

## Perpetual Investment Funds

# PERPETUAL BALANCED GROWTH FUND

January 2025

### 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

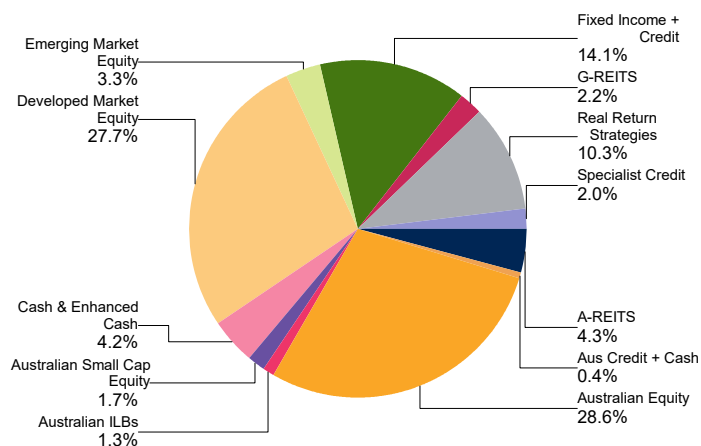
**Management Fee:** 1.04% p.a.

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



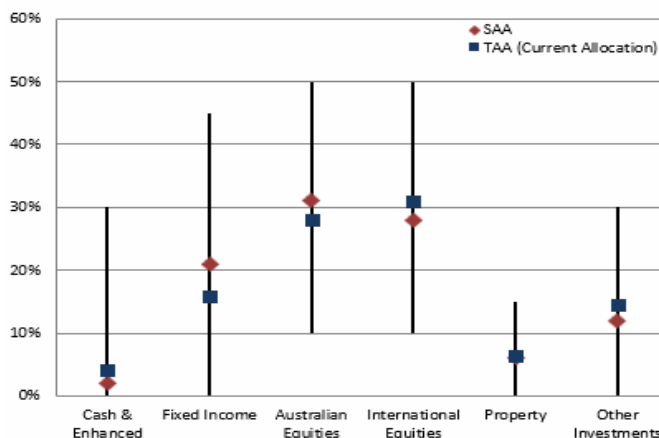
### NET PERFORMANCE- periods ending 31 January 2025

	Fund	Benchmark	Excess
1 month	1.7	2.6	-0.9
3 months	2.4	4.8	-2.4
1 year	8.4	14.9	-6.5
2 year p.a.	6.6	12.1	-5.5
3 year p.a.	5.6	7.6	-2.0
5 year p.a.	6.7	6.8	-0.1
10 year p.a.	6.5	7.6	-1.1
Since incep. p.a.	7.3	7.4	-0.1

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

### ASSET ALLOCATIONS AND INVESTIBLE RANGES

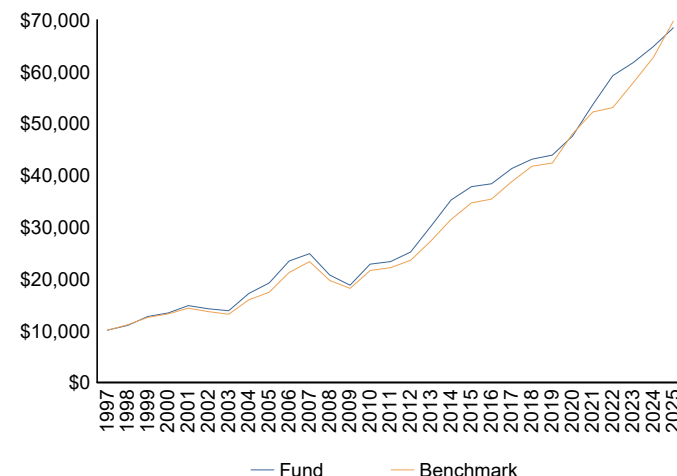
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



### 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

January saw elevated volatility in equity and bond markets as the early agenda of the Trump presidency brought a flurry of executive orders that precipitated a sharp selloff in bonds. Meanwhile, a challenge to the dominance of the US in the AI space culminated in lofty tech valuations being tested by the market.

- US stocks (S&P 500 +2.8%) rallied despite trailing the MSCI World (+3.5%). Growth sectors – most notably technology – lagged as a low cost China listed company named DeepSeek sparked increased questions around the competitive landscape in AI.
- European equities (+8.1%) substantially outperformed the global market, led by Germany (+9.2%) as easing monetary conditions and low positioning saw investors increase their allocations. Europe's underweight to the technology sector (relative to the broader market) also helped mitigate the impact of AI-related volatility seen in the US.
- Australian equities (+4.5%) rose strongly reflecting firming expectations of a February start to the RBA's monetary easing cycle, as well as recent improvements in macro data.
- Emerging markets (+1.6) rose moderately as markets parsed both the potential impact of US tariffs but also a marginally softer US dollar.
- Bond markets experienced heightened volatility in January, with global yields rising on the back of President Trump's policy proposals, which raised expectations for higher inflation and concerns about the level of debt of the US Government. US Treasury yields climbed by around 20 basis points early in the month. However, yields softened towards the end of January following a weaker-than-expected January non-farm payrolls report. The domestic yield curve steepened as short-term yields fell as the market increasingly priced in a February RBA rate cut after the December Australian inflation report indicated that domestic core inflation was falling faster than RBA forecasts.
- Commodities performed strongly throughout January. Precious metals, including gold (+7.8%), benefited from geopolitical tensions linked to US trade policy as well as major investors wanting to diversify their US Treasury holdings, while Brent Crude Oil (+3.4%) was supported by increased demand in the wake of a cold European winter.

The reveal of DeepSeek – a Chinese start up offering a more cost-efficient generative AI model than US competitors – saw markets reconsider the defensive moats and valuations of large cap US tech firms and the ongoing demand for expensive chips developed by Nvidia. Nvidia saw the largest ever single day capital loss (-\$600 billion in US dollar terms) for a US stock, falling 17.6% on the news. For some time we have warned about the risks associated with the increasingly concentrated equity returns exacerbated by the rise of passive investing. The selloff was a stark reminder of the risks associated with egregiously over-valued mega cap US tech stocks and raised questions around the level of capital expenditure and competitiveness of US tech given the potential for low cost alternatives.

The inauguration and subsequent early actions of the Trump presidency also contributed to market volatility in January. An initial sense of relief gave way as administration used emergency powers to enact 25% tariffs on Canada and Mexico (which were subsequently delayed to early March-2025) and a 10% tariff on China. While tariffs have unsettled markets, we believe the impact on growth and core inflation will be modest but it will see the US Fed delay any policy change until the effect of the tax increases become known. Our primary concern remains the unsustainable fiscal deficit, which stands at 6.4% of GDP and is set to widen through tax cuts from 2017 becoming permanent (although this can be changed by subsequent Congresses). This raises concerns about the long-term trajectory of fiscal policy and its potential impact on bond market term premia and equity valuations.

The US Federal Reserve kept interest rates steady at its January meeting, while the US jobs market in December 2024 remained upbeat. December's non-farm payrolls data (released in early

January) revealed +256k of jobs added, bolstering confidence in the economy. While core inflation eased to 3.2%, the Fed remains patient, balancing growth and inflation risks in its policy decisions.

Outside the US, European growth indicators improved although the region remains challenged. The composite PMI rose into expansion territory during the month, and employment growth also improved, indicating a moderate expansion. The ECB offered relief, cutting rates by a further 25bps during January to address soft growth expectations for 2025. The outlook remains challenging with concerns around rising geopolitical and trade tensions with the US alongside weakened consumer confidence.

Meanwhile, the Australian economy has struggled in the wake of higher inflation and sustained elevated interest rates which have sparked seven consecutive quarters of contracting GDP growth per capita (and eight contractions in the past nine quarters). The economy has only remained in expansion territory due to large population growth and a large fiscal expansion which is adding to price pressures. Australia's economy is projected to grow at a faster pace in 2025, driven by large increases in state and federal government spending, tax cuts and lower interest rates.

Stock selection alpha was mixed for performance during January. The Fund's underlying global equity managers performed well as value sectors and securities outperformed growth (including US tech) which softened following the reveal of Deepseek. The underperformance of US equities and crucially, large cap tech names reinforced the risks of passive investing in increasingly concentrated market and the importance of diversity among return seeking opportunities. Meanwhile, Australian equity stock selection detracted from performance during the month. The Fund is close to benchmark weight in Australian equities and marginally below benchmark weight in global equities. All equity exposures remain focused on stock selection alpha opportunities and maintain their quality and value biases.

A number of the Fund's equity downside protection positions detracted from relative performance during the Month as equity markets rallied. The Fund continues to manage tail risks via sizable option protection where it is cheap to implement. These include put options on the S&P 500 and a put spread on the FTSE 100, a call option on the USD versus the Hong Kong Dollar and the Chinese Yuan (which are low-cost downside protection for tail risks around China) and a put option on the USD against the Japanese Yen. During January we added a call spread on Sterling against the US Dollar.

The Fund's underweight allocation to fixed income was constructive during the month. The Fund remains slightly below benchmark weight in fixed income, with the exposure primarily focused on 10-year Australian government bonds alongside domestic credit and a small allocation to inflation linked bonds.

The Fund's defensive posture is bolstered by its elevated exposure to cash. The Fund maintains a significant foreign exchange exposure, diversified across a number of developed and emerging market currencies. These cash holdings also give investors a good running yield and provides significant optionality as it enables as to quickly allocate capital to take advantage of mispricing in the event of a market selloff.

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. The Fund's overweight allocation to sources of uncorrelated returns detracted from relative performance during a month where risk assets appreciated.

## OUTLOOK

The challenging economic outlook for ex-US markets and the uncertain path of inflation and monetary policy given changes to US trade policy represent a difficult environment for investors to negotiate, especially given sustained elevated valuations in both the US and Australia. With so much good news already priced in, we maintain some caution. We continue to carefully manage our exposure to equity market beta and our allocations remain focused on quality companies trading on low valuations, offering solid dividend yields, and good prospects for undertaking buy-backs.

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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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