

# Perpetual Investment Funds

# PERPETUAL BALANCED GROWTH FUND

January 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

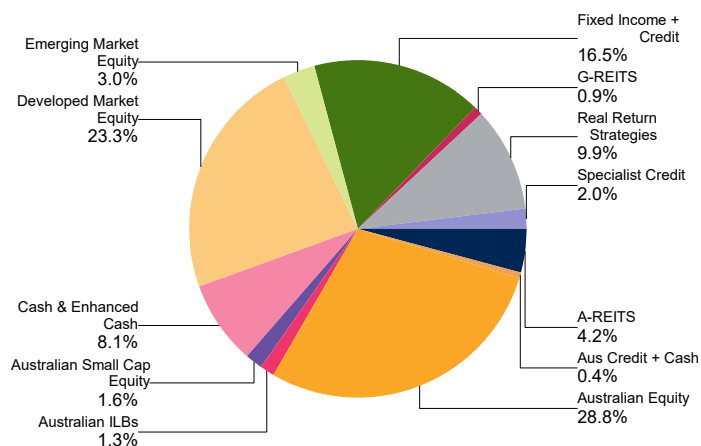
**Management Fee:** 1.04% p.a.

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

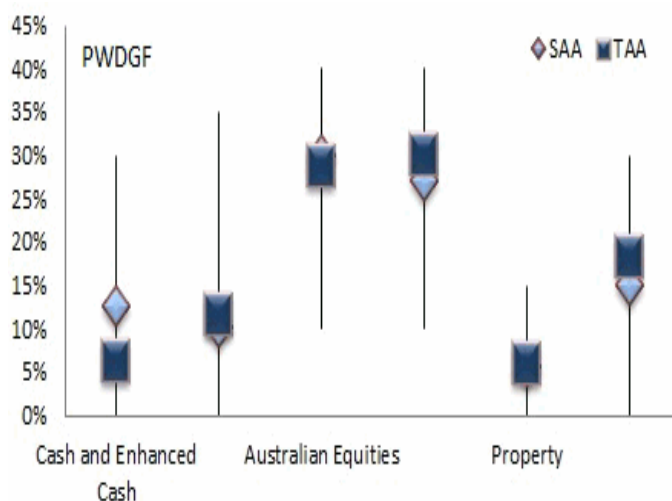


## NET PERFORMANCE- periods ending 31 January 2024

|              | Fund | Benchmark | Excess |
|--------------|------|-----------|--------|
| 1 month      | 1.6  | 1.3       | 0.3    |
| 3 months     | 5.9  | 10.9      | -5.0   |
| FYTD         | 4.1  | 7.1       | -3.0   |
| 1 year       | 4.8  | 9.4       | -4.6   |
| 2 year p.a.  | 4.2  | 4.2       | 0.0    |
| 3 year p.a.  | 7.8  | 6.1       | 1.7    |
| 5 year p.a.  | 7.6  | 7.5       | 0.1    |
| 10 year p.a. | 6.6  | 7.4       | -0.8   |
| Since incep. | 7.3  | 7.1       | 0.2    |

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

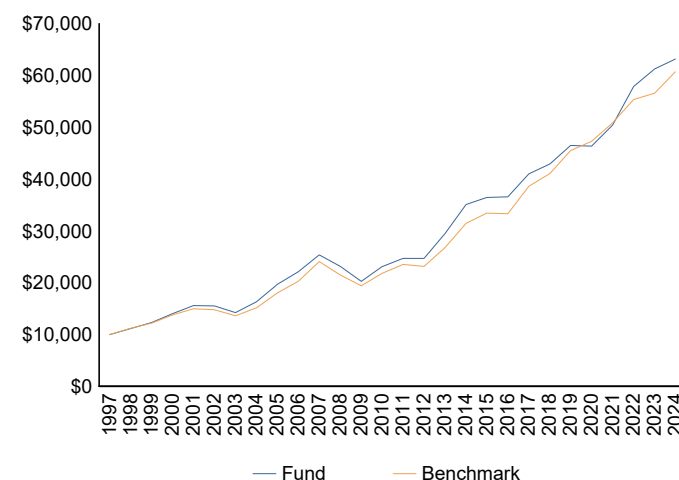
## ASSET ALLOCATIONS AND INVESTIBLE RANGES



## 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

Financial markets remained buoyant throughout January, consolidating on a strong finish to 2023 for equities and bonds. Equity markets continued to rally with the recent fall in bond yields contributing to strong outperformance for long duration asset including growth equities, and this impact was amplified by solid upgrades to 12 month forward expected earnings.

- Global equities (+1.81%) rose in January led by long duration sectors such as Communication Services (+4.6% in local currency terms), IT (+4.3%) and Health Care (+3.2%). on the back of falling discount rates.

- Among the regions Japan (+7.8%) performed strongly given the market's solid earnings performance as well as a weaker Yen, whereas UK stocks (-1.27%) and EM (insert return) trailed as investors fretted over the state of the UK and Chinese economies .

- Australian equities (+1.1%) started the year in positive territory across most sectors despite trailing the broader global market. Domestic equity returns were dominated by the energy (+5.2%) in response to higher oil prices and banks (+4.9%) which benefited from lower bond yields. Conversely, materials (-5.0%) lagged performance given lower raw materials prices, which prompted investors to take some profits after a very strong November and December.

- Elsewhere, most regional long term bond yields were little changed in January after a large and extended rally over the last two months of 2023 with US (+3bps), Australian (+5bps) and Japanese (+12bps) yields all fractionally higher. In contrast, long-end yields in Germany (+14bps) and the UK (+36bps) rose more abruptly as investors began to pare back rate cut expectations.

The global economy has entered the new year with solid momentum. The US economy defied expectations in the final quarter of 2023, expanding by +3.3% quarterly annualised with consumption remaining firm given the resilient labour market where hiring remained very strong in January and wages rose a solid +0.9%Q in the December quarter. This provides a goods back drop for growth, but a more challenging backdrop for expectations of continued disinflation given goods deflation is likely to ease in coming months given the rise in output costs in the January ISM manufacturing survey.

The near-term risk for regional equity and credit markets is centred around a continued unwinding of market expectation of 2024 rate cuts towards recent central bank guidance. The Fed, ECB and BOE all left their policy rates unchanged to start the year and Fed chair Powell signalled a March rate cut was not the base scenario, as the FOMC needs time to assess the progress on both the inflation and growth fronts. The Fed's preferred gauge of underlying inflation (Core PCE) cooled to its lowest level since Mar-21 with a 2.9% annual result, which is low enough for the Fed to ease rates, but not low enough to fully implement the cuts which have been priced into futures and bond markets.

In the eurozone, both headline and core inflation edged lower in January, but the UK CPI data were disappointing in December, with core inflation still elevated at +5.1%Y. Euro area activity remains weak with the 4th quarter GDP narrowly avoiding a technical recession as growth rose only +0.1%SAAR after growth contracted -0.5% SAAR in Q3'23. In contrast to output, the European labour market remains robust with unemployment at a record low and wages growth close to record highs. A fully employed regional economy, maintenance of restrictive rates for the time being and the absence of a significant fiscal impulse suggests modest growth awaits the world's largest trading bloc in 2024 unless consumer confidence can rise to levels where very elevated excess savings are utilised by households.

Finally, China's economy expanded by 5.2% in 2023, hitting the Government's annual growth target. Headline inflation remained

in modest deflation territory at year-end, though this was mostly driven by falling food prices, although weak core inflation is a clear sign that domestic demand remains subdued. The People's Bank of China cut the reserve requirement ratio for banks, amid persistent property sector problems, but private sector animal spirits have been heavily impacted by the losses in the property and equity markets, and the changes to industry regulations in recent years which has impinged Chinese private sector investment.

While the US economy and markets proved more resilient than we expected in 2023, our reasons for caution have not changed.

During January, the Fund's stock selection within Australian equities was the most substantial contributing factor to outperformance. Allocation to domestic and global listed property was also constructive. The Fund remains underweight global and 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 and higher earnings resilience.

The Fund's defensive allocations were benign for performance during a month where bond yield consolidated. The Fund maintains limited exposure to fixed income, predominantly US 2-year treasuries and Australian 10-year government bonds. Partially offsetting the duration risk is a short (negative) position in 10-year Japanese government bonds (JGB).

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

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 (12MF PE valuations are 92nd percentile relative to the past 20 years), expected 12-month earnings growth more than double the historic average and interest rate expectations are considerably more than what the US Fed has guided. Accordingly, a key question for investors is given all the good news already priced in, can the market continue to push higher, or is 2024 set to be a third consecutive year where consensus expectations are not met?

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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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