Wholesale Funds

PERPETUAL WHOLESALE ETHICAL SRI FUND

July 2022

FUND FACTS

Investment objective: Aims to provide long-term capital growth and regular income through investment predominantly in quality shares of Australian ethical and socially responsible companies. Aims to outperform the S&P/ASX 300 Accumulation Index (before fees and taxes) over rolling three-year periods.

FUND BENEFITS

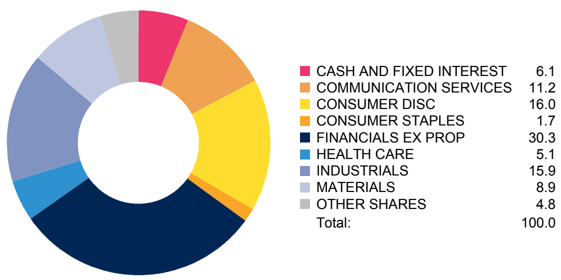
We seek to invest in quality companies that have satisfied our range of ethical and socially responsible investment criteria. Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research from external specialists 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:	$820.09 million as at 30 Jun 2022
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	7.3%
Insurance Australia Group Limited	7.3%
Brambles Limited	5.2%
Wesfarmers Limited	4.8%
Medibank Private Ltd.	4.5%
ANZ Banking Group Ltd.	4.5%
Bapcor Ltd	4.3%
Orora Ltd.	3.7%
Deterra Royalties Ltd	3.6%
Event Hospitality & Entertainment Ltd.	3.5%

NET PERFORMANCE - periods ending 31 July 2022

	Fund	Benchmark #	Excess
1 month	7.11	5.95	+1.15
3 months	-5.33	-6.21	+0.87
FYTD	7.11	5.95	+1.15
1 year	0.81	-2.31	+3.12
2 year p.a.	20.56	12.32	+8.24
3 year p.a.	8.51	4.43	+4.08
4 year p.a.	6.37	6.56	-0.19
5 year p.a.	6.69	8.15	-1.45
7 year p.a.	6.79	7.21	-0.42
10 year p.a.	10.99	9.42	+1.57
Since incep.	10.70	8.06	+2.64

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

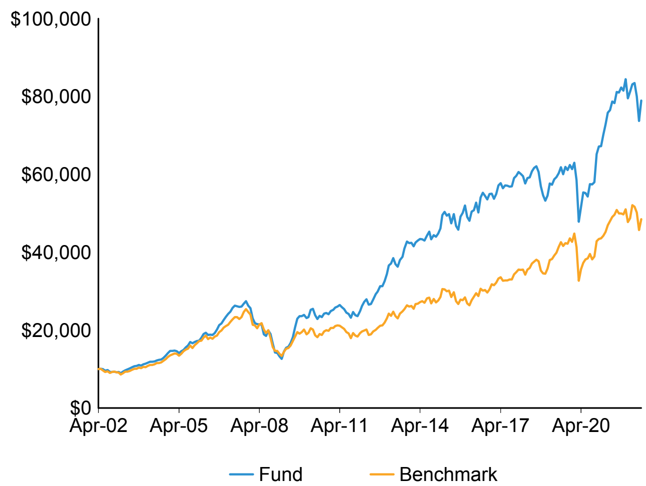
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	13.9	13.9
Dividend Yield*	4.9%	4.8%
Price / Book	1.7	1.9
Debt / Equity	36.6%	31.3%
Return on Equity*	12.6%	14.3%

^ 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 Australian equity market broke its consecutive three-month downward trend to end July higher, as a rebound in recent laggards – including tech stocks, REITs, and the banks – assisted the ASX. An expected 50 basis point hike in the cash rate to 1.35% at the beginning of the month did little to quell investor sentiment. There was no substantive change to policy guidance, with the Reserve Bank flagging more tightening in the period ahead. However, the RBA also suggested that inflation is expected to peak later in 2022 and that its medium-term view is that inflation expectations remain well anchored. Markets subsequently dialled back terminal interest rate forecasts amid thoughts that plateauing inflation and a softening economy may prompt central banks to slow the pace of tightening. This notion was supported by the June-quarter headline inflation print, which fell below expectations and reduced the likelihood of a 75-basis point interest rate hike in August. Trimmed mean inflation, however, hit a record high, spurred predominantly by the increase in fuel costs. Pricing pressures were also evident in clothing, housing, household equipment, and several food categories. Elevated freight costs, supply constraints, rising construction costs, and strong demand continued to drive up inflation and a rebound in rents. This, combined with softening macro data, the potential for a Russian gas shutoff to Europe, risks to US earnings and China, Covid uncertainty remain overhangs on risk sentiment.

Mining producers constrained the market's advance, underpinned by heavy losses across commodity prices over the month as concerns from demand destruction in a recessionary environment continue to mount. Significant iron ore weakness was further attributed to heightened frictions from China's real estate developers. This fragility was offset by solid performance across the Financials, benefitting from improved sentiment due to increased M&A activity and its low interest-rate sensitivity after the big banks moved quickly to raise their variable home loan rates by 50 basis points.

PORTFOLIO COMMENTARY

A feature of this Fund is that it invests in a screened universe enforced by strict ethical and socially responsible (SRI) investment criteria. The Fund's largest overweight positions include Insurance Australia Group Ltd, Bapcor Ltd, and Brambles Ltd. Conversely, the Fund's largest underweight positions include CSL Ltd (not held), BHP Group Ltd (not held), and Commonwealth Bank of Australia.

Not holding iron ore miner BHP Group (-6.2%) contributed to relative performance. The stock sold off alongside most of the miners following a decline in commodity prices as concerns of demand destruction in a recessionary environment continue to mount. Significant iron ore weakness (falling 17.5%) was attributed to heightened fears over China's real estate developers following reports of homebuyers boycotting mortgage repayments on stalled construction projects. China's real estate woes compounded broader economic growth concerns, threatening to hobble demand for construction inputs such as iron ore.
The overweight position in salary packaging, vehicle leasing, and administration services provider McMillan Shakespeare (+26.3%) contributed to relative performance. The stock was upgraded from 'neutral' to 'outperform' at Macquarie following a broker note suggesting that the company may benefit over the medium-term from the Australian government's policy shift toward electric vehicles. The note indicated that the policy could support the uptake of novated lease services. While the proposed change will have an immaterial impact on near-term earnings at the salary packaging firm, it could generate upside risk over the medium term.
The overweight position in lender's mortgage insurance provider Genworth Mortgage Insurance Australia Ltd (+22.2%) contributed to relative performance. The company reported a first-half underlying NPAT of $134.3M (vs $76.4M last year) and a statutory NPAT of $18.9M (vs $59.4M last year), which included unrealised mark-to-market investment losses of $162.1M. Management also provided its second-half guidance, including $375-435M of premiums written (vs prior guidance of $315-375M), indicating that while net incurred claims are expected to begin to normalise, it will take some time for changes in the economy to flow through to delinquencies. This is likely to result in second-half 2022 claims remaining below historical averages.

The underweight positions in the Commonwealth Bank of Australia (+11.5%) detracted from relative performance. The stock gained ground following the RBA's interest rate hike. Despite the economic backdrop, the banks are believed to have sufficient equity buffers in place with an average CET1 ratio of ~11%. While several banks have active buyback programs, Morgan Stanley commented that it does not expect any new programs to be announced. Dividend growth is anticipated to be in the low single digits; however, the payout ratio will likely edge higher.
The overweight position in packaging manufacturer Orora (-2.7%) detracted from relative performance. Despite the absence of any adverse firm-specific news impacting its stock price, Orora underperformed following two broker downgrades to the stock. Jefferies downgraded from a 'buy' to 'a hold', citing year-to-date share price performance relative to the market, while Jarden downgraded the stock from 'overweight' to 'neutral'. Barrenjoey also initiated coverage of the company during the month with an 'underweight' rating.

OUTLOOK

We have long believed that markets are poised for further rotation to a more value-oriented investment environment as Covid disruptions, waning stimulus, and war combine to keep consumer price inflation at high levels. Until June this year, equity markets were resilient in the face of the rate hikes, but bond markets have priced in tighter monetary policy much more aggressively. Historically, when the bond market and equity market disagreed, the bond market was usually correct. In our view, rising bond yields will eventually lead overpriced growth stocks into a more sustained and overdue correction, challenging investors with large growth exposures. We think, in the years ahead, markets will need to become accustomed to more inflation than previously experienced. This distinct shift in the macro backdrop is already playing out across asset classes. In these conditions, our focus on value style investing, buying quality companies with strong balance sheets trading at reasonable valuations, should continue to do well and offer attractive opportunities for investors.

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

Adviser Services 1800 062 725
Investor Services 1800 022 033
Email investments@perpetual.com.au
www.perpetual.com.au

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