Perpetual Investment Funds

PERPETUAL BALANCED GROWTH FUND

February 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 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: Balanced Growth Index (Internally generated composite)

Inception Date: October 1997

APIR: PER0063AU

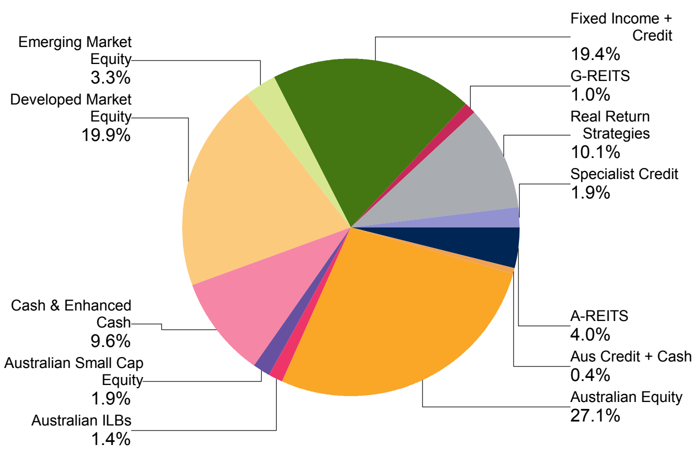
Management Fee: 1.04% p.a.

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



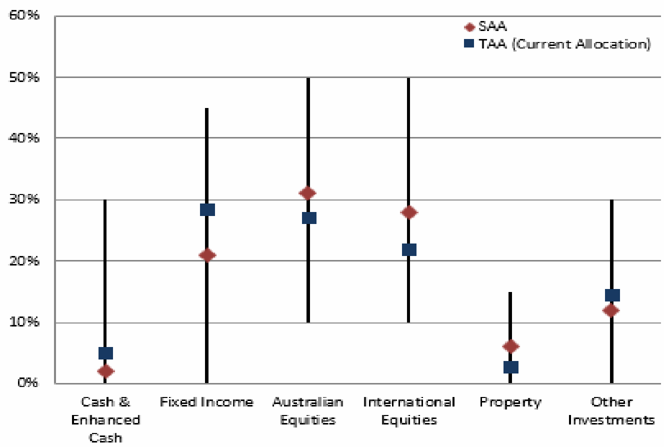
NET PERFORMANCE- periods ending 28 February 2023

	Fund	Benchmark	Excess
1 month	-0.5	-1.2	0.7
3 months	-0.4	-0.2	-0.3
FYTD	6.6	7.7	-1.1
1 year	3.7	-0.8	4.5
2 year p.a.	7.9	3.8	4.1
3 year p.a.	8.1	4.6	3.5
5 year p.a.	6.9	6.0	1.0
10 year p.a.	7.4	7.4	-0.1
Since incep.	7.3	6.9	0.4

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

ASSET ALLOCATIONS AND INVESTIBLE RANGES

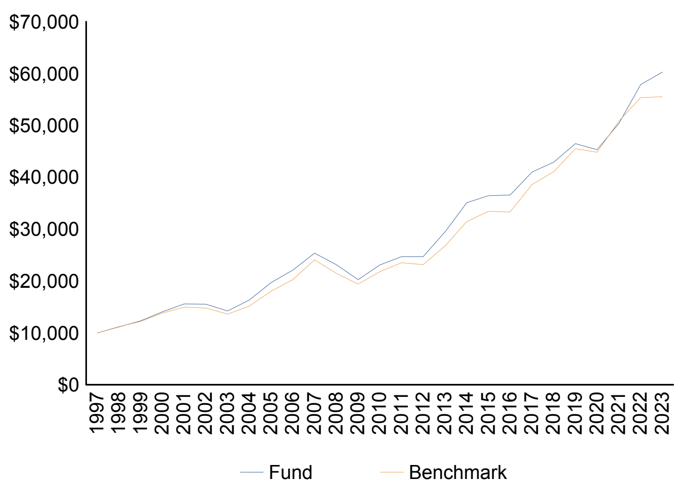
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



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

There was a reversal of fortunes in equity and bond markets in February as a series of strong economic data saw a repricing of monetary policy expectations.
- US equities (-2.4%) gave back a portion of their 2023 gains mainly due to a sharp repricing of the US Federal Reserve's (the Fed's) rate expectations. US equities weighed on the broader developed market index with the MSCI World (-1.5%) also falling in February.
- European Equities (+1.9%) – led by France (+2.6%) and Germany (+1.6%) – were more resilient, supported by the improving economic outlook for the region.
- Australian equities (-2.5%) were lower following a strong start to the year as rising bond yields and interest rate expectations weighted on stock valuations.
- Chinese equities (-9.9%) gave up almost all of their year-to-date gains as US-China tensions escalated and the US Dollar rallied.
- US bond yields moved higher over the month and the yield curve inversion intensified to a 4-decade high as 2-year yields spiked. Australian yields also rose, and the curve flattened as short end yields moved sharply higher.

The recent run of economic data have continued to be on the strong side of expectations helping to douse fears of an imminent recession. Nevertheless,, we remain highly focussed on recession risks in the US and globally. The monetary policy tightening cycle continues apace in all major developed economies. In the US, the yield curve (the single best indicator of recession risk) has been inverted since the middle of last year, reaching its deepest inversion in 40 years during the month. Other reliable recession indicators are somewhat mixed, with the senior loan officer survey and current activity indicators suggesting growth is very weak and maybe recessionary. Meanwhile, forward-looking PMIs indicate the manufacturing sector is weak but the services sector is more resilient. We continue to view a recession beginning in the second half of 2023 or early 2024 is central case.

The other major contributor to the weakness in US equity markets during February was higher than anticipated inflation data. January core inflation printed above expectations, providing another reminder of the unpredictability of inflation, which has been consistently underestimated throughout the post-Covid period. While it appears that the broad underlying inflation trend has moderated somewhat from September as goods pricing is starting to normalise, services sector inflation remains stubbornly high. Inflation in this sector is far less sensitive to policy and supply chain issues, and traditionally has only ever materially declined after a negative output gap has led to higher unemployment and lower wages growth. The recent robust economic data and improved outlook suggest that the Fed has considerably more work to do to create the slack needed to get wages growth and core inflation back to respective comfort zones.

Given the evolution of the global growth outlook over recent months, we continue to consider the three most likely scenarios for 2023:
- Global Recession
- US-centric recession and global resilience
- Global soft landing

Global recession

The likelihood of a synchronised global recession has moderated recently, but there remain significant risk factors that could catalyse a global downturn. Most crucially, central banks may be forced to overtighten monetary policy by persistent inflation. In the event of a global recession, we would expect to see monetary policy and liquidity conditions ease, perhaps dramatically, with the extent depending on how far inflation falls. However, rate cuts and the end of quantitative tightening would not save equity markets which would be marked down on much weaker earnings and a likely fall in the price to earnings rating of the market. Global bond returns would likely be positive – potentially very positive, depending on how far inflation falls and how central banks respond.

US-centric recession/global resilience

With the improved outlook for Europe and the reopening in China, the likelihood that the US enters recession while the global economy remains resilient has increased substantially. We would expect to see global liquidity conditions ease as the Fed is central banker to the world and this scenario would ease the pressure on emerging markets – how much would depend on the performance of the US Dollar. Under this scenario, the equity bear market could still be very severe. Surprisingly, US equities could out-perform non-US equities in the near term, but this would likely present a great opportunity in non-US markets.

Global Soft Landing

The window for a global soft-landing scenario has widened somewhat as a result of China's reopening, the tight US labour market, the resilience of the European economy and falling energy costs. In this scenario, we would likely see the tightening of financial conditions intensify as central banks focus on combatting inflation and persist with quantitative tightening. The sensitivity of asset valuations to monetary policy ensure that bonds and equities (especially high-growth US equities) would likely under-perform.

Stock selection in Australian equities was the key contributor to relative return during the month. While Australian equities receded, the Fund's quality and value biases were rewarded as corporate earnings momentum slowed. Elsewhere, the Fund's underweight exposure to China also contributed to outperformance. Chinese equities fell sharply, giving back recent gains as geopolitical tensions escalated. The Fund remains underweight equities in recognition of expensive valuations and tightening financial conditions. All equity exposures retain their long-standing quality and value bias which are expected to continue to outperform against a backdrop of rising interest rates.

The sharp selloff in bonds and the rising recession risks throughout 2022 have increased the attractiveness of government bonds in some markets. The Fund maintains exposure to fixed income predominantly via Australian government bonds and US treasuries. Bond markets sold off during February as markets repriced monetary policy expectations. The Fund also retains a short (negative) position in Japanese 10-year government bonds which detracted from return during the month as Japanese bonds outperformed peers. Japanese bonds showed resilience as the incoming Bank of Japan leadership signalled no imminent change to their extremely loose monetary policy settings.

The Fund maintains a significant foreign exchange exposure, diversified across a number of developed and emerging market currencies. The elevated cash position was constructive as Bonds and equities receded in February.

The Fund maintains its position in the Diversified Real Return Fund which is expected to deliver low volatility absolute returns while retaining a relatively low correlation to equity markets. The Fund's defensive capabilities were on display during February contributing to relative return.

OUTLOOK

While the economic outlook has improved over recent periods, we remain cognisant of the risks associated with tightening financial conditions. High equity valuations were only supported while bond yields stayed low as inflation was contained. Higher discount rates and reduced liquidity provide a challenging environment for investors to contend with. 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.

MORE INFORMATION

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