

# Perpetual Investment Funds

## PERPETUAL

### ESG REAL RETURN FUND

31 August 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:** \$40.2 million as at 30 June 2025  
**APIR:** PER0761AU  
**Management Fee:** 0.85% pa <sup>^^</sup>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 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)	0.86	2.18	4.47	7.15	4.61	-	3.02	Perpetual ESG Real Return Fund	-	-
Perpetual ESG Real Return Fund (Net)	0.78	1.96	4.02	6.25	3.72	-	2.15	Mercer Balanced Growth Median	7.62	7.74

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

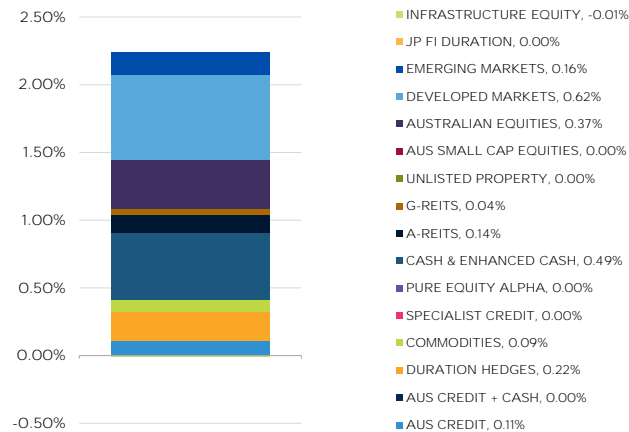
#### CHANGES IN ASSET ALLOCATION (%)

	CURRENT	3 MTHS	6 MTHS	1 YR
Cash	19.8%	-0.2%	-1.8%	-6.8%
Fixed Income & Credit	39.4%	1.6%	0.0%	1.8%
Australian Equities	5.0%	-0.3%	-0.2%	-0.3%
International Equities	26.4%	-0.9%	2.3%	6.3%
Commodities	2.4%	0.0%	-0.7%	-0.4%
Property	2.3%	0.0%	0.2%	-0.1%
Other Investments	4.7%	-0.3%	0.3%	-0.5%

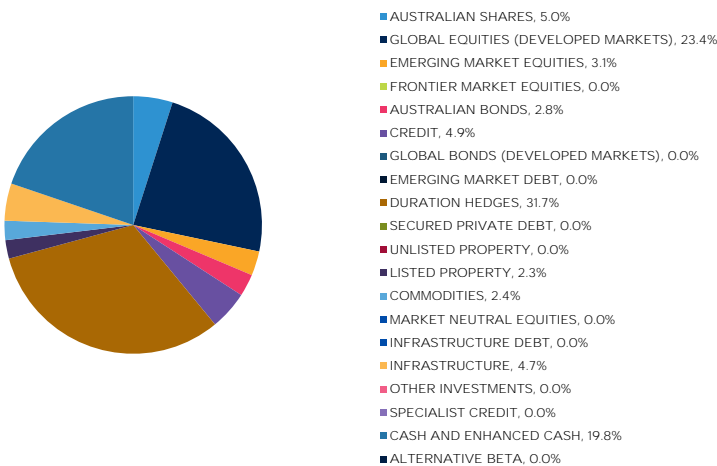
#### ESG APPROACH

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 0.8% (net) in August. Over the past 12 months, the Fund has returned 6.3% (net).

**The extended rally in global equities was constructive for performance over August. The Fund's Global Deep Value strategy performed strongly alongside global and domestic equity beta. The Fund's allocation to domestic and global REITs, soft commodities and metals all appreciated during August and contributed to performance.**

**Meanwhile, the Fund's exposure to 2-year US government bonds performed very well as the US yield curve steepened and 2-years yields declined in response to dovish guidance by Fed Chair Powell which indicated that further rate cuts were likely.**

**The Fund's explicit downside protection positions detracted from performance as equities rose, partially offsetting the contribution of global equity exposures. Global equity stock selection and the contribution of the ESG premia was negative. Similarly, the Fund's allocation to sustainable listed infrastructure LICs detracted marginally after a period of robust performance. These sustainable LIC's continue to offer access to high quality underlying assets with strong cash-flows at healthy discounts to NAV.**

## MARKET COMMENTARY

Stronger than anticipated corporate earnings and continued monetary policy easing buoyed global financial markets through August. This was in spite of softening macroeconomic data – notably US labour print.

Japanese Equities (+4.1%) led the pace of gains in developed markets, extending its rally from its early-April 2025 low on the back of resilient corporate earnings, a weaker Yen and supportive Q2 growth and inflation prints.

The ASX 300 (+3.2%) advanced on the back of a reasonable local earnings season which kept investor sentiment intact, another rate cut by the RBA, rising commodity prices and rising consumer confidence.

US equities (+2.0%) continued to strengthen despite concerns around weaker-than-expected jobs data, tariffs and their impact on inflation. Markets were supported by dovish commentary from Fed chair Powell's speech at Jackson Hole Economic Symposium which strengthened expectations of lower rates at the next FOMC meeting in September.

Value sectors and stocks outperformed as the Information Technology sector lost momentum on the back of an MIT report that highlighted the low success rate of corporate projects to implement generative AI.

UK shares (+1.2%) benefitted from another 25bps rate cut from the Bank of England however above expectation inflation print limits the likelihood of further near-term rate cuts.

European shares (+0.7%) continued to trail the broader developed market with declines in Germany (-0.7%) and France (-0.9%) where political instability weighted on performance as French prime minister Bayrou called for a vote of no confidence after struggling to gain support for budget cuts.

Outside of developed markets, Emerging markets (+1.6%) rose, led by Latin American markets and China (+4.2%) reflecting the softening US dollar, the positive effect of recently announced stimulus and capital rotation out of the US. In contrast, lower energy prices weighed on the equity performance of Middle Eastern markets.

Bond markets were mixed with domestic 10-year bonds rising very marginally (+2bps) while the US yield curve steepened sharply as 2-year yields fell 33 bps, which added to performance.

The US non-farm payrolls was the key economic data moving markets. The report was soft for July (+73k vs expectations of +105k) but May and June gains were revised down heavily by a collective -258k, the sharpest downward revision outside the pandemic period since the 1970s. This changed the narrative about the US labour market and sparked concerns about recession. In contrast, US second quarter GDP was revised up by +0.3% to +3.3%QA. While the US equity market seems complacent about risk, we remain cautious about the outlook and there will be a growth payback from the front running of US tariffs in H1'25 which supported growth which is likely to leave growth at quiet an anaemic level over the remainder of 2025. While we are yet to see the full inflation impact, real consumer spending growth has already slowed, and could soften further as the erosion of real spending power will intensify when tariffs are passed onto end-consumers. While risks of a synchronised global recession have declined, we anticipate 2025 global GDP growth to be around a 10-year low excluding the pandemic.

The dovish tone of monetary policy commentary from Jackson Hole tempered some of the concerns arising from the jobs report with Chair Powell noting that a weakening labour market could justify a shift in policy, which amplified market conviction that further rate cuts were imminent. A cut at the upcoming mid-September FOMC meeting is fully priced in, but the key for the markets is guidance of what's likely beyond this decision. While August saw renewed concerns around the independence of the Fed following the firing of Governor Lisa Cook (shortly after the dismissal of the head of the Bureau of Labour Statistics) we continue to view the risks here as low as the FOMC is a committee not an autocracy.

As markets parsed labour and GDP revisions in August, US trade policy was less prominent than recent periods with fewer trade deal announcements. Elevated reciprocal tariffs were levied against a small number of trade partners in August including a 50% tariff on India to dissuade the purchase of Russian oil. There is some conjecture around the legality of the Trump administration's use of emergency powers to enact the liberation day tariffs as the US Court of Appeals for the Federal Circuit ruling that the International Emergency Economic Powers Act does not permit the executive from enacting tariffs. The tariffs will remain in place until October, but there are numerous alternative paths for the tariffs to be enacted and viewed as legal by the courts including an appeal to the US Supreme Court.

Meanwhile, the outlook for European growth in FY26 remains marginally above trend with most of the growth backloaded. Turmoil in the French parliament rattled markets during August, as the Prime Minister called for a vote of no confidence after failing to garner support for budget cuts. While equity valuations are less eye watering in Europe relative to the US and Australia – they remain expensive relative to history (78th percentile relative to the last 20 years).

The RBA resumed its gradual easing path at its August meeting contributing to improved consumer sentiment. Data suggests that the Australian economy has cyclically improved but the longer-term trend outlook looks tepid with households not spending tax cuts, businesses remaining cautious about any material rise in investment and per capita GDP growth in negative territory for 8 of the past 9 quarters. The Federal government embarked on a stakeholder discussion group to improve sluggish productivity which morphed into thoughts on taxation, intergenerational equity and the impact of AI.

Elevated valuations, a lacklustre longer term domestic economic outlook, average corporate performance, and heightened uncertainty about how much additional policy support the RBA can provide represents a challenging backdrop for local investors. Meanwhile, government bonds are offering less reliable diversification in the face of rising government debt and a likely rise in US inflation in coming months. 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.

## CURRENT POSITIONING

Markets are facing challenges in the near term (softening growth and rising risk to US core inflation) and long term (investors **living in a '4% world'** given high valuations and likely having priced in years of productivity improvement). Valuations are expensive relative to history in nearly all regions, while elevated market concentration and the preponderance of value-agnostic passive funds have made regional equity markets increasingly vulnerable to unexpected news. The past decade and a half of US exceptionalism - culminating in the extraordinary run of the Magnificent 7 tech stocks - has underpinned very strong global equity returns. The stellar gains in US equities and their leading tech firms, represents a bring forward of investment returns, rather than a new steady state of ongoing out-performance. **We continue to carefully manage the Fund's exposure to global equity beta and maintain diversity in regional and sector allocations within the Fund's Return Seeking quadrant. The Fund retains exposure to the Trillium Global Sustainable Opportunities Fund alongside 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 the Perpetual ESG Australian Share and strategic capital strategies.**

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 option protection where it has been attractively priced to implement. These include S&P 500 put spreads, a call spread on the VIX, call options on the GBP against the US dollar, and a USD call option versus the Hong Kong Dollar.

**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 any further easing of official interest rates by the US Fed. These securities also have low vulnerability to temporary rises in US inflation from US trade policy.**

**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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