Wholesale Funds

PERPETUAL WHOLESALE ETHICAL SRI FUND

May 2021

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.

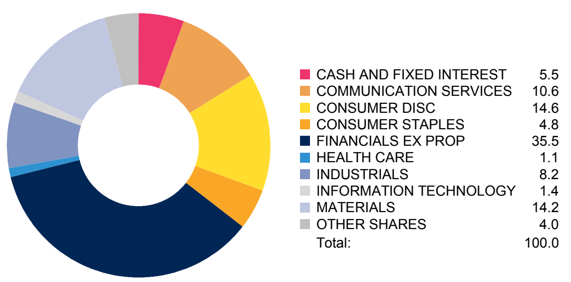
Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research from external specialists to analyse socially responsible practices of companies listed on the Australian and overseas exchanges.

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:	$804.36 million as at 31 Mar 2021
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
ANZ Banking Group Ltd.	7.0%
National Australia Bank Limited	6.4%
Orora Ltd.	6.2%
AUB Group Limited	6.0%
Insurance Australia Group Limited	4.3%
HT&E Ltd	4.1%
Asaleo Care Ltd.	4.1%
Commonwealth Bank of Australia	3.6%
Premier Investments Limited	3.5%
Telstra Corporation Limited	3.4%

NET PERFORMANCE - periods ending 31 May 2021

	Fund	Benchmark #	Excess
1 month	0.92	2.31	-1.38
3 months	9.03	8.53	+0.50
FYTD	38.51	25.66	+12.85
1 year	38.16	28.72	+9.44
2 year p.a.	13.59	9.69	+3.89
3 year p.a.	8.93	10.10	-1.17
4 year p.a.	7.90	10.07	-2.17
5 year p.a.	7.70	10.22	-2.51
7 year p.a.	8.47	8.33	+0.14
10 year p.a.	11.45	8.75	+2.70
Since incep.	11.21	8.52	+2.69

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

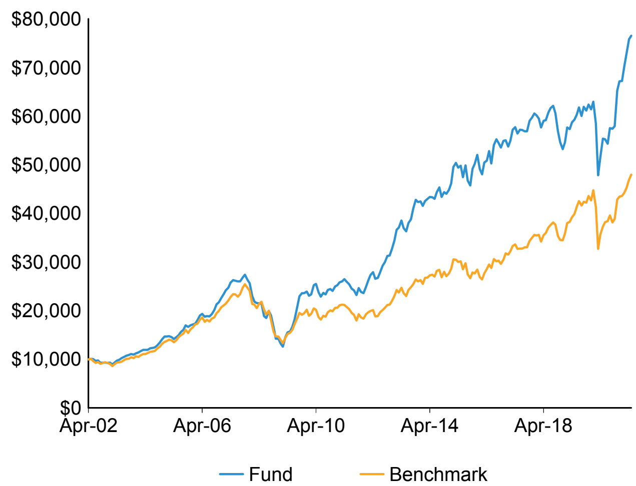
PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	17.0	18.5
Dividend Yield*	4.2%	3.9%
Price / Book	2.1	2.2
Debt / Equity	25.4%	32.0%
Return on Equity*	12.3%	13.9%

^ 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 2.3% over May. Stock prices were supported by a stimulating Federal Budget, rising commodity prices, and the continued roll-out of Australia's vaccine program. Unveiling of the Federal Budget during the month was well received by the market, with $96 billion in stimulus promised over five years, much of which is expected to flow through to businesses via increased consumer spending and investment. Market sentiment was further bolstered after the Reserve Banks made positive revisions to domestic GDP growth forecasts during its May policy meeting, citing positive labour market momentum and a strong outlook for global growth. The central bank highlighted that it would decide on whether to extend quantitative easing at its July meeting as it places a high priority on a return to full employment.

Sentiment, however, was hampered as trade tensions flared up as China's National Development and Reform Commission announced its indefinite suspension of activities under the China-Australia Strategic Economic Dialogue in response to the scrapping of Victoria's Belt & Road deal on the basis of national security grounds. A surge in iron ore prices to $US218.0/Mt, however, offset the decline in market confidence until efforts by China to constrain the commodity led to a retraction in its price. By the end of the month, iron ore still managed to finish $US14.50 higher at $US201.50/Mt.

The best performing sectors for the month, as measured from the S&P/ASX 300 Accumulation Index, were Financials (+5.7%), Health Care (+3.5%) and Consumer Discretionary (+3.2%). The worst performers were Information Technology (-9.1%), Utilities (-6.6%) and Energy (-1.5%). As a whole, industrial stocks (+6.0%) underperformed resource stocks (+7.7%) and large-cap stocks (+6.5%) outperformed small-cap stocks (+5.3%). Value stocks (+4.2%) outperformed growth stocks (+2.3%) 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.

Not holding payment services provider Afterpay (-21.1%) contributed to relative performance. Despite the absence of any materially adverse news directly relating to the company over the month, the stock fell along with the broader tech sector following declining investor confidence spurred by a broader sell-off across US tech stocks. The decline was thought to result from the prospects of higher inflation and concerns of rising interest rates that are likely to adversely impact higher valuation-multiple tech companies.

Not holding investment banking and financial services company Macquarie Group (-3.2%) contributed to relative performance. Investors were underwhelmed with the Group's full-year financial results for the twelve months ending 31 March. Macquarie reported an NPAT of A$3.02b which fell in line with consensus expectations and exceeded FY2020 by 10%. A final dividend of $3.35 per share was declared, equating to a June-half payout ratio of 60% (and a full-year payout ratio of 56%). Management failed to provide any short-term outlook, however, highlighted several influences that might be impactful and noted that it will be maintaining a conservative stance on capital, funding, and liquidity.

The underweight position in Commonwealth Bank of Australia (+12.0%) detracted from relative performance. The stock broke through the $100 price mark for the first time in May, supported by a solid March-quarter financial result, reporting a cash net profit after tax of $2.4 billion (compared with $1.3 billion across the same period in 2020, $1.70 billion in 2019, and $2.35 billion in 2018). Management advised that the impressive performance was driven largely by lower loan impairment expenses and a 2% increase in income, resulting from above-system core volume growth, improved margins, and higher non-interest income.

The overweight position in automotive and industrial products manufacturer G.U.D. Holdings (-9.1%) detracted from relative performance. Investors were disappointed with its March-quarter trading update after narrowing its full-year FY2021 EBIT guidance to $98-100m from a previous $95-100m, despite reporting a first-half EBIT of $52.3m (with its second-half result to include the earnings from its two newly acquired businesses, G4CVA and ACS). Management described the guidance range as "cautious" given its uncertain outlook. Despite this setback, the Fund continues to hold the stock as we believe the market is yet to recognise the benefits to be realised from its recent acquisitions.

OUTLOOK

As signs of a sustained recovery in the domestic economy emerge, our outlook for the Australian equity market remains optimistic over the near term with corporate earnings and business conditions continuing to strengthen. Although we remain wary of future COVID outbreaks that may trigger flash lockdowns, investor sentiment is anticipated to remain relatively resilient following the rollout of Australia's vaccine program, optimism over the eventual reopening of international borders, and ongoing discretionary fiscal and monetary stimulus measures continuing to support the economy. We expect to see a further rebound in the traditional value sectors (like banks, energy, resources, and consumer discretionary) which are likely to become more sensitive to an upswing in economic activity. As such, we anticipate that this investment style will continue to outperform after a prolonged period of dominance by growth investing. While rising inflationary pressures may stoke market volatility over the coming year, we believe that certain companies within the value segments of the market will thrive under such conditions, whereas other pockets of the market that has flourished in a low-interest rate environment will be less resilient if such conditions were to persist. This is why adhering to an investment approach that's underpinned by a disciplined, active, value-based methodology is important, regardless of 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.

MORE INFORMATION

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