# PERPETUAL ESG AUSTRALIAN SHARE FUND (MANAGED FUND)

# ASX code: GIVE

June 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

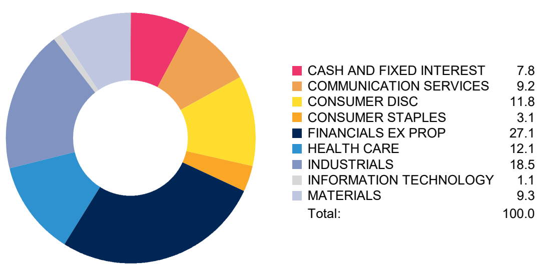
We seek to invest in quality companies that represent the best investment quality, are appropriately priced and meet Perpetual's ESG and values-based criteria. Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research 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 | 7.1% |
| National Australia Bank Limited | 6.3% |
| Healius Limited | 4.8% |
| Bapcor Ltd | 4.5% |
| Ferguson Plc | 4.1% |
| Deterra Royalties Ltd | 3.9% |
| Medibank Private Ltd. | 3.7% |
| Reliance Worldwide Corp. Ltd. | 3.6% |
| EVT Limited | 3.5% |
| Brambles Limited | 3.4% |

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

## NET PERFORMANCE - periods ending 30 June 2023

| | Fund | Benchmark | Excess |
|---|---|---|---|
| 1 month | 1.42 | 1.73 | -0.31 |
| 3 months | 2.24 | 0.99 | 1.25 |
| FYTD | 16.11 | 14.40 | +1.71 |
| 1 year | 16.11 | 14.40 | +1.71 |
| 2 year p.a. | - | - | - |
| 3 year p.a. | - | - | - |
| Since incep. | 3.46 | 3.45 | 0.01 |

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

## PORTFOLIO FUNDAMENTALS^

| | Portfolio | Benchmark |
|---|---|---|
| Price / Earnings* | 14.7 | 15.3 |
| Dividend Yield* | 4.7% | 4.3% |
| Price / Book | 1.9 | 1.9 |
| Debt / Equity | 35.4% | 35.1% |
| Return on Equity* | 13.1% | 13.4% |

^ 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 S&P/ASX300 Accumulation Index rose +1.0% during the quarter ending June. Equity markets stabilised and rallied through April. The RBA paused its rate hike cycle as it sought to assess the impact of recent monetary tightening. March employment surged 53,000, more than double consensus and kept the unemployment rate at a record low level of 3.5%. Meanwhile an expert review of the RBA recommended a new expert policy board be established, that the RBA Governor holds regular press conferences, board members be allowed to speak publicly and that it would maintain its inflation target of 2-3%. Early May was defined by growth stock momentum, 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. Signs of strength were evident across the economy: Australian housing market valuations rose, March housing finance soared, better than expected job advertisements and March retail sales beat expectations. This was despite the US debt ceiling crisis casting a cloud over the second half of the month. Confidence resumed in June as the US debt ceiling crisis resolved and China’s Caixin manufacturing index expanded more than expected. Australian home prices accelerated in May at a faster pace than March and April. Meanwhile the Fair Work Commission announced a hike to minimum wages of 5.75% but also an 8.7% hike for those on the lowest rate. All this bullish data added to creeping expectations of a rate hike however, which the RBA duly delivered on the 6th of June when it lifted the cash rate by 0.25% to 4.10%, sending equities into a spin. Bond yields ratcheted higher through the quarter, with the yield curve becoming fully inverted in late June. Despite some equity momentum in mid June the rally faded towards the end of the month as commodity prices softened and hopes around China stimulus faded. In the US Fed Chair Powell reiterated that more rate hikes were likely and European central banks delivered outsized rate rises, putting paid to the idea that the monetary tightening was over. A softer inflation read for May (5.6% versus 6.1% consensus and 6.8% in April) provided some hope of a reprieve from the RBA but concerns about sticky inflation remain and retail sales for May came in at a solid 0.7% versus 0.1% expected. The IT sector surged 21% over the quarter, far outpacing the broader benchmark.

## PORTFOLIO COMMENTARY

The Fund’s outperformed the market over the June quarter despite a resurgence in growth and momentum stocks for much of the period as markets became enraptured with all things AI.

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 BHP Group Ltd (not held), Commonwealth Bank of Australia  and Westpac Banking Corporation (not held).

IAG was the biggest contributor to performance in the June quarter (+21.5%). IAG is our largest overweight position, and the stock has been a beneficiary of rising insurance premiums. Rising interest rates are also a tailwind for the business as it translates into higher investment returns on their balance sheet. Whilst insurance margins have been improving, we believe there is more upside here. Suncorp’s focus on cost efficiencies has delivered superior profitability. We think there is a substantial upside to IAG if it was able to target a similar level of operating efficiency. IAG’s renewed focus on capital management, re-instating the share buyback at the end of May, has also helped bolster the share price.
McMillan Shakespeare rallied strongly during the June quarter (+25.4%). We think the fleeting leasing company has a few tailwinds including supportive organic growth, a net cash balance sheet and a high payout ratio. In addition, the business will generate some supernormal profits from the unwinding of its order book. The announcement that Eager Automotive had acquired 5.7% of stock helped push the stock up during the quarter.

Premier Investments (-19.77%) detracted during the June quarter as investors worried about the state of the consumer. The impact to the portfolic was mitigated with our relatively modest overweight position. Premier remains arguably the best discretionary retailer in the market led by Chairman Solomon Lew and CEO Richard Murray (ex JB Hi Fi). A staple core of well-established brands (Portmans, Dotties, Just Jeans, Jay Jays and Jacquie) is complemented by two fast growing and high margin businesses in Smiggle and Peter Alexander. There is an additional margin of safety for our investors in the form of cash (~$470 million) and stakes in Myer and Breville, which take its cash and securities holdings to well over $1 billion, which is approximately a third of market cap.

## OUTLOOK

The economic and market outlook remains uncertain as central banks around the world continue to tighten monetary policy to bring “stickier” core inflation back down to lower levels. At the same time aggressive rate rises run the risk of tipping the economy into recession. Despite this equity market indices remain relatively sanguine and we think there are risks to the downside, especially in cyclical sectors with markets yet to yet to fully price any downturn in earnings over the year ahead. There is still the possibility of a “soft landing” or even “no landing” economic scenario due to the resilience of consumers and strength of labour markets, buttressed by years of stimulus of emerging structural shortages. The challenge to this thinking is that it would likely come at the cost of core inflation embedding even more. This would necessitate even higher interest rates. So far during this cycle central banks have consistently underestimated the extent of underlying inflation. Furthermore in a world of rising geopolitical risks, de-globalisation and pressure to decarbonise through higher cost renewable energy, we still believe the risks of higher structural inflation remain. Our quality and value process continues to point us towards a range of reasonably priced businesses with solid balance sheets and good prospects able to deliver long term returns with lower than market risk.



## MORE INFORMATION

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