

Perpetual Investment Funds

PERPETUAL BALANCED GROWTH FUND

September 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

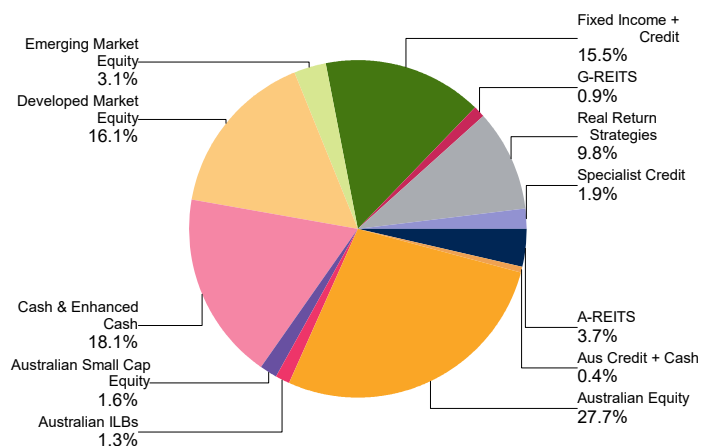
Management Fee: 1.04% p.a.

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



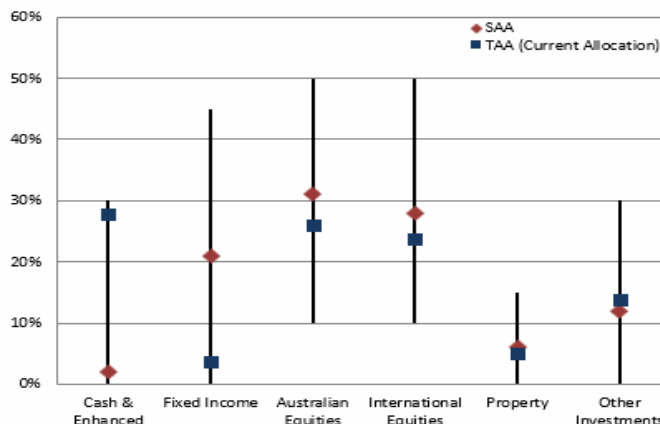
NET PERFORMANCE- periods ending 30 September 2023

	Fund	Benchmark	Excess
1 month	-1.7	-3.0	1.2
3 months	0.0	-0.9	0.9
FYTD	0.0	-0.9	0.9
1 year	6.9	11.4	-4.5
2 year p.a.	2.9	-0.2	3.1
3 year p.a.	9.4	5.9	3.5
5 year p.a.	6.2	5.2	0.9
10 year p.a.	6.6	6.9	-0.4
Since incep.	7.2	6.9	0.3

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

ASSET ALLOCATIONS AND INVESTIBLE RANGES

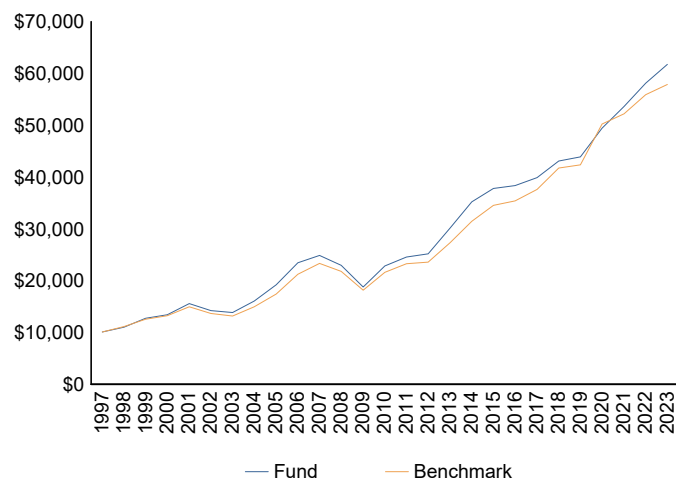
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



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

The September quarter saw increased volatility and weakness in financial markets as investors contended with the possibility that restrictive monetary policy settings were likely to persist for longer than initially anticipated.

- The MSCI World Total Return Index fell (-2.7%) over the quarter as investors responded negatively to central bank guidance that policy rates would stay at elevated levels for a considerable period, which sparked a significant sell off in bond markets and weighed on elevated valuations.

- US equities (-3.3%) marginally underperformed global equities reflecting high starting valuations and the sharp move higher in US long term bond yields. This weighed more heavily on long-duration equity sectors such as tech shares which comprises just half of the US sharemarket's capitalisation.

- European equities (-4.9%) trailed the broader developed market led by a selloff Germany (-4.7%) as aggressive hikes by the ECB occurred at a time where regional growth materially slowed, thereby weighing on both valuations and earnings growth. In contrast, the UK equities (+2.2%) were the only major equity market in positive territory over the quarter, supported by its defensive index composition and a sharp depreciation in Sterling which increased the local currency value of the USD dividends paid by global companies which are listed on the LSE.

- Australian Equities (-0.7%) declined moderately, but outperformed most of its international peers supported by a depreciating currency, defensive index composition, a pause in rate hike cycle by the RBA, and our large scale immigration influx which is cushioning the economic impact of previous rate hikes on consumer spending .

- Emerging markets (-1.4%) outperformed their developed market peers as low starting valuations and early speculation of some Chinese regulatory easing and additional stimulus buoyed sentiment, but this gave way to primarily soft Chinese economic data and a lack of follow through on stimulus leaks. The impact here was amplified by a rising US Dollar and higher US bond yields..

- Bond markets experienced sharp capital losses as resilient economic data and signs of sticky inflation prompted the US Federal Reserve to raise the Fed Funds Rate by +0.25 to a 22-year high of 5.5%. The capital price downside here has amplified when the central bank guided markets that that rate would be staying higher-for-longer than markets had initially expected. The bond sell off was driven by increases in real interest rates, not inflation, and losses were much larger at the long-end of the yield curve (+76bps) than for the 2-yr bond (+15 bps) or the and Australian 10-yr bond (+46bps)

- Energy commodities – led by Oil (+28.5%) – rallied strongly as cuts to OPEC production decreased supply, and strong US economic growth buoyed demand, thus creating a supply squeeze.

For some time, we have been highlighting that risks in the current market environment were underpriced. Notwithstanding recent elevated volatility, equity markets continued to price an optimistic scenario where earnings growth was expected to be close to double its historical average and that central banks would succeed in returning inflation to target levels without much damage to the economy.

We remain of the opinion that the global economy is set to experience an ongoing deceleration in 2024, as restrictive monetary policy rates and credit withdrawal reduce spending and hiring. While US data has been characterised by resilience, there remains a wealth of leading indicators that suggest that recession has more likely been delayed into 2024 rather than has completely dissipated. Despite the recent surge in long term yields, yield

curves have remained inverted across a number of regions including in the US since July 2022. Other reliable recession indicators including tightening credit standards in senior loan officer surveys, deteriorating small business confidence and negative credit growth all suggest that global growth is set to slow as higher rates progressively weigh on activity.

The impact of central bank tightening on economic activity is a study of pressure and time, governed by the price of money and how long it stays elevated. While we are near peak interest rates following between 400 and 550bps of tightening, September saw the expected duration of restrictive monetary policy settings increase. As this higher-for-longer paradigm continues, we expect the impact of restrictive policy rates to become clearer. Already, 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 an extended 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 stricter 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.

Equity exposures were mixed for performance over the quarter. Equities markets fell over the course of August and September as bond yields rose and weighed on equity valuations. The impact of sliding equity markets was partially offset by the contribution of the Fund's equity put options. Security selection within global equities also contributed to return. The Fund remains marginally below benchmark weight across Australian and global equities. All equity exposures retain their long-standing quality and value bias. Notwithstanding the resurgence of growth equities throughout 2023, we expect value and quality factors to be rewarded in an environment of restrictive policy rates and slowing economic and earnings growth.

The Fund maintains limited exposure to fixed income, predominantly US treasuries and Australian government bonds. The Fund's exposure to 2-year US government bonds was increased during the quarter. Partially offsetting the duration risk is a short (negative) position in 10-year Japanese government bonds.

The Fund maintains a significant foreign exchange exposure, diversified across a number of developed and emerging market currencies. The Fund's elevated cash allocation was the most substantial contributor to return during a quarter where equities and bonds recorded capital losses. Cash continues to offer robust returns following the 400bps of rate increases since early 2022, with the Fund's US dollar exposure also rewarded as the Greenback appreciated against peers, reflecting the strength of the US economy in addition to its higher interest rates.

The Fund maintains its position in the Diversified Real Return Fund which contributed to outperformance during the quarter, delivering low volatility absolute returns while retaining a relatively low correlation to equity markets.

OUTLOOK

The outlook for global equity markets remains challenging as rising nominal and real interest rates should weigh on both valuations in the near-term and earnings growth (with a lag). High starting valuations means that expected returns are relatively modest whereas cycle risks are elevated. In this climate the fund remains well positioned to navigate the tightening cycle and retains the capacity to add risk as valuations become more attractive.

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. This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL No 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. 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. 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.

MORE INFORMATION

Adviser Services 1800 062 725

Investor Services 1800 022 033

Email investments@perpetual.com.au

www.perpetual.com.au

