Wholesale Funds

PERPETUAL WHOLESALE CONSERVATIVE GROWTH FUND

November 2018

FUND FACTS

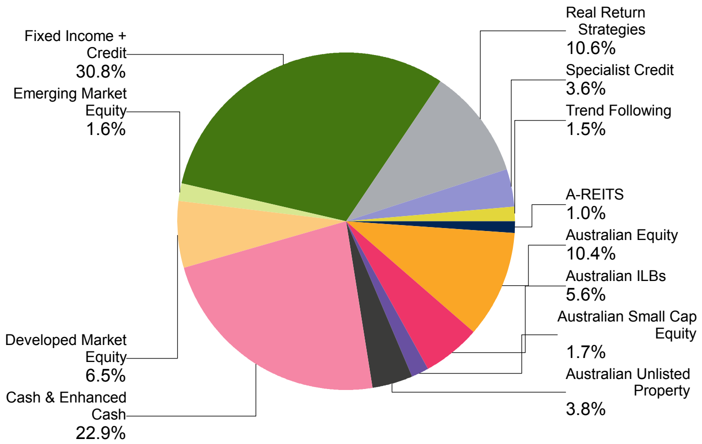
Investment objective: Aims to: provide moderate growth over the medium term and income through investment in a diversified portfolio with an emphasis on cash and fixed income securities; and outperform a composite benchmark (before fees and taxes) reflecting its allocation to the various asset types 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: September 2003
APIR: PER0077AU
Management Fee: 0.90% 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: 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.

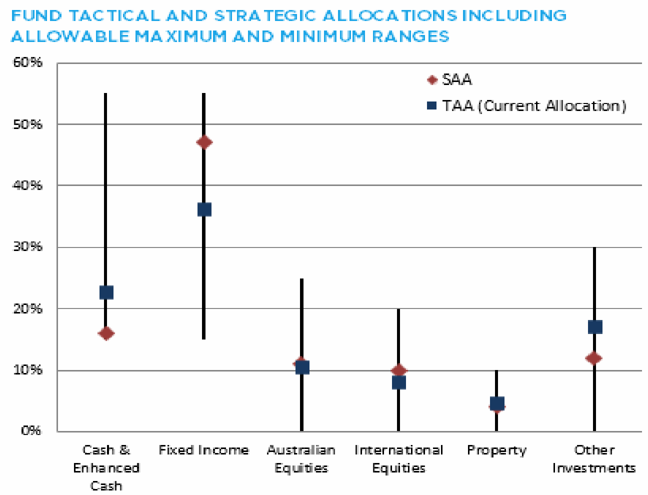
· A "total portfolio" approach is taken – seeking out excellent risk adjusted return opportunities (rather than asset classes) and risk management is embedded at every stage of the process.

NET PERFORMANCE- periods ending 30 November 2018

	Fund	Benchmark	Excess
1 month	-0.9	-0.2	-0.7
3 months	-1.8	-1.9	0.1
FYTD	-0.3	-0.1	-0.1
1 year	1.1	2.2	-1.1
2 year p.a.	3.8	4.6	-0.8
3 year p.a.	3.6	4.5	-0.9
5 year p.a.	4.2	5.1	-0.9
10 year p.a.	6.1	5.9	0.2
Since incep.	6.1	6.1	0.1

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

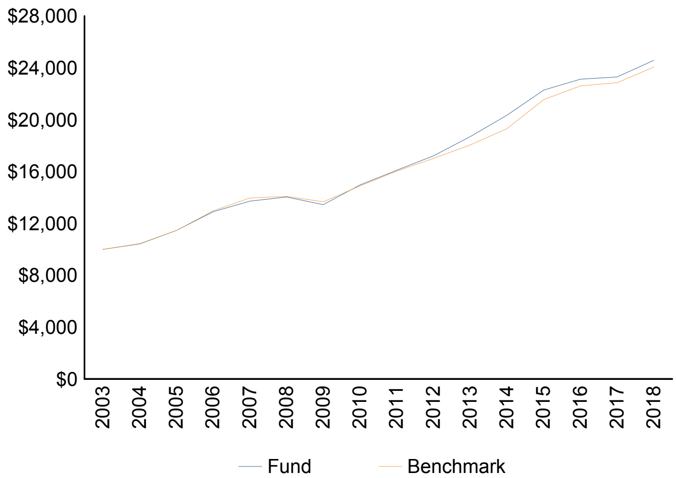
ASSET ALLOCATIONS AND INVESTIBLE RANGES



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

The backdrop for global equity markets continues to be challenging.

- Global growth is slowing (although it is still expected to remain above trend next year) and there are question marks over the outlook for the two big engines of growth – the US and China. In the US, the boost to growth from easy fiscal policy (US President Trump's tax cuts) will dissipate next year at a time when the lagged impact of a long monetary policy tightening cycle may start to bite. While in China, growth has already slowed significantly in response to a crackdown on the shadow banking system last year and the various measures undertaken by the authorities to ease macro policy settings are yet to have a measurable impact on the economy.
- The outlook for global profit growth is also deteriorating, in part due to slowing global growth, but also as the one-off effect of the corporate tax cuts in the US drop out of the calculation. Global profits were growing at close to 20% recently, but next year growth is likely to be low single digits.
- The outlook for monetary policy is also a challenge for equities and other risk assets. In particular, 'quantitative tightening' by global central banks continues. We think this is making a significant contribution to the indifferent performance of all assets this year (following a stellar 2017 when all asset performed strongly at the same time as quantitative easing was in place). The US Federal Reserve (the Fed) is also expected to continue to raise short term interest rates in December and further increases are likely in 2019 (although the Chairman of the Fed, Jerome Powell, indicated last month that these will be data dependent).
- The outlook for Europe remains troubled by an array of risks including Brexit, the budget woes of Italy, the weakness of the Chinese economy and a banking system which remains under significant duress.
- Finally, the broader geo-political backdrop remains fraught with the trade war and growing strategic rivalry between the US and China being the most important of many issues.

Emerging economies have stopped being the focal point of this sell-off for the time being. There have been two major concerns in emerging markets. First, the Turkish Lira, Argentinian Peso and, to a lesser extent, the Brazilian Real have been extremely weak this year, but have stabilised in the past two months. Secondly, emerging market equities (which are dominated by China, Korea, Taiwan and India) have under-performed significantly this year, but that also stopped in the past month. It is difficult to say if this is a temporary reprieve or something more sustainable.

Australia is a special case with the outlook determined not only by the above factors (particularly the performance of the Chinese economy), but also the housing sector where prices continue to weaken amid a tightening of credit provision by banks. The incredible longevity of the economic expansion in Australia is under threat again in 2019. The risk is that should the weakness in house prices cause the savings rate to increase, this would, in an environment of very weak wages growth, leave the consumer particularly exposed. It remains central case that the economy muddles through yet again, but some tail risk hedges are still very desirable in our judgement (in particular, Australian dollar put options and protection against a reassessment of Australian sovereign credit risk).

Major global equity markets took a breather in November, following the hefty correction in October. However, the Australian equity market underperformed with a drop of almost 3%, and commodities were also down. The portfolio performance was resilient in October as many defensive strategies contributed to cushion performance. Even though profits were taken on some of these positions, the Fund underperformed its benchmark in November due to negative Australian equity stock selection and an underweight Australian dollar position. This was offset to some extent by global equity stock selection which added to performance.

The portfolio is positioned to maintain some involvement in risk rallies, while 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 underweight equity position has been reduced, but the Fund retains put option protection in the US. Relative value positions still held include exposure to equity alpha which provides the portfolio with a significant value and quality bias. The Fund retains significant foreign exchange exposure including a long dated AUDUSD put option alongside positions in USD and core Emerging Market currencies (such as Chinese Yuan, Korean Won and Taiwanese dollar) and smaller positions in Sterling and the Yen which continue to be actively managed.

OUTLOOK

Overall, we remain cautious about the outlook. We continue to expect quantitative tightening and the likely worsening trade war to weigh on the outlook for equities and other risk assets. In addition, we are conscious 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.

Against this backdrop, we retain a cautious approach to portfolio construction. However, it remains defensively positioned overall and we continue to look for attractive risk reward strategies which will protect the portfolio in the event of further weakness in equities (and risk assets generally). In the past month, the Fund reinstituted put option protection on the US equity market. In addition, the Fund has strong defensive qualities reflecting the value and quality bias in equity allocations. 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.

MORE INFORMATION

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