

# Perpetual Investment Funds

## PERPETUAL DIVERSIFIED REAL RETURN

31 December 2024



### 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 DECEMBER 2024

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	-0.11	0.08	2.79	4.87	2.56	3.71	3.44	-
Perp. WealthFocus Investment Advantage	PER0739AU	-0.11	0.06	2.69	4.69	2.36	3.51	3.20	-
Perp. WealthFocus Super	PER0742AU	-0.02	0.15	2.60	4.46	2.30	3.33	3.09	-

### FUND OBJECTIVE OUTCOME AS AT 31 DECEMBER 2024

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

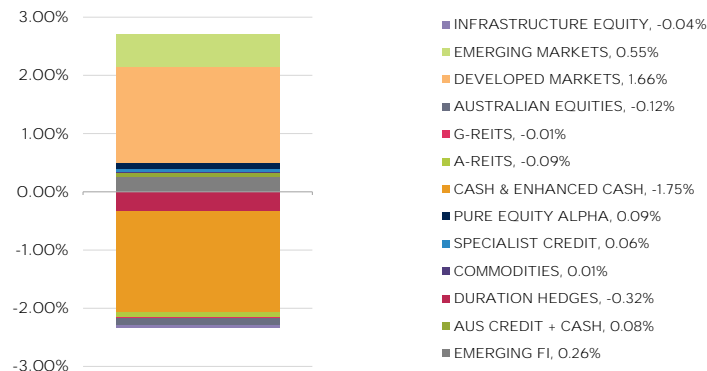
	5 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Gross)	4.8	6.3
CPI plus 5%	8.95	7.83

Past performance is not indicative of future performance.

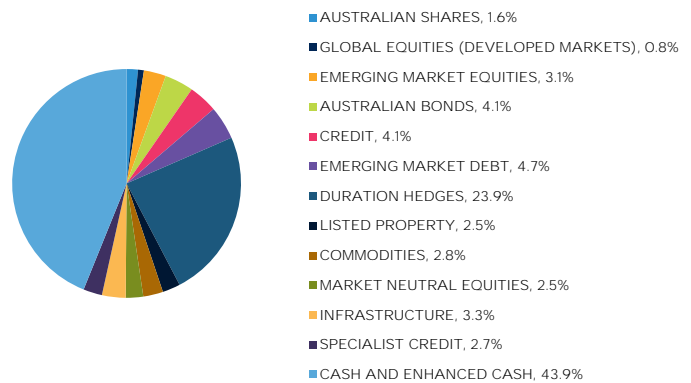
\*\* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS

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

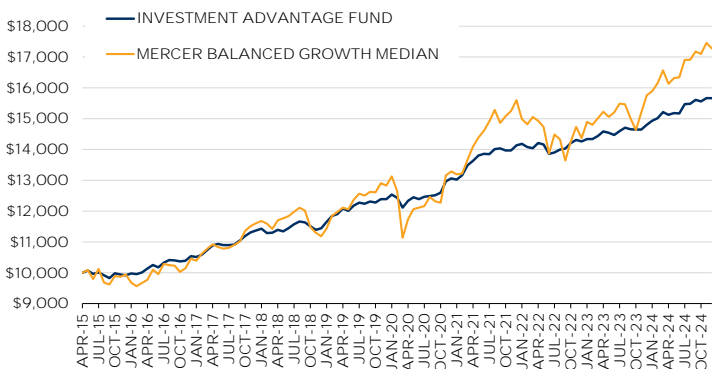
### CONTRIBUTION TO 3MTH PERFORMANCE (GROSS)



### PORTFOLIO SECTORS



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



### CHANGES IN ASSET ALLOCATION (%)

	3 MTHS	6 MTHS	1 YR
Australian Shares	-0.5	-4.1	-4.0
Global Equities (Developed Markets)	-4.8	-11.0	-5.3
Emerging Market Equities	0.1	0.3	0.1
Frontier Market Equities	0.0	0.0	0.0
Australian Bonds	0.3	0.0	0.6
Credit	0.3	0.6	1.0
Global Bonds (Developed Markets)	0.0	0.0	0.0
Emerging Market Debt	0.5	0.8	1.1
Duration Hedges	2.1	-15.5	-8.3
Secured Private Debt	0.0	0.0	0.0
Unlisted Property	0.0	0.0	0.0
Listed Property	0.0	0.1	0.1
Commodities	0.3	0.2	-0.1
Market Neutral Equities	0.0	0.1	0.5
Infrastructure Debt	0.0	0.0	0.0
Infrastructure	0.1	1.1	3.3
Other Investments	0.0	0.0	0.0
Specialist Credit	-0.3	-0.1	0.3
Cash and Enhanced Cash	1.9	27.5	10.6
Alternative Beta	0.0	0.0	0.0

## FUND PERFORMANCE

The Diversified Real Return Fund returned 0.35% (gross) in the December quarter. Over the past year, the Fund has returned 5.9% (gross) and over the past 5 years the Fund has returned 4.8% (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%\*).

**The Fund's US dollar and emerging market currency exposures performed very well over the quarter as the greenback rallied strongly reflecting the ongoing outperformance of the US economy and the expected impact of the incoming Trump administration.**

Allocations to Australian and global equities was constructive during the quarter. Stock selection among developed market and Australian equities detracted as value underperformed. Equity option strategies had a positive performance in the quarter and over the full calendar year have only had a minor detraction from the total portfolio performance, which is a very good outcome considering the rally in equity markets.

**The Fund's fixed income allocation detracted from performance as yields rose globally. Soft commodities continued to contribute, marking a very strong year, while the metals basket was down for the quarter.**

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

### 1. RETURN SEEKING ASSET CLASSES

Beginning of the Quarter: Low Allocation  
End of the Quarter: Low Allocation

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. Allocation to global deep value was increased during the December quarter while exposure to Australian equity beta remains low. Our allocation remains focused on quality companies trading on low valuations, offering solid dividend yields, and good prospects for undertaking buy-backs.

**The Fund's return seeking opportunities include:**

- Global equities, in addition to exposures in emerging markets and Australian equities all with a value and quality style bias;
- Global and Australian listed property; and
- Australian credit and a small position in emerging market debt.

### 2. DIVERSIFYING OPPORTUNITIES

Beginning of the Quarter: Medium Allocation  
End of the Quarter: Medium Allocation

**With the Fund's cautious positioning with regards to return seeking assets, diversifying opportunities remain a key focus for risk management.**

- **Stock selection alpha where equity holdings are concentrated in high quality 'value' companies which have strong balance sheets and highly resilient operating models.** Notwithstanding the resurgence of growth-style equities over the past 2 years, we anticipate value and quality factors to be rewarded in a prolonged environment of higher-for-longer interest rates.
- A range of FX exposures;
- The Fund also maintains exposure to a select group of sustainable infrastructure stocks producing strong cash flows, while trading at a significant discount to NAV.

### 3. DOWNSIDE PROTECTION

Beginning of the Quarter: Medium Allocation  
End of the Quarter: Medium Allocation

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 when it is cheap to implement. These include put options on the S&P 500 and 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), in addition to a put option on the USD against the Japanese Yen.

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.**

### 4. INFLATION PROTECTION

Beginning of the Quarter: Low to Medium Allocation  
End of the Quarter: Low to Medium Allocation

The portfolio has a low (direct and indirect) sensitivity to higher interest rates which should provide some stability to our investors if the monetary easing cycle currently underway sparks an unexpected and early reversal in the recent core disinflation trend that is evident in most regions.

The portfolio also maintains a small allocation to a basket of commodities (which includes gold, grains, livestock, silver, palladium, platinum and copper) which are typically positively correlated with inflation.

## MARKET COMMENTARY

Financial markets saw elevated volatility during the December quarter as markets parsed the results of the US presidential election, moderating monetary policy easing expectations alongside political and fiscal concerns in Europe.

- Developed market equities (+2.0%) rose, marking the close of a robust year for risk assets. US equities (+2.4%) rose, responding positively to the results of the US presidential elections and expectations for corporate profit growth under a second Trump administration. A strong November bookended by negative months, reflecting some pressure as expectations for US monetary policy moderated.
- European equities (-1.8%) were mixed with German stocks rallying (+3.0%) despite political uncertainty while French equities (-3.2%) fell on sovereign debt concerns. Ongoing political instability and the anticipated impact of US trade policy exacerbated persistent growth concerns in the world's largest trading bloc.
- UK Stocks (-0.2%) trailed the broader developed market. Domestically focused sectors fell on the weakening macro outlook. UK stocks were also impacted by rising long-term bond yields reflecting inflation expectations and concerns over the new government's fiscal policies in the budget published in October.
- The ASX 300 (-0.8%) declined, impacted by rising bond yields alongside the potential ramifications for Chinese commodity demand from proposed US tariffs.
- Japan equities (+5.4%) led developed markets, rebounding from their 3rd quarter decline and benefitting from the weakened yen improving the earnings outlook for exporters.
- Emerging Markets (-4.2%) fell throughout the quarter. The rising US dollar provided a significant headwind. Trump's election victory and associated trade policy weighed on emerging market equities, particularly China (-7.0%).
- Global bond markets saw elevated volatility throughout the quarter with 10 year yields rising across Australia (+39bps), the US (+79bps) the UK (+57bps) and Germany (+24bps).

With the resolution of the US election and the Republican party sweeping both the legislative and executive branches, market expectations for US growth have remained positive. Accommodative tax policies and a reduced regulatory burden are expected to support a soft economic landing, underpinned by resilient employment, strong corporate earnings growth, and a vibrant consumer. Growth, employment and inflation data continue to imply that US rates have been considerably less restrictive than the Fed anticipated. The strength of services sector labour data in particular, provides a challenge for the Fed as service sectors is where wages growth and core inflation have the strongest correlation, and it's also where productivity is the hardest to move higher through innovation.

The Federal Reserve lowered interest rates by 25 basis points in both November and December. However, the Fed's December meeting triggered a stock market sell-off after the release of the new dot plot, which showed a median forecast of only two additional rate cuts in 2025. While this aligned with market expectations, the tone from the Fed was more hawkish, indicating that the committee was reconsidering the "extent and timing" of further cuts.

While concerns over President Trump's proposed tariffs have unsettled markets and saw bond yields climb in the December quarter, we believe the impact on growth will be modest and unlikely to significantly influence Fed policy. Our primary concern remains the unsustainable fiscal deficit, which stands at 6.4% of GDP and is set to widen through tax cuts. This raises concerns about the long-term trajectory of fiscal policy and its potential impact on bond markets and equity valuations.

Europe continues to struggle with weak economic data and political instability, including the collapse of the German coalition government and growing concerns about French debt. Composite PMI fell to a 10-month low in November before the December print showed improvement with the service sector returning to expansionary territory. The ECB cut rates by 25 basis points in October and December and signalled more cuts in 2025 amid ongoing growth struggles. In the UK, signs of economic weakness emerged, with the services PMI hitting its lowest level since November 2023 and unemployment rising to 4.3%.

Emerging markets struggled throughout the December quarter, pressured by rising concerns over the potential impact of US tariff increases alongside the strengthening US dollar. China's economic outlook remains fraught. A lack of further detail relating to the policy stimulus measures announced in September, together with investor concerns relating to the implications of proposed Trump trade tariffs on Chinese exports compounded the existing property sector overhang, sustained deflation, high debt and weak private sector confidence.

The Australian economy continues to struggle with higher inflation and elevated interest rates, leading to six consecutive quarters of contracting GDP growth per capita. Economic growth in 2025 is expected to remain subdued, driven by softening labour market conditions and constrained household consumption. The Reserve Bank of Australia held the cash rate at 4.35% in December, signalling confidence that inflation is moving towards target and acknowledging a more-than-expected easing in wage growth. Third-quarter GDP growth was weak at 0.3% quarter-on-quarter, with private investment and consumption showing little growth. The labour market remains firm, with unemployment at a record low of 3.9%.

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. 2025 presents the prospect of higher volatility and low equity returns, which are unlikely to be diversified by duration. 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.

This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535 AFSL No 234426 and issued by PIML as responsible entity or the Perpetual Diversified Real Return Option investable through Perpetual WealthFocus Investment Advantage Fund and Perpetual Superannuation Limited (PSL) ABN 84 008 416 831 AFSL No 225246 RSEL No L0003315 as trustee for Perpetual WealthFocus Superannuation Fund ABN 41 772 007 500 RSE R1057010 (which includes the Super Plan, Pension Plan and Term Allocated Pension). It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information.

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## MORE INFORMATION

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