

# Perpetual Investment Funds

## PERPETUAL ESG REAL RETURN FUND

28 February 2026

### 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:** \$40.9 million as at 31 December 2025  
**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

True alignment to investors real return objectives; Diversification of risk; Active management of the Asset Allocation; Access to an increased amount of investment opportunities; ESG integration through Perpetual and Trillium Funds.

### 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 28 FEBRUARY 2026

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)	0.00	0.36	1.38	5.91	4.74	-	3.00	Perpetual ESG Real Return Fund	-	-
Perpetual ESG Real Return Fund (Net)	-0.06	0.15	0.96	5.02	3.86	-	2.13	Mercer Balanced Growth Median	5.84	7.60

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

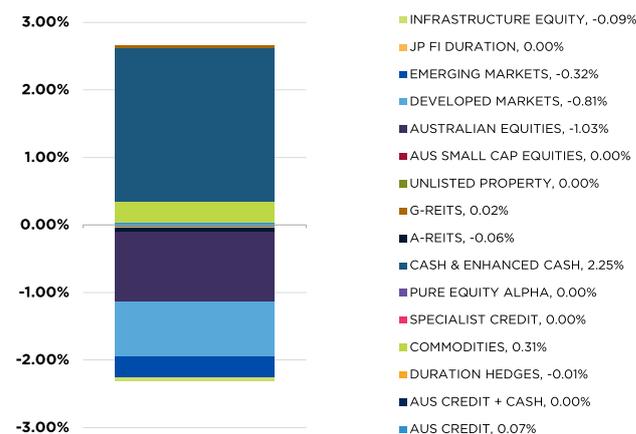
### CHANGES IN ASSET ALLOCATION (%)

	CURRENT	3 MTHS	6 MTHS	1 YR
Cash	22.9%	5.6%	3.1%	1.3%
Fixed Income & Credit	38.5%	-2.9%	-0.9%	-0.9%
Australian Equities	4.9%	-0.5%	0.0%	-0.3%
International Equities	25.5%	-1.0%	-0.9%	1.4%
Commodities	1.5%	-1.0%	-0.9%	-1.6%
Property	2.2%	-0.1%	-0.1%	0.1%
Other Investments	4.4%	-0.2%	-0.3%	0.0%

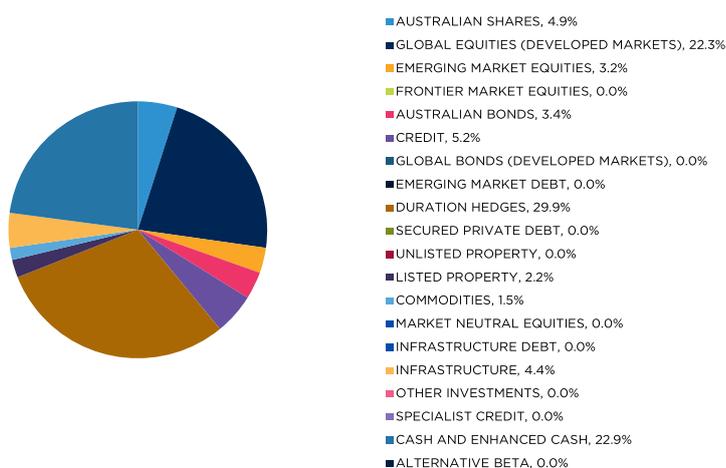
### ESG APPROACH

As a real return fund, the Fund applies a dynamic asset allocation approach, which is designed to allow the portfolio manager the greatest flexibility to achieve the fund's objective. There is no universal, consistent approach to ESG across every asset class in the Fund due to practical and fundamental issues of investing in each asset class. The Fund's approach to ESG screening will vary across asset classes and by investment strategy within each asset class where applicable. Please refer to the Perpetual Investment Funds PDS for further information.

### 3MTH CONTRIBUTION TO RETURN (GROSS)



### PORTFOLIO SECTORS



## FUND PERFORMANCE

The ESG Real Return Fund returned -0.1% (net) in February. Over the past 12 months, the Fund has returned 5.0% (net).

February was another strong month for global equity stock selection. The Fund's allocation to the Trillium Global Sustainable Opportunities, UK Equity Income and Global Deep Value strategies were rewarded as the rotation from growth to value stocks and the outperformance of ex-US developed markets persisted. These strategies offer exposure to the less expensive parts of the global sharemarket in addition to providing greater sector and regional diversification. This was complemented by returns from our selective sustainable infrastructure LICs which also performed well.

The allocation to commodities also added to performance with the Fund's gold exposure benefitted from the falling US Dollar and flight to safety as geopolitical tension rose. The Fund's exposure to US 2Y bonds also enhanced returns as yields rallied 15 bps in the wake of better-than-expected US inflation data for Jan-26.

The ESG premia detracted from during the period with sustainability benchmarks underperforming broad market peers. We anticipate oil price pressure to remain a headwind for sustainable strategies in the near term following the commencement of strikes in Iran and the closure of the strait of Hormuz.

## MARKET COMMENTARY

Equities saw elevated volatility and credit spreads softened as markets priced rising geopolitical tensions, concerns around private credit markets, US trade policy uncertainty and the impact of agentic AI disruption.

- Global shares (+1.0%) ended the month higher with the broadening of investment returns seen in January continuing as Ex-US, small caps and value stocks and sectors outperformed their respective US, large cap and growth peers.
- US equities (-0.8%) underperformed the broader global market led by weakness in software and broader tech names as markets continued to price the disruptive impact of agentic AI on traditional enterprise software business models.
- European equities (+4.3%) advanced, benefiting from strengthening leading macro indicators and the ongoing rotation from US shares. The ECB remained on hold, with President Lagarde repeating the view that inflation is "in a good place".
- UK equities (+7.0%) advanced strongly to a fresh record high as global investors rotated into healthcare and financials, basic materials, utilities and telecommunications. The Bank of England remained on hold but the latest inflation reading showed continued disinflation which saw market expectations for 2026 rate cuts firmed.
- Japanese equities (+10.4%) again led the pace of gains in developed markets reflecting anticipated pro-growth policies following the landslide victory of the LDP in the February election.
- Emerging market equities (+5.0%) outperformed developed markets, led by index heavyweights Korea and Taiwan.
- Australian Shares (+3.9%) performed strongly, in response to a fairly solid reporting season which sparked upgrades from analysts.
- Global bond yields fell over the month reflecting the broader risk-off tone as geopolitical tensions mounted. Australia 10-year yields rallied 15 bps while US 10-year yields fell 20bps and the curve flattened.

Geopolitical issues remained a key concern for markets over the month with escalating tensions between the US, Israel and Iran culminating in strikes commencing on the 28th of February. Hostilities commenced after markets had closed for the month however the action precipitated significant volatility in equity bond and commodity markets in early March. The team continues to monitor the situation in the region which remains fluid. The potential ramifications for the global economy are material with oil prices reacting to reduced activity in the Straits of Hormuz. Elevated oil prices have implications for headline inflation via energy prices, and to core inflation through transportation costs which every business endures.

The bear case for risk markets would be if oil prices were to rise sharply and remain elevated for the remainder of the year, thereby threatening the duration of the business cycle. The two 1970s oil shocks saw oil prices at least doubled with high prices persisting for over a year, but the global economy is today less oil price sensitive than it was 50 years ago. In the past 75 years, there have been 22 episodes of rising geopolitical tensions sparking elevated share market volatility, but in the 1/6/12 months post these occurrences, the S&P 500 has on average risen +2%/+6%/+8%, with only four episodes seeing greater than -10% losses and two-thirds of the episodes recording positive returns over the ensuing 12 months.

Though overshadowed by geopolitical developments by month end, February saw a key development in path of US trade policy. The US Supreme Court ruled against the use of the International Economic Emergency Powers Act to justify the April 2025 "liberation day" tariffs. The decision has potential fiscal implications with reduced receipts and ~US\$175 billion in duties potentially subject to refunds contingent on litigation. While the administration has used Section 122 to reinstate a 10% across the board tariff for 150 days, the Supreme Court's ruling has complicated the Trump administration trade policy strategy, although several avenues remain open for the Administration to implement import taxes.

Meanwhile, the February FOMC minutes signalled a more hawkish tilt, with some policymakers indicating that further rate increases may be warranted if inflation does not ease. This shift reflects internal forecasts showing unemployment falling below its long-run sustainable level by year-end while inflation remains above the Federal Reserve's 2% target.

February was witnessed rising concerns around loan quality in private credit markets. A US private credit manager was forced to change redemption terms on one of its retail funds highlighting the risks of liquidity mismatches and potential conflicts of interest arising from internal valuations. The initial spike in redemptions reflected rising concerns around SAAS (Software as a service) lending in the face of disruption from agentic AI. The event sparked a selloff in high yield credit and share price declines for listed managers. Meanwhile in the UK a specialist property finance lender MFS entered administration amid allegations of fraud with creditors and administrators citing double pledging of assets as collateral to secure financing. This highlights a systemic stress point within the industry and raises questions about poorly vetted security in other parts of the ecosystem. Contagion risk exists between private credit markets and the regulated banking sector, as poor collateral means banks are potentially levered in their private credit exposure. The Fund currently has no exposure to illiquid assets including private credit. While illiquids can provide genuine diversification when return drivers are truly distinct, private markets are currently characterised by heavy capital inflows, elevated valuations, high transaction and implementation costs, and low visibility and transparency.

Equity markets were not immune from the anticipated impact of agentic AI. Market weakness during a volatile month reflected a shift in leadership as expectations for long-duration themes such as digital transformation and AI were reassessed after years of strong price gains, prompting capital to rotate toward companies, sectors and markets with more reasonable valuations and which are under-owned and have beatable EPS expectations. Technology remained a key laggard, with investors becoming more selective about which business models will genuinely benefit from AI. Higher-valued software and platform stocks underperformed, while hardware and semiconductor firms fared better, highlighting a preference for companies enabling AI adoption rather than those reliant on distant or uncertain benefits. While AI technology itself is transformative, we see some parallels to the first tech boom and are wary of the business of providing AI services will meet the egregious profit expectations which are baked into forward looking valuations.

Elsewhere, the RBA became only the second major central bank to raise rates this cycle, lifting the cash rate by 25 basis points at its February meeting. While further hikes have already been priced in for May in the line the Banks detailed forecasts contained in the Quarterly Statement of Monetary Policy, subsequent

communication highlighted some uncertainty around the next policy move, but the impact of rising oil prices is set to add to the domestic inflation challenge. Economic data released over the month was mixed after a strong January, with declines in building approvals offset by an improvement in household spending. While the economy has improved growth momentum, the medium-term outlook remains tepid with zero real wages growth for the next few years, and an increasingly cautious corporate sector.

## CURRENT POSITIONING

Markets are facing challenges in the near term (two Fed cuts and EPS growth of +15% for 2026 are already factored in) and long term (investors living in a '4% world' given high valuations and likely having priced in years of productivity improvement). Valuations are above the 90th percentile in every region (ex-UK and Japan) which combined with narrow market leadership and the preponderance of value-agnostic passive funds, have made regional equity markets increasingly vulnerable to unexpected news.

The Fund retains exposure to the Trillium Global Sustainable Opportunities Fund and Perpetual ESG Australian Share Fund alongside Global Deep Value and UK Equity Income strategies, targeting undervalued companies overlooked by passive flows. These firms continue to offer, strong fundamentals and elevated free cashflows that are aligned with the Fund's investment objective and are not reliant on valuation expansion to deliver returns of CPI +5%pa. In scenarios where market performance broadens beyond the "Magnificent 7" stocks, the Fund's diversified, and value style—previously a headwind against concentrated momentum-driven equity indices—should help drive performance. The Fund also maintains its allocation to sustainable listed investment companies trading at significant discounts to NAV, generating robust cash flows aligned with the investment objective

We continue to manage downside risks by maintaining little or no exposure to the most expensive parts of the global equity and credit markets, and have zero exposure to private markets given their liquidity and valuation risks, where a left tail event could spark vulnerabilities and contagion. The Fund complements this with option protection where it has been attractively priced to implement. These include cost-effective S&P 500 put options, risking only premiums if markets rise, while protecting against downturns without predicting timing. The Fund also maintains a USD call option versus the Hong Kong Dollar which provides cheap protection against geopolitical risks.

The Fund's defensive posture is supplemented by fixed income exposures which are centred on the short end of the US yield curve. US 2-year bonds offer an attractive running yield and stability in crises compared to long-end bonds which are more sensitive to rises in US growth and inflation expectations. The Fund also added call options on very long dated US government bonds in November.

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

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## MORE INFORMATION

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