PERPETUAL ETHICAL SRI FUND (MANAGED FUND)

ASX code: GIVE

February 2022

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

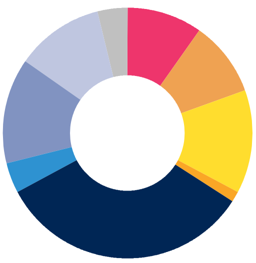
We seek to invest in quality companies that have satisfied our range of ethical and socially responsible investment criteria. Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research from external specialists 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.

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
National Australia Bank Limited	7.5%
ANZ Banking Group Ltd.	6.4%
Insurance Australia Group Limited	5.8%
Orora Ltd.	4.9%
Wesfarmers Limited	3.8%
Brambles Limited	3.7%
HT&E Ltd	3.5%
Medibank Private Ltd.	3.5%
Ferguson Plc	3.2%
Deterra Royalties Ltd	3.2%

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

NET PERFORMANCE - periods ending 28 February 2022

	Fund	Benchmark	Excess
1 month	2.18	2.09	+0.10
3 months	-0.22	-1.97	+1.75
FYTD	-	-	-
1 year	-	-	-
2 year p.a.	-	-	-
3 year p.a.	-	-	-
Since incep.	-0.41	-1.70	+1.29

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	15.1	16.0
Dividend Yield*	4.6%	4.3%
Price / Book	1.9	2.1
Debt / Equity	29.3%	34.9%
Return on Equity*	12.9%	13.4%

^ 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 portfolic and does not reflect the distributions to be determined for the fund.

* Forward looking 12-month estimate.

MARKET COMMENTARY

The Australian equity market remained resilient throughout February, managing to weather the Ukraine crisis-related sell-off to finish the month in front. Value stocks outperformed growth stocks, as Energy, Materials, and Consumer Staple sectors supported the market's advance. However, losses across the Consumer Discretionary, IT, and Telecom sectors impeded performance. Half-year corporate financial results released throughout February contributed to solid gains seen during the first half of the month and helped offset losses towards the end of the month. Inflation showed a key earnings theme with companies that demonstrated pricing power rewarded by investors. Other focus areas included Omicron-related impacts on trading conditions and guidance, as well as margin/cost pressures from labour shortages and supply chain constraints.

In local macro developments, the Australian wage price index rose in line with expectations but was still short of the pace required to prompt a more hawkish RBA. Business confidence data rebounded, signalling expectations of a short-lived Omicron setback, despite firms weighed down by its impact on consumer behaviour and staff shortages attributed to higher than usual annual leave and sick leave. The announcement of the reopening of the international border, however, assisted in boosting confidence. Strong Australian jobs data saw markets bump up interest rate hike expectations, with five now being priced-in for 2022 (that takes the cash rate to 1.25%). Nevertheless, the RBA Governor Lowe reiterated that the board is prepared to be patient on rates as it remains too early to conclude whether inflation is sustainably within its 2-3% target range.

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 Orora Ltd, Insurance Australia Group Ltd, and HT&E Ltd. Conversely, the Fund's largest underweight positions include CSL Ltd, BHP Group Ltd. (not held), and Commonwealth Bank of Australia.

The overweight position in lenders mortgage insurance provider Genworth Mortgage Insurance Australia Ltd (+23.5%) contributed to relative performance. The Genworth share price has hit a yearly high in late February after the lenders mortgage insurer reported a net profit after tax (NPAT) of $192.8 for calendar year 2021. The result was underpinned by a strong underwriting result of $295.8 million. The Genworth Board declared a fully franked final ordinary dividend of 12 cents per share and a fully franked special dividend of 12 cents per share, both payable to shareholders on 25 March.
The overweight position in insurance provider Insurance Australia Group Ltd (+9.9%) contributed to relative performance. The stock rallied on the back of reporting a solid set of half-year financial results. IAG posted cash earnings of $176m (vs consensus of $170.3m), and an underlying insurance margin of 15.1% (vs 15.9% from last year). Management also reaffirmed its reported insurance margin guidance of 10-12%, noting that it aligns with its aspirational goal of achieving a 15% to 17% margin over the medium term. The stock further benefitted from a favourable ruling by the Federal Court in a vital test case for insurers to largely reject Covid-related business interruption insurance claims.
The overweight position in salary packaging and fleet management services provider Smartgroup Corporation (+17.2%) contributed to relative performance. In February Smartgroup announced that net profit after tax for the 12 months ended 31 December was up 42 percent to $59 million, with revenues up 3 percent to $222 million. It will pay a special dividend of 30¢ per share to shareholders on 23 March, along with an increased final dividend of 19¢, up from 17.5¢ a year ago. Shares in the company climbed 11 percent to $8.19 in the immediate aftermath.

Not holding Westpac Bank (+12.4%) detracted from relative performance. The stock rallied following the release of its December-quarter results. Westpac announced an unaudited statutory net profit of $1.82b, up 80% on the quarterly average for 2H2021. Unaudited cash earnings of $1.58b increased 74% (up 1% excluding notable items). Its net interest margin of 1.91% declined 8 basis points, and expenses declined 26% (down 7% excluding notable items). The 1% rise in cash earnings (excluding notable items) primarily reflected lower expenses and a strong contribution from Treasury and Markets.
Not holding BHP Group (+5.4%) contributed to relative performance. Investors were impressed with the company's half-year financial results released in February. Assisted by higher iron ore prices, revenue from continuing operations increased 27% to US$30.527b, total revenue rose 32% to US$33.784b, Underlying EBITDA was up 46% to US$21.381b, and Underlying EBITDA from continuing operations up 33% to US$18.463b. The board also delivered a payout ratio of 78% for the first half, much higher than its minimum policy of 50%.

OUTLOOK

After the recent shakeout in equities from rate rise fears, the invasion of Ukraine has further dented confidence. The shock of war will have a negative effect on confidence and economic activity, mainly in Europe. This will ripple, to varying degrees, out to the world. Sanctions have an even greater potential to disrupt capital movement and key resources, especially Russian energy production. A rising global oil price acts as a tax or interest rate hike on the global economy. The financial sanctions will also bite specific sectors hard. The only thing we really know for certain is that these sanctions are the toughest ever imposed on a country and are likely to be in place for the foreseeable future. This all adds to the existing supply chain and inflation problem that besets the global economy. By and large Australian equities offer some natural protection for investors. We are far removed from the events of Ukraine itself. The Australian economy is also in much better shape than most of the rest of the world, having avoided the worst of Covid. Business confidence is beginning to build again and inflation, whilst a significant problem in the US and Europe, has been more contained here. But it will rise. There is always risk of some unexpected 'contagion', like unknown Russian financial exposures, although these are likely to be more of a problem in Europe than Australia. Despite these challenges and uncertainty in markets that lay ahead, we remain consistent in our investment approach.

MORE INFORMATION

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