

## Wholesale Funds

# PERPETUAL WHOLESALE BALANCED GROWTH FUND

August 2022

### FUND FACTS

**Investment objective:** The fund aims to provide long-term capital growth and income through investment in a diversified portfolio with an emphasis on Australian and international share investments.

### FUND BENEFITS

Provides investors with access to a diverse range of growth and income producing assets. Active management and asset allocation techniques are employed in order to further enhance the fund's return 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:** Balanced Growth Index (Internally generated composite)

**Inception Date:** October 1997

**APIR:** PER0063AU

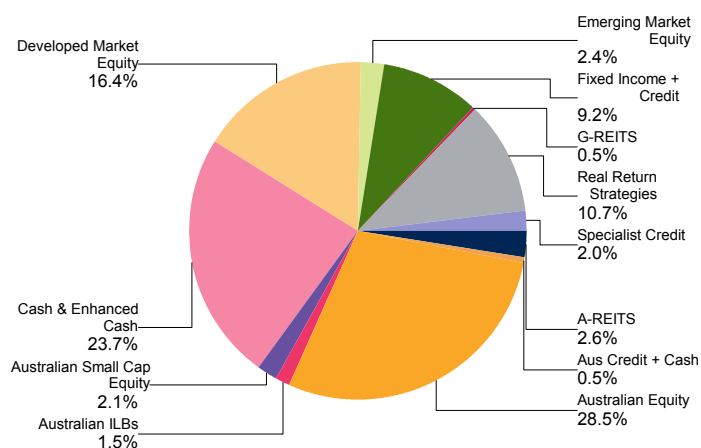
**Management Fee:** 1.04% p.a.

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:** Five years or longer

### PORTFOLIO SECTORS



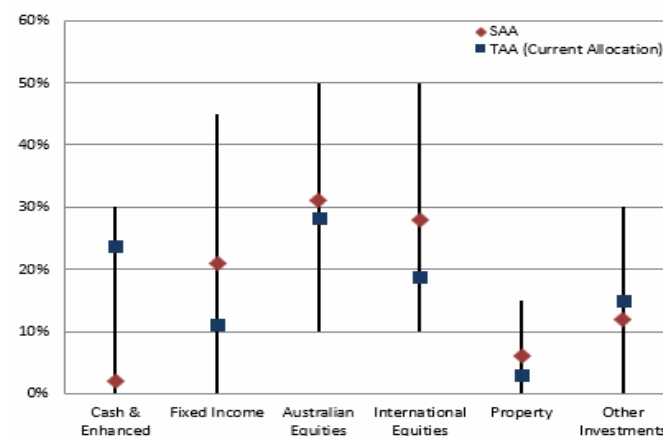
### NET PERFORMANCE- periods ending 31 August 2022

	Fund	Benchmark	Excess
1 month	0.9	-1.3	2.1
3 months	-1.9	-1.9	0.0
FYTD	2.9	4.0	-1.1
1 year	0.7	-8.1	8.8
2 year p.a.	11.5	5.2	6.3
3 year p.a.	6.9	3.9	3.0
5 year p.a.	7.1	6.4	0.7
10 year p.a.	8.3	8.1	0.2
Since incep.	7.3	6.9	0.4

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

### ASSET ALLOCATIONS AND INVESTIBLE RANGES

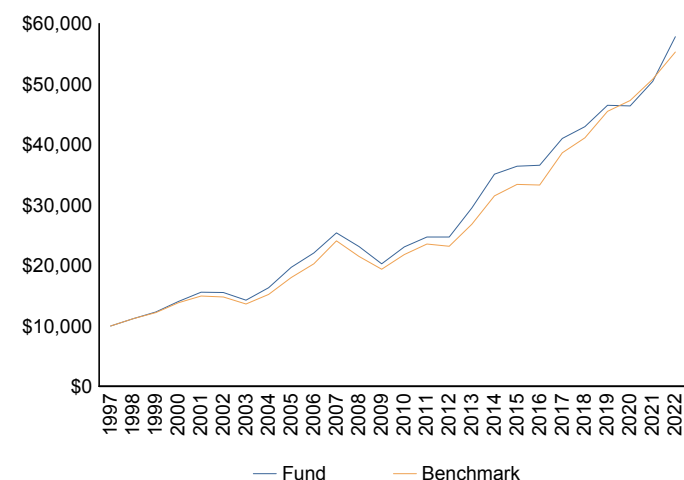
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



### 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

Ultimately, the rally in global equity and bond markets since mid-June could not be sustained in the face of hawkish central bank rhetoric and elevated global recession risk. Notwithstanding indications that inflation has peaked in the goods sector, it is still way too high and there remains a long way to go for central banks to get it back under control.

- US equities (-4.1%) fell sharply over the final two weeks of the month after continuing to rally over the first half of August.
- Australian equities (+1.2%) outperformed global peers, supported by robust corporate profit results.
- Emerging market equities (1.3%) outperformed, notwithstanding China's ongoing issues with covid and the worsening property crisis.
- European equities (-5.1%) fell as the energy crisis intensified, while UK equities (-1.1%) were more resilient.
- Developed market bond yields rose substantially as monetary policy expectations were recalibrated yet again. Benchmark 10-year yields in the US rose by 49 bps, Australia by 54bps and the UK rose by 93 bps to a new 8-year high.
- Commodities were broadly lower over the month. Oil fell back below US\$100 while materials also fell on easing demand and higher inventories.

We maintain our view of the key pressures currently weighing on the market outlook.

- Even though equity valuations have improved this year, they remain expensive on just about all metrics.
- the transformation of the monetary policy outlook has caused a nasty bear market in government bonds and much tighter liquidity conditions.
- a slowdown in economic growth with elevated recession risks in the US and Asia and acute recession risk in Europe contributing to a likely sharp slowdown in profit growth.
- growing geo-political risks in Europe due to the Russia/Ukraine war and in Asia reflecting a much more assertive China and heightened tensions over Taiwan's future.

The US Federal Reserve (the Fed) has a very challenging task to bring inflation under control while avoiding recession. The US yield curve (between the 2 and 10 year) has now been inverted for two months which has been a reliable leading indicator of recession in the past. Economic growth has already stalled in the first half of 2022, but the labour market remains very tight with the unemployment rate in striking distance of 60-year lows.

The problem for the Fed is that inflation is so high they must take risks with economic growth to get it back down again. As a result, recent market hopes that the Fed's terminal rate might be lower and come sooner were punctured by comments from Fed Chair Jerome Powell at the annual Jackson Hole Economic symposium. Powell warned of "some pain" while recommitting to the aggressive monetary policy tightening that roiled markets in the first half of 2022. Powell's comments addressed the possibility of easing in the medium term stating: "restoring price stability will likely require maintaining a restrictive policy stance for some time," and that "the historical record cautions strongly against prematurely loosening policy". Equities sold off sharply following the address. Bonds were less impacted with yields already having risen over the first three weeks of the month. Alongside rising rates, financial conditions are set for further tightening in the months ahead as the Fed accelerates the reduction of its balance sheet by selling treasuries and credit securities.

We are yet to see the full impact of the Fed's aggressive tightening regime play out as monetary policy operates with long and variable lags and the tightening cycle has only been underway for six months. In the meantime, profit expectations in the US are too high with 8% growth expected this year and next. By contrast, we expect much weaker outcomes including the prospect of significant falls next year.

While we highlight the actions of the Fed as the most crucial determinant of the market outlook, other major central banks have followed the Fed's lead to embark on aggressive tightening programs. Voting members of the European Central Bank (ECB) have openly floated the idea of a 75bps interest rate increase and futures markets have priced a sharper pace of tightening. Meanwhile, the likelihood of a deep European recession continues to increase against a backdrop of an ongoing energy crisis. The ECB faces a diabolical predicament, and the risk of policy error is high as the bank wrestles with the prospect of double-digit inflation, an energy crisis and a sharply slowing economy.

The Reserve Bank of Australia (RBA) also continued its aggressive tightening cycle, having increased the target cash rate by 175bps since the start of May. The 50bps increase in the target cash rate in early August precipitated a selloff in Australian long term bond yields. The RBA may have to do less than the Fed as inflation and wages growth are lower and there is greater household sensitivity to policy rates reflecting highly leveraged households and the prevalence of variable rate mortgages. While the Australian economy looks robust thus far, the RBA also has a delicate balance to maintain. Inflation remains elevated and labour conditions are very tight, but forward indicators suggest slowing growth.

The global tightening of monetary policy that is underway, slowing economic and corporate profit growth and heightened geopolitical tension all continue to contribute to a very challenging market outlook. We remain very cautious on the outlook for the second half of 2022.

Stock selection across Australian and global equities contributed to outperformance as value stock and sectors outperformed growth. During a down month for global equities, put options on US and European stock markets performed well. The Fund remains underweight equities in recognition of expensive valuations, tightening financial conditions and slowing economic growth. All equity exposures retain their long-standing quality and value bias which are expected to continue to outperform against a backdrop of rising interest rates.

The sharp selloff in bonds and the rising recession risks through the first half of 2022 have increased the attractiveness of government bonds in some markets. Over recent months, the Fund has added exposure to Australian and US duration, partially offset by partially offset by a small short (negative) position in Japanese duration which was increased during the month. At month end, the Fund remains underweight bonds.

The Fund maintains a significant foreign exchange exposure, diversified across a number of developed and emerging market currencies. The Fund's overweight allocation to cash - specifically USD - contributed to outperformance during August. The Fund benefitted via direct USD exposure as well as its call option on the USD against the Chinese Yuan (CNH). The call option has performed well and continues to offer an asymmetric pay off should the authorities in China respond to their growing economic challenges by further depreciating their currency.

As global equities fell over the latter half of the month, the Fund's allocation to uncorrelated sources of return (market neutral equities alongside the Diversified Real Return Fund) performed well, contributing to outperformance. In consideration of the number of pressures weighing on financial markets, the Fund maintains its position in the Diversified Real Return Fund which is

expected to deliver low volatility absolute returns while retaining a relatively low correlation to equity markets.

## OUTLOOK

Tightening financial conditions and slowing economic growth provide a fraught environment for investors to navigate. High equity valuations were only supported while bond yields stayed low as a result of extraordinarily easy monetary policy. Equity valuations have adjusted (although there could be more to come) but now profit expectations need to be substantially reduced. In this climate the fund remains well positioned to navigate the tightening cycle and retains the capacity to add risk as valuations become more attractive.

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The Balanced 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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