WealthFocus Investment Advantage

PERPETUAL CONSERVATIVE GROWTH

January 2019

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

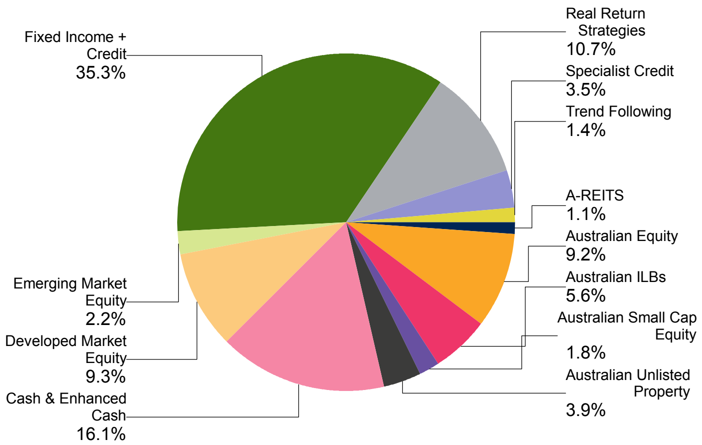
APIR: PER0030AU

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.

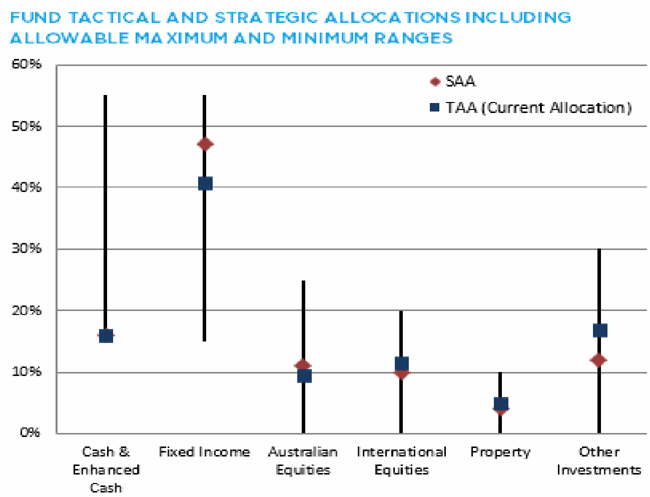
· A "total portfolio" approach is taken – seeking out excellent risk adjusted return opportunities (rather than asset classes) and risk management is embedded at every stage of the process.

NET PERFORMANCE- periods ending 31 January 2019

	Fund	Benchmark	Excess
1 month	1.1	1.8	-0.7
3 months	0.6	1.6	-1.0
FYTD	1.0	1.7	-0.7
1 year	1.5	3.9	-2.5
2 year p.a.	3.3	5.0	-1.6
3 year p.a.	3.3	5.2	-1.9
5 year p.a.	3.5	5.3	-1.9
10 year p.a.	5.5	6.2	-0.7

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

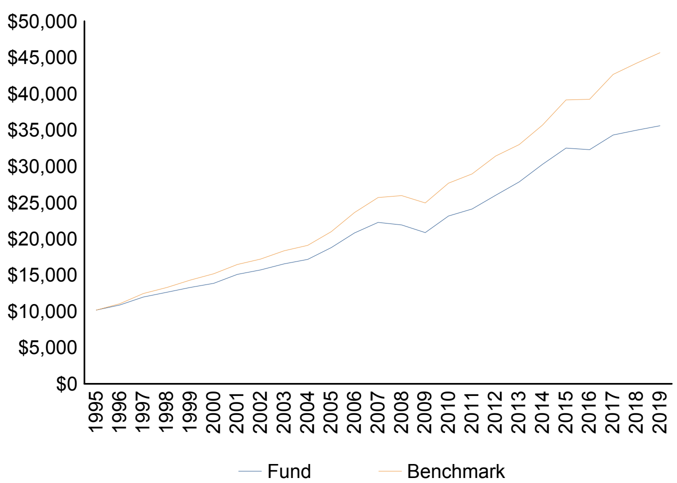
ASSET ALLOCATIONS AND INVESTIBLE RANGES



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

Global equity markets started the year on a very positive note following the tumult of the December quarter. There were four major drivers of this turnaround:

- Equity markets had become oversold and were due for a bounce;
- While the global economy is weakening it appears reasonably resilient, outside trade flows in Asia which are very weak;
- The US Federal Reserve (the Fed) backed away from both its commitment to further rate hikes in 2019 and balance sheet reduction being on 'auto pilot'. Now, it is adopting a patient stance on interest rates and is flexible on the balance sheet; and
- The news-flow on the US-China trade war has been much more promising with President Trump adopting a notably more upbeat assessment on the progress of the negotiations.

Emerging market equities posted outsized gains in the month of 10%. US equity indices were the next best performer (with gains of 7%) and Australia and Japan lagged (with gains of 4% each). The out-performance of emerging markets is particularly intriguing. Notwithstanding the continuing disappointing news on Chinese economic growth, the relative performance of emerging market equities turned positive in October. Relative valuations are very supportive and now with the Fed adopting a much more dovish tone, the upward pressure on the US dollar may be reduced. This could become a constructive backdrop for emerging markets and the recent out-performance lends credence to that view.

Of course, the critical question is whether the rebound in equities in January is the start of a new bull market or a bear market rally. Given the change in Fed policy and the more encouraging signs emanating from the US-China trade talks, we are open to the possibility of a sustained recovery in equities.

But we remain concerned about the slowdown in global economic growth (particularly in China) and the marked deceleration in the global profit cycle in prospect for this year. In fact, our expectation is that global profits will fall in 2019 and this is not yet reflected in market forecasts. The drivers of the deteriorating profit outlook are:

1. lower revenue growth as the global economy slows;
2. higher costs as the global economy is operating at close to full capacity; and finally,
3. the washing out of the impact of US corporate tax cuts.

The Chinese economy is also a major risk factor for the outlook. It is clearly still slowing and the Authorities continue to react in a very gradual fashion in contrast to the 'shock and awe' stimulus of 2009 and 2016.

In fact, they have much less degrees of freedom in propping up the economy now than they have had in previous cycles. There has already been a massive build up in debt in the past 10 years; reducing pollution is a key objective; the US is exerting extreme pressure to lower the bi-lateral trade deficit; and if they let the currency devalue they will likely be accused of currency manipulation. Make no mistake, if the economy slows to a point that it threatens social stability, President Xi will likely intervene dramatically (to quell social unrest and boost the economy). Until then, however, the economy is likely to remain relatively sluggish and there is always a risk of a more serious slowdown than markets are currently contemplating.

At the same time, the strategic rivalry between the US and China is coming into sharper relief and fears of a new 'cold war' are growing. Needless to say, if such fears were realised it would be negative for the outlook for equities and risk assets generally as part of the enormous growth of global trade in recent decades unwinds.

The Chinese economy is now the second largest in the world and (together with the US) is the major driver of global economic growth. So weaker growth in China is a big deal in and of itself.

The biggest impact is where the trade linkages are most significant (as a proportion of the economy) which is the Asian region, Australia and Europe.

In Australia, the connections with China are now much deeper than just the resources sector, with the housing, education and tourism sectors heavily dependent on China. Moreover, the slowdown in Chinese growth is coinciding with a substantial fall in house prices in Australia and housing activity is also just starting to weaken. The potential for weakness in the housing sector to spill-over to consumption spending is a key vulnerability for the Australian economy.

The portfolio was very resilient in the December quarter with a number of defensive strategies contributing strongly to relative performance. Profits were taken on many of these positions and, in particular, the exposure to equities was substantially rebuilt by the end of December, ending the year in line with benchmark for developed and domestic equities. In January some of the residual defensive positions detracted from performance, including the value bias of our Australian equity holdings. Strong stock selection in the portfolio allocation to global equities through the Perpetual Global Share Fund added to relative performance. Equity weights are now close to benchmark, with an overweight emerging market equities and underweight Australian equities tilt added towards month end.

The portfolio is positioned to maintain involvement in risk rallies, while buying protection when and where it is cheapest to safeguard 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 2019. The Fund retains strong defensive qualities through the value and quality bias of equity holdings and a position in Australian sovereign credit default swap. Further holdings include an AUDUSD put option in addition to positions in core emerging market currencies and US dollar. The Fund also has exposure to a systematic trend following strategy alongside continued selective exposure to downside protection.

OUTLOOK

Overall, we remain cautious about the outlook. But some of the negatives are abating and as a result the portfolio has significantly increased exposure to be broadly in line with the benchmark. The correction in global equity markets in the December quarter was severe and has cleared out some of the complacency that was building in markets. It is either the start of a bear market or a healthy reset for a continuation of this extremely long bull market. The rebound in equities and risk appetite in January rules out neither scenario (as bear markets are often characterised by sharp corrective rallies). We have been mindful for some time that these are likely the late stages of this economic and market cycle and we remain wary about the prospects of a nasty bear market sometime in the next two to three years.

If this is the start of the bear market, we are likely to see signs of recession build over the course of this year. The economies at risk include the US (the only country that has embarked on a prolonged monetary policy tightening cycle) and Australia (a downturn in housing and the slowdown in China carry clear risks for an economy coming up to 27 years without a recession). China is also at risk of a much more pronounced slowdown than is currently factored into market forecasts of greater than 6% growth. Finally, the Euro area and Japan are always at risk of recession as their trend growth rate is so low.

That said, if the global economy has a soft landing (which remains our central case) the outlook is much less clear and equities could easily rally to new highs. Consequently, the run of economic data in coming months will be more than usually important in shaping the outlook for financial markets.

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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