Perpetual

FIVE BY FIVE

PERPETUAL INVESTMENTS
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Traditional investment approaches have always been subject to the risk/return trade-off. That's fine if you're a long term investor. If not, real return investing through Perpetual's Diversified Real Return Fund (DRRF) may be what you're looking for.

Back in the days of radio, the quality of the communication was rated on two key measures: readability and signal strength. The quality of the communication was broken down by numerical ratings on each measure – so "five by five" was the best possible score.

You can look at investing a similar way, with the two key measures being risk and return. The age old problem is that a high measure on one scale tends to detract from the other. So where shares might rate a five on the return scale, they rate a one on the risk scale. Cash rates a five on the risk scale (very low) – but a one on the return scale (low).

Real return funds – such as DRRF are designed to get to 'five by five' investing – to strike the ideal balance between minimising risk and achieving a targeted level of return.

To stick with the five theme, here are five reasons why they work.

1. IT TARGETS THE ENEMY – INFLATION

Inflation is the enemy of all investors. The portfolio managers who run DRRF pick investments with a clear goal of beating inflation by 5% per year over five year periods (CPI plus 5). Since the launch of that fund they've achieved that result[1]. That means the return from the fund has been a **real (post-inflation) return**, a genuine increase in wealth.

2. IT DELIBERATELY AVOIDS RISKY ASSETS

Unlike some diversified funds which have fixed allocations to each asset class, the managers of DRRF are free to completely avoid asset classes they consider overvalued or excessively risky. Simply put, that takes the risk of that asset class out of the portfolio.

3. REAL RETURN FUNDS SUIT THE TIMES

Back when equity markets were strong and interest rates were higher, achieving a CPI plus 5 return was a lot easier. Today, interest rates are low and equity markets are coming off a long upward run and in many places their valuations are stretched (they're not cheap!). Given these conditions, a fund that is agile – able to quickly move between assets in search of better return opportunities – may be a more compelling choice.

4. A FUND FOR THE MEDIUM TERM INVESTOR?

The simplest way to beat the risk/return conundrum is to get time on your side. Over the long term the return from shares tend to outweigh the added volatility.

If you don't have a long-term time horizon, the flexibility of a diversified real return fund helps you strike a better balance between risk and return. That makes it an option for investors with a medium term goal.

5. DRIVEN BY VALUE

While enjoying the flexibility to move quickly and decisively, the managers of DRRF don't see it as on opportunistic fund. "We **can** act quickly," says Perpetual's Head of Multi Asset, Michael O'Dea, "but those decisions are always taken via a value framework. We ask, "Can I buy it at an attractive price for the level of risk?"

These are just some of the reasons more investors are looking at real return funds as the potential core of their portfolio.

If you'd like to know more about DRRF get performance information at the **DRRF fund page**.

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[1]As of 31 October 2015, the Diversified Real Return Fund (DRRF) exceeded its targeted return of CPI+5% over a rolling five-year period. On this date, the five-year anniversary of the fund, DRRF achieved a 7.8% per annum net return, exceeding Australian CPI+5% by +0.4%