Perpetual Private

PERPETUAL MYSUPER BALANCED GROWTH

September 2020

FUND FACTS

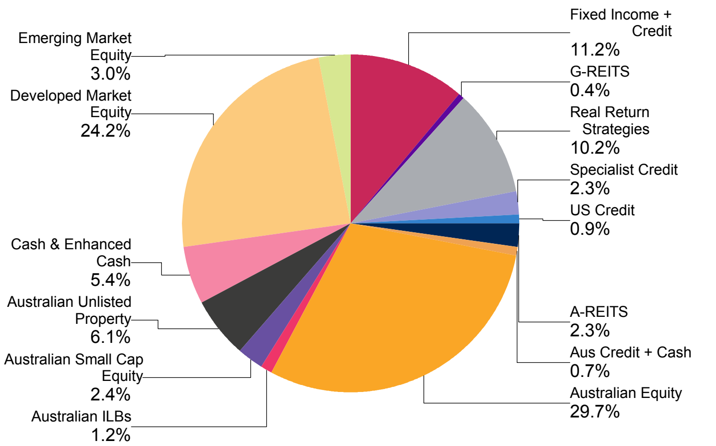
Investment objective: The fund aims to provide long-term capital growth and income through investment in a diversified portfolio with an emphasis on Australian and international share investments.

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.

Benchmark: Balanced Growth Index(Internally generated composite)
Inception Date: January 2014
APIR: PER0706AU
Estimated Management Cost: 0.98%p.a
Investment style: Active, fundamental, disciplined, value
Suggested minimum investment period: Five 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.

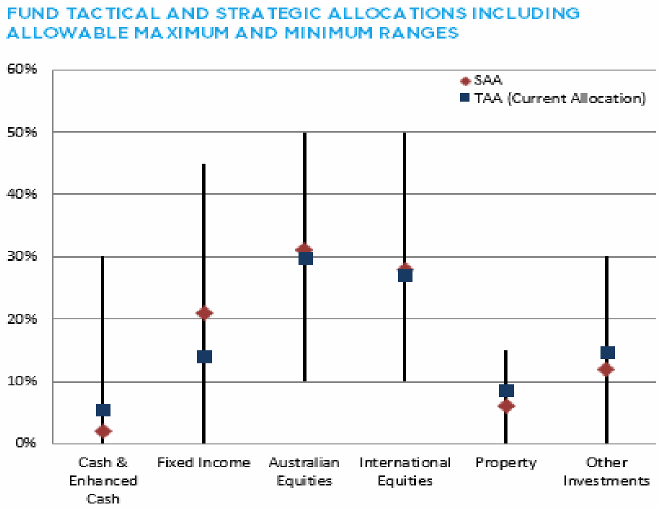
· A “total portfolio” approach is taken – seeking out excellent risk adjusted return opportunities (rather than asset classes) and risk management is embedded at every stage of the process.

NET PERFORMANCE- periods ending 30 September 2020

	Fund	Benchmark	Excess
1 month	-0.4	-1.3	0.9
3 months	0.4	1.8	-1.4
FYTD	0.4	1.8	-1.4
1 year	-2.9	-1.3	-1.6
2 year p.a.	2.0	4.2	-2.2
3 year p.a.	3.9	6.5	-2.6
5 year p.a.	4.9	7.2	-2.3
10 year p.a.	-	-	-

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

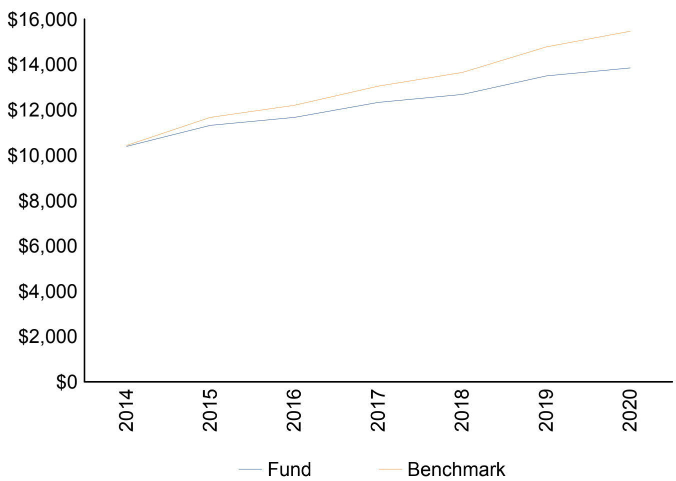
ASSET ALLOCATIONS AND INVESTIBLE RANGES



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 equity and credit markets continued through the quarter before faltering in early September.
- US equities continue to out-perform strongly led by the technology sector. In fact, the S&P 500 (+8.9% for the quarter) surpassed its February record high during August;
- European markets were mixed, the UK (-4.0%), France (-2.0%) retreated slightly while Germany (3.7%) rose despite trailing the global average;
- Asian markets were also mixed with Japan (+4.7%), Korea (+10.4%) and Taiwan (+10.4%) continuing to rally while Hong Kong (-2.6%) was weaker;
- The ASX 200 (-0.4%) under-performed as the renewed Victorian lockdown weighed on the economic outlook;
- Investment grade and high yield corporate credit spreads tightened further both domestically and offshore;
- Global bond yields were pretty much unchanged over the quarter at close to the record low yields that have been established this year;
- A weaker US dollar was a key feature over the quarter which was reflected in higher commodity prices (including gold and iron ore) and a continued rally in the $A.

Throughout the quarter, global equity returns were dominated by the performance of the US tech giants (Facebook, Apple, Alphabet, Amazon, Netflix and Microsoft). By the end of August, the influence of the US technology sector had driven global price to earnings ratios to their highest level since the tech boom of the early 2000s. The divergence in performance between industries that are supported by stay at home policies (technology, telecommunications) and traditional cyclical industries remained stark. Similarly, the early September selloff was led by the US tech sector.

The low representation of tech stocks in Australia combined with the deterioration in the economic outlook due to the Victorian lockdown weighed on the performance of the Australian equity market.

Despite fears in July and August that the daily case counts in Victoria could skyrocket, the lockdown has proven effective and the state is on the path to reopening. The impact on economic growth is expected to be significant, however, as Victoria represents one quarter of the national economy. 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 policy remains crucial in supporting the economy as the Reserve Bank of Australia (like all global central banks) has little monetary policy ammunition left to utilise.

The US continued to struggle to contain the virus throughout the September quarter. The rate of new infections remains stubbornly high and the spread of the virus remains geographically diverse and incredibly politically divisive. Offsetting these concerns were the resilience of the healthcare system and promising vaccine developments.
With rates at their effective lower bound and the Federal Reserve's balance sheet massively expanded, fiscal policy is of vital importance to economic recovery. The negotiation of a further fiscal stimulus bill remains crucial. Negotiations stalled during the September quarter and the outcome appears to have become contingent on the upcoming presidential and congressional elections. While savings from the last round of stimulus may give a temporary cushion, a resolution is likely needed to lessen the risk of a "double dip" scenario for markets.

While US economic growth indicators have rebounded strongly, the level of activity remains well short of pre-COVID levels and are reliant on continued fiscal support. Corporate earnings are also severely impacted. Second quarter results outperformed expectations, but posted the largest year on year decline since 2009 with similar expectations for Q3.

The recovery in European markets slowed through the September quarter. While the infection curve had been flattened in the June quarter, a second wave of infections is well underway. This will inevitably be a drag on the economy.

One encouraging development is that the European Union have agreed on the establishment of a shared recovery fund. The fund would facilitate fiscal transfers between member states funded by pooled debt. This represents a critical step towards fiscal union in Europe. Structural issues in Europe have long been exacerbated by the European Union's currency union without a corresponding fiscal union. This is a step in the right direction, even though much more will ultimately need to be done to underpin a sustainable pan European economic recovery.

Economic recovery continued in China led by a surge in industrial production with the virus apparently under control. 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 continued rally in equity markets through July and August was the key driver of absolute returns during the quarter. Australian and global equities performed well through the first two months of the quarter before a correction in September. The portfolio is marginally underweight Australian and global equities which accordingly detracted marginally from relative performance.

Stock selection was mixed across global and domestic equities, overall detracting from relative performance. Australian equity stock selection contributed to relative return, while global equity stock selection detracted. The Fund's value bias was not rewarded over the quarter as high growth sectors, led by US technology continued to outperform through July and August. Equity exposures retain quality and value biases which are expected to outperform during periods of challenging economic conditions.

The fund's foreign currency exposure detracted from relative performance, most notably, the US dollar. The greenback continued to slide through July and August due to the US Federal Reserve' aggressive monetary policy stance before recouping some losses in September. The bounce in the US dollar in September was used to reduce the Fund's position and increase exposure to the $A.

The fund remains defensively positioned holding an overweight cash position. In addition, the fund has significant, albeit reduced, 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 in the Fund.

The fund also maintains its position in the Diversified Real Return Fund which continues to deliver low volatility absolute returns while retaining low correlation to equity markets.

Lastly, the fund remains underweight duration reflecting valuation concerns.

OUTLOOK

A very deep global recession and a bear market began in March. Though markets have rallied sharply, a number of risk factors could see the rally fail. If fiscal support is wound back it could be detrimental to equities and credit markets. Similarly, if the economic and earnings recovery are disappointing it may lead to equity and credit markets selling off again. Despite the optimism about a "V" shaped recovery, we are in the early stages of a significant global recession and caution remains warranted. In these challenging conditions and given valuations are quite extended the Fund remains defensively positioned relative to benchmark.

MORE INFORMATION

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