Perpetual Investment Funds
PERPETUAL
ESG REAL RETURN FUND
30 September 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.

Inception date: May 2021
Size of fund: $37.0 million as at 30 June 2024
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

Provides investors with access to a diversified portfolio of assets and the opportunity to align their investments with their personal values and ESG preferences. Perpetual may adjust the Fund's asset allocation to respond to changing market conditions and/or take advantage of new 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 % AS AT 30 SEPTEMBER 2024

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)	0.85	3.40	3.19	6.55	1.36	-	2.00	Perpetual ESG Real Return Fund	-	-
Perpetual ESG Real Return Fund (Net)	0.78	3.18	2.76	5.65	0.50	-	1.14	Mercer Balanced Growth Median	8.43	7.76

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

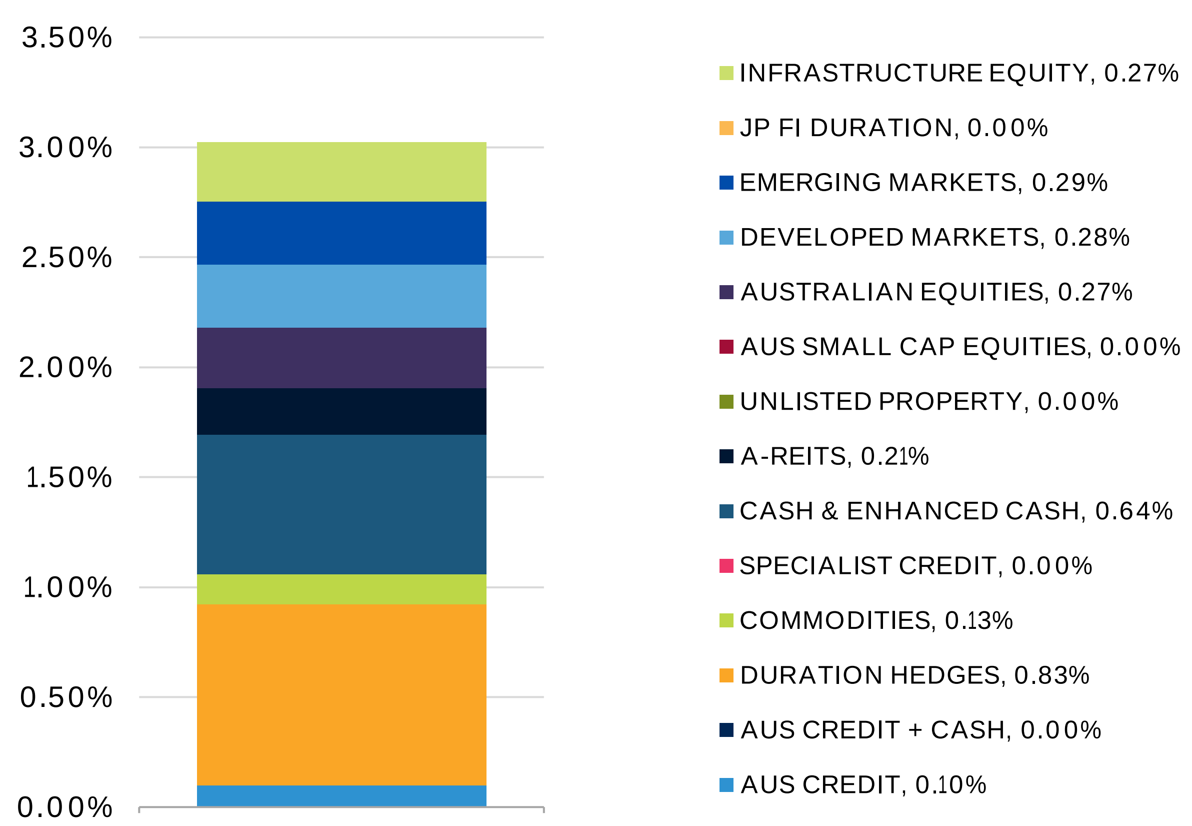
ESG APPROACH

The Fund may invest in underlying Perpetual funds which invest in Australian shares, fixed income and credit. Perpetual's ESG and value-based criteria, as described in the Product Disclosure Statement, are applied to these underlying funds. The Fund may also invest in underlying funds of Perpetual related bodies corporate which invest in international shares. A different ESG approach utilising ESG integration, positive and negative screening is applied to these underlying funds. The Fund may invest in other pooled managed funds and exchange traded funds that adopt different ESG approaches as determined by the applicable responsible entity or trustee of these funds. We do not have any influence over or assess the ESG approaches used by these other pooled managed funds or exchange traded funds. We do not consider any ESG factors (including labour standards) when deciding to buy, retain or sell an

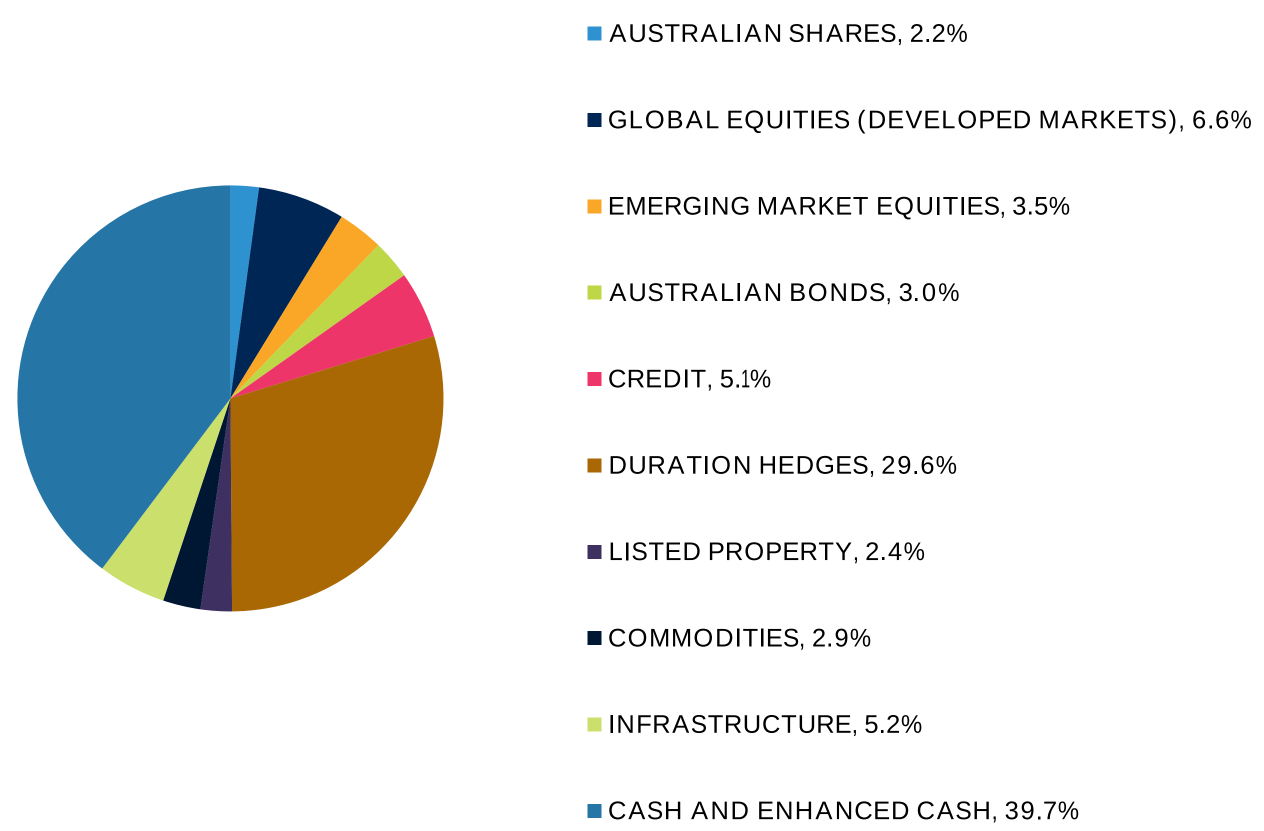
CHANGES IN ASSET ALLOCATION (%)

	CURRENT	3 MTHS	6 MTHS	1 YR
Cash	39.7%	16.3%	14.0%	-24.9%
Fixed Income & Credit	37.7%	-12.7%	-12.0%	22.1%
Australian Equities	2.2%	-3.3%	-4.0%	-3.6%
International Equities	10.1%	-2.2%	-3.5%	5.7%
Commodities	2.9%	0.4%	0.3%	-4.2%
Property	2.4%	0.0%	0.0%	-0.2%
Other Investments	5.2%	1.4%	5.2%	5.2%

3MTH CONTRIBUTION TO RETURN (GROSS)



PORTFOLIO SECTORS



FUND PERFORMANCE

The ESG Real Return Fund returned 3.2% (net) in the September quarter. Over the past 12 months, the Fund has returned 5.7% (net).

Allocation to global and domestic equities contributed to return during the quarter as equity markets recovered from an early August selloff to end the quarter in positive territory. Global stock selection alpha also added to performance as investors partially re-oriented away highly priced growth stocks (particularly tech shares) and increased their exposure to cheaper and more cyclical value sectors, which culminated in our deep value equity exposure delivering strong returns to investors. Allocation to sustainable listed investment companies and the contribution of the ESG premia were constructive. In addition, allocation to emerging market equities and a diversified basket of metals benefitted from Chinese policy announcements in September.

Elsewhere, the Fund's government bond exposure was a substantial contributor to returns during the quarter as 2-year US government bond yields declined in response to an aggressive (-0.5% to 4.88%) start to the US Fed's well telegraphed easing cycle which began in September. With the market now pricing in a major reduction in official US rates despite a still robust economy, we took the opportunity to trim this position as bond prices look quite stretched for the prevailing macro backdrop.

In contrast, domestic and emerging market equities stock selection weighed on performance as Australian growth stocks outperformed in contrast to their global peers, and China-related stocks outperformed. Similarly, the Fund's elevated USD exposure detracted from performance as the greenback weakened against peers in response to rising rate cut expectations.

1. RETURN SEEKING ASSET CLASSES

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

Recent elevated equity valuations are predicated on expectations of sizable monetary easing coupled with above-average EPS growth. With so much good news already priced in, we maintain some caution with regards to equity markets and return seeking opportunities. We remain focused on holding exposures in high quality markets which have more attractive valuations and where earnings growth expectations have the potential to rise once the economy finds a stronger base.

During the quarter, the Fund selectively added exposure to return seeking assets, increasing allocation to global equities via a number of new positions. Exposure was added to an ESG screened variant of the Perpetual Strategic Capital Fund which is a concentrated high conviction value focused activist fund which seeks to unlock shareholder value by leveraging the Perpetual Australian equity teams scale and expertise to influence investee companies. Allocation was also added to an ESG screened variant of the JO Hambro UK Equity Income Fund which focuses on selecting high yielding UK-listed securities from across the full market cap spectrum. Lastly, the fund added exposure to global equities via an internally managed ESG solution that seeks out companies that have been left behind by the rise of passive, in particular, companies with strong balance sheets, high cash flow and are returning that cash to shareholders to a degree that delivers CPI+5% without relying on a valuation re-rating.

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. During the quarter, while adding exposure to global equities, the Fund increased its bias towards value and quality factors.

The Fund retains:

- A range of FX exposures including the US Dollar and some emerging market currencies;
- Stock selection alpha through the Australian Ethical SRI Fund and Trillium Global Sustainable Opportunities Fund.
- The Fund also maintains exposure to a select group of sustainable infrastructure stocks which are leveraged to the broader trend towards sustainability, while trading at a significant discount to NAV.

3. DOWNSIDE PROTECTION

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

Elevated valuations have been driven by expectations of both accommodative economic conditions and a significant easing in global monetary settings over the next 18 months, but recent economic weakness and higher for longer rates could precipitate a pull-back in equity markets. Furthermore, the increasing concentration of stock indices is likely to increase the volatility of index returns and 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 sizable equity put options which are quite cheap to implement.

The Fund has put options on the S&P 500, a call option on the USD versus the Hong Kong Dollar and Chinese Renminbi (which is a low-cost downside protection for tail risks around China), a put option on the USD against the Japanese Yen and a call option on the NASDAQ Index, where we have already rolled up the strike to lock in profits.

The Fund also has exposure to 2-year US government bonds and modest exposures to 10-year Australian and US bonds. These defensive positions are supported by a modest cash allocation, which like bonds have an attractive running yield which also provides significant optionality as it enables us to quickly allocate to take advantage of mispricing in the event of a market selloff.

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

Financial markets shook off a stumble in early August to consolidate their solid year-to-date returns , supported by monetary policy easing in the US, UK, EU and China.

- Developed market equities (+4.8%) consolidated its strong start to the year, rising through the September quarter. After increased volatility in early August underpinned by rising recession concerns, global equities recovered strongly led by value sectors as the Russell 1000 Value index (+9.4%) substantially outperformed its growth counterpart (+3.2%). The Magnificent Seven tech stocks underperformed despite robust second quarter earnings results for Meta, Apple and Alphabet as these firms have net cash balance sheets that is sensitive to any interest rate reduction by the US Fed.
- Among the developed markets, the US were robust (+5.9%) as the US Fed commenced its monetary easing cycle in September with an aggressive -0.5% reduction and indicated through their dots and accompanying statement that more easing is likely in the months ahead. Another strong quarter of economic and EPS growth also buoyed sentiment.
- European equities (+2.5%) also posted solid quarterly returns rose despite trailing the broader market, with the region held back by the subdued regional economy and the ECB which is easing rates once every quarter until services inflation starts to move materially lower. Like the US Fed, the ECB cut rates in September, after holding in July.
- UK stocks (+1.8%) rose modestly despite the first rate cut by the Bank of England in 4 years which had a muted reaction as sentiment was weighed down by newly elected UK Prime Minister Starmer who forewarned of a challenging upcoming budget with spending cuts and tax increases.
- The ASX 300 (+7.8%) outperformed the global market, supported by falling bond yields, easing inflation concerns, better than expected corporate earnings results and anticipation of rising Chinese demand.
- In contrast, Japanese equities (-3.5%) were among the small handful of regional markets to decline over the quarter, after an initial rally in the Yen following a surprise rate hike by the Bank of Japan, sparked heightened volatility as investors unwound the popular Yen carry trade. Some soothing words from the Bank of Japan Governor about the future policy path saw the Yen subsequently depreciate but the market could only partially recover its August losses.
- Lastly, emerging markets (+6.8%) outperformed their advanced economy peers as Chinese equities (+22.4%) surged higher in response to a major unwinding reversal of short-China positioning after the Bank of China cut official interest rates, which was supported by government pledges of additional support for the economy, although details here remain scant and run the risk of underwhelming the rhetoric.
- Elsewhere, bond yields declined across most maturities in most markets reflecting moderating core inflation and the commencement of monetary easing from the Fed, ECB and Bank of England. Australian 10-year yields fell 34 bps, trailing the US which declined 58 bps.

Anticipation of the path of US interest rates was a key theme during the September quarter. The Fed held interest rates steady in July which concerned investors after a subdued July non-farm payrolls report. This triggered the Sahm rule and raised recession fears in the eyes of some and sparked a broad equities selloff and widening in credit spreads. Fed Chair Powell allayed these concerns with dovish comments at the Jackson Hole Conference which foreshadowed a -50 bpts reduction in official rates in September. Meanwhile, better-than-expected corporate earnings results, and strong consumer spending data, also supported sentiment.

The US economy remains a key battleground for the 2024 presidential election which saw a seismic shift in July as President Biden withdrew from the race, endorsing Vice President Harris whose early polling suggests the contest might be closer than had previously been assumed. The result of the election will be a crucial issue for markets given the respective spending programs of both major candidates which is set to culminate in another sizable rise in US government debt regardless of who wins. The estimates FY25 US fiscal deficit (-6.6% of GDP) is already at levels typically seen during recessions.

Asian markets were another focus during the quarter with policy decisions from both China and Japan proving to be catalyst for significant market volatility. In August a second hike in Japanese official interest rates sparked an abrupt reversal of the global carry trade which has supported markets for a prolonged period. The ensuing appreciation of the Yen saw the Japanese sharemarket record its largest individual day loss since the

MORE INFORMATION

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