

## Wholesale Funds

# PERPETUAL WHOLESALE BALANCED GROWTH FUND

February 2021

### 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

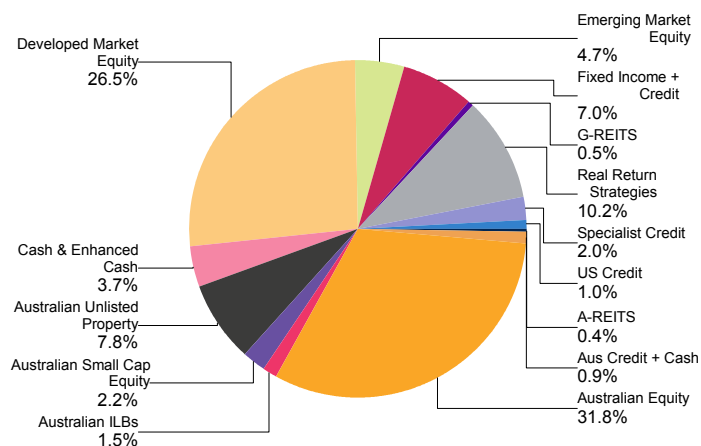
**Management Fee:** 1.04% p.a.

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



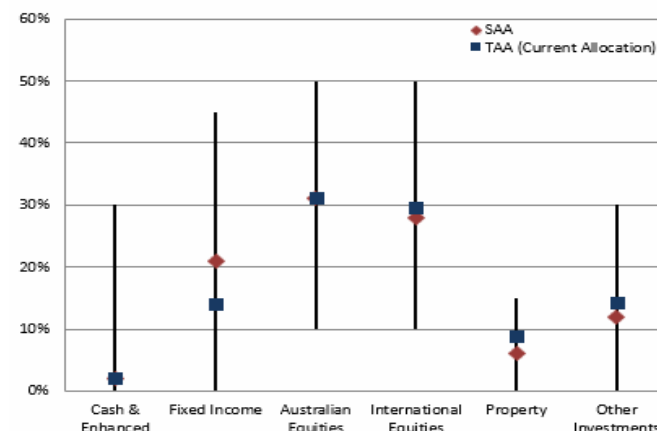
### NET PERFORMANCE- periods ending 28 February 2021

	Fund	Benchmark	Excess
1 month	2.2	0.3	1.9
3 months	3.1	1.1	2.1
FYTD	11.5	9.7	1.8
1 year	8.4	6.2	2.2
2 year p.a.	6.7	7.7	-1.1
3 year p.a.	6.3	7.4	-1.2
5 year p.a.	7.1	8.9	-1.8
10 year p.a.	7.6	8.0	-0.4
Since incep.	7.3	7.2	0.0

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

### ASSET ALLOCATIONS AND INVESTIBLE RANGES

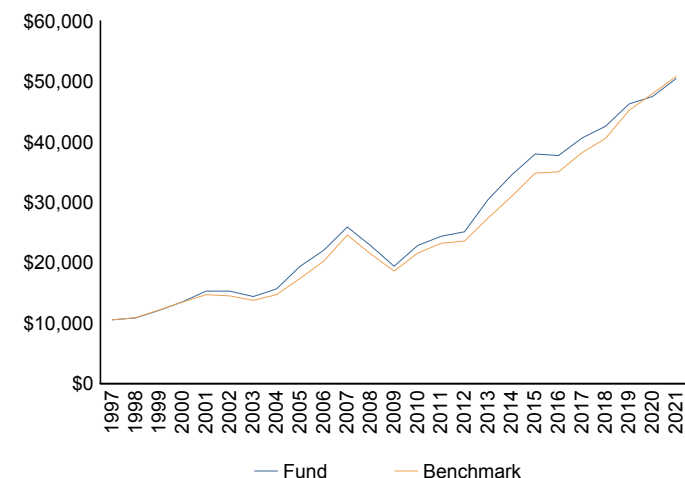
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



### 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

Equity markets performed well in February, while fixed income markets struggled. Developed markets continued to rally through the first half of the month before a significant selloff in global bonds saw equity markets correct.

- US equities (+2.8%) rose on the back of strong Q4 earnings.
- European markets continue to perform well with rises in the UK (+1.6%), Germany, (+2.6%) and France (+5.6%).
- Asian markets also performed well with Taiwan (+5.4%) and Japan (+4.8%) leading the way while gains in Korea (+1.2%) were more modest following multiple strong months.
- Australian equities (+1.5%) underperformed the broader developed market, despite robust earnings and improving macroeconomic indicators.
- Credit spreads tightened on aggregate, mitigating some of the impact of rising interest rates in fixed income markets.
- Global bond yields increased significantly.

February was dominated by the dramatic selloff in bonds over the last two weeks of the month. The losses were concentrated in the long end as shorter dated securities remain largely anchored by central bank guidance that rate increases are a long way off. Australian 10-year yields were even more impacted with the spread between the US and AU 10-year bond yields expanding significantly. The selloff was driven by both increasing inflation concerns and rising real yields brought about by a number of factors including the improving macroeconomic outlook and the expectation that the Biden administration would be able to pass an enormous US\$1.9 trillion fiscal stimulus package (around 9% of GDP) with most of that package impacting this year. In Australia, the fiscal outlook is very different with JobKeeper winding up in March but the economy is still well placed to continue to recover strongly supported by very stimulative monetary policy, household's elevated saving, the vaccine roll-out and increasing commodity prices. The impact of extraordinarily low interest rates on consumer confidence is evident with the surge in house prices across Australia. The RBA left policy settings unchanged and reiterated guidance that the current cash rate and 3-year yield targets would be expected to remain in place until 2024. Following the bond market sell-off, however, the market is pricing in some monetary policy tightening as early as 2022.

The bond selloff was the major driver of equity markets with a further rotation towards value and away from growth and global equities pulling back somewhat in the last two weeks of the month. Growth stocks have benefitted enormously from the big fall in yields in 2020 which increased the present value of future earnings. Now an economic boom is in prospect in 2021 and yields are rising underpinning a rotation towards value sectors. This trend has been observable since the advent of the first vaccine news in November. The US technology sector notably gave back gains in the last half of the month despite several strong earnings results. We expect the current conditions of continued massive fiscal support in the US and rising bond yields will be supportive for value stocks.

The rate of new COVID cases fell in February. Nonetheless, the US and Europe are still negotiating a huge second wave of infections and the proliferation of variants is getting increased attention. Thankfully the virus appears to be coming under control again and the vaccine roll-out should entrench these improvements.

While there remains optimism around the vaccine rollout, issues with supply chain and distribution strategy remain. 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 will dramatically change the outlook for the course of the virus in 2021. Concerns remain about mutations that are either, more contagious or more deadly or both. But it appears most likely that the virus comes under control in the major developed economies in the months ahead, while in some major developing economies the process will be longer and more drawn out.

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.

US fiscal and monetary policy continues to fuel growth expectations and remains committed to closing the output gap left by COVID-19. The 'American Rescue Plan' stimulus package passed the house in February. The bill includes \$1400 direct payments for low and middle income Americans and is expected to have a significant impact on consumer spending. 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 Fed held policy settings in place reiterating that the US economy was still far from reaching their labour market and inflation goals.

In Europe, the impact of social mobility restrictions, including lockdowns, is evident with economic activity remaining very weak. European markets are looking through these weaker data to the prospect for much stronger growth later this year and in 2022. 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 February, the UK had 30% of their population vaccinated. 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.

Australian equities generated modest gains, but underperformed notwithstanding a strong first half reporting season. Sector performance was mixed with the resources sector supported by strong commodity prices and financials performing well on the back of strong earnings and monetary support. The February results period saw a high proportion of positive earnings revisions. Corporate earnings continue to trend up as services activity indicators recover and 2021 growth expectations continue to rise.

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 and a vaccine in prospect for 2021 - the outlook has improved significantly.

Australian and global equity stock selection were the key drivers of outperformance in February. The recent rotation towards value sectors was given further impetus by a sharp rise in bond yields. Stock and sector positioning in the Global and Australian equity allocations also benefitted from a robust reporting season which saw a strong recovery in corporate earnings.

The other key contributing factor to outperformance was the portfolio's underweight duration positioning. The portfolio benefitted from a duration position significantly shorter than the benchmark as yields rose dramatically over the second half of the month. Portfolio exposure to the Diversified Real Return fund also contributed to outperformance.

Overall, the fund is around benchmark allocations to Australian equities and overweight global equities due to a call option on the UK market. 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 contribute to the downside protection in the Fund. 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 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.

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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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