

# Perpetual Investment Funds

# PERPETUAL BALANCED GROWTH FUND

August 2024

## 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.

## 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.

**Benchmark:** Balanced Growth Index (Internally generated composite)

**Inception Date:** October 1997

**APIR:** PER0063AU

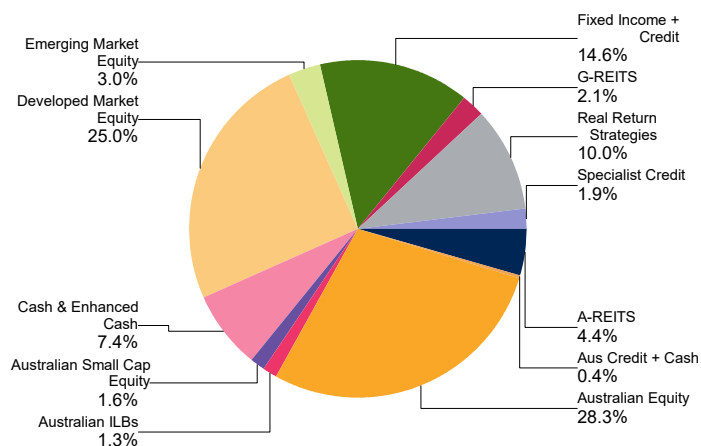
**Management Fee:** 1.04% p.a.

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:** Five years or longer

## PORTFOLIO SECTORS



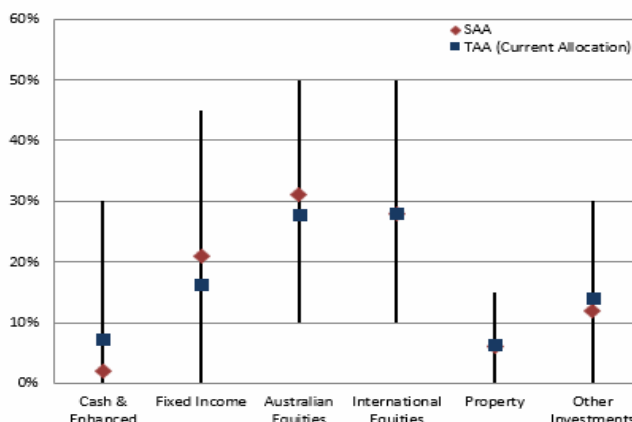
## NET PERFORMANCE- periods ending 31 August 2024

	Fund	Benchmark	Excess
1 month	-0.1	0.5	-0.7
3 months	2.8	4.9	-2.0
1 year	7.9	13.6	-5.7
2 year p.a.	7.3	11.4	-4.1
3 year p.a.	5.0	4.5	0.6
5 year p.a.	7.0	6.8	0.2
10 year p.a.	6.5	7.5	-1.0
Since incep.	7.3	7.3	0.0

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

## ASSET ALLOCATIONS AND INVESTIBLE RANGES

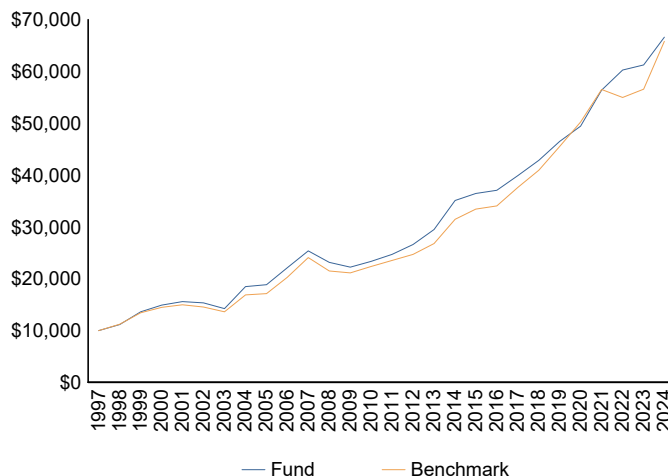
### FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



## 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

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 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.

Equity stock selection was mixed for relative performance during August. Global stock selection alpha 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 delivery strong returns to investors. In contrast, domestic equity stock selection weighed on performance as the local technology sector outperformed in Australia.

The Fund is close to benchmark weight across Australian and global equities. All equity exposures retain their long-standing quality and value bias which we expect to outperform the broad index given their more conservative valuation and higher earnings resilience.

The Fund remains marginally underweight fixed income with exposures primarily focus on 10-year Australian government bonds. The Fund's defensive posture is bolstered by its elevated exposure to cash. The Fund maintains a significant foreign exchange exposure, diversified across a number of developed and emerging market currencies. The sharp rise in central bank overnight rates since March 2022 has increased the yield on cash-type investments and their remains significant optionality in holding cash.

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. The Fund's overweight allocation to sources of uncorrelated returns detracted from relative performance during August as equities and bonds ended the month higher.

## OUTLOOK

Uncertainty surrounding economic growth and inflation alongside high starting valuations provide a challenging backdrop for markets to negotiate. 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. With so much good news already priced in, we maintain caution and our equity exposure remain primarily in high quality markets which have more attractive valuations and where earnings growth expectations have the potential to rise once the economy finds a stronger base.

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The Balanced 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.

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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 contribution or withdrawal fees or taxation (except in the case of superannuation funds, as applicable). Past performance is not indicative of future performance.

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## **MORE INFORMATION**

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