

Perpetual Investment Funds

PERPETUAL DIVERSIFIED GROWTH FUND

May 2023

FUND FACTS

Investment objective: Aims to provide long-term capital growth and 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

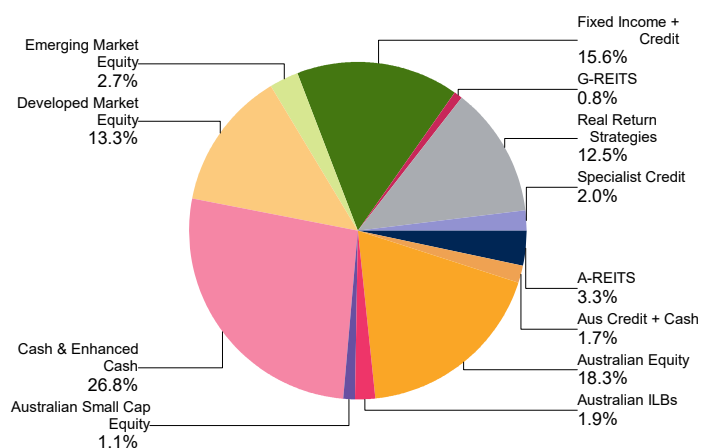
Management Fee: 0.96% p.a.

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



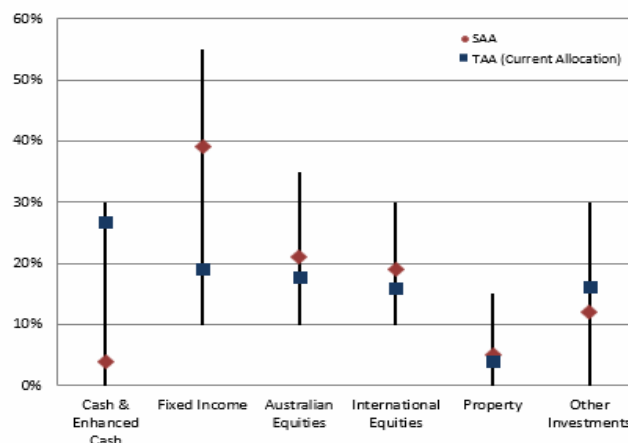
NET PERFORMANCE- periods ending 31 May 2023

| | Fund | Benchmark | Excess |
|--------------|------|-----------|--------|
| 1 month | -1.3 | -1.1 | -0.2 |
| 3 months | 0.8 | 1.9 | -1.1 |
| FYTD | 5.7 | 7.8 | -2.1 |
| 1 year | 1.9 | 3.1 | -1.2 |
| 2 year p.a. | 2.8 | 0.4 | 2.4 |
| 3 year p.a. | 6.4 | 4.2 | 2.2 |
| 5 year p.a. | 5.5 | 4.7 | 0.8 |
| 10 year p.a. | 5.7 | 6.0 | -0.2 |
| Since incep. | 6.0 | 5.7 | 0.3 |

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

ASSET ALLOCATIONS AND INVESTIBLE RANGES

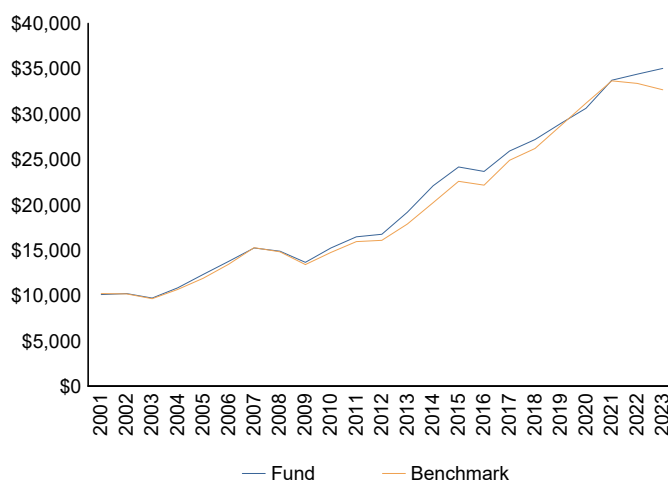
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



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

Financial markets were mixed in May following a robust start to the year across almost all asset classes (with the notable exception of commodities). This strong first half has been despite headwinds including moderating earnings growth, tightening monetary policy, a potential US treasury default, turmoil in US regional and global banks and concern over a looming credit withdrawal. While US equity performance has been wholly reliant on the positive contribution of high growth tech stocks, more traditional value markets such as Europe, the UK and Japan have also performed well.

- During May, US equities (+0.4%) ticked marginally higher, however this masked a widening gap between the performance of value stocks and sectors (-3.9%) and growth (+4.6%) led by the strong performance of the tech giants.
- Japanese equities (7.0%) were buoyed by attractive valuations, the depreciating Yen and the return of inflation after years of deflationary conditions. Meanwhile, Chinese equities (-8.2%) continued to recede from their post reopening peak as economic growth indicators weakened.
- European equities trailed the broader developed market with French stocks (-3.9%) falling sharply. The value correlated UK market (-4.9%) underperformed, reflecting the broader relative outperformance of growth stocks.
- Australian equities (-2.5%) underperformed developed markets on the back of hawkish monetary policy expectations and weakened materials demand.
- Domestic bond yields sold off over the month with 10-year yields rising 26bps to 3.6%. US (+19bps) ten-year yields also rose during the month while the short end saw elevated volatility as the fight over increasing the debt ceiling continued until the end of the month.

We continue to observe a disconnect between the strength of the US equity index returns and weakening economic indicators and corporate profits. The US equity market continues to be led by the large cap tech giants which have benefitted from moderating long term bond yields over the first half of 2023 and robust earnings results. US equities outside of the largest market cap stocks have starkly underperformed, suggesting that the market is pricing in weakening corporate profits, but this is being masked by rising valuations of a select few firms.

Meanwhile, the shape of government yield curves imply recession followed by subsequent rate cuts. In the US, the yield curve has been inverted since the middle of last year and during the month, short end yields inverted further across multiple government bond curves. Yield curve inversion is the single best indicator of recession risk. Other reliable recession indicators like the manufacturing surveys, the senior loan officer survey and current activity indicators are suggesting growth is very weak. At the same time, while the temporary raising of the debt ceiling soothed concerns of a US default, the restrictions on government spending growth limit the capacity for fiscal policy to stimulate activity.

Resilient regional labour markets and sticky core inflation are keeping the pressure firmly on the Fed. US year-on-year inflation fell below 5% despite core components including rents remaining stubbornly high. April payrolls were strong which is good news for avoiding recession but add to the challenge facing the Fed. Sticky services sector inflation typically requires an output gap to materially decrease. In other words, the economy needs to be operating below full potential implying higher unemployment and lower wages growth.

As financial conditions continue to tighten, risks of an accident or a significant credit contraction are elevated. While the banking sector concerns which reached a peak in March have subsided somewhat, we expect further disruption as market excesses predicated on unsustainably easy monetary policy are washed out.

The US is not the only economy facing challenges with the growth

outlook for China continuing to deteriorate as the tailwind from their post-COVID reopening dissipates. And locally, the Reserve Bank of Australia continues to grapple with inflation that is well above targets set against a very challenging backdrop for the consumer. In contrast, the recovery in Japan looks the most upbeat in decades, supported by a potent mix of reopening dynamics, a surge of inbound tourism, strong nominal income growth and foreign investment drawn by attractive relative valuations.

Global equity stock selection was the most significant detractor from outperformance during the month. The Fund's value and quality biases underperformed as global equity returns were dominated by the positive contribution of a handful of high growth large cap US tech stocks. The Fund's underweight exposure to China within its emerging markets allocation performed well as Chinese equities continued to slide following their late 2022 reopening rally. The Fund remains underweight Australian and equities in recognition of expensive valuations and tightening financial conditions. 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 maintains limited exposure to fixed income, predominantly Australian government bonds and US treasuries. Partially offsetting the duration risk is a short (negative) position in 10-year Japanese government bonds. The Fund's fixed income positioning detracted from relative return during the month. While the Fund's underweight fixed income allocation mitigated the impact of rising US and Australian bond yields, the short position in Japanese bonds detracted as the BOJ quashed the possibility of a near term changes to their Yield Curve Control policy.

While the Fund remains significantly underweight fixed income, it retains a corresponding overweight cash allocation. The Fund maintains a significant foreign exchange exposure, diversified across a number of developed and emerging market currencies. The Fund's US and emerging currency exposures contributed to outperformance during May as anticipation of further fed rate hikes saw the greenback outperform peers.

The Fund's allocation to uncorrelated sources of return was rewarded during May. 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

The aggressive tightening of financial conditions alongside well above target inflation and elevated recession risks presents a very challenging environment for investors to navigate. High equity valuations were only supported while bond yields stayed low as inflation was contained. Higher discount rates and reduced liquidity provide a challenging environment for investors to contend with. 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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