Wholesale Funds

PERPETUAL WHOLESALE CONSERVATIVE GROWTH FUND

December 2020

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

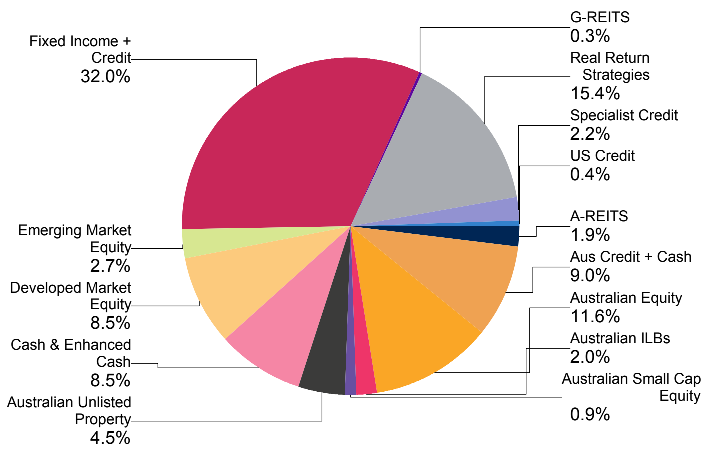
Management Fee: 0.00% p.a.

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



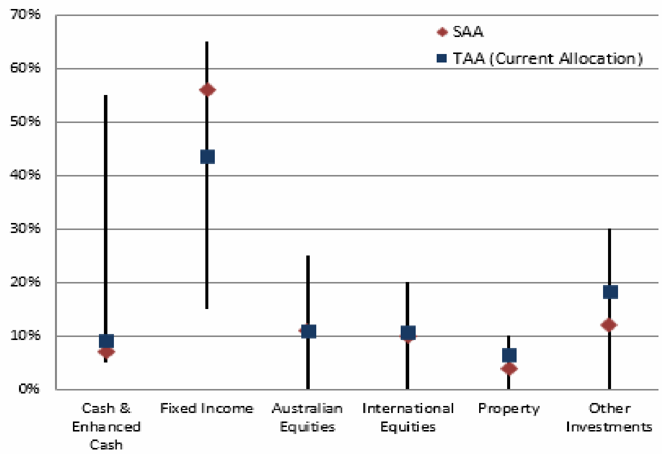
NET PERFORMANCE- periods ending 31 December 2020

	Fund	Benchmark	Excess
1 month	0.4	0.2	0.2
3 months	3.8	3.1	0.7
FYTD	4.5	4.3	0.2
1 year	3.9	3.8	0.1
2 year p.a.	6.0	7.5	-1.4
3 year p.a.	4.5	5.7	-1.3
5 year p.a.	4.6	5.6	-1.0
10 year p.a.	5.9	6.1	-0.2
Since incep.	6.1	6.2	-0.1

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

ASSET ALLOCATIONS AND INVESTIBLE RANGES

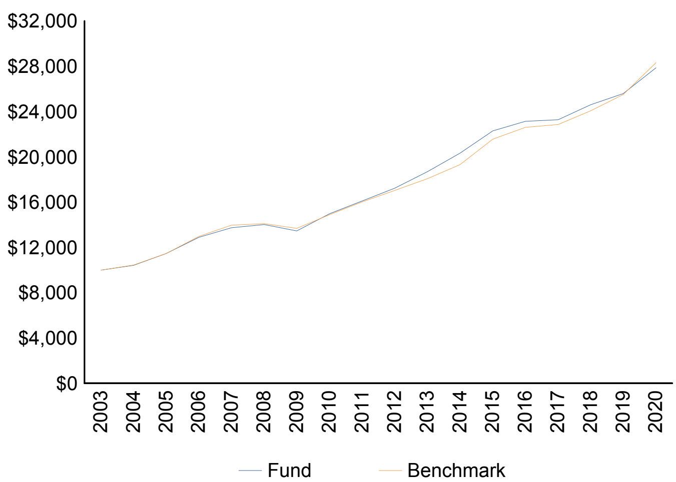
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



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

The December quarter was dominated by the huge November rally in equity markets. Markets reacted strongly to positive vaccine developments and largely ignored the powerful second wave in new COVID-19 cases in Europe and the US.
- US equities (12.2%) surged in the quarter, following the presidential election and news of high to very high efficacy and safety from multiple COVID vaccine trials.
- European markets also rallied very strongly with the Eurostoxx (11.4%) rising in spite of the reintroduction of social mobility restrictions in late October. The UK (12.7%) also performed exceptionally well, despite similar travails in dealing with a second wave of coronavirus infections.
- Asian markets posted the strongest gains across Japan (18.5%), Korea (23.4%), Hong Kong (16.3%) and Taiwan (17.9%).
- The ASX 200 (13.7%) also rose dramatically in the quarter, and in the process posted its strongest ever monthly return during November.

News of successful vaccine trials from Pfizer, Moderna and Astra Zeneca sparked the explosive rally in equities.

These vaccines dramatically change the outlook for the course of the virus in 2021. Consequently, global growth in 2021 is set to be the strongest since the 1970s as social mobility restrictions ease and consumers start to run down elevated savings. In the meantime, fiscal and monetary support are likely to continue at unprecedented levels in most global economies to reduce abundant spare capacity.

Of course, for many people there will remain significant uncertainties regarding the long-term safety and efficacy of these vaccines given the speed of the approval process. Moreover, the logistical problem of distributing the vaccine globally is daunting. Notwithstanding these challenges, the vaccines are very likely to be the game changer that we are all looking for.

The positive news on the vaccine stood in stark contrast to the surge in COVID cases in Europe and the US. The second wave has been much worse than the first in terms of case numbers, although the preparedness and capacity of the health system to deal with a surge in cases is much improved. As a result, short term growth expectations in the US and particularly Europe (where social mobility has been limited much more significantly) have been marked down at the same time as confidence in a strong rebound in growth in 2021 has increased (due to the vaccine news). The short-term bad news was largely ignored by the markets in favour of focussing on the unequivocally positive vaccine developments.

Value sectors (particularly those most adversely affected by COVID) significantly outperformed growth sectors over the quarter. The vaccine announcements precipitated expectations of a sharp rebound in profits next year for those stocks. A modest rise in bond yields added to the impetus for a notable rotation towards value sectors and away from growth sectors (as the latter benefit disproportionately from extraordinarily low long-term interest rates).

The results of the US general election were also a key supportive factor for equities. Uncertainty about the election and its aftermath was pervasive during October, but quickly dissipated following the clear result of the election. Some uncertainty remained in the form of the final make-up of the Senate and the ongoing legal contests to the electoral college results, but markets remained optimistic. The political atmosphere in the US remains toxic but late in the quarter a further fiscal stimulus package was finally passed by Congress and signed off by the President.

European markets were impacted by the resurgence of COVID-19 infections in the December quarter. There were widespread lockdowns implemented, with economic growth taking a significant hit. European healthcare systems and public services are far better prepared for COVID spikes than in February and March of this year when public health institutions were quickly overwhelmed. Nonetheless, the impact on economic activity of this second wave is expected to be significant. Despite being overshadowed by the pandemic, a Brexit deal was finally consummated in the last week of 2020, to come into effect in 2021.

The strong economic recovery continued unabated in China with the virus apparently under control. While the reliability of Chinese economic data can be problematic, the apparent strong recovery in economic activity is confirmed by very strong demand for resources, including iron ore. In stark contrast, in other key emerging markets like India and Brazil, the virus remains rampant, and it is very difficult to see how it comes back under control in a sustainable fashion until the vaccine is available.

Australian markets performed strongly over the quarter, led by the value sectors, particularly energy and financials. The re-emergence of COVID-19 in NSW and ensuing travel restrictions did not have a significant market impact with Australian equities consolidating their November gains through the end of the year.

Australian markets benefitted from multiple domestic and international factors:
- Increasing interstate mobility and reduced restrictions in Victoria in October were positive for markets while reintroduced restrictions in NSW were less impactful.
- The Reserve Bank of Australia's early November decision to further reduce the overnight cash rate and 3-year yield targets helped fuel the rally in equities and credit as discount rates were further reduced. Similarly, the introduction of a $100bn quantitative easing program was supportive for asset markets.
- The economy continues to do better than was feared some months ago. In particular, the labour market is in much better shape than could have been expected due to the success of the massive Job Keeper program.
- International factors such as the vaccine news and US election results benefitted domestic markets alongside global peers.

There remain huge challenges for the Australian economy in 2021 in dealing with the COVID-19 crisis. Two issues that stand out are first winding back the Job Keeper program without undermining the recovery and second managing the broken relationship with our most important trading partner, China. Notwithstanding these challenges - with the virus now under control again and a vaccine in prospect for 2021 - the outlook has improved significantly.

The strong rally in equities was the key driver of absolute returns over the quarter. The portfolio was able to fully participate in the rally, beginning the quarter close to benchmark allocations to Australian and global equities before increasing equity allocations to capitalise on the improving outlook.

The portfolio's foreign exchange allocation detracted from absolute performance as the Australian dollar rose against its peers over the quarter supported by higher commodity prices (including an increase in iron ore prices to new record highs). .

The key contributor to outperformance was stock selection in Australian and global equities. The portfolio's quality and value biases were rewarded by a notable rotation towards value sectors. The Fund's allocation to direct commercial property (with exposure concentrated in industrial property) continues to perform very strongly, contributing to outperformance.

Overall, the fund's Australian equity exposure is near benchmark, while the international equity exposures are slightly above benchmark. Exposure to US equities (and specifically US technology) has been reduced in recognition of stretched valuations. The fund is overweight Japan, UK and emerging market equities after increasing allocations over the quarter. All equity exposures retain their long-standing quality and value bias which significantly contributes to the defensive attributes of the

Fund. Moreover, after an extended period of under-performance, we expect a period of sustained out-performance from 'value' relative to 'growth' in the next 3 to 5 years.

In addition, the fund has substantial foreign exchange exposure diversified across a number of developed and emerging market currencies. Allocation to safe-haven currencies such as the USD and Japanese Yen contribute to downside protection. The fund remains underweight fixed income, reflecting valuation concerns.

Finally, 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

The global economy is currently positioned for a significant recovery in 2021. The extraordinary monetary and fiscal policy response to the COVID-19 crisis has been very successful in minimising the damage of a massive shock to the global economy. The policy response has also had a pervasive impact on the valuation and outlook for many key markets. The massive monetary expansion led by the US Federal Reserve has limited the attractiveness of defensive assets including government bonds (with US 10-year yields under 1%) and the US dollar (which continues to depreciate). In addition, credit markets are distorted with spreads much tighter than would be indicated by the state of the economy and the risk of default. Finally, extraordinarily low interest rates are intensifying the hunt for yield and contributing to very expensive equity valuations. In this climate the fund remains well positioned to benefit from the improving macro outlook, while maintaining a defensive profile through its value and quality biases in equity exposures and allocation to sources of uncorrelated returns.

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.

MORE INFORMATION

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