Perpetual Investment Funds PERPETUAL DIVERSIFIED REAL RETURN

31 March 2024

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%.

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.

TOTAL RETURNS % (AFTER FEES) AS AT 31 MARCH 2024

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	1.24	2.60	3.33	4.52	3.15	3.90	3.78	-
Perp. WealthFocus Investment Advantage	PER0739AU	1.24	2.51	3.23	4.24	2.94	3.61	3.53	-
Perp. WealthFocus Super	PER0742AU	1.13	2.33	3.00	4.00	2.82	3.48	3.39	-

FUND OBJECTIVE OUTCOME AS AT 31 MARCH 2024

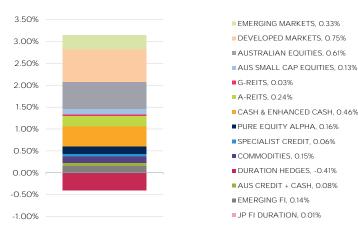
Objective: Gross returns of CPI plus 5% over rolling 5 year periods

		INCEPT PA
Perpetual Diversified Real Return Fund (Gross)	5.0	6.4
CPI plus 5%	8.87	7.81

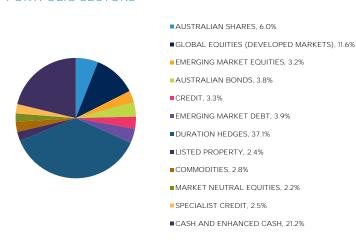
Past performance is not indicative of future performance.

- ^^ 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

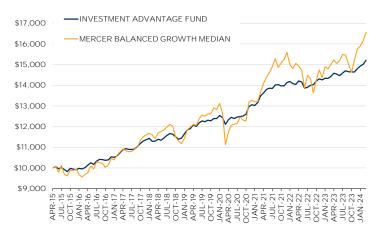
CONTRIBUTION TO 3MTH PERFORMANCE (GROSS)



PORTFOLIO SECTORS



GROWTH OF \$10,000 SINCE INCEPTION



CHANGES IN ASSET ALLOCATION (%)

	3 MTHS	6 MTHS	1 YR
Australian Shares	0.4	0.6	-0.2
Global Equities (Developed Markets)	5.4	10.6	4.7
Emerging Market Equities	0.2	0.3	0.2
Frontier Market Equities	0.0	0.0	0.0
Australian Bonds	0.3	-2.5	-3.0
Credit	0.2	0.4	0.5
Global Bonds (Developed Markets)	0.0	0.0	0.0
Emerging Market Debt	0.3	0.4	0.3
Duration Hedges	4.9	22.2	45.1
Secured Private Debt	0.0	0.0	0.0
Unlisted Property	0.0	0.0	0.0
Listed Property	0.0	0.3	O.1
Commodities	-O.2	-O.3	-4.4
Market Neutral Equities	0.3	0.3	0.3
Infrastructure Debt	0.0	0.0	0.0
Other Investments	0.0	0.0	0.0
Specialist Credit	0.2	0.3	0.4
Alternative Beta	0.0	0.0	0.0

FUND PERFORMANCE

The Diversified Real Return Fund returned 2.8% (gross) in the March quarter. Over the past year, the Fund has returned 5.4% (gross) and over the past 5 years the Fund has returned 5.0% (gross) per annum compared with the objective of 8.9% (CPI plus 5%*) over rolling 5 years. Since inception (in 2010) the Fund has returned 6.4% (gross) per annum compared with the objective of 7.8% (CPI plus 5%*).

During a quarter where equities rallied strongly, the Fund's allocation to global equities was the most substantial contributor to returns. Australian equities trailed global peers, but still contributed to returns assisted by positive stock selection. Elsewhere, the Fund's exposure to emerging markets was rewarded as the region responded positively to additional policy supports for China which should at the margin add to growth and cushion downside risks to inflation and equity market prices. The Fund's elevated cash allocation continues to contribute portfolio return via its attractive running yield, and its US dollar exposure also performed solidly as the Greenback appreciated against the Australian Dollar as investors priced a less aggressive easing cycle by the US Federal Reserve.

In contrast, the Fund's international fixed income allocation detracted from performance as easing rate cut expectations sparked a rise in US 2Yr bond yields during February. The Fund's global equity stock selection also detracted from performance as US growth stocks continued their strong outperformance, supported by predominantly strong 4th quarte

*All groups CPI measured and published by the ABS as at 31 December 2023

1. RETURN SEEKING ASSET CLASSES

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

The consensus view today is for the US to experience a soft landing in 2024 but markets pulled a lot of the good news from 2024 into last year's return. This leaves the market with elevated valuations, expected 12-month earnings growth close to double the historic average supported by dovish interest rate expectations. With so much good news already priced in, we maintain caution and our equity exposure remain primarily in high quality markets which have more attractive valuations and where earnings growth expectations have the potential to rise sharply once the economy finds a stronger base. We are also investing in firms with strong franchises, robust balance sheets, low debt and appropriate valuations.

During the March quarter, the Fund increased its modest allocation to the return seeking quadrant which includes a diversified range of growth assets and markets comprising:

- 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 and returns. The Fund retains:

- A range of FX exposures including the US Dollar and some emerging market currencies;
- Stock selection alpha (through the Australian Share Fund, Australian Small Cap Fund and Global Share Fund). The equity holdings are concentrated in high quality 'value' companies which have strong balance sheets and highly resilient operating models. Notwithstanding the resurgence of growth equities throughout 2023 and early 2024, we expect value and quality factors to be rewarded in a prolong ed environment of restrictive interest rates.

3. DOWNSIDE PROTECTION

Beginning of the Quarter: Medium Allocation End of the Quarter: Medium Allocation

Elevated valuations are predicated on accommodative economic and monetary policy expectations which has become the consensus view.

Nonetheless, valuations are extended in many key markets and negative growth or poor inflation data could precipitate a pull-back in equity markets.

As such, downside protection remains a crucial consideration. We continue to manage downside risks by limiting overall exposure to equities and credit, as well as maintaining little or no exposure to the most expensive parts of equity and credit markets.

Currently, the Fund has exposure to 2-year US government bonds and a modest exposure to 10-year US bonds. During the Quarter, the Fund exited it's short (negative) Japanese government bond position.

The Fund's defensive position is supported by a very substantial cash allocation. These cash holdings offer an attractive running yield and provides significant optionality as it enables us to quickly allocate to take advantage of mispricing in the event of a market selloff.

The Fund also has put options on the S&P 500 alongside a call option on the USD versus the Hong Kong Dollar (which is a low-cost downside protection for tail risks around China).

4. INFLATION PROTECTION

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

The portfolio has a low (direct and indirect) sensitivity to higher interest rates which should provide resilience if persistent inflation extends the current monetary policy tightening cycle.

The portfolio also maintains a small allocation to a basket of commodities (which includes gold, grains, livestock, silver, palladium, platinum and copper).

MARKET COMMENTARY

Global equities rallied strongly over the first quarter of 2024, supported by resilient economic indicators, robust corporate earnings results and anticipation of easing monetary policy.

- US Equities (+10.6%) rallied strongly, led by long duration growth stocks, while value stocks continued to trail.
- Australian equities (+5.4%) rallied but lagged behind the broader global market. Similar to the US, growth sectors such as Technology
 outperformed but, of course, the weight to such growth stocks is much lower in Australia.
- European equities (12.9%) performed very well supported by economic data confirming that a recession was narrowly avoided in the fourth quarter of 2023. Meanwhile, UK equities (+4.0%) trailed, weighed down by their recession confirmation.
- Japanese equities (+21.5%) were the standout over the quarter supported by a resilient corporate sector. Chinese equities (-1.8%) fell on economic concerns despite a number of policy announcements intended to prop up the equity market.
- US 10-year government bond yields (+32bps) rose over the March quarter, rising back above 4% as underlying inflation reaccelerated. The Australian yield curve ended the quarter in line with December 2023 despite ongoing volatility as investors attempt to antici pate the path of central bank policy.
- The Australian dollar depreciated -4.4% against the Greenback, reflecting the ongoing resilience of the US economy and rising US long term yields.

The 2024 global growth outlook appears increasingly resilient as stronger balance sheets and rising real incomes cushion the impact of higher-for-longer interest rates. Consensus has 2024 global growth close to trend, but regional expectations are mixed. Slowdowns are expected in the US and Australia, whereas estimates for Europe, Japan and the UK have not materially improved from their 2023 lows. The current state of balance sheets, income growth combined with the prospect of easing financial conditions have seen near term recession concerns ease substantially. The US and broader developed market economy is likely to remain resilient in spite of a possible higher-for-longer rates regime. This is further supported by supply-side dynamics such as rising immigration in the US, Australia and Canada over recent years. Note that while economic growth can sustain at these levels, acceleration is unlikely for a number of reasons including restrictive monetary and fiscal policy settings, a very weak credit impulse (post GFC low), some weakening in labour markets limiting household income growth and long-term structural issues in China.

The impact of economic resilience on inflation is uncertain and a key question for the remainder of 2024 is whether the US Fed can deliver on their dovish guidance. The final mile of inflation will be the most challenging for central banks and futures markets are now adjusting their pricing for short term rates in the US to reflect the likelihood of less rate cuts than was previously expected. Most of the key developed market central banks have provided either implicit or explicit guidance about easing monetary conditions ahead, but all potentially risk repeating their mistake of 2021 by underestimating the resilience of core inflation. Recent data have confirmed that core inflation pressures continue to linger as services inflation remains sticky at elevated levels, and surveys suggest that firms are wanting to raise goods prices once again. Persistence of these trends has the potential to delay and limit the room for developed market central banks to initiate their easing cycle.

The strong start of the year for global equities was in spite of rising long term bond yields and considerable uncertainty. However, the vast amount of good news already priced in for inflation, earnings growth, policy easing, and default rates means markets are less likely to be tolerant of disappointments. The strong rally in the March quarter has lifted the US market's valuation to very high levels relative to the past 20 years. This level has only been exceeded in recent history during the dotcom boom and more recently the post-pandemic boom. While elevated valuations in the US are led by the Magnificent 7 tech stocks, the remainder of the market is also at historically high multiples despite a far less robust growth outlook. Australian equities are also priced at high multiples relative to history. In contrast, however, Japan, Europe, UK and emerging markets remain close to historic medians.

Despite an improving growth outlook, the uncertain path of inflation and central bank policy and high starting valuations provide a challenging environment to negotiate. 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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