

## Wholesale Funds

# PERPETUAL WHOLESAL ETHELICAL SRI FUND

November 2020

### 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.

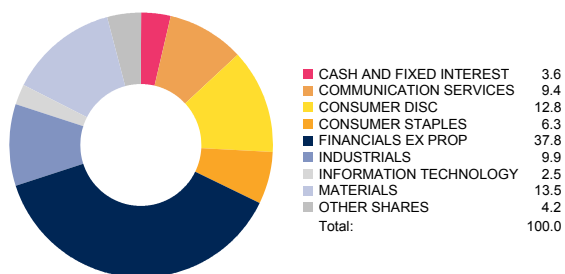
Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research from external specialists to analyse socially responsible practices of companies listed on the Australian and overseas exchanges.

### 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>Investment Manager:</b>	Nathan Hughes
<b>Inception Date:</b>	April 2002
<b>Size of Portfolio:</b>	\$680.81 million as at 30 Sep 2020
<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%
ANZ Banking Group Ltd.	6.5%
AUB Group Limited	5.8%
Orora Ltd.	5.6%
Insurance Australia Group Limited	4.0%
HT&E Ltd	3.9%
Ferguson Plc	3.6%
NIB Holdings Ltd	3.4%
Fletcher Building Limited	3.4%
Premier Investments Limited	3.3%

### NET PERFORMANCE - periods ending 30 November 2020

	Fund	Benchmark #	Excess
1 month	12.55	10.23	+2.32
3 months	13.44	8.27	+5.17
FYTD	18.09	12.25	+5.84
1 year	4.52	-1.62	+6.14
2 year p.a.	9.27	11.35	-2.08
3 year p.a.	3.03	7.06	-4.04
4 year p.a.	4.39	8.91	-4.52
5 year p.a.	5.39	9.14	-3.75
7 year p.a.	6.38	7.37	-1.00
10 year p.a.	10.48	8.01	+2.48
Since incep.	10.57	8.10	+2.47

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

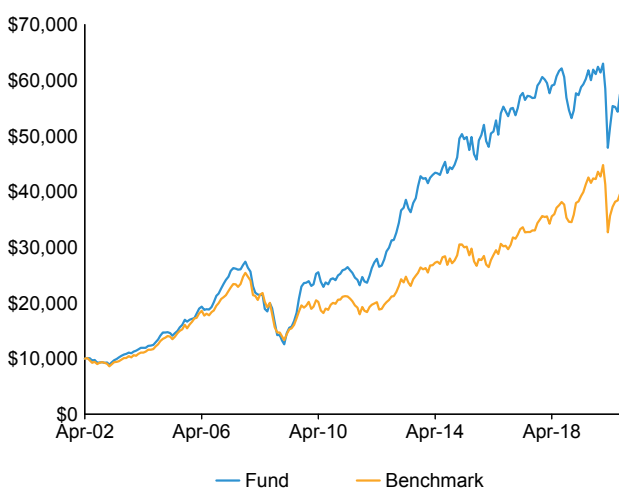
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	18.1	20.0
Dividend Yield*	4.0%	3.5%
Price / Book	1.8	2.1
Debt / Equity	28.0%	39.8%
Return on Equity*	9.7%	10.5%

<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



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

## MARKET COMMENTARY

The Australian equity market ended the month higher with the S&P/ASX 300 Accumulation Index gaining 10.2% in November. The market saw its largest monthly gain since 1988, assisted early in the month by a rally in global markets following Joe Biden's US Presidential election victory despite President Trump refusing to concede defeat, calling for recounts, and Supreme Court intervention. Local market sentiment was further buoyed after the Reserve Bank upgraded its near-term GDP growth forecasts, projecting a lower unemployment rate and improved forecasts for household consumption following an easing of pandemic-related restrictions, fiscal spending, and income support measures. This came on the back of the announcement of a new \$100b asset purchase program, as well as an interest rate cut from 0.25% to a new record low of 0.1% with expectations of no rate hikes for at least three years.

Cyclical sectors and value stocks were provided with a significant boost following the announcement by US pharmaceutical company, Pfizer Inc, that its coronavirus vaccine was effective in preventing more than 90% of infections in its sample test, exceeding expectations of a 60-70% efficacy rate, resulting in the Therapeutic Goods Administration placing the vaccine on a priority path to approval. Optimistic vaccine-related sentiment was reinforced by further positive trial results from AstraZeneca-Oxford University's, and Moderna's coronavirus vaccines. This came as national COVID cases trended downwards with Victoria reporting zero active cases by the end of the month, leading state governments to further relax restrictions and announce the gradual reopening of their borders.

The best performing sectors for the month, as measured from the S&P/ASX 300 Accumulation Index, were Energy (+28.2%), Financials (+16.1%), and Communication Services (+14.1%). The worst performers were Consumer Staples (-0.7%), Utilities (+1.5%), and Health Care (+2.9%). As a whole, industrial stocks (+10.1%) underperformed resource stocks (+10.7%) and large-cap stocks (+11.0%) outperformed small-cap stocks (+10.3%). Value stocks (+16.3%) outperformed growth stocks (+4.1%) as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

## PORTFOLIO COMMENTARY

A feature of this Fund is that it has strict ethical and socially responsible (SRI) criteria and therefore a screened investment universe. The Fund's largest overweight positions include packaging manufacturer Orora, insurance provider AUB Group, and Australia and New Zealand media and online publishing company HT&E. The Fund's largest underweight positions include CSL (not held), BHP Group (not held), and Commonwealth Bank.

The overweight position in building materials manufacturer Fletcher Building (+39.5%) contributed to relative performance. The stock spiked after announcing a +54.4% (NZ\$80m) year-on-year increase in its EBIT (before significant items) to NZ\$227m for the first four months of the financial year. Fletcher also reported a 1% increase in revenues to NZ\$2.7b and a 2.9% increase in its Group EBIT margin to 8.4% over the same period. Management noted that robust operating conditions in the residential construction market in both New Zealand and Australia were largely responsible for the sharp rebound in profits over the current financial year.

Not holding biopharmaceutical company CSL (+3.4%) contributed to relative performance. Despite finishing the month higher after announcing an \$800m investment in a Melbourne-based influenza vaccine manufacturing plant, the stock underperformed the benchmark following a sharp rally across the cyclical sectors and in value stocks, driven by the anticipation of a strong post-pandemic recovery following several better-than-expected coronavirus vaccine trial results, declining national infection rates, relaxed restrictions, and the announcements of state border re-openings.

The overweight position in insurance provider AUB Group (+0.1%) detracted from relative performance. The stock disappointed over the month in comparison to the benchmark after announcing an underlying NPAT guidance in the range of \$60m to \$62m, representing growth of 12.3% to 16.1% on FY20 underlying NPAT of \$53.42m, however falling short of market expectations. Investors were further cautioned after management noted that its macro conditions remain "volatile and uncertain". Despite this setback, we believe the market has overreacted, and that the structural drivers of the company remain sound as it operates a resilient, cash-generative business.

The overweight position in automotive and industrial products manufacturer G.U.D. Holdings (-11.1%) detracted from relative performance. The stock ended the month lower on declining investor enthusiasm after management announced it had entered into a binding agreement with AMA to acquire its aftermarket car parts business, ACAD, for a \$70m consideration. The acquisition is to be partly funded by a fully underwritten \$55m institutional placement, which was also completed during the month at a price of A\$11.25 per share. Despite the stock's recent underperformance, the Fund continues to hold the stock as we believe the market is not pricing in the benefits of the acquisition and is significantly undervalued at its current price.

## OUTLOOK

The global economic recovery from COVID continues, although we remain wary of relapses that may trigger further economic dislocation, as we are seeing in Europe. The discovery of highly effective vaccines in record time, however, raises hope that sustained economic growth is possible from mid-2021 onward, as markets are beginning to price a significant rotation into stocks. Most value sectors (like banks, energy, resources, and consumer discretionary) will be more sensitive to an upswing in the economy, as such, this investment style is anticipated to outperform after a prolonged period of dominance by growth investing. This is why sticking to an investment approach that's underpinned by a disciplined, active, value-based methodology is important, whatever the investment environment.

# 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.

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## MORE INFORMATION

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