PERPETUAL ESG AUSTRALIAN SHARE FUND (MANAGED FUND)

ASX code: GIVE

December 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

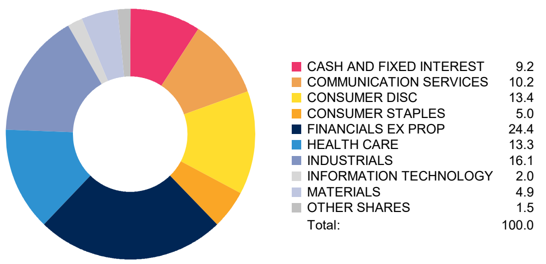
The Fund has two exclusion screens, with which we assess companies. A values-based exclusionary screen for involvement in certain activities, and a ESG exclusionary screen based on an evaluation of companies overall performance on ESG issues.

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	5.8%
Healius Limited	5.3%
GWA Group Limited	4.7%
EVT Limited	4.3%
a2 Milk Company Limited	4.3%
National Australia Bank Limited	4.2%
Bapcor Ltd	4.0%
Telstra Group Limited	4.0%
Medibank Private Ltd.	3.3%
Deterra Royalties Ltd	3.1%

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

NET PERFORMANCE - periods ending 31 December 2023

	Fund	Benchmark	Excess
1 month	5.96	7.22	-1.26
3 months	3.55	8.36	-4.81
FYTD	4.68	7.45	-2.78
1 year	12.36	12.13	+0.22
2 year p.a.	3.31	4.95	-1.64
3 year p.a.	-	-	-
Since incep.	4.89	6.20	-1.32

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	17.3	16.5
Dividend Yield*	3.6%	4.0%
Price / Book	2.1	2.0
Debt / Equity	28.6%	35.3%
Return on Equity*	11.5%	12.8%

^ 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 finished the year strong, delivering a +8.4% total return for the quarter and taking the 12 month total return to +12.1%. The "Santa rally" into quarter end was driven by hopes that moderating inflation would lead to the end of the Fed rate hike cycle. This, plus speculation of rate cuts in 2024, put a rocket under the market through the quarter particularly after 10 year bond yields peaked at around 5% at the end of October. The Fed confirmed a dramatic pivot to a dovish policy outlook on 13 December. GICS sector performance displayed considerable diversity, with yield proxies and growth consistently outperforming. The A-REIT sector saw a substantial rise of +16.6%, and Healthcare surged +13.1%. Materials also strengthened by +13.4%, driven by resource bellwether BHP, which rose over $6 to close at $50.41. Contrastingly, the Energy sector faced significant challenges as oil prices softened.

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 GWA Group Limited. 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 over the quarter as the stock fell (-14.88%). Falls in energy prices during the quarter were large, with both crude and LNG falling more than 10%. 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 (+25.41%) contributed to relative performance. 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 over the quarter (-23.20%) 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 levels. 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 over the quarter (-28.52%) 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

Expectations continue to vary in 2024 although hopes of a soft landing for the US and Australian economies persist. Whilst it would be statistically difficult for Australia to experience an outright recession given the rapid population growth, there remain significant risks of a cyclical downturn that would feel like a recession. In the US the 1995-7 soft landing remains the idealised outcome that investors always seek. 1995 was unique in that bank lending did not tighten significantly unlike all other downturns, including the current cycle. Additionally, conditions outside the US are poor with Europe likely entering recession and China's economy in the doldrums.

MORE INFORMATION

Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au

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