Perpetual Investment Funds

PERPETUAL
ESG REAL RETURN FUND

31 May 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 2021
Size of fund: $39.5 million as at 31 March 2025
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

True alignment to investors real return objectives; Diversification of risk; Active management of the Asset Allocation; Access to an increased amount of investment opportunities; ESG integration through Perpetual and Trillium Funds.

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 31 MAY 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 ESG Real Return Fund (Gross)	2.13	2.24	3.85	8.06	3.77	-	2.66	Perpetual ESG Real Return Fund	-	-
Perpetual ESG Real Return Fund (Net)	2.05	2.02	3.42	7.15	2.89	-	1.80	Mercer Balanced Growth Median	8.54	7.90

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

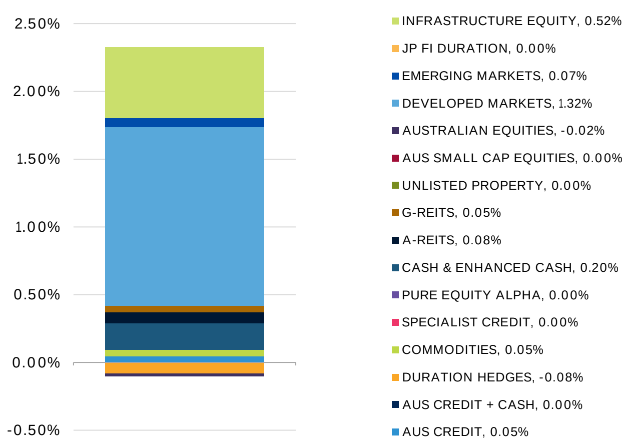
CHANGES IN ASSET ALLOCATION (%)

	CURRENT	3 MTHS	6 MTHS	1 YR
Cash	17.0%	-4.2%	-5.1%	7.5%
Fixed Income & Credit	41.2%	2.6%	3.9%	-32.8%
Australian Equities	5.3%	0.3%	0.3%	3.3%
International Equities	26.9%	1.4%	1.6%	16.5%
Commodities	2.7%	-0.3%	-0.3%	0.4%
Property	2.2%	-0.1%	-0.2%	0.3%
Other Investments	4.8%	0.3%	-0.2%	4.8%

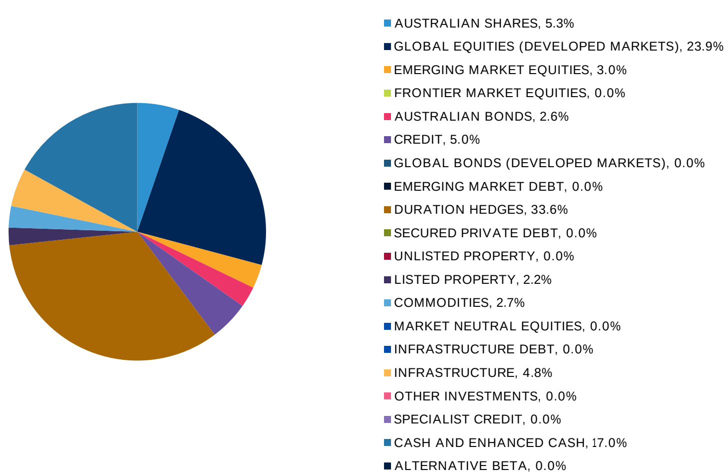
ESG APPROACH

As a real return fund, the Fund applies a dynamic asset allocation approach, which is designed to allow the portfolio manager the greatest flexibility to achieve the fund's objective. There is no universal, consistent approach to ESG across every asset class in the Fund due to practical and fundamental issues of investing in each asset class. The Fund's approach to ESG screening will vary across asset classes and by investment strategy within each asset class where applicable. Please refer to the Perpetual Investment Funds PDS for further information.

3MTH CONTRIBUTION TO RETURN (GROSS)



PORTFOLIO SECTORS



FUND PERFORMANCE

The ESG Real Return Fund returned 2.1% (net) in May. Over the past 12 months, the Fund has returned 7.2% (net).

Equity exposures contributed strongly to performance over the month as risk assets extended their recovery from the April volatility. Australian and developed market equity beta alongside allocation to global deep value and UK equity income strategies were constructive for returns, and allocation to sustainable infrastructure LICs, domestic REITs and emerging market equities also contributed. Global equity stock selection was constructive supported by tailwinds from the ESG premia as ESG benchmarks outperformed broadmarket comparables globally and domestically.

In contrast, domestic equity stock selection detracted from performance as value sectors and securities underperformed the broader market.

Meanwhile, US yields rose on concerns around fiscal sustainability, which weighed on pricing for the Fund's 2-year government bonds.

MARKET COMMENTARY

Equity markets continued to rally in May, taking comfort from the pause of tariffs and confidence in the "Trump Put" – the President's propensity to reverse course to stabilise equity markets.

Developed market equities (+6.0%) rallied strongly led by the US with the S&P 500 returning 6.3% while the more growth-oriented NASDAQ Composite returned 9.7% for the month. Easing concerns around US trade policy – following an agreement between the US and China to suspend reciprocal tariffs for 90 days – provided a tailwind alongside robust first quarter corporate earnings results. US earnings were stronger than expected, with 78% of S&P 500 companies beating estimates.

Australian equities (+4.2%) extended their recovery, benefitting from the improving outlook for global trade relations in addition to monetary policy easing.

European shares rose, led by Germany (+6.7%) as a renewed tolerance for larger fiscal spending outweighed lingering concerns around tariff negotiations after the Trump administration threatened to increase tariffs further on EU imports in June before re-extending the deadline for negotiation to July 9.

UK equities (+3.8%) trailed the broader developed market over the month. The Bank of England lowered rates by 25bps in early May however an acceleration of CPI (3.5% in April up from 2.6% in March) saw futures remove the pricing for one -0.25% 2025 rate cut which weighed on equity returns.

Japanese equities (+5.1%) performed well on the back of depreciating Yen, as well as easing recession concerns and corporate governance reforms resulting in rising dividends and buybacks.

Emerging markets (+3.2%) trailed developed markets despite the de-escalation of trade tensions, but the market has fully recovered from its April trade-related malaise, and central banks are able to ease rates which should support sentiment moving forward.

Credit spreads benefitted from improved risk sentiment with US high yield in particular rallying strongly.

US 10-year bonds (+24bps) sold off on fiscal concerns following the passing of the Trump administration's reconciliation bill and uncertainty around the revenue impact of tariffs. Meanwhile, Moody's reduced its sovereign credit rating for the US to Aa1 – aligning with S&P and Fitch – noting large annual deficits and rising interest costs.

US trade policy again dominated global financial market sentiment during May. Markets continued to recover, supported by the announcement of a 90-day trade agreement that significantly reduced tariffs on most Chinese imports from 145% to 30%, and China reducing its tariffs on US imports from 125% to 10%. There remains significant uncertainty, however, as disputes over rare earth minerals persisted at month end. While the pause eased US recession fears, economic data were mixed. US GDP fell -0.2% (Seasonally Adjusted Annual Rate) over the first quarter, the lowest reading and first decline since Q1 2022. The key contributor was increasing imports as US corporates increased inventory in anticipation of tariff announcements, but domestic demand remained strong at +2.5% SAAR which indicated that the US economy remained on a sound footing to absorb the impact of President Trump's tariff increases. In addition, GDP growth estimates for the second quarter have strengthened with the Atlanta Fed's GDP Now number for Q2 around +3¾%, but this gauge has varying degrees of accuracy given the typical vagrancies around all national account releases.

Elsewhere, rising fiscal sustainability concerns contributed to elevated bond market volatility during May. The Trump administration's reconciliation bill narrowly passed the House of Representatives in May and would be expected to significantly increase the deficit. Bond markets reacted poorly with the yield curve steepening as investors demanded a greater compensation for term risk. We have for some time been concerned around the path of US fiscal policy with the congressional budget office projecting a US$1.9T deficit representing 6.5% of GDP. While the tax cuts included in the 'Big Beautiful Bill' were expected to be offset by tariff revenue, this was undercut by the administration's willingness to pause or reduce tariffs in response to market movements and the uncertainty around the legality of the tariffs. In late May the US Court of International Trade ruled that President Trump's administration do not have the authority to impose baseline 10% or reciprocal tariffs through the use of emergency powers, however there are various other channels which these tax increases can be enacted, and the decision is subject to ongoing appeal.

Outside the US, the growth outlook remains clouded by ongoing uncertainty surrounding international trade. The EU growth outlook weakened with the flash composite PMI receding into contractionary territory (49.5) during May. The European Central Bank (ECB) kept rates on hold after cutting in April. President Lagarde maintained caution, highlighting the vulnerability of the economy to external shocks such trade tensions with the US and markets almost fully pricing a June cut by month end. We maintain that European growth will likely remain above trend this year, but will be only marginally above the pace of 2024 given improvements in domestic final sales.

Elsewhere, the Australian economy has faced challenges due to higher inflation and sustained elevated interest rates, leading to seven consecutive quarters of contracting GDP growth per capita until a modest +0.1%Q expansion was recorded in Q4'24, only for declines to restart in in Mar-25. Irrespective, the economy has remained in expansion territory due to large population growth and significant fiscal expansion – which is expected to continue post the federal election. Meanwhile, the RBA reduced the target cash rate 25bps to 3.85% in mid-May, the second of this easing cycle, with commentary increasingly dovish with internal discussion of a 50bps cut was well received by financial markets even though it was not implemented. Governor Bullock noted that monetary policy is well placed to respond decisively to international developments." Despite the rate cut, Australian 10-year bond yields rose +16 bpts to 4.27% over the month, mirroring global trends . While the impact of US tariffs – most notably via Chinese demand – is clouding the outlook, the economy is projected to grow at a faster pace in 2025, driven by increased government spending, tax cuts, and lower interest rates.

The macroeconomic outlook and the uncertain path of inflation and monetary policy given changes to US trade policy represent a challenging backdrop for all investors. We anticipate lower returns and elevated volatility from market cap benchmark reflecting high starting valuations and increasing concentration, but government bonds are offering less reliable diversification in the face of rising government debt, and elevated risk of sustained above-target core inflation. 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

We have observed a volatile start to the year reflecting disruption to international trade regimes and growth concerns. Valuations remain expensive relative to history in many regions, and elevated market concentration and the preponderance of passive investment continue to contribute to heightened sensitivity of equity markets. We remain concerned about the long-term return expectations for equities given these high starting valuations and the dominance of US equities in global benchmarks. The past decade of US exceptionalism - culminating in the extraordinary run of the Magnificent 7 tech stocks - has created very strong global equity returns. The stellar gains in US equities and their leading tech firms, 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, retaining exposure to the Trillium Global Sustainable Opportunities Fund alongside deep value global equities, UK equities (which continue to offer solid dividend income and buybacks as well as potential for some valuation re-rating) alongside allocation to the Perpetual ESG Australian Share and strategic capital strategies.

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 put options on the S&P 500, call options on the GBP against the US dollar, USD calls versus the Hong Kong Dollar and a put option on the USD against the Japanese Yen.

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.

In addition, the Fund's cautious asset allocation is supported by a notable cash allocation, which provides solid income and significant optionality as valuations become more attractive.

MORE INFORMATION

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