PERPETUAL ETHICAL SRI FUND (MANAGED FUND)

ASX code: GIVE

May 2022

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

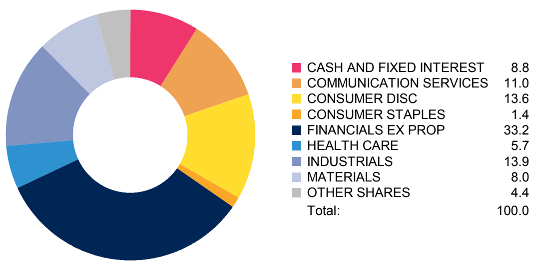
We seek to invest in quality companies that have satisfied our range of ethical and socially responsible investment criteria. Perpetual is also a signatory to the United Nations-supported Principles for Responsible Investing (PRI), and in relation to this fund, use research from external specialists 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 of strategy:	April 2002
ASX commencement date:	29 November 2021
Distribution Frequency:	Half-Yearly
Management Fee:	0.65%*
Performance Fee:	15 % of outperformance*
Investment style:	Active, fundamental, bottom-up, value
Suggested minimum investment period:	Five years or longer

PORTFOLIO SECTORS



TOP 10 STOCK HOLDINGS

	% of Portfolio
National Australia Bank Limited	6.8%
Insurance Australia Group Limited	6.6%
ANZ Banking Group Ltd.	6.5%
Brambles Limited	4.7%
Medibank Private Ltd.	4.5%
Wesfarmers Limited	4.3%
Orora Ltd.	4.1%
Bapcor Ltd	3.6%
Deterra Royalties Ltd	3.5%
Event Hospitality & Entertainment Ltd.	3.5%

*Information on management costs is set out in the relevant PDS

NET PERFORMANCE - periods ending 31 May 2022

	Fund	Benchmark	Excess
1 month	-3.95	-2.76	-1.19
3 months	-1.02	3.08	-4.10
FYTD	-	-	-
1 year	-	-	-
2 year p.a.	-	-	-
3 year p.a.	-	-	-
Since incep.	-1.43	1.32	-2.75

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	14.3	14.3
Dividend Yield*	4.9%	4.7%
Price / Book	1.7	2.0
Debt / Equity	31.4%	33.5%
Return on Equity*	12.7%	14.6%

^ 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.

MARKET COMMENTARY

The Australian equity market ended May lower, with most of its decline occurring during the first week, as the RBA lifted the cash rate by 25 basis points to 0.35%. This exceeded expectations of a 15bp increase, with the reserve bank citing a faster and higher-than-expected pickup in inflation and intense upward pressure on labour costs that is likely to continue.

Consumer confidence also fell to its lowest level since Victoria's second Covid wave in August 2020 and saw its largest weekly drop since early January during the height of the Omicron wave, amid concerns over inflation and further rate hikes. Risk aversion also heightened as concerns that increasingly hawkish central bank policy could spur an economic slowdown. Real estate, tech and other high-growth stocks were among the underperformers. Mining producers came under pressure as China's export data highlighted the pressure on its trade sector from lockdowns and concerns of an economic slowdown. This contributed to a pullback in commodities following its rally built primarily on supply shortages due to the war in Ukraine. Discretionary goods retailers were another drag on the market as cost-of-living pressures increased the risk of a spending pullback.

After recouping more than half of its first-week losses during the second week of May, the market came off its worst levels and continued to edge higher during the third and fourth weeks. However, questions remained about the market's durability given the prevalent headwinds from rising rates, stagflation risks, and uncertainty surrounding the economic fallout from the Russian invasion and China's lockdowns. The muted market reaction to the Federal Election was partly attributed to Labor's relatively modest policy agenda, which was not considered a material risk to economic forecasts. Energy outperformed over the month's final week as crude approached its highest level in two months. However, consumer staples extended recent underperformance amid ongoing concerns surrounding cost inflation and pervasive supply chain constraints. Banks were also a drag on the ASX after regulatory officials warned of likely stresses on borrowers from rising rates.

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 Insurance Australia Group Ltd, Medibank Private Ltd, and Brambles Ltd. Conversely, the Fund's largest underweight positions include CSL Ltd., BHP Group Ltd. (not held), and Commonwealth Bank of Australia.

The overweight position in supply chain services provider Brambles (+3.1%) contributed to relative performance. The stock rose sharply after Brambles confirmed media reports that it was engaging with private equity suitor Capital Partners regarding an unsolicited acquisition proposal for the company. The stock, however, handed back much of this gain later in the month after CVC advised that it would not be putting forward a proposal nor seeking to conduct detailed due diligence at this time due to the current external market volatility. The Brambles board indicated that it is considering other strategic options for the company that maximise shareholder value.
Not holding commercial real estate developer Goodman Group (-14.3%) contributed to relative performance. Despite upgrading its earnings per share guidance from 20% to at least 23%, the stock fell along with the broader real estate sector following the 25 basis point increase in the cash rate. The RBA noted that rates could rise to a more normal level of 2.50% after upgrading its CPI forecasts and projecting headline and underlying inflation could rise to around 6% and 4.75%, respectively, for 2022 before moderating to about 3% by mid-2024.
The underweight position in investment banking and financial services company Macquarie Group (-8.4%) contributed to relative performance. The stock fell on its full-year earnings release, which missed market expectations despite reporting a 36% increase in full-year operating income to $17,324 million and a 56% jump in net profit to $4,706 million. The weaker-than-expected result led to several broker downgrades throughout the month, including those by Citi, Morgans, and Credit Suisse.

Not holding iron ore miner BHP Group (+4.3%) detracted from relative performance. The stock price benefitted after Woodside Energy Group shareholders approved the proposed merger of BHP's oil and gas portfolio, where Woodside will acquire the entire share capital of BHP Petroleum International in exchange for new Woodside shares. The new shares will be issued to BHP shareholders and will commence trading on the ASX on 2 June 2022.
The overweight position in retail outlet investment company Premier Investments Ltd (-11.9%) detracted from relative performance. The stock sold off with the broader discretionary retail sector on rising interest rates and inflationary concerns. CLSA upgraded the stock to outperform from underperform. However, it decreased its target price to $25.75 from $28.25. Citi also upgraded Premier to a 'buy' from 'neutral,' though decreased its target price to $29 from $30.80. This came as US retail giants Target and Walmart released disappointing quarterly earnings during the month, further dampening sentiment for local retail stocks.

OUTLOOK

After a few months of volatile market moves dominated by macroeconomic concerns, we are beginning to move forward. However, operating conditions for many companies remain challenging despite generally solid demand conditions. Pressures surrounding supply chains and rising interest rates, managing inflationary pressures, and weather, will all be in focus. Our view in times like these is that strong business models, healthy balance sheets, and good management teams excel. As always, we will focus our attention on earnings quality and look for opportunities where the market is overly focussed on short-term earnings drivers. We feel that this shift in narrative towards increasing inflation and interest rates should continue for most of the year. This should prove to be a challenging environment for both bonds and equities but, more specifically, long-duration equities like non-earnings-generating tech companies. However, we will keep an open mind. Therefore, one needs to be careful about consensus macro views. We will need to keep on top of this from a portfolio risk management perspective. However, for the time being, we are seeing some great opportunities.

MORE INFORMATION

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