WealthFocus Investment Advantage

PERPETUAL CONSERVATIVE GROWTH

September 2018

FUND FACTS

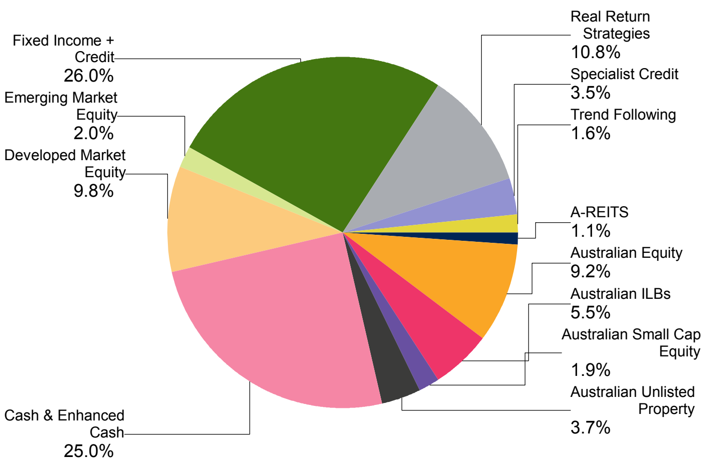
Investment objective: Aims to: provide moderate growth over the medium term and income through investment in a diversified portfolio with an emphasis on cash and fixed income securities; and outperform a composite benchmark (before fees and taxes) reflecting its allocation to the various asset types over rolling three-year periods.

FUND BENEFITS

Provides investors with 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.

Benchmark:	Conservative Growth Index(Internally generated composite)
Inception Date:	July 1995
APIR:	PER0030AU
Management Cost:	1.78% p.a.
Investment style:	Active, fundamental, disciplined, value
Suggested minimum investment period:	Three years or longer

PORTFOLIO SECTORS



INVESTMENT STYLE

Valuation is the key driver of investment decisions. We aim to extract the value premium within asset classes (stock selection) and across asset classes (asset allocation).

· Diversification, value and quality, as well as portfolio protection strategies, are key elements to protect on the downside during extreme events.

· Our economic cycle and momentum signals help time entry to, and exit from positions by supplementing the key value signal.

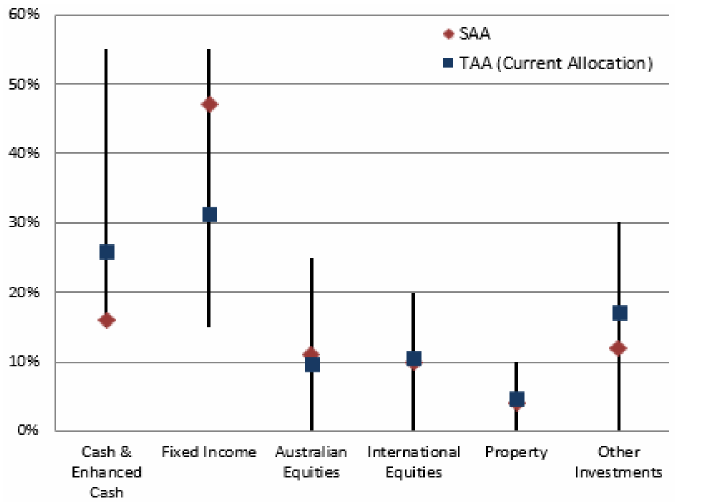
· A “total portfolio” approach is taken – seeking out excellent risk adjusted return opportunities (rather than asset classes) and risk management is embedded at every stage of the process.

NET PERFORMANCE- periods ending 30 September 2018

	Fund	Benchmark	Excess
1 month	-0.3	-0.3	0.1
3 months	1.2	1.4	-0.3
FYTD	1.2	1.4	-0.3
1 year	4.1	6.6	-2.5
2 year p.a.	3.5	5.1	-1.6
3 year p.a.	3.6	5.4	-1.7
5 year p.a.	3.9	5.7	-1.8
10 year p.a.	5.0	5.8	-0.8

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

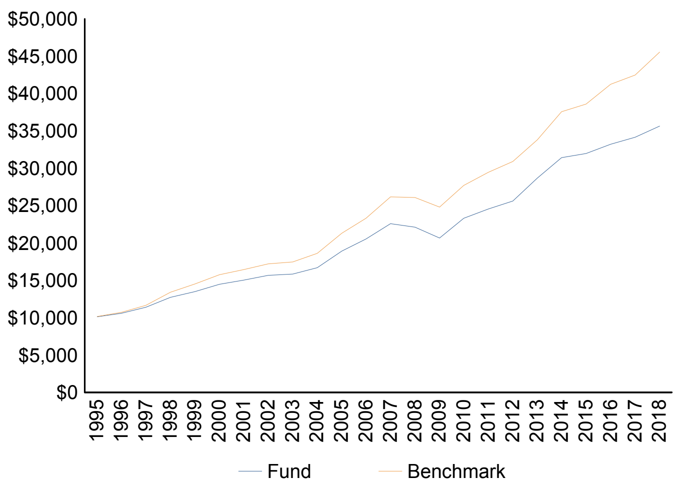
ASSET ALLOCATIONS AND INVESTIBLE RANGES



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

Following a year of outstanding synchronised growth in 2017, the global economy can be characterised by sharp divergence in 2018. Developed economies continue to perform well with economic growth above trend, even if it has slowed somewhat from the peak. The standout performer has been the US economy, which has been turbo charged by the Trump Administration's tax cuts. Economic growth was very strong at over 4% in the second quarter and appears to have only slowed marginally in the third quarter. Strong growth plus corporate tax cuts is supporting fantastic growth in company profits (25% in Q2 and forecast to be 19% in Q3) and the US share market traded to new all-time highs late in September.

The Australian economy has proved once again to be very resilient, supported by strong population growth, booming infrastructure spending and robust resource export growth. The housing market as well as the performance of the Chinese economy are key risks for the Australian economic outlook and we continue to expect that the Reserve Bank will remain sidelined for an extended period.

At the same time as developed economies are generally performing well, some emerging markets have entered full blown crises in the past quarter. In particular, the Turkish Lira and the Argentinian Peso fell by 24% and 30% respectively in the September quarter and both have halved this year against the US dollar. Both economies have significant imbalances and as liquidity conditions have tightened this year they have been very vulnerable to capital outflows. In response, monetary policy has been tightened dramatically (with cash rates increasing to 24% in Turkey and an especially punishing 60% in Argentina) and their economies have lapsed into recession.

The impact has been felt across many emerging markets with economies such as Brazil, South Africa and India all exposed to varying degrees due to imbalances in their respective economies. The other notable casualty has been European banks due to their exposure to Turkish corporates in particular. We are most worried about the Turkish crisis as external debt volumes there are very large and they have a 'strong man' leader who is likely to continue to resist the required policy prescriptions. In Argentina they are trying to do the 'right thing' but whether they can take the electorate with them remains an open question.

In addition, the Chinese economy has slowed as the crack down on the shadow banking sector is biting. The Chinese authorities continue to ease other arms of policy in response, but to no avail at this stage.

The upshot is that the US Federal Reserve (the Fed) has increased conviction that their proposed tightening path (which has the cash rate increasing to 3¾% by late next year) is correct and market pricing is being recalibrated accordingly. As a result, bond yields increased in the US and in all the major developed markets (including even Japan) over the quarter. Added to this, the quantitative tightening process continues unabated with the European Central Bank (ECB) scaling back their purchases further in early October (prior to the program ending at the end of this year) and the Fed continuing gradually to reduce the size of their balance sheet.

Moreover, financial conditions are tightening in many emerging economies as central banks are forced to respond to currency weakness.

There were also bearish developments on the growing trade war between the US and China. The US announced a 10% tariff on $200bn of Chinese imports with the rate increasing to 25% in January next year. The Chinese have responded and at this stage there is no end in sight to the escalation. The situation is made more fraught by the growing strategic rivalry between the two countries as China challenges the long standing US hegemony.

Despite the headwinds presented to the market outlook by the tightening of monetary policy, the travails in emerging markets and the trade war, the backdrop for global economic growth remains generally favourable over the next year. This should ultimately underpin equity and credit markets. But this economic and market cycle are very mature and the outlook certainly becomes more challenging in late 2019 when US fiscal policy shifts from the current highly stimulative stance to neutral.

Overall, the portfolio is positioned to maintain exposure in risk rallies, while buying protection when and where it is cheapest to protect against both risk off and idiosyncratic events. This reflects our view that central bank policy withdrawal and declining 12-month forward earnings growth expectations will present challenges for risk markets in the backend of 2018 and into 2019. The portfolio is marginally underweight developed market equities and emerging market equities has been reduced to moderately underweight, amid signs that China's nominal growth has further to slow.

The portfolio remains underweight duration as one of the key supports for government bonds, namely central bank asset purchases, is set to ease back. Moreover, in a synchronised global upswing the pressure will be for higher interest rates. In addition, exposure to relative value positions remains elevated including currency positioning. The Fund also has exposure to a systematic trend following strategy alongside some selective exposure to downside protection, including an Australian credit default swap which will protect the portfolio in the event of a repricing of this risk.

In terms of relative performance, stock selection within our value orientated large cap Australian equity exposures served to enhance returns realised relative to the broader domestic market. From a style perspective we remain confident in our value biased allocations. The low interest rate settings of the current investment environment previously resulted in an underappreciation of market risks, which led companies with strong balance sheets to be overlooked and little consideration given to the price paid for securities. Over the past quarter, this previously observed preference for growth over value stocks has inverted. Ultimately through the long term, fundamentals determine share prices. The discipline of investing in quality businesses at good prices and avoiding the irrational exuberance seen in some pockets of the market will serve the portfolio well looking ahead.

In terms of our global equities allocation, stock selection within Perpetual's Global Share Fund detracted from relative performance, however our underweight exposure to emerging market equities combined with positive alpha from stock selection within our selected allocation was positive for relative performance. Active currency management was also positive.

OUTLOOK

While the performance of key global economies has become more uneven, company profits are still growing which will provide ongoing support for equity and credit markets. Of course, it is also putting upward pressure on interest rates. In addition, the liquidity backdrop for markets is becoming ever more challenging as central banks begin to wind back the extreme policy settings of recent years.

Against this backdrop, we retain a cautious approach to portfolio construction. The Fund retains a diversified exposure to various equity, credit and unlisted markets. The portfolio remains underweight duration. Relative value positions are elevated including exposure to equity alpha, foreign currency positioning (exposure to a range of foreign currencies in preference to the Australian dollar including the US dollar, Japanese Yen and Emerging Market currencies) as well as a systematic trend following strategy.

To take advantage of the re-emergence of very low volatility in equity markets, the Fund owns a put option on the US equity market and a long dated Australian dollar put versus the US dollar (in addition to the foreign currency positions outlined above). Finally, the Fund also has a position in Australian sovereign credit default swap which will protect the portfolio in the event of a repricing of this risk.

The Conservative 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.

MORE INFORMATION

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