Perpetual Investment Funds

PERPETUAL ESG AUSTRALIAN SHARE FUND

September 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

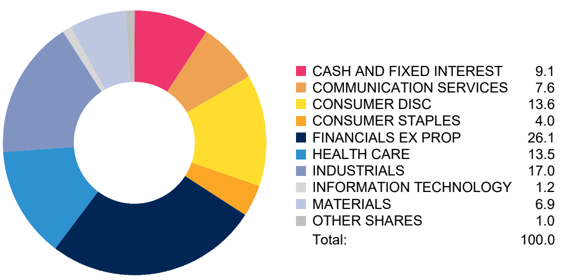
We seek to invest in quality companies that represent the best investment quality, are appropriately priced and meet Perpetual's ESG and values-based criteria. Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research 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



TOP 10 STOCK HOLDINGS

	% of Portfolio
National Australia Bank Limited	6.1%
Insurance Australia Group Ltd	5.4%
Bapcor Ltd	4.7%
Healius Limited	4.5%
Deterra Royalties Ltd	4.3%
Medibank Private Ltd.	4.2%
Ramsay Health Care Limited	4.1%
Reliance Worldwide Corp. Ltd.	3.7%
ANZ Group Holdings Limited	3.7%
a2 Milk Company Limited	3.5%

NET PERFORMANCE - periods ending 30 September 2023

	Fund	Benchmark #	Excess
1 month	-3.58	-2.89	-0.69
3 months	1.30	-0.84	+2.14
FYTD	1.30	-0.84	+2.14
1 year	13.17	12.92	+0.25
2 year p.a.	3.26	1.93	+1.33
3 year p.a.	14.60	10.78	+3.82
4 year p.a.	8.68	5.19	+3.50
5 year p.a.	7.34	6.62	+0.72
7 year p.a.	6.81	7.99	-1.18
10 year p.a.	7.75	7.40	+0.35
Since incep.	10.55	7.95	+2.60

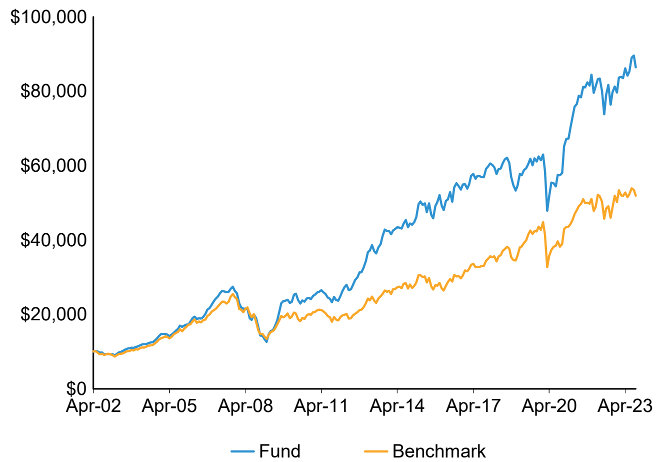
Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	16.2	15.3
Dividend Yield*	3.9%	4.3%
Price / Book	2.1	1.9
Debt / Equity	30.7%	34.5%
Return on Equity*	12.5%	12.6%

^ 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/ASX 300 Accumulation index fell 0.8% for the quarter. Energy was the best performing sector, with brent crude rising 27.2% and thermal coal gaining 25.0%. Consumer discretionary was next best, reflecting market positioning that proved too cautious coming into the August reporting season. Elsewhere there was little to write home about. Healthcare and staples were notable underperformers. Bond yields continued their steady ascent. Conversely, the Australian dollar continued its steady descent against the USD. The Australian cash rate remained unchanged for the quarter at 4.10%, with newly installed governor Michelle Bullock seeing no need to act at her debut meeting. Recent data suggests inflation is passed the peak but well above the desired range.

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

Pacific Current Group contributed strongly during the September quarter as fund managers Regal and GQG both competed to acquire the financial services business. We have owned Pacific current Group for a number of years. It is a well-established funds management boutique incubator which owns equity stakes in 15 asset managers. These boutiques include public equities, life settlements, real assets, and private equity. PAC has delivered solid earnings growth in recent years and is seeing strong net inflows across a number of its boutiques, in particular Victory Park and Aether. Prior to the bid PAC traded at a reasonable multiple of 12x next year's earnings with a solid dividend yield of over 5%.
The overweight to Premier Investments (+23.40%) strongly contributed during the September quarter. Premier like most retail has struggled with its share-price since early May as pressures on the consumer increased. 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. 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 including that there may be no change at all.

The overweight to Healius detracted from performance in the September quarter (-27.67%) as the market continued to speculate that the bid by smaller rival ACL could be blocked by the ACCC. Healius' assets have attracted interest from private equity and there are activist investors on the register. With the combined value of Healius' radiology and pathology businesses estimated to be around $2.6 billion this represents a substantial uplift from the current market capitalisation of $1.7 billion. We are encouraged with the progress Healius has made with improvements in their radiology business under new leadership. Pathology segment continues to track below what the business could achieve given in person GP visits are still around 20% below pre pandemic, which leads to lower pathology requests. We believe some of the co-pay introduction are deterring GP visits, consumers continue to defer and there are evidence that primary care screenings are being deferred. We believe GP visits and Pathology volumes will re-bound in the future and that we will start to see pathology segment margins improve from here.
A2 Milk detracted from returns during the September quarter (-13.29%). A2's FY23 results met expectations with A2 navigating the challenging China label transition well to date holding ASP 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 importance of interest rates on valuation cannot be understated - it is the fundamental driver of valuation. Yet as the yield curve has moved steadily higher over 2023 the equity market has taken a peculiar response, acknowledging the impact of rising discount rates in some sectors but not others. Pockets of growth stocks remain completely oblivious to the move in yields. Goldman Sachs strategist Matt Ross recently highlighted that many Australian growth stocks have held up better than offshore peers and continue to trade at elevated multiples. This could all be rendered irrelevant if the recent move in bonds is indeed an aberration, inflation plummets and yields settle lower. But if we are in a higher for longer world, there could yet be more pain to come for the "expensive defensives" and growth stocks that have been the darlings of the market in the last decade. The psychological temptation to buy a high quality company that has fallen 20% is ever present but if yields remain here, or even march higher, than there is every chance that this valuation unwind is far from complete.

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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