

Perpetual Private

# PERPETUAL MYSUPER BALANCED GROWTH

August 2019

## 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.

**Benchmark:** Balanced Growth Index (Internally generated composite)

**Inception Date:** January 2014

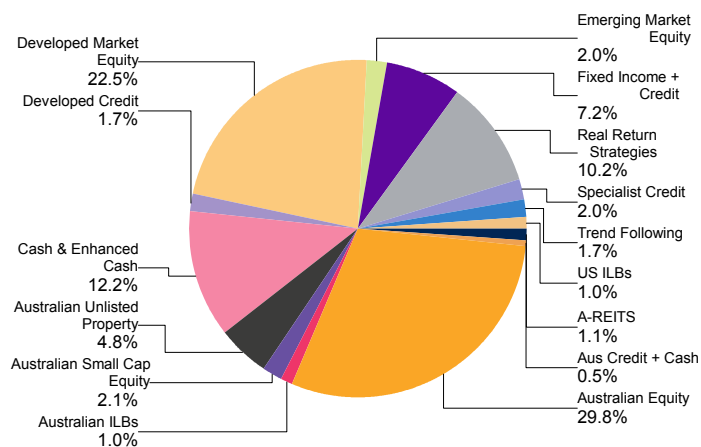
**APIR:** PER0706AU

**Management Cost:** 0.98% p.a.

**Investment style:** Active, fundamental, disciplined, value

**Suggested minimum investment period:** Five years or longer

## PORTFOLIO SECTORS



## INVESTMENT STYLE

Valuation is the key driver of investment decisions. We aim to extract the value premium within asset classes (stock selection) and across asset classes (asset allocation).

- Diversification, value and quality, as well as portfolio protection strategies, are key elements to protect on the downside during extreme events.

- Our economic cycle and momentum signals help time entry to, and exit from positions by supplementing the key value signal.

- A "total portfolio" approach is taken – seeking out excellent risk adjusted return opportunities (rather than asset classes) and risk management is embedded at every stage of the process.

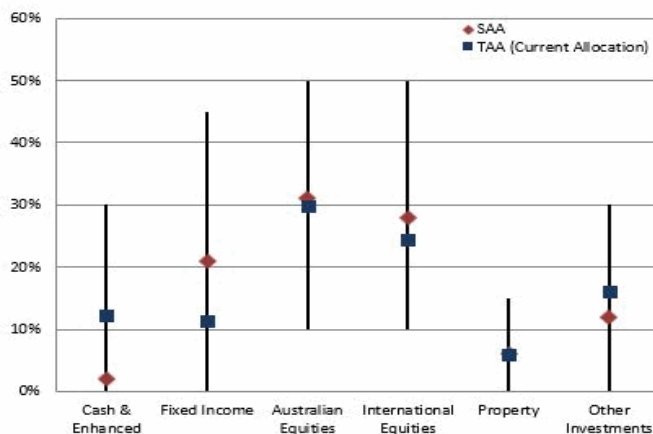
## NET PERFORMANCE- periods ending 31 August 2019

	Fund	Benchmark	Excess
1 month	-0.8	-0.5	-0.3
3 months	2.7	4.6	-1.9
FYTD	0.6	1.3	-0.7
1 year	5.7	8.2	-2.5
2 year p.a.	7.4	10.4	-3.0
3 year p.a.	6.5	9.4	-2.9
5 year p.a.	5.9	8.3	-2.4
10 year p.a.	-	-	-

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

## ASSET ALLOCATIONS AND INVESTIBLE RANGES

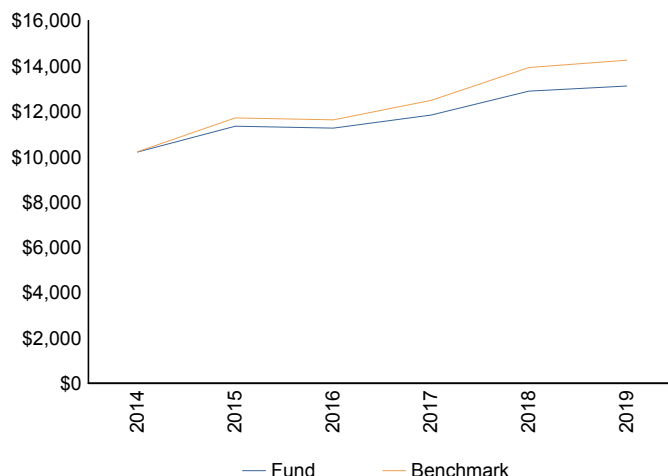
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



## 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

The trade war resurfaced as the central issue for markets in August. On the 1st of August, the US President made a surprise announcement of a new 10% tariff on \$300bn of imports from China. This sparked a series of events including:

-The Chinese currency weakened to its lowest level against the US dollar since 2008;

-The US labelled China as a currency manipulator raising the spectre of a currency war between the two largest global economies;

-Another round of tariff increases from the Chinese was met by further out-sized tariff increases by the US;

-Late in the month, the US President indicated that the Chinese wanted to restart negotiations.

Meanwhile, the economic data continue to indicate a slowdown in global economic growth similar to that which occurred in 2011-12 (Eurozone crisis) and 2015-16 (commodity collapse and Chinese devaluation). On those occasions the global economy recovered as did global equities and other 'risk' assets. This time, however, the economic cycle is much more mature. The two engines of global growth (China and the US) have slowed -- in part due to the lagged impact of tighter policy by the US Federal Reserve and the Chinese authorities in 2017 and 2018. The ongoing trade war is adding an additional risk factor to the outlook which is very difficult to calibrate. The brunt of the slowdown is being felt in the manufacturing sector and the uncertainty surrounding the future of global supply chains is undermining business confidence and investment. In the past month, the speculation about a global recession in the next year picked up notably as there appears no end in sight to the trade war and the US yield curve inversion extended further.

On the positive side, there are not the economic imbalances that typically precede recessions and policy is now being eased around the world in response to the slowdown and persistently under target inflation. Central banks do not want a recession (although they have very little ammunition left to stop one). The wash up in markets was:

-weaker equities (particularly emerging markets) and a significant increase in volatility. Within equity markets the leadership has shifted to defensive sectors while cyclical sectors are struggling.

-safe haven currencies (the Japanese Yen and, to a lesser extent, the US dollar) rallied and the Australian dollar continued its gentle descent -- falling by 1½% over the month versus the US dollar to be 6% weaker over the past year.

-bond markets had a huge rally with the quantity of global negative yielding bonds increasing to a staggering \$17 trillion. US 10-year yields fell by 50 basis points to just 1.5% and Australian bonds fell to new record lows of just 0.89%.

-finally, commodities were mixed -- gold rallied strongly to new 6 year highs, while iron ore fell heavily from recent highly elevated levels and oil prices fell by 6%.

The imbroglio over Brexit worsened (if that is possible) as the new Prime Minister struggles with the Parliament to deliver on his unconditional pledge to exit on 31 October. The issue remains intractable and it remains totally opaque as to how it is ultimately resolved. In the meantime, the uncertainty is yet another negative for growth in the UK and continental Europe.

And in Argentina the Peso dropped precipitately (falling by 26% against the US dollar) in August following a disastrous primary election result which suggests the current reformist President Macri is most unlikely to be re-elected in October. It is worth

recalling the Argentinian government issued a 100 year bond in 2017 which was more than 3 times over-subscribed -- unsurprisingly that bond has been a very poor investment (now trading at under 40% of par).

In Australia, house prices and auction clearance rates have continued to improve. Moreover, the income tax cuts will help to boost the consumer in the second half of 2019. However, the income tax cuts are relatively modest and the economy remains weak and vulnerable to any global shocks that may occur in the next year.

The key drivers of returns during the month included:

- The fund's exposure to developed equity markets, both global and domestic detracted from the overall performance of the fund.

- The exposure to fixed income reflecting the rally in fixed income markets contributed to underlying performance

- The portfolio exposure to foreign currency was a net contributor of the performance over the period.

The portfolio continues to be actively managed with a somewhat cautious overview of the risks and pricing in many markets. We retain a traditional bias to value and quality exposures across core exposures including Equities and Fixed Income.

Whilst we are cautious of the risk and potential volatility in markets, we have positioned the fund to participate in any rally in equities and credit markets whilst still retaining some liquidity and protection through a variety of strategies. Some of this protection and positioning proved its worth this month with equities experiencing significant falls.

In terms of active positions, the portfolio is at benchmark weight developed market equities including Australian equities, while modestly underweight exposure in emerging market equities.

Whilst the core exposures in equities detracted from returns over the month, strong gains were made in both the Fixed Income and Currency markets which offset the sell-off in risk assets.

As we have previously flagged, we have been holding an active underweight exposure to AUD in favour of more substantial positions in USD, Yen and Euro. Additionally, our duration positioning has been a positive contributor with the continued reduction in yields seen across most bond markets and accordingly the strong gains we have seen in the portfolios through the month.

These and other portfolio hedges have been selected based on a combination of their intrinsic investment merit as well as consideration of the cost of carrying them to help to protect the portfolio in the event of a hard landing.

## OUTLOOK

We have been mindful for some time that we are likely in the late stages of this economic and market cycle, with little traditional central bank "ammunition" left to utilise. While central banks are now easing monetary policy, the slowdown in economic growth and the trade war are creating valid concerns about a global economic recession. A combination of improving liquidity and weak economic growth suggests there remains a delicate balance between a soft-landing outcome which would be supportive for equities, credit and other risk assets and a recession which would inevitably cause a nasty bear market. Accordingly, the Fund is positioned to maintain participation in any rally in equities and credit markets. However, the portfolio retains strong defensive qualities to mitigate against various risks.

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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.

This information has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426 and Perpetual Superannuation Limited (PSL) ABN 84 008 416 831, AFSL 225246 RSE L0003315.

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The PDS for Perpetual MySuper is issued by PSL and should be considered before deciding whether to acquire or hold units in the fund. The PDS can be obtained by calling 1800 003 001 or visiting our website [www.perpetual.com.au](http://www.perpetual.com.au). No company in the Perpetual Group\* guarantees the performance of any fund or the return of an investor's capital. Total return shown for the fund(s) have been calculated using exit prices after taking into account all of Perpetual's ongoing fees. No allowance has been made for contribution or withdrawal fees or taxation (except in the case of superannuation funds). Past performance is not indicative of future performance.

\*Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries. PSL is the issuer of Perpetual's Select Superannuation Fund ABN 51 068 260 563.

The Management Cost includes percentage-based fees and estimated indirect costs. You can obtain details about fees and costs in the PDS or at [www.perpetual.com.au/mysuper-updates](http://www.perpetual.com.au/mysuper-updates).

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## **MORE INFORMATION**

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