

Wholesale Funds

PERPETUAL WHOLESALE DIVERSIFIED GROWTH FUND

May 2022

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

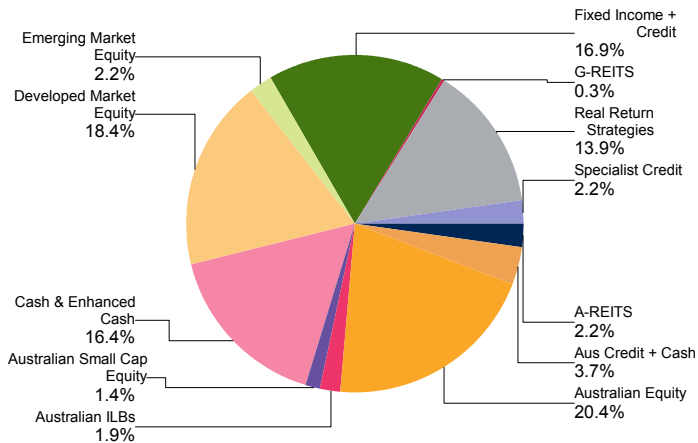
Management Fee: 0.96% p.a.

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



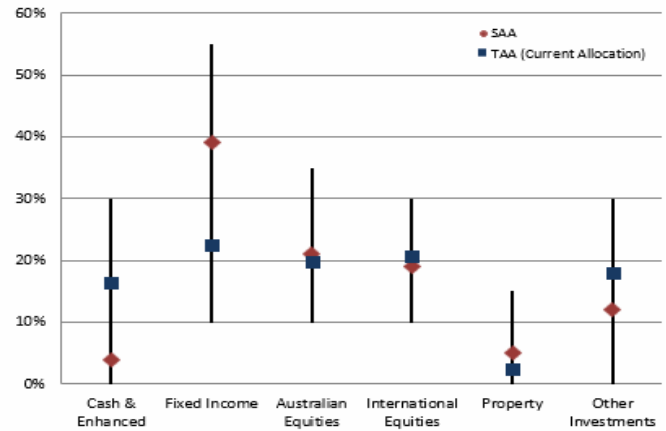
NET PERFORMANCE- periods ending 31 May 2022

	Fund	Benchmark	Excess
1 month	-0.4	-1.5	1.1
3 months	0.9	-3.0	3.9
FYTD	2.7	-4.0	6.7
1 year	3.7	-2.2	5.9
2 year p.a.	8.7	4.8	3.9
3 year p.a.	6.1	4.0	2.1
5 year p.a.	5.8	5.2	0.6
10 year p.a.	7.4	7.0	0.4
Since incep.	6.2	5.9	0.4

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

ASSET ALLOCATIONS AND INVESTIBLE RANGES

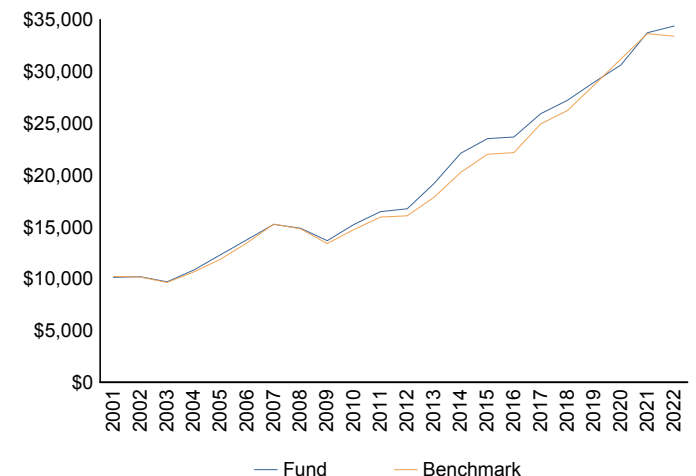
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



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

Many financial markets consolidated during May following a tumultuous first four months of 2022. Equity market returns were mixed, continuing to exhibit heightened sensitivity to central bank policy expectations.

- US equities (+0.2%) were very marginally positive over the month with US value (+1.9%) significantly outpacing growth (-2.3%).
- European equities outperformed global peers, led by Germany (+2.1%) alongside the UK (+1.1%) and France (+0.5%).
- Australian equities (-2.6%) lagged global peers but have out-performed significantly so far in 2022.
- Chinese equities performed well during May, regaining a portion of recent losses as a tentative reopening commenced in Shanghai.
- US bond yields fell slightly on expectations of a more moderate easing cycle which was supported by marginally below consensus April inflation print.
- The War in Ukraine and Russian sanctions continued to put pressure on energy prices with Brent Crude Oil rising US\$17 to US\$125.5 a barrel by month end.

We maintain our view of the key pressures currently weighing on financial markets;

- 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\$, 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.

The impact of evolving inflation data on financial markets was well illustrated during the month. During May there was increased optimism as April CPI figures saw year on year inflation fall for the first time since August 2021. Nonetheless, inflation remains uncomfortable high. For the past 35 years the Fed has been able to operate within a 'dovish' framework because inflation consistently surprised to the downside. 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 growth outlook in China remains fraught despite the reopening of Shanghai following a two-month lockdown. Economic activity remains significantly impacted, illustrated by weak April data across industrial production and retail sales. At the same time as growth expectations are being lowered, the path of the virus remains a crucial consideration. China's zero COVID policy means the economy remains extremely sensitive to outbreaks while lower levels of natural immunity alongside questionable vaccination levels and efficacy mean that the risk of severe disease are likely much higher than in the west. 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.

Developments in China have significant ramifications in Australia. While iron ore prices moderated during May, they

remain very high, contributing to the resilience of the Australian economy. The RBA's normalisation of monetary policy continued in May with the first increase to the target cash rate since November 2010. The 25bps increase outstripped market expectations which contributed to the fall in domestic equities over the month. This highlights the ongoing risks associated with policy execution. To this point, the elevated volatility in bond and equity markets has been in response to changing expectations while the tightening cycle itself still has a long way to go. Just like in the US, much will depend on the evolution of the inflation outlook. While high inflation remains a significant determinant of RBA policy, wage pressure – as yet – is less severe than in comparable developed markets.

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 close to extremes on just about all metrics – except relative to interest rates. Meanwhile, bond yields are exposed to inflation risk and could still go significantly higher. Against this backdrop, the most exposed part of the market continue to be growth stocks, while value and quality could be expected to be much more resilient.

The Fund continues to perform well in challenging conditions. Stock selection across Australian and global equities was the significant factor contributing to outperformance during the month as value stocks and sectors continue to outperform growth. During the month, the Fund closed its US equity put options, and added a call on the S&P 500 to take advantage of the recent selloff and reduced volatility. At month end, the Fund was slightly underweight Australian and marginally overweight 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 underweight allocation to property contributed to outperformance as Real Estate Investment Trusts (REITs) underperformed across global and Australian markets.

The positioning of the fund cash and fixed income allocations continue to contribute to outperformance as yield volatility remains elevated and credit spreads continue to widen. During the month the Fund added a small exposure to US duration. The Fund remains substantially underweight fixed income (and credit) due to valuation concerns while the maintaining a corresponding overweight cash position.

The Fund's allocation to foreign currency continues to mitigate the impact of the broader selloff in risk assets. The Fund maintains a significant foreign exchange exposure, diversified across a number of developed and emerging market currencies.

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. Increasing geopolitical risks and the path of the pandemic will also be critical considerations for investors. As a result, global economic growth is slowing and the risk of recession is increasing significantly. 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.

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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