Perpetual Investment Funds

PERPETUAL ESG AUSTRALIAN SHARE FUND

August 2024

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

FUND BENEFITS

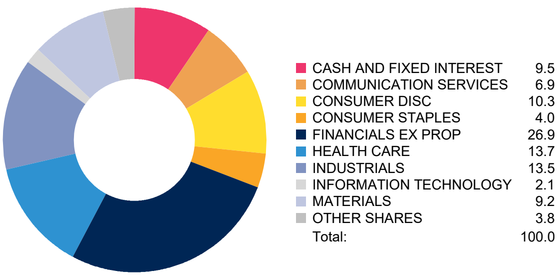
The Fund has two exclusion screens, with which we assess companies. A values-based exclusionary screen for involvement in certain activities, and a ESG exclusionary screen based on an evaluation of companies overall performance on ESG issues.

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:	April 2002
Size of Portfolio:	$606.91 million as at 30 Jun 2024
APIR:	PER0116AU
Management Fee:	1.18%*
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 Ltd	5.8%
Healius Limited	5.3%
GWA Group Limited	4.9%
National Australia Bank Limited	4.9%
EVT Limited	3.8%
Westpac Banking Corporation	3.8%
Deterra Royalties Ltd	3.7%
Medibank Private Ltd.	3.6%
Premier Investments Limited	3.6%
Pacific Current Group Ltd	3.3%

NET PERFORMANCE - periods ending 31 August 2024

	Fund	Benchmark #	Excess
1 month	-0.09	0.44	-0.54
3 months	6.29	5.55	+0.73
1 year	11.70	14.65	-2.95
2 year p.a.	10.68	11.77	-1.09
3 year p.a.	7.23	6.37	+0.87
4 year p.a.	14.86	11.53	+3.33
5 year p.a.	10.76	8.05	+2.71
7 year p.a.	8.41	9.23	-0.82
10 year p.a.	8.24	7.99	+0.25
Since incep.	10.82	8.41	+2.41

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

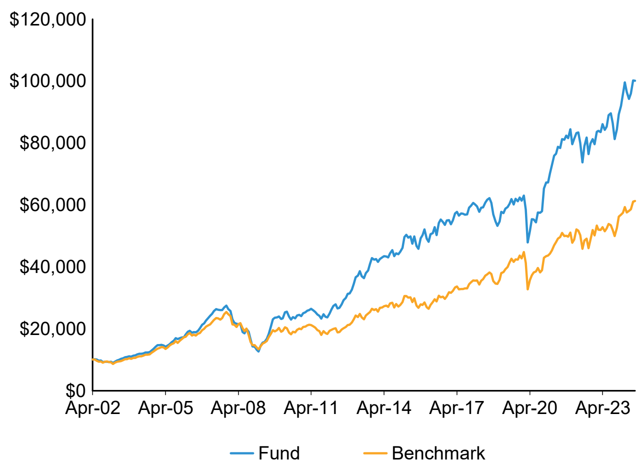
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	19.5	18.1
Dividend Yield*	3.3%	3.7%
Price / Book	2.1	2.2
Debt / Equity	31.7%	37.0%
Return on Equity*	10.3%	12.5%

^ 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 S&P/ASX300 Accumulation Index delivered a relatively flat return for August, masking a tumultuous month. Early in the month, recession fears spiked in the US due to weak data, including a contraction in the Purchasing Managers' Index and disappointing payroll numbers. The Bank of Japan's decision to raise rates to their highest level since 2007 triggered a sharp sell-off in the Nikkei 225, marking its worst decline since 1987. However, the market rebounded in the second week as data, including improved services PMI and jobless claims, alleviated recession concerns. Financials were the strongest performer, rising 1.85% and now representing 31.7% of the index. Technology also saw gains, up 7.2%, though it remains a smaller component of the index, contributing modestly. Industrials and Communications both rose by more than 3%. In contrast, concerns about slower growth in China weighed on materials and energy sectors, with energy falling 6.17% and materials dropping 1.7%.

PORTFOLIO COMMENTARY

A feature of this portfolio is that it applies Perpetual's ESG process and values-based investment criteria. The portfolio's largest overweight positions include Healius Limited, Insurance Australia Group Ltd and GWA Group Limited. Conversely, the portfolio's largest underweight positions include BHP Group Ltd (not held), Commonwealth Bank of Australia, and CSL Limited.

After a challenging period, Healius made a positive contribution to performance during reporting season, with the stock rising 10.60%. The company is showing signs of recovery under new management following a stretch of underperformance. Operational improvements in both Pathology and Imaging led to higher EBIT in the second half, resulting in a beat on expectations. This aligns with our earlier view that sustainable pathology margins would exceed consensus estimates. Looking ahead, we see further upside from the potential rationalisation of Healius' portfolio, including the sale of Lumus Imaging at a favourable price, possible capital returns, and topline growing stronger in FY 2025.

Premier Investments delivered strong performance during reporting season up 6.49%. This marks a period of very strong performance for the stock which has outperformed the broader market by more than 3 times, up 43.50%. Premier delivered record sales and operating EBIT ahead of consensus which was further supported from their stake in Breville which delivered a good result against a subdued consumer environment. PMV has been a cornerstone of our core retail investments, renowned for its quality business model, fortified by a robust net cash balance and overseen by engaged and experienced executive leadership. PMV's strategic review signals proactive measures to assess and potentially enhance the corporate, operating, and capital structure, reinforcing its commitment to sustained excellence. The upside in the business has been further exacerbated by the proposal for a combination of Myer and Premier's Apparel Brands business comprising Just Jeans, Jay Jays, Portmans, Jacqui E and Dotti. This could be materially beneficial for both businesses as additional quality sales are incorporated under a cheaper rental format and with strong retail management expertise. Although future outcomes remain uncertain, they are expected to reflect Premier's commitment to maintaining its high-quality standing in the market.

After a period of strong performance, A2 Milk detracted from results in August, with the stock declining by -21.93%. Despite this, it has still outperformed the broader market by 8.21% over the year. The company's results met both its guidance and consensus expectations and showed that A2 navigated the China label product transition well. However, concerns arose regarding a production disruption at its key supplier, Synlait, which provides 90% of A2 Milk's infant formula and holds critical licenses for importing these products into China. This triggered a significant sell-off due to concerns that A2 will miss sales into the crucial 2H CY24 which is expected to see a pick-up in births post-Covid. Although the production and supply chain issue appear to have been largely resolved at the time of writing, the stock price remains depressed. Nonetheless, we remain optimistic about A2 Milk, given its strong balance sheet, ongoing expansion into tier 2 and 3 cities in China, as well as it's entry into the U.S., all of which present substantial growth opportunities.

The overweight position in healthcare services and hospital operator Ramsay Health Care detracted from relative performance over August with the stock falling -10.59%. The Australian segment underperformed, with weaker EBIT margins, while the UK division showed strong revenue growth and a slight margin improvement. Ramsay Sante's performance was mixed, with higher-than-expected revenue but a small miss on margins. Looking ahead, challenges such as slower activity, rising costs, and pricing that lags inflation have led to downgrades for FY25 through FY27. While the company continues to perform better than unlisted peers, hospital indexation is less than required to offset wage pressure and FY25 guidance of some profit growth. On a positive note, Ramsay's gearing has returned to its target range, though interest costs remain high, limiting the immediate financial benefit. Future opportunities may arise from strategic reviews or market share gains, but downside risks like wage inflation and limited indexation from payors exists.

OUTLOOK

Despite markets recovering from the August turbulence, confidence remains fragile. Early September saw another decline in US stocks, particularly in the tech sector. After reaching $130 on August 19, Nvidia's share price dropped to $106 in early September, driven by weak manufacturing PMI data and a decrease in job openings, fuelling concerns about a slowing US economy. In Australia, GDP growth for the second quarter of 2024 was a mere 0.2%, marking the slowest expansion since the early 1990s, excluding the COVID period. GDP per capita fell for the sixth consecutive quarter. The economy has been propped up only by increased government spending and high migration rates, while consumers grapple with persistent inflation and elevated interest rates. Despite these challenges, markets remain near all-time highs, underscoring the need for continued vigilance.

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.

MORE INFORMATION

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