

## Perpetual Investment Funds

# PERPETUAL ESG AUSTRALIAN SHARE FUND

July 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

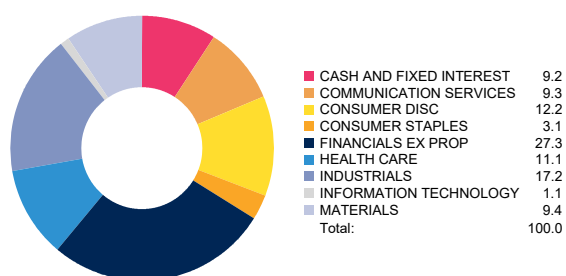
We seek to invest in quality companies that represent the best investment quality, are appropriately priced and meet Perpetual's ESG and values-based criteria. Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research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

<b>Benchmark:</b>	S&P/ASX 300 Accum. Index
<b>Inception Date:</b>	April 2002
<b>Size of Portfolio:</b>	\$709.13 million as at 30 Jun 2023
<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
National Australia Bank Limited	6.6%
Insurance Australia Group Ltd	6.5%
Healius Limited	4.8%
Bapcor Ltd	4.6%
Deterra Royalties Ltd	3.9%
Medibank Private Ltd.	3.8%
Reliance Worldwide Corp. Ltd.	3.6%
EVT Limited	3.5%
GWA Group Limited	3.5%
ANZ Group Holdings Limited	3.4%

### NET PERFORMANCE - periods ending 31 July 2023

	Fund	Benchmark #	Excess
1 month	4.35	2.89	+1.45
3 months	3.35	2.03	+1.33
FYTD	4.35	2.89	+1.45
1 year	12.67	11.09	+1.58
2 year p.a.	6.58	4.18	+2.40
3 year p.a.	17.87	11.91	+5.96
4 year p.a.	9.53	6.05	+3.48
5 year p.a.	7.60	7.46	+0.15
7 year p.a.	7.37	8.40	-1.03
10 year p.a.	8.89	8.30	+0.59
Since incep.	10.79	8.20	+2.59

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

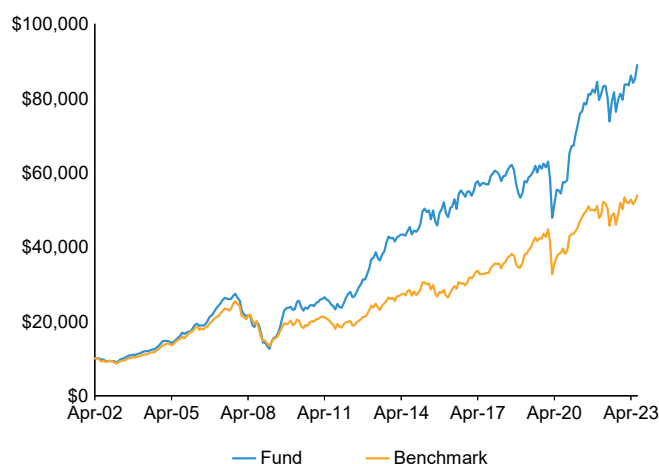
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	15.6	16.2
Dividend Yield*	4.2%	4.0%
Price / Book	1.9	2.0
Debt / Equity	33.1%	35.0%
Return on Equity*	12.9%	13.0%

<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



## MARKET COMMENTARY

The S&P/ASX300 Accumulation Index rose 2.9% during the month of July despite the month starting off badly for equities. Australia reported strong building approvals and housing finance for May and the RBA decided not to raise interest rates on the 4th of July. Despite this, the market was hit with a wave of selling in the first week as they fretted over indebted Chinese property developers and their impact on mainland banks. Hotter than expected ISM and jobs data in the US also created fears of drawn-out central bank tightening. Higher bond yields sparked a sell-off in interest rates sensitive stocks. In Australia a Moody's report showed mortgage delinquencies on the rise.

From the middle of the month however equities rallied again. July Westpac consumer sentiment and NAB business conditions both rose. Markets embraced signs of lower inflation in the US and hopes for a "soft landing" in the economy began to emerge. Chinese policymakers ended a multi year crackdown on the tech sector. The Federal Government announced that Deputy RBA Governor Michelle Bullock would replace incumbent Governor Philip Lowe in September. Another 32,600 jobs were created in June, above the consensus of 15,000, although Q2 inflation came in at 0.8%, below consensus of 1.0%. Headline inflation was 6.0% y/y versus 6.2% expected. Whilst there was some concern about services inflation running at the highest rate since 2001, overall markets tempered expectations of rate hikes towards the end of the month, with equities finishing the month relatively strongly.

## 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, Healius 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).

Pacific Current Group rose 37.9% over the month of July 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. Earning growth has grown consistently in recent years, the company has no debt and \$20m cash on its balance sheet. Prior to the bid PAC traded at a reasonable multiple of 12x next year's earnings with a solid dividend yield of over 5%.

Ooh Media rose +18.2% in July. This was in part a reversal of recent losses after the stock had fallen sharply in May. The declines came after a downgrade to earnings signalled downward pressure on gross margins as the company entered a tender renewal period. We had been trimming early in the year after a strong run in the stock. We retained a small position after the downgrade given it traded at just 13x 2023 earnings and a mere 1.2x sales which is the cheapest in its history except for COVID. This remains a quality leader in the outdoor advertising space despite recent setbacks.

The funds underweight to CSL was also a significant contributor as the stock fell -3.2% during the month. CSL continued to sell off following a profit downgrade and emerging concerns about performance of Argenx's product Vyvgart Hytrulo (which has proven to be an effective competitor to CSL's IVIG for the treatment of chronic inflammatory demyelinating polyneuropathy (CIDP). Amongst other things an injection of Vyvgart Hytrulo takes just 30-90 seconds vs a 1 hour infusion of IVIG. Clients are already voting with their feet and prefer Vyvgart Hytrulo where available. With CDIP making up 25% of IVIG sales for CSL we think this presents some risk to the company's earnings.

Healius fell -9.8% in July as the market speculated 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.

Brambles fell -2.4% during July. This was a small pullback after a strong run over the past year. Brambles operates the worlds largest pool of reusable pallets, crates and containers placing it at the centre of global logistics. A key event driving performance over the last year was Brambles decision not to proceed with the rollout of plastic pallets for Costco. It was estimated that Brambles would need to invest as much as \$1billion developing the plastic pallets and the costs of plastic pallets were on the rise in the post covid world, particularly with the soaring cost of resin. In the end, presented with the full cost of developing the product, Costco decided not to proceed, reducing execution and operational the risks for Brambles. Brambles' has also used its dominant position and pricing power to push through price increases to help boost profitability.

## OUTLOOK

A number of challenges loom for markets. In the near term we are focused on the August reporting season and the outlook for corporate earnings. We are also mindful of the ongoing inflation challenge, with services inflation running at the highest level since 2001. Expectations of rising energy prices and strong award wage growth are creating fears that inflation could be stickier in Australia than the US. Unemployment remains just 3.5%, a long way below the 4.5% level that the RBA believes is the NAIRU (non-accelerating inflation rate of unemployment) required to keep inflation under control. It may be 3 more years before inflation falls into the RBA's band, during which the risk of inflation expectations embedding into consumer consciousness remains.

Bond markets are also presenting challenges for investors. Whilst equity markets, led by the NASDAQ, have been exuberant about a soft landing, bond markets have been much more cautious with yields remaining at elevated levels. This may partly reflect scepticism about whether inflation is fully under control although markets may also be becoming more concerned about unsustainable fiscal positions. Just last year bond market vigilantes made short work of Liz Truss' Prime Ministership when she and her Chancellor of the Exchequer delivered unfunded tax cuts. The US 10 Year bond yield has risen back over 4% as the budget deficit expands again. The end of Yield Curve control in Japan will also prove tricky to navigate. A bigger than expected jump in yields could easily hit equities, especially more expensive stocks that have rallied hard.

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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

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