Wholesale Funds

PERPETUAL WHOLESALE DIVERSIFIED GROWTH FUND

September 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 consideredbefore 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

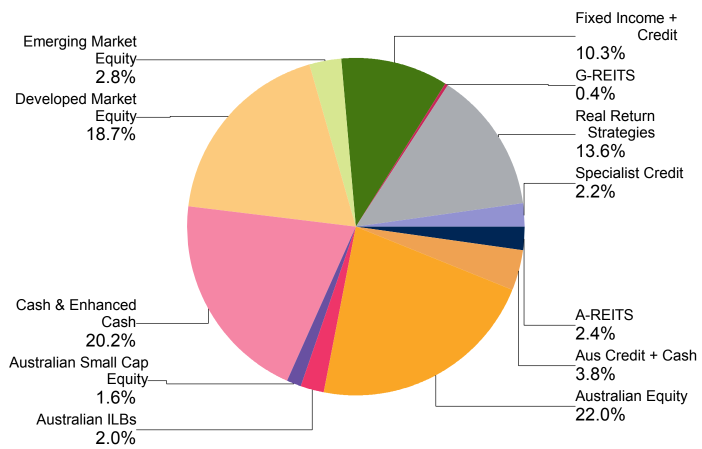
Management Fee: 0.96% p.a.

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



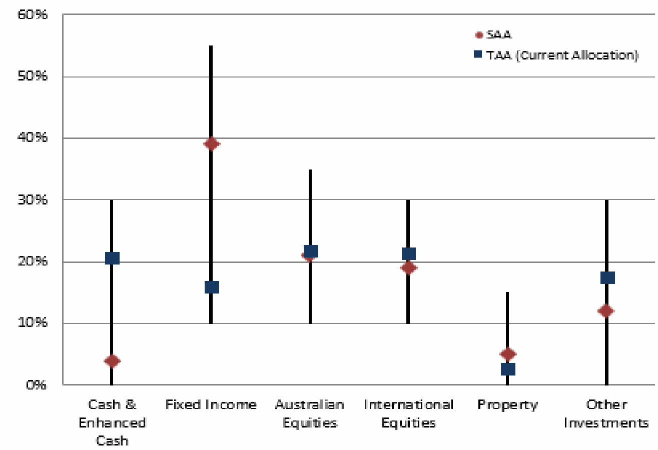
NET PERFORMANCE- periods ending 30 September 2021

	Fund	Benchmark	Excess
1 month	-0.2	-2.0	1.7
3 months	1.5	1.1	0.4
FYTD	1.5	1.1	0.4
1 year	16.3	13.1	3.2
2 year p.a.	6.8	6.3	0.5
3 year p.a.	7.0	7.5	-0.5
5 year p.a.	6.6	7.5	-0.9
10 year p.a.	7.9	8.2	-0.3
Since incep.	6.4	6.3	0.0

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

ASSET ALLOCATIONS AND INVESTIBLE RANGES

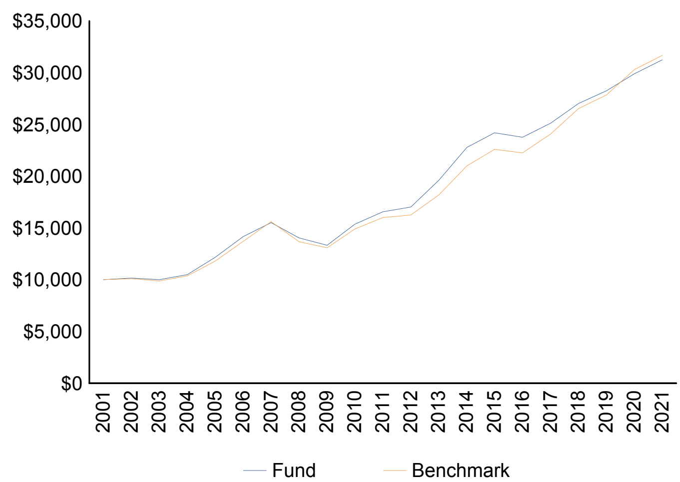
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



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 largely marked time over the quarter as some of the key themes that have driven markets over the past 18 months are clearly changing. Developed market equities continued to rise through July and August (supported by very strong profit growth) before giving back those gains in September (as expectations of monetary policy tightening were bought forward and government bond yields moved higher). Emerging market equities continued to lag, weighed down by the under-performance of Chinese equities. Bond markets rallied in July, but sold off again for the rest of the quarter to be largely unchanged. Currency markets remain quiet, but the US dollar was uniformly stronger and the $A was the weakest of the major developed currencies.

In fact, the past six months has been marked by a period of transition for the global economy and financial markets:

• Global economic growth remains well above trend, but has peaked and will slow significantly in the next year.
• Inflation has unexpectedly vaulted higher as very strong demand growth has collided with significant supply side disruptions.
• Profit growth has been stunning but, in the US, profit expectations for this year and next have levelled out.
• The highly contagious delta variant has led to yet another reassessment of the likely course of the pandemic.
• Global central banks have become significantly more hawkish with the US Federal Reserve (the Fed) bringing forward both the start and end date for 'tapering' quantitative easing (QE), the Bank of England is now expected to hike rates in coming months and the Reserve Bank of New Zealand, Norway's central bank (Norges Bank) and some emerging market central banks (in Latin America and Europe) have already hiked rates.

Perhaps the most significant surprise has been the spike higher in US inflation. The Fed's preferred measure of core inflation is the highest it has been in nearly 30 years. The key contributing factor to the initial surge was supply chain disruption affecting production of components like semiconductors. More recently, European inflation has surprised to the upside as well as natural gas prices have doubled reflecting a structurally tight market caused by years of under investment in energy production. The natural gas spike specifically has additional associated economic risk as in a worse-case scenario (a colder than usual Northern winter) the industrial economy might be affected by forced black-outs. This risk bears close scrutiny in the months ahead.

We are also particularly focussed on the specific risks to the outlook for the two largest global economies, the US and China. In the US, the Fed is in a very uncomfortable position. The US economy is growing very strongly, but is set to slow significantly in the next year. At the same time, 'transient' inflationary pressures are now proving to be longer lasting, while monetary policy settings remain extremely accommodative. As a result, they are bringing forward the taper to start later this year and finish by mid-2022. They will be tightening monetary policy at a time when the impulse from fiscal policy is very contractionary and the economy is slowing back to trend. Moreover, when the taper finishes, policy rates will still be zero with inflation well above target and the labour market back close to full employment.

China faces a completely different set of challenges. The Chinese economy is estimated to have marginally contracted in the September quarter – a very unusual occurrence caused by mobility restrictions to control the delta variant and a slowdown in the property sector. COVID restrictions have been eased, but the structural challenges faced by the economy remain intense. In particular, the highly leveraged property sector is under enormous stress, symbolised by the travails of the second largest property developer, Evergrande, as they are forced to delever. The real estate sector is enormous in China (representing close to 30% of GDP by some estimates) and the second-round effects on growth of a contraction in activity are significant.

In Australia, the impact of the slowdown in the Chinese property sector has been notable as it has caused a collapse in iron ore prices – admittedly from extraordinary record high levels. In addition, the lockdowns in NSW, Victoria and the ACT have caused a significant fall in activity in the September quarter. The belated success of the vaccination rollout should ensure these economies safely reopen in coming weeks. In the meantime, the Reserve Bank of Australia (RBA) has underscored they plan to keep policy extremely stimulative. Moreover, fiscal policy is sure to provide further support in the lead up to the Federal election due next year. As a result, we expect a solid rebound in growth late this year and in 2022, but there are clearly substantial medium term structural challenges facing the Australian economy including transitioning to a low carbon economy, over-reliance on high population growth via immigration, housing affordability and a broken relationship with our biggest trading partner, China.

The outlook for markets overall is heavily contingent on the bond market outlook. Fixed income investors gave the Fed the benefit of the doubt earlier this year when inflation surprised to the upside, but if they lose confidence in the Fed it will be problematic for the bond market with flow-on implications for all assets – including growth stocks which have disproportionately benefitted from the multi decade trend to lower interest rates. It appears likely that the upward pressure on bond yields will continue.

The combination of lower economic growth, higher inflation and tighter monetary policy suggests a more challenging fundamental backdrop for equity markets and other growth assets. Equity markets have been on a tear for 18 months – particularly the US market which has more than doubled from the lows in March 2020. The US market is now trading at an all-time record high more than one third higher than the previous record in early 2020. As a result, valuations are very extended on all metrics EXCEPT relative to interest rates. We are cautious on the market outlook as the mix of growth and inflation becomes more problematic and the anchor provided for extreme valuations by record low bond yields is at risk of being unmoored.

Stock selection in domestic equities contributed significantly to relative performance over the quarter. Global equity stock selection was more mixed however with developed market exposures underperforming. Stock selection in emerging markets was a significant contributor as the Fund's emerging market equity exposure remains underweight China and was well insulated from the impact of increasing regulation and concerns surrounding Evergrande and the Chinese property market.

The Fund is around benchmark weight in Australian equities. Global Equity exposures are marginally below benchmark weight. During the quarter, exposure to global equities was trimmed via put options on US equities and a reduction in the Fund's emerging market equity exposures. All equity exposures retain their long-standing quality and value bias which significantly contributes to the defensive attributes of the Fund. This style positioning is complemented by elevated exposure to UK and European equities which we believe offer good relative value. The Fund also holds reduced exposure to areas of the market where valuations are most extended through put option positions on the S&P 500 and the US technology heavy Nasdaq.

The Fund retains its significantly underweight exposure to government bonds. The Fund also has substantial foreign exchange exposure diversified across a number of developed and emerging market currencies. In addition, a USDCNH call option position has been implemented at low cost with an asymmetric pay off in the event that the authorities in China respond to the evolving property sector crisis by devaluing their currency.

Finally, 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

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. 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 continued economic recovery, 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.

MORE INFORMATION

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