

Wholesale Funds

PERPETUAL WHOLESAL DIVERSIFIED GROWTH FUND

May 2021

FUND FACTS

Investment objective: Aims to: provide long-term capital growth and regular income through investment in a diversified portfolio of growth and income assets; 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 an equal mix of growth and income assets, for long-term capital growth, but with a significant exposure to defensive assets to reduce volatility. Strategic and tactical asset allocation techniques are employed in order to further enhance the fund's returns 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: Moderate Growth Index (Internally generated composite)

Inception Date: October 2001

APIR: PER0114AU

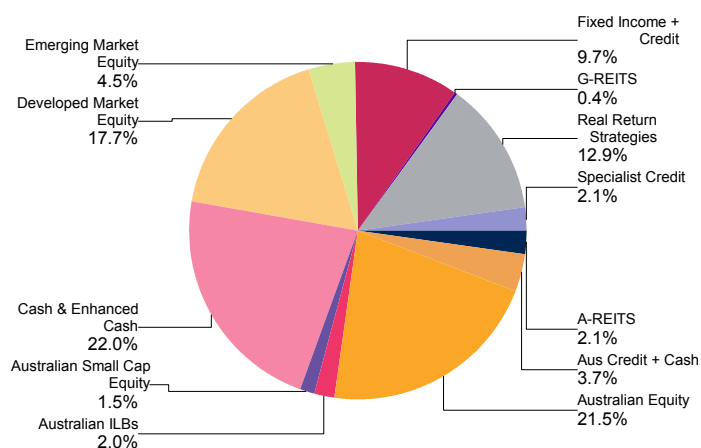
Management Fee: 0.96% p.a.

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



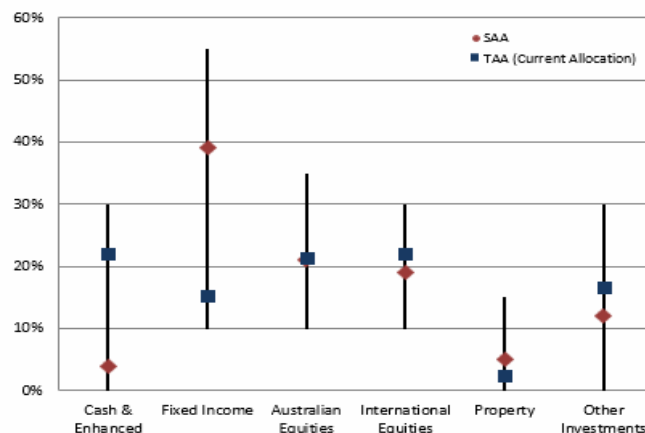
NET PERFORMANCE- periods ending 31 May 2021

	Fund	Benchmark	Excess
1 month	1.2	1.0	0.2
3 months	6.0	5.0	1.0
FYTD	14.0	11.5	2.6
1 year	14.1	12.4	1.7
2 year p.a.	7.4	7.3	0.1
3 year p.a.	7.3	7.6	-0.3
5 year p.a.	6.3	7.3	-1.0
10 year p.a.	7.3	7.5	-0.2
Since incep.	6.4	6.3	0.1

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

ASSET ALLOCATIONS AND INVESTIBLE RANGES

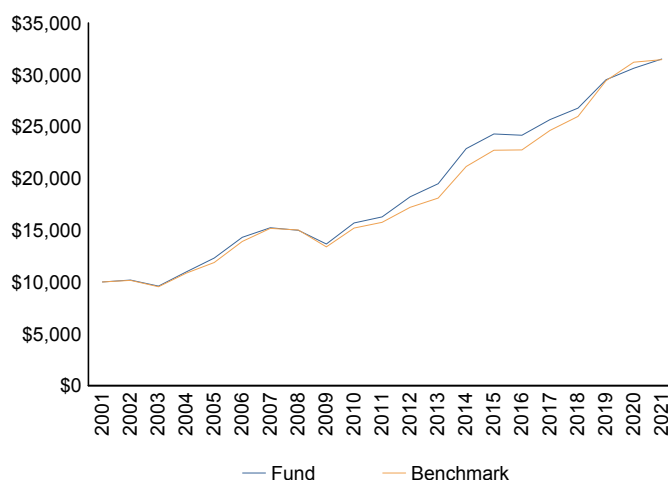
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



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

Equity markets continued to rally through May supported by the strong economic outlook and continued vaccine rollout.

- US equities (+0.7%) rose, despite marginally trailing the broader developed market.
- France (+4.0%) led European markets from Germany (+1.9%) and the UK (+1.1%)
- Asian markets were mixed with Korea (+1.8%) and Hong Kong (+2.1%) consolidating recent gains while Japan (+0.2%) moved sideways and Taiwan (-2.8%) fell on resurgent COVID concerns.
- Australian equities (+2.3%) performed well, supported by strong economic tailwinds including a fiscally expansionary Federal budget.
- In fixed income, credit markets were quiet while global bond yields fell slightly in spite of elevated inflation concerns.

Throughout May, the daily global COVID case counts continued to fall. The vaccine rollout continued in earnest, with Chinese vaccinations surging over the month. China now joins the UK, Europe and the US on track to reach herd immunity thresholds before the end of 2021. European markets were buoyed in early May by the decision of the European Commission to ease tourism restrictions in recognition of the success of the vaccine rollout across the continent. Meanwhile, the situation in India remains dire, although daily cases eased over the latter half of the month.

In Australia, community transmitted COVID cases were discovered in Victoria in late May. To combat the cluster, the Victorian government announced a "seven-day circuit breaker lockdown" with an accompanying fiscal support package for small businesses and casual workers. While the COVID situation in Australia is broadly positive, the very low level of vaccinations and potential for snap lockdowns may continue to have a broader implication for activity and employment in services sectors including tourism.

Global growth in 2021 is still set to be the strongest since the 1970s as social mobility restrictions ease, monetary and fiscal stimulus remains potent and consumers start to run down elevated savings. Notwithstanding some US economic data disappointing elevated expectations, activity is lifting dramatically with explosive growth either underway (in the US) or in prospect (in Europe) later this year.

The outlook for growth in the major developed economies this year is underpinned by the massive fiscal expansion implemented over the past year. The Biden administration followed up their US\$2 trillion infrastructure package proposal and March's 'American Rescue Plan' stimulus with an equally aggressive budget. The budget proposal called for continued large deficits in order to bring growth back into line with its pre-pandemic trend. While there remain significant legislative hurdles, and the proposed fiscal policy are more aspirational than realistic, the commitment of the Biden administration to fiscal expansion continues to support the extraordinary economic expectations for the second half of 2021 and 2022.

In Australia, expansionary fiscal policy remained on the agenda with the level of stimulus in the Federal budget exceeding expectations. A significant portion of the package is to stimulate business investment with the expectation that consumers will continue to draw down elevated savings. During the month, Australian equities outperformed the broader developed market supported by the expansive budget and the continued surge in commodity prices. Elsewhere, the April employment report was released during the month and demonstrated the resilience of the Australian labour market to the end of the JobKeeper program.

Meanwhile, monetary policy remains on 'tilt' settings globally led by the US Federal Reserve's (the Fed) policy of zero rates supported by a massive quantitative easing (QE) program. While the minutes from the Fed's late April meeting included

consideration of reducing the pace of QE (so called tapering), the Fed is unlikely to move towards tapering in the short term as employment goals are still not met, as evidenced by weak April US non-farm payroll figures.

One consideration which may point to a bring forward of the tightening process is the inflation outlook. The US CPI for April was a huge upside surprise, reigniting inflation concerns. While the CPI increase was notable, it is likely to be mostly transitory in nature. The spike in prices was primarily driven by base effects attributable to supply side constraints. Markets reacted negatively to higher than expected inflation figures in the US and UK before quickly recovering in late May. We expect to have better clarity on the path of inflation later in the year once the supply constraints have settled. As airline traffic increases and shortages in key supply chain assets – including materials and semi-conductors – ease, inflation is expected to moderate. But it will remain a key uncertainty for markets.

The Reserve Bank of Australia also remains similarly steadfast in its pursuit of inflation and employment goals before changing monetary policy settings. Inflation in the March quarter in Australia was below expectations, further supporting our belief that policy rates will remain on hold for an extended period. Decisions on the continuation or tapering of the RBA's various unconventional monetary policy tools are due for evaluation at upcoming meetings in June and July. Nonetheless, these extraordinary monetary policy conditions continue to be extremely supportive for equity and credit markets as liquidity remains abundant and the discount rate used to value equity markets remains incredibly low.

This is a very unusual cycle with the combination of:

- an extraordinary global pandemic;
- a deep recession in 2020 followed by a boom in 2021;
- extreme policy settings; and
- asset markets being priced off the lowest interest rates ever in recorded history.

As a result, we are mindful that unusual things may occur in markets. Nonetheless, at this stage of the economic cycle (ie growth recovery at the same time as central banks are committed to keeping interest rates low), the yield curve usually steepens significantly as long-term interest rates rise while short term interest rates are anchored. The beginning of this process was observed in February as long-term yields sold off, fuelling the rotation in equity markets from growth to value as discount rates increased. We expect the current conditions of continued massive fiscal support and rising bond yields will continue to be supportive for value stocks while growth stocks and other interest rate sensitive assets may struggle.

OUTLOOK

The global economy is currently positioned for an extremely strong 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 and the US dollar (which has fallen significantly over the past year). 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 Diversified 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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