

## Perpetual Investment Funds

# PERPETUAL ESG AUSTRALIAN SHARE FUND

September 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

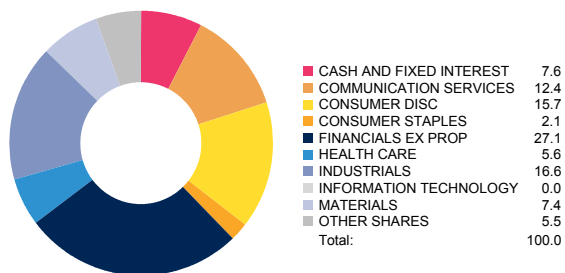
We seek to invest in quality companies that have satisfied our range of ethical and socially responsible investment criteria. Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research from external specialists 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.

<b>Benchmark:</b>	S&P/ASX 300 Accum. Index
<b>Inception Date:</b>	April 2002
<b>Size of Portfolio:</b>	\$821.41 million as at 30 Sep 2022
<b>APIR:</b>	PER0116AU
<b>Management Fee:</b>	1.18%*
<b>Investment style:</b>	Active, fundamental, bottom-up, value
<b>Suggested minimum investment period:</b>	Five years or longer

### PORTFOLIO SECTORS



### TOP 10 STOCK HOLDINGS

	% of Portfolio
Insurance Australia Group Limited	7.8%
National Australia Bank Limited	6.2%
Brambles Limited	5.4%
Wesfarmers Limited	4.8%
ANZ Banking Group Ltd.	4.6%
Telstra Corporation Limited	4.1%
Bapcor Ltd	4.0%
Deterra Royalties Ltd	3.4%
Event Hospitality & Entertainment Ltd.	3.4%
Healius Limited	3.4%

### NET PERFORMANCE - periods ending 30 September 2022

	Fund	Benchmark #	Excess
1 month	-6.58	-6.29	-0.28
3 months	3.52	0.45	+3.06
FYTD	3.52	0.45	+3.06
1 year	-5.78	-8.00	+2.21
2 year p.a.	15.32	9.73	+5.60
3 year p.a.	7.23	2.73	+4.50
4 year p.a.	5.93	5.10	+0.83
5 year p.a.	6.05	6.83	-0.78
7 year p.a.	7.58	8.07	-0.49
10 year p.a.	9.81	8.38	+1.43
Since incep.	10.43	7.71	+2.71

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

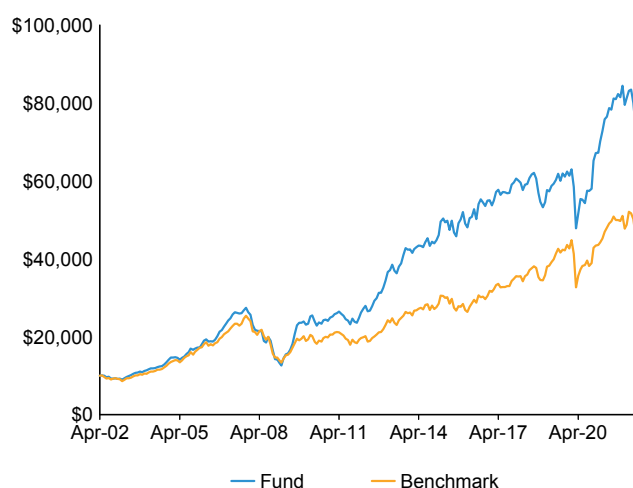
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	13.0	12.8
Dividend Yield*	5.4%	5.1%
Price / Book	1.6	1.7
Debt / Equity	32.1%	30.5%
Return on Equity*	12.4%	14.2%

<sup>^</sup> 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



— Fund — Benchmark

## MARKET COMMENTARY

The Australian equity market finished the September quarter marginally higher after returning most of its earlier gains in the latter half. Energy and Health Care sectors were the standouts, whereas Utilities and REITS were significant laggards. The Energy sector rallied amid the prospect of OPEC+ announcing more production cuts, while mining producers impressed despite underlining concerns about the outlook for steel demand. The Resources sector outperformed on stronger-than-expected results, spurred by M&A activity and record cash flows over the past year, despite significant declines in commodity markets and crude oil trading at its lowest since January. Consumer Staples ended worse after results from food and grocery companies confirmed prevailing headwinds from inflation. All in all, this allowed Value stocks to slightly edged-out Growth stocks over the quarter.

Market sentiment was supported early in the quarter by an unexpected rebound in business confidence and conditions, suggesting that demand had remained resilient in the face of economic headwinds. This came as Australian employment rebounded in August, despite the jobless rate unexpectedly rising for the first time in 10 months. Sentiment was weighed down later in the quarter by an increasingly hawkish central bank rate outlook, tightening financial conditions, and volatility in FX and bond markets. Europe's energy crunch, UK policy uncertainty, China's Covid lockdowns, and speculation of a global recession further contributed to a deteriorating outlook for global growth and consensus earnings estimates, which stoked September-quarter local market volatility.

## 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.

The overweight position in salary packaging, vehicle leasing, and administration services provider McMillan Shakespeare (+32.2%) contributed to relative performance. The stock rose sharply upon release of its full-year financial results, reporting normalised revenue of \$594.3M, up 9.2% compared to the prior corresponding period (pcp). Statutory NPAT grew by 15.2% on the pcp to \$70.3M, and its final dividend was increased by 154%. Going forward, McMillan announced that it will return between 70% and 100% of underlying profit to shareholders in the form of dividends, up from 66% in the pcp.

The overweight position in lender's mortgage insurance provider Genworth Mortgage Insurance Australia Ltd (+23.4%) 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 normalising, it will take some time for changes in the economy to flow through to delinquencies.

The overweight position in insurance provider Insurance Australia Group Ltd (+6.7%) contributed to relative performance. The stock rallied hard late in the quarter to recover most of its earlier losses incurred leading up to the release of its preliminary full-year financial results. While IAG's growth of 5.7% was in line with its mid-single digit growth guidance, its reported insurance profit margin came in at 7.4%, down 6.1% year-on-year and missing its 10% to 12% guidance. Management blamed the miss on its net natural peril costs of \$1.119B, which were \$354M above the original allowance of \$765M. However, it is confident that FY2023 will be a much stronger year for the company.

The overweight position in packaging manufacturer Orora (-21.2%) detracted from relative performance. Despite reporting significantly stronger FY22 results, the market was disappointed with the company's FY23 outlook, which it expects to be a "challenging year of economic conditions". For the Australasia operating segment, EBIT is expected to be similar to the result observed for FY22, while the first half of FY23 is expected to be more difficult than the last, with the company citing pressures from inflation and the recovery in prices that it charges customers. The outlook for the North American segment is more positive, with EBIT growth expected due to price increases of its products resulting from profit enhancement initiatives.

The overweight position in healthcare services and hospital operator Ramsay Health Care (-21.2%) detracted from relative performance. The stock fell after the KKR-led consortium confirmed that it had ceased discussions with Ramsay regarding a potential acquisition. Ramsay's board advised KKR to increase its offer to \$88 per share for due diligence to be granted. However, the consortium advised that it would not proceed with an alternative proposal on the belief that the business had materially deteriorated over the past six months. Ramsay indicated that it remains open to engaging in talks relating to a change of control.

## 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.

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# 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. This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL No 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website [www.perpetual.com.au](http://www.perpetual.com.au). No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of any investor's capital. Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for contribution or withdrawal fees or taxation (except in the case of superannuation funds, as applicable). Past performance is not indicative of future performance.

## MORE INFORMATION

Adviser Services 1800 062 725  
Investor Services 1800 022 033  
Email [investments@perpetual.com.au](mailto:investments@perpetual.com.au)  
[www.perpetual.com.au](http://www.perpetual.com.au)

