

Wholesale Funds

PERPETUAL WHOLESALE DIVERSIFIED GROWTH FUND

December 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

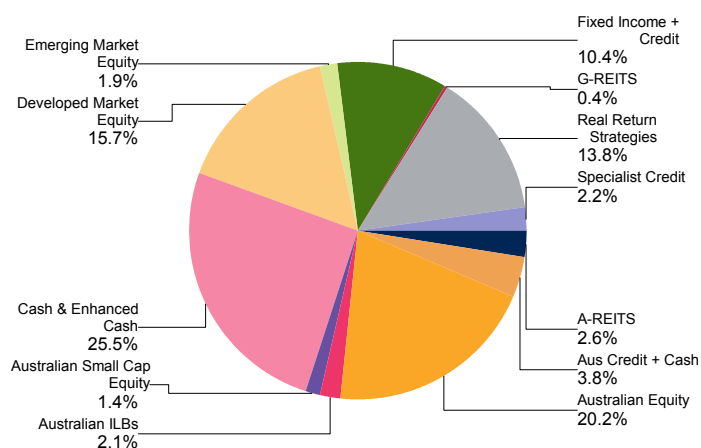
Management Fee: 0.96% p.a.

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



Please note: Effective 3 May 2021, the unlisted property benchmark was replaced from Mercer/IPD Australia Monthly Property Fund Index to S&P/ASX 300 A-REIT Total Return Index. Reporting published from 30 June 2021 to 31 August 2021 did not reflect this change, and as a result the data in the "benchmark" and "excess returns" columns was incorrectly reported during this period. If you wish to receive revised benchmark or excess returns data between June and August 2021, please contact us. There is no impact to data reported prior to, or following, this period.

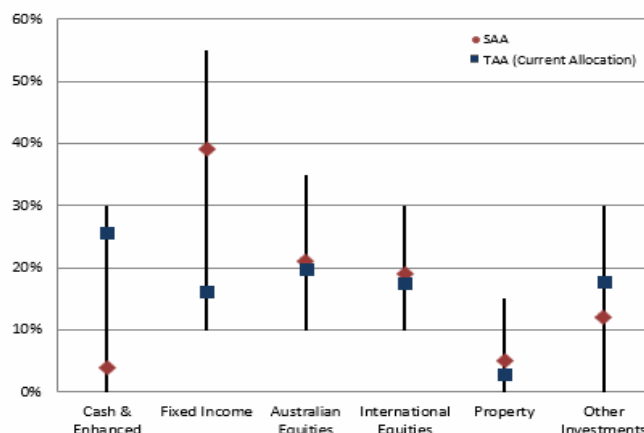
NET PERFORMANCE- periods ending 31 December 2021

	Fund	Benchmark	Excess
1 month	1.8	1.4	0.4
3 months	1.0	1.9	-0.9
FYTD	2.5	3.0	-0.5
1 year	10.6	9.4	1.2
2 year p.a.	7.4	6.8	0.6
3 year p.a.	8.4	9.5	-1.1
5 year p.a.	6.5	7.6	-1.1
10 year p.a.	7.7	8.2	-0.4
Since incep.	6.4	6.4	0.0

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

ASSET ALLOCATIONS AND INVESTIBLE RANGES

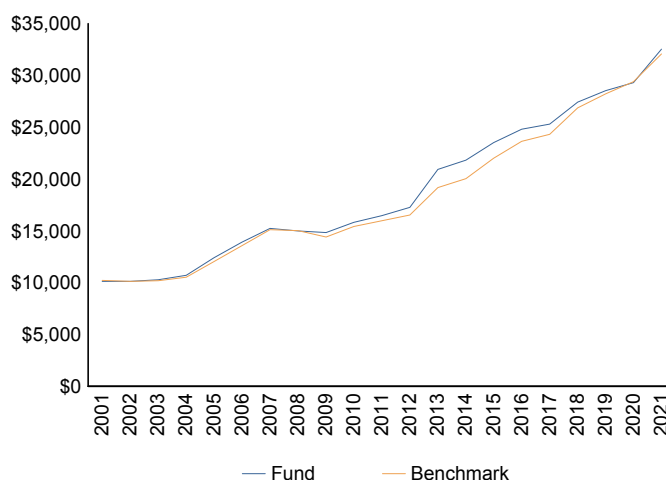
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



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 equity markets finished the year strongly, led by the US market which rallied to record highs capping another year of extremely strong performance. The US is ever more dominant in the global equity market (comprising 68% of the MSCI World index), reflecting sustained out-performance since the GFC. Accordingly, the rally in the US underpinned another record high in the MSCI World index in the final trading days of 2021. At the same time, the performance of other markets was mixed for the quarter:

- US stocks (+11.0%) led global equities, supported by robust earnings growth.
- European markets rose, led by France (+9.9%) ahead of the UK (+4.7%) and Germany (+4.1%).
- Asian markets under-performed significantly with falls in Japan (-2.1%), Korea (-3.0%) and Hong Kong (-4.7%).
- Meanwhile, Chinese equities (-6.2%) remain impacted by slowing growth, increasing regulatory intervention and the debt crisis in the property market.
- Australian equities (+2.1%) trailed global markets over the December quarter but managed small gains.

The quarter closed a strong calendar year for global equities (which were up by 25% in local currency terms), with the standout performer being the US (+29%) while China (-22%) and Hong Kong (-14%) under-performed dramatically.

As a result of the overwhelming monetary and fiscal policy response globally to the emergence of COVID-19, the pandemic has turned out to be 'very good' for markets and valuations of most assets are extremely extended. Medium to long term (5 to 10 year) returns from these valuation starting points in equities have consistently been poor thereby contributing to our very cautious outlook.

Adding to our caution, the December quarter saw a dramatic shift in central bank rhetoric led by the US Federal Reserve (the Fed) as a result of persistent high inflation. For some months, we have been highlighting the very difficult balancing act faced by the Fed as it tries to unwind extreme policy settings in the face of a slowing economy and inflation that is more than double the target. During the quarter, the Fed retired the 'transitory' moniker for the recent spike higher in inflation and began the process of reducing asset purchases before announcing an acceleration in the 'taper' in December. The Fed's quantitative easing program will likely be completed in March this year, to be followed by 3 or 4 hikes in the policy rate over the remainder of the year, but the uncertainty regarding this forecast is very high.

The European Central Bank (ECB) has also shifted its rhetoric on inflation to reflect persistent high inflation outcomes. They now plan to phase out asset purchases by March 2022. Moreover, the Bank of England became the first major central bank to raise policy rates in December with a 0.15% increase. And the Reserve Bank of Australia abandoned its yield curve control program in November, but they insist that increases in the policy rate in 2022 remain unlikely.

Central bank supported liquidity and artificially low interest rates have been a crucial component of increasing asset valuations over recent years. Even though US short-dated government bonds sold off significantly in the quarter due to the recalibration of monetary policy expectations, the US 10-year bond yield was stable at a yield of just 1.5%. It is worth emphasising that bond yields have never been lower than in the past two years. If rates move significantly higher from present levels, it may be a significant challenge for equity valuations which are already at extremes on just about all metrics -- except relative to interest rates.

Meanwhile, the identification of omicron as a variant of concern in late November has been a salutary reminder that the acute phase of the pandemic is not yet in the rear-view mirror. The faster

spread and reduced virulence of omicron -- combined with much higher vaccination rates in many key developed economies may limit the impact on the global economy. Nonetheless, the impact on supply chains is still very significant due to the number of workers furloughed by the virus.

The spread of the omicron variant will continue to be closely scrutinised in the weeks and months ahead. The path of the virus is also crucial to the deliberations of the Fed and other central banks. Even though omicron is clearly negative for economic growth, the implications for policy are uncertain as it will also boost supply-side inflation, increasing the risk of a permanent shift higher in inflation expectations.

The impact of new COVID variants on emerging markets is less opaque. Chinese economic activity remains very sensitive to the path of the virus as the authorities zero tolerance for COVID leaves the economy particularly vulnerable to lockdowns. Chinese growth has slowed significantly and while policy is starting to be eased, 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.

Despite record case numbers, the impact of Omicron on Australian markets has been minimal. So far, Australian inflation remains subdued (relative to global peers) and the RBA maintains that policy rate increases remain far off. This has contributed to the weakness of the \$A over the past year. Slower global growth and tightening liquidity, suggest the USD and other foreign currencies may continue to be a worthwhile hedge against weaker equity markets.

Global equities rallied in spite of the spread of the Omicron variant and the acceleration of central bank tapering. Consequently, the portfolio's downside protection positions also detracted from relative performance as stocks rallied. Stock selection in global and Australian equities also detracted from relative return during the quarter giving back some of the gains over 2021. The Fund is around benchmark weight in global equities. After trimming exposure over the quarter, the Fund is marginally below benchmark weight in Australian equities. All equity exposures retain their long-standing quality and value bias which significantly contributes to the defensive attributes of the Fund.

The fund's underweight exposure to government bonds and credit contributed to relative performance over the quarter. October saw the RBA abandon its yield curve control program, while global central banks accelerated taper schedules throughout the quarter. 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 alongside minimal compensation for default risk.

The Fund's allocation to foreign denominated cash contributed to relative performance over the quarter -- most notably US dollar and select emerging market currencies. During November, the Australian dollar fell against peers as the market's pricing of 2022 rate increases tempered somewhat. This normalised somewhat in December, however the lower relative inflation and the RBA's longer horizon for rate hikes suggest the Australian dollar will continue to face pressure in 2022. Some profits have been taken on this position but the Fund retains 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. In spite of the spread of the omicron variant, central banks tapering schedules have been accelerated. The tightening schedule for central banks – led by the Fed – has been brought forward following a string of poor inflation outcomes. 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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