

## Wholesale Funds

# PERPETUAL WHOLESAL DIVERSIFIED GROWTH FUND

July 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

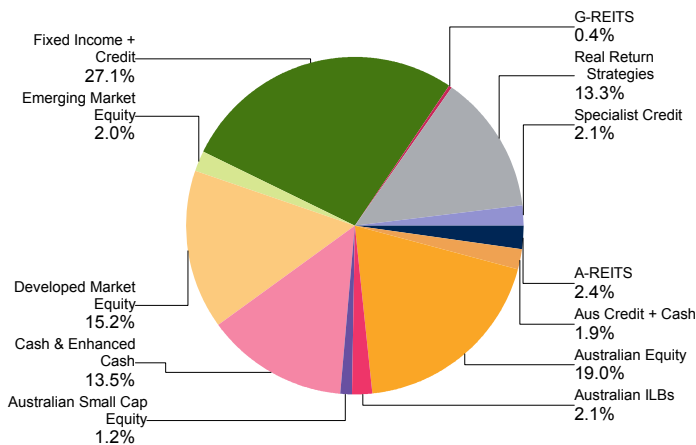
**Management Fee:** 0.96% p.a.

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



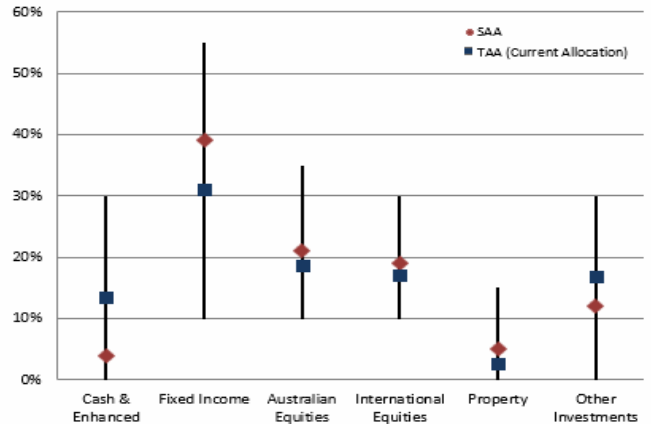
### NET PERFORMANCE- periods ending 31 July 2022

	Fund	Benchmark	Excess
1 month	2.0	4.6	-2.6
3 months	-2.1	-1.5	-0.6
FYTD	2.0	4.6	-2.6
1 year	0.6	-5.6	6.2
2 year p.a.	7.9	4.0	3.9
3 year p.a.	4.5	2.6	1.9
5 year p.a.	5.6	5.3	0.3
10 year p.a.	7.0	6.9	0.1
Since incep.	6.1	5.8	0.3

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

### ASSET ALLOCATIONS AND INVESTIBLE RANGES

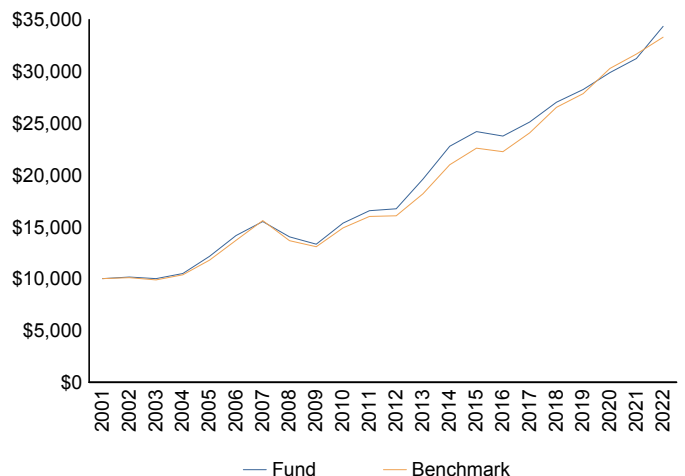
#### FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



### 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

Global economic growth has clearly slowed with the leading indicators suggesting more weakness is in store in the second half of this year. Together with hopes that inflation may have finally peaked, this has led to some recalibration of monetary policy tightening expectations with the peak in rates lower and sooner than previously priced. Following the deep losses over the first half of 2022, equity and bond markets were oversold and some of those losses were recouped as fears of a hard landing were replaced by hopes that the economy might still be on a narrow path to a soft landing.

- US equities (+9.2%) led global equities, rebounding sharply with the strongest month of performance since 2020. Falling bond yields and robust US technology company profits saw growth sectors (+12.0%) outperform value (+6.6%) in a reversal of the recent trend.
- Australian equities (+5.8%) underperformed global peers but still posted strong gains. Mining and energy stocks dragged as materials and oil prices fell while technology stocks performed well.
- Emerging market equities (+0.2%) underperformed, led by China (-9.3%) which plunged on slowing growth indicators, the zero covid policy and the worsening property crisis.
- Credit markets were relatively quiet with the exception of European spreads which narrowed following a dramatic selloff in June.
- US and Australian bond yields continued their late June rally. The Australian 10-year (-60bps) is more than 100bps down from the June peak while the US 10-year (-33bps) ended the month at its lowest level since early April.
- Commodity markets were mixed over the month with oil and materials (like iron ore and base metals) falling, while natural gas prices surged.

While there has been a reversal in many key markets since mid-June, we maintain our view of the key pressures currently weighing on the market outlook;

- expensive absolute valuations across just about all markets;
- the complete overhaul of the monetary policy outlook that has caused a nasty bear market in government bonds and much tighter liquidity conditions;
- a slowdown in economic and profit growth with recession risks elevated 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.

The US economy has slowed from the tearaway growth recorded over 2021. So much so that July saw the confirmation of a technical recession in the US with two successive quarters of marginally negative GDP growth. This only highlights the limitations of this recession guide as the labour market remains in rude health (at least for now) with the unemployment rate dropping by 0.4 p.p. over the first seven months of 2022 to 3.5% to be within 0.1p.p. of the lowest levels of the past 60 years.

To be clear, we remain very concerned about the outlook for economic growth and profits. The leading indicators suggest that recession risks remain very elevated as the Fed attempts to get inflation back under control. But monetary policy operates with long and variable lags and the tightening cycle has only been underway for six months.

Notwithstanding market optimism that the Fed tightening cycle may be completed earlier and at a significantly lower policy rate than previously thought, we remain of the view that the Fed has much more to do to get inflation back under control. As a result, tighter financial conditions will continue to be required, implying a combination of a stronger US dollar, higher bond yields and credit spreads and weaker equity markets.

While we highlight the actions of the Fed as the most crucial determinant of the market outlook, other major central banks have also embarked on aggressive tightening programs. The European

Central Bank (ECB) surprised markets with a larger than expected rate increase in mid-July. The central bank's first policy rate increase in 11 years brought the deposit rate up 50bps to zero. The ECB had previously signalled it would be increasing rates in July and September to combat surging inflation. The ECB faces a very challenging predicament, and the risk of policy error is high as the bank attempts to tighten into a sharply slowing economy. This comes against a backdrop of a deepening energy crisis as the continent attempts to lessen its reliance on Russian LNG. At the same time, political risks were at the fore in Europe and the UK with the Prime Ministers in both Italy (Mario Draghi) and the UK (Boris Johnson) resigning during the month.

The Reserve Bank of Australia (RBA) also continued its aggressive tightening cycle, having increased the target cash rate by 175bps between the start of May and the 2nd of August. Inflation remains the key concern for the RBA with trimmed mean inflation – the RBA's preferred measure – rising to 4.9% yoy in the June quarter, remaining well outside the target range (of 2 to 3%). While surging inflation will provide little comfort to the central bank, the print came in short of estimates and saw monetary policy tightening expectations wound back somewhat as a result. At the same time, the labour market is very tight with the unemployment rate falling to multi-decade lows of 3.5% and, as a result, wages growth is expected to accelerate adding to inflationary pressures.

The Chinese economy is at the centre of rising global economic growth concerns with the zero covid policy, the beleaguered property sector and slowing western demand for manufactured goods all weighing on the outlook. During the month, Chinese manufacturing purchasing manager indices (PMIs) fell below 50 reflecting weaker global growth and elevated input costs. Meanwhile, the property sector remains under huge pressure with the 'three red lines' policy restricting credit to the sector leading to halted construction projects, plummeting sales and mortgage strikes.

The global tightening of monetary policy that is underway, slowing economic and corporate profit growth and heightened geopolitical tension all continue to contribute to a very challenging outlook for financial markets. We remain cautious on the outlook for the second half of 2022.

Relative to benchmark, the Fund performed extremely strongly in the first half of this year. It was a month of reversal from the trends in many markets over the first half of 2022. Accordingly, the positioning of the Fund detracted from relative performance in July. In particular, the Fund's underweight exposure to Australian and global equities detracted from relative return. 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. During the month however, monetary policy tightening expectations moderated which saw growth stocks outperform. As a result, stock selection across Australian and global equities detracted from relative performance. The Fund's S&P 500 put options also detracted as US equities had their strongest month since November 2020. During the month, the Fund added a call spread on the VIX index which will payoff if US equity volatility increases again.

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. During the month, the Fund's US and Australian duration was further increased partially offset by the addition of a small short (negative) position in Japanese duration. This adjustment was rewarded during the month as bond yields rallied. At month end, the Fund is slightly underweight bonds.

The Fund maintains a significant foreign exchange exposure, diversified across a number of developed and emerging market

currencies. During the month the Fund's cash allocation detracted from relative return as risk assets performed well and the US Dollar (USD) fell against the Australian Dollar (AUD). In addition, the Fund has a USD call option versus the Chinese Yuan (CNH) which has performed well and continues to offer an asymmetric pay off should the authorities in China respond to their growing economic challenges by further depreciating their currency.

During the month, the rally in bonds and equities saw the Fund's exposure to uncorrelated sources of return (market neutral equities and credit alongside the Diversified Real Return Fund) detract from relative performance. 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

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.

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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](mailto:investments@perpetual.com.au)

[www.perpetual.com.au](http://www.perpetual.com.au)

