

# Perpetual Investment Funds

# PERPETUAL BALANCED GROWTH FUND

June 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

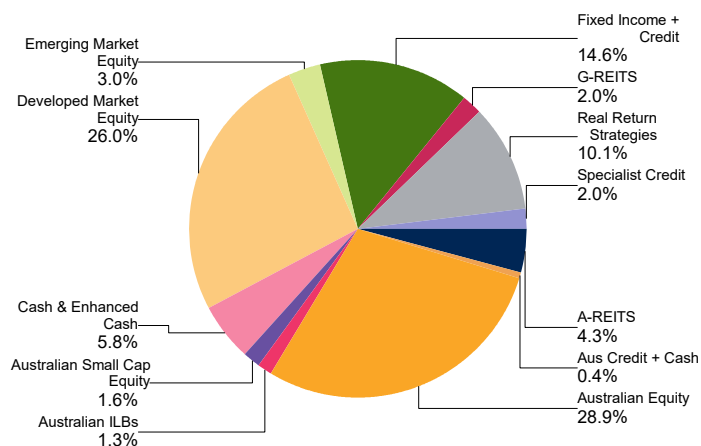
**Management Fee:** 1.04% p.a.

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

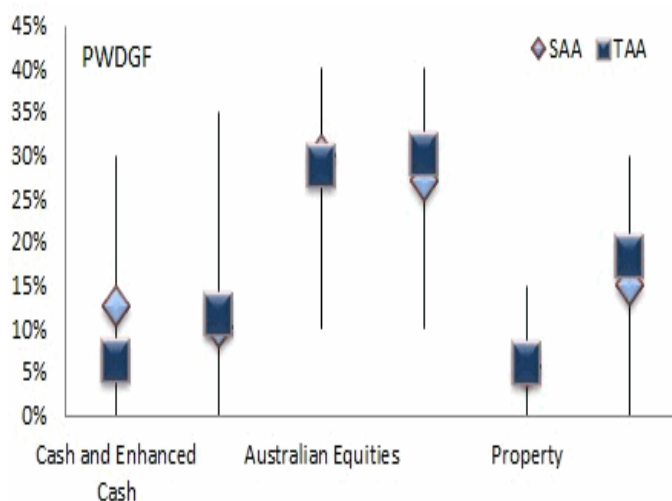


## NET PERFORMANCE- periods ending 30 June 2024

	Fund	Benchmark	Excess
1 month	-0.1	1.2	-1.3
3 months	-1.6	-0.4	-1.2
FYTD	6.7	11.9	-5.3
1 year	6.7	11.9	-5.3
2 year p.a.	7.2	11.6	-4.3
3 year p.a.	4.8	4.5	0.3
5 year p.a.	6.5	6.3	0.1
10 year p.a.	6.5	7.4	-1.0
Since incep.	7.2	7.2	0.1

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

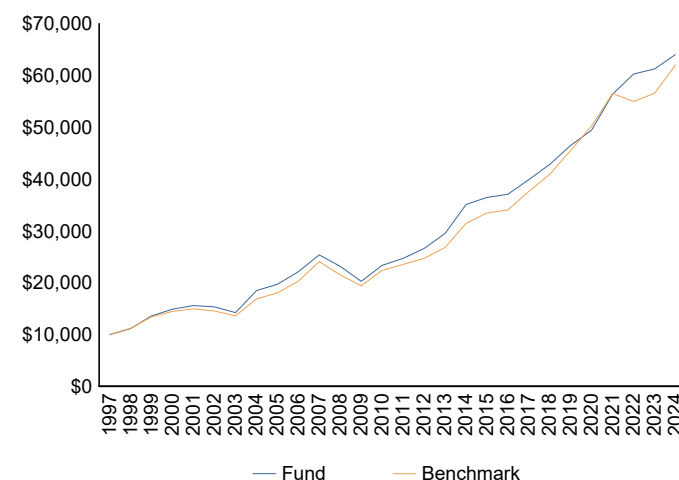
## ASSET ALLOCATIONS AND INVESTIBLE RANGES



## 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

- Developed market equities generated positive returns (+3.2%) over the quarter, recovering from elevated volatility in April. Performance was led by the US (+4.3%) where large cap tech companies continued to drive performance, benefitting from strong corporate earnings results. The Magnificent 7 collectively (+14.2%), and Nvidia (+36.7%) especially, continued to substantially outperform the broader market which declined (-1.5%) outside these 7 names.

- The UK Market also rose (+3.8%), with investors responding well to increased share buybacks, and were not concerned about a likely change in government at the July election. Across the Channel, European equities (-2.1%) saw mixed performance with France (-6.6%) the notable laggard after President Macron called a snap election which could see any of three parties in control of the legislature. Market sentiment here weakened as a sharp rise in French government bonds weighed on sentiment and investors fretted over the earnings impact of an unfavourable election outcome including super-profit taxes on French banks.

- In contrast, the S&P/ASX 300 (-1.2%) trailed the broader market, reflecting increasingly hawkish expectations for RBA rate settings later this year, and a very soft Q1'24 national accounts which signalled that the Australian economy barely grew (+0.1%Q).

- Meanwhile, emerging market equities rose strongly (+6.6%), given upbeat gains in Taiwan (+14.1%) given their AI chip exposures, and China (+6.4%) where supportive government policy provided a floor to the market which investors were able to take advantage of.

- In other asset classes, US 10-year government bond yields (+20bps) ended the quarter considerably higher after markets unwound some highly optimistic pricing for Fed policy easing in 2024. Domestic 10-year yields (+35bps) also rose over the quarter as higher than expected monthly inflation print raised the possibility of further policy tightening from the RBA.

- Lastly, commodity markets were mixed with base metals (+7.8%) and Gold (+4.3%) performing well whereas thermal coal (-5.1%) sold off.

The key swing factor driving markets throughout the quarter remained near-term expectations for the path of monetary policy. In April, expectations of near-term central bank rate cuts were unwound in response to solid US growth data and resilient core inflation. Over the remaining months, these concerns eased in the face of softening economic data, which saw markets price in almost two rate cuts in 2024, and the expectation of soft-landing was resurgent. While equity valuations recommenced their rally during May and June, there remains elevated uncertainty given US core inflation remains quite a distance above the Fed's 2% target.

Although expectations for monetary policy easing have been scaled back over the year to date, some central banks have commenced their cutting cycle. Indeed, the ECB cut rates in June in a move that was widely expected following dovish guidance, but there appears limited space for a deep cutting cycle in the world's largest trading bloc as core inflation bounced strongly after the rate reduction which again saw expectations wound back, with the ECB flagging that the length and depth of its easing cycle ultimately being driven by the data. In Australia, elevated core inflation is proving quite stubborn with successive monthly above consensus monthly CPI releases, and the June quarter result will be pivotable for upcoming RBA rate deliberations, with futures markets pricing in an even chance of a rate increase at the August meeting.

Meanwhile, the global growth outlook has broadened somewhat with US growth moderating from a high base and the World ex-US accelerating from a low level. Some of the growth tail risks highlighted at the start of the year appear to have subsided and what's left is a more mundane cycle of trend growth (circa 2.75% to 3.25%) with persistent and above-target inflation also around 3%.

Despite recent improvements in Europe and resilient US data, it

remains hard to see a significant global growth acceleration this year, as the fiscal impulse is negative, there is very little spare capacity, restrictive monetary policy remains a headwind, employment growth is slowing, and the global credit impulse is at a post-GFC low.

While trend growth is supportive for equities, the soft-landing scenario with sizable rate cuts in 2024 and 25 have already been priced in which increases the vulnerability to downside surprises from earnings, geopolitical shocks and any re-pricing in global fixed interest markets or of central bank expectation.

The most substantial determinant of relative performance during the quarter was the fund stock selection among global equities. Global stock selection alpha weighed on relative performance as growth-style equity sectors outperformed traditional value sectors despite a slight steepening of the US yield curve. The narrowness of the global share market's advance this year has sparked concerns about the sustainability of the rally as a small number of US tech stocks are contributing the entire market returns, with most other stocks weighed down by a slower global economy and higher for longer rates (especially in the US). This small handful of stocks are already trading on valuation multiples which are rarely seen and never sustained over the long-term.

The Fund is close to benchmark weight in global equities and marginally underweight Australian 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 relative to history, earnings growth potential, and strong balance sheets with the potential to undertake buybacks.

The Fund remains marginally underweight fixed income. During the quarter, the Fund closed its US 2-year US treasury exposure and added allocation to the Australian 10-year 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 allocation to uncorrelated sources of return (including the Diversified Real Return Fund) detracted marginally during the June quarter as risk assets performed.

## OUTLOOK

Despite circa trend growth, the uncertain path of inflation and central bank policy alongside high starting valuations provide a challenging backdrop for markets to experience another major leg up in prices for 2024. Equity market performance has been very strong thus far in 2024 led by growth-style equities in the IT, communication services and consumer discretionary subsectors. Increased confidence in the view of both a soft landing for the global economy with extended rate cuts has culminated in a lot of good news being priced into markets with the MSCI World Index now trading at a 90th percentile valuation relative to the past 20 years. With so much good news priced in and long-run valuation adjusted expected returns at levels which usually see US equity losses over the next five years, we maintain caution. As always, we are also looking for markets with attractive valuations and that have elevated dividend yields which tend to have much volatility than earnings growth.

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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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## **MORE INFORMATION**

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