

## Wholesale Funds

# PERPETUAL WHOLESAL ETHELICAL SRI FUND

October 2020

### FUND FACTS

**Investment objective:** Aims to provide long-term capital growth and regular income through investment predominantly in quality shares of Australian 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.

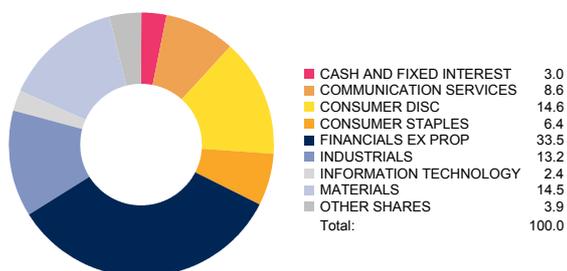
Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research from external specialists to analyse socially responsible practices of companies listed on the Australian and overseas exchanges.

### 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.

<b>Benchmark:</b>	S&P/ASX 300 Accum. Index
<b>Investment Manager:</b>	Nathan Hughes
<b>Inception Date:</b>	April 2002
<b>Size of Portfolio:</b>	\$680.81 million as at 30 Sep 2020
<b>APIR:</b>	PER0116AU
<b>Management Fee:</b>	1.18%*
<b>Investment style:</b>	Active, fundamental, bottom-up, value
<b>Suggested minimum investment period:</b>	Five years or longer

### PORTFOLIO SECTORS



### TOP 10 STOCK HOLDINGS

	% of Portfolio
AUB Group Limited	6.7%
Orora Ltd.	6.0%
ANZ Banking Group Ltd.	5.9%
National Australia Bank Limited	5.9%
Ferguson Plc	4.7%
Wesfarmers Limited	4.4%
HT&E Ltd	4.0%
Premier Investments Limited	3.5%
Asaleo Care Ltd.	3.2%
NIB Holdings Ltd	3.1%

### NET PERFORMANCE - periods ending 31 October 2020

	Fund	Benchmark #	Excess
1 month	0.98	1.89	-0.90
3 months	6.66	1.22	+5.44
FYTD	4.92	1.83	+3.09
1 year	-5.16	-7.91	+2.75
2 year p.a.	0.93	4.90	-3.97
3 year p.a.	-0.63	4.22	-4.85
4 year p.a.	2.00	7.03	-5.03
5 year p.a.	3.34	6.89	-3.55
7 year p.a.	4.44	5.68	-1.24
10 year p.a.	9.01	6.86	+2.16
Since incep.	9.92	7.57	+2.35

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

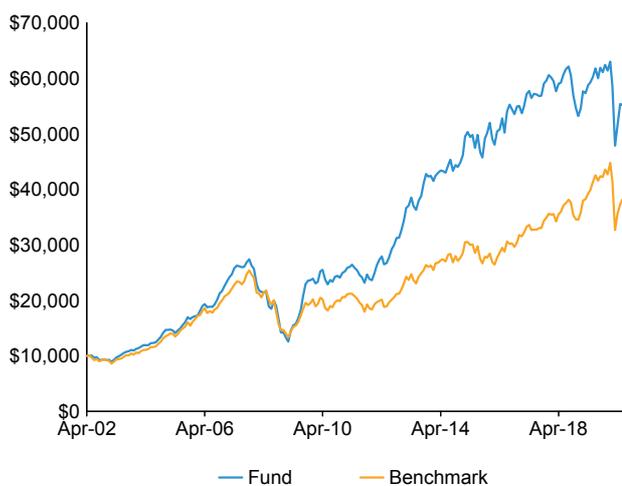
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	16.9	18.5
Dividend Yield*	4.1%	3.8%
Price / Book	1.6	1.8
Debt / Equity	31.3%	40.8%
Return on Equity*	9.7%	10.2%

<sup>^</sup> 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.

### GROWTH OF \$10,000 SINCE INCEPTION



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

## MARKET COMMENTARY

The Australian equity market ended the month higher with the S&P/ASX 300 Accumulation Index gaining 1.9% over October. Declining national coronavirus infection rates assisted sentiment as state restrictions eased and lockdowns in Melbourne were relaxed after Victoria recorded its first day of zero community transmissions since June. The Downward trend of national COVID cases has led to an announced reduction in border restrictions commencing from November.

Consumer confidence continued to recover, boosted in part by the release of a stimulus-heavy Federal Budget, comprising of fast-tracked income tax cuts, accelerated infrastructure investment, incentives for first home buyers, business tax incentives, and wage subsidy schemes for companies. Headline CPI saw its largest quarterly increase since 2006, rising 1.6% quarter-on-quarter, while the unemployment rate saw a lower-than-expected increase to 6.9% (up from 6.8% previously, and coming in below consensus of 7.0%) following a loss of 30,000 jobs. Optimistic economic activity indicators aided risk sentiment, which overshadowed the latest ramp-up in tensions with China after Beijing reportedly suspended the purchase of Australian coal and moved to restrict imports of various agricultural products.

Dovish commentary from the Reserve Bank's October policy meeting led to expectations of another interest rate cut in November. This offset investor uncertainty stemming from heightened volatility across global markets, triggered by surging coronavirus infections and mobility restrictions across Europe and a pause in vaccine trials. Declining investor confidence across the US in the lead up to the presidential election, along with stalled negotiations between the Democrats and Republicans for a multi trillion-dollar coronavirus relief package, however, also weighed on the market sentiment.

The best performing sectors for the month, as measured from the S&P/ASX 300 Accumulation Index, were Information Technology (+8.6%), Financials (+6.3%), and Consumer Staples (+4.6%). The worst performers were Industrials (-3.5%), Utilities (-1.5%), and Materials (-1.1%). As a whole, industrial stocks (+2.7%) outperformed resource stocks (-1.2%) and large cap stocks (+1.3%) outperformed small cap stocks (+0.5%). Value stocks (+3.0%) outperformed growth stocks (+1.1%) as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

## 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 packaging manufacturer Orora, insurance provider AUB Group, and plumbing and heating products supplier Ferguson PLC. 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 packaging manufacturer Orora (+7.5%) contributed to relative performance. The stock finished higher following upbeat commentary from management during its AGM regarding Orora's financial year-to-date operating performance. Management revealed that despite challenging market conditions, the company has started FY2021 positively with earnings from its Australasian Beverage business remaining flat year-on-year, while its two North American businesses are currently tracking ahead of its respective first-quarter FY2020 earnings.

The overweight position in outsourced administration services provider Link Administration Holdings Group (+27.9%) contributed to relative performance. The stock rose after receiving a non-binding indicative proposal from Pacific Equity Partners to acquire 100% of the shares in the company at a cash price of \$5.40 per share. Link has since rejected the offer, with its Board unanimously concluding that the offer materially undervalues the company and is not in the best interests of shareholders.

Not holding Commonwealth Bank of Australia (+8.5%) detracted from relative performance. The stock outperformed on the back of a broader rally in the banking sector, assisted by easing credit lending standards, housing prices holding up better than expected, and a stimulatory 2020-2021 Federal Budget helping to restore business confidence. The Fund does not hold the stock as it failed to pass our SRI-based governance screen on the basis of its past regulatory compliance misconduct.

The overweight position in hospitality and leisure company Event Hospitality & Entertainment (-14.4%) detracted from relative performance. The stock sold-off after plans to sell its Cinestar cinema business to Vue International Bidco (for an enterprise value of up to \$358m) was halted after Vue had failed to divest 5 of its 6 cinemas as required by the German competition regulator. Reports indicate that Vue has paused its divestment process and is now seeking to renegotiate the terms of the transaction with Event.

## OUTLOOK

The recent market rally has been particularly narrow in Australia, with healthcare, tech, and iron ore names at the forefront. The longer that restrictions are in place, the greater the divergence in its impact across specific sectors and stock prices. Once the economy reopens nationally, a big question will be around the strength of the rebound. Many investors have a 'glass half full' perspective, which will be challenging for both the economy and markets. Finally, the perception that interest rates will remain at their current levels forever will be challenged as we see the potential re-emergence of inflation. Although inflation presents an unlikely risk in the shorter-term, given the excess capacity in economies globally, it may present a substantial tail risk. Subsequently, a steepening of the yield curve in response to a potential rise in inflation could see a short sharp market correction. Despite the better-than-expected earnings season, we're still to learn what 'COVID normal' will look like, and how that might impact businesses both large and small. This is why sticking to an investment approach that's underpinned by a disciplined, active, value-based methodology is important, whatever the investment environment.

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# 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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The PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that fund. The PDS can be obtained by calling 1800 022 033 or visiting our website [www.perpetual.com.au](http://www.perpetual.com.au). No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of any investor's capital. Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for contribution or withdrawal fees or taxation (except in the case of superannuation funds, as applicable). Past performance is not indicative of future performance.

## MORE INFORMATION

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