

# Perpetual Investment Funds

## PERPETUAL ESG REAL RETURN FUND

31 January 2024



### FUND FACTS

**Investment objective:** Aims to target a pre-tax return of 5% per annum above inflation (before fees and taxes) over rolling five-year periods, while minimising downside risk over rolling two-year periods.

**Inception date:** May 2021  
**Size of fund:** \$205.9 million as at 31 December 2023  
**APIR:** PER0761AU  
**Management Fee:** 0.85% pa \*\*Refer to PDS for Management Costs  
**Investment style:** Diversified risk budgeting, active, value, ESG  
**Suggested minimum investment period:** Five years or longer

### FUND BENEFITS

True alignment to investors real return objectives; Diversification of risk; Active management of the Asset Allocation; Access to an increased amount of investment opportunities; ESG integration through Perpetual and Trillium Funds.

### 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.

### TOTAL RETURNS % AS AT 31 JANUARY 2024

PERFORMANCE	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS PA	5 YRS PA	INCEPT PA	VOLATILITY^	3 YRS PA	INCEPT PA
Perpetual ESG Real Return Fund (Gross)	0.5	2.1	0.6	1.7	-	-	0.66	Perpetual ESG Real Return Fund	-	-
Perpetual ESG Real Return Fund (Net)	0.4	1.8	0.1	0.9	-	-	-0.2	Mercer Balanced Growth Median	8.3	7.8

Past performance is not indicative of future performance. \*\* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS\* Volatility and Mercer Balanced Growth Median data is lagged by 1 month

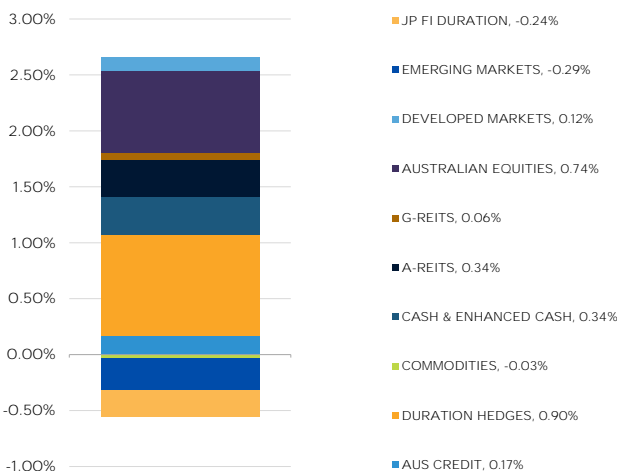
### CHANGES IN ASSET ALLOCATION (%)

	CURRENT	3 MTHS	6 MTHS	1 YR
Cash	34.7%	-18.5%	-26.0%	-17.4%
Fixed Income & Credit	44.1%	13.5%	27.9%	19.7%
Australian Equities	5.9%	0.7%	-0.2%	-0.9%
International Equities	10.5%	4.1%	2.9%	1.3%
Commodities	2.5%	-0.2%	-4.5%	-2.2%
Property	2.4%	0.3%	-0.1%	-0.5%
Other Investments	0.0%	0.0%	0.0%	0.0%

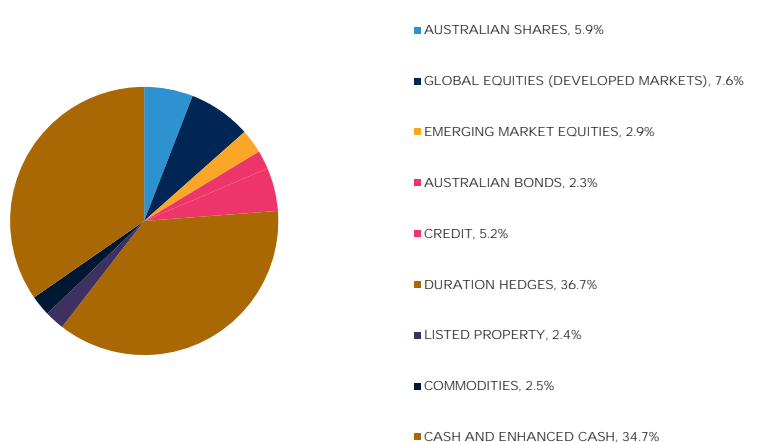
### ESG APPROACH

As a real return fund, the Fund applies a dynamic asset allocation approach, which is designed to allow the portfolio manager the greatest flexibility to achieve the fund's objective. **There is no universal, consistent approach to ESG across every asset class in the Fund due to practical and fundamental issues of investing in each asset class. The Fund's approach to ESG screening will vary across asset classes and by investment strategy within each asset class where applicable.** Please refer to the Perpetual Investment Funds PDS for further information.

### 3MTH CONTRIBUTION TO RETURN (GROSS)



### PORTFOLIO SECTORS



## FUND PERFORMANCE

The ESG Real Return Fund returned 0.41% (net) in January. Over the past 12 months, the fund has returned 0.86% (net).

The Fund's allocation to domestic and global equities contributed to January returns, on both an index and a stock selection basis. Conversely, global equity stock selection detracted from return. Allocation to Emerging markets also detracted although this was mitigated by the Fund's underweight exposure to China.

Meanwhile, the Fund's substantial cash allocation – maintained to offer downside protection – continues to support performance via its robust running yield. Lastly, allocations to US Dollar and Emerging Markets currencies were constructive for returns during January.

## 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 access 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.

## CURRENT POSITIONING

While the US economy and markets proved more resilient than we expected in 2023, 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 (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?

The Fund's modest equity exposure in the return seeking quadrant was added to during the month and this was augmented with some put option protection on the S&P 500 which turned the trade into a synthetic risk-controlled call option.

Currently the Fund has exposure to 2-year US government bonds and a modest exposure to 10-year US and Australian government bonds. The duration of these positions is partially offset by the aforementioned short Japanese government bond position which was trimmed during the December quarter.

The Fund's defensive position is supported by a very substantial cash allocation. These cash holdings give us a good running yield and provides significant optionality as it enables us to quickly allocate to take advantage of mispricing in the event of a market selloff.

\*All groups CPI measured and published by the ABS as at 31 December 2023

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## MORE INFORMATION

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