

## Perpetual Investment Funds

# PERPETUAL GLOBAL ALLOCATION ALPHA FUND

October 2022

### FUND FACTS

**Investment objective:** Aims to provide long-term capital growth and outperform the MSCI World ex Australia Net Total Return Index (AUD) with lower risk (before fees and taxes) over rolling three-year periods.

### FUND BENEFITS

Provides investors with long-term growth opportunities across global equities. The fund is run by high quality investment teams.

### 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.

**Benchmark:** MSCI World Ex Australia Net Total Return Index (AUD) - since 1st October 2022

**Inception Date:** March 1999

**Size of Portfolio:** \$43.51 million as at 30 Sep 2022

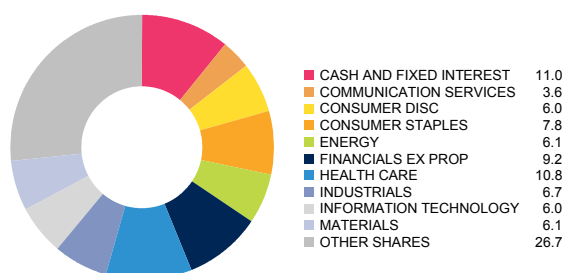
**APIR:** PER0066AU

**Management Fee:** 0.55%\*

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

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

### PORTFOLIO SECTORS



### TOP 10 STOCK HOLDINGS

Stock Holding	% of Portfolio
Merck & Co., Inc.	1.7%
Air Products and Chemicals, Inc.	1.2%
Exxon Mobil Corporation	1.2%
Hess Corporation	1.1%
Oracle Corporation	1.1%
Medtronic Plc	0.9%
BAE Systems plc	0.9%
American International Group, Inc.	0.9%
Comcast Corporation Class A	0.9%
Allstate Corporation	0.9%

### PERFORMANCE- periods ending 31 October 2022

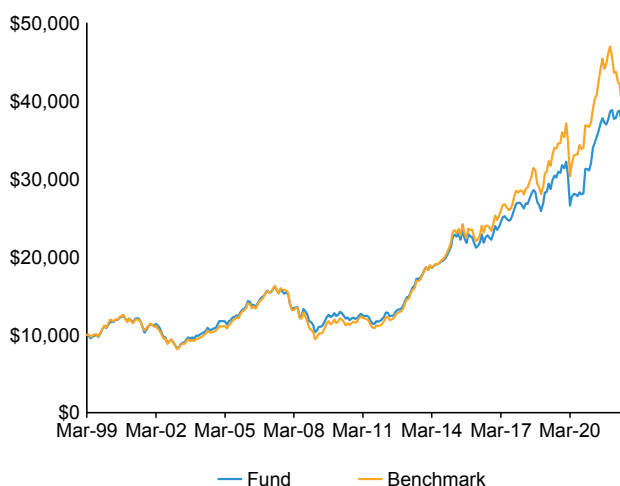
	Fund	Historical <sup>1</sup> Performance	Benchmark	Excess
1 month	7.81	-	7.81	--
3 months	-	5.62	1.77	+3.84
FYTD	-	8.71	8.22	+0.49
1 year	-	8.88	-3.69	+12.58
2 year p.a.	-	19.65	12.65	+7.00
3 year p.a.	-	9.36	7.61	+1.75
4 year p.a.	-	10.46	10.05	+0.41
5 year p.a.	-	9.02	9.18	-0.16
7 year p.a.	-	8.39	8.97	-0.58
10 year p.a.	-	11.74	12.81	-1.07

<sup>1</sup>Effective 1 October 2022 the Fund Investment strategy has changed; including the investment objective, investment approach and benchmark of the Fund. Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

### ASSET ALLOCATION

	Portfolio
Australian Equities	3.5%
International Equities	85.9%
Cash	10.5%
Total	100.0%

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



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

## MARKET COMMENTARY

Developed equity markets rebounded strongly in October but failed to recapture their losses from a challenging September, in addition to failing to pull the market outside of bear market territory for the year-to-date period.

The U.K. was able to pull out strong returns in the month after a tumultuous period wherein Prime Minister Truss was replaced by Rishi Sunak after just 44 days in office. The reversal of planned tax cuts and a greater restraint on the budget helped government bonds rally, which had created challenges within U.K. pension assets earlier in the month. More broadly across Europe, governments and central banks continue to battle high inflation, with high energy costs contributing to the historically high levels, with central banks tightening into what looks like a slowing economy. Slowing economies are not solely tied to Europe but appear more broadly and have created fears that a global recession may be in the cards within the next 12 months, as PMIs in many regions have fallen below 50 to contractionary levels.

Against this backdrop of higher interest rates and higher inflation across the globe, likely to remain given the strong job markets, value stocks performed strongly, with the MSCI World Value Index outpacing the MSCI World Growth Index by more than 5%, increasing its lead over the growth index to nearly 20% year-to-date. A strong driver of value outperformance was the Energy sector, supported by the resumption of rising oil prices. Industrials and Financials also contributed but were a far cry behind. Further, the meaningful underperformance of the mega-cap Information Technology and e-commerce-related names such as Amazon, Meta, Google, Microsoft, and Tesla hurt the returns of the growth index in which they are featured prominently as large weights. With higher rates expected to remain for the foreseeable future, we would expect longer duration growth assets to remain under pressure.

## PORTFOLIO COMMENTARY

Hess Corporation was a strong contributor to performance in the month on the back of rising oil prices. Further, Hess reported stronger than expected earnings for the quarter, driven by higher realised prices and greater production volumes. The stock has been a very strong performer over the last two years and although it has further upside, we did trim some of our position after these strong results as the stock had become a very large position in the portfolio.

Oracle Corporation added to the strong relative returns in the month after underperforming in the prior month and handily outpaced its Information Technology peers. Veering from its usual routine, the company announced mid-term financial targets (targets out more than three years), which were well received by the market and did result in a sell-side rating upgrade. With high single-digit to low double-digit revenue growth, operating leverage (from Cerner synergies + scaling investments in the cloud) pushing margins back to the mid-40s, and a business that is more macro resilient than most, we believe the Oracle's risk/reward profile remains very attractive.

Our Chinese holdings Baidu, Inc. Class A and Alibaba Group Holding Ltd. detracted from performance, and not unexpectedly, given the challenges Chinese equities faced in the month. However, Baidu did come under additional pressure with the announcement of the U.S. rules about selling high-end chips to Chinese companies. Further, Alibaba has been challenged with concerns regarding its revenue growth that we believe are temporary. Despite the recent pressure, we continue to see a positive risk/reward profile for both these holdings.

Seven & i Holdings Co., Ltd. detracted from performance in the month after posting in line results for the quarter. The move towards more cyclical stocks in the month was a headwind to performance and, with the strong performance in the prior months, the give back is not too surprising. Further, Seven & i raised its full year operating profit guidance which was not fully unexpected given the progress it is making in its North American operations, improvement in profits on gasoline sales and yen depreciation. We continue to see a compelling risk/reward profile and have maintained our holding accordingly.

## OUTLOOK

With the big sell-off in September followed by a meaningful rally in October, we have a stark reminder that markets are generally volatile as they look for a bottom. We are not fully convinced at this time that markets have found their bottom, given what continues to appear to be a deteriorating economic environment, despite key areas of the market (such as labour markets) continuing to show strength, which appears to be keeping central banks cautious on moving away from plans for further tightening. Additionally, we appreciate that many central banks are tightening into a weakening cycle, which will be challenging to provide for a soft landing.

However, as long-term investors, we are not looking to position our portfolio for the short-term. As we have noted in prior commentaries, we have been overweight defensive stocks throughout this down market and even prior to the beginning of this challenging environment. However, over the last few months, we have been adding to our cyclical exposure, though as we see defensive stocks continue to outperform this may not be as readily apparent. As we consider those ideas we are finding with our identification tools, we see a preponderance of cyclical names but are mindful of timing issues by being too early investing in these types of stocks prior to seeing some improvement in the trajectory of a deteriorating market environment. As such, we will continue to be patient as we apply our bottom-up, fundamental process and position our portfolio for continuing strong results over the long term.

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Cash levels have not been calculated on a look-through basis. The underlying investments of the fund will also have a proportion of their assets invested in liquid assets.

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The PDS for the relevant fund, issued by PIML, should be considered before deciding whether to acquire or hold units in that fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website [www.perpetual.com.au](http://www.perpetual.com.au). No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of any 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 and assuming reinvestment of distributions. No allowance has been made for contribution or withdrawal fees or taxation (except in the case of superannuation funds, as applicable). Past performance is not indicative of future performance.

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## MORE INFORMATION

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