WealthFocus Allocated Pension

PERPETUAL DIVERSIFIED GROWTH

August 2020

FUND FACTS

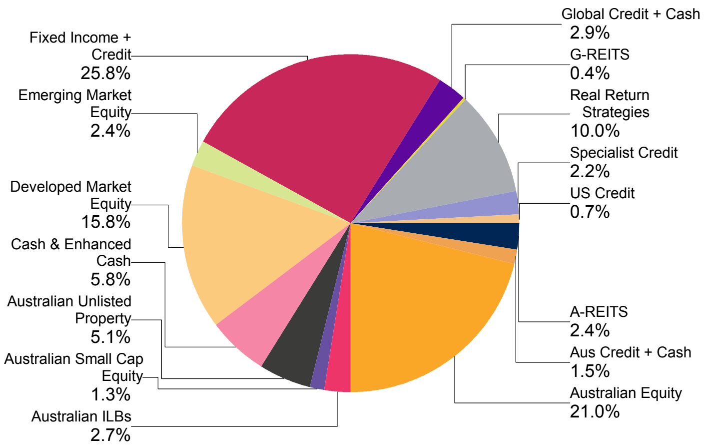
Investment objective: Aims to: provide long-term capital growth and regular income through investment in a diversified portfolio of growth and income assets; and outperform a composite benchmark (before fees and taxes) reflecting its allocation to the various asset types over rolling three-year periods.

FUND BENEFITS

Provides investors with an equal mix of growth and income assets, for long-term capital growth, but with a significant exposure to defensive assets to reduce volatility. Strategic and tactical asset allocation techniques are employed in order to further enhance the fund's returns and manage risk.

Benchmark: Moderate Growth Index(Internally generated composite)
Inception Date: May 2002
APIR: PER0129AU
Management Cost: 1.88% 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.

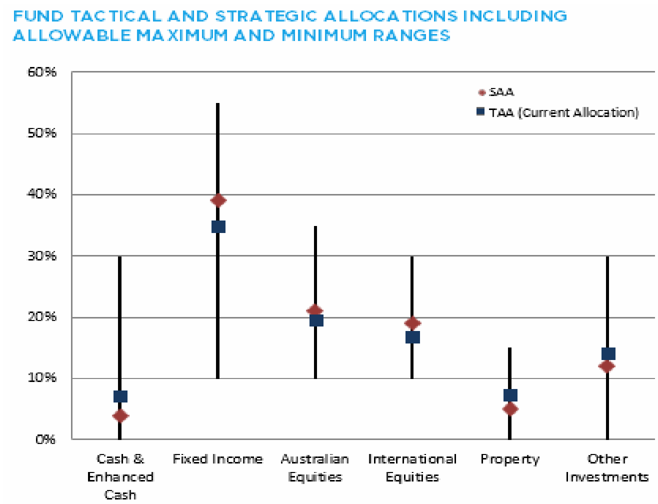
· A "total portfolio" approach is taken – seeking out excellent risk adjusted return opportunities (rather than asset classes) and risk management is embedded at every stage of the process.

NET PERFORMANCE- periods ending 31 August 2020

	Fund	Benchmark	Excess
1 month	0.7	1.4	-0.7
3 months	0.4	3.0	-2.6
FYTD	0.5	2.2	-1.7
1 year	-1.6	1.4	-3.0
2 year p.a.	2.1	4.9	-2.9
3 year p.a.	3.7	6.6	-2.8
5 year p.a.	3.9	6.3	-2.4
10 year p.a.	6.0	7.2	-1.2

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

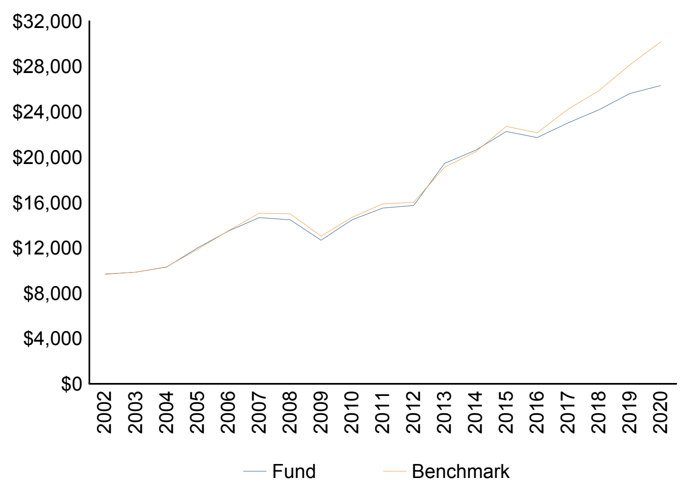
ASSET ALLOCATIONS AND INVESTIBLE RANGES



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 recovery in markets continued through August with select equity and credit markets surpassing their pre-COVID highs:
- US equities continued their strong rally. The S&P 500 (7.2%) surpassed its February high to reach new record highs;
- European markets rallied despite trailing the global average with the UK (1.8%), France (3.4%) and Germany (5.1%) posting gains;
- Japan (6.6%) rebounded from the fall in July remaining in line with the broader recovery trend;
- The ASX 200 rose (2.8%) driven by technology, consumer discretionary and real estate stocks. It was the largest August gain in a decade;
- Investment grade and high yield corporate credit spreads tightened further both domestically and offshore;
- Global bond yields rose as the Fed relaxed their inflation target;
- The rally in iron ore continued while the performance of gold tapered following a number of strong months.

Global equity returns continued to be dominated by the performance of the US tech giants (Facebook, Apple, Alphabet, Amazon, Netflix and Microsoft). The influence of the US technology sector has driven global price to earnings ratios to its highest level since the tech boom of the early 2000s. Indices with technology heavy compositions including the S&P 500, Taiwan and South Korea have significantly outperformed over recent months. The divergence in performance between industries that are supported by stay at home policies (technology, telecommunications) and traditional cyclical industries remains stark. The strong performance of the technology sector has also been supported by better than expected earnings and low discount rates as a result of historically easy monetary policy.

Domestic equities posted one of the strongest August returns of recent years despite trailing global markets by a significant margin. The Australian reporting season was mixed. Despite the largest fall in corporate earnings since the early 1990s, results were broadly better than expected. The Australian market's small weighting towards the tech sector has limited performance relative to the US over recent months.

Despite fears early in the month that the daily case counts in Victoria could skyrocket, the state's lockdown has been effective in reducing daily new cases back to double digits. While lockdowns in Victoria and limitations on mobility elsewhere have been effective in curtailing the spread of the coronavirus, the impact on economic growth is expected to be significant. June quarter GDP figures released in the first week of September confirmed Australia is in recession with the 7% fall in GDP representing the largest contraction since the 1930s. Expansionary fiscal and monetary policy remain crucial in supporting asset valuations in spite of the deep recession. On current policy settings, fiscal support will be trimmed in September with JobKeeper and JobSeeker payments reduced, and then phased out altogether in March 2021. These policies are, however, expected to be recast again in light of recent developments in Victoria. Inflation in Australia was negative over the past year as a result of plummeting oil prices as well as falling rents and childcare and education fees. The current inflation rate further reduces the likelihood of the RBA increasing interest rates for some time, potentially many years.

In the US, the rate of new cases of COVID-19 declined over August. The spread of the virus remains geographically diverse and politically divisive. At the same time, optimism surrounding phase 3 trials of a number of vaccines has certainly improved investor sentiment.

The Republican and Democratic national conventions took place during August. While neither party enjoyed the traditional boost in subsequent national polling, electoral result expectations converged slightly with President Trump regaining some ground in battleground states. Another key political contest in August was the negotiation of a further fiscal stimulus bill which will be crucial for the longevity of the rebound in economic activity which is now underway. Negotiations stalled although some agreement is expected in the weeks ahead. Economic data for July showed promise with the fall in unemployment and increase in manufacturing and service PMIs beating consensus expectations. Housing data have reached pre-pandemic levels with July starts and permits both surging. Of course, the sustainability of any recovery is questionable against a backdrop of an ongoing health crisis. Finally, company earnings outperformed downgraded expectations overall, despite earnings growth trending towards one of the largest ever recorded declines.

Economic recovery continued in China with the virus under control and the resurgence of industrial production persisting through August. While the relationship between Beijing and Washington remains fraught, the semi-annual review of the phase one trade deal passed with both sides recommitting to the deal. In stark contrast, in other key emerging markets like India and Brazil, the virus remains rampant, and it is very difficult to see how it comes back under control in a sustainable fashion in the absence of a vaccine.

The current market conditions and outlook are balanced between two massive and opposing forces – on the one hand the deep global recession that emerged in March and, on the other, the massive fiscal and monetary intervention that followed. The impact of the intervention has been very supportive for asset markets but cannot be as successful in addressing underlying growth concerns in the absence of a vaccine. In terms of the outlook, in our judgement there are three potential scenarios that investors must navigate.
- The 'Zombie' scenario represents a continuation of the current conditions. Extended stimulus with no decisive resolution to the public health crisis would continue to be supportive for equities. Many 'zombie' companies will survive on life support as monetary and fiscal policies work against the natural order of capitalism. This scenario would likely favour growth sectors as interest rates remain anchored at extremely low levels.
- The 'Recovery' scenario is contingent on a vaccine leading to the resolution of the COVID-19 public health crisis. Under the recovery scenario, fiscal and monetary support would be extended to close the output gap in the economy. This would be supportive for equities. Government bond yields may rise in spite of central bank support as risk appetites increase. This scenario would also likely see a rotation from expensive growth stocks into value stocks.
- The 'Double Dip' scenario would result from another downside shock occurring. The failure of a vaccine to emerge in the next 12 months and the early reduction in government or central bank support are the most pressing risks. Increasing geo-political tensions between the US and China as well as other unforeseen shocks may also result in a double dip.

The fund's equity allocations are close to benchmark allowing the fund to participate in the sustained rally in equity markets. This was the key contributor to absolute returns in the month.

The allocation to Australian small caps and domestic equity stock selection contributed to relative performance. Against that, global equity stock selection detracted from relative performance as high growth technology stocks continue to out-perform value and quality stocks. The Fund's foreign currency exposure also detracted from relative performance as the $A continued to rise against its peers.

Overall, the fund remains defensively positioned with a marginally underweight exposure in both global and Australian equities together with some additional put option protection in the US and Australia. Moreover, equity exposures retain quality and value biases which are traditionally expected to outperform during challenging economic conditions.

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 and Japanese Yen contribute to the downside protection. Notwithstanding our concerns about the economy, 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 outlook for markets is likely to reflect one of the three scenarios outlined above based on the path of the virus and the continuation of fiscal and monetary policy support. The zombie and recovery scenarios could see the rally in equities and credit continue, while the double dip scenario presents more risk to growth asset returns. Though markets have rallied sharply, a number of risk factors could influence financial markets and halt the recovery. Despite the optimism about a "V" shaped recovery, we are in the midst of a deep global recession at the same time as there are extended valuations for many assets. As a result, caution remains warranted and the Fund remains defensively positioned.

MORE INFORMATION

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