PERPETUAL ESG AUSTRALIAN SHARE FUND (MANAGED FUND)

ASX code: GIVE

November 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

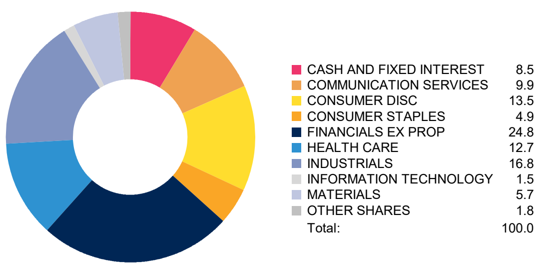
We seek to invest in quality companies that represent the best investment quality, are appropriately priced and meet Perpetual's ESG and values-based criteria. Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research 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
Insurance Australia Group Ltd	6.5%
Healius Limited	4.9%
Bapcor Ltd	4.6%
GWA Group Limited	4.4%
a2 Milk Company Limited	4.2%
National Australia Bank Limited	4.1%
EVT Limited	4.1%
Telstra Group Limited	4.0%
Deterra Royalties Ltd	3.8%
Medibank Private Ltd.	3.4%

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

NET PERFORMANCE - periods ending 30 November 2023

	Fund	Benchmark	Excess
1 month	3.92	5.06	-1.14
3 months	-5.64	-1.85	-3.79
FYTD	-1.21	0.22	-1.43
1 year	3.98	1.14	+2.84
2 year p.a.	2.21	2.69	-0.49
3 year p.a.	-	-	-
Since incep.	2.11	2.83	-0.72

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	16.2	15.4
Dividend Yield*	3.9%	4.3%
Price / Book	2.0	1.8
Debt / Equity	29.8%	34.5%
Return on Equity*	11.6%	12.7%

^ 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

In November Australian equities experienced early bullish momentum amid speculation that the Federal Reserve would keep rates steady, potentially signalling an end to rate hikes. However, Fed Chair Powell's ambiguous stance on future rate actions tempered optimism. Despite this, the Reserve Bank of Australia (RBA) proceeded with a rate hike on Melbourne Cup Day, citing persistent inflation exceeding forecasts, particularly in service inflation. Initial expectations of another RBA tightening in February waned as end-of-month data revealed weaknesses in retail sales and October inflation, below consensus. In the U.S., better-than-expected Consumer Price Index (CPI) data mid-month fuelled the narrative of a post-peak global inflation and the conclusion of the Fed's tightening cycle. Bond yields globally retreated significantly, aligning with a sentiment of reaching a "peak rate." As the gap between U.S. and Australian cash rates narrowed, the Australian Dollar rebounded, closing the month at US$0.66 from a low of $0.63 on November 31st.

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, Healius Limited and Bapcor Ltd. Conversely, the portfolio's largest underweight positions include BHP Group Ltd (not held), Commonwealth Bank of Australia (not held) and CSL Limited.

The underweight position in Woodside Energy Group contributed to returns in the month as the stock fell (-9.52%). Falls in energy prices during November included crude at almost -4% and LNG of more than -8%. WDS' obvious leverage to these commodities saw its share price marked to market. In addition, WDS' investor day underwhelmed with consensus downgrading key cash flow forecasts as a result.

The overweight position in lighting, ceiling fans, and light globes retailer Beacon Lighting Group (+13.9%) contributed to relative performance. This is despite the absence of any material firm-specific news releases over the month. It is worth noting that despite significant pressure on the consumer in the current environment, the FY23 result was generally in line with expectations with no large issues for concern. We still see the stock as being attractively priced and trading at a significant discount to its intrinsic valuation given the potentially improving macro backdrop and the store rollout. We continue to hold stock in an overweight position within the portfolio.

The overweight to Healius detracted from performance in October (-10.46%) as the company was forced to raise capital while the share price was distressed. The timing of the capital raise was a disappointment given the discount was very dilutive to shareholders. We expressed our disappointment to the management and board members of Healius. We believe the business could be better managed. 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. We believe some of the co-pay introductions 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.

IGO Limited detracted from performance in November (-7.70%) as the lithium price continued it's descent combined with a mixed operating performance from the mature nickel assets approaching the end of their mine life. Despite commodity price weakness, we still believe Greenbushes to be one of the lowest cost, highest quality hard rock lithium mines globally that has further expansion potential. The new nickel mine in Cosmos will also start producing in 2024 and provide growth and optionality. Despite some media reports regarding the incoming CEO, the board conducted an independent review and continues to have confidence. The new CEO will also have a very strong balance sheet to work with when he starts on 11th of December, but will have to sign off on the strategic review of Cosmos and the rectification work for the Kwinana hydroxide facility and a commitment to complete construction of Train 2.

OUTLOOK

In November, markets signalled an anticipatory soft landing, witnessed through diminishing bond yields and robust equity performance. Australian equities, along with Europe and Emerging markets, maintain a relatively economical valuation (15.4x NTM), contrasting with the more expensive U.S. S&P500 (18.4x) and MSCI World (16.8x). The U.S. market's elevated valuation stems from persistent enthusiasm for Artificial Intelligence, notably demonstrated by the impressive performance of the "Magnificent 7" stocks. Concerns in Australia persist regarding domestically driven inflation, potentially influencing prolonged higher interest rates, yet to fully manifest in market valuations for expensive longer duration growth stocks.

MORE INFORMATION

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