

## Wholesale Funds

# PERPETUAL WHOLESALE CONSERVATIVE GROWTH FUND

April 2022

### FUND FACTS

**Investment objective:** Aims to: provide moderate growth over the medium term and income through investment in a diversified portfolio with an emphasis on cash and fixed income securities; and outperform a composite benchmark (before fees and taxes) reflecting its allocation to the various asset types over rolling three-year periods.

### FUND BENEFITS

Provides investors with access to a diverse range of growth and income producing assets. Active management and asset allocation techniques are employed in order to further enhance the fund's return and manage risk.

### 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:** Conservative Growth Index (Internally generated composite)

**Inception Date:** September 2003

**APIR:** PER0077AU

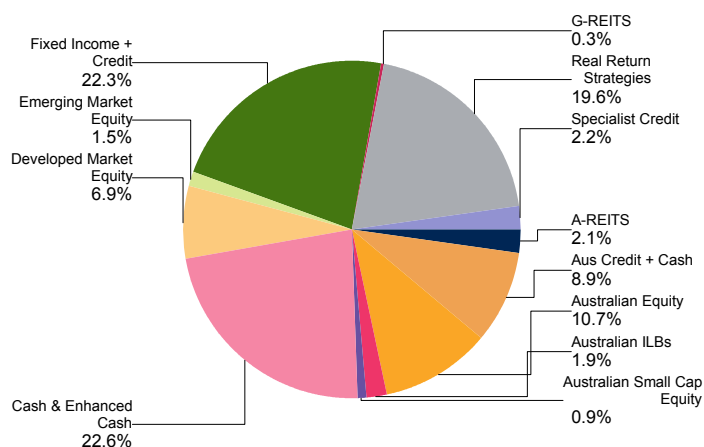
**Management Fee:** 0.90% p.a.

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

**Investment style:** Active, fundamental, disciplined, value

**Suggested minimum investment period:** Three years or longer

### PORTFOLIO SECTORS



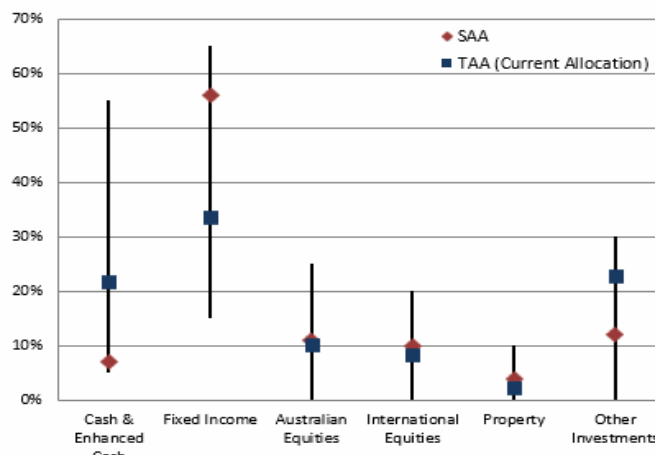
### NET PERFORMANCE- periods ending 30 April 2022

	Fund	Benchmark	Excess
1 month	0.6	-1.5	2.1
3 months	-0.6	-3.4	2.7
FYTD	0.6	-3.8	4.4
1 year	2.1	-1.9	4.0
2 year p.a.	5.6	2.7	2.9
3 year p.a.	4.1	2.6	1.6
5 year p.a.	4.4	3.9	0.5
10 year p.a.	5.5	5.2	0.4
Since incep.	6.0	5.7	0.3

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

### ASSET ALLOCATIONS AND INVESTIBLE RANGES

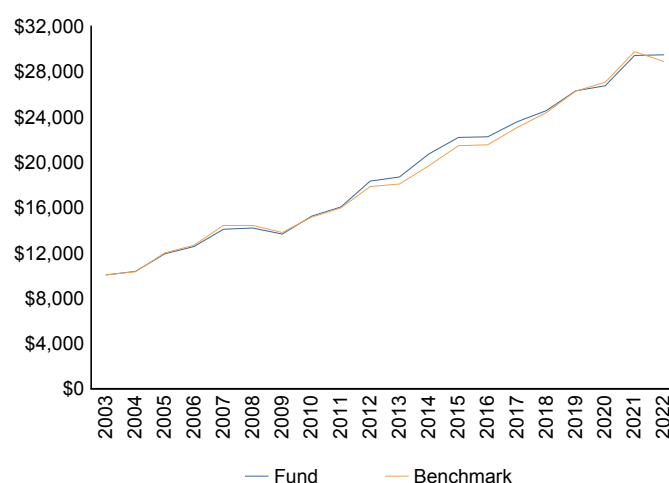
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



### STRATEGIC AND TACTICAL ASSET ALLOCATIONS

The Strategic Asset Allocation (SAA) is the neutral allocation acting as an anchor for active positioning, while the Tactical Asset Allocation (TAA) process adjusts the asset allocation according to market opportunities and risks.

### GROWTH OF \$10,000 SINCE INCEPTION



## MARKET COMMENTARY

Equity markets continued to weaken in April, particularly the US technology sector which had its worst month since 2008. There are a number of bearish influences on the market at present including:

- expensive absolute valuations across just about all markets;
- the complete overhaul of the monetary policy outlook that is driving a nasty bear market in government bonds and the prospect of much tighter liquidity conditions;
- a slowdown in economic and profit growth with recession risks increasing in the US, Europe and Asia; and
- growing geo-political risks in Europe due to the Russia/Ukraine war and in Asia reflecting a much more assertive China.

In our assessment, the most important of these influences has been the transformation of the monetary policy outlook in the US. The US Federal Reserve (the Fed) has been caught with extremely stimulative policy settings at the same time as headline and core inflation have soared to multi-decade highs. Reversing these policies will be painful as the Fed is explicitly seeking tighter financial conditions in order to attempt to bring inflation back down. Tighter financial conditions mean a combination of a stronger US dollar, higher bond yields and credit spreads and weaker equity markets. All of these things are happening, but the adjustment may have much further to go. For example:

- the US equity market is 14% off the highs of early this year but remains 23% higher than the pre-pandemic highs.
- the US 10-year bond yield has increased from just over 0.5% in July last year to nearly 3% by the end of April in a bear market that rivals the 1993-94 melt down. But unlike 1994, bonds could hardly be described as cheap with real 10-year yields back at just zero and the break-even inflation rate of 2.88% comparing very unfavourably to the current core inflation rate of 5.2%.

The key will be the evolving inflation data. For the past 35 years the Fed has been able to operate within a 'dovish' framework because inflation consistently surprised to the downside. If inflation pressures dissipate quickly in the next year the Fed may be able to pivot again to a more accommodating stance. This is a possibility, but at this stage it seems more likely that we have a long slog ahead in order to get inflation back down to 2% and the risk of a recession in the next few years has increased appreciably as a result.

The Russia/Ukraine war continues to drag on with horrific consequences for the Ukrainian populace including war crimes being committed by the Russian armed forces. At the same time there has been a very high attrition rate for the Russian armed forces raising questions about the sustainability of the invasion which appears to have gone much worse than the Russian leadership anticipated. It remains completely opaque as to how this war evolves, but we remain fearful of escalation by the Russians.

In Asia, the outlook for the Chinese economy continues to deteriorate. The recent lockdown in Shanghai (and other major cities) is particularly troubling as it is not clear that the highly contagious omicron variant can be eliminated. President Xi may have to back down and let the virus spread but with lower levels of natural immunity and questions surrounding the efficacy and accessibility of vaccines in China relative to Western nations, the risk of severe disease may be significantly higher. Meanwhile, the property sector remains under huge stress reflecting the 'three red lines' policy restricting the flow of credit to this highly levered sector. Moreover, the cushioning to the economy provided by net exports (reflecting very strong goods exports) is likely to abate as services sector demand in Western economies rebounds and goods demand eases.

The outlook for the Australian economy will depend heavily on developments in China. So far, commodity prices (including iron ore) have remained very high which has contributed to the resilience of the economy. The most recent inflation data were,

however, a major surprise to the upside and the RBA started the process of 'normalising' interest rates in May. Just like in the US, much will depend on the evolution of the inflation outlook.

Tightening monetary policy, slowing growth, disrupted supply chains and increasing geopolitical tension all contribute to a very challenging outlook for financial markets. Equity valuations remain at extremes on just about all metrics -- except relative to interest rates. Meanwhile, bond yields are exposed to inflation risk and potential policy errors and could go significantly higher. Against this backdrop, the most exposed part of the market would be growth stocks, while value and quality could be expected to be much more resilient.

That has proved to be the case so far this year with 'growth' oriented markets like the US (and particularly the tech heavy Nasdaq) underperforming significantly. At the same time, 'value' oriented markets like Australia and the UK (which are not directly affected by the Russia/Ukraine war) are trading close to all time highs.

During a turbulent month for financial markets, the Fund performed well, achieving a positive absolute return and substantially outperforming the benchmark as equity and fixed income markets fell – in some cases precipitously.

The Fund's stock selection across global and Australian equities performed very well during the month, significantly contributing to outperformance. The Fund's bias towards value sectors and securities performed well as 'growth' stocks, leveraged to future earnings, fell sharply during the month. Direct portfolio protection positions also contributed with the Fund's US equity put options performing well. The Fund is marginally underweight across domestic and global equities. All equity exposures retain their long-standing quality and value bias which are expected to continue to outperform against a backdrop of rising interest rates.

The Fund's significant underweight allocation to fixed income and credit mitigated the impact of rising bond yields and widening credit spreads during the month. For some time, the Fund has retained a substantial underweight allocation to fixed income (including credit) due to valuation concerns and a corresponding overweight cash position.

The Fund's allocation to foreign currency was a significant contributor to outperformance over the month. The US dollar (US\$) rose against peers over the month and the Fund's substantial allocation to US\$ and emerging market currencies performed well. Meanwhile, the weakness of the Chinese Yuan meant a USDCNH call option performed very well over the month. The Fund maintains a significant foreign exchange exposure, diversified across a number of developed and emerging market currencies.

The Fund's allocation to uncorrelated sources of return contributed significantly to outperformance through a month where most major asset classes declined. The fund maintains its position in the Diversified Real Return Fund which continues to deliver low volatility absolute returns while retaining a relatively low correlation to equity markets.

## OUTLOOK

Following a dramatic repricing of monetary policy expectations over the past six months, the remainder of 2022 will likely be dominated by the impact of central banks, led by the Fed, unwinding their extreme policy settings. Slowing economic growth, geopolitical risks and the path of the pandemic will also be critical considerations for investors. There are few places for conservative investors to hide.

The massive monetary expansion led by the US Federal Reserve has limited the attractiveness of defensive assets including government bonds. The subsequent economic recovery and increasing inflation risk has put significant upward pressure on interest rates. The tightening of monetary policy presents a major challenge to financial markets as liquidity is reduced and discount rates increase. Of course, geopolitical developments and the pandemic remain key risks that could also destabilise markets. In this climate the fund remains well positioned to navigate the tightening cycle and retains the capacity to add risk as valuations become more attractive.

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The Conservative Growth Fund gains its exposure to Australian Shares by investing in an underlying Australian Share Fund/s which primarily invests in Australian listed or soon to be listed shares but may have up to 20% exposure to stocks outside Australia. The investment guidelines showing the Fund's maximum investment in international shares do not include this potential additional exposure. Short positions may be part of the underlying Australian Share Fund's strategy. Currency hedges may be used from time to time.

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## MORE INFORMATION

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