WealthFocus Investment Advantage

WEALTHFOCUS PERPETUAL CONSERVATIVE GROWTH

October 2024

FUND FACTS

Investment objective: Aims to provide moderate growth over the medium term and income through investment in a diversified portfolio with an emphasis on cash and fixed income securities; and outperform a composite benchmark (before fees and taxes) reflecting its allocation to the various asset types over rolling three-year periods.

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: Conservative Growth Index (Internally generated composite)

Inception Date: July 1995

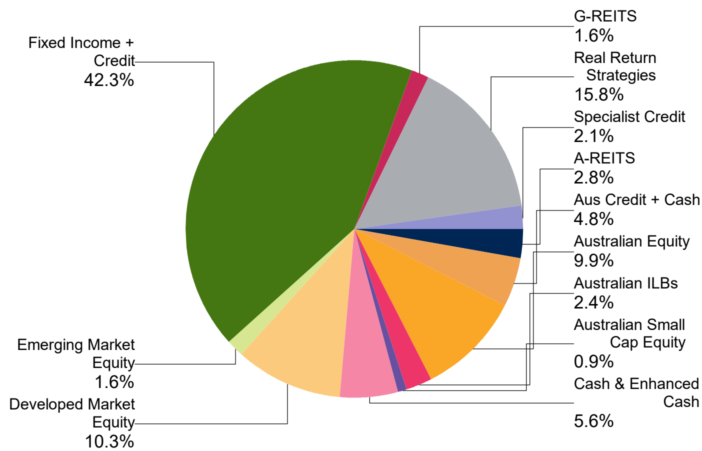
APIR: PER0030AU

Management Fee: 0.90% p.a.

Investment style: Active, fundamental, disciplined, value

Suggested minimum investment period: Three years or longer

PORTFOLIO SECTORS

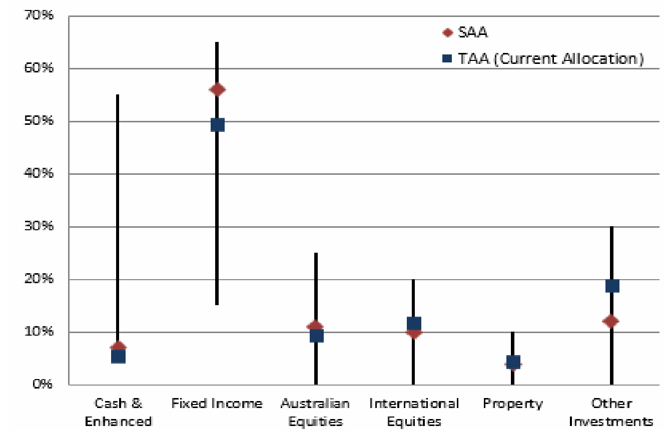


NET PERFORMANCE- periods ending 31 October 2024

	Fund	Benchmark	Excess
1 month	-0.9	-0.9	0.0
3 months	0.1	0.8	-0.7
1 year	8.7	12.9	-4.2
2 year p.a.	4.6	7.1	-2.5
3 year p.a.	2.8	2.7	0.2
5 year p.a.	3.3	3.0	0.3
10 year p.a.	3.6	4.4	-0.9

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

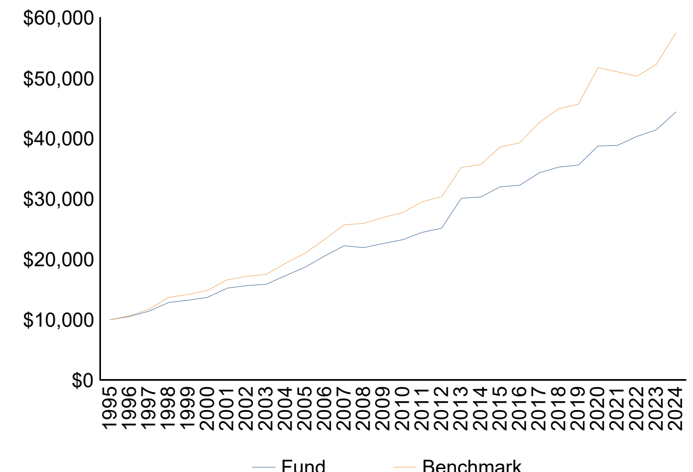
ASSET ALLOCATIONS AND INVESTIBLE RANGES



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

October was a challenging month for equity and fixed-income markets, as the US presidential election became a primary market focus, and a series of stronger-than-expected US economic data raised concerns about the trajectory of both inflation and the amount of rate cuts priced in:

- European equities (-3.3%) led the pace of losses in regional developed markets as concerns grew intensified around the state of the world's largest trading bloc as a round of weak activity data and rising concerns around upcoming elections in Germany weighed on sentiment. France (-3.7%) was the regional laggard as sustained weakness in the service sector weighed on sentiment, and while the UK (-1.5%) and Germany (-1.3%) performed slightly better, the economic outlook for the latter is far from upbeat.
- US equities (-0.9%), posted their first negative month since April in response to moderating expectations of monetary policy easing as a series of strong economic data for the labour market, consumer spending and general business activity saw investors reduce expectations for another large rate reduction at the upcoming November FOMC meeting and also sparked a wind-in of expectations for the size of the current easing cycle.
- Australian equities (-1.3%) fell from their recent intra-month high domestic bond yields rose in response to global trends. In addition, the rising prospect of a second Trump presidency and the potential ramifications for Chinese commodity demand from his proposed tariffs weighed on domestic stocks at a time when the RBA had already ruled out rate reductions until 2025.
- In contrast, Japan (+1.9%) was a lone positive performer among major developed markets as a large -7.2% depreciation of the Yen boosted demand for Japan's export-oriented market which continued to recover from its August rout.
- In the bond markets, government yields surged globally led by the U.S. and Australia which rose +0.50% to 4.28% and +0.53% to 4.51%, respectively – both of which were among the largest 10 individual month of losses this decade for both bond markets. The losses simply reflected a re-pricing of central bank expectations amid signs that both that hiring growth and core inflation remained too elevated to warrant a deep cutting cycle which, again, highlighted bonds waning ability to diversify equity risk during inflationary times.
- While US credit weakened as bond yields rose, with investment grade and high yield spread widening, domestic credit was resilient with credit and swap spreads extending their rally.

The global macroeconomic outlook is mixed. While US economic data has firmed market expectations of a soft landing underpinned by strong and resilient employment data robust (but increasingly dominated by government), , corporate earnings growth and a vibrant consumer. However, 12 month forward equity market valuations remain at 97th percentile relative to the past 20 years which is extreme, and suggests that the good news is mostly priced in . The increasing likelihood of a soft landing also provides optionality to the Fed to slow or pause monetary policy easing, particularly if inflation fails to progressively decline to 2% as detailed in the Fed's guidance. This would likely weigh on valuations.

Meanwhile, growing likelihood of a second Trump presidency impacted market sentiment during October. While both candidates' policy platforms were expected to culminate in another sizable rise in US government debt, Trump's planned tariffs on foreign imports have sparked fears of higher inflation, but we suspect this is likely to be modest, and should not impact growth too much, nor weigh on Fed policy debates. The U.S. budget deficit grew to $1.8 trillion for the fiscal year ending 30 September as $4.9 trillion of revenue was outweighed by 6.75 trillion of spending despite the economy being at full employment. The level of fiscal deficit relative to GDP (6.4%) is already at levels commensurate with recessions and the incoming administration is expected to contribute to the deficit via tax cuts and concessions. We remain cognisant of the unsustainable path of fiscal policy and its potential impact on bond markets, and its flow-on effect to equity market valuations.

Outside the US, the economic outlook is challenging in several regions. In Europe, concerns about growth have intensified, with incoming business survey data and European Central Bank (ECB) communications suggesting only a modest rebound is expected in FY25 after a very weak FY24. The European Central Bank (ECB) elected to cut rates by 25 basis points in October and president Lagarde attempted in her press conference to assuage fears that the region was heading towards recession. Meanwhile sentiment in the UK was mixed, with positive inflation data and a pro-growth UK Federal Budget offset by concerns around the global situation.

In Asia, China's economic outlook remains quite fraught. The People's Bank of China followed up September's policy announcements with more modest initiatives such as raising the debt ceiling rather than delivering support which could alleviate waning private sector activity. While recent economic data showed some modest improvement, the outlook for China continues to be challenged by the property sector overhang, sustained deflation, high debt and weak private sector confidence.

Meanwhile, the Australian economy has struggled in the wake of higher inflation and sustained elevated interest rates which have sparked six consecutive quarters of contracting GDP growth per capita. While labour market data remains robust – unemployment remained at 4.1% in the third quarter – and households received large tax cuts and government energy subsidies, spending remains sluggish as high inflation and higher for longer interest rates are sapping household confidence. The challenges here have been camouflaged by strong population growth and another year of significant public sector spending growth at a time when the RBA is trying to slow economy-wide spending. While third quarter headline CPI continued to moderate and fell within the target band for the first time in 42 months, (+0.2%Q, +2.8%Y) the RBA's preferred measure of inflation, the trimmed mean, (+0.8%Q, +3.5%Y)–remained stubbornly outside the target range.

Stock selection alpha was the most substantial determinant of relative performance over the month. Global equity stock selection detracted from relative performance as the Fund's quality and value biases were unrewarded in a month where growth sectors and securities outperformed their value peers. Underweight exposure to financials within the Fund's Australia equity allocation detracted from outperformance as the sector significantly outperformed the broader market. The Fund is close to benchmark weight across Australian and global equities. The Fund's equity allocations are focused on stock selection alpha opportunities among high quality companies with strong balance sheets and highly resilient operating models.

The Fund retains explicit downside protection in the form of S&P 500 puts and a call option on the USD versus theHong Kong Dollar (which is a low-cost downside protection for tail risks around China) and a put option on the USD against the Japanese Yen.

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. USD and emerging market currency exposures performed well throughout October as US bond yields climbed. 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 contributed to outperformance during a month where equities and bonds both sold off.

OUTLOOK

The challenging economic outlook for ex-US markets and the uncertain path of inflation and monetary policy provide a difficult environment for investors to negotiate, especially given sustained elevated valuations in both the US and Australia – with investors believing that the former's 12-month forward EPS growth can top +15%. Elevated equity valuations are underpinned by expectations of a soft landing for the global economy and supportive central bank action on policy rates. With so much good news already priced in, we maintain some caution with regards to equity markets and our equity exposures remain primarily in high quality markets with attractive valuations and elevated dividend yields which tend to have much lower volatility than earnings growth.

The Conservative 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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