

# PERPETUAL ETHICAL SRI FUND (MANAGED FUND)

ASX code: GIVE

August 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

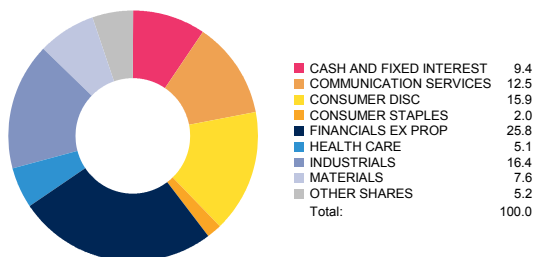
We seek to invest in quality companies that have satisfied our range of ethical and socially responsible investment criteria. Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research from external specialists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

<b>Benchmark:</b>	S&P/ASX 300 Accum. Index
<b>Inception date of strategy:</b>	April 2002
<b>ASX commencement date:</b>	29 November 2021
<b>Distribution Frequency:</b>	Half-Yearly
<b>Management Fee:</b>	0.65%*
<b>Performance Fee:</b>	15 % of outperformance*
<b>Investment style:</b>	Active, fundamental, bottom-up, value
<b>Suggested minimum investment period:</b>	Five years or longer

## PORTFOLIO SECTORS



## TOP 10 STOCK HOLDINGS

	% of Portfolio
Insurance Australia Group Limited	7.3%
National Australia Bank Limited	5.7%
Brambles Limited	5.4%
Wesfarmers Limited	4.7%
ANZ Banking Group Ltd.	4.3%
Bapcor Ltd	4.2%
Event Hospitality & Entertainment Ltd.	3.6%
Telstra Corporation Limited	3.5%
Deterra Royalties Ltd	3.3%
Orora Ltd.	3.3%

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

## NET PERFORMANCE - periods ending 31 August 2022

	Fund	Benchmark	Excess
1 month	3.20	1.18	2.02
3 months	1.97	-2.41	4.38
FYTD	10.58	7.20	+3.38
1 year	-	-	-
2 year p.a.	-	-	-
3 year p.a.	-	-	-
Since incep.	0.51	-1.12	1.63

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

## PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	14.1	14.1
Dividend Yield*	4.9%	4.6%
Price / Book	1.7	1.9
Debt / Equity	31.3%	31.2%
Return on Equity*	12.3%	14.1%

<sup>^</sup> 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 finished higher for the second month in a row as FY2022 corporate earnings were reported. The Resources sector outperformed on stronger-than-expected results, spurred by M&A activity and a recovery in commodity prices and record cash flows over the past year. The Energy sector rallied amid the prospect of OPEC+ announcing more production cuts, while mining producers impressed despite underlining concerns about the outlook for steel demand. Rate-sensitive pockets, however, weakened amid the increase in bond yields, with Real Estate and Tech stocks among those falling. Underwhelming earnings adversely impacted the Financials as interest rate increases led to a slowdown in housing credit growth and rising term deposit rates pressured profit margins. The Consumer Staples sector bore the brunt of the selling after results from food and grocery stocks confirmed headwinds from inflation, while M&A activity underpinned strengthening Telco performance during August.

Market sentiment was supported by an unexpected rebound in business confidence and conditions in July, indicating that demand remained resilient in the face of economic headwinds. However, the more significant market issue remains the outlook for monetary policy after central bankers emphasised that they are a long way from a policy pivot. The RBA upgraded its inflation forecasts, with headline CPI projected to hit 7.75% by end-2022 without falling back to the 2-3% target band until at least the end of 2024, when supply chain constraints ease and commodities stabilise. At the same time, the global economy continues to face headwinds from restrictive monetary policy and a northern hemisphere energy crunch. GDP growth was forecast to slow next year as cost pressures weighed on household consumption, however, the near-term outlook for employment was revised upwards. The sales, profitability and employment sub-indexes all strengthened, yet inflation pressures were evident with purchase costs and capacity utilisation hitting record highs and retail sales prices increasing.

## 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 Australia and New Zealand media and online publishing company HT&E (+17.3%) contributed to relative performance. The stock price rose throughout the month on the back of its stronger-than-expected financial results. Management reported a first-half NPAT of \$26.4M vs \$16.3M from last year, beating consensus of \$20.9M. Revenue of \$172.0M was broadly in line with consensus, and Adjusted EBITDA of \$48.5M beat consensus of \$47.5M. HT&E also declared a fully franked interim dividend of 5 cents per share, up 43% from its FY21 interim dividend.

The overweight position in salary packaging, vehicle leasing, and administration services provider McMillan Shakespeare (+16.1%) contributed to relative performance. The stock rose sharply upon release of its full-year financial results, reporting normalised revenue of \$594.3M, up 9.2% compared to the prior corresponding period (pcp). Statutory NPAT grew by 15.2% on the pcp to \$70.3M, and its final dividend was increased by 154%. Going forward, McMillian announced that it will return between 70% and 100% of underlying profit to shareholders in the form of dividends, up from 66% in the pcp.

The overweight position in dairy producer A2 Milk Company (+22.2%) contributed to relative performance. During the month, the company reported a 19.8% increase in its full-year FY2022 revenue to NZ\$1.446.2M, leading to a 42.3% jump in net profit after tax to NZ\$114.7M and beating the market consensus estimate of NZ\$113.9M. This was driven mainly by double-digit infant formula sales growth from both its China and English label products, reflecting A2's significant increase in marketing investment, which prompted further gains in brand health metrics and record market shares. Investors were further pleased with the announcement of a NZ\$150M on-market share buyback.

Not Holding iron ore miner BHP Group (+5.0%) detracted from relative performance. The stock rose after investors responded positively to the miner's full-year financial results. BHP reported a 16% increase in underlying EBITDA from continuing operations to a record US\$40,634 million, primarily driven by its coal operations which delivered significant earnings growth due to higher oil prices. This offset weaker iron ore earnings resulting from softer iron ore prices. The solid results allowed BHP to declare a fully franked final dividend of US\$1.75 per share, taking its full-year dividend to US\$3.25.

## 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.

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 Ethical SRI 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 and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website [www.perpetual.com.au](http://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

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email [investments@perpetual.com.au](mailto:investments@perpetual.com.au)

[www.perpetual.com.au](http://www.perpetual.com.au)

