

Perpetual Investment Funds

PERPETUAL DIVERSIFIED

REAL RETURN FUND - CLASS Z

30 September 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 2018

Size of Strategy: \$583.3 million as at 30 June 2025

APIR: PER6115AU

Management Fee: 0.35% pa ^^Refer to PDS for Management Costs

Investment style: Diversified risk budgeting, active, valu

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

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 Z is the performance fee option.
The maximum performance fee is 1%
The performance hurdle is 2.5%, the middle of the RBA target inflation rate.

TOTAL RETURNS % AS AT 30 SEPTEMBER 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 Diversified Real Return Fund (Gross)*	0.43	2.16	4.79	7.42	6.13	6.02	6.47	Perpetual Diversified Real Return Fund (Class W)	2.20	3.15
Perpetual Diversified Real Return Fund (Net)	0.38	1.93	4.27	6.61	5.52	5.36	4.87	Mercer Balanced Growth Median	6.85	7.70

FUND OBJECTIVE OUTCOME AS AT 30 SEPTEMBER 2025

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

	5 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Gross - Class W)	6.0	6.5
CPI plus 5%	9.4	7.8

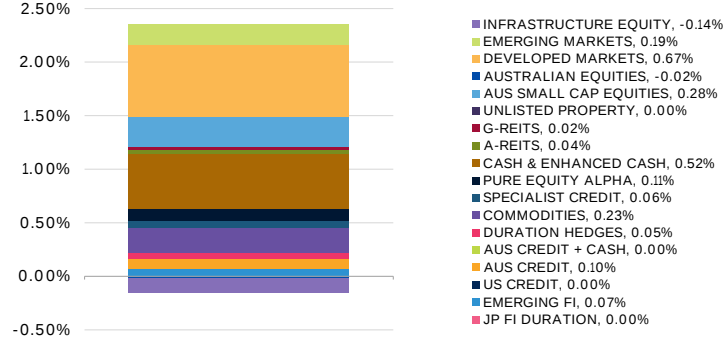
Past performance is not indicative of future performance.

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

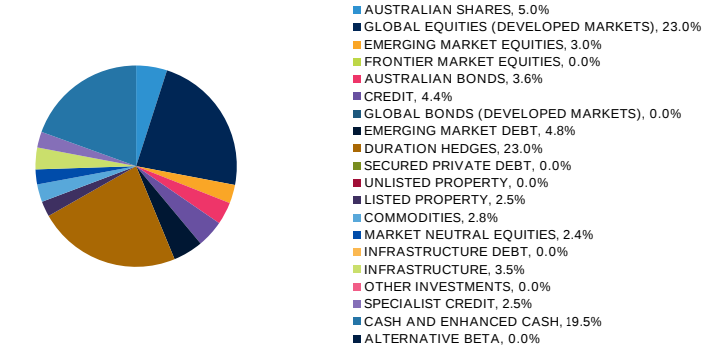
^ Volatility and Mercer Balanced Growth Median data is lagged by 1 month

* Gross performance presented here is for the Perpetual Diversified Real Return Fund Class W

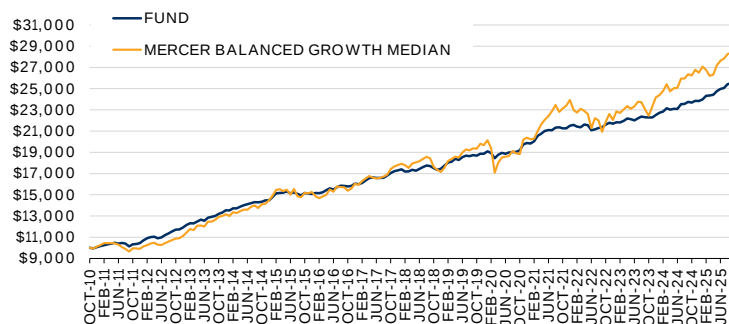
CONTRIBUTION TO 3MTH PERFORMANCE (GROSS)



PORTFOLIO SECTORS



GROWTH OF \$10,000 SINCE INCEPTION



CHANGES IN ASSET ALLOCATION (%)

	3 MTHS	6 MTHS	1 YR
Australian Shares	0.3	0.1	-0.4
Global Equities (Developed Markets)	-3.0	-3.7	7.1
Emerging Market Equities	0.1	0.0	0.0
Frontier Market Equities	0.0	0.0	0.0
Australian Bonds	0.0	-0.2	-0.2
Credit	0.0	0.2	0.6
Global Bonds (Developed Markets)	0.0	0.0	0.0
Emerging Market Debt	-0.1	0.0	0.6
Duration Hedges	-1.8	-1.1	1.2
Secured Private Debt	0.0	0.0	0.0
Unlisted Property	0.0	0.0	0.0
Listed Property	0.0	0.1	0.0
Commodities	0.2	-0.1	0.3
Market Neutral Equities	0.1	-0.1	-0.1
Infrastructure Debt	0.0	0.0	0.0
Infrastructure	-0.2	0.2	0.2
Other Investments	0.0	0.0	0.0
Specialist Credit	0.0	-0.2	-0.4
Cash and Enhanced Cash	4.4	4.9	-9.0
Alternative Beta	0.0	0.0	0.0

FUND PERFORMANCE

The Diversified Real Return Fund returned 2.2% (gross) in the September quarter. Over the past year, the Fund has returned 7.4% (gross) and over the past 5 years the Fund has returned 6.0% (gross) per annum compared with the objective of 9.4% (CPI plus 5%*) over rolling 5 years. Since inception (in 2010) the Fund has returned 6.5% (gross) per annum compared with the objective of 7.8% (CPI plus 5%*).

The Fund's equity allocation was the key contributor to performance in the September quarter as global developed, emerging and Australian equities all rallied. The Fund's allocation to a benchmark unaware global deep value strategy performed well, even as growth sectors and stocks outperformed. The diversified basket of precious metals performed well as materials – led by a surge in Gold – rallied throughout August and September.

Fixed income allocations were mixed with Domestic credit and emerging market bonds contributing marginally to returns over the quarter. Meanwhile the running yield on the Fund's material cash allocation continued to positively contribute to performance.

Stock selection among domestic and global equities detracted from performance. The Fund's quality and value bias within global equities (attributable to investments in the Barrow Hanley Global Share Fund and dividend focused Economic Diversification Global Equity strategy) was not rewarded as growth stocks materially outperformed value on the back of expanded AI infrastructure investments and partnerships among mega cap technology firms.

*All groups CPI measured and published by the ABS as at 30 June 2025

1. RETURN SEEKING ASSET CLASSES

Beginning of the Quarter: Low Allocation
End of the Quarter: Low Allocation

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, we believe 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 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 small caps strategies.

Meanwhile, the Fund has low allocation to credit including 0% exposure to US high yield – reflecting very narrow spreads which produces low risk-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.
- 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 option protection where it has been attractively priced to implement. These include an S&P 500 put spread 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.

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

The September quarter saw robust returns across risk assets, supported by moderating trade tensions, stronger than anticipated corporate earnings, AI exuberance and easing monetary policy. This was in spite of softer macroeconomic data including growing signs of weakness in US labour markets.

- Global Equities (+7.6%) rallied, buoyed by US stocks (+8.1%). US equities recovered well from elevated volatility around the release of July non-farm payrolls and navigated elevated bond market volatility in September. Growth sectors and securities materially outperformed value, supported by falling discount rates and AI optimism.
- Australian Shares (+5.0%) rallied, while underperforming the broader developed market. Australian shares declined in September as higher than expected inflation and Q2 GDP reduced the likelihood of further near-term rate cuts.
- UK equities (+7.5%) rallied with large cap multinational stocks benefitting from the improved global economic outlook despite ongoing domestic inflation challenges.
- European equities (+4.6%) lagged the broader developed markets with German shares (-0.1%) declining.
- Emerging markets (+12.5%) performed well, led by China (+19.8%) benefitting from the softening US dollar and easing trade tensions including concessions around AI chips.
- Bond markets were mixed over the quarter. US bond yields rallied and the yield curve flattened over the quarter as investors priced in further rate cuts from the Fed. UK bonds yields rose reflecting sticky inflation and fiscal concerns.
- Gold (+16.4%) extended its rally, reaching another record high in September, reflecting geopolitical and economic uncertainty and the softening US dollar.

The anticipation of near-term US rate cuts was a tailwind for markets throughout the third quarter. The US Federal Reserve (Fed) reduced rates in September – its first cut since 2024 – as attention shifted from inflation risks to growth concerns. Non-farm payrolls rose just 22k in August and the unemployment rate climbed to 4.3%. Alongside soft July and August reports, May and June gains were revised down heavily by a collective -258k, the sharpest downward revision outside the pandemic period since the 1970s. In contrast, consumer spending showed resilience with US retail sales increasing 0.6% in August and 0.6% in July after a subsequent revision. A portion of the retail sales strength was attributable to inflation, which remains elevated. Headline CPI rose 0.4% in August and core inflation (3.1% y/y) remains stubbornly above the Fed's target range. Forward-looking indicators are well balanced with the ISM manufacturing PMI marginally below 50 (contraction) while the services PMI reached 52 (expansion) in August before declining in September. The Fed's dot plot implies two further rate cuts are anticipated by year end, however the spread suggests a lack of consensus among governors. As such there remains some uncertainty to the policy outlook and we feel that while US rates will continue to come down, there will be fewer cuts in this cycle than the market is anticipating.

US trade policy remained a key consideration with the US announcing new deals with several major partners including Japan, the EU and South Korea during the quarter. Negotiations between the US and China were extended and the US softened restrictions on exporting AI chips to China. While the US equity market seems complacent about risks, we remain cautious about the outlook and there will be a growth payback from the front running of US tariffs in the first half of 2025 which supported growth but 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 could soften as the erosion of real spending power will intensify as 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.

Despite the uncertain conditions for international commerce, second quarter company profit results were robust. More than 80% of S&P 500 companies exceeded consensus expectations. A weaker US dollar was supportive for exporters alongside frontloading inventories and rising AI related capex. Firms are also managing their cost base well with high margins despite 4 years of rising real wages growth which provides some additional ballast to the outlook. The combination of strong balance sheets, high margins and slightly better than normal profit growth, gives firms a better foundation to handle near term shocks from the impact of tariffs.

The RBA resumed its gradual easing path at its August meeting before holding in September, accompanied by increasingly hawkish commentary. 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.

China's economy has thus far shown resilience to higher tariffs, with second quarter GDP (+5.2% YoY) beating consensus expectations reflecting growth in exports and manufacturing activity. Policy support and easing trade tensions supported the Chinese industry while there was optimism that the broader domestic economy could be strengthened by anti-involution policies. The ongoing tariff negotiations between the US and China remain a focus with broad ramifications including for the Australian economy and resources sectors.

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).

Japan also saw political uncertainty following the upper house election defeat of the Liberal Democrat party and resignation of Prime minister Ishiba. The resignation may have ramifications for the path of monetary policy and the independence of the Bank of Japan with frontrunner Sanae Takaichi expected to apply pressure to keep policy settings accommodative. Hawkish signals from the BoJ at its September meeting put further upward pressure on Japanese government bond yields.

Elevated valuations, a lacklustre longer term domestic economic outlook 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 to 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.

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MORE INFORMATION

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