

Wholesale Funds

PERPETUAL WHOLESALE DIVERSIFIED GROWTH FUND

January 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

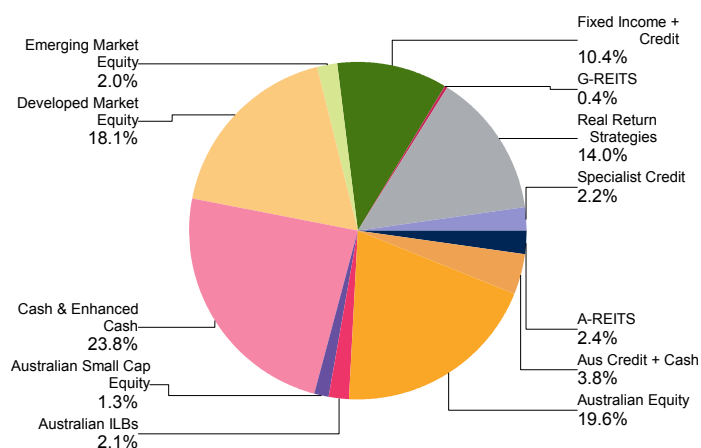
Management Fee: 0.96% p.a.

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



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.

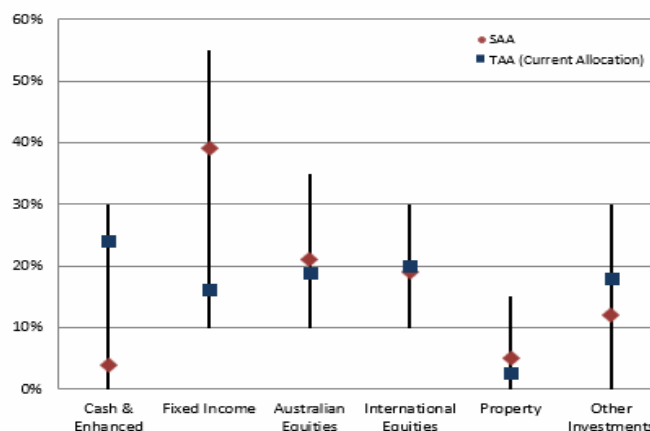
NET PERFORMANCE- periods ending 31 January 2022

	Fund	Benchmark	Excess
1 month	-0.2	-2.9	2.7
3 months	1.5	-0.4	1.9
FYTD	2.3	0.0	2.3
1 year	10.6	6.3	4.3
2 year p.a.	6.2	3.9	2.3
3 year p.a.	7.7	7.5	0.2
5 year p.a.	6.6	6.9	-0.3
10 year p.a.	7.5	7.7	-0.2
Since incep.	6.3	6.2	0.1

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

ASSET ALLOCATIONS AND INVESTIBLE RANGES

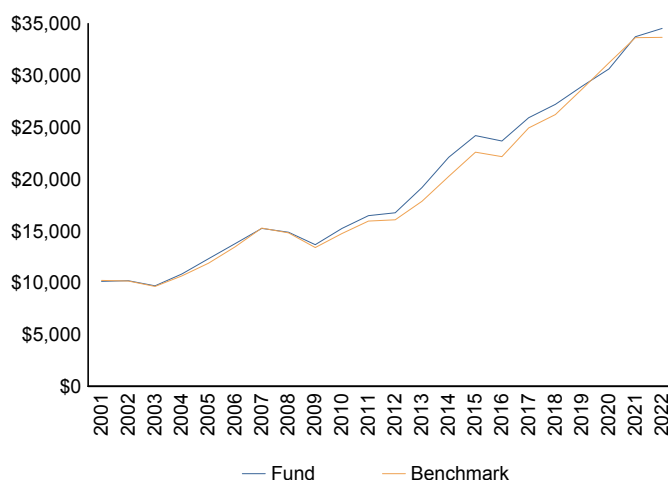
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



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 fell sharply in January as the expectation of accelerated monetary policy tightening weighed on the valuations of expensive growth stocks. Further contributing to reduced investor sentiment was increasing geopolitical tensions, mixed early company profit results, persistent high inflation and the continued disruption caused by the Omicron variant.

- US equities (-5.2%) retreated with the S&P 500 posting its worst month since March 2020 and the largest January decline since the GFC. The tech focused NASDAQ (-9.0%) significantly underperformed as high growth, low profit stocks were the hardest hit. At the same time, the energy sector (up 19%) dramatically out-performed as oil prices surged.
- European equities were more resilient with Germany (-2.6%) and France (-2.0%) outperforming global markets while the UK (+1.1%) was an outlier in developed markets, posting a monthly gain.
- Asian markets were mixed highlighted by the resilience of Hong Kong (+1.7%) and to a lesser extent China (-2.9%) and Taiwan (-3.0%), while Korea (-10.6%) and Japan (-6.2%) fell heavily.
- January was the worst month for the ASX 200 (-6.4%) since March 2020. Australian equities underperformed the global market with the technology and healthcare sectors seeing the most significant decline.
- Bond yields jumped as investors anticipated acceleration of monetary policy tightening. US 10-year yields climbed 27bps to 1.78% and Australian 10-year yields increased 22bps to 1.89%.
- A relatively more dovish Reserve Bank of Australia (RBA) increased the pressure on the Australian dollar which fell (-3.1%) against the USD over the month.

The common theme observed through the January selloff in equities was the underperformance of stocks highly leveraged to future earnings growth and hence more sensitive to changes in interest rates. While increasing geopolitical tensions and slowing economic growth indicators detracted from investor sentiment, the much more hawkish tone of the US Federal Reserve (the Fed) was the most significant catalyst.

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 its target. The Fed has shifted its stance on inflation over recent months, retiring the 'transitory' moniker and stating during January that 'with inflation well above 2 percent and a strong labour market, the Committee expects it will soon be appropriate to raise the target range for the federal funds rate'. By month end, expectations firmed of an end to quantitative easing and commencement of a monetary policy tightening cycle in March.

High inflation and pressure on monetary policy has impacted all markets to varying extents. During January, the RBA's preferred measure of inflation spiked to 1.0% quarter on quarter (or 4% annualised) representing the largest rise since 2008. The RBA's central scenario now has inflation in the target range but they remain reticent to commit to rate increases in 2022. Governor Lowe maintained during the month that it is too early to determine whether inflation will remain 'sustainably' in the target band, but conceded in early February that early rate increases were 'plausible'. Alongside inflation, employment appears well within the range of RBA targets. Employment data released during January was robust with the unemployment rate falling to 4.2%, well ahead of RBA projections and close to their 4% estimate for 'full employment'. The market continues to price in an early start to the forthcoming tightening cycle, well ahead of RBA guidance.

Central bank liquidity and artificially low interest rates have been a crucial component of increasing asset valuations over recent years. 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. Against this backdrop, the most exposed part of the market would be growth stocks, while value and quality could be expected to be much more resilient.

While the moves of central banks dominated investor sentiment throughout the month, the massing of Russian troops at the Ukrainian border was a reminder of the ever-present geopolitical risks to markets. While the impact of the standoff with Russia and the spread of the Omicron variant on financial markets have not yet been dramatic, they represent ongoing risks that could be the catalyst for a further correction in markets.

While financial markets proved resilient to the impact of the Omicron variant over recent months, the impact on economic growth has become clear. Accessibility of labour and supply chains remain significantly disrupted by the virus. Domestically, job vacancies surged during January as the impact of quarantines was felt in the labour market.

The path of the virus is also crucial to the deliberations of the Fed and other central banks. Even though Omicron has clearly been 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 some emerging markets remains more clear cut. 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.

Stock selection across Australian and global equities was the most significant contributor to outperformance over the month. The Fund's value and quality biases outperformed strongly during the month as growth sectors (most notably US tech) sold off sharply. The Fund is around benchmark weight overall in equities. All equity exposures retain their long-standing quality and value bias which significantly contributed to the defensive attributes of the Fund in January.

For some time, the Fund has retained a substantial underweight allocation to fixed income including credit due to valuation concerns and a corresponding overweight cash position. This added significantly to performance in the month. Government bonds are a very unattractive investment offering negative real yields and questionable downside protection, while credit offers a low return along with minimal valuation upside or compensation for default risk.

The Fund's allocation to foreign denominated cash contributed to relative performance over the month as the more dovish stance of the RBA relative to the Fed, saw the Australian dollar weaken. The Fund maintains a 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

This year will likely be dominated by the impact of central banks beginning to unwind their extreme policy settings. 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. Extraordinarily low interest rates have intensified the hunt for yield and contributing to very expensive equity valuations. The tightening of central bank policy presents a challenge to financial market as liquidity is reduced and discount rates increase. Of course, geopolitical developments and the pandemic remain key risks that could also destabilise markets. In this climate the fund remains well positioned to navigate the tightening cycle, 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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