PERPETUAL ETHICAL SRI FUND (MANAGED FUND)

ASX code: GIVE

March 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

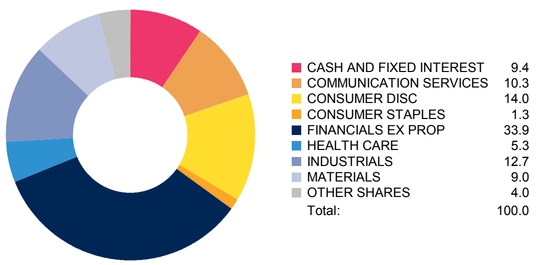
We seek to invest in quality companies that have satisfied our range of ethical and socially responsible investment criteria. Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research from external specialists 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	7.3%
ANZ Banking Group Ltd.	6.2%
Insurance Australia Group Limited	5.7%
Orora Ltd.	4.1%
Wesfarmers Limited	3.9%
Brambles Limited	3.9%
Medibank Private Ltd.	3.8%
HT&E Ltd	3.6%
Commonwealth Bank of Australia	3.4%
Deterra Royalties Ltd	3.4%

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

NET PERFORMANCE - periods ending 31 March 2022

	Fund	Benchmark	Excess
1 month	2.70	6.90	-4.20
3 months	-1.18	2.08	-3.27
FYTD	-	-	-
1 year	-	-	-
2 year p.a.	-	-	-
3 year p.a.	-	-	-
Since incep.	2.27	5.08	-2.81

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	15.5	16.6
Dividend Yield*	4.6%	4.1%
Price / Book	1.9	2.2
Debt / Equity	30.5%	34.3%
Return on Equity*	12.8%	13.8%

^ 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

The Australian equity market strengthened over the March quarter, supported by the Resources sector as energy and metals prices soared to multi-year and record highs amid concerns that the Ukrainian war and associated sanctions would curtail supply. While volatility was elevated, the market remained relatively resilient against a backdrop of geopolitical tensions, trade restrictions, supply disruptions, and heightened inflationary pressure. Value stocks outpaced growth stocks, as the IT sector sold off heavily early in the quarter despite seeing a strong rally in March. The Health Care and Consumer Discretionary industries were also heavily impacted as trading updates highlighted margin pressures from supply chain disruptions. Solid half-year corporate financial results released throughout February, however, helped offset losses incurred at the beginning of the quarter.

Coronavirus news dominated headlines in January, though there was no significant shift in the narrative. The Omicron variant intensified the pressure on already-strained supply chains, while isolation requirements exacerbated worker shortages and adversely impacted business confidence and conditions. The announcement of the reopening of the international border assisted in boosting confidence, though consumers appeared more reactive to the war in Ukraine, rising inflation, and interest rate developments. Finally, there were few surprises in the Federal Budget, which included new spending and income support to ease cost-of-living pressures.Robust jobs data saw markets increase interest rate hike expectations, with five now priced in for 2022. While the RBA left policy settings unchanged throughout the quarter, it reiterated the possibility of an interest rate rise in 2022 as inflation picked up more quickly than expected and acknowledged the risk of waiting too long to raise rates.

PORTFOLIO COMMENTARY

The Fund's largest overweight positions include CSL Limited, Fletcher Building Limited, and Costa Group Holdings Ltd. The Fund's largest underweight positions include Commonwealth Bank of Australia, National Australia Bank Limited, and Westpac Banking Corporation, all of which are not held by the Fund.

The overweight position in commercial explosives and fertiliser manufacturing company, Incitec Pivot (+17.0%) contributed to relative performance. The stock rose throughout the quarter after announcing its intention to acquire Explinvest from Titanobel Group for about A$142m, funded from its existing cash and debt reserves. The company also announced the appointment of a new chief financial officer with significant global experience. This contributed to multiple brokers upgrading their target price over March, which further assisted the stock price.
The overweight position in casino operator Crown Resorts (+6.7%) contributed to relative performance. The stock ended the quarter higher after receiving a revised non-binding proposal from Blackstone to acquire the company at $13.10/share (up from its prior offer of $12.50). The Revised Proposal is subject to the same conditions announced by Crown last November, including (but not limited to) completing further due diligence, unanimous support and recommendation by the Crown board, execution of a binding implementation agreement, and Blackstone receiving final approval from casino regulators.
The overweight position in National Australia Bank (+12.2%) contributed to relative performance. The stock price befitted from its December-quarter trading update, reporting a cash earnings increase of 12% compared with the quarterly average of 2H2021. The company noted that its asset quality remained benign and good momentum has continued despite the environment remaining competitive. Volumes have been strong over the quarter with lending and deposits each up $18 billion. In Australia, over the three months to December 2021, home lending was reported to have grown by 2.6% and SME business lending increased 3.4%.

The overweight position in online betting and gaming provider Flutter Entertainment Plc (-28.9%) detracted from relative performance. The company reported a full-year Adjusted EPS of 252.7p (vs consensus of 275.7p), on revenue of £6.04B (vs consensus of £5.98B), and an adjusted EBITDA of £1.00B (vs consensus of £1.01B). Management also reported that trading in the first seven weeks of 2022 had been in line with expectations, with Group revenue up +2% y/y, reflecting strong comparatives which benefited from very favourable sports results. Management anticipated revenue growth to accelerate as 2022 progresses, reflecting the phasing of sports margin comparables and safer gambling measures taken in 2021.
Not holding Westpac Bank (+13.5%) 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.

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. Despite these challenges and uncertainty in markets that lay ahead, we remain consistent in our investment approach.

MORE INFORMATION

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