Perpetual Investments

ABSOLUTE RETURNS

Investors are currently faced with a challenging environment. Meeting investment objectives in a world of high volatility and low prospective returns requires a more sophisticated approach to portfolio construction. Against this background, there is a need for innovative investment product solutions to enhance capital growth and minimise risk of permanent capital loss.

ABSOLUTE RETURN LONG–SHORT EQUITY FUNDS OFFER A DIFFERENTIATED SOLUTION TO INVESTORS

- Absolute return funds are typically built upon the principle of **capital preservation** and are designed with the ultimate goal of achieving positive, absolute returns in both rising and falling markets.
- Absolute return funds follow an **objectives-based strategy** and will generally target a cash-plus return with minimal volatility. They reflect the growing trend in funds management to define investment goals in terms of absolute returns as opposed to traditional benchmark-relative goals.
- Absolute return funds have long been embraced by pension funds, insurance companies and family offices to achieve their investment objectives. While retail investors in Australia have traditionally under-utilised these strategies, the increased volatility in equity markets post the global financial crisis has spiked a **renewed interest in this product category**.

BENEFITS OF ABSOLUTE RETURN LONG–SHORT EQUITY FUNDS

FOCUS ON ABSOLUTE RETURNS

These funds aim to achieve positive absolute returns, over a given time horizon, irrespective of the performance of broader financial markets – even when traditional asset classes experience downturns. A focus on absolute returns further aligns the interests of portfolio managers and their clients – compensation is based upon the realisation of positive returns.

ABSOLUTE RISK MANAGEMENT

Central to the risk management of absolute return strategies is the concept of capital preservation.

These funds typically seek to actively reduce risk through:

- **Lower volatility:** Aims to lower the volatility of returns, thereby offering greater stability of capital growth than that of traditional long-only funds.
- **Diversification:** Strategies that target positive returns in falling markets are unlikely to correlate to traditional equity investments. At the total portfolio level, the addition of a low correlated fund is likely to enhance risk-adjusted returns.
- **Gentler drawdowns:** Aims to minimise the magnitude of negative returns.

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BENCHMARK AGNOSTIC

Domestic equity investors are generally exposed to substantial stock and sector concentration risk that often goes unrewarded over the longer term.

A benchmark agnostic portfolio is constructed without reference to an equity index, such as the S&P/ASX 300, and is designed to overcome the flaws inherent in market-capitalised weighted indices.

EXPOSURE TO PURE MANAGER SKILL

A high-conviction, benchmark-unaware strategy liberates a portfolio manager to pursue their 'best ideas'.

Excess returns, or 'alpha', will typically be a function of a portfolio manager's skills in stock selection, portfolio construction and risk management.

A WIDER INVESTMENT UNIVERSE

A flexible approach to portfolio construction provides portfolio managers with access to a broader set of alpha-generating tools and strategies that are typically unavailable to traditional, long-only managers.

Short-selling is a common tool utilised in absolute return strategies. In the hands of experienced investors, the ability to take both long and short positions in an asset can generate excess returns.

FLEXIBILITY TO ADAPT TO CHANGING MARKETS

The uncertainty of equity markets requires a dynamic approach to systematic risk management.

The flexibility afforded to absolute return strategies allows portfolio managers to adapt their portfolio to unfavourable markets by allocating higher levels of capital to cash and/or short positions.

AN ELEMENT OF STABILITY

A key feature of absolute return strategies is their reduced exposure to the volatility of broader financial markets which can allow for a more measured and stable return profile than that of traditional, benchmark-relative funds.

WHICH INVESTORS MAY BE SUITED TO ABSOLUTE RETURN LONG–SHORT EQUITY FUNDS?

An absolute return fund may be suited to investors looking for:

- a smoother path to long-term investment goals
- reduced exposure to the volatility of equity markets
- diversification within their existing portfolio
- an objectives-based return solution.

For more information about absolute return funds, please contact your financial planner. Visit www.perpetual.com.au to find out about Perpetual's absolute return fund, the Perpetual Pure Equity Alpha Fund.

MORE INFORMATION

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