

# Perpetual Investment Funds

## PERPETUAL DIVERSIFIED REAL RETURN

29 February 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.

**Management Fee** 1.10% pa<sup>\*\*</sup>

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

<sup>\*</sup>Refer to PDS for Management Costs.

<sup>^</sup>Management Fee for Super and Pension is 0.85%.

### 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

### 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 % (AFTER FEES) AS AT 29 FEBRUARY 2024

PERFORMANCE	APIR	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS PA	5 YRS PA	7 YRS PA	10 YRS PA
Perp. WealthFocus Allocated Pension	PER0741AU	0.45	2.33	1.64	3.86	3.54	3.71	3.79	-
Perp. WealthFocus Investment Advantage	PER0739AU	0.46	2.24	1.54	3.59	3.32	3.43	3.54	-
Perp. WealthFocus Super	PER0742AU	0.41	2.09	1.46	3.42	3.17	3.31	3.40	-

### FUND OBJECTIVE OUTCOME AS AT 29 FEBRUARY 2024

**Objective: Gross returns of CPI plus 5% over rolling 5 year periods**

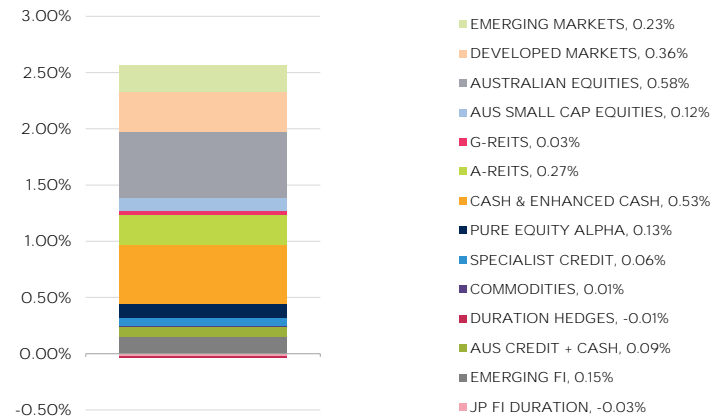
	5 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Gross)	4.9	6.4
CPI plus 5%	8.87	7.83

Past performance is not indicative of future performance.

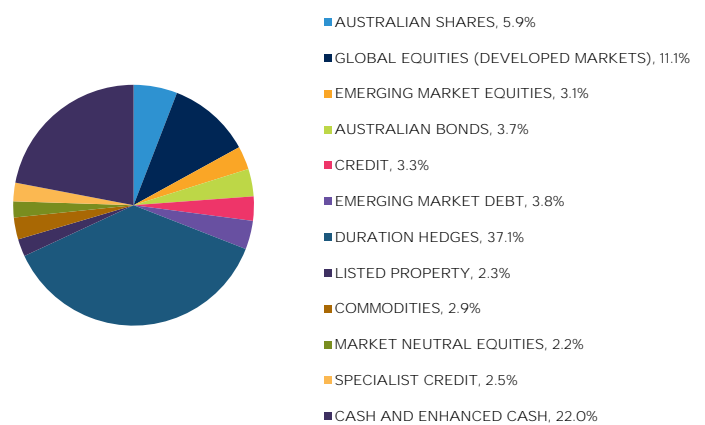
<sup>\*\*</sup> Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS

<sup>\*</sup> Volatility and Mercer Balanced Growth Median data is lagged by 1 month

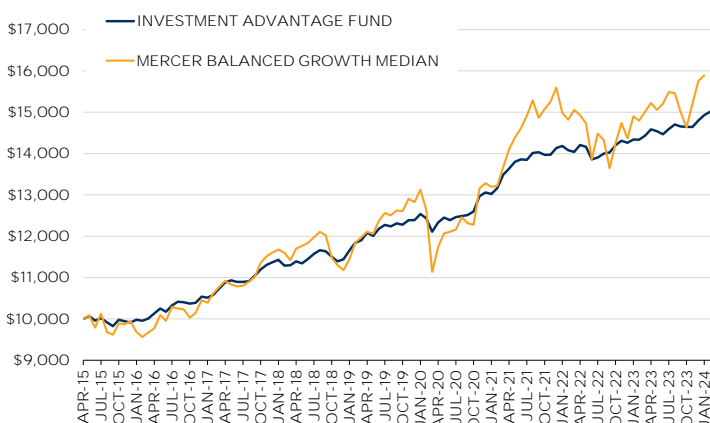
### CONTRIBUTION TO 3MTH PERFORMANCE (GROSS)



### PORTFOLIO SECTORS



### GROWTH OF \$10,000 SINCE INCEPTION



### CHANGES IN ASSET ALLOCATION (%)

	3 MTHS	6 MTHS	1 YR
Australian Shares	0.8	0.3	-0.6
Global Equities (Developed Markets)	6.1	9.3	6.1
Emerging Market Equities	0.0	0.0	0.1
Frontier Market Equities	0.0	0.0	0.0
Australian Bonds	0.3	-2.7	-2.9
Credit	0.2	0.4	0.4
Global Bonds (Developed Markets)	0.0	0.0	0.0
Emerging Market Debt	0.2	0.3	0.4
Duration Hedges	3.9	35.5	27.7
Secured Private Debt	0.0	0.0	0.0
Unlisted Property	0.0	0.0	0.0
Listed Property	0.1	0.1	-0.2
Commodities	-0.1	-4.5	-1.7
Market Neutral Equities	0.2	0.3	0.2
Infrastructure Debt	0.0	0.0	0.0
Other Investments	0.0	0.0	0.0
Specialist Credit	0.2	0.3	0.3
Alternative Beta	0.0	0.0	0.0

## FUND PERFORMANCE

The Diversified Real Return Fund returned 0.5% (net) in February. Over the past year, the Fund has returned 3.8% (net) and over the past 5 years the Fund has returned 4.0% (net) per annum compared with the objective of 8.9% (CPI plus 5%\*) over rolling 5 years. Since inception (in 2010) the Fund has returned 5.5% (net) per annum compared with the objective of 7.9% (CPI plus 5%\*).

During a month where equities rallied strongly, the Fund's allocation to global equities was the most substantial contributor to returns, with Australian equities lagging the performance of its peers, but still adding to performance. Elsewhere, the Fund's exposure to emerging markets was rewarded as the region, responded positively to additional policy supports for China which should at the margin add to growth and cushion downside risks to inflation and equity market prices. The Fund's elevated cash allocation continues to contribute portfolio return via its attractive running yield, and its US dollar exposure also performed solidly as the Greenback appreciated against the Australian Dollar as investors priced a less aggressive easing cycle by the US Fed.

In contrast, the Fund's international fixed income allocation detracted from performance as easing rate cut expectations sparked a minor rise in US 2Yr bond yields which culminated in capital losses. The Fund's global equity stock selection also detracted from performance as US growth stocks on the whole responded positively to the February reporting season, even though some of the bellwether stocks delivered slightly less egregious results than the market had priced in.

## 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. Recession 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.

## CURRENT POSITIONING

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 but markets pulled a lot of the good news from 2024 into last year's return. This leaves the market 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 considerable doubt around projected cuts in 2025 and 2026. 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 stronger base. We are also investing in firms with strong franchises, robust balance sheets, low debt and appropriate valuations.

In contrast to equities, fixed income markets recorded capital losses in early 2024 as rate expectations were wound in and economic growth and inflation remained resilient. Currently, the Fund has a modest exposure to 10-year government bonds in both the US and Australia, but we closed the short Japanese government bond position.

The Fund's cautious asset allocation 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 capital 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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