PERPETUAL ESG AUSTRALIAN SHARE FUND (MANAGED FUND)

ASX code: GIVE

January 2023

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

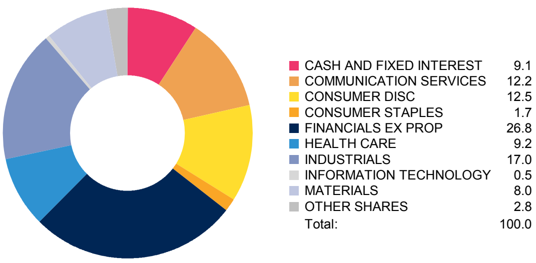
We seek to invest in quality companies that represent the best investment quality, are appropriately priced and meet Perpetual's ESG and values-based criteria. Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research 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 Ltd	7.6%
National Australia Bank Limited	6.0%
Brambles Limited	5.2%
Telstra Group Limited	4.1%
Bapcor Ltd	4.0%
Medibank Private Ltd.	4.0%
ANZ Banking Group Ltd.	3.8%
Deterra Royalties Ltd	3.6%
Healius Limited	3.5%
Ferguson Plc	3.4%

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

NET PERFORMANCE - periods ending 31 January 2023

	Fund	Benchmark	Excess
1 month	5.07	6.29	-1.22
3 months	5.01	9.46	-4.45
FYTD	13.66	16.51	-2.86
1 year	6.00	11.61	-5.61
2 year p.a.	-	-	-
3 year p.a.	-	-	-
Since incep.	2.82	6.34	-3.53

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	14.8	15.0
Dividend Yield*	4.7%	4.3%
Price / Book	1.8	2.0
Debt / Equity	31.8%	31.8%
Return on Equity*	12.5%	14.2%

^ 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 equities market had a stellar start to the 2023 calendar year, with strong January performance underpinned mainly by traction behind the disinflation narrative, a rise in soft landing expectations, and hopes for a near-term Federal Reserve pause (and pivot later in 2023). Reopening momentum across China following signs that its latest Covid wave had peaked also helped boost investor sentiment throughout the month. All but one sector (Utilities) ended higher, with Consumer Discretionary, Materials, and REITS being the standout performers. Commodity producers also outperformed amid gains in iron ore following the latest policy support headlines out of China.

December quarter inflation came in hotter-than-expected, with data rising to its highest level since 1990 and trimmed mean inflation climbing to its highest point since the ABS first published this data in 2003. The main contributors to the rise were holiday travel, accommodation, and electricity, leading to expectations that the RBA will hike the cash rate by 25 bp to 3.35% in February. China's reopening momentum also threatened to increase global pricing pressures. While goods inflation showed signs of moderating, services inflation proved stickier with the economy still experiencing a tight labour market. This came as Australian home prices fell 1.0% m/m in January, a slight improvement on December's 1.1% drop.

Australian consumer confidence continued to recover from its lowest reading since April 2020. Retail sales, however, registered its largest fall in a year during December, breaking a run of 11 consecutive gains, and widely attributed to heightened cost of living pressures. The data led markets to peel back the projected peak cash rate to 3.7% from 3.8%, and while a February rate increase is fully priced in, markets pushed out expectations of a follow-up rate hike from March to May.

PORTFOLIO COMMENTARY

A feature of this Fund is that it applies Perpetual's ESG process and values-based 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, BHP Group Ltd (not held), and Commonwealth Bank of Australia.

The overweight position in retail outlet investment company Premier Investments Ltd (+15.2%) contributed to relative performance. The stock price was assisted after being upgraded to 'overweight' from 'equal-weight' by Morgan Stanley, which also increased its target price to $30.50 from $23.25, representing a 15% upside to its price at the time of the upgrade. The stock was further supported later in the month as Bank of America initiated coverage of the stock, assigning a 'buy' recommendation with a target price of $34.30, representing a 25% upside.
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The overweight position in Australia and New Zealand media and online publishing company HT&E Ltd (+16.1%) contributed to relative performance. The stock price received a significant boost after the company announced it had signed a binding share sale agreement to sell its ~25% interest in Soprano Design Limited to Potentia Capital, a leading Australian technology-focused private equity firm. Under the agreement, HT&E will receive ~$66.3M in cash as consideration for the sale. The transaction is conditional upon receiving FIRB approval.

The overweight position in supply chain services provider Brambles (-0.7%) detracted from relative performance. The stock ended marginally lower over January in the absence of any price-sensitive announcements made by the company. Brambles had previously reported (in late November) that it had entered into an agreement to sell an 80% stake in its pallet and automotive pooling operations business CHEP China to Loscam (Greater China) Holdings for an enterprise value of $132.2M.
The overweight position in motor vehicle equipment, parts, and servicing supplier Bapcor Ltd (-1.5%) detracted from relative performance. The stock fell abruptly during the month after being downgraded by Morgan Stanley to 'underweight' from 'equal-weight,' and its target price cut to A$6 from A$7 (representing an 11% downside to its price at the time of the downgrade). The broker cited caution on its transformation project, difficult macro conditions affecting margins, and higher market expectations from past COVID tailwinds.

OUTLOOK

Economic conditions will continue to evolve, and uncertainty will continue to manifest in markets. The central banks' aggressive attempt to rein in inflation expectations will cause unintended consequences in both economies and the markets. Because central banks have no influence on the supply of goods and materials, they also cannot influence the willingness of companies to invest in expanding supply in response to higher prices. This hesitancy is mostly due to companies seeing this as a significant pull forward of demand from fiscal and monetary largesse. We see the only influence central banks can have is on demand, and to achieve a reduction in demand, we will see a tightening in liquidity and financial conditions. This will force many companies to face up to this new reality with many early phase/profitless companies not surviving.

We have long believed that markets are poised for further rotation to a more value-oriented investment environment as COVID-19 disruptions, waning stimulus, and war combine to keep consumer price inflation at high levels. However, we must also be willing to pivot the portfolio when the markets are pricing in overly aggressive rate expectations. With fear of a deep and long recession, this will be factored into markets, providing opportunities to redeploy capital. In these conditions, our focus on value-style investing and 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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