Perpetual Investment Funds
PERPETUAL DIVERSIFIED REAL RETURN FUND - CLASS W
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:	October 2010
Size of fund:	$608.5 million as at 31 December 2024
APIR:	PER0556AU
Management Fee:	0.85% pa ^^Refer to PDS for Management Costs
Investment style:	Diversified risk budgeting, active, value

Suggested minimum investment period: Five years or longer

FUND BENEFITS

Provides investors with access to a broadly diversified portfolio that weights asset classes according to their overall risk contribution to the total portfolio rather than capital allocations.

Provides a more efficient portfolio that seeks to reduce the uncertainty of investment outcomes and protect returns against inflation.

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.

FEE OPTION

Class W is the standard fixed fee class

TOTAL RETURNS % AS AT 31 MARCH 2025

PERFORMANCE	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS PA	5 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Gross)	0.14	2.16	2.51	5.20	4.47	5.73	6.36
Perpetual Diversified Real Return Fund (Net)	0.07	1.95	2.08	4.31	3.59	4.84	5.46

VOLATILITY^	3 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund	2.61	3.18
Mercer Balanced Growth Median	8.66	7.91

FUND OBJECTIVE OUTCOME AS AT 31 MARCH 2025

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

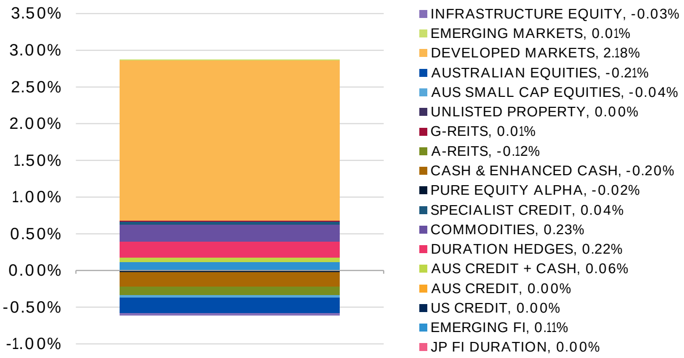
	5 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Gross)	5.7	6.4
CPI plus 5%	8.9	7.8

Past performance is not indicative of future performance.

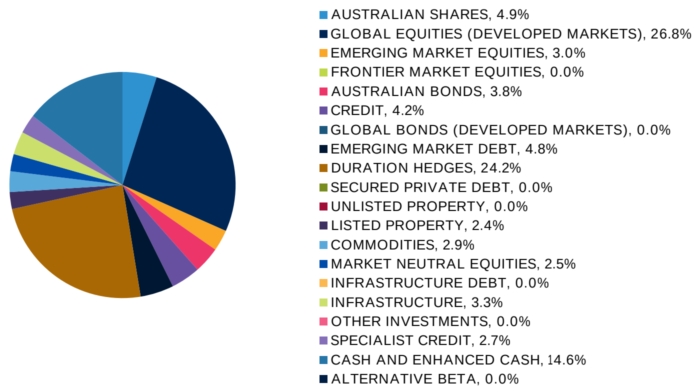
^^ Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS

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

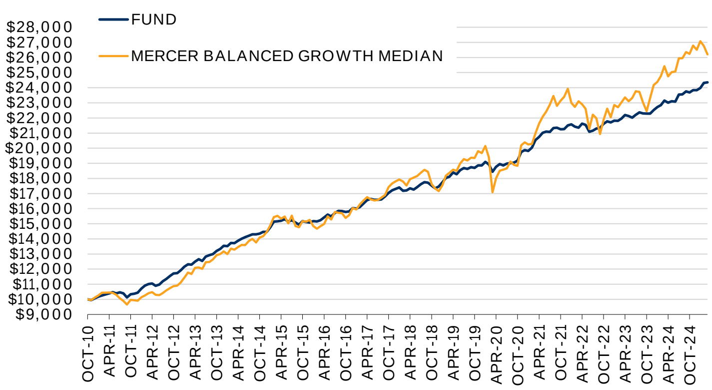
CONTRIBUTION TO 3MTH PERFORMANCE (GROSS)



PORTFOLIO SECTORS



GROWTH OF $10,000 SINCE INCEPTION



CHANGES IN ASSET ALLOCATION (%)

	3 MTHS	6 MTHS	1 YR
Australian Shares	3.3	2.8	-1.1
Global Equities (Developed Markets)	25.9	21.2	15.2
Emerging Market Equities	-0.1	0.0	-0.2
Frontier Market Equities	0.0	0.0	0.0
Australian Bonds	-0.3	0.0	0.0
Credit	0.1	0.4	0.9
Global Bonds (Developed Markets)	0.0	0.0	0.0
Emerging Market Debt	0.1	0.6	0.9
Duration Hedges	0.3	2.3	-13.0
Secured Private Debt	0.0	0.0	0.0
Unlisted Property	0.0	0.0	0.0
Listed Property	-0.1	-0.1	0.0
Commodities	0.1	0.4	0.2
Market Neutral Equities	0.0	0.0	0.3
Infrastructure Debt	0.0	0.0	0.0
Infrastructure	0.0	0.0	3.3
Other Investments	0.0	0.0	0.0
Specialist Credit	0.1	-0.2	0.2
Cash and Enhanced Cash	-29.3	-27.5	-6.7
Alternative Beta	0.0	0.0	0.0

FUND PERFORMANCE

The Diversified Real Return Fund returned 2.16% (gross) in the March quarter. Over the past year, the Fund has returned 5.20% (gross) and over the past 5 years the Fund has returned 5.72% (gross) per annum compared with the objective of 8.7% (CPI plus 5%*) over rolling 5 years. Since inception (in 2010) the Fund has returned 5.5%(gross) per annum compared with the objective of 6.46% (CPI plus 5%*).

The Fund's value bias in global equities protected capital as the recent outperformance of overvalued US tech stocks reversed The Fund's explicit downside protection positions also contributed with US equity put options expiring in the money during March. Allocation to US 2-year bonds and emerging market fixed income was also constructive, as was a diversified basket of metals (including Gold) and soft commodities.

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. While Australian equity beta exposure was positive, stock selection alpha detracted. Similarly, the allocation to sustainable listed infrastructure LICs and REITs also weighed on performance.

*All groups CPI measured and published by the ABS as at 31 December 2024

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 income-based 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.

Meanwhile, the Fund has very low allocation to credit including 0% exposure to US high yield – reflecting very narrow spreads which produces low-adjusted returns in periods of stress.

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. While growth sector and stocks have outperformed over recent years, the first quarter of 2025 saw a strong rotation towards value which we anticipate will persist.
- 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 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 attractive running yield and its higher sensitivity to further easing of official interest rates by the US Fed. We remain cautious on the reliability of longer duration bonds to offer the protection to portfolios that it has provided historically.

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

Holding securities at the short end of the US yield curve reduces the portfolio exposure to rising inflation which should provide some stability should disruptive US trade policy 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 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 with the decline continuing and accelerating in March.

- US equities (-4.3%) underperformed the broader developed market, impacted by both the spectre of lower cost Chinese artificial intelligence (which sparked sizable declines in valuations) and later the disruptive impact of tariff policy which sparked concerns about the earnings outlook. Value stocks and sectors starkly outperformed growth with the Russell 1000 Value Index (+2.1%) in positive territory while the growth variant (-10.0%) dropped sharply.

- European equities (+6.4%) outperformed strongly, led by the German DAX (+11.3%) which surged on fiscal policy tailwinds. Easing monetary policy and the unwinding of US overweight exposures in the wake of challenges to their tech supremacy also contributed.

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

- Japanese equities fell with the Nikkei 225 (-10.7%) off sharply primarily driven by appreciation of the Yen which weighed on offshore earners as did escalating global trade tensions.

- 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 in response to positive momentum in the technology sector and increased fiscal stimulus .

- Bond markets were mixed over the March quarter. US bond yields declined on weakening growth indicators and some easing of 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 the taxes in March, and tariffs on China were established and then later increased from 10% to 20% and we suspect the increase here has further to run.. Financial market volatility spiked as markets both parsed the tariffs and the broadened policy to be announced in early April. The outlook for the tariffs are clouded with uncertainty in terms of the ultimate level and its duration, so it's hard to draw firm conclusions at this stagebut they will weigh on economic growth and boost inflation, which is likely to negatively impact the ability of the US Fed to be pre-emptive in their rate settings. Another concern is the unsustainable fiscal deficit, which stands at +6.4% of GDP and is estimated to widen if the Trump administration's tax and spending plans are implemented in full. This raises concerns about the long-term trajectory of US Government debt and its potential impact on US term premia.

The tariff influenced equity market 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. The Magnificent 7 index has experienced deteriorating performance for their legacy businesses and we have reason to doubt that capital expenditure will result in the required boost in their respective earnings profiles over medium term.. Meanwhile, 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. Trade tariffs and public sector job cuts weighed on consumer sentiment with the University of Michigan's consumer sentiment index for March declining. The Fed kept interest rates on hold at 4.25-4.50% during the quarter while lifting its inflation outlook to 2.7% from 2.5% and cutting its growth forecast for 2025 to 1.7% from 2.1%. these changes were expected.

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, which improving the probability for further monetary easing in 2025 as wages growth and core inflation closed in on the 2% target. The CDU's victory in the German elections led to loosened borrowing limits and plans to increase spending in defence and infrastructure, which supported equities but saw bunds selloff sharply resulting in higher yields. 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 sustained elevated interest rates and flat productivity which has led to the longest period 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), unspent 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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