

# Perpetual Investment Funds PERPETUAL DIVERSIFIED REAL RETURN

31 March 2026



## 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 31 MARCH 2026

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	-2.30	-0.19	1.48	5.94	4.86	3.90	4.22	4.1
Perp. WealthFocus Investment Advantage	PER0739AU	-2.31	-0.26	1.39	5.62	4.63	3.69	3.96	4.0
Perp. WealthFocus Super	PER0742AU	-2.05	-0.11	1.57	5.51	4.41	3.53	3.80	3.8

## FUND OBJECTIVE OUTCOME AS AT 31 MARCH 2026

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

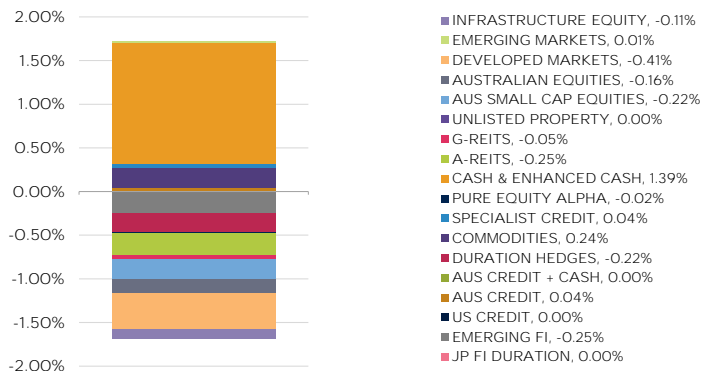
	5 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Gross)	4.8	6.4
CPI plus 5%	9.6	7.9

Past performance is not indicative of future performance.

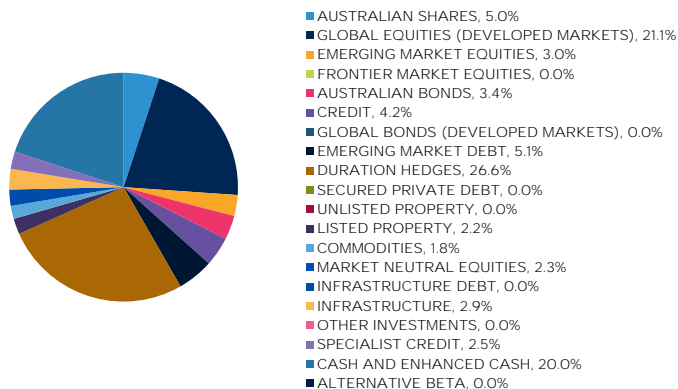
\*\* Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS

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

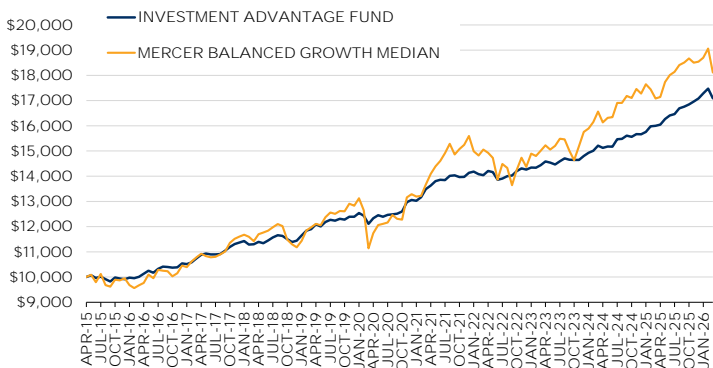
## CONTRIBUTION TO 3MTH PERFORMANCE (GROSS)



## PORTFOLIO SECTORS



## GROWTH OF \$10,000 SINCE INCEPTION



## CHANGES IN ASSET ALLOCATION (%)

	3 MTHS	6 MTHS	1 YR
Australian Shares	-0.2	0.1	0.2
Global Equities (Developed Markets)	-3.2	-2.0	-5.7
Emerging Market Equities	-0.1	0.0	-0.1
Frontier Market Equities	0.0	0.0	0.0
Australian Bonds	-0.3	-0.2	-0.4
Credit	-0.3	-0.2	0.0
Global Bonds (Developed Markets)	0.0	0.0	0.0
Emerging Market Debt	0.2	0.3	0.3
Duration Hedges	3.6	3.6	2.4
Secured Private Debt	0.0	0.0	0.0
Unlisted Property	0.0	0.0	0.0
Listed Property	-0.2	-0.3	-0.2
Commodities	-0.8	-1.0	-1.1
Market Neutral Equities	-0.2	-0.1	-0.2
Infrastructure Debt	0.0	0.0	0.0
Infrastructure	-0.4	-0.6	-0.4
Other Investments	0.0	0.0	0.0
Specialist Credit	-0.2	-0.1	-0.3
Cash and Enhanced Cash	2.1	0.5	5.4
Alternative Beta	0.0	0.0	0.0

## FUND PERFORMANCE

The Diversified Real Return Fund returned 0.0% (gross) in the March quarter. The combination of the Fund's defensive positioning, value bias, diversification and downside protection combined to defend capital during a tumultuous quarter where bonds and equities sold off.

Over the past year, the Fund has returned 6.9% (gross) and over the past 5 years the Fund has returned 4.8% (gross) per annum compared with the objective of 9.6% (CPI plus 5%\*) over rolling 5 years. Since inception (in 2010) the Fund has returned 6.4% (gross) per annum compared with the objective of 7.9% (CPI plus 5%\*).

Exposure to equity market beta detracted from performance as stocks sold off sharply in March following the commencement of the war in Iran. The impact of falling equities was mitigated by short index futures which are utilised to hedge the equity market risks and equity put options which offer explicit downside protection.

Equity stock selection among global equities contributed strongly as value sectors and securities outperformed the broader market. The Fund's allocation to the Barrow Hanley Global Share Fund and a dividend weighted equities strategy were material contributors to performance alongside emerging markets where underweight exposure to China was rewarded. Allocation to commodities was another strong contributor – led by precious metals of gold, silver and platinum.

The Fund's fixed income exposure detracted from performance as US 2-year yields rose. Alternative growth assets including Global and Domestic property alongside sustainable listed infrastructure detracted marginally. Stock selection within Australian equities also detracted significantly from performance.

\*All groups CPI measured and published by the ABS as at 30 December 2025

### 1. RETURN SEEKING ASSET CLASSES

Beginning of the Quarter: Low Allocation

End of the Quarter: Low Allocation

The Fund's return seeking exposures remain carefully managed. Notwithstanding the nascent rotation in equity markets, valuations are expensive relative to history in most regions and elevated market concentration, and the preponderance of value-agnostic passive funds, have made regional equity markets increasingly vulnerable to geopolitical, economic and monetary policy shocks.

The Fund retains exposure to Global Deep Value and UK Equity Income strategies, targeting undervalued companies overlooked by passive flows. These firms continue to offer, strong fundamentals and elevated free cashflows that are aligned with the Fund's investment objective and are not reliant on valuation expansion to deliver returns of CPI +5%pa. The Fund also maintains its allocation to sustainable listed investment companies trading at significant discounts to NAV, generating robust cash flows aligned with the investment objective.

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.

- Stock selection alpha where equity holdings are concentrated in high quality 'value' companies which have strong balance sheets and highly resilient operating models.
- A range of FX exposures;
- The Fund also maintains exposure to a select group of sustainable infrastructure stocks producing strong cash flows, while trading at a significant discount to NAV.

### 3. DOWNSIDE PROTECTION

Beginning of the Quarter: Medium Allocation

End of the Quarter: Medium Allocation

We continue to manage downside risks by maintaining little or no exposure to the most expensive parts of the global equity and credit markets and have zero exposure to private markets given their liquidity and valuation risks, where a left tail event could spark vulnerabilities and contagion. The Fund complements this with option protection where it has been attractively priced to implement. These include cost-effective S&P 500 put options, risking only premiums if markets rise, while protecting against downturns without predicting timing. The Fund also maintains a USD call option versus the Hong Kong Dollar which provides cheap protection against geopolitical risks. These explicit downside protection positions have performed well since the commencement of strikes in Iran and continue to provide the fund with protection and convexity.

The Fund's defensive posture is supplemented by fixed income exposures which are centred on the short end of the US yield curve. US 2-year bonds offer an attractive running yield and stability in crises compared to long-end bonds which are more sensitive to rises in US growth and inflation expectations. The Fund also holds call options on very long dated US government bonds.

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.

## 4. INFLATION PROTECTION

Beginning of the Quarter: Low to Medium Allocation

End of the Quarter: Low to Medium Allocation

Holding securities at the short end of the US yield curve reduces the portfolio exposure to rising inflation which should provide some stability should inflation pressures intensify as a result of rising energy and transport costs.

The portfolio also maintains an allocation to a basket of commodities (which includes gold, grains, livestock, silver, palladium, platinum and copper) which are typically positively correlated with inflation.

### MARKET COMMENTARY

The dominant theme for markets was the Middle East conflict, which sent oil prices surging and shifted investor focus firmly toward inflation, growth and monetary policy risks with equities and bonds selling in tandem. The early months of the quarter also saw a broadening of investment market returns as large cap US tech and software providers faced increased scrutiny. After US military strikes began, several crowded trades began to reverse including gold and emerging market equities sold off and the US dollar strengthened on safe-haven flows.

- Global shares (-3.2%) declined in the March quarter as markets reacted sharply to the commencement of strikes in Iran and the US market (-4.3%) underperformed given its rich starting valuation and high sensitivity to rising bond yields.
- The March quarter saw a broadening of investment market returns with the MSCI World Value (+1.8%) outperforming the growth index (-8.0%) as markets repriced expectations for software companies in the face of disruption from generative AI.
- Japanese equities (+3.6%) remained positive, reflecting Yen weakness and anticipated pro-growth policies following the landslide victory of the LDP in the February election.
- UK equities (+3.4%) were also resilient as the FTSE100 composition is largely defensive and this tailwind was supported by a depreciating Sterling which increased the attractiveness of dividends, 55% of which are paid in USD.
- Emerging markets (+2.1%) advanced, supported by strong performance from technology hardware driven markets Taiwan and Korea alongside energy sensitive economies, while Chinese equities declined reflecting global growth concerns.
- Australian shares (-2.0%) declined while outperforming the broader developed market as investors fretted over elevated valuations and the impact of slowing growth being amplified by higher oil prices and recent rate hikes (with the risk of more). While Australia is a net energy exporter, the composition of these exports is skewed to coal and LNG. Reliance on offshore oil means that the supply shock remains a threat to economic activity.
- Short and long-duration global bond yields rose in March as investors priced a potential stagflationary environment where growth slows, inflation rises, monetary policy tightens to combat higher prices, and fiscal policy is used to address growth concerns.
- Commodity markets were dominated by the sharp increase and elevated volatility of energy prices in March. Precious metals continued their advance in January and February before declining in March as investors raised liquidity, and the rally in the USD reversed capital flows.

Geopolitical uncertainty was the key focus for markets throughout the March quarter, culminating in the commencement of US & Israeli strikes on Iran and the closure of the strait of Hormuz. Earlier in the quarter, the US's capture of Venezuelan President Maduro, increased US tensions with NATO allies over Greenland, and civil unrest in Iran shaped market sentiment. While the Middle East situation remains highly fluid, market sentiment and economic risks are currently centred on traffic of oil tankers and the impact of damage to energy infrastructure in the region. The key driver is not how high energy prices go, but rather where they stay, but prices sustained over \$120 per barrel for an extended period would be expected to trigger a material decline in consensus global growth and a rise in global inflation expectations. The inflation rise would be much stronger in headline price gauges than the core inflation basket which is what central bank's target and history indicates that the price increase here is about one-quarter of the rise recorded in the headline index. The US Federal Reserve is well placed to be able to wait and see given the continued disinflationary process currently underway in the services sector, whereas their Australian, European and UK counterparts have fewer degrees of freedom, and their most recent guidance was clearly hawkish.

The US Federal Reserve kept interest rates steady at their January and March FOMC meetings and maintained their one rate cut outlook in 2026. However, the FOMC January meeting minutes (released in February) signalled a more hawkish tilt, with several policymakers indicating that further rate increases may be warranted if inflation does not ease. This was prior to the spike in oil prices as a result of the conflict in Iran. The shift reflects internal forecasts showing unemployment falling below its long-run sustainable level by year-end while inflation remains above the Federal Reserve's 2% target. Elsewhere, the Bank of Japan also signalled that they are more concerned about inflation risks as opposed to growth risks arising from rising energy costs, and this suggests that rates will be tightened possibly in the June quarter.

The bear case for risk markets would be if oil prices were to remain elevated for the remainder of the year, thereby threatening the duration of the business cycle. However, the bar for an oil spike threatening the business cycle is high given the development of large services industries, the world's reduced energy intensity, the strong state of global corporate balance sheets and more diversified energy supply across regions and energy types. The two 1970s oil shocks saw oil prices at least doubled with high prices persisting for over a year, but the global economy is today less oil price sensitive than it was 50 years ago.

While events in the Middle East dominated headlines and market sentiment during March, there were also material developments on the US trade policy front during the quarter. The US Supreme Court ruled against the use of the International Economic Emergency Powers Act to justify the April 2025 "liberation day" tariffs. The decision has potential fiscal implications with reduced receipts and ~US\$175 billion in duties potentially subject to refunds contingent on litigation. While the administration has used Section 122 to reinstate a 10% across the board tariff for 150 days, the Supreme Court's ruling has complicated the Trump administration trade policy strategy, although several avenues remain open for the Administration to implement import taxes.

The March quarter also saw increased stress in US private credit markets reflecting rising concerns around loan quality and liquidity terms. A private credit manager was forced to change redemption terms on one of its retail funds prompting a wider run on private credit funds, and a sell-off in listed managers. Meanwhile in the UK a specialist property finance lender MFS entered administration amid allegations of fraud with creditors and administrators citing double pledging of assets as collateral to secure financing. This highlights liquidity and transparency risks within the industry and raises questions about poorly vetted security in other parts of the ecosystem. Contagion risk exists between private credit markets and the regulated banking sector, as poor collateral means banks are potentially levered in their private credit exposure. The Fund currently has no exposure

to illiquid assets including private credit. While illiquids can provide diversification when return drivers are truly distinct, private markets are currently characterised by heavy capital inflows, elevated valuations, high transaction and implementation costs, and low visibility and transparency.

Meanwhile, concerns around software as a service (SAAS) exposures in private credit were also reflected in equity markets where a dichotomy emerged between strong performing supply chain and hardware companies and weakening SAAS and platform names. Market weakness during January and February reflected a shift in leadership as expectations for long-duration themes such as digital transformation and AI were reassessed after years of strong price gains, prompting capital to rotate toward companies, sectors and markets with more reasonable valuations and which are under-owned and have beatable EPS expectations. Notwithstanding a rebound for large cap tech stocks in March, we continue to have concerns around the quality and expected rates of return from the trillions of dollar currently being pledged for capital expenditure in the AI sector, considering the sector is characterised by broad competition. While AI technology itself is transformative, we see some parallels to the first tech boom and question how AI service companies will be able to meet the egregious profit expectations which are baked into forward looking valuations. We look for opportunities outside this cohort.

Rising geopolitical, inflation and growth risks are set against a backdrop of still elevated equity market valuations. Meanwhile, government bonds are offering less reliable diversification and are signalling a less certain path for inflation. In these conditions, risk management is paramount, the Fund retains multiple embedded risk protections and sources of portfolio convexity. 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.

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