Perpetual Investment Funds

PERPETUAL
ESG REAL RETURN FUND

31 August 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: $36.3 million as at 30 June 2026
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 31 AUGUST 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)	1.02	3.61	4.01	5.45	5.65	2.98	3.48	Perpetual ESG Real Return Fund	-	-
Perpetual ESG Real Return Fund (Net)	0.95	3.39	3.57	4.56	4.76	2.11	2.61	Mercer Balanced Growth Median	6.41	7.49

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

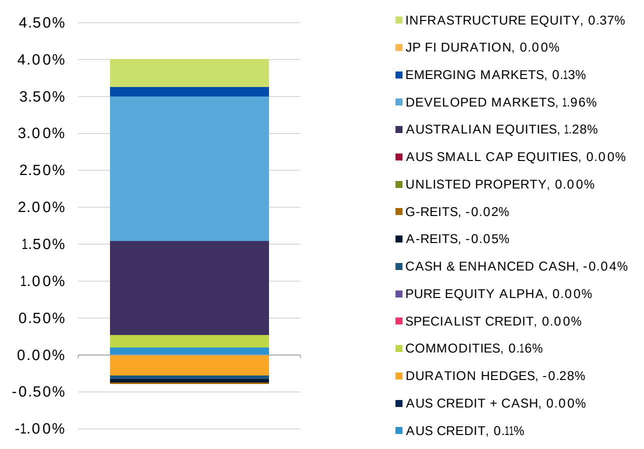
CHANGES IN ASSET ALLOCATION (%)

	CURRENT	3 MTHS	6 MTHS	1 YR
Cash	9.9%	-3.0%	-13.0%	-9.9%
Fixed Income & Credit	46.8%	4.9%	8.2%	7.4%
Australian Equities	5.3%	0.0%	0.4%	0.3%
International Equities	29.5%	-1.8%	4.0%	3.1%
Commodities	1.8%	0.2%	0.3%	-0.6%
Property	2.1%	-0.3%	-0.1%	-0.2%
Other Investments	4.7%	-0.1%	0.3%	0.0%

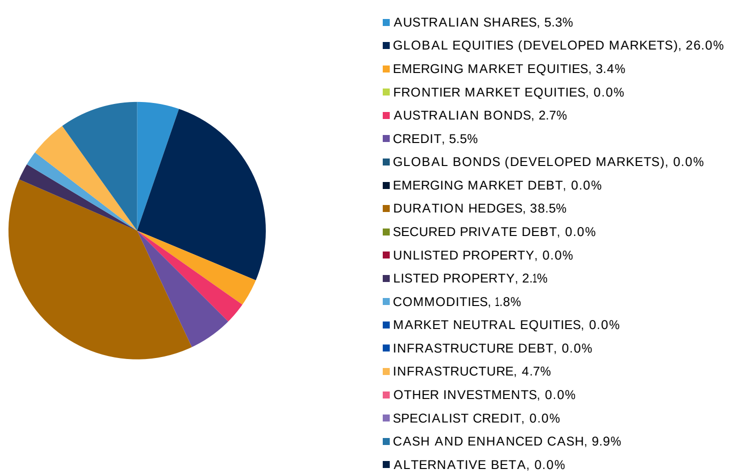
ESG APPROACH

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 0.9% (net) in August. Over the past 12 months, the Fund has returned 4.6% (net).

Allocation to Australian and global equity beta were the key contributing factors to performance over the month. This was supplemented by stock selection within Australian Equities as a number of key overweights benefitted from robust earnings results. Underweight exposure to the major banks was also rewarded as margin pressure and softening property market weighed on results.

Global equity stock selection was also constructive with allocation to the Trillium Global Sustainable Opportunities, JO Hambro UK Equity Income and Global deep Value strategies all performing well. Within alternatives, allocations to metals, soft commodities and sustainable listed infrastructure LICs all contributed.

The Fund's exposure to inflation linked bonds as well as domestic property detracted from performance as bond yields rose. The Fund's US Dollar exposure also faced headwinds as the Greenback continued its decline driven by strong jobs data.

MARKET COMMENTARY

Global equity markets extended their advance through August even as government bond yields came under renewed pressure. Equity investors focused on strong corporate earnings and evidence that investment in artificial intelligence is translating into broader business spending. Government bond yields rose in major markets, with Australian, UK and US 10-year yields all pushing towards 15-year highs, as markets grappled with rising fiscal deficits, sticky inflation and the inflationary implications of a looming AI-driven data-centre investment boom.

- Global equities (+2.4%) and US equities (+2.7%) rallied, with gains evenly spread between the value and growth gauges (the MSCI World Value index and MSCI World Growth index were both up +2.4%).
- Japanese equities were among the strongest performers, with the Nikkei 225 (+3.1%) extending its exceptional 2026 gains, supported by a weaker Yen and the ongoing strength in semiconductor and other AI supply chain names.
- European equities were solid (Eurostoxx 50 index rose +1.0% which was its fifth consecutive monthly gain) but trailed the broader market as strong earnings were offset by a hawkish ECB tone and rising bond yields.
- UK equities also lagged, with the FTSE 100 (+0.2%) relatively flat even though the index has recorded seven monthly gains in 2026YTD. In August UK 10-year gilt yields pushed above 5% for the first time since 2008.
- Australian shares were resilient through a volatile reporting season, with the ASX 300 (+1.6%) extending its run of monthly gains, led by small caps, even as the Reserve Bank held rates steady and bond yields rose.
- Emerging markets were mixed (+1.9%) with markets exposed to AI supply chain including the TAIEX (+7.1%) and KOSPI 200 index (+2.5%) bouncing from losses in July, which helped both markets to outperform Chinese equities (1.0%)).
- Gold recorded its strongest monthly rise since January 2026 (+10.1%), as the resurgence of Middle East hostilities and continued central bank buying amplified the effect of the global duration selloff as investors sought alternative diversifiers.
- Government bond yields rose broadly across major markets. The US 10-year yield rose to 4.75% (highest level since January 2025) as investors became increasingly concerned about stubborn core inflation and the US Fed's reaction function. Yields in similar markets such as Australian & UK also experienced upward pressure on long-dated yields.

Geopolitical developments remained an important market theme throughout August. Oil prices initially eased through the first half of August on hopes of a durable US-Iran agreement to reopen shipping through the Strait of Hormuz, before reversing sharply as diplomatic efforts broke down and direct exchanges of fire between US and Iranian forces resumed in the final week of the month. The persistent risk of supply disruption continues to warrant a geopolitical risk premium in energy markets, though limited pass-through to broader inflation have so far allowed most central banks to remain patient, although September is shaping up as a month in which rates are expected to rise in both Japan and Europe, and potentially Australia.

The inflationary impact of higher energy and input costs saw monetary policy expectations shift over the month with markets increasingly pricing in further US Fed and RBA rate hikes. Fed Chair Warsh's Jackson Hole address in late August again offered no explicit forward guidance but reiterated the FOMC's discomfort with inflation running persistently above target, and markets have since increased the probability assigned to a September rate hike. The Reserve Bank of Australia left the cash rate unchanged at 4.35%, but stronger-than-expected July inflation and persistent capacity pressures increased market expectations of further tightening.

Following the coordinated intervention by U.S. and Japanese authorities to support the yen, U.S. Treasury Secretary Scott Bessent announced plans to significantly increase purchases of long-dated Treasury securities through an expanded buyback program as U.S. yields climbed to their highest level in nearly two decades .While framed as a measure to enhance market liquidity, the move reignited discussion around the sustainability of U.S. fiscal deficits and the longer-term outlook for the U.S. dollar.

US corporate earnings remained a key source of support, with the Q2'26 reporting season confirming very broad-based profit growth well in excess of nominal GDP growth across most sectors, while European and Japanese reporting seasons also tracked ahead of expectations. In the United States, earnings strength was concentrated in AI and energy, but there were also signs of improvement across aerospace and defence, luxury goods, personal care and medical equipment. The broader earnings profile is supportive for the Fund's bias towards a wider set of value-oriented, geographically diversified opportunities.

Within Australia, the economic picture was mixed. Nominal consumer spending remained solid, but real spending was subdued as sentiment stayed weak, unemployment edged higher and wages growth eased. Housing activity also softened, with major banks reporting declining mortgage applications. Against this backdrop, attention increasingly turned to the scale of Australia's coming AI-driven data-centre investment cycle, conservatively estimated at over $110bn over the next four years. Arriving into an economy already with a positive output gap and already-binding construction capacity in Queensland and Western Australia, which risks the investment boom crowding out spending in other sectors such as property, rather than expanding growth— a dynamic reminiscent of the 2010-12 mining boom — reinforcing the case for a higher-for-longer Reserve Bank cash rate and a firmer Australian dollar.

The outlook for markets remains finely balanced, with resilient global growth and earnings momentum offset by stretched valuations, elevated government bond issuance, higher bond yields and a rising risk premium attached to long-dated sovereign debt. Government bonds continue to offer diminished diversification benefits as yields rise in tandem with equities, reinforcing the importance of the Fund's alternative sources of portfolio protection. 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

Global equity markets continue to be characterised by elevated valuations, concentrated index leadership and strong retail participation, particularly in the United States. While the investment opportunity set remains narrower than usual in the largest benchmark indices, recent reporting seasons have provided encouraging evidence that earnings growth is broadening beyond a handful of mega-cap companies. Europe and Japan are increasingly contributing to global profit growth, while a growing proportion of US companies are participating in the earnings expansion, supporting a more constructive medium-term outlook for risk assets.

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. 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.

While cyclical signals have improved, the Fund continues to manage downside risks by carefully managing exposure to the most expensive parts of the global equity and credit markets. We also 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.

Within the defensive component of the portfolio, fixed income allocations remain concentrated toward the shorter end of the US yield curve. Short-dated government bonds continue to offer attractive carry while exhibiting less sensitivity to inflation surprises and fiscal uncertainty than longer-duration bonds. This positioning seeks to provide diversification benefits during periods of market stress without materially increasing exposure to duration-related risks.

The Fund also maintains a meaningful allocation to inflation-sensitive assets. Structural drivers including deglobalisation, rising fiscal spending, geopolitical tensions, energy security initiatives and ongoing supply-side constraints suggest that inflation may remain more volatile than experienced during the decade prior to the pandemic. To address this risk, the portfolio retains exposure to a diversified basket of commodities and Australian inflation-linked bonds. At current yields, inflation-linked bonds provide a combination of real income, sovereign credit quality, inflation protection and liquidity, making them an attractive defensive anchor within the broader portfolio.

Overall, the Fund remains positioned for a world where valuations matter, inflation remains structurally higher than in the pre-pandemic era, and market leadership continues to broaden beyond a narrow group of mega-cap stocks. We believe a combination of attractively valued equities, inflation-sensitive assets, short-duration fixed income and targeted downside protection provides a robust framework for achieving the Fund's long-term return objective while preserving resilience across a wide range of economic and market outcomes.

MORE INFORMATION

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