PERPETUAL ESG AUSTRALIAN SHARE FUND (MANAGED FUND)

ASX code: GIVE

January 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.

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

CASH AND FIXED INTEREST	9.8
COMMUNICATION SERVICES	10.3
CONSUMER DISC	13.3
CONSUMER STAPLES	5.5
FINANCIALS EX PROP	24.2
HEALTH CARE	13.2
INDUSTRIALS	15.3
INFORMATION TECHNOLOGY	2.0
MATERIALS	4.8
OTHER SHARES	1.6
Total:	100.0

TOP 10 STOCK HOLDINGS

	% of Portfolio
Insurance Australia Group Ltd	6.1%
a2 Milk Company Limited	4.8%
GWA Group Limited	4.7%
Telstra Group Limited	4.4%
National Australia Bank Limited	4.4%
EVT Limited	4.4%
Healius Limited	4.4%
Bapcor Ltd	4.0%
CSL Limited	3.2%
Medibank Private Ltd.	3.0%

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

NET PERFORMANCE - periods ending 31 January 2024

	Fund	Benchmark	Excess
1 month	2.96	1.10	1.86
3 months	13.37	13.89	-0.52
FYTD	7.77	8.64	-0.86
1 year	10.10	6.66	+3.44
2 year p.a.	8.03	9.11	-1.08
3 year p.a.	-	-	-
Since incep.	6.11	6.49	-0.38

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

PORTFOLIO FUNDAMENTALS^

	Portfolio	Benchmark
Price / Earnings*	18.1	16.7
Dividend Yield*	3.4%	4.0%
Price / Book	2.1	2.0
Debt / Equity	29.4%	35.9%
Return on Equity*	11.4%	12.7%

^ 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 portfolic and does not reflect the distributions to be determined for the fund.

* Forward looking 12-month estimate.

MARKET COMMENTARY

In January, the S&P/ASX300 exhibited a 1.1% rise. Notably, the Energy and Financial sectors demonstrated robust recoveries which countered the dominance of growth dominated sectors like healthcare and interest rate-sensitive stocks such as REIT's that characterised the closing quarter of 2023. Key players in the Materials sector such as BHP and Rio Tinto, experienced a decline as previously strong iron ore prices began to weaken. The market dynamics shifted with growth and bond proxies rallying strongly into Christmas in response to the Federal Reserve's indication of potential rate cuts. However as January unfolded, uncertainties arose regarding the timing and magnitude of these rate cuts. Economic data surpassed expectations and the late 2023 market rally coupled with improved financial conditions, led to increased questioning of the immediate necessity for rate cuts.

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 Insurance Australia Group Ltd, GWA Group Limited and a2 Milk Company Limited. Conversely, the portfolio's largest underweight positions include BHP Group Ltd (not held), Commonwealth Bank of Australia (not held) and CSL Limited.

A2 Milk contributed to returns during January (+13.38%). The out-performance was largely driven by better than expected Chinese 2023 birth-rate data in combination with an improving outlook for births and marriages across China as we enter the Dragon year, supportive of IMF sales. In addition, Kantar market share data continues to show A2 gaining market share in both offline and online channels. A2 has transitioned from a fast-growing start-up to an established and professional operator with a brand that resonates well with Chinese consumers. Management of inventory and pricing is sound, and we have growing confidence its investment in marketing is generating solid returns. The company's balance sheet is rock solid with over $800m in cash, providing it with optionality when navigating the challenging macroeconomic backdrop.
The overweight to IAG was a strong contributor to performance over January as the stock easily outperformed the market. IAG is one of our largest domestic overweight positions and the stock has been a beneficiary of rising insurance premiums. Rising interest rates are also a tailwind for the business as it translates into higher investment returns. Whilst insurance margins have been improving, we believe there is more upside. IAG's cost efficiencies remain inferior to Suncorp. There is substantial upside to IAG if it is able to target a similar level of operating efficiency. IAG has a renewed focus on capital management and re-instated the share buyback at the end of May 2023 which has also helped bolster the share price.

The overweight to Healius detracted from performance over the month (-15.29%) following on from the company raising capital while the share price was distressed. The timing of the capital raise was a disappointment given the discount was very dilutive to shareholders. We expressed our disappointment to the management and board members of Healius and we believe the business could be better managed. However, we are encouraged with the progress Healius has made with improvements in their radiology business under new leadership. The Pathology segment continues to track below what the business could achieve given in person GP visits are still around 20% below pre pandemic levels. We believe some of the co-pay introductions are deterring GP visits as consumers continue to defer and there is evidence that primary care screenings are also being deferred. We believe GP visits and Pathology volumes will re-bound in the future and that we will start to see pathology segment margins improve from here.
IGO Limited detracted from performance over the month (-16.46%) as the lithium price remained at historically low levels. Despite commodity price weakness, we still believe Greenbushes to be one of the lowest cost, highest quality hard rock lithium mines globally that has further expansion potential. The fall in the share price was also brought on by IGO placing it's Cosmos nickel mine into care and maintenance as heavy investment in cheaper Indonesian nickel capacity caught the market by surprise.

OUTLOOK

Current market focus centres on the economic trajectory, with concerns about an imminent recession gradually diminishing. Instead, attention is directed towards assessing whether the Federal Reserve has successfully orchestrated a soft landing, no landing, or potentially a cyclical recovery. Interpretations vary, with some pointing to the robust performance of US tech as indicative of a late 1990s growth market while others underscore the risks associated with a 1970s-like environment characterised by escalating energy costs, geopolitical instability, and shorter economic cycles. In the backdrop, significant challenges persist. These include the potential for higher interest rates and lingering issues in the financial system, such as troubled commercial property loans and fallout from the 2023 US banking crisis.

MORE INFORMATION

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