Perpetual Investment Funds

PERPETUAL CONSERVATIVE GROWTH FUND

October 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 consideredbefore 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

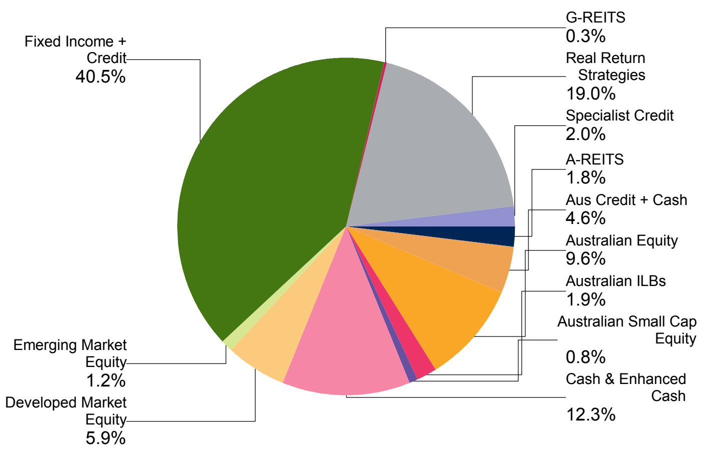
Management Fee: 0.90% p.a.

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

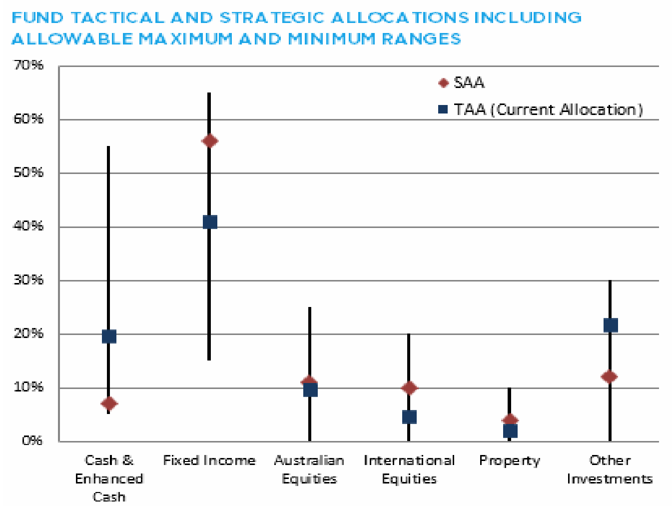


NET PERFORMANCE- periods ending 31 October 2022

	Fund	Benchmark	Excess
1 month	1.9	2.5	-0.6
3 months	0.2	-1.9	2.1
FYTD	2.1	1.8	0.3
1 year	-0.6	-5.7	5.1
2 year p.a.	3.9	-0.2	4.1
3 year p.a.	2.7	0.3	2.5
5 year p.a.	3.8	2.9	0.8
10 year p.a.	4.9	4.5	0.4
Since incep.	5.8	5.4	0.3

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

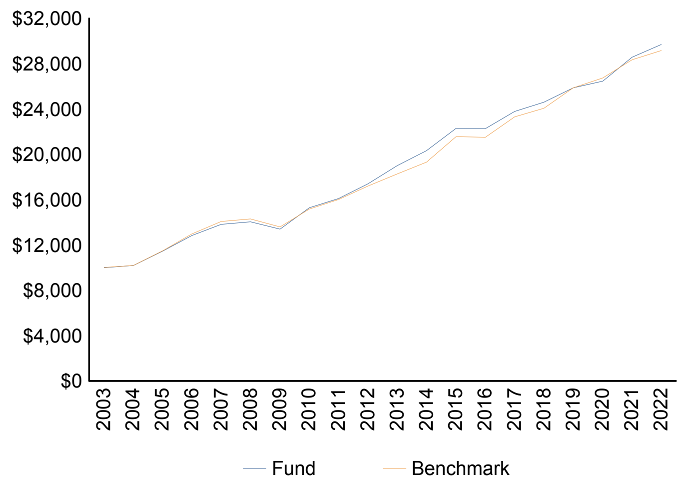
ASSET ALLOCATIONS AND INVESTIBLE RANGES



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

Global equity markets recovered in October as investors priced in a slower pace of central bank tightening.

- US equities (8.1%) rallied strongly as less hawkish dovish monetary policy speculation. At the same time, disappointing earnings in the US tech sector contributed to value sectors substantially outperforming growth.
- Australian equities (6.0%) rebounded underpinned by a smaller than expected policy tightening by the RBA.
- Another sharp decline for Chinese equities (-16.4%) saw emerging markets (-2.6%) significantly underperform developed markets (7.2%).
- European equities (9.1%) surged, with strong performance for Germany (9.4%) and France (8.75%). UK equities (3.0%) trailed developed markets as the recent unfunded fiscal expansion was unwound and the Bank of England temporarily ceased its tightening cycle to offer monetary support.
- The US 10-year bond yield (+28bps) continued to rise, ending the month above 4% for the first time since 2008 with the YoY rise the steepest since 1984. Elsewhere, bond yields were mixed with Australian 10-year yields falling as the RBA slowed its monetary tightening during October.
- Commodities were also mixed with energy commodities rising amid OPEC production cuts whereas materials including Iron Ore (-6%) fell on soft Chinese demand.

We maintain our view of the key pressures currently weighing on the market outlook.

- Even though equity valuations have improved this year, they still remain above levels which are attractive, given the weakening earnings backdrop across most regions.
- Inflation and the tightening of the monetary policy has caused a nasty bear market in government bonds and much tighter liquidity conditions.
- A slowdown in economic growth with elevated recession risks in the US and Asia and acute recession risk in Europe have contributed a moderation in profit growth and this is expected to continue.
- Growing geo-political risks in Europe due to the Russia/Ukraine war and in Asia reflecting a much more assertive China and heightened tensions over Taiwan's future.

The US Federal Reserve (the Fed) continues to face a challenging task to bring inflation under control while minimising the economic impact of monetary tightening. During October, there was renewed speculation that the central bank would pivot from the historically aggressive rate of tightening in order to engineer a soft landing. Despite the positive market reaction to the possibility of peak inflation, the path back to the Fed's target level remains long with inflation continuing to rise above market and central bank expectations. While goods prices have moderated somewhat, services sector inflation remains well entrenched given extremely tight labour markets with unemployment in many key economies running at 50-yr lows. At the same time, leading recession indicators continue to mount with the US 2Y10Y yield now inverted for over 4 months, and the 3M10Y curve also inverted which has been an extremely reliable indicator of recession within 12-months.

Thus far, central bank rhetoric and rate increases have had a more immediate impact on financial market valuations than on employment and demand given the long and variable lags of policy. Indeed, lagging US economic indicators remain resilient including the September quarter GDP which rebounded solidly (+0.6% q/q) following two consecutive negative quarters. While consumer spending showed resilience amid a very tight labour market and a falling savings ratio, the impact of higher interest rates has been very noticeable in housing. During the month there was a modest easing in wage inflation indicators with the latest average hourly earnings and employment cost index data softening.

We remain concerned about the outlook for economic growth and profits. US earnings results released thus far have exceeded downgraded market expectations. This primarily reflects the surge in energy sector profits given higher crude oil prices, but outside this small sector US Q3 earnings growth was a rather weak -5.2% year on year which is the lowest rate since the outbreak of the pandemic. At present, revenue growth is still quite strong, but cost pressures are rising sharply, and this before the impact of the Fed's interest rate begin to impact activity and corporate bottom lines. More importantly, financial conditions are set to tighten further in the months ahead as the Fed accelerates the reduction of its balance sheet by selling US Treasuries and some mortgage-backed securities, which will place upward pressure on corporate financing costs and the US Dollar. The combination of tightening financial conditions and slowing or negative growth also highlights the risk of zombie companies (heavily leveraged unprofitable firms that have only survived due to the incredibly low interest rates over the past decade) being exposed given their weak operating models.

While the actions of the Fed remain the most crucial determinant of the market outlook, other major central banks are grappling with similar – and sometimes far more dire – circumstances. The ECB faces a challenging backdrop of double-digit inflation, an energy crisis and a sharply slowing economy. During the month, the ECB increased rates by another 75bps to 1.5% to combat both record high inflation and ease pressure in the labour market where regional unemployment fell to a fresh record low of 6.6%. Meanwhile, the Bank of England engaged in contemporaneous monetary policy tightening (raising interest rates) and easing (purchasing bonds as a buyer of last resort) to stabilise the bond market which was in turmoil following the Truss government's September mini budget which risked placing the country on a worsening debt trajectory.

Elsewhere, the RBA's path to a soft landing remained more viable than the US or Europe as they lowered the pace of recent policy monthly tightening from 0.5% to 0.25% despite a higher-than-expected 3rd quarter CPI result. The RBA has a more potent mechanism to address household spending given highly leveraged household balance sheets and the majority of local mortgages being at variable rates which are highly sensitive to changes in the RBA's overnight cash rate. At the same time, the economy looks quite solid at present and stands to benefit from the negative rate differential with the US resulting in a lower Australian Dollar.

Global equity stock selection contributed to performance as value sectors and securities outperformed their growth peers with a number of US tech giants reporting underwhelming earnings. The Fund's global equity put options detracted from relative return over the month given the strong rally across US and European shares. The Fund remains underweight equities in recognition of expensive valuations, tightening financial conditions and slowing economic growth. 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 sharp selloff in bonds and the rising recession risks through the first half of 2022 have increased the attractiveness of government bonds in some markets. Over recent months, the Fund has added exposure to Australian and US duration, partially offset by partially offset by a small short (negative) position in Japanese duration. The Fund remains underweight fixed income.

The Fund maintains a significant foreign exchange exposure, diversified across a number of developed and emerging market currencies. The Fund's overweight allocation to cash detracted from relative performance during October as equity markets recovered. The Fund also maintains a USDCNH call option position offering an asymmetric pay off should the authorities in China respond to their growing economic challenges by further depreciating their currency. The call option performed well despite the People's Bank of China taking measures to slow the

Yuan's depreciation in the lead up to October's Communist Party Congress.

In consideration of the number of pressures weighing on financial markets, the Fund maintains its position in the Diversified Real Return Fund which is expected to deliver low volatility absolute returns while retaining a relatively low correlation to equity markets.

OUTLOOK

Rising interest rates, tightening financial conditions, 40-yr highs in inflation and slowing economic growth are a challenging environment for investors to navigate. High equity valuations were only supported by bond yields staying low as long as inflation was contained. Equity valuations have adjusted (although there could be more to come), but now profit expectations need to be lowered to more closely align with the economic backdrop. 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.

MORE INFORMATION

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