Perpetual Investment Funds
PERPETUAL
ESG REAL RETURN FUND
31 March 2025

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.

Inception date: May 2021
Size of fund: $38.1 million as at 31 December 2024
APIR: PER0761AU
Management Fee: 0.85% pa ^^Refer to PDS for Management Costs
Investment style: Diversified risk budgeting, active, value, ESG
Suggested minimum investment period: Five years or longer

FUND BENEFITS

Provides investors with access to a diversified portfolio of assets and the opportunity to align their investments with their personal values and ESG preferences. Perpetual may adjust the Fund's asset allocation to respond to changing market conditions and/or take advantage of new 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 % AS AT 31 MARCH 2025

PERFORMANCE	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS PA	5 YRS PA	INCEPT PA	VOLATILITY^	3 YRS PA	INCEPT PA
Perpetual ESG Real Return Fund (Gross)	-0.61	0.88	1.08	4.31	2.58	-	2.02	Perpetual ESG Real Return Fund	-	-
Perpetual ESG Real Return Fund (Net)	-0.69	0.67	0.66	3.43	1.72	-	1.16	Mercer Balanced Growth Median	8.66	7.91

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

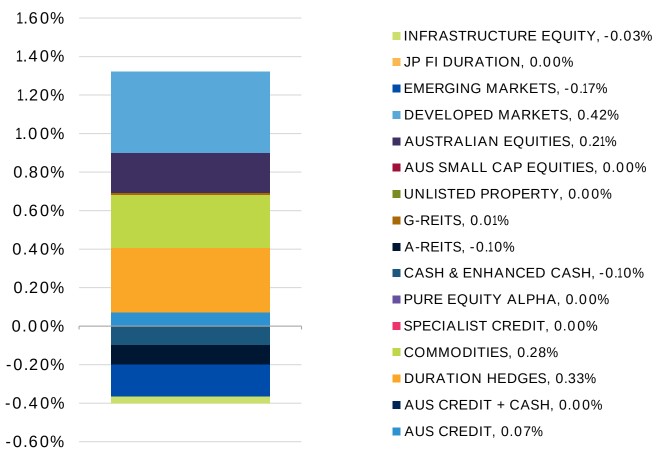
ESG APPROACH

The Fund may invest in underlying Perpetual funds which invest in Australian shares, fixed income and credit. Perpetual's ESG and value-based criteria, as described in the Product Disclosure Statement, are applied to these underlying funds. The Fund may also invest in underlying funds of Perpetual related bodies corporate which invest in international shares. A different ESG approach utilising ESG integration, positive and negative screening is applied to these underlying funds. The Fund may invest in other pooled managed funds and exchange traded funds that adopt different ESG approaches as determined by the applicable responsible entity or trustee of these funds. We do not have any influence over or assess the ESG approaches used by these other pooled managed funds or exchange traded funds. We do not consider any ESG factors (including labour standards) when deciding to buy, retain or sell an investment in any other asset class of the Fund.

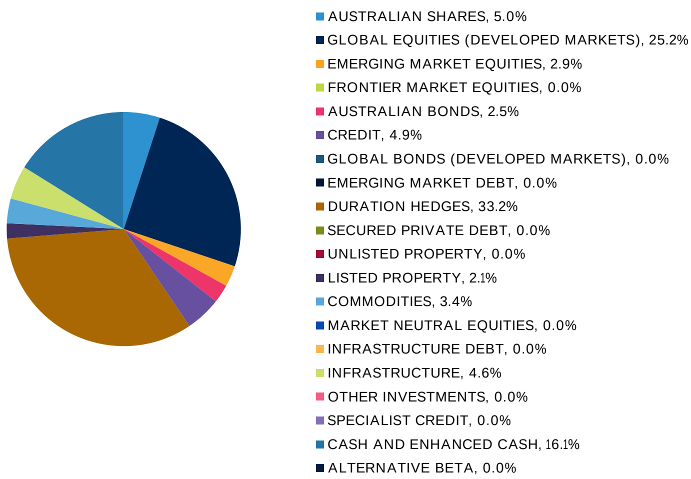
CHANGES IN ASSET ALLOCATION (%)

	CURRENT	3 MTHS	6 MTHS	1 YR
Cash	16.1%	-30.0%	-27.5%	-9.3%
Fixed Income & Credit	40.6%	3.4%	30.0%	-8.3%
Australian Equities	5.0%	3.1%	-9.7%	-1.2%
International Equities	28.1%	22.8%	5.7%	13.9%
Commodities	3.4%	0.8%	2.5%	0.7%
Property	2.1%	-0.1%	-0.4%	-0.4%
Other Investments	4.6%	-0.4%	-0.6%	4.6%

3MTH CONTRIBUTION TO RETURN (GROSS)



PORTFOLIO SECTORS



FUND PERFORMANCE

The ESG Real Return Fund returned 0.67% (net) in the March quarter. Over the past 12 months, the Fund has returned 3.43% (net).

Allocation to US 2-year bonds and emerging market fixed income performed well during the March quarter. The Fund's explicit downside protection positions also contributed with a number of US equity put options expiring in the money during March. A diversified basket of metals (including Gold) and soft commodities also performed well.

Global equity stock selection was mixed during the quarter. The Fund's deep value strategy performed well while the Trillium Global sustainable opportunities strategy detracted. The contribution of the developed market ESG premia was positive with global ESG focused indices outperforming comparable broad market benchmarks in March.

Australian equity exposures detracted slightly from performance as domestic equities fell over the quarter. Allocation to sustainable listed infrastructure LICs also weighed on performance.

The Fund's elevated cash allocation continues to offer an attractive running yield, adding to monthly returns and mitigating the impact of rising volatility in risk assets.

1. RETURN SEEKING ASSET CLASSES

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

For some time, we have maintained a low exposure to equity beta reflecting elevated equity valuations which had already priced in a soft landing for the global economy and supportive central bank action on policy rates. The Fund's lower sensitivity to systematic equity risk is expected to mitigate the impact of a broad-based selloff such as the one that commenced in late March.

The recent 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 allocations within the return seeking quadrant. The Fund retains exposure to value and deep value global equities, UK equities (which continue to offer solid dividend income and buybacks as well as potential for some valuation re-rating) alongside allocation to Australian value and strategic capital strategies.

The Fund's very low allocation to credit including 0% exposure to US high yield – reflecting valuation concerns – protects against spread widening which has intensified in the early days of the second quarter.

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. The Fund retains:

- Stock selection alpha through the Australian Ethical SRI Fund and Trillium Global Sustainable Opportunities Fund.
- A range of FX exposures;
- The Fund also maintains exposure to a select group of sustainable infrastructure stocks which are leveraged to the broader trend towards sustainability, 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 where it has been attractively priced to implement. These include put options on the S&P 500 and a recently added 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 defensive posture is supplemented by fixed income exposures which are centred on the short end of the US yield curve reflecting its high running yield and its higher sensitivity to further easing of official interest rates by the US Fed.

In addition, the Fund's cautious asset allocation is supported by a notable cash allocation, which provides solid income and significant optionality as valuations become more attractive.

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 should disruptive US trade policy or central bank easing reignite inflation.

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

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 i ntelligence 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 Chi nese 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 form 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 unravell ing 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 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. 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.

MORE INFORMATION

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