WealthFocus Investment Advantage

WEALTHFOCUS PERPETUAL CONSERVATIVE GROWTH

April 2024

FUND FACTS

Investment objective: Aims to provide moderate growth over the medium term and income through investment in a diversified portfolio with an emphasis on cash and fixed income securities; and outperform a composite benchmark (before fees and taxes) reflecting its allocation to the various asset types over rolling three-year periods.

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 consideredbefore 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: Conservative Growth Index (Internally generated composite)

Inception Date: July 1995

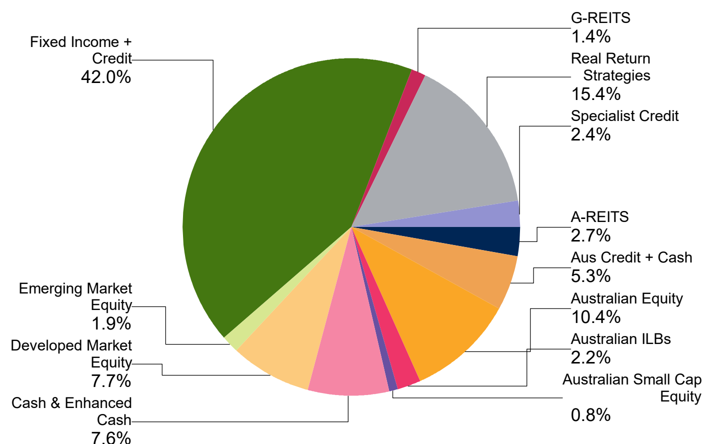
APIR: PER0030AU

Management Fee: 0.90% p.a.

Investment style: Active, fundamental, disciplined, value

Suggested minimum investment period: Three years or longer

PORTFOLIO SECTORS

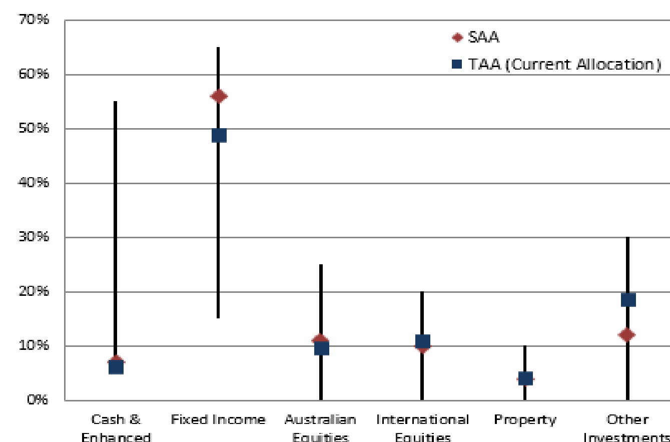


NET PERFORMANCE- periods ending 30 April 2024

	Fund	Benchmark	Excess
1 month	-1.6	-2.0	0.4
3 months	0.8	0.6	0.3
FYTD	4.7	5.6	-1.0
1 year	2.9	4.4	-1.5
2 year p.a.	2.5	3.4	-0.9
3 year p.a.	2.4	1.6	0.8
5 year p.a.	3.2	2.9	0.3
10 year p.a.	3.5	4.4	-0.8

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

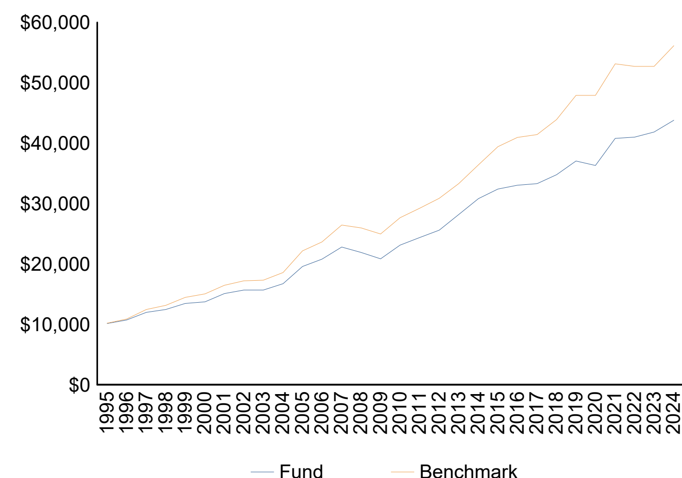
ASSET ALLOCATIONS AND INVESTIBLE RANGES



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

Developed market equity and bond markets pulled back during April as persistent core inflation culminating in markets winding in the amount of rate cuts central banks could deliver to end-2025

- Developed market equities (-3.2%) sold off, led by the US (-4.1%) as the prospect of higher-for-longer rates gained traction and discount rates rose which outweighed further upgrades to earnings in the US. Despite rising long term yields, typically higher duration growth stocks performed broadly in line with value stocks and sectors.
- The ASX 300 (-2.9%) outperformed most of its regional peers but declined nonetheless . The decline was led by interest rate sensitive sectors such as REITs (-7.6%), Consumer Discretionary (-5.3%) and Communication Services (-4.7%), which underperformed defensive sectors including Utilities (+4.8%) and cyclicals such as Materials (+0.6%) lagged.
- UK equities (+2.7%) outperformed global peers while European markets were mixed with France (-1.9%) and Germany (-3.0%) receding.
- Emerging market performed well led by China (+6.6%) who's economy is showing signs of improvement led by the industrial sector and where government policy to support asset markets have lifted broader market sentiment.
- Rising bond yields were the major market story last month with US 10-year yields (+48bp) recording their largest monthly rise since Sep-22, and Australia 10-year yields (+46bp) also soared back above 4% as investors priced in some risk of additional rate hikes by the RBA.
- The reduced expectation for 2024 Fed Rate cuts saw the USD consolidate its recent rise against peers.
- Commodities performed well behind the China news led by cyclical commodities including Iron Ore (+19.3%), Copper (+14.3%) and Aluminium (+11.2%). Precious metals such as gold (+2.5%) also rose (to a record high) which consolidated gains from a very strong first quarter.

The key factor driving markets throughout April was the shift in expectations for the near-term path of monetary policy. Expectation of 2024 US Fed rate cuts have shifted substantially from up to 7 cuts by end-2025 predicted in mid-January this year to only one by April month end. A similar pattern has been observed domestically with futures markets removing all rate cuts from the end-24 estimate.

In recent months, we have reiterated that the strong first quarter for risk assets was underpinned by high optimistic assumptions around the path for monetary policy. With so many positive expectations already priced into equity valuations, the weakness observed in April is reminder of the ongoing sensitivity of equity markets to revised expectations of global growth, inflation, policy settings and corporate earnings growth.

The downgrades to rate expectations in April reflected another elevated US core inflation report with the annual increase at 3.8% in March, and while this was the equal-lowest result in three years, it remains almost double the Fed's +2% target rate which makes rates cuts in the near-term quite implausible. Meanwhile, the ECB maintained its easing bias with a June rate cut expected by markets, whereas the RBA's outlook is more uncertain given a slowing economy with rising wages growth, but markets have removed all pricing for 2024 rate cuts. All developed economies are struggling with inflation in the services sector given very tight labour markets which are generating wages growth well above levels which are associated with 2% core inflation, and the impact here is amplified in non-US markets by the rising US Dollar which have pushed up goods price inflation across the board.

The second component driving the shift in policy expectations has been the resilience of global growth. Europe's Q1'24 growth came is at a 18M high (+0.3%Q), and China's GDP growth (+1.8%Q) also improved. Meanwhile, global PMIs have improved, most notably manufacturing and Eurozone indicators which have moved marginally into expansionary territory, but lead indicators appear to have less predictive powers relative to previous cycles, so the signal here needs to be cautiously interpreted. Elsewhere, labour markets – especially in the US – remain tight and fiscal policy remains supportive. While resilient growth is supportive for equities, the soft-landing scenario has already been priced in, increasing the vulnerability to downside surprise, geopolitical shocks and any re-pricing in global fixed interest markets or central bank expectation.

It also remains 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, employment growth is slowing and the global credit impulse is at a post-GFC low. Recessions risks however, are also lower as inflation has declined and real income is lifting for both households and the corporate sector.

Stock selection among global and Australian equities contributed marginally to outperformance during the month. The Fund's bias towards quality and value factors were rewarded during a month where discount rates rose. Explicit downside protection positions performed well as developed market equities weakened. The Fund is close to benchmark weight across Australian and global 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 remains marginally underweight fixed income, with its exposure predominantly centred on US 2-year government bonds.

The Fund's defensive posture is bolstered by its elevated exposure to cash which performed well as Equities and bonds sold-off. 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

Despite an improving growth outlook, the uncertain path of inflation and central bank policy alongside high starting valuations provide a challenging environment to negotiate. 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 supported by dovish interest rate expectations. With so much good news already priced in, we maintain caution 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.

The Conservative 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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