peers and continue to trade at elevated multiples. This could all be rendered irrelevant if the recent move in bonds is indeed an aberration, inflation plummets and yields settle lower. But if we are in a higher for longer world, there could yet be more pain to come for the "expensive defensives" and growth stocks that have been the darlings of the market in the last decade. The psychological temptation to buy a high quality company that has fallen 20% is ever present but if yields remain here, or even march higher, than there is every chance that this valuation unwind is far from complete.

MORE INFORMATION

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