

Perpetual Investment Funds

PERPETUAL DIVERSIFIED REAL RETURN

30 April 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 30 APRIL 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	-0.67	1.02	2.79	2.73	2.59	3.40	3.50	-
Perp. WealthFocus Investment Advantage	PER0739AU	-0.67	1.02	2.70	2.56	2.38	3.19	3.25	-
Perp. WealthFocus Super	PER0742AU	-0.61	0.92	2.49	2.41	2.31	3.04	3.14	-

FUND OBJECTIVE OUTCOME AS AT 30 APRIL 2024

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

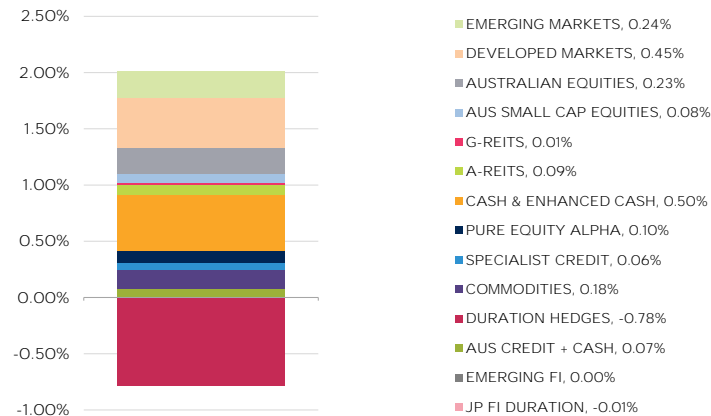
	5 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Gross)	4.6	6.4
CPI plus 5%	9.08	7.87

Past performance is not indicative of future performance.

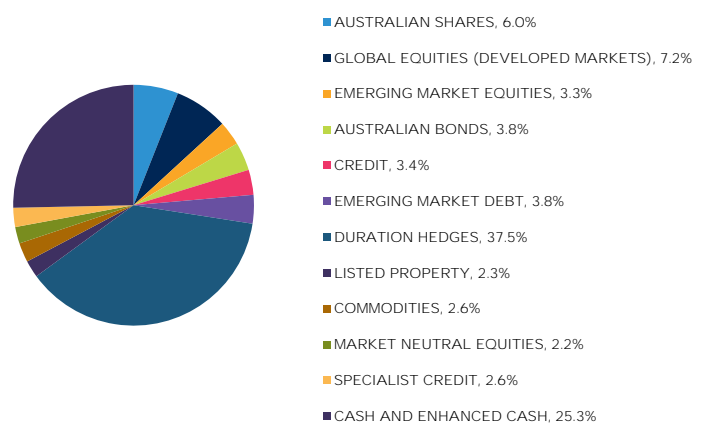
^{**} Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS

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

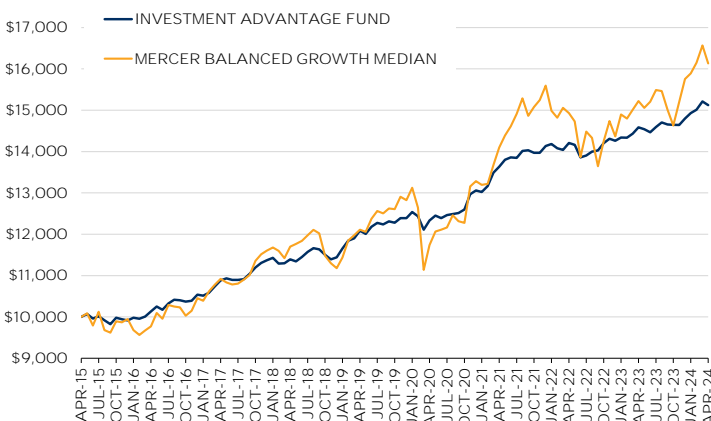
CONTRIBUTION TO 3MTH PERFORMANCE (GROSS)



PORTFOLIO SECTORS



GROWTH OF \$10,000 SINCE INCEPTION



CHANGES IN ASSET ALLOCATION (%)

	3 MTHS	6 MTHS	1 YR
Australian Shares	0.1	0.9	0.7
Global Equities (Developed Markets)	-0.6	2.6	1.4
Emerging Market Equities	0.2	0.3	0.2
Frontier Market Equities	0.0	0.0	0.0
Australian Bonds	0.3	-2.4	-2.9
Credit	0.3	0.4	0.6
Global Bonds (Developed Markets)	0.0	0.0	0.0
Emerging Market Debt	0.2	0.3	0.3
Duration Hedges	4.1	21.9	35.4
Secured Private Debt	0.0	0.0	0.0
Unlisted Property	0.0	0.0	0.0
Listed Property	-0.1	0.3	-0.1
Commodities	-0.5	-0.5	-4.7
Market Neutral Equities	0.2	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 -0.7% (net) in April. Over the past year, the Fund has returned 2.8% (net) and over the past 5 years the Fund has returned 3.7% (net) per annum compared with the objective of 9.1% (CPI plus 5%*) over rolling 5 years. Since inception (in 2010) the Fund has returned 5.5% (net) per annum compared with the objective of 7.9% (CPI plus 5%*).

The Fund's defensive positioning and low allocation to equity markets mitigated the impact of falling developed market equities in April. The Fund's elevated cash exposure, most notably its US Dollar allocation was a key contributor as risk assets sold off and the greenback extended its rally. Elsewhere, the Fund's allocation to a diversified baskets of metals performed well as base metals rallied strongly.

In contrast, the largest detractor from return was the Fund's fixed income exposure as US 2-year yields sold off over the month, weighing on performance. Similarly, allocation to regional equity markets also detracted from return as markets further priced out policy easing which lowered equity valuations.

MARKET COMMENTARY

Developed market equity and bond markets pulled back during April as persistent core inflation culminating in markets winding in the amount of rate cuts central banks could deliver to end-2025

- Developed market equities (-3.2%) sold off, led by the US (-4.1%) as the prospect of higher-for-longer rates gained traction and discount rates rose which outweighed further upgrades to earnings in the US. Despite rising long term yields, typically higher duration growth stocks performed broadly in line with value stocks and sectors.
- The ASX 300 (-2.9%) outperformed most of its regional peers but declined nonetheless. The decline was led by interest rate sensitive sectors such as REITs (-7.6%), Consumer Discretionary (-5.3%) and Communication Services (-4.7%), which underperformed defensive sectors including Utilities (+4.8%) and cyclicals such as Materials (+0.6%) lagged.
- UK equities (+2.7%) outperformed global peers while European markets were mixed with France (-1.9%) and Germany (-3.0%) receding.
- Emerging market performed well led by China (+6.6%) who's economy is showing signs of improvement led by the industrial sector and where government policy to support asset markets have lifted broader market sentiment.
- Rising bond yields were the major market story last month with US 10-year yields (+48bp) recording their largest monthly rise since Sep-22, and Australia 10-year yields (+46bp) also soared back above 4% as investors priced in some risk of additional rate hikes by the RBA.
- The reduced expectation for 2024 Fed Rate cuts saw the USD consolidate its recent rise against peers.
- Commodities performed well behind the China news led by cyclical commodities including Iron Ore (+19.3%), Copper (+14.3%) and Aluminium (+11.2%). Precious metals such as gold (+2.5%) also rose (to a record high) which consolidated gains from a very strong first quarter.

The key factor driving markets throughout April was the shift in expectations for the near-term path of monetary policy. Expectation of 2024 US Fed rate cuts have shifted substantially from up to 7 cuts by end-2025 predicted in mid-January this year to only one by April month end. A similar pattern has been observed domestically with futures markets removing all rate cuts from the end-24 estimate.

In recent months, we have reiterated that the strong first quarter for risk assets was underpinned by high optimistic assumptions around the path for monetary policy. With so many positive expectations already priced into equity valuations, the weakness observed in April is reminder of the ongoing sensitivity of equity markets to revised expectations of global growth, inflation, policy settings and corporate earnings growth.

The downgrades to rate expectations in April reflected another elevated US core inflation report with the annual increase at 3.8% in March, and while this was the equal-lowest result in three years, it remains almost double the Fed's +2% target rate which makes rates cuts in the near-term quite implausible. Meanwhile, the ECB maintained its easing bias with a June rate cut expected by markets, whereas the RBA's outlook is more uncertain given a slowing economy with rising wages growth, but markets have removed all pricing for 2024 rate cuts. All developed economies are struggling with inflation in the services sector given very tight labour markets which are generating wages growth well above levels which are associated with 2% core inflation, and the impact here is amplified in non-US markets by the rising US Dollar which have pushed up goods price inflation across the board.

The second component driving the shift in policy expectations has been the resilience of global growth. Europe's Q1'24 growth came in at a 18M high (+0.3%Q), and China's GDP growth (+1.8%Q) also improved. Meanwhile, global PMIs have improved, most notably manufacturing and Eurozone indicators which have moved marginally into expansionary territory, but lead indicators appear to have less predictive powers relative to previous cycles, so the signal here needs to be cautiously interpreted. Elsewhere, labour markets – especially in the US – remain tight and fiscal policy remains supportive. While resilient growth is supportive for equities, the soft-landing scenario has already been priced in, increasing the vulnerability to downside surprise, geopolitical shocks and any re-pricing in global fixed interest markets or central bank expectation.

It also remains hard to see a global growth acceleration this year, as the fiscal impulse is negative, there is very little spare capacity, restrictive monetary policy remains a headwind, employment growth is slowing and the global credit impulse is at a post-GFC low. Recessions risks however, are also lower as inflation has declined and real income is lifting for both households and the corporate sector.

Despite an improving growth outlook, the uncertain path of inflation and central bank policy alongside 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.

CURRENT POSITIONING

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.

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. Strengthening this positioning is our fixed income exposure which is centred around 2-year US government bonds with a modest exposure to 10-year US bonds. The Fund retains explicit downside protection in the form of S&P 500 puts and a call option on the USD versus the Hong Kong Dollar (which is a low-cost downside protection for tail risks around China).

The Fund's cautious asset allocation is supported by a very substantial cash allocation. These cash holdings give us a good running yield and provides significant optionality as it enables us to quickly allocate capital to take advantage of mispricing in the event of a market selloff.

*All groups CPI measured and published by the ABS as at 31 March 2024

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