

PERPETUAL ESG AUSTRALIAN SHARE FUND (MANAGED FUND)

ASX code: GIVE

October 2022

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 value-based criteria. Aims to outperform the S&P/ASX 300 Accumulation Index (before fees and taxes) over rolling three-year periods.

FUND BENEFITS

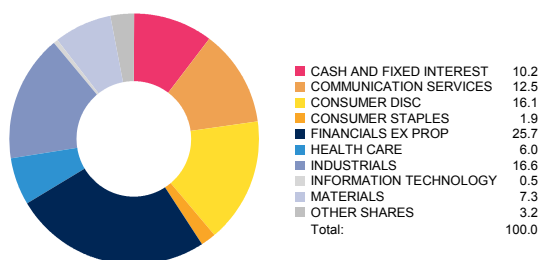
We seek to invest in quality companies that represent the best investment quality, are appropriately priced and meet Perpetual's ESG and value-based criteria. Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research 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.

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 Limited	7.9%
National Australia Bank Limited	5.9%
Brambles Limited	5.3%
Wesfarmers Limited	4.9%
Bapcor Ltd	4.2%
Telstra Group Limited	4.0%
EVT Limited	3.7%
Medibank Private Ltd.	3.5%
Deterra Royalties Ltd	3.4%
Healius Limited	3.3%

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

NET PERFORMANCE - periods ending 31 October 2022

	Fund	Benchmark	Excess
1 month	4.67	5.96	-1.30
3 months	1.01	0.46	0.54
FYTD	8.23	6.44	+1.79
1 year	-	-	-
2 year p.a.	-	-	-
3 year p.a.	-	-	-
Since incep.	-1.62	-1.82	0.19

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

PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	13.8	13.6
Dividend Yield*	5.0%	4.8%
Price / Book	1.8	1.9
Debt / Equity	34.6%	31.1%
Return on Equity*	12.9%	14.2%

[^] 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

Australian equities rallied over October following the RBA's smaller-than-expected 25 bp rate hike to 2.60%. The decision underpinned market views that the RBA's front-loading of rate hikes has ended, and that future tightening is expected to be in 25 bp increments. While the RBA reiterated its determination to continue tightening, it signalled that it is becoming more mindful of policy trade-offs and is broadening its focus beyond just controlling inflation. The October RBA meeting minutes revealed that the central bank sees the possibility of more substantial wage growth, just as other economies have experienced, and was also wary of credibility damage if upside risk to inflation materialised. This came as headline inflation accelerated to a 32-year high during the September quarter, with food prices being a significant contributor, spurred by rising input costs and crop damage from the recent floods. Underlying inflation pressures were also evident, driven by housing-related categories such as input shortages, supply chain issues and building cost pass-through, pushed up the price of furnishings and new dwellings. Gas and other fuels have risen the most since 2012, while rental inflation climbed further due to falling vacancy rates.

There were notable moves among the sectors over the month, with Financials being the top performer, led by the major banks. A-REITs significantly outperformed amid a sharp fall in bond yields and after the budget outlined plans to build one million new homes. Utilities also stood out following the government's plans to invest more in green energy and build new transmission lines. Energy also continued to rise sharply, despite the government threatening unprecedented regulatory intervention in the power market to curb price rises. Consumer staples underperformed as continued cost inflation pressures weighed on grocery retailers, whereas Materials were also among the decliners, reflecting weakness among the major miners on the back of falling iron ore prices.

PORTFOLIO COMMENTARY

A feature of this Fund is that it invests in a screened universe enforced by strict ethical and socially responsible (SRI) investment criteria. The Fund's largest overweight positions include Insurance Australia Group Ltd, Bapcor Ltd, and Brambles Ltd. Conversely, the Fund's largest underweight positions include CSL Ltd (not held), BHP Group Ltd (not held), and Commonwealth Bank of Australia.

The overweight position in Entertainment, hospitality and leisure company EVT Ltd. (+15.2%) contributed to relative performance. The stock was boosted by its first-quarter trading update, reporting normalised EBITDA (ex-AASB 16 leases) of A\$70.6M (vs a \$15.5M loss from a year-ago). Normalised EBITDA from its Entertainment businesses (including CineStar Germany) increased to A\$10.0M from A\$5.3M in Q1 FY19, Thredbo normalised EBITDA rose +41.7% from Q1 FY19, and Hotels EBITDA rose +5.7% from Q1 FY19. Consolidated revenue was down (0.3%) on the pre-COVID FY19 year, and Thredbo revenue was up +27.7% vs Q1 FY19.

Not holding iron ore miner BHP Group (-3.0%) contributed to relative performance. The stock price came under pressure during October, with headwinds coming from falling iron ore prices (down 5.4% over the month) and sinking to a two-year low. The iron ore weakness was primarily driven by falling demand from China, which struggled with renewed lockdowns due to its COVID-zero strategy and waning real estate market. Not holding biopharmaceutical company CSL (-1.6%) contributed to relative performance. The stock ended lower despite an optimistic annual general meeting update. The company's update on its new CSL Vifor business was encouraging and there may be significant potential upside for investors over the next 12 months. CSL is spruiking Vifor as having an extensive suite of products available in a large, underpenetrated market, with a limited number of competitors, and unique industry partnerships. The medium-term revenue growth target of >10% will likely help support medium-term consensus but risks still remain surrounding the durability of its iron therapy franchise beyond the end of the exclusivity period for Ferinject in FY27.

The overweight position in health insurer Medibank Private (-19.0%) detracted from relative performance. The stock fell sharply after confirming that "significant amounts" of personal and medical-related data pertaining to its customers had been hacked. Medibank estimates that its earnings could be impacted by between \$25 million and \$35 million due to the attack and has subsequently withdrawn its FY23 policyholder growth outlook. The company continues to work with the AFP, specialised cybersecurity firms, and the Australian Cyber Security Centre, and is prioritising the prevention of further unauthorised access to its network and monitoring for further activity.

The underweight position in Commonwealth Bank of Australia (+15.4%) detracted from relative performance. The stock rose sharply following an upbeat Annual General Meeting. Although it didn't provide any details on its performance during the current quarter, CEO Matt Comyn indicated that overall, the bank remains fundamentally optimistic about the medium to long-term opportunities for Australia, as well as its capacity to provide support in the immediate future for its customers. It was also announced that the bank would continue to invest in its core retail, business, and institutional banking franchises to reinforce its proposition and extend its digital leadership.

OUTLOOK

Volatility remains the order of the day. Markets are seemingly hanging on to every word from Fed governors looking for some signs of a "pivot" on interest rate rises and trading in big swings on monthly inflation prints. Such a macro-driven market creates a lot of choppiness and single-stock opportunities for patient investors. As the market trades lower, the opportunity set continues to grow, and several new quality names are being added to the watch list that has not looked appealing for many years. In the years ahead, we think markets will need to become accustomed to more inflation than previously experienced. This distinct shift in the macro backdrop is already playing out across asset classes. Valuation discipline remains critical though, and in light of comments around persistent valuation dispersion, we are doing the work, but moving forward with some degree of caution. In these conditions, our focus on value-style investing, buying quality companies with strong balance sheets trading at reasonable valuations, should continue to do well and offer attractive opportunities for investors.

This publication has been prepared by Perpetual Investment Management Limited ABN 18 000 866 535 AFSL 234426 (Perpetual), as the issuer of units in the Perpetual ESG Australian Share Fund (Managed Fund) (ASX: GIVE) (ETMF). It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider with a financial adviser whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The product disclosure statement for the ETMF, issued by Perpetual, should be considered before deciding whether to acquire or hold units in the ETMF. The ETMF's PDS (including any supplementary PDS) and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website www.perpetual.com.au.

Investment returns, net of management costs have been calculated on the growth of Net Asset Value (NAV) after taking into account all operating expenses (including management costs) and assuming reinvestment of distributions on the ex-date. Distribution return has been calculated based on the ETMF's investment portfolio return less the growth of NAV. No allowance has been made for taxation. Future returns may bear no relationship to the historical information displayed. The returns shown represent past returns only and are not indicative of future returns of an ETMF. Returns on an ETMF can be particularly volatile in the short term and in some periods may be negative. No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of the ETMF or the return of an investor's capital.

MORE INFORMATION

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