Wholesale Funds

PERPETUAL GLOBAL INNOVATION SHARE FUND — CLASS A

September 2020

FUND FACTS

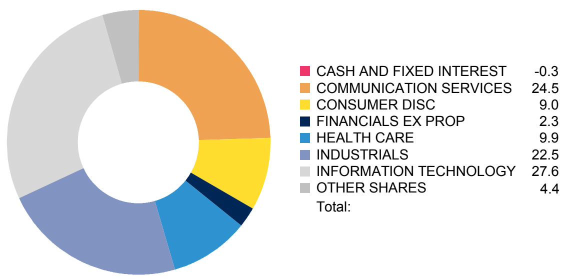
Investment objective: Aims to provide investors with long-term capital growth through investment in quality global shares that are benefiting from changes in technology and innovation. To outperform the stated benchmark (before fees and taxes) over rolling 3 year periods.

FUND BENEFITS

Perpetual employs a bottom-up stock selection approach to investing, where the decision to buy or sell securities uses a fundamental process based on value. 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.

Benchmark:	MSCI AC World Net Total Return Index (AUD)
Investment Manager:	Thomas Rice
Inception Date:	June 2017
Size of Portfolio:	$71.83 million as at 30 Sep 2020
APIR:	PER1547AU
Management Fee:	1.25%*
Performance Fee:	20% of outperformance*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Seven years or longer

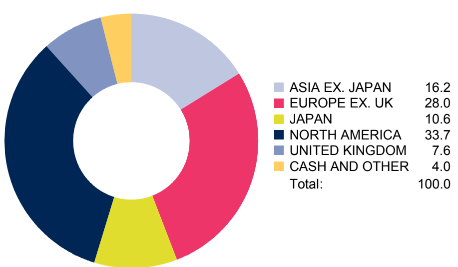
PORTFOLIO SECTORS



TOP 5 STOCK HOLDINGS

	% of Portfolio
Axon Enterprise Inc	7.5%
boohoo group Plc	5.9%
Siemens AG	5.1%
Virgin Galactic Holdings Inc	4.3%
CD Projekt S.A.	4.0%

PORTFOLIO REGIONS



NET PERFORMANCE - periods ending 30 September 2020

	Fund	Benchmark	Excess
1 month	5.72	-0.15	+5.87
3 months	13.66	3.87	+9.79
FYTD	13.66	3.87	+9.79
1 year	52.64	3.93	+48.72
2 year p.a.	28.37	6.32	+22.05
3 year p.a.	27.67	10.40	+17.27
4 year p.a.	-	-	-
5 year p.a.	-	-	-
7 year p.a.	-	-	-
10 year p.a.	-	-	-
Since incep.	24.00	8.94	+15.06

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

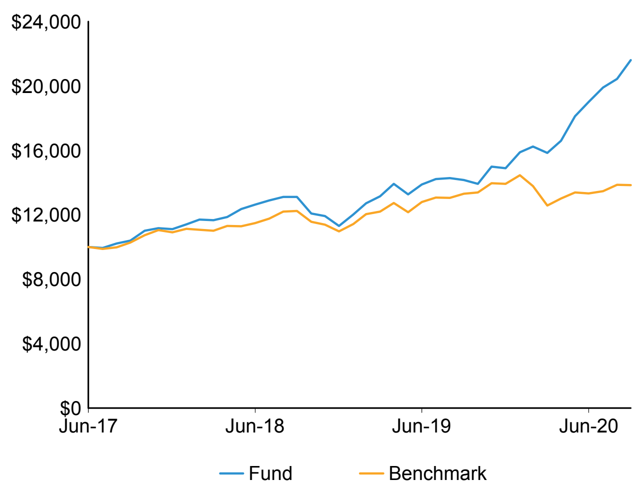
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	26.7	19.2
Dividend Yield*	2.1%	2.7%
Price / Book	2.8	2.3
Debt / Equity	40.8%	57.1%
Return on Equity*	12.4%	12.3%

^ 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.

GROWTH OF $10,000 SINCE INCEPTION



*Information on Management Costs (including estimated indirect costs) and a full description of the Fund's performance fee is set out in the Fund's PDS.

MARKET COMMENTARY

Global equity markets strengthen over the September-quarter as the MSCI All Country World Net Total Return Index gained +3.9% (in Australian dollar terms). Optimism over the development of a coronavirus vaccine and declining global infection rates boosted market sentiment early in the quarter while the benefits of fiscal and central bank stimulus measures took effect in supporting the recovery of global economic activity. Concerns of a second wave of infections and plateauing economic activity late in the quarter, however, halted market confidence as most developed markets slowed in September, returning some of their earlier gains.

The US S&P500 managed an 8.0% gain on the back of solid June-quarter corporate earnings and strengthening economic activity (including a rebound in employment data) despite election uncertainty and the inability for Congress to agree on a phase 4 coronavirus stimulus package. China saw a continuation of its strong recovery with the MSCI China Price index gaining 11.2%, encouraged by strengthening manufacturing data while shrugging off ongoing trade-deal tensions with the US. The Japanese market also saw modest gains with the Nikkei 225 index finishing the quarter 4.0% higher.

European economic activity indicators remained weak over the quarter, however, showed signs of improvement as EU leaders reached a deal on a €750b stimulus package. A surge of infections forced European economies back into lockdown to combat a second wave, contributing to a 1.3% decline in the Euro Stoxx 50 Index. The German DAX Index also fell 1.4%. Increased risk sentiment in the UK following uncertainty over Brexit trade-deal negotiations similarly saw the UK FTSE 100 finish 1.5% lower.

The best performing sectors for the quarter, as measured from the MSCI All Country World Net Total Return Index, were Consumer Discretionary (+13.3%), Information Technology (+8.2%) and Materials (+7.3%). The worst performers were Energy (-16.2%), Financials (-2.6%), and Real Estate (-2.0%). As a whole, value stocks (+2.0%) underperformed growth stocks (+10.3%) as measured from the MSCI World Value and MSCI World Growth indices, respectively.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include law enforcement technology producer Axon Enterprise, online clothes and accessories retailer Boohoo Group PLC, and multinational conglomerate Siemens AG. The Fund's largest underweight positions include Apple, Microsoft, and Alphabet, all of which are not held in the fund.

The overweight position in wind power plant developer Vestas Wind Systems (+53.1%) contributed to relative performance. The stock rose over the quarter after announcing that it had secured several new wind park projects, including a new 101MW order for a project in China, as well as a 121MW wind project in Poland. The Poland contract was reported to include the supply, installation, and commissioning of wind turbines, as well as a 30-year active output management service agreement, with deliveries expected to commence in Q3 of 2021.
The overweight position in software developer Nitro software (+87.1%) contributed to relative performance. The stock benefitted from a stronger-than-expected June-half financial result, reporting a 14% year-on-year increase in total revenue to US$19.1m, driven by a 60% increase in subscription revenue and a 57% increase in annual recurring revenue to US$20.2m. Management noted that the company remains on track to deliver its prospectus forecast for the calendar year 2020, with revenue expected to grow to $40.5m.

The overweight position in software and camera manufacturer Axon Enterprise (-11.6%) detracted from relative performance. The stock fell over the quarter as the movement to defund law enforcement agencies in the US gained traction with the mayor of San Francisco announcing her intention to lower the police department's budget by US$120m, while the New York City Police Department is facing a US$1b cut to its budget. Investor sentiment subsequently declined on account of Axon's primary customers being police departments in the US. Despite this temporary headwind, we believe the demand for Axon's products will continue to strengthen over time, and as such, we continue to hold the stock within the Fund.
The overweight position in Optorun Co (-16.9%) detracted from relative performance. The stock fell following pressure from tougher U.S. regulations on Huawei (one of Optorun's major customers), leading to downgrades in its price target by several brokers. The Fund continues to hold the stock as we believe its earnings are likely to remain resilient due to Huawei's healthy sales in the Chinese market despite the geopolitical headwinds it has recently faced.

OUTLOOK

The extent and duration of the impact that the coronavirus will have on global markets are still unknown. While reports show that the spread is slowing, for us, it is too early to be confident that new shocks will not present themselves in the months ahead. This has, for obvious reasons, changed the near-term earnings outlook for equities. Many companies have withdrawn their earnings guidance which says a lot about the state of the markets and the current lack of earnings visibility. We have never seen a crisis quite like this, so it's going to be hard for investors to forecast earnings when companies themselves are unaware where their profits will land. The key debate for us is "does this change the medium to longer-term earnings outlook for the stocks we hold?". The global economy should bounce back from the current measures in place, though the rate of this recovery may be slower than what some may expect due to the sharpness of the decline. For this reason, we continue to focus on high-quality companies with proven management and strong balance sheets that will remain resilient throughout prolonged periods of uncertainty.

MORE INFORMATION

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