

# Perpetual Investment Funds

## PERPETUAL DIVERSIFIED REAL RETURN

31 July 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.

**Management Fee** 1.10% pa\*^

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

\*Refer to PDS for Management Costs.

^Management Fee for Super and Pension is 0.85%.

### TOTAL RETURNS % (AFTER FEES) AS AT 31 JULY 2026

| PERFORMANCE                            | APIR      | 1 MTH | 3 MTHS | 6 MTHS | 1 YR | 3 YRS PA | 5 YRS PA | 7 YRS PA | 10 YRS PA |
|----------------------------------------|-----------|-------|--------|--------|------|----------|----------|----------|-----------|
| Perp. WealthFocus Allocated Pension    | PER0741AU | 1.17  | 3.26   | 3.24   | 7.92 | 6.12     | 4.35     | 4.45     | 4.4       |
| Perp. WealthFocus Investment Advantage | PER0739AU | 1.11  | 3.16   | 3.13   | 7.68 | 5.91     | 4.14     | 4.25     | 4.2       |
| Perp. WealthFocus Super                | PER0742AU | 1.08  | 2.89   | 2.92   | 7.21 | 5.53     | 3.92     | 4.00     | 3.9       |

### FUND OBJECTIVE OUTCOME AS AT 31 JULY 2026

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

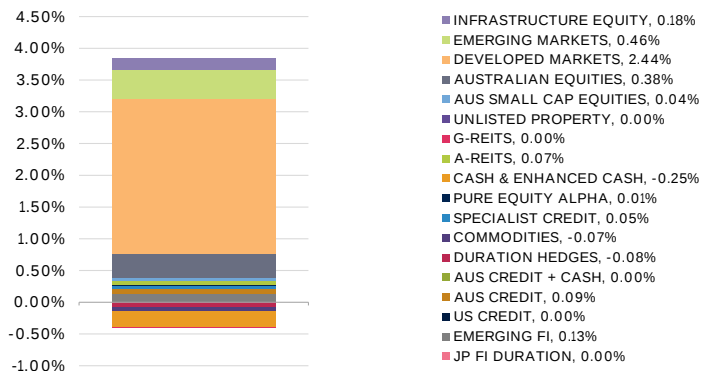
|                                                | 5 YRS PA | INCEPT PA |
|------------------------------------------------|----------|-----------|
| Perpetual Diversified Real Return Fund (Gross) | 5.3      | 6.6       |
| CPI plus 5%                                    | 9.7      | 7.9       |

Past performance is not indicative of future performance.

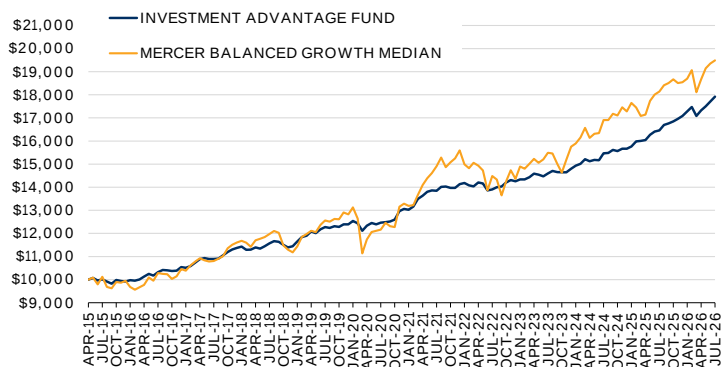
^^ Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS

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

### CONTRIBUTION TO 3MTH PERFORMANCE (GROSS)



### GROWTH OF \$10,000 SINCE INCEPTION



## FUND PERFORMANCE

The Diversified Real Return Fund returned 1.2% (gross) in July. Over the past year, the Fund has returned 8.9% (gross), and over the past five years, the Fund has returned 5.3% (gross) per annum compared with the objective of 9.7% (CPI plus 5%\*) over rolling five-year periods. Since inception (in 2010), the Fund has returned 6.6% (gross) per annum compared with the objective of 7.9% (CPI plus 5%\*).

Global equity alpha was the key contributing factor to performance over the month. Shifting market leadership and the broadening of investment returns positively impacted the Fund's allocation to the Barrow Hanley Global Share Fund (which has a strong value bias) alongside dividend weighted equity and global deep value strategies. Allocation to the JO Hambro UK Equity Income Fund was rewarded as UK equities outperformed the broader market, led by financial and energy sectors.

Emerging markets exposure had a mixed impact on performance over the month. While emerging markets underperformed, stock selection within the allocation was constructive. Underweight exposure to AI supply chain names, including SK Hynix and Samsung, performed well as semiconductor stocks sold off.

Exposure to 2-year US government bonds detracted as yields rose, while domestic fixed income exposures were mixed with inflation linked bond exposures detracting, albeit marginally.

\*Monthly CPI indicator measured and published by the ABS as at 30 June 2026

## MARKET COMMENTARY

Global equity and bond markets saw increased volatility during July, reflecting resurgent hostilities in the Middle East. Energy-driven inflation drove expectations of further central bank tightening by central banks. Equity markets saw shifting market leadership as AI capex and return on investment came under increasing scrutiny and AI supply chain companies declined after a period of very strong performance.

- US equities were mixed, with the S&P 500 equal-weighted index (+1.0%) outperforming the cap-weighted index (-0.1%) as investors rotated out of the year's AI winners and into cheaper cyclical, value-oriented areas, including energy and financials.
- Japanese equities were the weakest of the major developed markets with the Nikkei 225 (-8.1%), giving back some of the year's exceptional gains as a correction in semiconductor and AI-linked names spread across Asia.
- European equities marginally outperformed the broader market (+0.6% vs +0.2%) as stronger-than-expected Q2 corporate earnings and a firmer economic backdrop were offset by a hawkish ECB tone.
- UK equities were the standout among major developed markets, with the FTSE All-Share Index (+3.7%) helped by the index's higher weighting to energy and financials, even as UK 10-year gilt yields rose 29bps over the month to 5.05%.
- Australian shares were resilient with the ASX 300 (+2.1%) marking a fourth consecutive monthly gain and touching a five-month high late in the month, supported by resources, technology and healthcare even as bank performance was more subdued.
- Emerging market and broader Asian equities were volatile and, on balance, weaker over the month, with semiconductor-driven markets, including the Korean KOSPI (-23.6%) and Taiwan TAIEX (-5.9%), among the hardest hit as AI supply chain concerns spread beyond the US.
- Crude oil prices surged +23.6% as Middle East hostilities reignited following the collapse of diplomatic efforts.
- Government bond yields rose broadly across major markets. US bond yields rose and the curve steepened as the US 10-year Treasury yield increased 27bps while the 2-year rose a more modest 12bps. The Australian 10-year rose a smaller 21bps to 4.93%, as markets priced a higher probability of further policy tightening.

Geopolitics remained the key focus for markets in July. Diplomatic efforts between the US and Iran broke down mid-month, following the collapse of the earlier ceasefire framework and a failed round of talks. Hostilities escalated sharply in the back half of the month. Oil prices, which had fallen sharply in early July on hopes of a durable settlement, reversed just as sharply once talks collapsed. While supply disruptions in the Middle East warrant a persistent geopolitical risk premium, limited pass-through to consumers and resilient business activity should allow most central banks to remain patient, with only modest additional policy tightening likely in Australia, Japan, the UK and Europe unless the oil price sustains above US\$100 per barrel for an extended period. Even in an increasingly unlikely scenario where the US and Iran reach a settlement, a full normalisation of shipping is expected to take months given the backlog of vessels and the need to clear naval mines and rebuild energy infrastructure.

US corporate earnings results were buoyant. With over 60% of S&P 500 companies having reported by month-end, 86% of reporters posted positive earnings surprises and 77% beat on revenue, with +27% QA EPS growth recorded outside the strong results from Alphabet and Amazon as they monetised investments in tech plays such as Anthropic and SpaceX. More importantly, profit growth has been very broad based, with eight of 11 sectors producing double-digit EPS growth.

Away from the US, European and Japanese reporting seasons were also tracking ahead of expectations with very strong broad-based results. Alongside positive earnings surprises, the economic outlook has improved somewhat and business sentiment has largely shrugged off rising Middle East tensions. Purchasing Managers' Indices improved across almost every sector and region. The global economic outlook remains constructive, with tech investment set to provide a meaningful boost, which should help cushion any pullback in consumer spending from higher oil prices.

While central banks were on hold in July ex-Bank of Korea, there was a hawkish shift to policy rate path expectations. The Federal Reserve held its target range at 3.50%-3.75%, though three members dissented in favour of an immediate hike, citing persistent inflation and a resilient economy. The European Central Bank held its deposit rate at 2.25% following June's hike, continuing to monitor the energy shock's inflationary pass-through, with strong hints of a September increase. The Bank of England held Bank Rate at 3.75% in a 6-3 vote, with three members again backing a hike to 4.00%. The Bank of Japan held rates steady but kept the door open to further normalisation. Meanwhile, yen weakness prompted direct intervention while concerns around fiscal policy put upward pressure on bond yields. The Reserve Bank of Australia did not meet in July but a softer-than-expected Q2 CPI print moderated expectations for an August increase. Headline consumer price index (CPI) eased to 3.8% y/y, while the Trimmed Mean inflation was steady at 3.6% y/y.

The month's defining market debate was the shift from rewarding AI infrastructure build-out to scrutinising the return on that capital. There was renewed concern about whether hyperscalers are building compute capacity ahead of near-term demand, echoing the early-2000s fibre-optic build-out. This triggered a sharp, broad-based de-rating of AI-exposed technology and semiconductor names in the US and Asia, even as end-user companies applying AI more broadly continued to report strong results. Consequently, market leadership broadened, with cyclical, value and dividend-oriented

segments outperforming after an extended period of AI-driven concentration. The question is no longer whether AI will transform the economy, but which participants will capture the economic value. We continue to have concerns around the quality and expected returns from the trillions of dollars being committed to AI capital expenditure, and we look for opportunities outside this cohort.

The outlook for markets is finely balanced with constructive economic and corporate earnings growth offset by geopolitical uncertainty and inflation risks. Valuations among global share markets remain elevated. Meanwhile, with government bonds offering less reliable diversification, risk management remains paramount. The Fund retains multiple embedded risk protections and sources of portfolio convexity. 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 no individual position, or cluster of positions, risks the medium-term investment objective.

## CURRENT POSITIONING

Elevated P/E ratios and market concentration, alongside the preponderance of valuation-agnostic passive funds, have made regional equity markets increasingly vulnerable to unforeseen events. On a cyclically adjusted 10-year basis, US equities sit among the most expensive readings in market history, and roughly 30% of the S&P 500 is now tied to the AI theme.

Alongside its value-focused global and domestic equity exposures, the Fund retains allocations to Global Deep Value and UK Equity Income strategies, targeting undervalued, cash-generative companies that are overlooked by passive flows and whose returns are not reliant on further valuation expansion to deliver returns of CPI plus 5% per annum. These holdings trade at a material discount to global benchmarks and provide genuine geographic diversification, including a substantial overweight to the UK and a large underweight to expensive US mega-cap technology. Over recent months, the Fund has built a position that is long equal-weighted S&P 500 futures and short S&P 500 futures. This position extends the tilt away from mega-cap and AI themes, with the potential to outperform should the broadening out of investment returns observed during July persist over the coming months. 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 we 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. This includes cost-effective, layered S&P 500 put structures that risk only a low single-digit basis-point premium while delivering asymmetric protection across shallow, moderate and deep drawdown scenarios without requiring precise market timing.

The Fund's defensive posture is supplemented by fixed income exposures centred on the short end of the US yield curve. US 2-year bonds offer an attractive running yield and greater stability in crises than longer-dated bonds, which are more sensitive to US inflation expectations. Holding securities at the short end of the US curve reduces the portfolio's exposure to rising inflation.

We are living in a decade of higher inflation driven by deglobalisation, decarbonisation, political populism, larger fiscal deficits, higher tariffs, and lower immigration (outside Australia and the UK). The need for inflation hedges is reinforced by the Middle East situation, as more funds will be spent on defence, critical infrastructure, higher energy prices, and increased stockpiling of critical commodities. The Fund maintains its allocation to a diversified basket of commodities (including gold, grains, livestock, silver, palladium, platinum and copper), which are typically positively correlated with inflation.

Further contributing to the inflation-protection quadrant is the Fund's allocation to inflation-indexed bonds (ILBs). At current levels, investors receive genuine carry, compensation for term premia, inflation protection and a liquidity premium from an AAA-rated Commonwealth sovereign security. This is a defensive asset and a return-generating anchor, and it simultaneously hedges inflation, duration and macro uncertainty—aligned with the Fund's inflation and downside protection objectives.

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Total returns shown for the investment option have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for taxation. Past performance is not indicative of future performance.

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## MORE INFORMATION

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