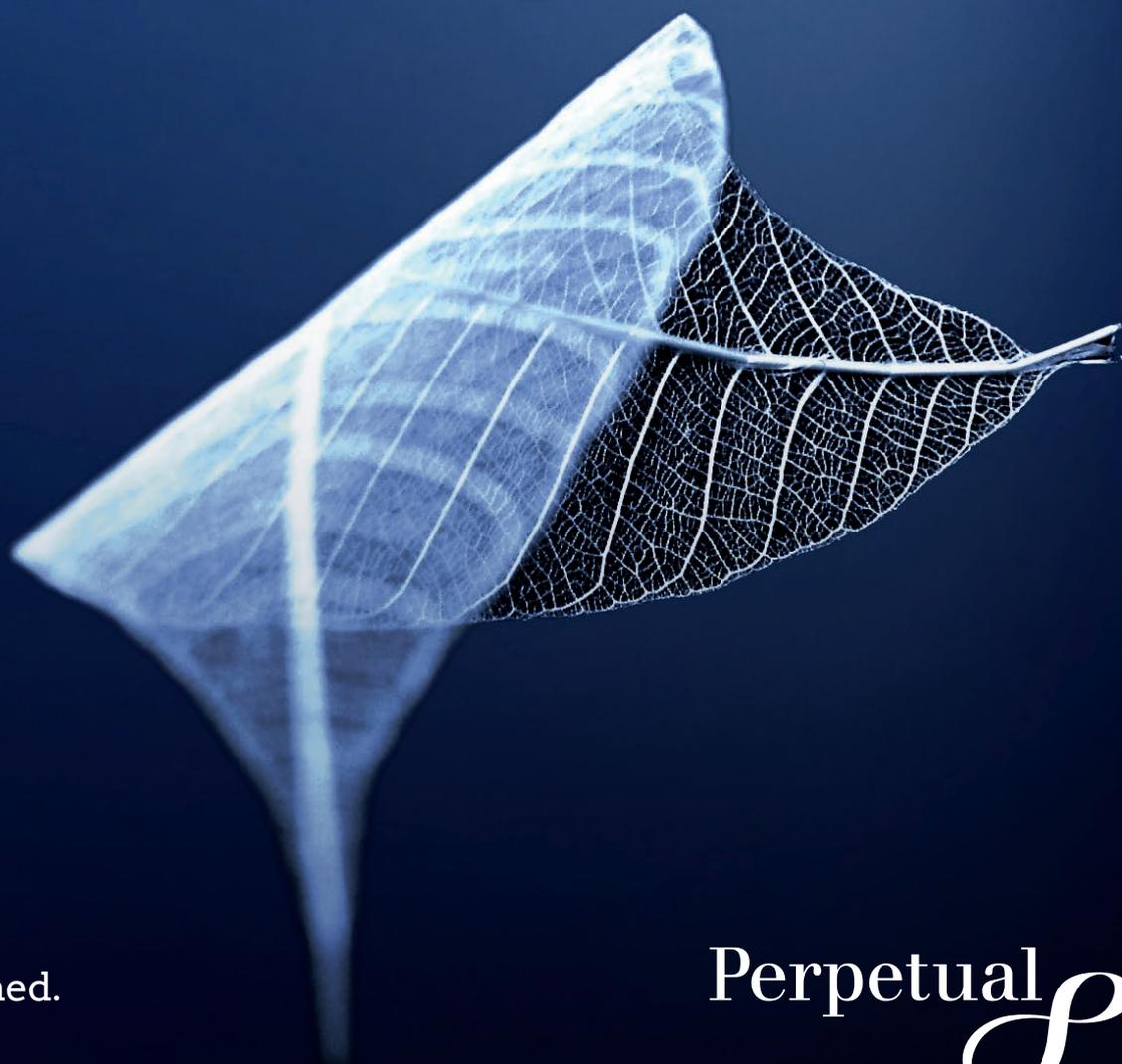

Perpetual Private Opportunities Funds

Diversifying portfolios with alternative assets



Trust is earned.

Perpetual 

What are alternative assets?

Alternatives cover a broad range of asset types, which can include almost anything that does not fit into traditional, market-traded equity and bond securities. These include assets such as real estate, infrastructure, shares in private companies, private loans and debt, as well as alternative trading strategies, such as hedge funds and absolute return funds.

Alternative investments are often available in less efficient markets. This can provide greater opportunity for skilled managers to enhance portfolio returns compared to the opportunities available in traditional asset classes like listed equities and bonds.



Benefits of investing in alternative assets



Wider choice of investment opportunities

Public equity markets, such as the Australian Securities Exchange (ASX), represent only part of the investment universe. Alternative investments look beyond public markets and look at opportunities available in private and unlisted markets, providing a wider choice of investment opportunities.



Lower overall portfolio volatility

Alternative investments generally have a low correlation of returns to investments in publicly traded equities or bonds. Adding opportunistic investments to a traditional, balanced investment portfolio may help to lower the portfolio's volatility and generate more consistent returns.



Earn an 'illiquidity premium'

Alternative investments are often less liquid in nature thereby necessitating an 'illiquidity premium', essentially a higher return to compensate investors for the fact these investments cannot be converted to cash at short notice.



Generate more consistent returns

Alternative investments generally aim to achieve 'absolute' positive returns, irrespective of the performance of the broader financial markets, even when traditional asset classes experience downturns.



Interests of investors and investment managers are closely aligned

The remuneration of many investment managers in the alternatives universe is linked more closely to investment performance, helping to ensure the interests of investors and investment managers are aligned.

Risks

While opportunistic investments can provide a range of benefits, they also come with a different set of risks to consider which may not be suitable for all investors. It is important to note that this asset class is less liquid and more complex than traditional equities and bonds.

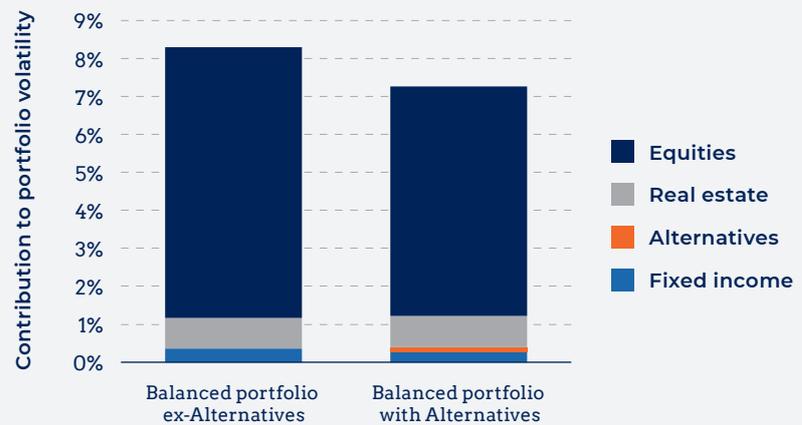
Whilst it's expected to generate additional returns or better risk outcomes for investors when included as part of a diversified portfolio, the more complex, illiquid and private nature of many alternative assets generally suit investors with a longer investment time horizon. We consider them appropriate for investors with a minimum investment horizon of five years and typically recommend a portfolio allocation of 5%-20% depending on the investment objectives and risk tolerance of the investor.

How do alternative assets fit into your portfolio?

A balanced portfolio typically has 60% exposure to growth assets, of which the majority is usually equities. In the chart to the right, we show a balanced portfolio excluding alternatives with about 66% allocation to equities, yet roughly 86% of the return volatility comes from this exposure to shares. This means that portfolio returns are heavily reliant on the performance of equity markets.

By constructing a more diversified portfolio with an allocation to alternative assets, which have different risk and return drivers, you can reduce expected risk at the total portfolio level as well as reduce the reliance on equity markets.

FIGURE 1: A balanced portfolio with exposure to alternative investments can exhibit lower volatility compared to a balanced portfolio without alternatives exposure



The asset allocation for Balanced portfolio ex-Alternatives consists of: 66% Equities (26% Australian shares, 40% International shares); 6% Real estate; 0% Alternatives; 26% Fixed income; 2% Cash.

The asset allocation for Balanced portfolio with Alternatives consists of: 56% Equities (22% Australian shares, 34% International shares); 6% Real estate; 15% Alternatives (10% Growth alternatives, 5% Defensive alternatives); 21% Fixed income; 2% Cash.

Source: Perpetual Private.

Types of alternative investments

At Perpetual Private, we group alternative investments into two categories: growth alternatives and income alternatives.

Growth alternatives aim to provide long-term capital growth. Examples of growth alternative assets include private equity strategies, infrastructure, opportunistic property, and absolute return strategies.

Income alternatives aim to provide stable cash flow over time. Examples of income alternative assets include corporate strategies such as private debt, structured product and broadly syndicated loans, and other niche strategies such as health care royalties, direct property, and insurance.

Given the significant scope in complexity, style and geography of the alternative asset class, a specialist skillset is required to successfully navigate the opportunity set. At Perpetual Private, we have been managing two alternatives funds – the Growth Opportunities Fund and the Income Opportunities Fund – for clients since 2007. Our alternative investments provide access to a range of assets and strategies that may not be typically available in more traditional, publicly listed investment markets.



Perpetual Growth Opportunities Fund

The Fund aims to provide long-term capital growth through investment in a diversified portfolio of opportunistic growth assets with a long-term objective of outperforming cash +3% over rolling five-to-seven year periods.

The individual investments may have high risk, but they also have the potential for high returns over the long term.

Growth alternative assets include:

- **Private equity:** investments in unlisted companies and entities that offer the prospect for increases in shareholder value.
- **Opportunistic property funds:** investments in property projects with the potential for increases in value, through strategies such as redevelopment or market re-positioning.
- **Absolute return funds:** actively managed investments that use a broad range of securities and investment techniques. They have the potential to generate returns not correlated to broader market conditions, in both rising and falling markets. They have varying risk and return characteristics, ranging from fixed interest-like to equity-like investments.
- **Infrastructure funds:** involves buying listed or unlisted equity or debt securities in companies and/or large projects, such as airports, power, roads, telecommunications, and water supply.
- **Other unlisted investments** consistent with the Fund's investment approach.

Key characteristics

- Aims to provide long-term capital growth
- Invests directly or indirectly in a diverse mix of assets
- Exhibits low correlation to equities
- Aims to lower overall portfolio volatility when added to a traditional, diversified investment portfolio.



Perpetual Income Opportunities Fund

The Fund aims to provide consistent income or stable cash flow through investment in a diversified portfolio of opportunistic income assets with a long-term objective of outperforming cash +2% over rolling three-year periods.

Income alternative assets include:

- **Corporate strategies:** income-producing investments backed by the cash flows of companies.
- **Asset-backed strategies:** income-producing investments backed by the cash flow of residential property, commercial property or consumer debt.
- **Other defensive alternatives** consistent with the Fund's investment approach. These investments fall outside the corporate and asset-backed categories and may include mezzanine debt, royalties and insurance-linked investments.

Key characteristics

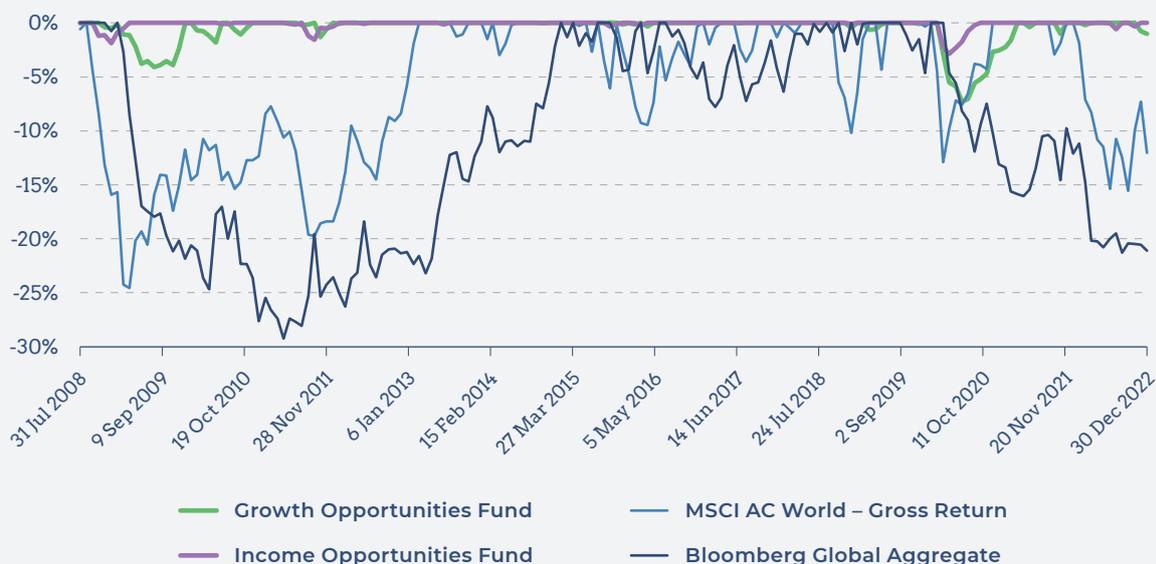
- Aims to provide consistent income.
- Has exhibited historic volatility of less than 2% over rolling three-year periods since inception in March 2008.
- Low correlation to fixed income and equities.

Diversification, risk reduction and stable returns

Within a broader well-diversified portfolio across asset classes and regions, an investment with lower drawdown¹ risk may help to provide investors with more stable returns over time.

The Growth Opportunities Fund and Income Opportunities Fund have exhibited much lower drawdowns compared to the broader global equities market and broader global fixed income market, respectively (see Figure 2).

FIGURE 2: Drawdown analysis



Source: FactSet, Perpetual Private, as at 31 December 2022. Past performance is not indicative of future performance.

Fund structure

The Funds are operated as illiquid managed investment schemes and withdrawals from the Funds are subject to quarterly withdrawal offers. You can find more information on the types of assets available in the Fund and the risks of investing in the current Product Disclosure Statement (PDS).

¹ Minimising drawdown within a broader portfolio is an important consideration for long-term investors. For example, if an investment's value drops from \$100 to \$50 – a 50% drawdown, or a loss of \$50 – it requires a 100% increase of \$50 to recover the former peak. Drawdown risk can be mitigated by having a well-diversified portfolio across stocks, bonds, cash, and alternative assets.

Why Perpetual Private for alternatives investing?

Dedicated team with global access to diversified strategies

Our dedicated team of seven investment professionals manage our alternatives funds to provide a truly diversified exposure through world-class investment managers across geographies, strategies, styles, and vintages, ensuring our clients capture the full array of benefits afforded by alternative investments.

Institutional-grade research capabilities and specialised expertise in manager selection

Perpetual Private's Multi-Manager investment team rigorously researches and selects specialist investment managers for their particular capabilities so they combine effectively to achieve the funds' objectives.

Leading external consultants are also used to provide research on the investment managers, emerging opportunistic investments, and portfolio construction.

Solid track record in alternatives investing

Perpetual Private has a solid track record of investing in the alternatives universe in excess of 15 years. Our funds have delivered on their risk objectives by providing lower portfolio volatility, and have delivered an additional source of uncorrelated returns to a diversified portfolio.

The Perpetual brand and trustee heritage

Perpetual Private is part of the Perpetual Group, an ASX-listed, diversified financial services company which has been part of Australia's financial landscape since 1886 when it was established as a trustee company. That trustee culture of putting clients first is what makes Perpetual unique.



To learn more about the benefits of adding alternative investments to a traditional portfolio, contact Perpetual Private at:

1800 631 381

perpetualprivate@perpetual.com.au

Perpetual Private advice and services are provided by Perpetual Trustee Company Limited (PTCo) ABN 42 000 001 007, AFSL 236643. This information has been prepared by PTCo and Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426 and issued by PTCo. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The PDS, issued by PIML should be considered before deciding whether to acquire or hold units in the fund. The PDS and Target Market Determination are available on our website at perpetual.com.au. No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. Past performance is not indicative of future performance. This document is dated February 2023.

Trust is earned.

Perpetual
