

# Perpetual Investment Funds

## PERPETUAL DIVERSIFIED REAL RETURN

31 January 2025



### FUND FACTS

**Investment objective:** Aims to target a pre-tax return of 5% per annum above inflation (before fees and taxes) over rolling five-year periods, while minimising downside risk over rolling two-year periods.

**Management Fee** 1.10% pa\*\*

**Suggested minimum investment period:** Five years or longer  
\*Refer to PDS for Management Costs.

^Management Fee for Super and Pension is 0.85%.

### FUND BENEFITS

True alignment to investors real return objectives; Diversification of risk; Active management of the Asset Allocation; Access to an increased amount of investment opportunities

### 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.

### TOTAL RETURNS % (AFTER FEES) AS AT 31 JANUARY 2025

PERFORMANCE	APIR	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS PA	5 YRS PA	7 YRS PA	10 YRS PA
Perp. WealthFocus Allocated Pension	PER0741AU	0.51	0.99	1.32	4.48	2.64	3.59	3.46	-
Perp. WealthFocus Investment Advantage	PER0739AU	0.50	0.98	1.30	4.38	2.45	3.39	3.22	-
Perp. WealthFocus Super	PER0742AU	0.41	0.93	1.18	4.08	2.35	3.22	3.10	-

### FUND OBJECTIVE OUTCOME AS AT 31 JANUARY 2025

**Objective:** Gross returns of CPI plus 5% over rolling 5 year periods

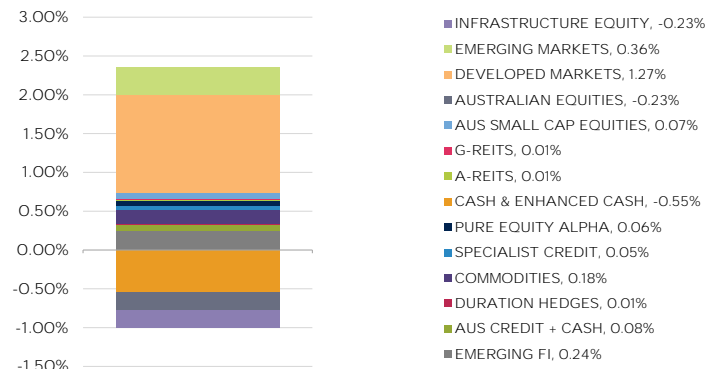
	5 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Gross)	4.7	6.3
CPI plus 5%	9.00	7.83

Past performance is not indicative of future performance.

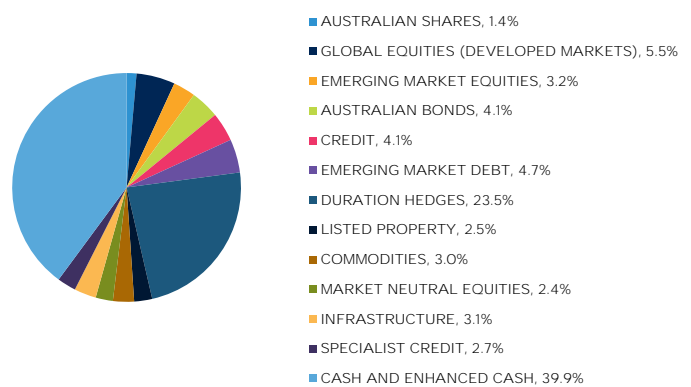
\*\* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS

\* Volatility and Mercer Balanced Growth Median data is lagged by 1 month

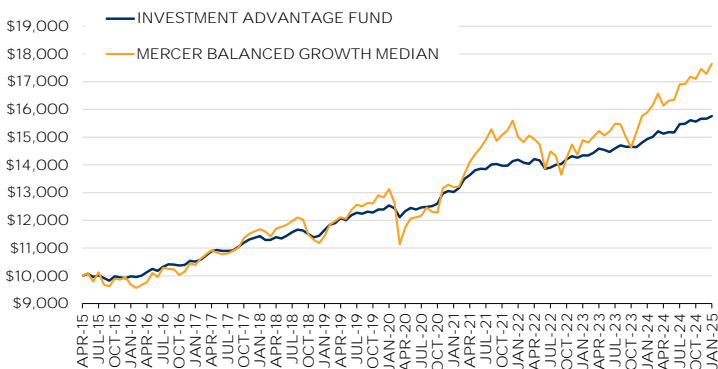
### CONTRIBUTION TO 3MTH PERFORMANCE (GROSS)



### PORTFOLIO SECTORS



### GROWTH OF \$10,000 SINCE INCEPTION



### CHANGES IN ASSET ALLOCATION (%)

	3 MTHS	6 MTHS	1 YR
Australian Shares	-0.7	-0.8	-4.5
Global Equities (Developed Markets)	-1.2	1.2	-2.4
Emerging Market Equities	0.0	0.2	0.1
Frontier Market Equities	0.0	0.0	0.0
Australian Bonds	0.2	0.0	0.6
Credit	0.2	0.6	1.0
Global Bonds (Developed Markets)	0.0	0.0	0.0
Emerging Market Debt	0.3	0.7	1.1
Duration Hedges	0.1	-16.6	-9.9
Secured Private Debt	0.0	0.0	0.0
Unlisted Property	0.0	0.0	0.0
Listed Property	0.0	0.0	0.2
Commodities	0.2	0.5	-0.1
Market Neutral Equities	-0.1	0.1	0.4
Infrastructure Debt	0.0	0.0	0.0
Infrastructure	-0.2	0.0	3.1
Other Investments	0.0	0.0	0.0
Specialist Credit	-0.4	-0.1	0.3
Cash and Enhanced Cash	1.5	14.1	10.0
Alternative Beta	0.0	0.0	0.0

## FUND PERFORMANCE

The Diversified Real Return Fund returned 0.6% (gross) in January. Over the past year, the Fund has returned 5.5% (gross) and over the past 5 years the Fund has returned 4.7% (gross) per annum compared with the objective of 9.0% (CPI plus 5%\*) over rolling 5 years. Since inception (in 2010) the Fund has returned 6.3% (gross) per annum compared with the objective of 7.8% (CPI plus 5%\*).

**Contribution of the Fund's equity exposures were mixed for performance during the month. Stock selection alpha among global equity managers and allocation to deep value equities were constructive for performance. However, stock selection alpha in Australian Equities and among the Fund's sustainable listed infrastructure investments weighed on performance.**

**The Fund's cash allocation continues to offer an attractive running yield, adding to monthly returns. Similarly, the Fund's exposure to a basket of precious and base metals, along with a broader basket of commodities, including coffee futures, continuing to benefit from ongoing supply issues.**

\*All groups CPI measured and published by the ABS as at 30 December 2024

## 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.

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. As always, our focus remains on identifying investments that can generate returns of CPI plus 5% per annum over a five-year horizon while maintaining an asset allocation that ensures that no individual position or cluster of positions will risk the medium-term investment objective.

## CURRENT POSITIONING

The underperformance of US equities and crucially, large cap tech names reinforced the risks of momentum-based passive strategies in an increasingly concentrated market and the importance of diversity in regional and sector allocations within the return seeking quadrant. The Fund retains exposure to value and deep value global equity alpha, UK equities (which continue to offer solid dividend income and buybacks as well as potential for some valuation re-rating) as well as value and activist Australian equities allocations.

We continue to manage downside risks by maintaining little or no exposure to the most expensive parts of equity and credit markets and complementing this with 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 also maintains its exposure to 2-year US government bonds alongside modest exposure to Australian and emerging market fixed income and US 10-year government bonds. Our focus on the short end of the US yield curve reflects its high running yield and its higher sensitivity to further easing of official interest rates by the US Fed, and it benefits from lower sensitivity to any upside risk in US inflation.

In addition, the Fund's cautious asset allocation is supported by a notable cash allocation, which provides solid income and significant optionality in the event of a market selloff.

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