

Perpetual Investment Funds

PERPETUAL CONSERVATIVE GROWTH FUND

February 2024

FUND FACTS

Investment objective: Aims to provide moderate growth over the medium term and income through investment in a diversified portfolio with an emphasis on cash and fixed income securities; and outperform a composite benchmark (before fees and taxes) reflecting its allocation to the various asset types over rolling three-year periods.

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: Conservative Growth Index (Internally generated composite)

Inception Date: September 2003

APIR: PER0077AU

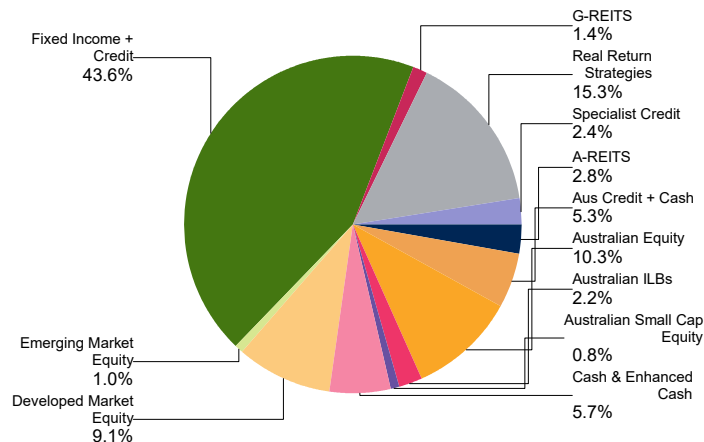
Management Fee: 0.90% p.a.

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: Three years or longer

PORTFOLIO SECTORS



NET PERFORMANCE- periods ending 29 February 2024

	Fund	Benchmark	Excess
1 month	0.6	0.9	-0.2
3 months	4.0	4.8	-0.8
FYTD	4.4	5.9	-1.5
1 year	4.9	7.6	-2.7
2 year p.a.	2.4	2.3	0.1
3 year p.a.	3.4	2.7	0.8
5 year p.a.	3.9	3.5	0.4
10 year p.a.	4.2	4.5	-0.3
Since incep.	5.7	5.5	0.1

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

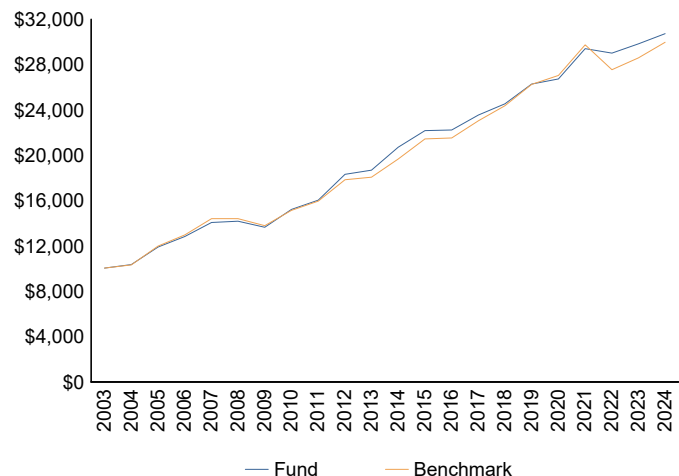
ASSET ALLOCATIONS AND INVESTIBLE RANGES



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

Equity markets rallied strongly in February on supportive corporate earnings results.

- US Equities (+5.3%) performed well led by the strong performance of growth stocks, while value lagged.
- The ASX 300 (+1.0%) rose in February despite trailing global peers. The domestic information technology sector (+19.5%) was the standout following the lead of their US peers with several strong results in the consumer discretionary space (+10.1%) sparking a fourth straight month of price gains, whereas resources sectors both declined led by energy (-5.9) which fell for the first time since November, with materials (-4.6%) not far behind
- European equities (+5.08%) rose strongly amid signs that the region had avoided a technical recession, whereas the confirmed recession in the UK (+0.45%) weighed on sentiment.
- Asian equities performed well led by Japan (+8.0%) amid signs that the corporate sector remained resilient despite economic headwinds, whereas China (+8.6%) shares rallied from a low base as the aggregate of numerous policy announcements prompted investors to suspect that the price trough had been seen, although the policy delta remained far from a 'reflation level' of support.
- The robust economic and inflation data saw expectations around the timing and scale of rate cuts being delayed and moderated, resulting in rising bond yields over the month. The Australian 10Y government bond yield ended the month 12bps higher at 4.14%, as the RBA held the cash rate firm and would not rule out further increases, although this seems more like risk management rather than explicit policy guidance. The U.S. 10-year Treasury yield rose by 34bps to 4.25% and the curve flattened with two-year yield rising 41bps to 4.62% amid expectations around the Fed.
- The Australian dollar depreciated -1.5% against the Greenback as the Fed wind-in saw the differential between 10yr yields move in favour of the US.

The strong start to the year for risk assets is reliant on a number of assumptions around global growth, inflation, monetary policy and corporate earnings. The global economy slowed last year to +3%Y and in the past six months there has only been a significant growth upgrade to the US whereas consensus has the rest of the world looking less positive. It's hard to see a global growth acceleration this year as the fiscal impulse is negative, there is very little spare capacity, restrictive monetary policy remains a headwind, China isn't re-opening again, employment growth is slowing and the global credit impulse is at a post-GFC low. Recessions risks however, are also lower as inflation has declined and real income is lifting for both households and the corporate sector.

The final mile of inflation will be the most challenging for central banks and futures markets have already lowered their pricing for 2024 rates from six cuts starting in March, to three cuts starting in July which is aligned with the Fed's last set of economic projections. These rate cuts have been completely removed from expectations as opposed to being pushed into 2025.

Another challenge is the optimistic expectations around earnings growth which declined in 2023 and are expected to rebound sharply even though the US economic is almost universally expected to cool. Over recent periods US earnings growth has been delivered entirely by a small number of dominant tech firms while the remainder of the market has been comparatively listless. After major downgrades approaching the February reporting season, around three quarters of US companies reported positive earnings surprise, but this was a low hurdle and sparked little investor enthusiasm, especially in a world of historically high valuations.

In contrast, markets outside the US have equity valuations more aligned with long-term averages however the consensus growth outlook is less optimistic than in the US. In Europe, for example, economic growth stalled in 2023, whereas the expansions in both the UK and Japan have hit their fair share of hurdles. While there were random periods of falling output in the second half of 2023,

these growth contractions were mostly temporary and did not spark any material rise in unemployment, which suggests that these economies should return to expansion in the near-term, which suggests some potential for earnings upgrades later this year.

Elsewhere, the rally in Chinese equities was predicated on supportive policy and elevated buying among state owned enterprises. While the surge in performance has been stark, it was from a very low base and China itself continues to face issues in the embattled property sector, subdued domestic demand, persistent deflation and lacklustre business and consumer confidence.

Stock selection among global equities was the single largest detractor from relative performance. The outperformance of growth relative value impacted the Fund's global equity allocation which maintains a focus on quality and value factors. The Fund is close to benchmark weight in equities, comprising a small underweight in Australian equities and – after adding exposure during February via a risk controlled Nasdaq call option – a marginal overweight in 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's underweight allocation to fixed income was positive for relative performance as easing rate cut expectations sparked a rise in US bond yields. During the month, the Fund closed its short position in Japanese government bonds and reduced its two-year US treasury exposure. Exposure to 10-year Australian government bond was increased during the month, as the growth profile of the local economy looks strained in the wake of sustained high interest rates and Australia's high household debt.

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.

OUTLOOK

While the US economy and markets proved more resilient than we expected in 2023 and into 2024, our reasons for caution have not changed. The consensus view today is for the US to experience a soft landing in 2024 as growth moderated down to a trend-like pace and markets pulled a lot of the returns from 2024 into last year. This leaves the market in 2024 with elevated valuations, expected 12-month earnings growth close to double the historic average and interest rate expectations aligned to what the US Fed had guided for 2024 with some doubts about the rate cuts they highlighted in 2025 and 26. With so much good news already priced in, we maintain cautious 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 sharply once the economy finds a strong base.

The Conservative 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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