

## Perpetual Investment Funds

# PERPETUAL BALANCED GROWTH FUND

July 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

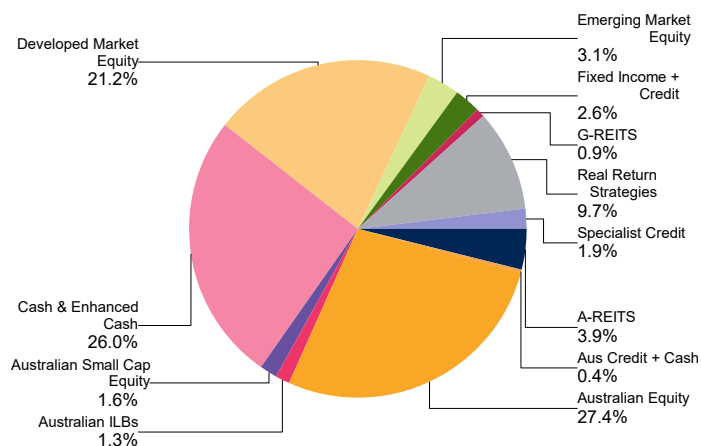
**Management Fee:** 1.04% p.a.

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



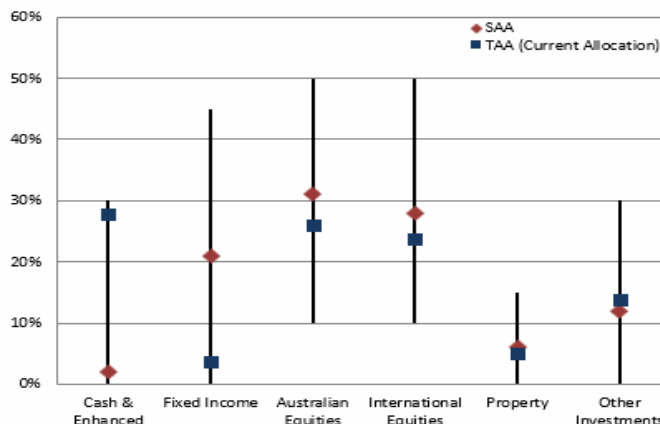
### NET PERFORMANCE- periods ending 31 July 2023

	Fund	Benchmark	Excess
1 month	1.4	2.1	-0.8
3 months	0.4	2.4	-1.9
FYTD	1.4	2.1	-0.8
1 year	7.2	7.9	-0.7
2 year p.a.	4.5	1.2	3.2
3 year p.a.	10.2	7.3	2.9
5 year p.a.	6.7	6.1	0.5
10 year p.a.	6.9	7.4	-0.5
Since incep.	7.3	7.0	0.2

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

### ASSET ALLOCATIONS AND INVESTIBLE RANGES

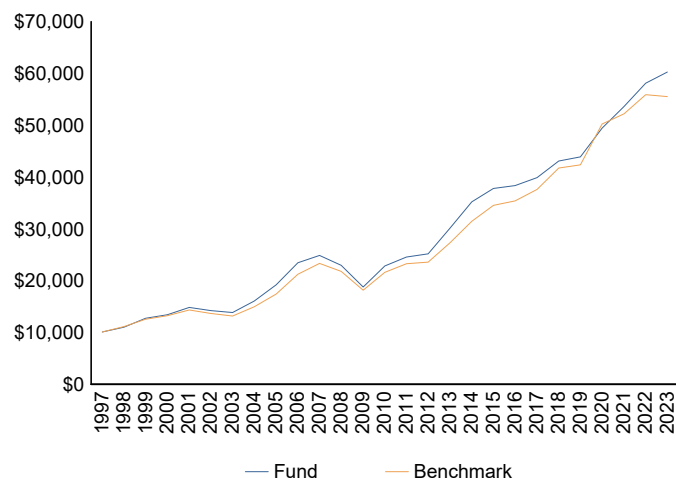
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



### 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 consolidated in July following a strong first half for risk assets.

- US equities (+3.2%) rallied, outperforming the broader developed market (+2.9%). Performance during July was more broad based than recent months in contrast to the strong year-to-date returns which have been concentrated in a narrow group of large cap tech stocks. Indeed, traditional cyclical sectors including financials (+4.8%) and materials (+3.9%) outperformed most tech related sectors such as IT (+2.6%) and consumer discretionary (+2.3%).

- Meanwhile, Australian equities (+2.9%) were supported by the RBA's decision to keep rates on hold as well as the rally in traditional value sectors such as financials, materials, and energy.

- Elsewhere, Emerging markets (+6.1%) performed strongly, led by China (+10.1%) which recovered its 2nd quarter losses, supported by regulatory easing and expectations of increased stimulus.

- In fixed interest markets, the US 10-year yields (+14bps) rose further as the US Federal Reserve (The Fed) raised rates another 25bps to 5.25%-5.5%, whereas Australian 10-yr yields rose marginally while the short end of the curve rallied as the RBA left the cash rate (4.1%) unchanged for a second meeting of the past four, which suggested that official Australian interest rates are close to peaking.

- In credit markets, both USD and EUR denominated credit rallied, as economic data which detailed resilient economic growth and falling inflation provided some optimism to investors that the odds of a US soft landing from 16 months of aggressive rate hikes were higher than previously thought.

Rising equity valuations throughout 2023 seem mis-aligned with a high-risk macro-outlook underpinned by both credit tightening and the delayed effects of previous interest rate hikes. Recent strong economic and inflation print (in addition to the seeming fading threat from regional bank stresses) saw several investment banks reverse their 2023 recession call. However, our concern is that the market is already pricing a scenario where earnings growth is double its historic average, inflation returns to target with a cost to the economy and central banks have the room to ease rates many times. While trailing US data is supportive, leading recession indicators, stubborn core inflation, and tighter lending conditions suggest a much more challenging outlook than is reflected in equity valuation and market expectations.

While US headline CPI moderated to +3%Y in June, the resilient US labour market and sticky services inflation are keeping the pressure on a data-dependant-Fed to maintain its tightening bias at the very least. Likewise, inflation remains elevated in Europe and the UK, providing impetus to the European Central Bank and Bank of England with expectations ripe for further increases over the remainder of 2023. While the probability of a 2023 US recession has been lowered by market participants, the impact of monetary policy tightening is subject to long and variable lags and markets will observe over coming months, how restrictive rates actually are. Meanwhile, there remains a cavalcade of leading indicators that suggest that recession is more likely delayed into 2024 rather than has completely dissipated. In the US, the yield curve has been inverted since the July-22 with similar inversions 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 which all suggest that a material weakening in growth is likely ahead.

The risk of an accident or a significant credit contraction remain elevated. So far, the impact of the 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, with China particularly exposed given its high debt and rapidly declining inflation rate.

The Fund's underweight allocation to global equities detracted from relative performance as global equities continued their rally. Stock selection within Australian equities detracted from outperformance alongside the cost of the Fund's equity put options.

At month end, the Fund was 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's the underweight exposure to fixed income was rewarded as bond market performance was mixed. 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). This short position added value as the yield curve steepened in response to speculation that the Bank of Japan was set to tweak its yield curve control policy at its late-July meeting which was subsequently occurred. The gains from this exposure were partially offset by higher US bond yields in response to a stronger set of economic data.

The Fund maintains a significant foreign exchange exposure, diversified across a number of developed and emerging market currencies. The Fund's overweight exposure to cash detracted from relative performance as risk assets consolidated their recent gains.

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

For some time, we have been highlighting that risk in this environment is underpriced by markets. We are concerned about the outlook for a global equity market that has factored in an environment where inflation returns quickly to 2%, where earnings growth is double its 50-yr average and where central banks are all cutting rates within 12 months. High starting valuations means that expected returns are relatively modest whereas cycle risks are elevated and not priced. Facing these challenges, the Fund remains well positioned to navigate the tightening cycle while retaining 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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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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