PERPETUAL ESG AUSTRALIAN SHARE FUND (MANAGED FUND)

ASX code: GIVE

May 2024

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

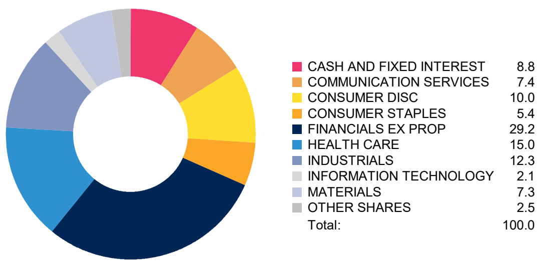
The Fund has two exclusion screens, with which we assess companies. A values-based exclusionary screen for involvement in certain activities, and a ESG exclusionary screen based on an evaluation of companies overall performance on ESG issues.

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	4.9%
GWA Group Limited	4.8%
National Australia Bank Limited	4.7%
a2 Milk Company Limited	4.3%
CSL Limited	4.3%
Medibank Private Ltd.	4.2%
Healius Limited	4.1%
EVT Limited	4.1%
Deterra Royalties Ltd	4.0%
Ramsay Health Care Limited	3.4%

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

NET PERFORMANCE - periods ending 31 May 2024

	Fund	Benchmark	Excess
1 month	-2.34	0.85	-3.19
3 months	-1.61	1.10	-2.71
FYTD	10.28	10.91	-0.63
1 year	11.84	12.83	-0.99
2 year p.a.	8.66	7.47	+1.19
3 year p.a.	-	-	-
Since incep.	6.25	6.48	-0.23

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	18.6	16.8
Dividend Yield*	3.4%	4.0%
Price / Book	2.2	2.1
Debt / Equity	28.8%	37.3%
Return on Equity*	11.6%	12.9%

^ 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 market experienced a notable rally throughout May, though it surrendered some gains in the final days of the month. Early optimism was driven by the Reserve Bank of Australia's (RBA) decision to maintain current interest rates. Mid-month, lower-than-expected US CPI figures and an increase in Australia's unemployment rate fuelled speculation of potential rate cuts which the market eagerly anticipated. However, in Australia an unexpected rise in April's inflation to 3.6% year-on-year, up from 3.5% in March, unsettled equities as investors adjusted their expectations, postponing the first anticipated RBA rate cut to mid-2025. Despite these fluctuations, the Information Technology sector outperformed, ending the month up by 4.5%, partly buoyed by strong international sentiment towards tech stocks. In contrast, the Telecommunications sector declined by 2.8% and Consumer Staples fell by 1.0%, as concerns over a weakening consumer environment impacted market confidence.

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 GWA Group Limited, Insurance Australia Group Ltd, a2 Milk Company Limited. Conversely, the portfolio's largest underweight positions include BHP Group Ltd (not held), Commonwealth Bank of Australia, and Goodman Group (not held).

A2 Milk significantly contributed to returns in May (+16.07%). During our visit to multiple cities in China from May 12th to 18th, we engaged with a wide range of A2 Milk stakeholders which reinforced our confidence in the company. Although the share price has surged as China's birth rate seems to be stabilising, we believe there is still more value to be realised. Feedback across China consistently indicated that A2's brand is strong and its recognition continues to grow. Inventory levels are within acceptable ranges and the management team at all levels has proven to be effective executors. A2 Milk is expanding into tier 2 and 3 cities and we appreciate the management's long-term focus on building market share. With a robust balance sheet and over $790 million in cash, A2 Milk is well-positioned for strategic moves amid the challenging macroeconomic environment.
Medibank Private contributed to performance over May with the stock up 4.49%. The business update provided in May gave investors clarity that the claims environment is still relatively benign and hence the potentially lower than possible premium hikes may not disadvantage the firm as much as feared. Medibank is one of the highest quality health insurance providers in the country.

The overweight position in motor vehicle equipment, parts, and servicing supplier Bapcor Ltd (-26.47%) detracted from relative performance in May. The incoming CEO Paul Dumbrell, quit on the 30th of April just before he was due to start on the 1st of May. The business is now in an unenviable situation lacking a CEO, CFO and with a Chair that has flagged she won't stand for re-election at the next AGM. The downgrade in net profit after tax also highlighted the pressure the business faces from costs of doing business. Despite this, FY23 was a solid result with significant improvement in cash flow conversion through the second half as BAP was able to reduce inventory whilst maintaining strong gross margins. We continue to believe that BAP is a good quality business with material opportunity to improve margins, although volatility could persist with a potentially tough trading environment and uncertainty around future leadership.
The overweight position in healthcare services and hospital operator Ramsay Health Care detracted from relative performance over May (-9.84%). There is growing concern over reimbursements the hospital providers receive not keeping up with both wage inflation as well as higher medical supply costs. Overseas, the French government initially provided Ramsay Sante with a lower-than-expected tariff indexation, which they have since adjusted upwards to match the inflationary environment. The UK Government has provided only a 0.6% indexation, and Ramsay UK are currently negotiation for a higher rate of indexation. Despite this, activity level trends are normalising, and the balance sheet is much healthier post the sale of Sime Darby.

OUTLOOK

Australian equities remain close to their all-time highs and continue to exhibit overall buoyancy. Unlike the U.S. market which has substantial exposure to high-growth technology stocks, the Australian market lacks a similar dynamic. Nevertheless, many local growth stocks are rallying in tandem with global trends, indicating that substantial value opportunities may be underappreciated and currently out of favour. Our investment strategy focuses on acquiring quality assets at reasonable prices, exemplified by our purchase of GMG shares in 2023 at under $20 each. We believe that the portfolio's deeply undervalued classic value opportunities will be pivotal in driving alpha in the coming period.

MORE INFORMATION

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