Perpetual Investment Funds

PERPETUAL ESG AUSTRALIAN SHARE FUND

August 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:	April 2002
Size of Portfolio:	$709.13 million as at 30 Jun 2023
APIR:	PER0116AU
Management Fee:	1.18%*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Five years or longer

PORTFOLIO SECTORS

CASH AND FIXED INTEREST	9.1
COMMUNICATION SERVICES	8.8
CONSUMER DISC	13.7
CONSUMER STAPLES	3.1
FINANCIALS EX PROP	25.2
HEALTH CARE	12.0
INDUSTRIALS	17.2
INFORMATION TECHNOLOGY	1.2
MATERIALS	9.5
OTHER SHARES	0.0
Total:	100.0

TOP 10 STOCK HOLDINGS

	% of Portfolio
National Australia Bank Limited	6.0%
Insurance Australia Group Ltd	5.3%
Healius Limited	5.0%
Bapcor Ltd	4.6%
Medibank Private Ltd.	4.1%
Deterra Royalties Ltd	3.9%
Reliance Worldwide Corp. Ltd.	3.8%
Ramsay Health Care Limited	3.7%
EVT Limited	3.5%
ANZ Group Holdings Limited	3.5%

NET PERFORMANCE - periods ending 31 August 2023

	Fund	Benchmark #	Excess
1 month	0.69	-0.76	+1.45
3 months	6.46	3.88	+2.59
FYTD	5.07	2.11	+2.96
1 year	9.66	8.96	+0.70
2 year p.a.	5.07	2.45	+2.61
3 year p.a.	15.93	10.51	+5.42
4 year p.a.	10.52	6.46	+4.06
5 year p.a.	7.60	6.99	+0.61
7 year p.a.	7.15	8.53	-1.38
10 year p.a.	8.72	7.95	+0.78
Since incep.	10.78	8.13	+2.65

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

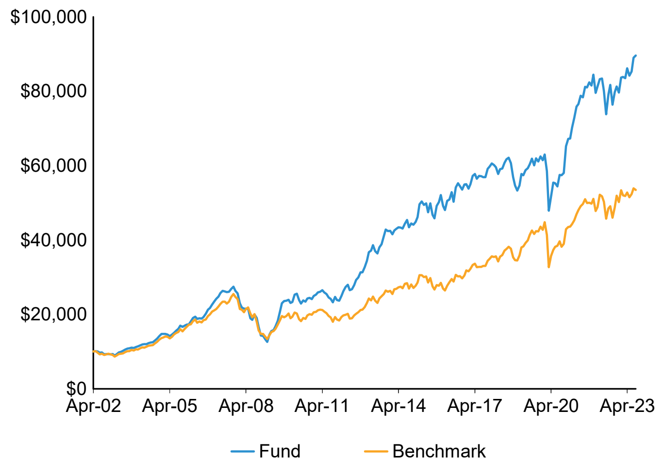
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	16.4	16.0
Dividend Yield*	4.0%	4.1%
Price / Book	2.1	2.0
Debt / Equity	29.8%	34.3%
Return on Equity*	12.7%	12.5%

^ 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.

GROWTH OF $10,000 SINCE INCEPTION



*Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

MARKET COMMENTARY

The S&P/ASX300 Accumulation Index fell -0.76% during the month of August. The RBA left the official cash rate unchanged at 4.10% on the first day of the month, triggering a series of downgrades to future rate hike expectations as inflation fell and hopes of a soft landing grew.Despite the central bank news, corporate reporting season dominated the month, especially towards the end. After a fairly lacklustre start the number of stocks disappointing the market grew as the month went on. Companies reporting full year results saw revenue rise a respectable 8.9%, however expenses typically rose 13.9%, contributing to a sharp decline in profitability. Whilst stocks like Wesfarmers (+10.6%) and Goodman Group (+13.7%) led the market index, stocks as varied as BHP (-2.5%), Transurban (-7.5%), Resmed (-24.0%), Wisetech (-19.0%) and Coles (-10.6%) dragged the market down towards the end of the month. It was a case of resilient companies with pricing power faring well versus those caught by rising costs, especially rising interest bills. Some companies forced to cut dividends were heavily punished. In terms of sectors consumer discretionary fared the best despite the challenges facing consumers, whilst Utilities, Consumer Staples, Industrials and Materials fared the worst.

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 Healius Limited, Insurance Australia Group 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).

The overweight position in motor vehicle equipment, parts, and servicing supplier Bapcor Ltd (+8.25%) contributed to relative performance. The company reported a solid FY23 result, in line with guidance. The key positive was a significant improvement in cash flow conversion through the second half as BAP was able to reduce inventory whilst maintaining strong gross margins. Management provided additional detail around their Better than Before program and remain committed to the associated return targets. The market is sceptical and appears to be pricing in very little success.

The overweight to Premier Investments (+16.14%) strongly contributed during August. Premier like most retail has struggled with its share-price since early May as pressures on the consumer increased resulting in negative industry sales, not aided by significant cost headwinds. All while cycling very strong comparative trading outcomes. Market analysts were very uncertain about just how bad FY23 & FY24 outcomes might be. PMV has long been part of our core retail investments- it is a quality business, supported by a particularly strong net cash balance sheet and overseen by engaged and experienced executive leadership personnel. The business also has future growth potential across several offshore geographies with the retail sector normalising post the widespread 2020/2021 covid restrictions. On 21st August 2023, PMV surprised the market with three separate announcements. Firstly with FY23 sales and profit guidance modestly ahead of market consensus but very reassuring nonetheless. Secondly that CEO Richard Murray has resigned effective 15 September 2023 with CFO John Bryce to act as interim CEO for the foreseeable future. Given Solomon Lew's executive chairmanship and exceedingly strong divisional leadership and Richard's relatively short tenure in the role, there is little for the market to be concerned with here. And finally, PMV announced a strategic review is to be initiated focussing on the corporate, operating and capital structure of the various brands and businesses held by the company. Future conclusions of this review are difficult to narrow down at this time and are potentially very wide ranging but including that there may be no change at all.

The overweight position in healthcare services and hospital operator Ramsay Health Care (-12.66%) detracted from relative performance. Ramsay Health Care has announced its preliminary NPAT (net profit after tax) for the first nine months of FY23, which stands at A$235.1M. This marks an increase of 17% compared to the same period last year.. The revenue for the 9M period was A$11.24B, which is an 11% increase from the previous year. Looking ahead, the company expects a gradual recovery in earnings through FY23 and more normalised conditions in FY24. Activity levels in July indicate trends are normalising, however, nursing wage pressure is a headwind and the company is negotiating with the payors to achieve a net neutral outcome on this headwind. We feel that the Balance sheet will look much better once we see the conclusion of sale of Sime Darby. In our meeting with CEO and CFO we have imparted with the company the need to actively consider ROIC metrics in their consideration of capex deployment. We are engaging with the Chairman and head of remuneration of RHC before AGM to share with them our analysis on ROIC returns, which has been below par over the last 4 years and the need to reconsider capex deployment and their stake and investment in France. We are doing proprietary research work on mental bed capacity within Australia to come to any conclusion as to whether capex growth in this segment is the right use of shareholders capital.

A2 Milk detracted from returns during August (-10.9%). A2's FY23 results met expectations with A2 navigating the challenging China label transition well to date holding average selling price in a highly competitive market. However guidance was cautious as A2 expects FY24 to be challenging as China's birth rate hits record lows. Despite the recent softness in the share price, which trades at a fraction of the $20 per share peak in 2020, we think that A2 is fundamentally well positioned. The business has transitioned from a fast-growing start-up to an established and professional operator in recent years. The A2 brand remains strong in China with healthy lead indicators and growing market share in emerging cities. Management of inventory and pricing is sound, and we have growing confidence its investment in marketing is generating solid returns.

OUTLOOK

The economic and market outlook remains uncertain. Central banks are hoping they are at the end of their tightening cycles. Bond markets are still not fully convinced, with yields remaining near multi-year highs. 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 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 and structural shortages. The challenge to this thinking is that it would likely come at the cost of core inflation embedding even more which would necessitate even higher interest rates. So far during this cycle central banks have consistently underestimated the extent of underlying inflation. We are also conscious of the macroeconomic gap globally, with the US about six months ahead of the Australian cycle. 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. The US Inflation Reduction Act, for example, continues to drive much higher than anticipated industrial activity, which could yet manifest in the form of inflation and interest rates. 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.

The Ordinaries benchmark prior to 1/4/2000 was the ASX All Ordinaries Accumulation Index. From 1/4/2000 to current the benchmark is S&P/ASX 300 Accumulation Index.

MORE INFORMATION

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