

PERPETUAL ESG AUSTRALIAN SHARE FUND (MANAGED FUND)

ASX code: GIVE

March 2024

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

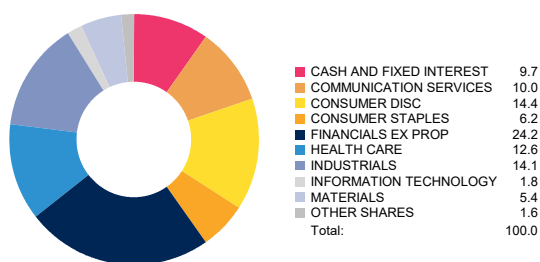
The Fund has two exclusion screens, with which we assess companies. A values-based exclusionary screen for involvement in certain activities, and a ESG exclusionary screen based on an evaluation of companies overall performance on ESG issues.

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	5.4%
a2 Milk Company Limited	5.3%
GWA Group Limited	5.2%
Telstra Group Limited	4.5%
National Australia Bank Limited	4.3%
Bapcor Ltd	4.2%
EVT Limited	4.0%
Healius Limited	4.0%
CSL Limited	3.3%
Premier Investments Limited	3.1%

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

NET PERFORMANCE - periods ending 31 March 2024

	Fund	Benchmark	Excess
1 month	3.90	3.26	+0.63
3 months	11.25	5.43	+5.82
FYTD	16.45	13.28	+3.17
1 year	19.06	14.40	+4.66
2 year p.a.	9.62	6.66	+2.96
3 year p.a.	-	-	-
Since incep.	9.23	7.94	1.29

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

PORTFOLIO FUNDAMENTALS[^]

	Portfolio	Benchmark
Price / Earnings*	19.7	17.0
Dividend Yield*	3.2%	3.9%
Price / Book	2.3	2.1
Debt / Equity	29.7%	36.9%
Return on Equity*	11.6%	13.0%

[^] 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

In the March quarter, the S&P/ASX300 saw a substantial 5.4% increase, with Tech (23.6%), Real Estate (14.9%), Consumer Discretionary (13.4%), and Financials (12.1%) leading the pack in terms of sector returns. Conversely, Materials (-6.3%), Telecoms (1.1%), and Consumer Staples (2.1%) struggled to keep pace, marking them as the underperformers. The sector movements during this period reflected various factors at play. Optimism surrounding lower interest rates, spurred by the Federal Reserve, propelled tech stocks and real estate to notable gains, while consumer sectors remained resilient. Concerns regarding China's growth trajectory led to a drop in iron ore prices, impacting the Materials sector negatively.

PORTFOLIO COMMENTARY

A feature of this portfolio is that it applies Perpetual's ESG process and values-based investment criteria. The portfolio's largest overweight positions include GWA Group Limited, a2 Milk Company Limited and Insurance Australia Group Ltd. Conversely, the portfolio's largest underweight positions include BHP Group Ltd (not held), Commonwealth Bank of Australia and Macquarie Group, Ltd (not held).

A2 Milk significantly contributed to our returns in the first quarter of 2024 (+46.71%). This outperformance can be attributed to a strong 1H24 result where sales and operating margin held despite the backdrop of a shrinking China IMF market. A2 upgraded full year FY24 forecast fuelled by robust sales in mother-baby stores and cross-border e-commerce. Moreover, Kantar market share data underscores A2's increasing market presence in both offline and online channels. A2 Milk has successfully evolved from a rapid-growth startup to a well-established, professionally managed entity with a brand that resonates with Chinese consumers. The company exhibits adept inventory and pricing management, and our confidence in the returns generated from its marketing investments is growing. With a robust balance sheet boasting over \$790 million in cash, A2 is well-positioned for strategic manoeuvring in the face of the challenging macroeconomic landscape.

The overweight position in GWA Group contributed to performance over the quarter (22.82%). The result for the first half of FY24 saw volume growth in the core Australian business for the first time in many years thanks to investment in re-engaging with the plumber. The company also benefitted from deflationary tailwinds from manufacturers in China. This, combined with the ability to further push prices saw gross margins expand almost 300bps. GWA Group's diverse product portfolio, encompassing bathroom and kitchen fixtures, along with its robust relationship with distributors, positions the company for sustained growth. The prevailing trend of mergers and acquisitions in the building suppliers sector is also a further potential source of upside.

The overweight to Healius detracted from performance over the quarter (-18.96%) although the market reacted positively in March since the appointment of a new CEO. The market was not impressed with the result although the company has pre-released a profit downgrade and market has lost faith in the management team. We are encouraged with the recent change in CEO and CFO. We believe the incoming CEO is more likely to sell assets to crystallise the value of its radiology assets or its clinical trial business Agilex, which is not currently being valued by the market. The Pathology segment continues to track below what the business could and is pressured by inflationary pressures on wages and rent. We are also encouraged by signs of more rationale behaviour by competitors in the consolidation of the pathology collection centre as there has been leakage of value in terms of high rents paid on the collection centre.

The overweight position in mining royalty firm Deterra Royalties Ltd (-3.64%) detracted from relative performance over the quarter. After rallying through January, iron ore prices corrected in February and have now fallen back to <US\$100/t driven by increased supply from Australia and Brazil and a slow recovery in Chinese steel production post Lunar New Year. The MAC mine operated by BHP that Deterra owns a royalty over had a 4% decrease in production in the DQ QoQ due to tie-in activity from the expansion to 145mtpa, but is expected to ramp up to full production through 2024 that will be a partial offset to lower iron ore prices. The company receives an ongoing royalty of 1.232% of Australian dollar-denominated quarterly FOB revenue from the MAC royalty area and A\$1m for every additional tonne of capacity added on an annual basis.

OUTLOOK

With services inflation in the US showing a robust rise of around 5% annually, coupled with indications of persistent and domestically driven inflation in Australia, concerns about a "higher for longer" stance on interest rates have regained prominence. Despite this, the US Federal Reserve is steadfast in its commitment to reducing rates throughout 2024, prioritizing economic growth over inflation worries. This situation poses a challenge for the Reserve Bank of Australia (RBA), given that the Australian economy trails behind the US by several months, and the RBA remains unconvinced that inflation has been effectively managed. While Australian equities are still relatively cheaper compared to their US counterparts, there remains a risk of downward adjustments to earnings, particularly if pressures on margins and interest rates persist without alleviation.

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MORE INFORMATION

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