PERPETUAL GLOBAL INNOVATION SHARE FUND (MANAGED FUND)

ASX code: IDEA

July 2022

FUND FACTS

Investment objective: Aims to provide investors with long-term capital growth through investment in global shares that are benefiting from changes in technology and innovation. To outperform the stated benchmark (before fees and taxes) over rolling 3 year periods.

FUND BENEFITS

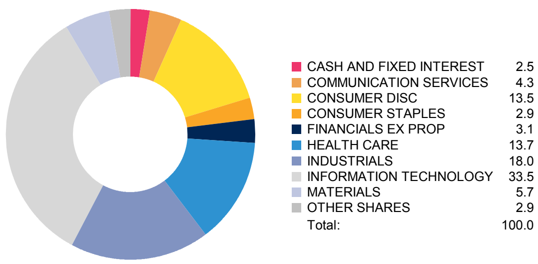
Perpetual employs a bottom-up stock selection approach to investing, where the decision to buy or sell securities uses a fundamental valuation of stocks. The Manager believes that changes in technology and innovation can have a significant impact on future earnings and valuation of companies, and that by focusing on understanding new changes in technology and innovation this can lead to early identification of undervalued stocks.

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:	MSCI AC World Net Total Return Index (AUD)
Inception date of strategy:	June 2017
ASX commencement date:	13 December 2021
Distribution Frequency:	Half-Yearly
Management Fee:	0.99%*
Performance Fee:	20 % of outperformance*
Investment style:	Active, fundamental, bottom-up
Suggested minimum investment period:	Seven years or longer

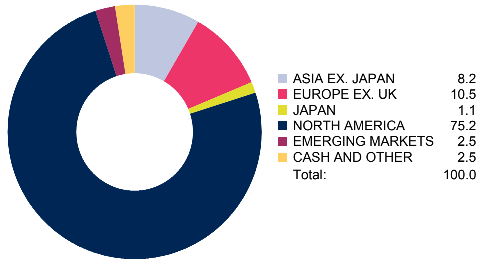
PORTFOLIO SECTORS



TOP 5 STOCK HOLDINGS

	% of Portfolio
IQVIA Holdings Inc	6.2%
Microsoft Corporation	6.0%
Amazon.com, Inc.	5.9%
GXO Logistics Inc	5.7%
MongoDB, Inc.	5.3%

PORTFOLIO REGIONS



NET PERFORMANCE - periods ending 31 July 2022

	Fund	Benchmark	Excess
1 month	11.58	5.43	6.15
3 months	-7.56	-0.11	-7.45
FYTD	11.58	5.43	+6.15
1 year	-	-	-
2 year p.a.	-	-	-
3 year p.a.	-	-	-
Since incep.	-38.61	-11.17	-27.44

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	38.0	15.0
Dividend Yield*	1.8%	2.8%
Price / Book	5.0	2.4
Debt / Equity	90.2%	47.1%
Return on Equity*	16.6%	16.3%

^ 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.

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

MARKET COMMENTARY

July appeared to be a classic “bad news is good news” month. Continued readings of slowing economic activity sparked some hope that the US Federal Reserve would start cutting interest rates as soon as mid-2023 to help revive the largest consumer economy after a second consecutive quarter of negative GDP growth. However, several Fed officials were quick to note that the Fed is very focused on seeing signs of falling inflation prior to considering any rate reductions. This did not stop investors from reversing course and bidding up markets—growth stocks in particular—which have taken the brunt of this year’s market sell-off.

The Benchmark ended the month higher, with the US leading the rest of its global market peers. Developed ex-U.S. markets were up, however, emerging markets fell, weighed down by China, which fell more than -9% on the continued pursuit of a zero COVID policy. The Information Technology and Consumer Discretionary sectors were propelled to double-digit gains in July, spurred by the outlook for lower interest rates. Unfortunately, these two sectors, along with the Industrials sector, were the only sectors to outpace the broader MSCI All Country World Index, highlighting the narrowness of the market in the month.

The Energy sector was the second-best performing sector, despite the continued fall in oil prices, helped by natural gas prices which were up more than 50% in the month on continued concerns over the supply of gas to Europe from Russia. Recession fears in the Eurozone remain as PMIs continue to fall, and lower gas supplies could further hamper manufacturing output. Additionally, the Eurozone, like other areas of the globe, is fighting historic inflation levels; this has caused the European Central Bank to raise rates 50bps for the first time in more than a decade (a much larger increase than the expected 25bps). Despite these challenges, the Eurozone posted 0.7% GDP growth in the second quarter, though positive growth prints going forward are being questioned given the hurdles with gas supplies and inflation.

PORTFOLIO COMMENTARY

The Fund’s largest overweight positions include IQVIA Holdings Inc, GXO Logistics Inc, and MongoDB, Inc. Class A. Conversely, the Fund’s largest underweight positions include Apple Inc., Alphabet, Inc. Class A, and Tesla Inc, all of which are not held in the Fund.

The overweight position in general-purpose database platform developer MongoDB Inc. Class A (+18.7%) contributed to relative performance. The stock rallied higher on the back of bullish analyst commentary and improving investor sentiment, which drove a recovery among cloud stocks despite few company-specific news releases. On 5 July, the stock saw a 13% rise on high-volume trading. The stock price further surged in the last week of July as investors reacted favourably to comments from Fed Chair Jerome Powell, who said he did not believe the U.S. was in a recession.

The overweight position in software-defined networking-based elastic interconnection services Megaport Ltd. (+77.8%) contributed to relative performance. The stock strengthened upon its June quarter financial result, where it generated a record Monthly Recurring Revenue (MRR) growth of 13% QoQ to $10.7M. Excluding foreign exchange tailwinds, underlying MRR grew by 10% to $10.7M in June. Total revenue for the quarter was $30.6M, up 10% from 3Q FY2022, which allowed it to deliver its first EBITDA profitable quarter. During the quarter, two new markets, Canada and Japan, also became individually profitable ahead of schedule.

The overweight position in online marketplace operator Airbnb Inc Class A (+22.8%) contributed to relative performance. In the absence of any material company-specific news out of the company in July, the stock price rose in line with the broader growth segment of the market as spending remained strong. Investors may have anticipated a solid second-quarter earnings report, released in the first week of August, and saw its recent stock price decline as a buying opportunity due to the company's strong operating performance.

Not holding tech giant Apple Inc (+17.1%) detracted from relative performance. The stock finished the month higher as investors looked forward to a positive third-quarter earnings report and its streaming service, Apple TV+, saw success amid the awards season. Ahead of Apple's earnings report, three brokers gave positive recommendations for the stock. Bullish investors were rewarded on 29 July when Apple reported net sales grew by 2% in the third quarter (an increase of US$83B). The company enjoyed a positive quarter despite supply constraints that resulted in component shortages and soaring inflation, which led many consumers to cut spending.

The overweight performance in enterprise cloud computing solutions provider ServiceNow Inc (-7.4%) detracted from relative performance. The stock traded lower over the month following an appearance by CEO Bill McDermott on CNBC's television program Mad Money, during which he revealed that macro crosswinds are "blowing strong" and that the mood is "not great." McDermott highlighted expected currency headwinds and noted that the company had seen some longer sales cycles in Europe. The comments likely impacted sentiment by introducing some incremental risk to the company's upcoming Q2 results and its 2022 guidance.

OUTLOOK

The challenges we have noted in our prior commentaries regarding supply chains, labour shortages, higher inflation, higher interest rates, etc., have not abated. Although we see a strong labour market and the re-opening of some supply chains, with the continued lockdowns in China largely remaining intact, we are unlikely to see further improvements until China loosens its COVID restrictions. Given the continuing war between Russia and Ukraine, pressure on energy and food costs will remain. It will likely result in central banks continuing to pursue higher interest rates for the foreseeable future, with the US and UK continuing to hold to previously announced rate hikes

We recognise that this market environment has put meaningful pressure on Tech-related stocks, currently our largest weighting in the portfolio. We understand that this pressure is likely to continue, but we believe the companies we own have good balance sheets and pricing power to weather this challenging economic environment, and once markets begin to improve, we believe we will see strong performance from these names. Regardless, as we follow our proven bottom-up, fundamental process, we continue to look for compelling opportunities given the dislocations we are seeing in the markets.

MORE INFORMATION

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