

Perpetual Investment Funds

PERPETUAL BALANCED GROWTH FUND

August 2023

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.

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: Balanced Growth Index (Internally generated composite)

Inception Date: October 1997

APIR: PER0063AU

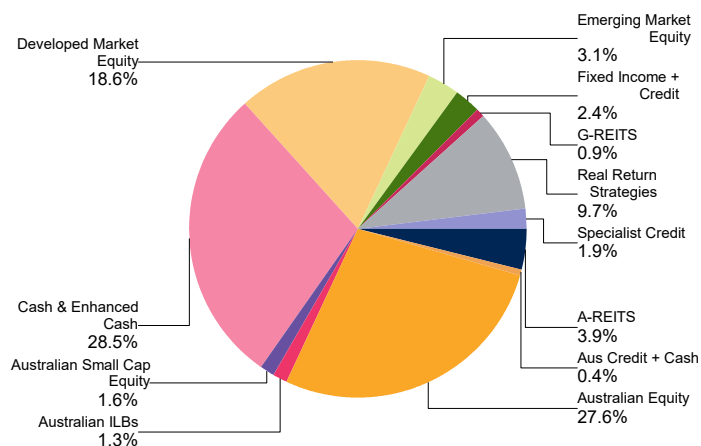
Management Fee: 1.04% p.a.

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

Investment style: Active, fundamental, disciplined, value

Suggested minimum investment period: Five years or longer

PORTFOLIO SECTORS



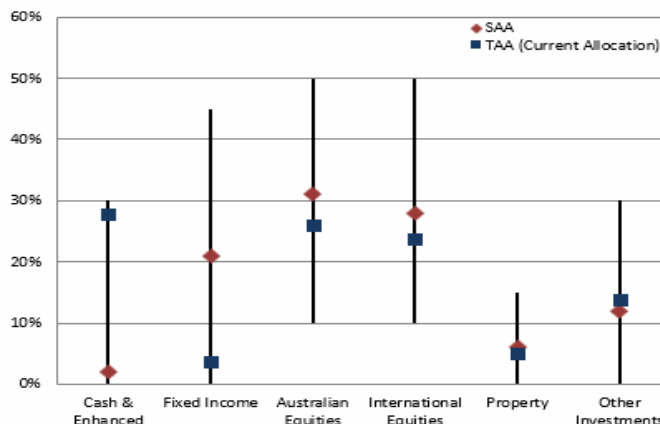
NET PERFORMANCE- periods ending 31 August 2023

	Fund	Benchmark	Excess
1 month	0.3	-0.1	0.4
3 months	2.2	3.5	-1.2
FYTD	1.7	2.1	-0.4
1 year	6.6	9.2	-2.6
2 year p.a.	3.6	0.2	3.5
3 year p.a.	9.9	6.5	3.3
5 year p.a.	6.5	5.8	0.7
10 year p.a.	6.9	7.4	-0.5
Since incep.	7.3	7.0	0.3

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

ASSET ALLOCATIONS AND INVESTIBLE RANGES

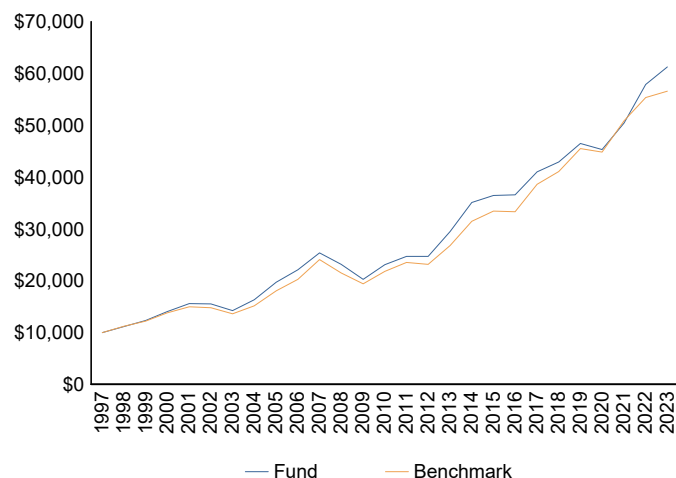
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



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

Global financial markets saw increased volatility in August as markets attempted to assess the impact of shifting economic growth prospects and the monetary policy path ahead.

- Global equities (-1.7%) receded in August. Markets sold off through the first three weeks of August with US equities (-1.6%) down by as much as -4% mid-month. Stronger-than-expected US data saw investors push US 10Y bond yields higher which weighed on equity market valuations. This trend partially reversed towards month end given a less hawkish tone from US Federal Reserve (The Fed) Chair Powell's Jackson Hole address which eased investor concerns about more rate hikes from the world's most important central bank.

- Australian equities (-0.7%) outperformed their developed market peers and experienced a relatively modest decline. The Australian reporting season was mixed with better-than-expected EPS growth offset by a large number of downward revisions to expectations. This signalled an impending contraction in total earnings underpinned by mounting cost pressures stemming from labour, rent, energy, transport, and technology expenditures weighed on operating margins. These costs, combined with a squeeze on disposable income and depleted household savings, conspire to constrain corporate pricing power and hence revenue growth.

- In contrast, Emerging markets (-4.7%) continued to underperform their developed market peers, reflecting the potent combination of slowing growth momentum in all key non-US economies, in addition to a stronger US Dollar and higher US bond yields.

- US 10-year yields (+15bps) rose sharply through the first half of the month before moderating. The US yield curve, however, remains deeply inverted which has historically signalled economic challenges are ahead. Australian 10-year bonds (-3bps) remained relatively unchanged after the RBA held rates at 4.1% at its August meeting while the yield curve steepened with 2-year yields (-23bps) rallying over the month.

- Meanwhile, energy commodities rose, led by thermal Coal (+13.6%) while Iron Ore (+6.9%) also performed well, on the back of robust Chinese steel production. Gold (-1.4%) gave back a portion of recent gains, reflecting rising bond yields and a stronger US dollar.

The heightened market volatility observed during August belies the sustained uncertainty surrounding the economic growth, inflation and monetary policy outlooks which are occurring at a time of high equity valuations and optimistic expectations for earnings growth. Our concern remains that the market is already pricing a scenario where earnings growth is double its historic average, inflation returns to target and central banks have the room to ease rates many times. This is against a backdrop of soft leading economic indicators and a swathe of recession signals including deeply inverted yield curves, which will weigh on earnings growth and could challenge valuations. In the US, the yield curve has been inverted since the July-22 with similar inversions in Canada, UK, Germany, France, Sweden, Netherlands, Switzerland, and New Zealand. Other reliable recession indicators including sub-45 scores on regional manufacturing PMI gauges, tightening credit standards in senior loan officer surveys and negative current activity indicators all suggest that global growth is set to slow as higher rates progressively weigh on activity and sentiment.

The pressure on the Fed to continue hiking interest rates has eased somewhat as while inflation is still double the typical +2%Y target, downward pressure on core goods price inflation is now broad based and looks set to continue. In addition, there are embryonic signs that global services inflation has eased marginally although this trend needs to persist for an extended period for core inflation gauges to return to the vicinity of the

typical +2% target. The key central bank meeting during the month was the Jackson Hole Symposium which reiterated many of the themes highlighted at recent meetings such as caution, data dependence and the expectation of higher-for-longer rates, adding little new to the market narrative. While monetary policy operates with long and variable lag, the impact of 18 months of sustained monetary tightening is becoming clearer – Europe looks increasingly weak, the UK appears stagflationary, Australian corporate profit expectations have been heavily downgraded, and China could have sustained deflation unless material stimulus is provided.

In this environment, the risk of a significant credit contraction remains elevated. While the US economy continues to exhibit resilience, its financial system is vulnerable to contagion given the highly leveraged commercial and industrial sector which face refinancing at much higher rates and much more conservative lending standards. So far, the impact of the tightening cycle has been several US regional bank collapses, sharp price declines across speculative assets including cryptocurrencies and non-fungible tokens, and rising bond yields. For some time, we have been warning about the build-up of excesses in financial markets and we expect to see more of these excesses wash out over time, with China particularly exposed given its high debt and deflation.

China faces a daunting array of challenges, including slowing growth, sustained deflation, high debt levels, low living standards and the ongoing property malaise. The People's Bank of China (PBoC) is expected to cut rates, but the effectiveness of such measures remains uncertain as funds are not being lent out which suggests that the transmission mechanism of monetary policy is somewhat blocked. These challenges in China have implications not only for Asian neighbours but also for Europe and the US.

For some time, we have been highlighting that risk in this environment is underpriced by markets. Markets are priced for perfection with no downturn, strong earnings growth and central banks easing rates within 12 months. While the US economy has shown resilience thus far, other regions are clearly struggling in response to higher rates, and these are likely to be sustained for a while yet. During these times, our focus remains on identifying investments that can generate returns of CPI plus 5% per annum over a five-year horizon while maintaining an asset allocation that ensures that no individual position or cluster of positions will risk the medium-term investment objective.

The Fund's defensive positioning mitigated the impact of elevated volatility and sliding equity markets during August. The Fund's elevated allocation to cash was rewarded as equities declined during August. The Fund maintains a significant foreign exchange exposure, diversified across a number of developed and emerging market currencies. The aggressive tightening of monetary policy since early 2022 has increased the attractiveness of yields offered on cash type investments. In recognition of elevated valuations on risk assets and the uncertain outlook, the Fund maintains a large cash allocation.

Global equity stock selection was mixed during the month with the Fund's underweight exposure to China performing well while developed markets stock selection detracted from outperformance. The Fund remains underweight global and Australian 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 maintains put options on the US and European equities, which further contribute to the portfolio's defensive stance.

The Fund maintains limited exposure to fixed income, predominantly US treasuries and Australian government bonds. Partially offsetting the duration risk is a short (negative) position in 10-year Japanese government bonds (JGB).

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. During the month, the Real return Fund's defensive positioning contributed to outperformance.

OUTLOOK

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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.

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MORE INFORMATION

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email investments@perpetual.com.au

www.perpetual.com.au

