

## WealthFocus Investment Advantage

# WEALTHFOCUS PERPETUAL BALANCED GROWTH

September 2024

### 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:** June 1995

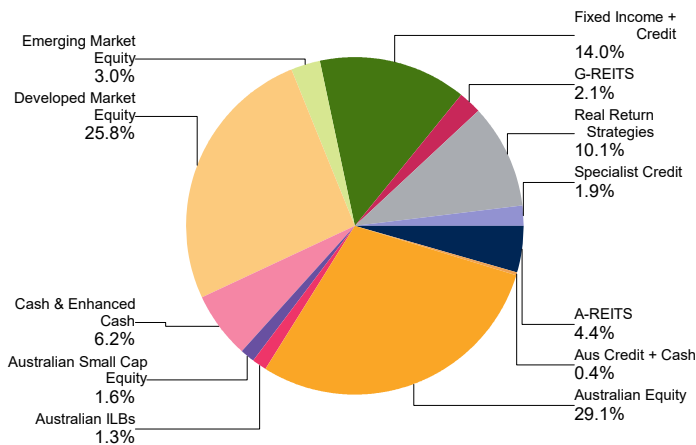
**APIR:** PER0036AU

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

**Investment style:** Active, fundamental, disciplined, value

**Suggested minimum investment period:** Five years or longer

### PORTFOLIO SECTORS



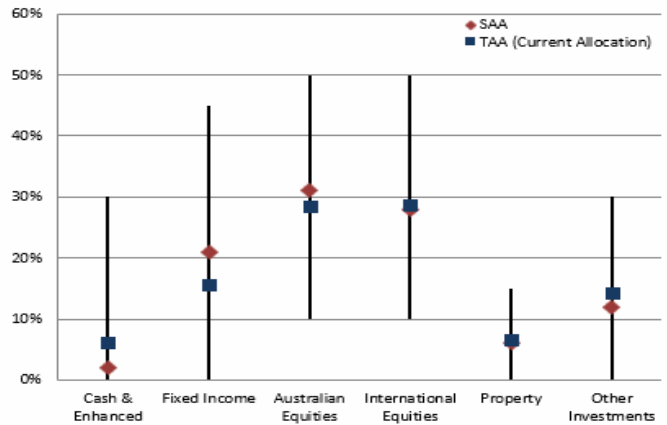
### NET PERFORMANCE- periods ending 30 September 2024

	Fund	Benchmark	Excess
1 month	1.0	1.6	-0.6
3 months	3.9	5.3	-1.4
1 year	11.0	19.0	-8.0
2 year p.a.	8.9	15.1	-6.2
3 year p.a.	5.5	5.8	-0.3
5 year p.a.	6.7	6.9	-0.2
10 year p.a.	6.1	7.8	-1.7

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

### ASSET ALLOCATIONS AND INVESTIBLE RANGES

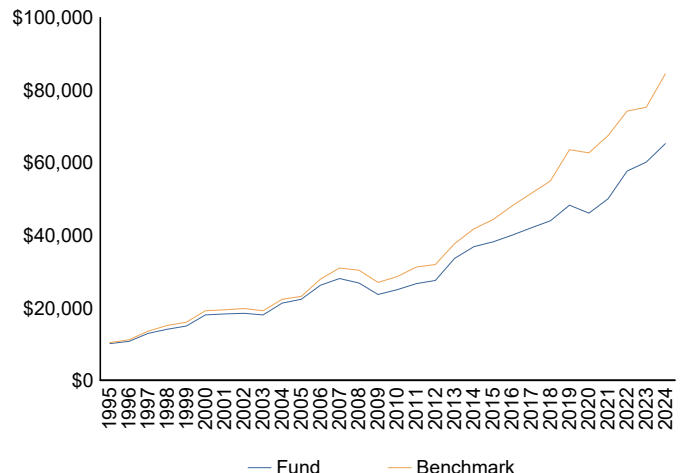
#### FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



### 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

Financial markets shook off a stumble in early August to consolidate their solid year-to-date returns, supported by monetary policy easing in the US, UK, EU and China.

- Developed market equities (+4.8%) consolidated its strong start to the year, rising through the September quarter. After increased volatility in early August underpinned by rising recession concerns, global equities recovered strongly led by value sectors as the Russell 1000 Value index (+9.4%) substantially outperformed its growth counterpart (+3.2%). The Magnificent Seven tech stocks underperformed despite robust second quarter earnings results for Meta, Apple and Alphabet as these firms have net cash balance sheets that is sensitive to any interest rate reduction by the US Fed.

- Among the developed markets, the US were robust (+5.9%) as the US Fed commenced its monetary easing cycle in September with an aggressive -0.5% reduction and indicated through their dots and accompanying statement that more easing is likely in the months ahead. Another strong quarter of economic and EPS growth also buoyed sentiment.

- European equities (+2.5%) also posted solid quarterly returns rose despite trailing the broader market, with the region held back by the subdued regional economy and the ECB which is easing rates once every quarter until services inflation starts to move materially lower. Like the US Fed, the ECB cut rates in September, after holding in July.

- UK stocks (+1.8%) rose modestly despite the first rate cut by the Bank of England in 4 years which had a muted reaction as sentiment was weighed down by newly elected UK Prime Minister Starmer who forewarned of a challenging upcoming budget with spending cuts and tax increases.

- The ASX 300 (+7.8%) outperformed the global market, supported by falling bond yields, easing inflation concerns, better than expected corporate earnings results and anticipation of rising Chinese demand.

- In contrast, Japanese equities (-3.5%) were among the small handful of regional markets to decline over the quarter, after an initial rally in the Yen following a surprise rate hike by the Bank of Japan, sparked heightened volatility as investors unwound the popular Yen carry trade. Some soothing words from the Bank of Japan Governor about the future policy path saw the Yen subsequently depreciate but the market could only partially recover its August losses.

- Lastly, emerging markets (+6.8%) outperformed their advanced economy peers as Chinese equities (+22.4%) surged higher in response to a major unwinding reversal of short-China positioning after the Bank of China cut official interest rates, which was supported by government pledges of additional support for the economy, although details here remain scant and run the risk of underwhelming the rhetoric.

- Elsewhere, bond yields declined across most maturities in most markets reflecting moderating core inflation and the commencement of monetary easing from the Fed, ECB and Bank of England. Australian 10-year yields fell 34 bps, trailing the US which declined 58 bps.

Anticipation of the path of US interest rates was a key theme during the September quarter. The Fed held interest rates steady in July which concerned investors after a subdued July non-farm payrolls report. This triggered the Sahm rule and raised recession fears in the eyes of some and sparked a broad equities selloff and widening in credit spreads. Fed Chair Powell allayed these concerns with dovish comments at the Jackson Hole Conference which foreshadowed a -50 bps reduction in official rates in September. Meanwhile, better-than-expected corporate earnings

results, and strong consumer spending data, also supported sentiment.

The US economy remains a key battleground for the 2024 presidential election which saw a seismic shift in July as President Biden withdrew from the race, endorsing Vice President Harris whose early polling suggests the contest might be closer than had previously been assumed. The result of the election will be a crucial issue for markets given the respective spending programs of both major candidates which is set to culminate in another sizable rise in US government debt regardless of who wins. The estimates FY25 US fiscal deficit (-6.6% of GDP) is already at levels typically seen during recessions.

Asian markets were another focus during the quarter with policy decisions from both China and Japan proving to be catalyst for significant market volatility. In August a second hike in Japanese official interest rates sparked an abrupt reversal of the global carry trade which has supported markets for a prolonged period. The ensuing appreciation of the Yen saw the Japanese sharemarket record its largest individual day loss since the 1987 stock market crash which weighed on equities globally.

In late September, the People's Bank of China (PBoC) unveiled a comprehensive stimulus package aimed at mitigating deflationary pressures and revitalising economic growth. The initiative - which includes increased funding provisions and targeted interest rate reductions - aimed to address the ongoing challenges in the property sector, stock market and the broader economy. Although the policy announcements were well received by markets, the details so far are not doing much to alleviate the blow out in government debt, the property sector overhang, sustained deflation, as well as weak private sector confidence.

Meanwhile, there are more questions being asked about the Australian economy given continued sluggish growth and waning consumer sentiment. 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. The Australian economy has struggled in the wake of higher inflation and increased interest rates which have sparked 6 consecutive quarters of contracting GDP growth per capita with the June quarter National Accounts showing that household consumption fell -0.2%. However, there are some more promising early signs that wages growth, which has been central to the rise in core inflation, has peaked and is starting to moderate, but this will need to continue for an extended period, before the RBA is confident that core inflation is set to return to the 2% to 3% target band on a sustained basis

Equity stock selection was mixed for performance during the September quarter. Global stock selection alpha also added to performance as investors partially re-oriented away highly priced growth stocks (particularly tech shares) and increased their exposure to cheaper and more cyclical value sectors, which culminated in our global value and deep value strategies delivering strong returns to investors. In contrast, domestic and emerging market equities stock selection weighed on performance as Australian growth stocks outperformed in contrast to their global peers, and China-related stocks outperformed. The Fund is close to benchmark weight across Australian and global 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 remains marginally underweight fixed income with exposures primarily focus on 10-year Australian government bonds. The underweight allocation to bonds contributed to outperformance as bonds underperformed equities despite yields falling over the quarter.

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. The sharp rise in central bank overnight rates since March 2022 has increased the yield on cash-type investments and their remains significant optionality in holding cash. The Fund's elevated cash allocation detracted from relative performance as risk assets resumed their rally through August and September.

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 the September quarter as equities and bonds performed well.

## OUTLOOK

While the nascent monetary easing cycle is supportive for risk assets, much of the anticipated benefit has already been priced into valuations. We maintain caution and our equity exposures remain primarily in high quality markets which have more attractive valuations and where earnings growth expectations have the potential to rise once the economy finds a stronger base. As always, we are also looking for markets with attractive valuations and that have elevated dividend yields which tend to have much volatility than earnings growth.

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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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