

Wholesale Funds

PERPETUAL WHOLESALE DIVERSIFIED GROWTH FUND

January 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

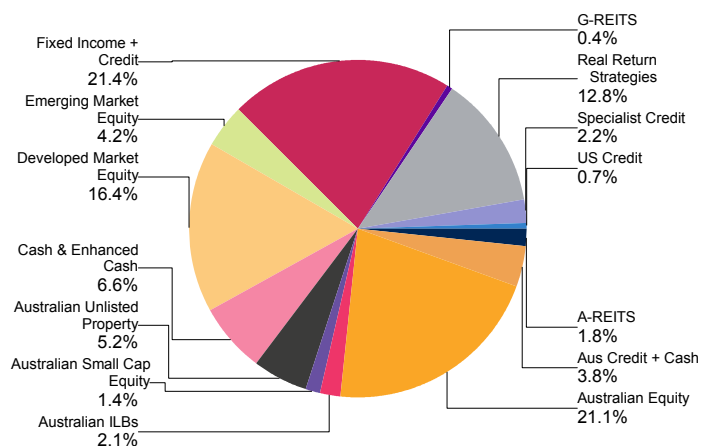
Management Fee: 0.96% p.a.

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



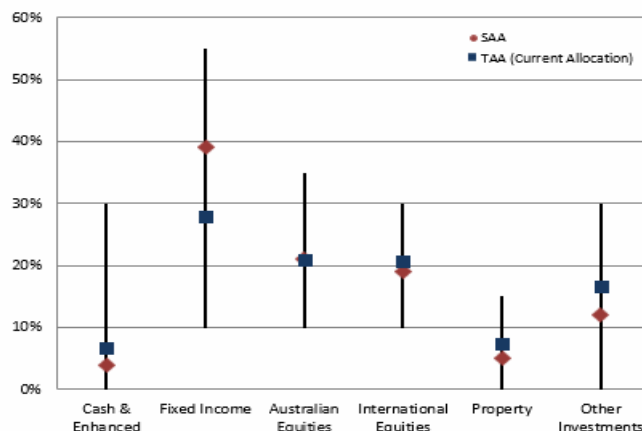
NET PERFORMANCE- periods ending 31 January 2021

	Fund	Benchmark	Excess
1 month	-0.2	-0.1	-0.1
3 months	5.6	5.0	0.6
FYTD	6.5	6.8	-0.3
1 year	2.0	1.4	0.5
2 year p.a.	6.3	8.1	-1.8
3 year p.a.	4.7	6.5	-1.8
5 year p.a.	5.6	7.3	-1.7
10 year p.a.	6.7	7.2	-0.5
Since incep.	6.1	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

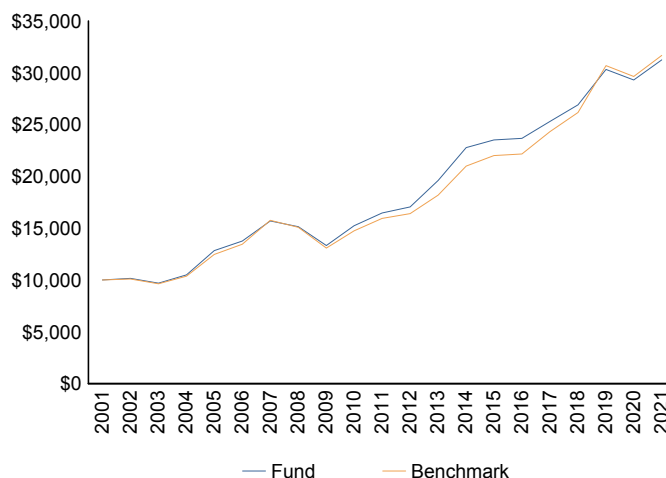
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



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

Financial market returns were mixed in January.

- US equities (-1.0%) were up for most of the month until a correction in the last week of January.
- European markets also receded with the UK (-0.8%), Germany, (-2.1%) and France (-2.6%) all falling as the resurgence of the virus as well as a new strain continued to impact markets.
- Asian markets performed well with significant rises in Hong Kong (3.9%), Korea (3.6%) and Taiwan (2.8%).
- Australian equities rose marginally (+0.3%), supported by the successful handling of the pandemic, improved consumer optimism and strong commodity prices.
- Credit spreads continued to tighten showing increasing risk appetite as investors continue the hunt for yield.
- At the same time, global bond yields shifted higher as optimism about the economic outlook in 2021 continues to grow. US and Australian 10-year rates both moved from under 1% to over 1% over the month.

The spread of COVID-19, the vaccine rollout and a retail investor led short squeeze all impacted markets during January.

The US and Europe continue to struggle to contain COVID-19 and the emergence of new strains has compounded the issue. The second wave has been much worse than the first in terms of case numbers, although the preparedness and capacity of the health system to deal with a surge in cases is much improved. As a result, short term growth expectations in the US and particularly Europe (where social mobility has been limited much more significantly) have been marked down at the same time as confidence in a strong rebound in growth in 2021 has increased (due to the vaccine news).

While there remains optimism around the vaccine rollout, issues with supply chain and distribution strategy have emerged in the last month. While the logistical problem of distributing the vaccine globally is daunting, the vaccines remain very likely to be the game changer that we are all looking for. These vaccines dramatically change the outlook for the course of the virus in 2021.

At the same time, fiscal and monetary support are likely to continue at unprecedented levels in most global economies to reduce abundant spare capacity. Consequently, global growth in 2021 is set to be the strongest since the 1970s as social mobility restrictions ease and consumers start to run down elevated savings.

In late January, a retail investor led squeeze on a number of heavily shorted US mid-cap stocks prompted a selloff in US equities. The massive price spike in these stocks led to hedge funds selling long positions to cover and investors de-risking their portfolios in order to avoid a potentially significant market correction. The impact on the overall US equity market was a notable increase in volatility together with a modest market correction in the latter half of the month. The selloff also impacted other markets with global shares falling in the last week of the month as a result.

In the US, the political turmoil associated with the transition from the Trump administration to the incoming Biden administration was largely ignored by markets. In many ways the most significant political development in the month was the Democrat wins in the two Georgia Senate seat run-offs giving the Democrats a clean sweep with effective control of the House and Senate. As a result, further significant fiscal stimulus is much more likely, although the Democratic caucus is still struggling to reach consensus on some aspects of the stimulus package. Fourth quarter data suggest that the second round of stimulus had an immediate impact on consumer spending and another big boost is likely in the next few months once the next package comes into effect.

The US Federal Reserve (the Fed) reiterated that rates would

remain at their effective lower bound and asset purchase programs would remain active “until the job is well and truly done”, intending to see progress towards employment and inflation targets before tapering the asset purchase program maybe early next year. By contrast, increases in the policy rate from zero are years away – maybe in 2024. These extraordinary monetary policy conditions continue to be extremely supportive for equity and credit valuations via record low discount rates and artificially supported demand for assets.

European markets continue to be impacted by the resurgence of COVID-19 and the emergence of a new UK strain. Thankfully, European healthcare systems and public services are far better prepared than in early 2020 when public health institutions were quickly overwhelmed. As of the end of January, the UK had the third highest portion of their population vaccinated of any country. In continental Europe, the vaccine rollout is slower but by mid-year the vaccine in addition to seasonal factors are likely to see a massive change in the course of the virus. In the meantime, despite widespread lockdowns remaining in place, some economic growth indicators are showing resilience including purchasing manager indices.

Australian equities outperformed global peers, rising marginally over the month. The success of Australia’s response to the pandemic and improving macroeconomic growth expectations continue to support investor confidence. This saw cyclical sectors led by consumer discretionary outperform across equities and credit. Improved sentiment was also seen in 10-year high consumer confidence and robust housing data.

There remain huge challenges for the Australian economy in 2021 in dealing with the COVID-19 crisis. Two issues that stand out are first winding back the Job Keeper program without undermining the recovery and second managing the broken relationship with our most important trading partner, China. Notwithstanding these challenges - with the virus now under control again and a vaccine in prospect for 2021 - the outlook has improved significantly.

The recent out-performance of value compared with growth retraced somewhat in January, supported by better than expected US technology earnings. As a result, stock selection in Australian and global equities detracted from performance after recent strong contributions. While the rotation towards value seen in November and December was not extended through January, we remain of the view that investments in undervalued companies with strong balance sheets should out-perform in the years ahead.

In recent months, the fund has reduced exposure to US equities and increased emerging markets exposure. This benefitted the portfolio in January as emerging markets outperformed.

Overall, the fund is around benchmark allocations to both Australian and developed market equities. In November, exposure to emerging market equities was increased putting the overall equity weight slightly above benchmark.

These exposures retain their long-standing quality and value bias which significantly contributes to the defensive attributes of the Fund. Moreover, after an extended period of under-performance, we expect a period of sustained out-performance from ‘value’ relative to ‘growth’ in the next 3 to 5 years.

In addition, the fund has substantial foreign exchange exposure diversified across a number of developed and emerging market currencies. Allocation to safe-haven currencies such as the USD and Japanese Yen contribute to the downside protection. The fund remains underweight fixed income, reflecting valuation concerns.

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 global economy is currently positioned for a significant recovery in 2021. 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 (with US 10-year yields around 1%) and the US dollar (which has fallen significantly over the past year). 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 improving macro outlook, 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. This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL No 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that fund. The PDS can be obtained by calling 1800 022 033 or visiting our website www.perpetual.com.au. No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of any investor's capital. Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for contribution or withdrawal fees or taxation (except in the case of superannuation funds, as applicable). Past performance is not indicative of future performance.

MORE INFORMATION

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email investments@perpetual.com.au

www.perpetual.com.au

