

PERPETUAL ESG AUSTRALIAN SHARE FUND (MANAGED FUND)

ASX code: GIVE

May 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

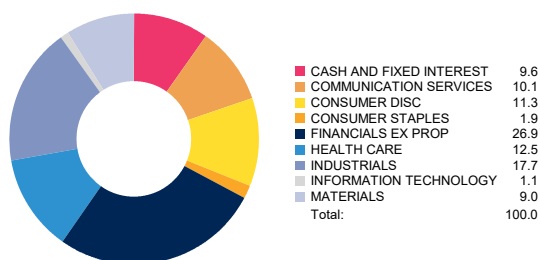
We seek to invest in quality companies that represent the best investment quality, are appropriately priced and meet Perpetual's ESG and values-based criteria. Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research 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	6.6%
National Australia Bank Limited	5.6%
Healius Limited	4.9%
Bapcor Ltd	4.6%
Medibank Private Ltd.	4.3%
Ferguson Plc	4.0%
Reliance Worldwide Corp. Ltd.	3.7%
Helia Group Limited	3.7%
CSL Limited	3.7%
Orora Ltd.	3.6%

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

NET PERFORMANCE - periods ending 31 May 2023

	Fund	Benchmark	Excess
1 month	-2.25	-2.53	0.28
3 months	0.39	-0.96	1.36
FYTD	14.48	12.45	+2.04
1 year	5.57	2.37	+3.20
2 year p.a.	-	-	-
3 year p.a.	-	-	-
Since incep.	2.69	2.47	0.22

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	14.3	14.4
Dividend Yield*	4.8%	4.5%
Price / Book	1.8	1.9
Debt / Equity	30.4%	33.9%
Return on Equity*	13.2%	13.7%

^ 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 ended the month weaker, with May defined by a return to favour of growth and momentum equities, driven by a belief that the central banks were near the end of their tightening cycle and rising hopes of a "soft landing" in the global economy. This was despite the US debt ceiling crisis casting a cloud over the second half of the month. Signs of strength were evident across the economy: Australian housing market valuations rose (with national home prices rising in March and April after 10 straight months of falls), March housing finance soared +4.9% vs -0.3% consensus, better than expected job advertisements and March retail sales beat expectations. A budget surplus of \$4.2 billion for 2022/23 was handed down on 9 May. Massive downward revisions to the deficit over recent months were driven by booming jobs and commodity prices. Some market economists thought the \$14.6 billion in cost-of-living assistance in the budget added incrementally to fears of further rate hikes.

A string of softer numbers later in the month, including the May Westpac consumer sentiment index (which dropped from 85.8 to 79), a slight uptick in unemployment from 3.5% to 3.7%, and flatter retail numbers for April appeared to make the case for a rate pause stronger. However, hotter wages growth (3.7% in Q1 vs 3.6% prior) and fears that the Fair Work Commission would sign off on record wage rises in June presaged a shock inflation read for April of +6.8%, way above consensus of +6.4% and well above the +6.3% reported in March. This all but sealed the case for further tightening by the RBA. It has not escaped our notice that despite the exuberance of growth equities, bond yields have also been rising through the month, hinting at more inflation or growth in contrast to hopes of lower interest rates from long duration equities.

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, Healius Ltd, and Bapcor Ltd. Conversely, the Fund's largest underweight positions include Westpac Banking Corporation (not held), BHP Group Ltd (not held), and Commonwealth Bank of Australia.

The overweight position in insurance provider Insurance Australia Group Ltd (+4.2%) contributed to relative performance. The stock finished higher after being upgraded to 'overweight' from 'neutral' at JPMorgan, with its target price increased to A\$5.75 from A\$5, representing a 20% upside to its price at the time of the upgrade.

The overweight position in healthcare technology solutions provider Healius (+5.7%) contributed to relative performance. During the month, the Healius Board unanimously decided to recommend that Healius shareholders reject an unsolicited, all scrip takeover offer received from ACL on 20 March 2023 (the ACL Offer). The Healius Board believes that the ACL Offer is plainly inadequate, highly conditional and highly uncertain. The Healius Board reiterated that it is not opposed to engaging in discussions with ACL, or another party, in relation to a control transaction or merger proposal that is in the best interests of Healius shareholders.

The overweight position in Helia Group (+4.4%) contributed to relative performance. The company reported during the month a substantial decline in Q1 GWP compared to the previous year. According to their Q1 trading update, the Gross Written Premium (GWP) was affected by soft new loan commitments and the First Home Guarantee scheme, and net claims incurred remain negative. However, Helia was able to achieve an NPAT of A\$106.7M, which represents a significant increase from the previous year's figure of A\$17.6M. Despite the GWP decreasing to A\$51.0M from A\$106.4M year-over-year, they were able to achieve an underwriting result of A\$81.4M, which is a decrease from A\$106.6M year-over-year. Their NEP is A\$94.0M, which is slightly lower than the year-ago figure of A\$108.3M.

The overweight position in lighting, ceiling fans, and light globes retailer Beacon Lighting Group (-13.9%) detracted from relative performance. The stock continued to weaken during May despite the absence of any material firm-specific news releases over the month. We still see the stock as being attractively priced and trading at a significant discount to its intrinsic valuation. We continue to hold stock in an overweight position within the Fund.

The overweight position in retail outlet investment company Premier Investments Ltd (-13.9%) detracted from relative performance. The stock fell on the back of signals of a deteriorating consumer environment from Apr/May-23, as discretionary retail conditions deteriorated in April/May-23, evidenced by four listed retail updates showing sales, on average, moving from -1% y/y in January/February 2023 to -14% y/y in March-May 2023.

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.

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 ESG Australian Share 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 (including any supplementary PDS) and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website 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

www.perpetual.com.au

