

Wholesale Funds

PERPETUAL WHOLESAL DIVERSIFIED GROWTH FUND

June 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

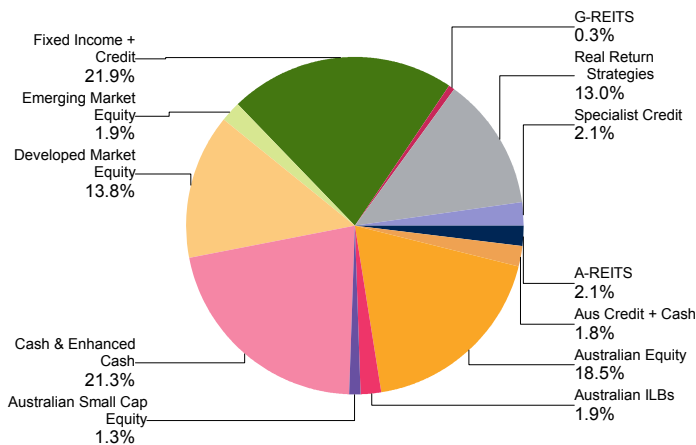
Management Fee: 0.96% p.a.

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



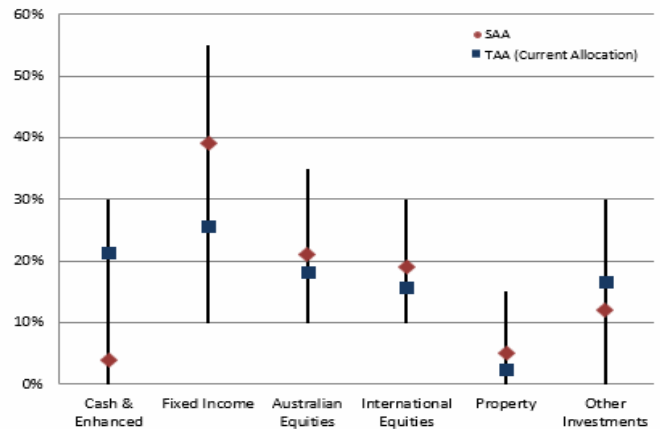
NET PERFORMANCE- periods ending 30 June 2022

	Fund	Benchmark	Excess
1 month	-3.6	-4.4	0.8
3 months	-2.9	-7.5	4.6
FYTD	-1.0	-8.2	7.2
1 year	-1.0	-8.2	7.2
2 year p.a.	6.7	2.1	4.7
3 year p.a.	4.2	1.6	2.6
5 year p.a.	5.2	4.4	0.8
10 year p.a.	6.9	6.5	0.4
Since incep.	6.0	5.6	0.4

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

ASSET ALLOCATIONS AND INVESTIBLE RANGES

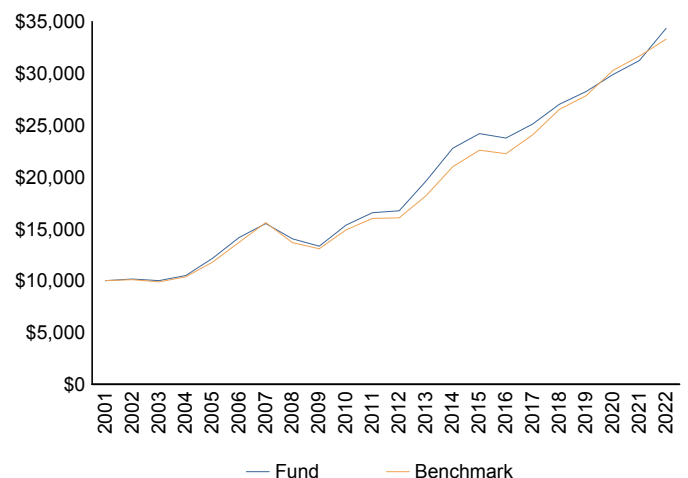
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



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

Financial markets continued their torrid start to the year through the June quarter. Global equity markets fell sharply in April and June, contributing to the worst first half year for equity markets in 50 years. Rampant inflation, hawkish central policy and rising recession risks all contributed to falling equity markets and rising bond yields.

- US equities (-16.1%) fell dramatically over the quarter with sharp sell-offs in April and again in June. Growth stocks (-20.9%) significantly underperformed value (-12.2%).
- UK equities (-3.7%) continued to show resilience while continental markets were more mixed with Germany (-11.3%) and France (-8.9%) seeing larger declines.
- Australian equities (-11.9%) were impacted by reduced Chinese demand for materials and accelerated monetary tightening.
- Chinese equities (+4.6%) outperformed significantly, supported by the reopening of Shanghai. Chinese equities remain well below their 2021 highs following a dramatic selloff over the past 12 months.
- US 10-year bond yields peaked at just under 3.5% in June before rallying over the remaining two weeks of the quarter. Similarly, Australian 10-year yields rose to above 4% in June before falling back to 3.6%. The Bloomberg Global Aggregate Bond index remains on track for easily the worst year in its history.
- Energy prices eased somewhat in June but remain high, impacted by the war in Ukraine.
- Materials (like iron ore and base metals) remain at elevated prices but fell sharply over the quarter as a result of reduced Chinese demand.

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 begun to aggressively tighten monetary policy to curb inflation which has reached multi-decade highs. 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:

- While US equities have fallen precipitously over the first six months of the year, they remain more than 15% above their pre-pandemic high.
- Despite normalising somewhat towards the end of the quarter, bond yields remain under pressure with the US 10-year breakeven rate (2.56%) less than half the current core inflation rate (6.0%).

The Fed has commenced a rapid tightening cycle with 1.5 percentage points worth of increases already this year. Nonetheless, inflation remains uncomfortably 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 two years has increased appreciably as a result.

Slowing economic growth and rising recession risks weighed on equity markets and other growth assets throughout the quarter. High inflation and rising interest rates were reflected in falling business and consumer sentiment. Purchasing manager indices continued to fall over the quarter with the latest US manufacturing survey reading the lowest in two years. At the same time, the fall in consumer sentiment has been precipitous. In the

US, this has been reflected in reduced personal spending and a stagnant economy in the first half of 2022. Risks to economic growth are not unique to the US however, with increasing concerns across Europe and China.

Eurozone inflation reached a record high during the quarter as the ECB prepares to increase rates for the first time in 11 years and above zero for the first time since 2014. The war in Ukraine continues to intensify inflationary pressure as a result of Europe's dependence on Russian energy and increasing food security concerns. The increasing hawkishness of the ECB may not be enough to curb inflation and rapidly increasing interest rates sit uneasily with an already slowing economy.

China's economy remains extremely sensitive to the path of the virus, the beleaguered property sector and western demand for manufactured goods. Leading indicators showed recovery in May and June following the two-month lockdown in Shanghai. While the rebound has been quick, the Shanghai lockdown highlighted the risks of China's zero COVID policy. With low natural immunity and vaccination rates, the policy is likely to persist and Chinese economic activity will remain extremely sensitive to outbreaks. Meanwhile, the property sector remains under huge stress reflecting the 'three red lines' policy restricting the flow of credit to this highly leveraged sector. Finally, the cushion provided by positive net exports in China may be eroded in the next year as Western demand growth slows and rotates away from goods and towards services.

Of course, developments in China always have significant ramifications in Australia. While iron ore prices moderated over the quarter, they remain very high, contributing to the resilience of the Australian economy. The Reserve Bank of Australia (RBA) has commenced an aggressive tightening cycle with a pair of higher-than-expected rate rises during the quarter. 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 have made some adjustment to the increase in interest rates, but profit expectations look too high and are likely to be the next shoe to drop. 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 continue to be more resilient.

Throughout a very challenging quarter for financial markets, the Fund continued to perform relatively well. Against the backdrop of a broad selloff across equities, fixed income and credit, the fund's defensive positioning and bias towards quality and value contributed substantially to outperformance.

Stock selection across Australian and global equities was a significant factor contributing to outperformance over the quarter as the rotation from growth to value stocks continued, on the back of rising bond yields. The Fund's S&P 500 put options were also significant contributors as the US underperformed all major equity markets. Equity exposures were further reduced and at quarter end, the Fund was underweight global and Australian 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 underweight positioning of the fund's fixed income

allocations continue to contribute to outperformance as bond yields rose (implying falling bond prices) and credit spreads continue to widen. During the quarter the Fund's exposure to Australian and US bonds was increased while remaining significantly underweight. The Fund maintains a corresponding overweight cash positions which continues to mitigate the impact of rising yields. The Fund maintains a significant foreign exchange exposure, diversified across a number of developed and emerging market currencies. In addition, the Fund has a USD call option versus the Chinese Yuan (CNH) which also performed well over the quarter.

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

Tightening financial conditions and slowing economic growth provide a fraught environment for investors to navigate. High equity valuations were only supported while bond yields stayed low as a result of extraordinarily easy monetary policy. Equity valuations have adjusted (although there could be more to come) but now profit expectations need to be substantially reduced. 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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MORE INFORMATION

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email investments@perpetual.com.au

www.perpetual.com.au

