

## Wholesale Funds

# PERPETUAL WHOLESAL DIVERSIFIED GROWTH FUND

February 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

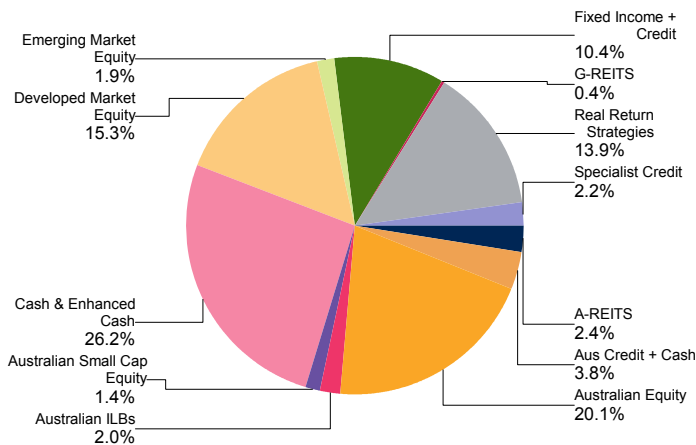
**Management Fee:** 0.96% p.a.

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



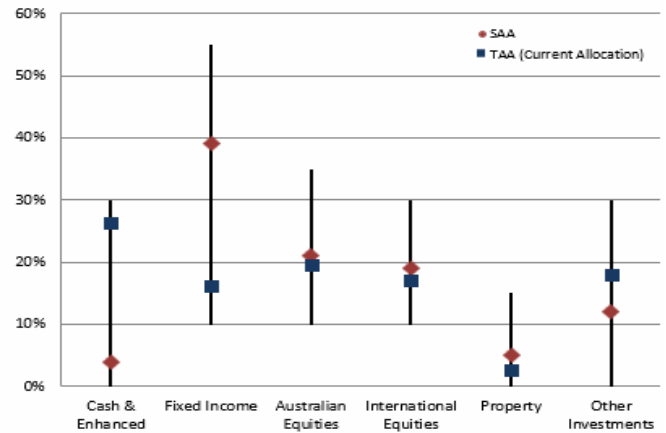
### NET PERFORMANCE- periods ending 28 February 2022

	Fund	Benchmark	Excess
1 month	-0.6	-1.1	0.5
3 months	1.0	-2.6	3.6
FYTD	1.8	-1.0	2.8
1 year	8.9	5.9	3.1
2 year p.a.	7.2	4.9	2.3
3 year p.a.	6.7	6.1	0.6
5 year p.a.	6.3	6.5	-0.2
10 year p.a.	7.3	7.4	-0.2
Since incep.	6.3	6.1	0.2

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

### ASSET ALLOCATIONS AND INVESTIBLE RANGES

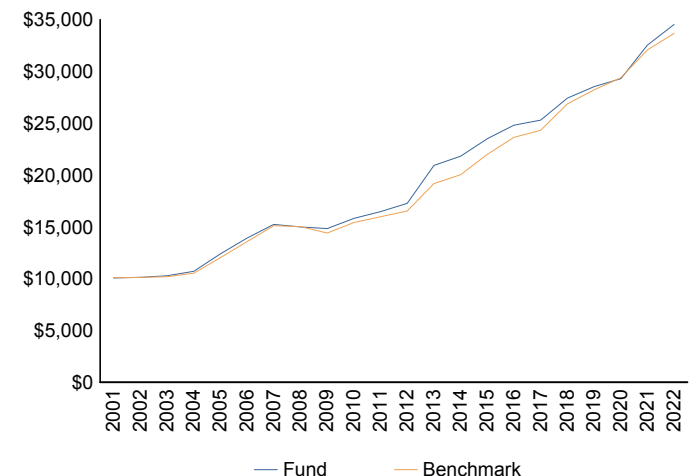
#### FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



### 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

February was another turbulent month for global markets with geopolitical instability alongside the ongoing reassessment of the outlook for monetary policy having a major impact on markets. In particular, market volatility spiked in the final week of February as Russia invaded Ukraine following months of speculation occasioned by the build of troops on the Russian-Ukrainian border.

The selloff in equities that dominated the new year, continued in February with the MSCI World falling 2.6% in the month.

- US equities (-3.0%) continued to slide in February. Persistent inflationary pressure and speculation surrounding the Federal Reserve's (the Fed's) response continued to contribute to the rotation from growth stocks to value.

- European markets were roiled by Russia's invasion of Ukraine. Continental markets fell sharply towards the end of the month, including France (-4.9%) and Germany (-6.5%). The UK (+0.3%) was more resilient.

- Australian equities (+2.1%) led developed markets, supported by soaring energy prices and robust corporate profit results.

February saw the ASX 200 post its best performance relative to the MSCI world in a decade.

- Similar patterns were observed in credit markets with US and European credit widening significantly while AUD spreads were more stable.

- The rise in US yields slowed in February as geopolitical tensions weighed on investor risk appetites. The US 10-year yield still rose by 5bps on persistent inflation concerns and anticipation of a rapid Fed tightening cycle. Australian 10-year yields rose 25bps over February ending the month above 2%.

- Other traditional safe-haven assets such as gold (+6.4%) performed well during February.

- Commodity markets were significantly impacted by the invasion of Ukraine with oil continuing to soar. The impact of the war in Ukraine on energy prices and energy transition in Europe is expected to be significant and prolonged.

Equity markets sold off as the news broke of the invasion and have been trading with heightened volatility ever since reflecting the uncertainty about how this war plays out. The precedent during previous periods of Russian aggression in 2014 (annexation of the Crimean Peninsula) and 2008 (invasion of Georgia) suggest that the direct impact for markets could be short-lived. However, this time it appears that the Russian President may have over-reached and, in the meantime, the indirect impact from sanctions, higher energy prices and central bank actions could be much more substantial.

The invasion and subsequent sanctions have already seen the oil price increase to well over \$100 USD a barrel, putting further pressure on headline inflation. Europe remains heavily reliant on Russian oil and natural gas. As a result, the war – and associated sanctions – will significantly impact European economic activity. Furthermore, it could provide a catalyst for an acceleration of the transition towards renewable power.

The impact of the invasion of Ukraine on headline inflation and economic activity will be an important consideration for central banks. Weaker economic growth caused by further dislocation of supply chains and higher energy costs provide a pretext to decelerate monetary policy tightening. However, the risk of entrenching higher inflation expectations is also a key risk for central banks. The European Central Bank (ECB) remains the most likely central bank to delay tightening, as the European economy is the most exposed to Russia. Moreover, the ECB is already relatively dovish compared to the Fed and the Bank of England.

By contrast, in the US the dilemma 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 is now even more problematic. Following a reticence to address spiking inflation in the latter half of 2021, the Fed's stance has shifted significantly in

recent months. The market is anticipating multiple rate increases over the next year with the possibility of 50 bp hikes at some meetings.

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.

The Fund's positioning continues to mitigate the impact of the recent selloff in financial markets. Stock selection across global and Australian equities was the most significant contributor to outperformance over the month. The Fund is marginally underweight 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 and February.

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 to relative performance again during the month of February. 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 currency detracted from relative performance over the month as the Australian dollar strengthened against the US dollar. The Fund maintains a significant foreign exchange exposure, diversified across a number of developed and emerging market currencies.

The Fund's allocation to uncorrelated sources of return were constructive for performance during a turbulent month. 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

Notwithstanding the recent geopolitical turmoil, this year will still 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 monetary policy presents a major challenge to financial markets 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.

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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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## **MORE INFORMATION**

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