

# WealthFocus Investment Advantage

## WEALTHFOCUS PERPETUAL BALANCED GROWTH

March 2025

### 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

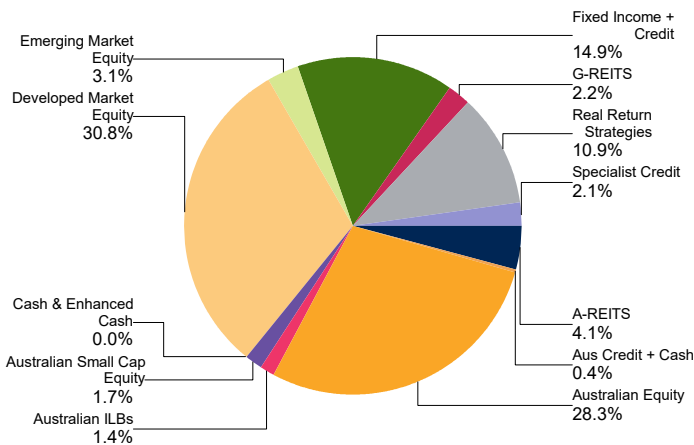
Provides investors with access to a diverse range of growth and income producing assets. Active management and asset allocation techniques are employed in order to further enhance the fund's return and manage risk.

### 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



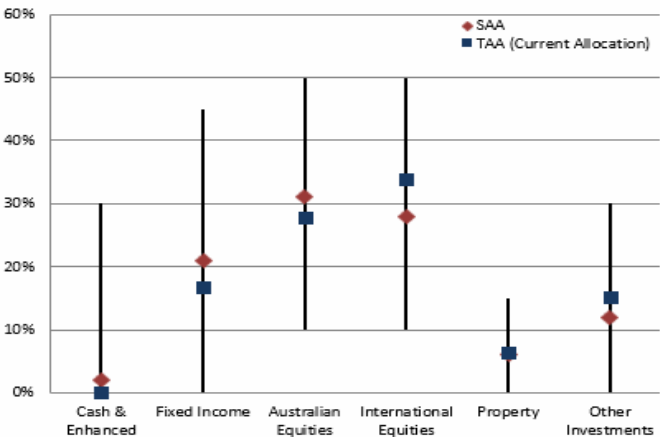
### NET PERFORMANCE- periods ending 31 March 2025

	Fund	Benchmark	Excess
1 month	-1.9	-2.6	0.8
3 months	-0.1	-1.4	1.3
1 year	2.3	5.2	-3.0
2 year p.a.	5.8	9.7	-4.0
3 year p.a.	4.8	6.1	-1.2
5 year p.a.	9.0	9.4	-0.4
10 year p.a.	5.4	6.8	-1.5

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

### ASSET ALLOCATIONS AND INVESTIBLE RANGES

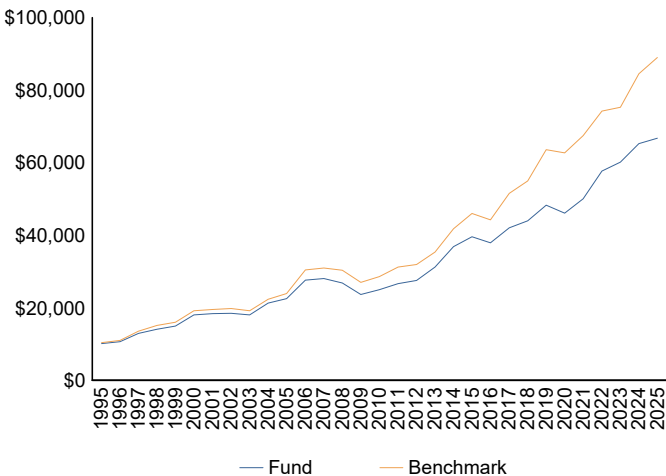
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



### 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

A number of themes dominated financial markets during the march quarter. The unravelling of US economic growth and artificial intelligence technology exceptionalism alongside the disruptive impact of the Trump administration's trade policy contributed to softening US equities and rising volatility.

-Developed market equities (-2.6%) sold off on slowing growth concerns and concerns around US trade policy. Equities consolidated their strong 2024 through the first six weeks of the year before stumbling in late February and falling precipitously in March.

-US equities (-4.3%) underperformed the broader developed market, impacted by both the spectre of lower cost Chinese artificial intelligence and later the disruptive impact of tariff policy. Value stocks and sectors starkly outperformed growth with the Russell 100 Value (+2.1%) in positive territory while the growth variant (-10.0%) corrected.

-European equities (+7.7%) outperformed strongly, led by the German DAX (+11.3%) which surged on fiscal policy tailwinds. Easing monetary policy and unwinding of US overweight exposures in the wake of challenges to their assumed tech supremacy also contributed.

-UK stocks (+6.1%) also performed well, led by gains among large caps. The fiscal and economic growth outlook continues to weigh on the broader equity market.

-Japanese equities fell with the Nikkei 225 (-9.9%) selling off sharply

-Australian Equities (-2.9%) declined on a combination of corporate earnings downgrades and concerns around the resilience of Chinese demand under US tariff policy.

-Emerging markets outperformed, led by China (+15.0%) which advanced on the back of positive momentum in the technology sector, increased fiscal stimulus and the weakening US dollar.

-Bond markets were mixed over the March quarter. US bond yields rallied on weakening growth indicators, shaking off concerns around sticky services inflation. The most notable move in European bond yields was in Germany where 10-year bund yields rose 30bps in March following the announcement of increased infrastructure and defence spending.

US trade policy and the implications of broad tariffs levied on their trading partners dominated news flow and precipitated a sharp selloff in risk markets towards the end of the quarter. The Trump administration levied 25% tariffs on Canada and Mexico in January before delaying and subsequently reinstating in March. Tariffs on China were established and then later increased from 10% to 20%. The tariffs led to immediate retaliatory measures from these countries. Financial market volatility spiked as markets both parsed the tariffs and the anticipated expanded policy to be announced in early April. 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. Meanwhile, ex-US economies already supported by or able to pivot toward internal growth drivers are likely to outperform broader markets amid global economic uncertainties.

The tariff influenced selloff intensified the rotation from growth to value which was observed throughout the March quarter. In January, 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. 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 which was on display in March and intensified in the early days of April.

The third component contributing to the risk-off shift of the March quarter was the softening US growth outlook and the unravelling of US exceptionalism theme that had dominated 2024. Investors feared that trade tariffs, plus public sector jobs cuts planned by DOGE (the new Department of Government Efficiency), could put pressure on US consumers. The University of Michigan's consumer sentiment index for March came in at 57.0, well below February's 64.7 reading. In March, the US Federal Reserve (Fed) cut its US growth forecast for 2025 to 1.7% from 2.1%. The Fed also lifted its inflation outlook to 2.7% from 2.5%. The Fed kept interest rates on hold at 4.25-4.50% during the quarter.

At the same time, the resurgence of America first foreign policy triggered increased defence spending in Europe which contributed to an improvement in the growth outlook. Europe entered 2025 with a challenging outlook reflecting rising geopolitical and trade tensions with the US alongside weakened consumer confidence. The ECB offered relief, cutting rates by a further 25bps during January and comments from the chair signalled a shift from focusing on inflation to focusing on risks to economic growth improving the probability for further monetary easing in 2025. The CDU's victory in the German elections led to loosened borrowing limits and plans to increase spending in defence and infrastructure, news which supported equities but saw bunds selloff sharply. The European growth indicators remained finely balanced with PMIs remaining in very marginal expansionary territory but overall, we suspect that the European economic growth should improve in 2025, in contrast to the US.

The Australian economy has faced challenges due to higher inflation and sustained elevated interest rates, leading to seven consecutive quarters of contracting GDP growth per capita. However, the economy has remained in expansion territory due to large population growth and significant fiscal expansion. The Reserve Bank of Australia (RBA) commenced its monetary easing cycle in the March quarter, lowering the cash rate to 4.10% in February. While the impact of US tariffs – most notably via Chinese demand – is clouding the outlook, the economy is projected to grow at a faster pace in 2025, driven by increased government spending (confirmed in the March federal budget), tax cuts, and lower interest rates.

The Fund's defensive positioning, explicit downside protection, low exposure to equity beta and bias towards quality and value are expected to continue contributing to outperformance as the emergent selloff in global risk assets persists.

Equity stock selection was the most significant contributor to relative performance over the March quarter. The Fund's global value and smart beta strategies outperformed, contributing strongly to returns as the recent outperformance of overvalued US tech stocks reversed.

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. We expected the rotation away from growth and the unravelling of US exceptionalism to continue as markets grapple with the impact of Trump trade policy. 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. These explicit downside protection strategies are expected to mitigate the impact of the ongoing selloff in global risk assets and offer convexity if US trade policy precipitates a deep recession.

The Fund's underweight allocation to fixed income detracted slightly from outperformance during the quarter 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 quarter where equities declined.

## OUTLOOK

The spike in volatility and the sharp selloff in risk markets has been a stark reminder of the importance of downside protection and convexity in investor portfolios. The recent correction which began in the first quarter and has accelerated in the early days of April has much further to run before equity valuations are aligned with fundamentals and growth expectations. 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 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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