Wholesale Funds

PERPETUAL WHOLESALE ETHICAL SRI FUND

November 2019

FUND FACTS

Investment objective: Aims to provide long-term capital growth and regular income through investment in quality shares of ethical and socially responsible companies. 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 have satisfied our range of ethical and socially responsible investment 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.

Benchmark: S&P/ASX 300 Accum. Index
Inception Date: April 2002
Size of Portfolio: $939.33 million as at 30 Sep 2019
APIR: PER0116AU
Management Fee: 1.18%*
Investment style: Active, fundamental, bottom-up, value
Suggested minimum investment period: Five years or longer

PORTFOLIO SECTORS

- CASH AND FIXED INTEREST: 9.3%
- COMMUNICATION SERVICES: 10.0%
- CONSUMER DISC: 7.9%
- CONSUMER STAPLES: 5.5%
- ENERGY: 1.7%
- FINANCIALS EX PROP: 26.3%
- HEALTH CARE: 1.4%
- INDUSTRIALS: 16.7%
- INFORMATION TECHNOLOGY: 4.5%
- MATERIALS: 14.3%
- OTHER SHARES: 2.5%
- Total: 100.0%

PORTFOLIO FUNDAMENTALS*

- Price / Earnings*: 17.7
- Dividend Yield*: 4.0%
- Price / Book: 1.9
- Debt / Equity: 44.8%
- Interest cover*: 7.3
- Return on Equity*: 11.0%

* Portfolio Fundamentals are compiled using our methodology and provided only for the purpose of illustrating Perpetual’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.

GROWTH OF $10,000 SINCE INCEPTION

NET PERFORMANCE - periods ending 30 November 2019

<table>
<thead>
<tr>
<th></th>
<th>Fund</th>
<th>Benchmark #</th>
<th>Excess</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 month</td>
<td>2.13</td>
<td>3.38</td>
<td>-1.05</td>
</tr>
<tr>
<td>3 months</td>
<td>3.94</td>
<td>4.75</td>
<td>-0.81</td>
</tr>
<tr>
<td>FYTD</td>
<td>3.55</td>
<td>5.41</td>
<td>-1.86</td>
</tr>
<tr>
<td>1 year</td>
<td>14.24</td>
<td>26.04</td>
<td>-11.80</td>
</tr>
<tr>
<td>2 year p.a.</td>
<td>2.29</td>
<td>11.69</td>
<td>-9.40</td>
</tr>
<tr>
<td>3 year p.a.</td>
<td>4.35</td>
<td>12.67</td>
<td>-8.32</td>
</tr>
<tr>
<td>4 year p.a.</td>
<td>5.61</td>
<td>12.01</td>
<td>-6.40</td>
</tr>
<tr>
<td>5 year p.a.</td>
<td>7.22</td>
<td>9.95</td>
<td>-2.73</td>
</tr>
<tr>
<td>7 year p.a.</td>
<td>10.35</td>
<td>10.81</td>
<td>-0.46</td>
</tr>
<tr>
<td>10 year p.a.</td>
<td>10.20</td>
<td>8.38</td>
<td>+1.82</td>
</tr>
<tr>
<td>Since incep.</td>
<td>10.93</td>
<td>8.68</td>
<td>+2.25</td>
</tr>
</tbody>
</table>

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

*Information on Management Costs (including estimated indirect costs) is set out in the Fund’s PDS.
PORTFOLIO COMMENTARY

A feature of this Fund is that it has strict ethical and socially responsible (SRI) criteria and therefore a screened investment universe. The Fund’s largest overweight positions include health insurer Medibank Private, fibre, glass, and aluminium can manufacturer Orora, and packaging company Amcor. The Fund’s largest underweight positions include CSL, BHP Group, and Commonwealth Bank, all of which are not held in the fund.

The overweight position in building materials manufacturer Fletcher Building (+16.0%) contributed to relative performance. The stock rebounded during the month following a sell-off in October after a major fire broke out at its New Zealand International Convention Centre construction site. The site has since been handed back to Fletcher’s, though access remains restricted as safety and structural assessments and investigations into the cause of the fire are completed. Management noted that they are working closely with the insurer for the contract works and third-party liability insurances to determine the impact of the fire on the project’s delivery timeline and costs, the timing of insurance proceeds, and project cash flows.

The overweight position in grain, malt, and oils distributor GrainCorp (+12.4%) contributed to relative performance. The stock ended the month higher after receiving approval from the ACCC for the proposed sale of its Australian Bulk Liquid Terminals business to the Australian-based terminals business ANZ Terminals Pty Ltd. Furthermore, its bulk liquid facility at Port Kembla will now be excluded from the transaction and will remain part of GrainCorp. Management expect the transaction to be finalised on or around December 31 subject to satisfying additional conditions, including approval from the Foreign Investment Review Board.

Not holding biopharmaceutical company CSL (+10.7%) detracted from relative performance. The stock rallied over the month following the release of bullish price-target updates by several brokers. The broker reports largely cited CSL’s strengthening core immunoglobulin business driven by favourable market dynamics, as well as a weaker Australian dollar assisting revenue expectations from its offshore sales.

The overweight position in salary packaging and fleet management services provider Smartgroup Corporation (-20.7%) detracted from relative performance. The stock fell after the company announced that its managing director and chief executive officer, Deven Billimoria, intends to retire at the end of February 2020 after being with the company for over 19 years and serving as CEO since 2002. Smartgroup has advised that its current chief financial officer, Tim Looi, will replace Mr Billimoria once he retires and that the search for a new CFO has since commenced. The fund has increased its holding in the stock to take advantage of its temporary discounted valuation.

OUTLOOK

Market sentiment has moved from “synchronised global growth” to one of caution focused on the macroeconomic headwinds facing both the global and domestic economy. Globally, investors are concerned amongst other things by the slowing growth rates in China, and geopolitical risks including the fallout from a US-China trade war, Brexit concerns, and tightening central bank liquidity. Domestically, the economy and consumers are facing additional headwinds from a significant East Coast drought and ongoing elevated utility costs. These headwinds and potential risks have been very well telegraphed by the investment community and Australian media. However, a sustained low interest rate environment is expected to be supportive of corporate earnings and dividend growth, providing optimism for equity market returns over the near term. The timing and severity of any potential downturn in the economy, if there is in fact one, is difficult to predict. Given that we are looking a little longer term than the next results we try to look through cycles when making investment decisions. What is important though is investing in companies with a robust balance sheet, strong market position and a dynamic management team with proper incentives which will put us in good stead.

MORE INFORMATION

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Email investments@perpetual.com.au
www.perpetual.com.au

MARKET COMMENTARY

The Australian equity market continued to strengthen over November with the S&P/ASX 300 Accumulation Index ending the month 3.2% higher. Market jitters prevailed as trade talks between the US and China were the focus of the month, with investors reacting to the continued see-sawing dialog between the two nations. Despite President Trump’s initial reluctance to roll back tariffs, confidence improved by month-end on the back of supportive comments regarding trade negotiations, providing a boost for equity markets. Expectations of a continued decline in interest rates further supported the local share market during the month despite rates being kept on hold at its record low of 0.75%. Minutes from the Reserve Bank’s November policy meeting warned that further cuts were higher than expected, however, indicated that unconventional monetary policy/quantitative easing would only be an option if interest rates were to fall to 0.25%, and unemployment and inflation were to move away from target levels. Employment figures for October, however, were weaker than expected, with 19,000 jobs lost (compared with +15,000 consensus expectation), pushing the unemployment rate up 0.1% to 5.3%, and placing further pressure on a future rate cut.

Business conditions and confidence ticked up marginally. Housing prices continued to rise in November, increasing 1.5% with strong gains in Sydney and Melbourne, bringing the year-on-year growth rate to +0.1%. Retail sales missed expectations, improving 0.2% for September from an expected 0.4% rise despite various stimulus measures. Bulk commodities were mixed, with crude oil (+2.7%) and iron ore (+2.3%) both ending in positive territory over November, though coking coal slumped (-10.0%) on steel demand concerns outside of China. Gold sold-off, down 3.2%, on a strengthening US dollar and improved US-China trade relations.

The best performing sectors for the month, as measured from the S&P/ASX 300 Accumulation Index, were Information Technology (+10.6%), Health Care (+8.8%) and Consumer Staples (+8.1%). The worst performers were Financials (-2.0%), Utilities (-0.5%) and Real Estate (-2.3%). As a whole, industrial stocks (+0.8%) underperformed resource stocks (+4.7%) and large cap stocks (+3.3%) outperformed small cap stocks (+1.6%). Value stocks (+0.4%) underperformed growth stocks (+5.3%) as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

The Ordinaries benchmark prior to 1/4/2000 was the ASX All Ordinaries Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX 300 Accumulation Index.

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