

## Wholesale Funds

# PERPETUAL WHOLESAL ETHELICAL SRI FUND

August 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.

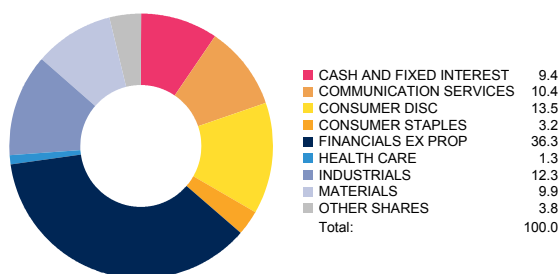
Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research from external specialists to analyse socially responsible practices of companies listed on the Australian and overseas exchanges.

### 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.

|   |                                       |
|---|---------------------------------------|
| <b>Benchmark:</b>                           | S&P/ASX 300 Accum. Index              |
| <b>Inception Date:</b>                      | April 2002                            |
| <b>Size of Portfolio:</b>                   | \$958.40 million as at 30 Jun 2021    |
| <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   | 7.3%           |
| ANZ Banking Group Ltd.            | 6.6%           |
| Insurance Australia Group Limited | 5.4%           |
| Orora Ltd.                        | 5.1%           |
| AUB Group Limited                 | 4.1%           |
| Commonwealth Bank of Australia    | 3.8%           |
| Medibank Private Ltd.             | 3.7%           |
| Telstra Corporation Limited       | 3.6%           |
| HT&E Ltd                          | 3.5%           |
| Premier Investments Limited       | 3.4%           |

### NET PERFORMANCE - periods ending 31 August 2021

|              | Fund  | Benchmark # | Excess |
|--------------|-------|-------------|--------|
| 1 month      | 3.60  | 2.61        | +0.99  |
| 3 months     | 6.07  | 6.08        | -0.01  |
| FYTD         | 3.10  | 3.74        | -0.64  |
| 1 year       | 41.15 | 28.58       | +12.56 |
| 2 year p.a.  | 16.26 | 10.63       | +5.63  |
| 3 year p.a.  | 9.32  | 10.13       | -0.81  |
| 4 year p.a.  | 9.31  | 11.44       | -2.13  |
| 5 year p.a.  | 7.99  | 11.05       | -3.06  |
| 7 year p.a.  | 8.68  | 8.70        | -0.02  |
| 10 year p.a. | 12.88 | 10.26       | +2.61  |
| Since incep. | 11.39 | 8.73        | +2.66  |

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

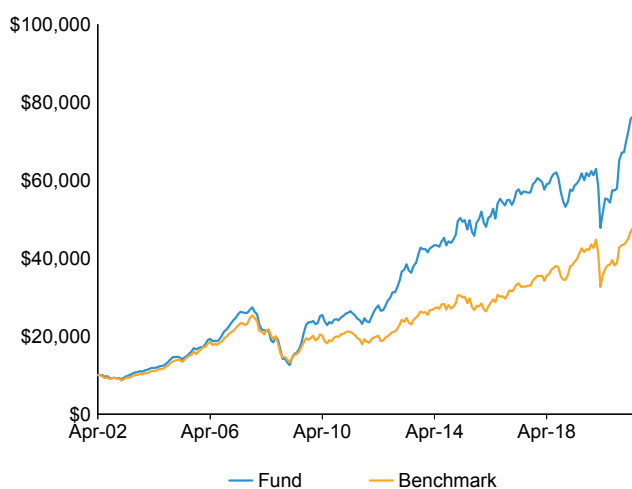
### PORTFOLIO FUNDAMENTALS<sup>^</sup>

|                   | Portfolio | Benchmark |
|-------------------|-----------|-----------|
| Price / Earnings* | 17.7      | 17.9      |
| Dividend Yield*   | 4.1%      | 4.0%      |
| Price / Book      | 2.2       | 2.3       |
| Debt / Equity     | 28.2%     | 30.2%     |
| Return on Equity* | 12.0%     | 15.0%     |

<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



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

## MARKET COMMENTARY

Investor sentiment was tested during the month following mixed earnings results and broader economic uncertainty driven by surging COVID cases and vaccine inefficacy concerns. The market largely shrugged off these concerns as the S&P/ASX 300 reached a record high mid-way through August and finished the month 2.6% higher. While reporting season drew to a close, a mixed-bag of full-year financial results saw investors punish companies that missed earnings guidance more than it rewarded companies that outperformed. The shutdown of construction activity loomed over building materials producers as the spread of the Delta variant contributed to commodity price volatility, leading to a sell-off across the mining sector. Reopening stocks came under pressure as Sydney tightened restrictions and Victoria entered its sixth lockdown. Pressure across these sectors was partially offset later in the month following positive vaccine-supply news and political leaders expressing the need to pivot away from reducing COVID case numbers and focus instead on vaccinations rates as the pathway out of lockdowns.

The tightening of COVID restrictions saw the RBA lower its year-end GDP growth forecasts during the month. Investors, however, dismissed concerns as 2022 growth projections were upgraded in line with expectations of a vaccination-driven bounce back. The unemployment rate unexpectedly fell to a 12-year low yet was offset by an increase in the underemployment rate as the lockdowns impacted total monthly hours worked. Investors nevertheless were reassured as the RBA reiterated its continuation of quantitative easing in the event of any further significant economic setbacks. The RBA further revealed that conditions for a rate hike could be met before its 2024 timeline if unemployment and inflation forecasts remained on track.

The best performing sectors for the month, as measured from the S&P/ASX 300 Accumulation Index, were Information Technology (+16.2%), Consumer Staples (+6.8%), and Health Care (+6.6%). Conversely, the worst performers were Materials (-6.9%), Energy (-3.8%), and Utilities (+1.0%). As a whole, industrial stocks (+5.6%) outperformed resource stocks (-8.4%) and large-cap stocks (+2.0%) underperformed small-cap stocks (+5.0%). Value stocks (-0.3%) underperformed growth stocks (+4.4%) as measured by the MSCI Australia Value and MSCI Australia Growth indices, respectively.

## 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 packaging manufacturer Orora, insurance provider AUB Group, and insurance provider Insurance Australia Group Ltd. Conversely, the Fund's largest underweight positions include CSL, BHP Group, and Westpac Bank, all of which are not held in the Fund.

Not holding diversified miner BHP Group (-14.7%) contributed to relative performance. The stock fell after revealing its plans to spin-off and subsequently merge its oil and gas operations with Woodside Petroleum Ltd in a move to improve its ESG profile. Analysts cautioned of the adverse financial impact that would result from the loss of its high-margin oil and gas earnings and growth projects that currently represent two-thirds of BHP's total growth profile. The stock was further pressured by a 20% fall in iron ore prices over the month. The decline was linked to weaker steel demand from China and commentary from the US Federal Reserve indicating that it could soon tighten its accommodative monetary policy stance.

The overweight position in hospitality and leisure company Event Hospitality & Entertainment (+19.0%) contributed to relative performance. The stock outperformed upon release of stronger-than-expected full-year financial results. Management highlighted that despite COVID-related lockdowns and restrictions significantly impacting earnings, its cinemas business had seen a strong rebound once venues had reopened, with customers spending more than during pre-COVID times. This led to expectations of an optimistic earnings outlook by management once current restrictions are lifted.

Not holding payment services provider Afterpay (+39.2%) detracted from relative performance. The stock spiked at the beginning of August after the US tech company, Square, Inc. announced a \$39b proposal to acquire all Afterpay shares via a scheme of arrangement, in what would be the largest takeover in Australia's history. Under the proposed terms of the agreement, each Afterpay investor would receive 0.375 shares in Square for every Afterpay share they own, representing a ~30% premium to its last closing price on the day of the announcement.

The overweight position in mining royalty firm Deterra Royalties Ltd (-6.9%) detracted from relative performance. Despite reporting solid full-year financial results during the month, the stock came under pressure from weakness in iron ore prices, falling 20% in August and losing almost a third of its value since its record high in May. The decline in the commodity was linked to softer Chinese demand as steel production fell 10.5%, and from the US Federal Reserve commenting that it might soon tighten its accommodative monetary policy stance.

## OUTLOOK

The rotation to economic recovery that favours value stocks remains firmly on track. Looking beyond shorter-term disruptions, it is clear that economic momentum, both home and abroad, remains strong. Admittedly, business and consumer confidence have fallen off recent highs, but the Australian recovery remains one of the most advanced in the world and well ahead of forecasts from 2020.

Companies we talk to are less concerned by shorter-term lockdowns and focused heavily on longer-term challenges, including the potential for higher embedded inflation, although this bodes well for value stocks, especially resources. Many value stocks are only just rising above previous 2007 peaks while some growth stocks continue to trade at valuation multiples many times higher than their levels of just a few years ago. We think a combination of all the factors described above suggests a return to sustained global recovery, with higher inflation, higher bond yields, but also a longer and more sustained swing to value. Our focus will remain on screening out balance-sheet, management, earnings, and business risks to ensure our clients are invested in high-quality businesses at reasonable prices.

# 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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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 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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