

## WealthFocus Investment Advantage

# WEALTHFOCUS PERPETUAL DIVERSIFIED GROWTH

February 2025

### FUND FACTS

**Investment objective:** Aims to provide long-term capital growth and income through investment in a diversified portfolio of growth and income assets; 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 an equal mix of growth and income assets, for long-term capital growth, but with a significant exposure to defensive assets to reduce volatility. Strategic and tactical asset allocation techniques are employed in order to further enhance the fund's returns 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:** Moderate Growth Index (Internally generated composite)

**Inception Date:** November 2008

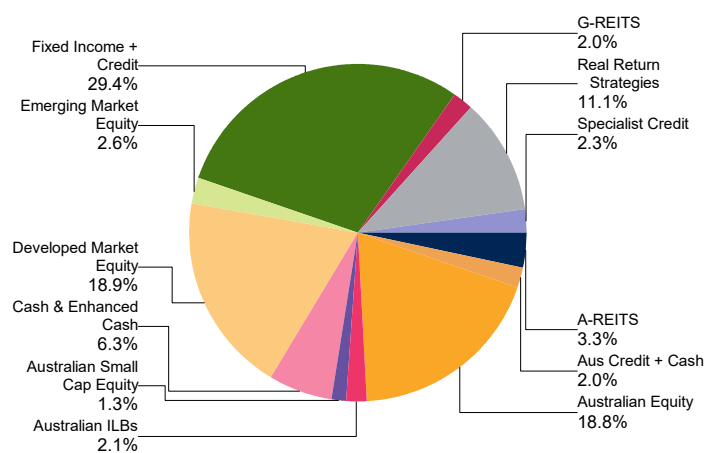
**APIR:** PER0489AU

**Management Fee:** 0.96% p.a.

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

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

### PORTFOLIO SECTORS



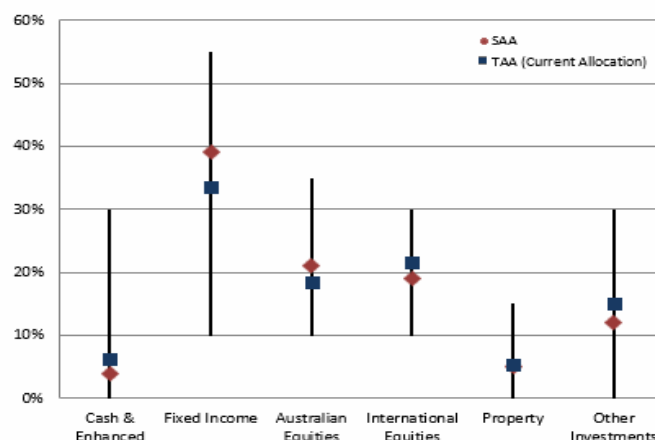
### NET PERFORMANCE- periods ending 28 February 2025

	Fund	Benchmark	Excess
1 month	0.4	-0.7	1.1
3 months	1.0	0.8	0.2
1 year	6.3	9.1	-2.8
2 year p.a.	5.9	9.7	-3.8
3 year p.a.	4.6	5.7	-1.1
5 year p.a.	5.5	5.4	0.1
10 year p.a.	4.4	5.7	-1.3

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

### ASSET ALLOCATIONS AND INVESTIBLE RANGES

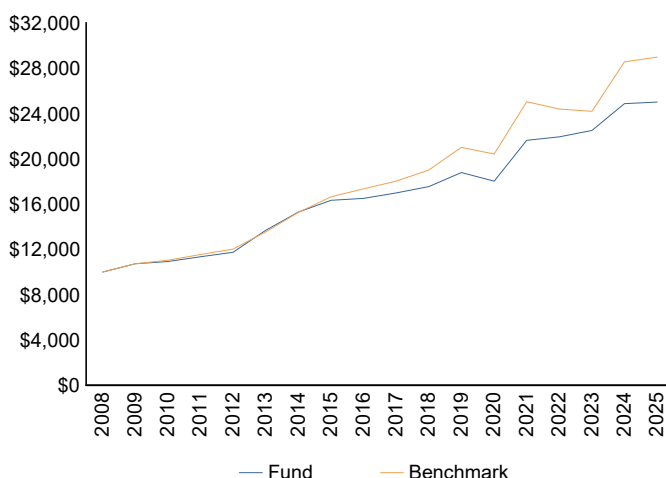
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



### 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

In February, global markets softened, driven by concerns over a mix of weakening US economic data, stubborn inflation and growing unease about U.S. trade and immigration policies which fuelled elevated market volatility. Importantly, a number of market trends that have been prevalent over the past 24 months including US exceptionalism and the outperformance of growth over value were challenged.

- In the US, the S&P 500 (-1.3%) reached a record high before declining over the second half of the month, weighing on the broader developed market (-0.9%). The rotation towards value intensified with the Russell 1000 Value (+0.4%) in positive territory while its growth variant (-3.6%) declined sharply underpinned by concerns about softer-than-expected US tech earnings growth and broader economic growth, in addition to stickier inflation - factors we anticipate will persist as the dynamics around US trade policy, and potential retaliation, are revealed.
- European shares (+3.5%) advanced in February in response to sign of growth momentum picking up after an 18 month stall. In addition, the impact of geopolitical uncertainty was evident in sub-sector performance with defence stocks rising strongly on expectations that European governments will have to lift military spending.
- UK Equities rose over the month with returns concentrated among large cap stocks (FTSE 100 +3.0%). Sterling strengthened during a month where the UK avoided US trade tariffs however the fiscal outlook continues to weigh on markets, exacerbated by PM Starmer's announcement of increased defence spending.
- Australian Equities (-3.8%) fell led by losses in cyclical sectors, most notably technology (-12.3%). Large cap stocks fell initially on mixed reporting season results and declines accelerated in the last half of the month in sympathy with the US market selloff.
- Emerging markets outperformed, led by China (+11.6%) which advanced on the back of positive momentum in the technology sector, increased fiscal stimulus and the weakening US dollar.
- Global bonds rallied led by US 10 year which declined -35bps as investors shook off a higher-than-expected February inflation print and instead on softening economic data - both hard data and surveys. Australian 10-year yields also rallied (-13bps) reflecting both falling US yields and the commencement of the RBA's monetary easing cycle which we suspect will have little follow-through in the near-term.
- Gold (+0.8%) rose reflecting continued demand for safe haven assets in an increasingly challenging geopolitical and international trade environment.

2025 thus far has been characterised by the reversion of recent outperformance of growth stocks over value. The US tech sector has moderated following the reveal of DeepSeek in January and this impact was compounded by softening tech earnings growth in the US reporting season and uncertainty around the outlook for growth and inflation. For some time we have warned about the risks associated with the increasingly concentrated equity returns exacerbated by the rise of passive investing. Regarding the Magnificent 7, there has been deteriorating performance for their legacy businesses at the same time we see reason to doubt that capital expenditure will result in a corresponding boost in their respective return on investment over medium term. We expect that 2025 will see large cap US tech earnings measured against two years of extremely fast growth and high profit levels, whereas the rest of the market will experience more favourable comparisons to two years of profit recession. Stretched valuations, elevated market concentration and the preponderance of passive investment all continue to contribute to elevated sensitivity of equity markets.

Key to the recent volatility in equity markets has been the uncertainty around US trade policy. The announcement and subsequent pausing of punitive tariffs against key trading partners sparked a rise in uncertainty and drove negative equity returns in the second half of February. The impact is observable in

consumer confidence and inflation expectation survey data which have worsened since the Trump inauguration. Meanwhile, weakening PMIs and softer housing data also contributed to concerns that US growth is decelerating and which sparked declines in both bond yields and equity prices. Our primary concern remains the unsustainable fiscal deficit, which stands at 6.4% of GDP will persist as temporary tax cuts from 2017 becoming permanent (although this can be changed by subsequent Congresses) which combined with lower corporate taxes, raises concerns about the long-term trajectory of fiscal policy and its potential impact on bond market term premia and equity valuations.

In Europe, the focus of the month was squarely on geopolitics. The prospect of increased fiscal spending firmed following the results of the German election and the need for increased defence spending. European growth indicators remained finely balanced with the composite PMI (50.2) remaining in very marginal expansionary territory but overall we suspect that the European economic growth should improve in 2025, in contrast to the US

Meanwhile, the domestic monetary easing cycle commenced with the RBA lowering the cash rate by 25 basis points to 4.10% in February. The RBA's next move will be data dependent with the Governor noting that the market is too confident in pricing further rate cuts in the near-term. The strength in the labour market continued in January, with employment growing by a better than expected 44,000 jobs. We are cognisant of Australia's persistently declining GDP per capita and that 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 portfolio is positioned for the three potential outcomes for markets in 2025.

1. A broadening out of economic growth supporting "value" and/or rotation away from Magnificent 7. This scenario is supported by Trump's de-regulation, robust employment, lower taxes and domestic manufacturing strategies. We have observed EPS growth catching up to the Magnificent 7 and the Fund's value and quality biases - which have been unrewarded in recent periods - would contribute strongly in this scenario.
2. A market selloff led by US tech. The Fund's low exposure to US equity beta, in addition to its quality bias within equities, and explicit downside protection and convexity positions would perform well in this scenario. The uncertainty surrounding Trump's trade policy has increased the likelihood of this scenario, observable in negative equity returns through early March.
3. A continuation of Mag 7 centric valuation expansion. Whilst we expect to deliver positive returns under this scenario, the portfolio's low equity beta and focus on value and quality would be expected to underperform.

The Fund's defensive positioning, low exposure to equity beta and bias towards quality and value were rewarded with the Fund generating positive performance during a month where domestic and developed market equities declined. Developed market equity stock selection was the key contributing factor to outperformance over the month. The Fund's global value and smart beta strategies outperformed, contributing strongly to returns. Australian equity stock selection was another strong contributor with manager alpha from the Perpetual Australian Share Fund more than offsetting the impact of the broader decline in Australian Equities.

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 exposures within equity allocations. 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.

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 has been attractively priced to implement. These include put options on the S&P 500 and a put spread on the FTSE 100, call options on the GBP against the US dollar, 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.

The Fund's underweight allocation to fixed income detracted slightly from outperformance during the month as global bond yields rallied. 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 overweight 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 us 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 was supportive in a month where equities declined.

## OUTLOOK

The macroeconomic outlook and the uncertain path of inflation and monetary policy given changes to US trade policy represent a difficult environment for investors to negotiate. This challenge is exacerbated by 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 Diversified 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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