PERPETUAL ETHICAL SRI FUND (MANAGED FUND)

ASX code: GIVE

June 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

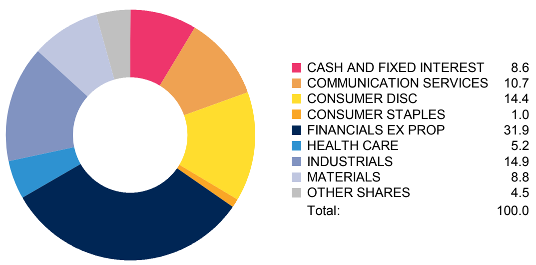
We seek to invest in quality companies that have satisfied our range of ethical and socially responsible investment criteria. Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research from external specialists 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
Insurance Australia Group Limited	7.3%
National Australia Bank Limited	6.7%
ANZ Banking Group Ltd.	6.3%
Brambles Limited	5.0%
Medibank Private Ltd.	4.9%
Wesfarmers Limited	4.5%
Bapcor Ltd	4.1%
Orora Ltd.	4.0%
Deterra Royalties Ltd	3.6%
Event Hospitality & Entertainment Ltd.	3.4%

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

NET PERFORMANCE - periods ending 30 June 2022

	Fund	Benchmark	Excess
1 month	-7.79	-8.97	1.18
3 months	-11.13	-12.22	1.09
FYTD	-	-	-
1 year	-	-	-
2 year p.a.	-	-	-
3 year p.a.	-	-	-
Since incep.	-9.11	-7.76	-1.34

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	12.7	12.6
Dividend Yield*	5.4%	5.2%
Price / Book	1.6	1.8
Debt / Equity	35.5%	31.8%
Return on Equity*	12.7%	15.0%

^ 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 declined over the June quarter as inflation and interest rate news dominated headlines. The market retreated following the consecutive interest rate rises in May and June, which saw the cash rate climb a total of 75 basis points to 0.85%, prompted by a significant increase in inflation and expectations of its continued upward trajectory.

Equities started the quarter on a positive note, with performance underpinned by continued strength in mining and energy stocks as commodity prices remained elevated by the fallout from Russia's invasion. Rising volatility, however, saw the market hand back its earlier gains. The spike in gas and electricity prices contributed to near-term inflation expectations. At the same time, consumer confidence fell to its lowest level since Sep-2020 amid concerns over the Ukrainian war, east coast flooding, and cost pressures. Fuel and food prices compounded inflationary pressures from supply and labour shortages and strong consumer demand. Consumer Discretionary stocks, however, were adversely affected as the aggressive RBA tightening cycle clouded corporate earnings outlooks. Confidence deteriorated with indebted Australians facing cost-of-living headwinds, which prompted warnings of a pullback in discretionary spending. Consumer staples similarly lost ground amid concerns of cost inflation and pervasive supply chain constraints.

The latest bond yield backup coincided with steep falls in high-growth pockets of the market, particularly across tech stocks, which took a beating over the quarter. Commodity producers also sustained significant losses following the reimposition of Covid restrictions in China. The banks took a steep dive later in the quarter after executives and regulatory officials flagged challenges related to the housing market / construction sector and warned of likely stresses on borrowers from rising rates. The Energy sector, however, finished ahead, supported by rallying crude oil prices. Market sentiment, nevertheless, remained fraught as the increasingly hawkish central bank policy pivot continued to drive concerns of an economic hard landing.

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, Medibank Private 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 supply chain services provider Brambles (+8.1%) contributed to relative performance. The stock rallied sharply upon release of the company's nine-month trading update, reporting sales revenue of $4.07B, vs $3.79B from last year. It also upgraded its FY2022 guidance to reflect sales revenue growth of 8-9% (previous guidance of 6-8%) and underlying profit growth of 6-7% (previous guidance of 3-5%), including ~$50M of short-term transformation costs. Its FY2022 dividends are expected to be in line with its policy to pay out 45-60% of underlying profit after finance costs and tax.
The overweight position in insurance provider Insurance Australia Group Ltd (-0.5%) contributed to relative performance. The stock was supported after received regulatory approval for the sale of AmGeneral Holdings Berhad (the Malaysian business in which it holds a 49% interest). The completion of the deal is conditional on the Malaysian High Court approving a capital reduction and distribution to IAG of its share of the sale proceeds. The sale proceeds will be ~$340M and is expected to result in a net loss after tax of ~A$90M, though it will improve its regulatory capital position by ~A$150M at completion.
The overweight position in packaging manufacturer Orora (+1.1%) contributed to relative performance. The stock price received a bump after issuing its investor presentation during the quarter, reporting that its positive operating and earnings momentum has continued post H1. Orora's FY2022 outlook sees its EBIT growth expected for the Australasia Beverage business in 2H22, with EBIT to be broadly in line with FY21. In North America, 2H22 EBIT is expected to be up year-on-year with continued strong earnings growth for the full year. Total Dividend was also guided to be towards the top end of its target 60%-80% payout range.

The overweight position in Australia and New Zealand media and online publishing company HT&E (-41.5%) detracted from relative performance. The stock sold-off throughout the quarter in line with the broader consumer services sector, despite the absence of any adverse material news flow directly affecting the company. We continue to hold the stock in the portfolio as we believe the market is now significantly undervaluing the company.
The overweight position in retail outlet investment company Premier Investments Ltd (-28.3%) detracted from relative performance. The stock sold off with the broader discretionary retail sector on rising interest rates and inflationary concerns. CLSA upgraded the stock to outperform from underperform. However, it decreased its target price to $25.75 from $28.25. Citi also upgraded Premier to a 'buy' from 'neutral,' though decreased its target price to $29 from $30.80. This came as US retail giants Target and Walmart released a disappointing quarterly earnings report, further dampening sentiment for local retail stocks.

OUTLOOK

We have long believed that markets are poised for further rotation to a more value-oriented investment environment as Covid disruptions, waning stimulus, and war combine to keep consumer price inflation at high levels. Until June this year, equity markets were resilient in the face of the rate hikes, but bond markets have priced in tighter monetary policy much more aggressively. Historically, when the bond market and equity market disagreed, the bond market was usually correct. In our view, rising bond yields will eventually lead overpriced growth stocks into a more sustained and overdue correction, challenging investors with large growth exposures. We think, in the years ahead, 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. 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.

MORE INFORMATION

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