

# Perpetual Investment Funds

## PERPETUAL ESG REAL RETURN FUND

31 August 2024

### FUND FACTS

**Investment objective:** Aims to target a pre-tax return of 5% per annum above inflation (before fees and taxes) over rolling five-year periods, while minimising downside risk over rolling two-year periods.

**Inception date:** May 2021

**Size of fund:** \$157.8 million as at 30 June 2024

**APIR:** PER0761AU

**Management Fee:** 0.85% pa ^^Refer to PDS for Management Costs

**Investment style:** Diversified risk budgeting, active, value, ESG

**Suggested minimum investment period:** Five years or longer

### FUND BENEFITS

True alignment to investors real return objectives; Diversification of risk; Active management of the Asset Allocation; Access to an increased amount of investment opportunities; ESG integration through Perpetual and Trillium Funds.

### FUND RISKS

All investments carry risk and different strategies may carry different levels of risk. The relevant product disclosure statement or offer document for a fund should be considered before deciding whether to acquire or hold units in that fund. Your financial adviser can assist you in determining whether a fund is suited to your financial needs.

### TOTAL RETURNS % AS AT 31 AUGUST 2024

| PERFORMANCE                            | 1 MTH | 3 MTHS | 6 MTHS | 1 YR | 3 YRS PA | 5 YRS PA | INCEPT PA | VOLATILITY^                    | 3 YRS PA | INCEPT PA |
|--|-------|--------|--------|------|----------|----------|-----------|--------------------------------|----------|-----------|
| Perpetual ESG Real Return Fund (Gross) | 0.40  | 3.05   | 3.32   | 4.36 | 0.82     | -        | 1.78      | Perpetual ESG Real Return Fund | -        | -         |
| Perpetual ESG Real Return Fund (Net)   | 0.33  | 2.83   | 2.89   | 3.48 | -0.03    | -        | 0.93      | Mercer Balanced Growth Median  | 8.60     | 7.80      |

Past performance is not indicative of future performance.^^ Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS^ Volatility and Mercer Balanced Growth Median data is lagged by 1 month

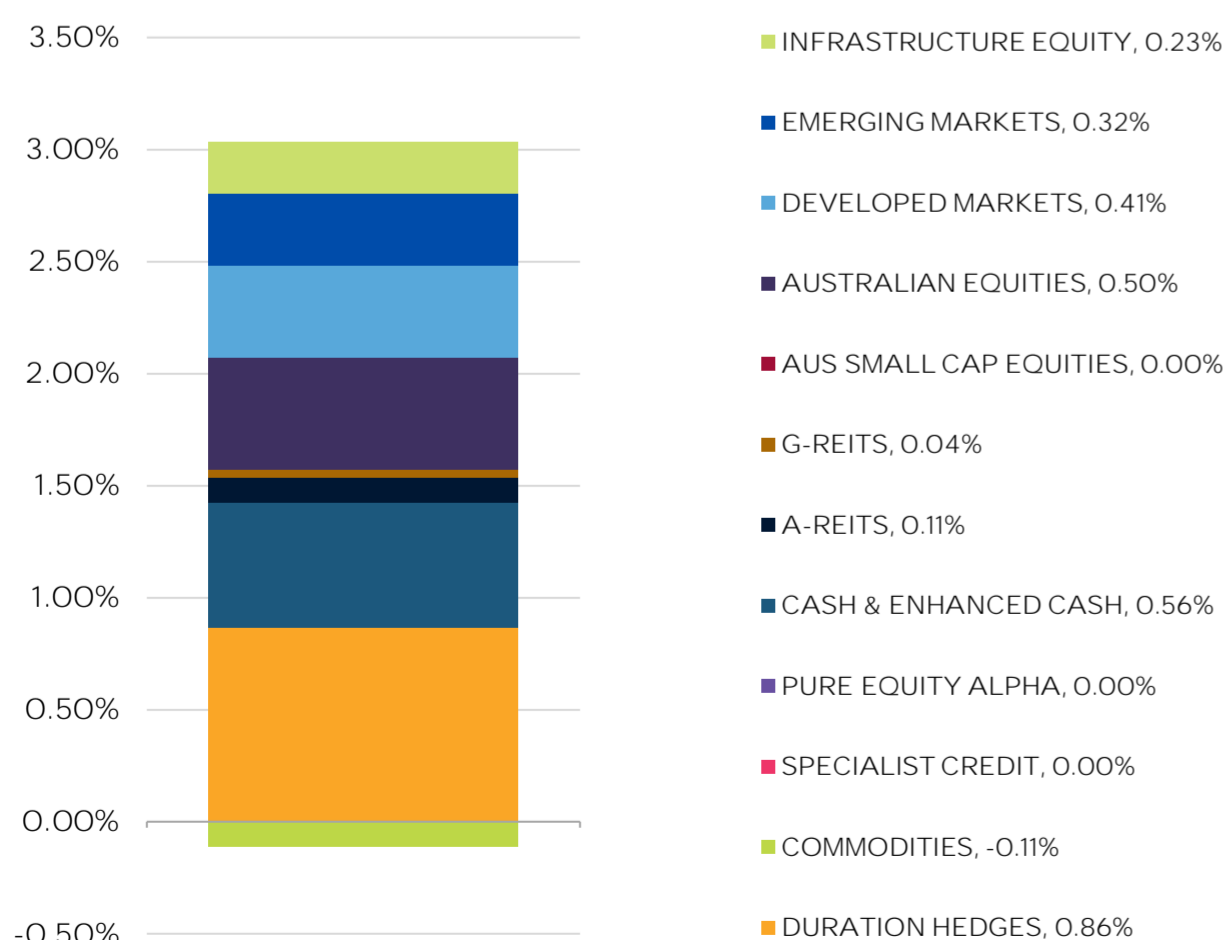
### CHANGES IN ASSET ALLOCATION (%)

|                        | CURRENT | 3 MTHS | 6 MTHS | 1 YR   |
|------------------------|---------|--------|--------|--------|
| Cash                   | 39.7%   | 16.3%  | 14.0%  | -24.9% |
| Fixed Income & Credit  | 37.7%   | -12.7% | -12.0% | 22.1%  |
| Australian Equities    | 2.2%    | -3.3%  | -4.0%  | -3.6%  |
| International Equities | 10.1%   | -2.2%  | -3.5%  | 5.7%   |
| Commodities            | 2.9%    | 0.4%   | 0.3%   | -4.2%  |
| Property               | 2.4%    | 0.0%   | 0.0%   | -0.2%  |
| Other Investments      | 5.2%    | 1.4%   | 5.2%   | 5.2%   |

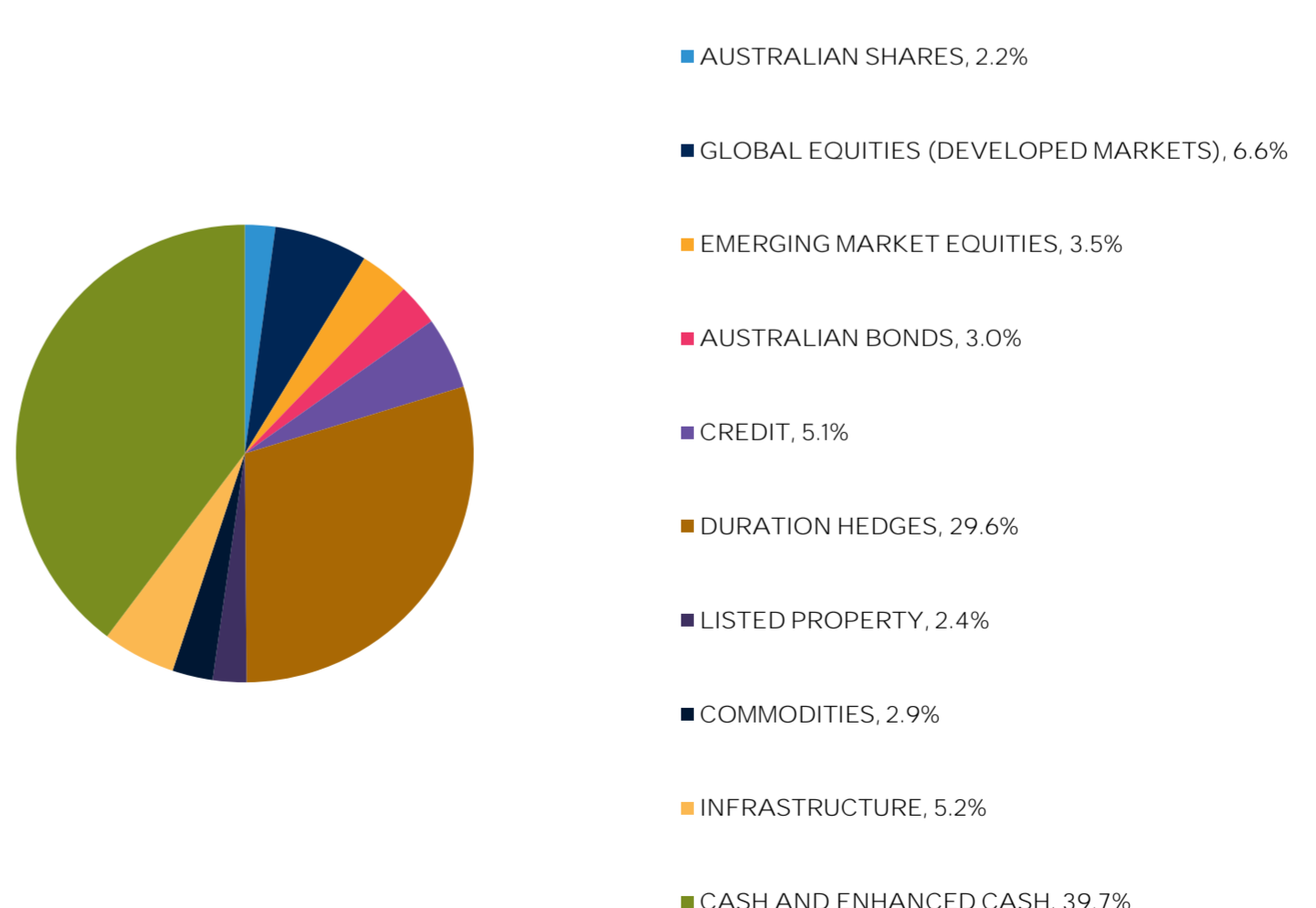
### ESG APPROACH

As a real return fund, the Fund applies a dynamic asset allocation approach, which is designed to allow the portfolio manager the greatest flexibility to achieve the fund's objective. **There is no universal, consistent approach to ESG across every asset class in the Fund due to practical and fundamental issues of investing in each asset class. The Fund's approach to ESG screening will vary across asset classes and by investment strategy within each asset class where applicable.** Please refer to the Perpetual Investment Funds PDS for further information.

### 3MTH CONTRIBUTION TO RETURN (GROSS)



### PORTFOLIO SECTORS



## FUND PERFORMANCE

The ESG Real Return Fund returned 0.3% (net) in August. Over the past 12 months, the fund has returned 3.5% (net).

The Fund's government bond exposure was the most substantial contributor to returns during August. The portfolio held 0.75 of a year of 2-year US government bonds at the start of August which performed well as yields declined amid strengthening expectations that an aggressive easing cycle by the US Federal Reserve was set to begin in September given growing concerns about the state of the US economy. Given the US economy is still expected to avoid recession, we lessened our exposure as bond prices continued to rise.

Meanwhile, global stock selection alpha also added to performance as investors reduced their exposure to highly priced growth stocks - particularly tech shares, which culminated in our global value, deep value and UK income strategies delivering strong returns to investors. The contribution of the ESG Premia was also constructive across global and domestic equities. The Fund retains an elevated exposure to cash which continues to deliver an attractive running yield which also supported returns.

In contrast, domestic equity stock selection weighed on performance as the local technology sector outperformed in Australia. Elsewhere, the Fund's elevated USD exposure detracted as the greenback weakened against peers in response to rising rate cut expectations.

## MARKET COMMENTARY

Risk assets sold off in August as a weak US non-farm payrolls report had investors questioning the growth outlook in the world's largest economy. Meanwhile, a second hike in Japanese official interest rates sparked an abrupt reversal of the global carry trade which has supported markets for a prolonged period. The ensuing rally in the Yen saw the Japanese sharemarket record its largest individual day loss since the 1987 stock market crash which weighed on all regional sharemarkets. However, most bourses recovered in the second half of the month as the US Fed raised optimism that official rates were set to be lowered in September.

- Developed market equities rose for a fourth straight month (+1.9%), led by the S&P 500 (+2.4%), as US Fed Chair Powell provided some dovish commentary about future US rate cuts at the Jackson Hole conference. This, combined with a strong July consumer spending report, helped revive investor optimism after a poor start to the month
- European equities (+1.8%) climbed for a second straight month led by Germany (+2.15%). In response to a favourable July CPI report which the market viewed as supported rate cut expectations in September. UK equities (+0.9%) also performed solidly (+0.9%) as the Bank of England delivered its first rate cut in 4 years, which was partially offset by incoming UK Prime minister Keir Starmer forewarning of a painful first budget with spending cuts and tax increases.
- The ASX 300 (+0.4%) rallied for a fourth consecutive month but underperformed its developed market peers as a better-than-expected domestic reporting season was outweighed by some sombre guidance from domestically focused companies.
- Emerging market equities also report a modest rise for the month (0.4%) as the tailwind of a weaker US Dollar was mostly offset by another weak set of Chinese economic data in which the property market is struggling to find a bottom.
- Conversely, Japanese equities (-2.9%) recorded its largest monthly decline in 2024 after an initial rally in the Yen following a surprise rate hike by the Bank of Japan, sparked heightened volatility. Some soothing words from the Bank of Japan Governor about the future policy path saw the Yen subsequently depreciate but the market could only partially recover its early losses.
- Increased demand from safe haven investments, combined with clear Fed guidance of upcoming rate cuts, sparked a fourth straight month of positive returns in regional bond markets. The price gains extended as the month progressed and was not perturbed by an eventual recovery in global risk sentiment which saw the US 2Yr bond close the month at a nine-month low of 3.91%. This provided a strong backdrop for Australian bonds to rally in unison with their US peers with the 10Yr Australian yield closing below 4% for the first time since Mar-24.

Volatility spiked in August with financial markets selling off sharply early before recovering over the remainder of the month. The US unemployment rate unexpectedly rose to 4.3% – its highest reading in nearly three years – and the pace of job gains decelerated. The softer than anticipated data triggered the Sahm rule and associated recession fears saw equities selloff and credit spreads widen globally. While the Sahm rule has been a historically accurate indicator of recession, the increase in US unemployment this cycle has primarily been driven by rising supply of workers, not falling demand for labour, which has had investors increasingly question the validity of traditional recession indicators (such as yield curve inversion) given the continued expansion in 2023 and 24.

The turnaround in US sentiment was also swift, supported by strong consumer spending data and corporate earnings results, alongside dovish comments from the Fed. Meanwhile, there are more questions being asked about the Australian economy given continued sluggish growth and waning consumer sentiment. The challenges here have been camouflaged by strong population growth and another year of significant public sector spending growth at a time when the RBA is trying to slow economy-wide spending. The Australian economy has struggled in the wake of higher inflation and increased interest rates which have sparked 6 consecutive quarters of declining growth in GDP per capita with the June quarter National Accounts showing that household consumption fell -0.2%.

It remains hard to see a significant global growth acceleration in the remainder of the year, as the regional fiscal impulse is generally negative, monetary policy remains restrictive, credit growth is anaemic and employment growth is slowing. While trend growth is supportive for equities, a soft-landing has already been priced into market expectations which - as evidenced by the sharp selloff in August - increases the vulnerability to downside surprises from earnings, geopolitical shocks and any re-pricing in global fixed interest markets of central bank expectation.

Uncertainty surrounding economic growth and inflation alongside high starting valuations provide a challenging backdrop for markets to negotiate. As always, our focus remains on identifying investments that can generate returns of CPI plus 5% per annum over a five-year horizon while maintaining an asset allocation that ensures that no individual position or cluster of positions will risk the medium-term investment objective.

## CURRENT POSITIONING

Equity market performance has been very strong thus far in 2024 with elevated valuations underpinned by expectations of a soft landing for the global economy and supportive central bank action on policy rates. We have undertaken a review of "return seeking" opportunities which have a high probability of achieving CPI+5%p.a. over 5 years based on valuation, economic cycle and momentum and the result is moving further away from traditional equity beta. A key premise in all these allocations is for the cash flow generated by the companies to support forward returns. To generate returns, they are not reliant on someone else paying a higher price for them (ie valuation expansion), unlike someone who buys Nvidia today at 35x revenue, needing another buyer at 38x revenue to make CPI+5%.

The Fund trimmed its exposure to 2-year US government bonds during August. The focus on the short end of the US yield curve benefits from the deep inversion of the curve meaning that cash and shorter dated bonds not only have a higher running yield, and are more exposed to falling central bank rates, but are also better protected against an upside inflation shock than longer-dated bonds.

The Fund retains explicit downside protection in the form of S&P 500 and Eurostoxx puts and a call option on the USD versus the Hong Kong Dollar (which is a low-cost downside protection for tail risks around China) and a put option on the USD against the Japanese Yen which performed well through early August as the Yen appreciated sharply.

The Fund's cautious asset allocation is supported by a very substantial cash allocation, which provides an attractive running yield and significant optionality as it enables us to quickly allocate capital to take advantage of mispricing in the event of a market selloff.

This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL No 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website [www.perpetual.com.au](http://www.perpetual.com.au). No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of any investor's capital. Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for entry or exit fees or taxation (except in the case of superannuation funds). Past performance is not indicative of future performance. The Perpetual ESG Real Return Fund gains its exposure to Australian shares by investing in underlying Australian Share Funds which primarily invest 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. Currency hedges may be used from time to time.

#### MORE INFORMATION

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email [investments@perpetual.com.au](mailto:investments@perpetual.com.au)

[www.perpetual.com.au](http://www.perpetual.com.au)

