Perpetual Investment Funds

PERPETUAL DIVERSIFIED REAL RETURN FUND - CLASS W

31 July 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: October 2010

Size of fund: $679.8 million as at 30 June 2024

APIR: PER0556AU

Management Fee: 0.85% pa ^^Refer to PDS for Management Costs

Investment style: Diversified risk budgeting, active, value

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

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.

FEE OPTION

Class W is the standard fixed fee class

TOTAL RETURNS % AS AT 31 JULY 2024

PERFORMANCE	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS PA	5 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Gross)	1.98	2.28	3.61	6.00	3.76	4.73	6.42
Perpetual Diversified Real Return Fund (Net)	1.91	2.07	3.18	5.11	2.88	3.85	5.52

VOLATILITY^	3 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund	2.70	3.23
Mercer Balanced Growth Median	8.60	7.80

FUND OBJECTIVE OUTCOME AS AT 31 JULY 2024

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

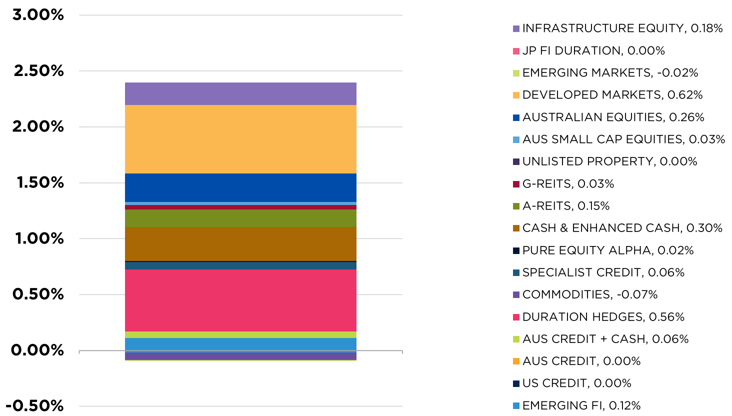
	5 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Gross)	4.7	6.4
CPI plus 5%	9.2	7.9

Past performance is not indicative of future performance.

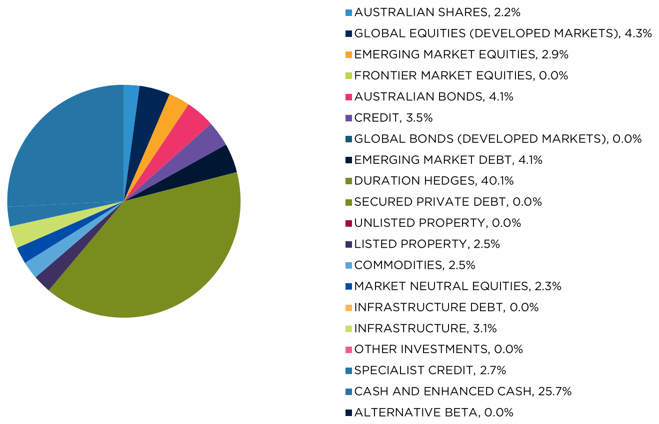
^^ Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS

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

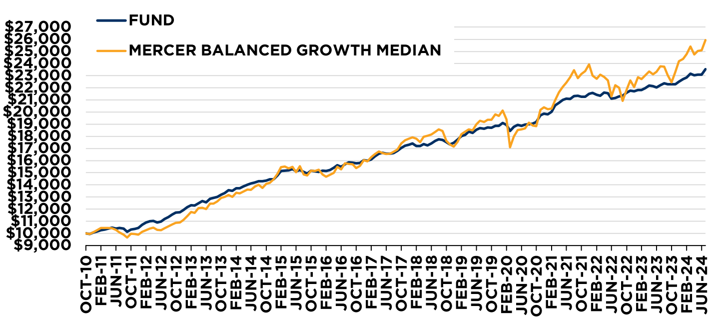
CONTRIBUTION TO 3MTH PERFORMANCE (GROSS)



PORTFOLIO SECTORS



GROWTH OF $10,000 SINCE INCEPTION



CHANGES IN ASSET ALLOCATION (%)

	3 MTHS	6 MTHS	1 YR
Australian Shares	-3.9	-3.8	-3.5
Global Equities (Developed Markets)	-2.9	-3.6	0.0
Emerging Market Equities	-0.3	-0.1	-0.2
Frontier Market Equities	0.0	0.0	0.0
Australian Bonds	0.3	0.6	-2.3
Credit	0.2	0.4	0.6
Global Bonds (Developed Markets)	0.0	0.0	0.0
Emerging Market Debt	0.2	0.4	0.5
Duration Hedges	2.6	6.8	38.3
Secured Private Debt	0.0	0.0	0.0
Unlisted Property	0.0	0.0	0.0
Listed Property	0.2	0.1	0.3
Commodities	-0.1	-0.6	-4.8
Market Neutral Equities	0.1	0.3	0.4
Infrastructure Debt	0.0	0.0	0.0
Infrastructure	3.1	3.1	3.1
Other Investments	0.0	0.0	0.0
Specialist Credit	0.1	0.4	0.5
Cash and Enhanced Cash	0.4	-4.1	-32.7
Alternative Beta	0.0	0.0	0.0

FUND PERFORMANCE

The Diversified Real Return Fund returned 1.9% (net) in July. Over the past year, the Fund has returned 5.1% (net) and over the past 5 years the Fund has returned 3.9% (net) per annum compared with the objective of 9.2% (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 exposure to short end US yields was the most substantial single contributor to return during July as 2-year US government bond yields fell 46bps in response to a 3Yr low in US core inflation which strengthened expectations that the US Fed would be able to reduce official interest rates at their September meeting. The rally in bond yields also supported regional sharemarkets with the Fund's allocation to Australian and developed markets equity beta contributing.

Stock selection alpha also contributed to returns during the month as value markets, sectors and stocks outperformed their growth peers. Stock selection alpha from the Fund's allocation to the Barrow Hanley Global Share Fund alongside new investments in global deep value and UK equity income were strong contributors. The Fund's allocation to Australian listed property trusts also added to performance.

Despite deploying some cash during July, the Fund retains an elevated exposure to cash which continues to deliver an attractive running yield and this also supported returns.

MARKET COMMENTARY

Financial markets consolidated during July with global equities ending the month higher while bond yields fell. Volatility was elevated reflecting a number of key economic and political developments.

- Developed market equities (+1.3%) rose during July, and there was a notable rotation towards value oriented sectors and securities, and typically defensive markets were well supported.
- Australian equities (+4.0%) recorded its strongest monthly rise this year and led the pace of regional sharemarkets gains as falling bond yields and easing inflation concerns were constructive, with subdued expectations for the upcoming reporting season providing corporates with potentially a low estimate to beat.
- UK stocks (+2.5%) also outperformed, supported by highly attractive valuations and improving economic expectations given a decisive result in the UK election early in the month. Meanwhile, a continued downdraft in headline and core inflation is providing the room for the Bank of England to potentially begin their easing cycle when the policy group meets in early August.
- US equities (+1.2%) performed in line with the broader developed market as tech heavy sectors including information technology consumer discretionary were weighed down by some underperformance by the so called Magnificent Seven, despite some robust earnings results. Small caps also outperformed during the month in response to modest positioning in this area of the market.
- European equities closed lower (-0.3%) as economic data disappointed and several ECB speakers expressed uncertainty about the number of rate cuts which had been factored into market prices for 2024.
- Japan equities (-1.2%) underperformed in response to a strengthening Yen after the Bank of Japan raised official interest rates for only the second time in 17 years. The hike was expected but guidance explicitly signalled further tightening would occur if economic and inflation developments are consistent with the July outlook.
- Emerging market equities (0.7%) rose but trailed the performance of developed markets, as waning economic prospects in China (-1.3%) weighed on sentiment.
- Domestic bond yields fell in most maturities in most markets as falling core inflation trends, improved the prospect that central banks can begin their respective easing cycles. 10-year Australian yields declined -19bps whereas 10-year US yields fell -32bps.

US markets balanced a slowing economic growth outlook with increased expectations of near term central bank easing. Markets reacted well to softer than expected CPI early in July which strengthened expectations that the Fed would commence rate cutting soon. This was supported by continued softening growth data, culminating in a well below expectation employment print in the first few days of August. By month end, (and further solidified after the non-farm payrolls miss) markets had priced in a first Fed rate cut in September with expectations for almost four cuts brought forward into 2024.

The domestic economy remains a key battleground for the 2024 presidential election which saw a seismic shift during July as President Biden withdrew from the race, endorsing Vice President Harris whose strong 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 how reliant US economic growth has been on elevated fiscal expenditure in the years following the COVID-19 pandemic, with the FY24 fiscal deficit likely to be -6.5% of GDP which is highly expansionary and aligned with levels seen during previous economic downturns.

Meanwhile, European growth was steady at +0.3% in the June quarter of 2024 despite Germany posting a marginal contraction. The ECB held rates in place during July with Governor Lagarde stating that the decision on a further cut in September was data dependent. Leading activity indicators including the flash composite European PMI declined to stall speed in July, signalling that the economic recovery is lacking propulsion.

Elsewhere, the UK economy continued to strengthen from a low base, with the S&P UK Manufacturing PMI rising to a two year high of 52.1, which combined with the services gauge (52.5) suggests the UK economy should continue to expand in H2'23.

It remains hard to see a significant global growth acceleration this year, as the fiscal impulse is negative, restrictive monetary policy remains a headwind, credit growth is anaemic and employment growth is slowing. While trend growth is supportive for equities, a soft-landing with numerous rate cuts in both 2024 and 25 have already been priced into market expectations which increases the vulnerability to downside surprises from earnings, geopolitical shocks and any re-pricing in global fixed interest markets of central bank expectation.

Slowing US growth, the uncertain path of inflation and central bank policy alongside high starting valuations provide a challenging environment for markets 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

Equity market performance has been very strong thus far in 2024 with elevated valuations underpinned by expectations of a soft landing for the global economy and supportive central bank action on policy rates. 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 once the economy finds a stronger base.

During July, global equity exposure was added via a number of opportunities that represent pockets of attractive value. As always, we are also looking for markets with attractive valuations and that have elevated dividend yields which tend to have much volatility than earnings growth. Exposure was added to 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 the JO Hambro UK Equity Income Fund which focused on total return by selecting high yielding UK securities from across the full market cap spectrum. Lastly, the fund added exposure to deep value global equities via an internally managed solution. Allocation to the Barrow Hanley Global Share Fund alpha was also increased.

The Fund maintains its exposure to 2-year US government bonds and modest exposures to 10-year Australian and US bonds. The focus on the short end of the US yield curve benefits from the deep inversion of the curve meaning that cash and shorter dated bonds not only have a higher running yield and but are also better protected against an upside inflation shock than longer-dated bonds.

MORE INFORMATION

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