

# WEALTHFOCUS PERPETUAL ESG AUSTRALIAN SHARE

July 2024

## 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

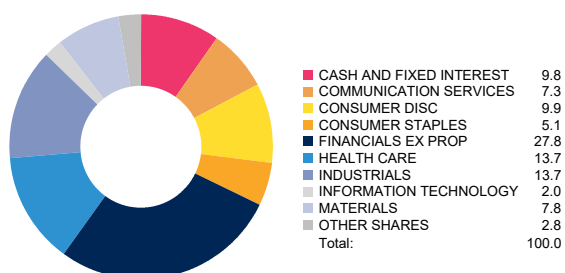
The Fund has two exclusion screens, with which we assess companies. A values-based exclusionary screen for involvement in certain activities, and a ESG exclusionary screen based on an evaluation of companies overall performance on ESG issues.

## 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>	October 2003
<b>Size of Portfolio:</b>	\$31.84 million as at 30 Jun 2024
<b>APIR:</b>	PER0222AU
<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 Ltd	5.8%
GWA Group Limited	5.5%
National Australia Bank Limited	5.3%
Healius Limited	4.8%
Medibank Private Ltd.	4.4%
EVT Limited	4.0%
a2 Milk Company Limited	3.9%
Deterra Royalties Ltd	3.8%
Westpac Banking Corporation	3.7%
Premier Investments Limited	3.4%

## NET PERFORMANCE - periods ending 31 July 2024

	Fund	Benchmark #	Excess
1 month	4.47	4.13	+0.34
3 months	3.95	5.98	-2.03
FYTD	4.47	4.13	+0.34
1 year	12.28	13.27	-0.99
2 year p.a.	12.25	12.18	+0.08
3 year p.a.	8.62	7.12	+1.49
4 year p.a.	15.56	12.25	+3.31
5 year p.a.	9.72	7.46	+2.26
7 year p.a.	7.97	9.28	-1.31
10 year p.a.	7.94	8.02	-0.07

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

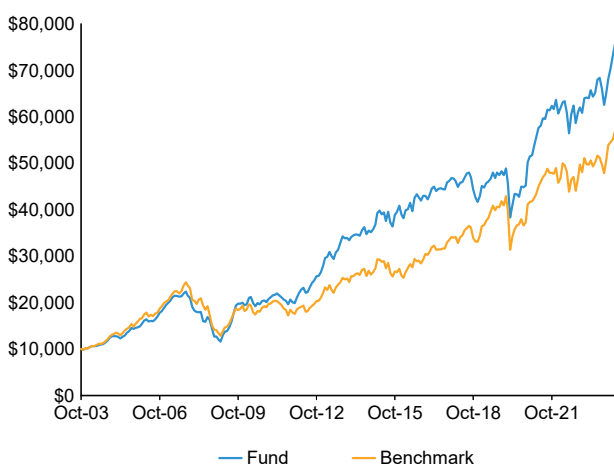
## PORTFOLIO FUNDAMENTALS<sup>^</sup>

	Portfolio	Benchmark
Price / Earnings*	19.2	17.6
Dividend Yield*	3.2%	3.8%
Price / Book	2.2	2.2
Debt / Equity	29.8%	36.1%
Return on Equity*	10.8%	12.9%

<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/ASX 300 rallied strongly in July, rising by 4.1%. The Australian market benefited from a global rotation favouring cyclicals over technology. This shift saw Financials soar by 6.25%, contributing nearly half of the benchmark return. The Consumer Discretionary and Real Estate sectors were also significant contributors, along with healthcare. The backdrop was reasonably benign, with strong domestic employment growth and high hopes for a soft landing in the US. While concerns about high inflation persisted at month-end, a consensus quarterly inflation number alleviated fears of further rate hikes and boosted markets.

## PORTFOLIO COMMENTARY

A feature of this portfolio is that it applies Perpetual's ESG process and values-based investment criteria. The portfolio's largest overweight positions include GWA Group Limited, Insurance Australia Group Ltd and Healius Limited. Conversely, the portfolio's largest underweight positions include BHP Group Ltd (not held), Commonwealth Bank of Australia, and Wesfarmers Limited (not held).

The overweight position in GWA Group significantly contributed to performance over the month, with the stock rallying 10.42%. This recovery followed a period of sell-off after an impressive rally post the 1H24 results, which marked the first volume growth in the core Australian business in many years due to strategic investments in re-engaging with plumbers. This plumber engagement strategy is crucial, as 95% of GWA products require installation by certified plumbers who influence around 70% of purchase decisions. Two years ago, GWA was engaged with only 4,000 plumbers; now, it has increased this number to 22,000 out of a market of approximately 36,000. GWA has also been benefitting from deflationary tailwinds from Chinese manufacturers, which, combined with the ability to implement price increases, expanded gross margins by nearly 300 basis points in the half year result earlier in the year. Despite Australian housing starts remaining at low levels, the situation is unlikely to worsen. The Federal government's ambitious target to build 1.2 million houses over the next five years and potential interest rate cuts later in the year could positively impact GWA's medium-term outlook. The fully franked 6.5% dividend provides attractive compensation while awaiting market conditions to improve, especially since we appear to be at the bottom of the residential cycle.

BlueScope Steel Limited contributed to strong performance in July, with its stock rising by 8.47%. This increase was primarily driven by market anticipation of potential monetary policy easing in the US and expectations that the US election outcome could further pressure Chinese steel imports. This rally occurred despite consensus downgrades for FY25 due to the collapse in steel spreads. While short-term steel spread dynamics remain challenging, we believe the share price movement aligns with the longer-term opportunity. Steel pricing has reached a level where there is an asymmetric upside potential, and we are observing positive competitive trends with hot-rolled coil steel prices increasing. BlueScope remains one of the highest quality steel producers globally, with a capable management team, a significant asset in Port Kembla, and the Colorbond brand, which not only boosts margins but also represents a substantial overseas opportunity.

Pacific Current Group Ltd detracted from relative performance over the month of July as the stock fell -2.62% while the market was up 3.49%. This was despite any negative news, with the company diverting Carlisle management company which was not a surprise. The stock has been an M&A target for some time, receiving bids from Regal and GQG over the past 12 months. When these whole of company bids fell over, we still saw significant M&A opportunity in the stock which has played out. GQG was ultimately successful in acquiring minority interests in three of PAC's US-based affiliates. The fund manager will acquire stakes in Avante Capital Partners, Proterra Investment Partners, and Cordillera Investment Partners for an aggregate cash consideration of US \$71.2 million (\$108 million). The company now has significant cash on the balance sheet which we expect it to return to shareholders in the coming months. This is a classic case of the sum of the parts equating to a greater value than the whole, with considerable value set to be unlocked as PAC winds up and shareholders receive a significant amount of capital.

The overweight position in healthcare services and hospital operator Ramsay Health Care detracted from relative performance over July (-2.09%) although the stock largely traded sideways. There is growing concern over reimbursements the hospital providers receive not keeping up with both wage inflation as well as higher medical supply costs. Overseas, the French government initially provided Ramsay Sante with a lower-than-expected tariff indexation, which they have since adjusted upwards to match the inflationary environment. The UK Government has provided only a 0.6% indexation, and Ramsay UK are currently negotiation for a higher rate of indexation. Despite this, activity level trends are normalising, and the balance sheet is much healthier post the sale of Sime Darby.

## OUTLOOK

Markets finished July on a high note, but difficulties are emerging. A sudden deterioration in economic data in the US during the first week of August led to a sharp sell-off in US and other equity markets. This accelerated the rotation in equities that began in July and raised the spectre of a recession for the first time in months. Coinciding with this was the Bank of Japan's decision to raise interest rates to near generational highs, which appeared to trigger a reappraisal of asset allocation and a potential unwind of the multi-trillion-dollar Japanese "carry trades" that have been in place for many years. The Nikkei had its worst day since 1987, though it bounced back a day later. Nonetheless, the sharp correction in markets, with the NASDAQ repeatedly underperforming the Dow and S&P, increases the risk that a broader realignment could finally be here.

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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.  
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The product disclosure statement (PDS) for the Perpetual WealthFocus Superannuation Fund ABN 41 772 007 500, issued by PSL, should be considered before deciding whether to acquire or hold units in the 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 an investor's capital.  
Total returns shown for the Perpetual WealthFocus Superannuation Fund 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 taxation. Past performance is not indicative of future performance.

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## MORE INFORMATION

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