

Wholesale Funds

PERPETUAL WHOLESALE DIVERSIFIED GROWTH FUND

October 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 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

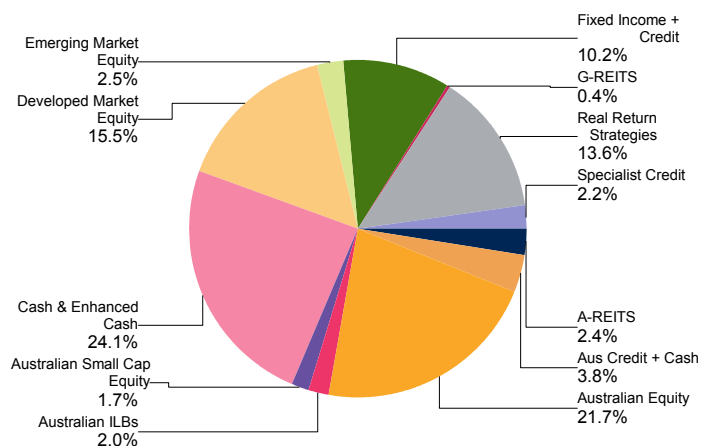
Management Fee: 0.96% p.a.

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



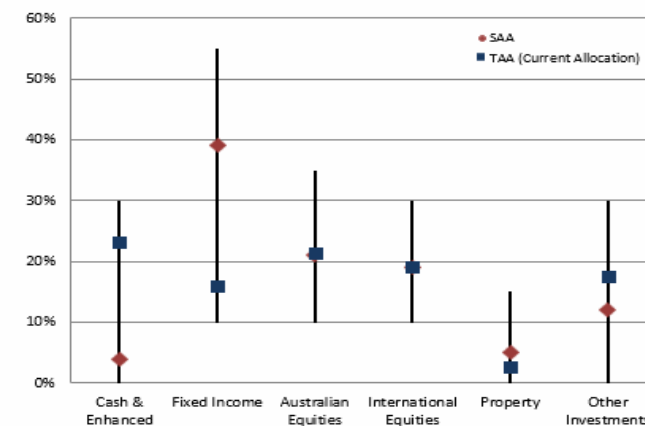
NET PERFORMANCE- periods ending 31 October 2021

| | Fund | Benchmark | Excess |
|--------------|------|-----------|--------|
| 1 month | -0.7 | -0.7 | 0.1 |
| 3 months | 0.5 | -1.2 | 1.7 |
| FYTD | 0.8 | 0.4 | 0.4 |
| 1 year | 15.0 | 12.0 | 3.0 |
| 2 year p.a. | 6.7 | 5.9 | 0.8 |
| 3 year p.a. | 7.4 | 8.2 | -0.7 |
| 5 year p.a. | 6.6 | 7.6 | -1.0 |
| 10 year p.a. | 7.6 | 7.9 | -0.3 |
| Since incep. | 6.3 | 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

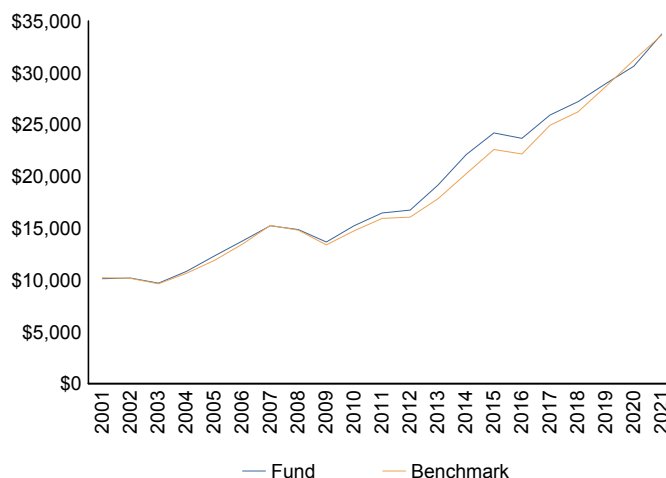
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



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

Global share markets performed very well through October, more than reversing the sell-off seen in September. US equities (+7.0%) led developed markets (+5.5%), supported by yet another quarter of robust company profit results. Australian equities (-0.1%) trailed as inflation concerns dominated and the market began to price in tighter monetary policy while emerging market equities (+0.9%) continue to under-perform developed markets weighed down by the poor performance of Chinese equities.

Global bond markets have been quite volatile as upside inflation surprises accumulate and the outlook for monetary policy changes. In the past month, this was most obvious in Australia where 3-year bond yields rose by 90 bps in the month. The Reserve Bank of Australia's yield curve control policy (which anchored the 3-year rate at 10 bps) was already under pressure before the September quarter CPI surprised to the upside which effectively rendered the policy unsustainable. After many months of weakness, the \$A was stronger, in line with the general risk-on tone in markets.

The investment landscape in developed markets is going through a period of significant transition:

- Global economic growth is still very strong, but has peaked and in less than a year growth will be back down to trend as the re-opening boost fades and fiscal contraction kicks in.
- Inflation continues to surprise to the upside reflecting persistent supply side disruptions as well as, more recently, a doubling in natural gas prices in Europe.
- Profit growth is still surprising to the upside, but it could potentially slow dramatically over the next year as the economy slows, corporate taxes increase and margins are squeezed.
- The monetary policy outlook has changed dramatically as central banks react to persistently higher inflation by bringing forward tightening timetables -- by either winding up quantitative easing programs earlier or raising policy rates or both.

In our judgement, it is the persistent inflation surprise and the resulting change to the monetary policy outlook that are the two most important developments in the past month. Equity markets and other growth related assets, have performed exceptionally well in the past 18 months with many key markets trading to new all-time highs in 2021. Valuations for equity markets are extremely expensive on all metrics, except relative to interest rates. If, as we expect, monetary policy is tightened earlier and interest rates continue to move higher, the liquidity backdrop for markets will deteriorate at the same time as valuation metrics become more stretched.

Moreover, in the next few months the Fed's preferred measure of inflation is likely to increase further before potentially moderating next year (as some of the supply chain issues ease and there are price falls in goods like used cars). In the meantime, the US Federal Reserve is in a very uncomfortable position as they try to unwind extreme policies without causing undue volatility in markets.

The emerging market landscape is, of course, impacted by these changes, but it also has a powerful dynamic of its own driven by events in China:

- A general anti-corruption drive in capital markets carries clear short term risks for an economy that is afflicted by many structural challenges.
- The property sector remains under enormous pressure as the 'three red lines' policy continues to restrict the flow of credit to a heavily levered sector.
- Zero tolerance for COVID leaves the Chinese economy particularly exposed to lockdowns.

These objectives are being pursued at the same time as the authorities target 6% growth in 2021. It is a tricky balancing act managing these conflicting aims and it appears that this is increasingly being done under a new era of one-man autocratic leadership.

The Australian economy is finally recovering from extended lockdowns in NSW, Victoria and the ACT. The initial signs are very encouraging and the economy is sure to rebound strongly in the next six months. Beyond that, there are big structural challenges for the Australian economy at a time when the tail wind provided by stunning growth in China is coming under question.

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. 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.

Equity exposures were the most significant contributor to the absolute return during October. Developed market equities performed strongly over the month, led by US equities. However, stock selection in developed market equities detracted from relative performance. The fund's downside protection positions including US, UK and European equity puts also detracted from performance.

The Fund is around benchmark weight in global and Australian equities. All equity exposures retain their long-standing quality and value bias which significantly contributes to the defensive attributes of the Fund.

The most significant contributor to relative performance were the Fund's underweight exposure to government bonds and credit. Domestic bonds sold off sharply on inflation concerns and expectations of accelerated monetary policy tightening. For some time, the Fund has retained a very underweight allocation to fixed income including credit due to valuation concerns. Government bonds are a very unattractive investment offering negative real yields and questionable downside protection, while very tight credit spreads implies credit offers a low return along with minimal valuation upside or compensation for default risk.

The Fund's allocation to foreign denominated cash detracted from performance over the month as the Australian dollar gained against global peers. The Fund has substantial foreign exchange exposure diversified across a number of developed and emerging market currencies.

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

In the next year, some of the extreme macroeconomic policies will be unwound in the US (and globally) as the impact of the pandemic is receding and the economy is recovering. This carries clear risks for financial markets. 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. 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.

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