

## Perpetual Investment Funds

# PERPETUAL BALANCED GROWTH FUND

June 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

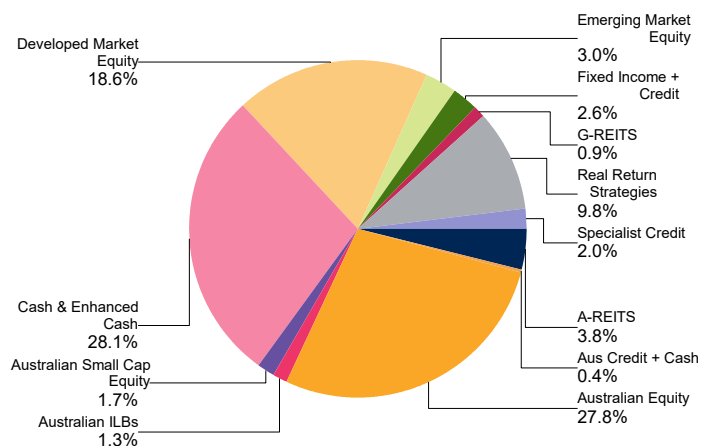
**Management Fee:** 1.04% p.a.

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



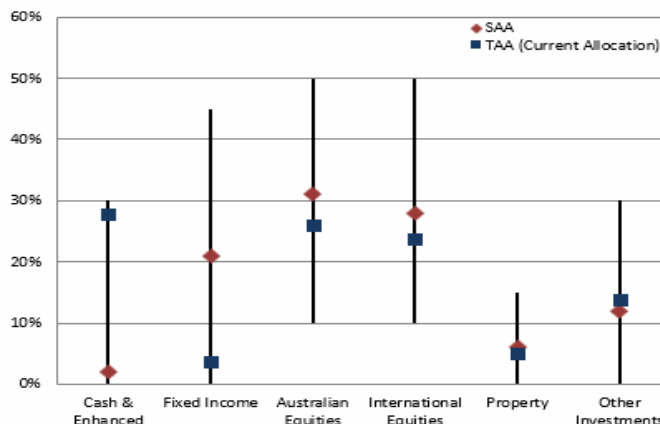
### NET PERFORMANCE- periods ending 30 June 2023

	Fund	Benchmark	Excess
1 month	0.5	1.3	-0.9
3 months	0.9	1.8	-0.9
FYTD	7.8	11.3	-3.4
1 year	7.8	11.3	-3.4
2 year p.a.	3.9	1.0	2.9
3 year p.a.	9.5	6.9	2.7
5 year p.a.	6.7	6.0	0.7
10 year p.a.	7.1	7.5	-0.4
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

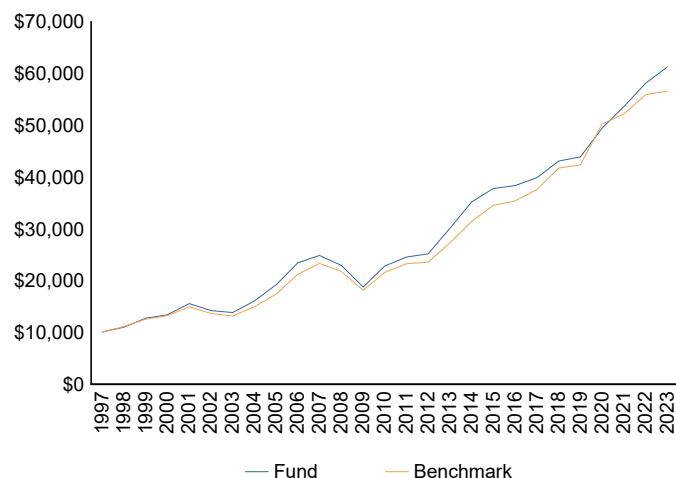
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



### 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 equity markets rallied over the quarter in response to stronger-than-expected March quarter growth in China and Europe, the Fed's large-scale backstop for the US regional banks and the potential widespread benefit from artificial intelligence over time, all of which provided a solid foundation for the near-term macro backdrop. While this facilitated modest earnings upgrades in key markets including the US and Japan, the Q2'23 rise in regional sharemarkets was underpinned by rising valuations, defying a strong quarterly rise in real 10-yr bond yields as measures of the equity risk premia were pulled down to levels not seen since the aftermath of the tech boom.

- Japanese equities (+18.54%) surged on the back of a potent mix of reopening dynamics, a surge of inbound tourism, strong nominal income growth, a renewed focus on listed equity return on equity, and strengthening signs that the economy has finally resolved 30 years of chronic deflation. This combination of factors sparked a modest increase from foreign investor interest in the Japanese market given its attractive valuation, but most investors remain cautious having seen multiple false recovery signals for over 20 years.

- US equities (+8.74%) continued to rally strongly, dominated by the strong performance of a handful of large cap technology stocks which underpinned double-digit price growth in IT (+17.2%), consumer discretionary (+14.6%) and Communication services (+13.1%) which were more than double the returns in all other sectors.

- European equities (+4.3%) advanced as their recent recession was far milder than expected several months ago, but UK equities (-0.3%) declined as the Bank of England accelerated the pace of monetary tightening in response to a surge in wages growth and core inflation.

- Australian equities (+1.0%) continued to lag the performance of global equities given the local market's defensive composition and heightened sensitivity to rising bond yields and falling commodity prices.

- Chinese equities (-8.9%) retreated from their Mar-23 quarter bounce as signs emerged that the reopening boom was lacking momentum amid signs of moribund activity in the construction sector, inflation approaches deflation territory, and its credit impulse turned negative.

Rising equity valuations throughout 2023 seems mis-aligned with a high-risk macro outlook. Headline index returns continue to be dominated by a highly concentrated set of large cap tech stocks while the remainder of the equity market grapples with expectations of weakening profits and slowing economic growth.

Meanwhile, very few data points are pointing to an economic recovery which is needed to justify lofty valuations, whereas numerous lead indicators are signalling elevated growth risks in the period ahead. In the US, the yield curve has been inverted since the middle of last year and during the quarter, short end rates moved materially higher thereby steepening the degree of inversion. This trend is not limited to the US with inverted curves also evident in Canada, UK, Germany, France, Spain, Sweden, Netherlands, Switzerland, Australia, and New Zealand. Other reliable recession indicators including manufacturing PMIs, senior loan officer surveys and current activity indicators are all suggesting a material weakening in growth is likely ahead. At the same time, while the temporary raising of the debt ceiling soothed concerns of a US default, the restrictions on government spending growth limit the capacity for fiscal policy to stimulate activity.

During the quarter, moderating headline inflation data (in the US and Australia) was well received by markets. While US annual inflation fell to +4.0%, resilient regional labour markets and sticky core inflation are keeping the pressure firmly on a data-dependant-Fed to continue its tightening cycle. In June, the Fed elected to pause rate hikes to assess the impact of 500 bps of tightening since March 2022. At home, the RBA elected to pause its hiking cycle in April to assess whether inflation was declining in line with its expectations, before recommencing rate increases

in May and June. Other global central banks continued to combat persistently high core inflation by raising rates, including an outsized 50 bps move from the Bank of England at its June meeting.

Robust labour markets fuelling elevated services inflation remains a significant challenge for central banks. A sustained decline in services inflation typically require a negative output gap which implies a material increase in unemployment from its current 50-yr lows. However, policy normally takes 12 to 24 months before its impact on the economy is clearly visible –in coming months all central banks will approach the mid-point of this timeframe which is an appropriate time to judge whether policy is truly restrictive.

As financial conditions continue to tighten, risks of an accident or a significant credit contraction are elevated. So far, the impact of this aggressive monetary tightening cycle has been several US regional bank collapses, sharp price declined 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.

Global equities continued to rally, with price gains underpinned by higher valuations Global equities continued to rally, with price gains underpinned by higher valuations in in the tech sector as investors were buoyed by recent developments in artificial intelligence. The Fund's bias towards quality and value factors impacted relative performance during the quarter. Stock selection within developed market equities was the most substantial detractor from relative performance as growth stocks (most notably a handful of large cap US tech names with significant AI exposure) outperformed. Stock selection was constructive within emerging market equities as the Fund's underweight exposure to China was rewarded as Chinese equities fell on deteriorating growth expectations.

At quarter end, the Fund was marginally underweight global equities and underweight Australian equities. All equity exposures retain their long-standing quality and value bias which are expected to outperform against a backdrop of tightening financial conditions and slowing earnings growth. The Fund maintains put options on the S&P 500 which further contributes to the portfolio's defensive stance. During the quarter, these positions detracted as US equities extended their rally.

Underweight allocation to fixed income was rewarded as bond yields rose sharply through May and June. 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.

The Fund maintains a significant foreign exchange exposure, diversified across a number of developed and emerging market currencies. The Fund's elevated exposure to cash detracted from relative performance during a quarter where equities rallied.

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

The aggressive tightening of financial conditions alongside elevated inflation and rising growth risks present a very challenging environment for investors to navigate. High equity valuations were only supported while bond yields stayed low as inflation was contained. 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.

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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**

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