

Wholesale Funds

PERPETUAL WHOLESALE BALANCED GROWTH FUND

July 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

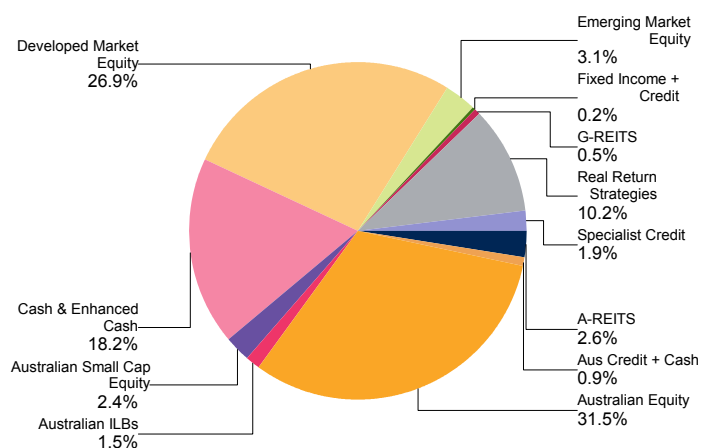
Management Fee: 1.04% p.a.

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



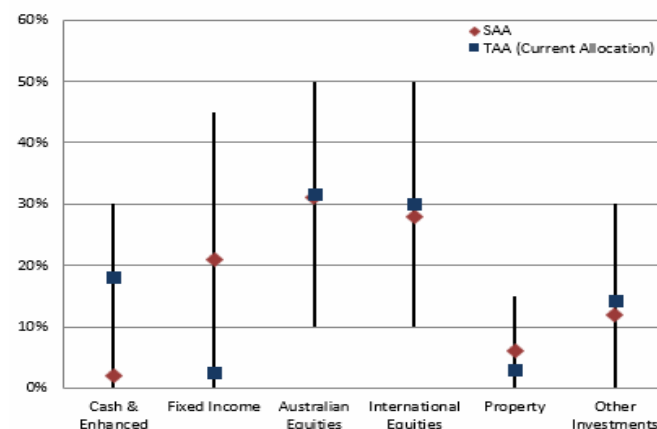
NET PERFORMANCE- periods ending 31 July 2021

	Fund	Benchmark	Excess
1 month	0.3	1.9	-1.6
3 months	3.1	5.5	-2.4
FYTD	0.3	1.9	-1.6
1 year	22.7	20.6	2.1
2 year p.a.	8.5	9.0	-0.6
3 year p.a.	8.2	9.5	-1.4
5 year p.a.	7.8	9.4	-1.6
10 year p.a.	8.8	9.4	-0.6
Since incep.	7.5	7.6	0.0

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

ASSET ALLOCATIONS AND INVESTIBLE RANGES

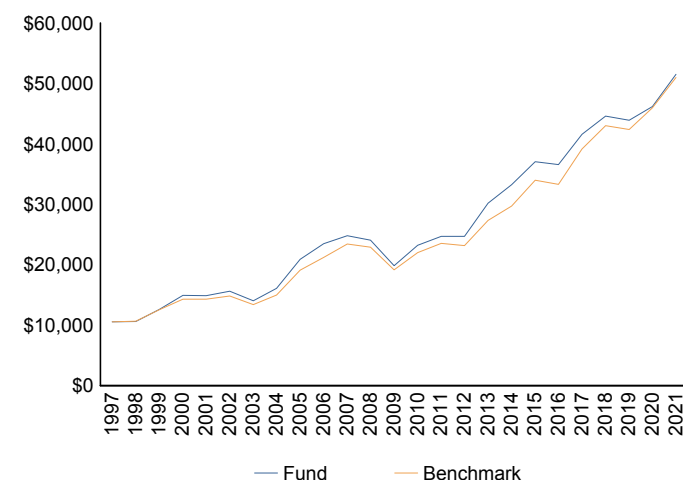
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



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

The resurgence of COVID-19 was the dominant theme in markets during July. The extremely contagious delta variant is sweeping the globe with highly variable impacts. While developed market equities continued to rise, the signs of increasing investor caution were apparent in a rally in long term bonds and appreciation of the US Dollar.

While global growth is still expected to be very strong through the second half of 2021, it appears that US growth has peaked and will revert towards pre-pandemic growth of 2% or less by the second half of 2022. The tailwinds that have powered the US growth story will fade as fiscal support declines – notwithstanding the Biden administration's infrastructure plan.

It is crucial to note, however, that first half economic and earnings growth in the US was exceptional. Early indicators are that US second quarter earnings results will be very robust with a majority of the companies that have already reported exceeding broker expectations.

Inflation uncertainty continues to be a key theme in US markets with headline inflation above 5% and the US Federal Reserve's (the Fed's) preferred measure of core inflation at a 30 year high of 3.5%. High inflation prints over recent months have been attributed to 'transitory factors' caused by supply side bottlenecks. A lot hinges on this assessment as monetary policy settings are so extreme – our own view is that core inflation will subside from recent levels back towards 2% next year as some of these 'one-offs' reverse. However, with estimates expected to be well above potential growth, average core inflation will likely be somewhat higher than we previously estimated. As a result, the Fed is likely to be successful in getting inflation up to 2% or higher. Of course, there is also a significant risk that core inflation settles closer to 3% which would be very uncomfortable for the Fed and therefore financial markets with the prospect of higher interest rates.

US equities continued their rise as interest rates fell during July and profit expectations continued to rise. Long term treasury yields rallied over the month as the resurgence of COVID-19 and the spread of the delta variant contributed to uncertainty about the economic outlook. The impact of rising COVID-19 cases on economic activity in the major developed economies of North America and Europe, however, has been lessened by increased levels of vaccination and natural immunity. During July, the Fed noted the economy's increased resilience in the face of the delta strain, with Chairman Powell stating that "there has tended to be less in the way of economic implications from each wave".

There is a dichotomy between economies with higher levels of vaccinations and/or natural immunity (the US and Europe) and those with lower levels. The US, UK and Europe have high rates of vaccination and natural immunity and have demonstrably broken the nexus between infections and hospitalisations. Conversely, markets with low natural immunity and low vaccinations rates (Australia) or questionable vaccine efficacy (China and many other emerging economies) are more exposed to disruption. The reduced risk of serious infection has allowed the reopening of European economies to continue despite the increasing case numbers. With the benefits of reopening still to be realised, we believe Europe and the UK are the regions with the most promising growth outlook for the second half of 2021.

Conversely, emerging market economic growth has been impacted by reactions to the spread of the delta variant. Additionally, Chinese equities are pricing an increasing regulatory risk as the authorities clamped down on the private education industry. Over the month, the MSCI Emerging Markets index returned -6.1% significantly underperforming the developed World index. MSCI China returned -13.8%, the largest monthly decline in nearly a decade.

Domestically, the Greater Sydney lockdown as well as shorter

term lockdowns in much of the rest of Australia has caused growth expectations to be revised down significantly. During the month Australian equities rose, but marginally underperformed the broader market. Meanwhile, the fall in domestic long-term yields outpaced global peers. The outlook for Australia is delicately poised given the combination of a highly contagious variant and low levels of vaccination and natural immunity. We expect the Australian economy to contract during the September quarter given tighter mobility restrictions. The lack of a massive direct fiscal stimulus program to date, suggests the recovery may be less robust as there will not be comparable accumulated savings.

Up to this point, equity and credit markets have been supported by the extraordinary monetary policy settings. With the recovery fully priced into markets, any upward shift to interest rates could negatively impact equity market valuations. Central banks went to extreme monetary policy settings when the coronavirus hit early last year with zero (or negative) policy rates in all major economies supported by massive quantitative easing (QE) programs.

While the global economic recovery is now well established, there has been very little change so far in the guidance for monetary policy from the key central banks (the Fed, the European Central Bank and the Bank of Japan). The strongest year of economic growth in many decades and a series of upside inflation surprises sits very awkwardly with current policy settings.

It is difficult to be precise about the timing of such a major change. As usual one central bank, the Fed, will dominate the narrative. For now, we are in a holding pattern awaiting more inflation data, developments on the delta variant and central bank policy decisions.

Global equity exposure was the key contributor to absolute return over the month. Developed market equities extended their rally over the month, supported by falling long term interest rates.

Stock selection in the Fund's emerging market allocation was positive for relative performance. Emerging markets significantly underperformed over the month as increasing regulations, COVID-19 concerns and slowing growth caused a selloff in Chinese stocks. The Fund's emerging market equity allocation remains significantly underweight China which contributed to relative performance.

The key detractors from relative performance were global and Australian equity stock selection. The Fund retains a bias towards value and quality in stock selection. This positioning has performed very strongly over the past year. But with long term interest rates falling in July, lower discount rates led to growth stocks outperforming.

The Fund is close to benchmark weight in Australian equities and marginally overweight global equities. All equity exposures retain their long-standing quality and value bias which significantly contributes to the defensive attributes of the Fund. Value exposures were trimmed somewhat in the month and the underweight to the US market was reduced. At the same time, a put option position on the Nasdaq was initiated to protect against the specific risk posed by the valuation of the US technology sector.

The Fund retains its very low allocation to fixed income and credit. During July, the rally in long term rates meant that the Fund's significantly underweight fixed income position marginally detracted from performance.

The Fund has substantial foreign exchange exposure diversified across a number of developed and emerging market currencies. These positions added to performance over the month.

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 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. 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 continued economic recovery, while maintaining a defensive profile through its value and quality biases in equity exposures and allocation to sources of uncorrelated returns.

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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