# Perpetual Investment Funds
# PERPETUAL DIVERSIFIED REAL RETURN
## 30 June 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.

**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 30 JUNE 2025

| 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 | 0.73 | 2.26 | 4.18 | 7.08 | 4.84 | 4.76 | 4.06 | - |
| Perp. WealthFocus Investment Advantage | PER0739AU | 0.78 | 2.27 | 4.19 | 6.99 | 4.64 | 4.55 | 3.85 | 3.5 |
| Perp. WealthFocus Super | PER0742AU | 0.65 | 1.95 | 3.59 | 6.29 | 4.30 | 4.24 | 3.62 | 3.3 |

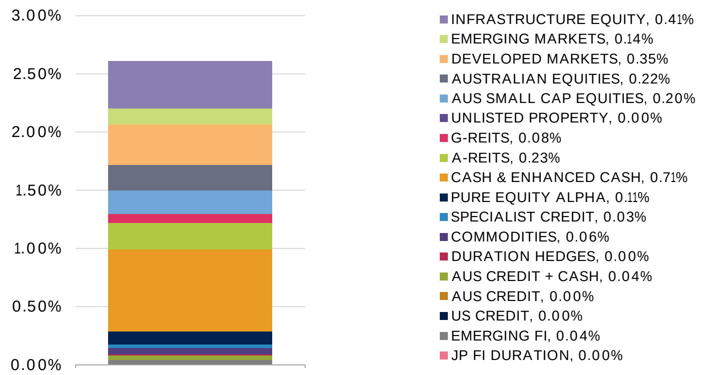
## FUND OBJECTIVE OUTCOME AS AT 30 JUNE 2025

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

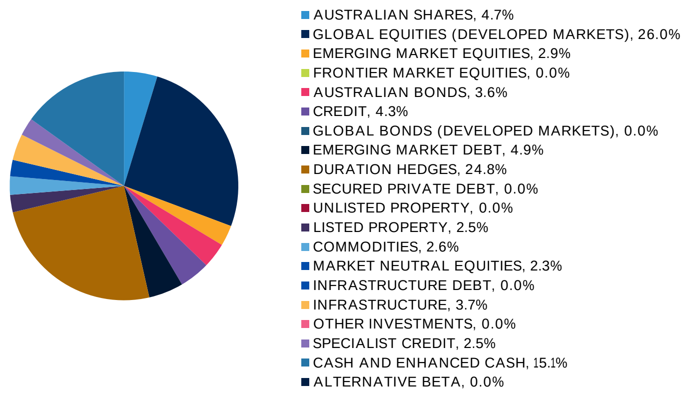
| | 5 YRS PA | INCEPT PA |
|---|---|---|
| Perpetual Diversified Real Return Fund (Gross) | 5.8 | 6.4 |
| CPI plus 5% | 9.5 | 7.8 |

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

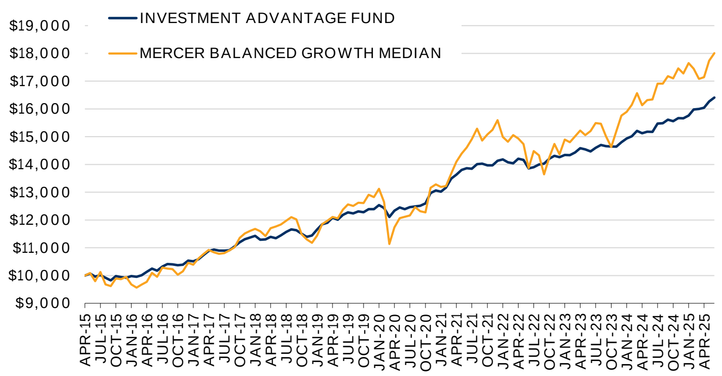
## CONTRIBUTION TO 3MTH PERFORMANCE (GROSS)




## PORTFOLIO SECTORS




## GROWTH OF $10,000 SINCE INCEPTION




## CHANGES IN ASSET ALLOCATION (%)

| | 3 MTHS | 6 MTHS | 1 YR |
|---|---|---|---|
| Australian Shares | -0.2 | -0.3 | -1.0 |
| Global Equities (Developed Markets) | -0.8 | 7.3 | 14.2 |
| Emerging Market Equities | -0.1 | -0.2 | 0.1 |
| Frontier Market Equities | 0.0 | 0.0 | 0.0 |
| Australian Bonds | -0.2 | -0.5 | -0.5 |
| Credit | 0.1 | 0.2 | 0.8 |
| Global Bonds (Developed Markets) | 0.0 | 0.0 | 0.0 |
| Emerging Market Debt | 0.1 | 0.2 | 1.0 |
| Duration Hedges | 0.7 | 1.0 | -14.5 |
| Secured Private Debt | 0.0 | 0.0 | 0.0 |
| Unlisted Property | 0.0 | 0.0 | 0.0 |
| Listed Property | 0.0 | -0.1 | 0.0 |
| Commodities | -0.4 | -0.2 | 0.0 |
| Market Neutral Equities | -0.1 | -0.1 | 0.0 |
| Infrastructure Debt | 0.0 | 0.0 | 0.0 |
| Infrastructure | 0.4 | 0.4 | 1.5 |
| Other Investments | 0.0 | 0.0 | 0.0 |
| Specialist Credit | -0.2 | -0.1 | -0.2 |
| Cash and Enhanced Cash | 0.5 | -7.5 | -1.3 |
| Alternative Beta | 0.0 | 0.0 | 0.0 |

## FUND PERFORMANCE

The Diversified Real Return Fund returned 2.6% (gross) in the June quarter. Over the past year, the Fund has returned 8.2% (gross) and over the past 5 years the Fund has returned 5.8% (gross) per annum compared with the objective of 9.5% (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 7.8% (CPI plus 5%*).

The Fund's defensive positioning and convexity performed well early in the quarter as volatility spiked after President Trump's Liberation tariff announcements, before risk assets rallied over the remainder of the quarter after Trump announced a 90-day moratorium for countries to negotiate trade deals with the US. Equity exposures were the key contributing factor to performance over the quarter across developed, domestic, and emerging markets. The Fund's global deep value and UK equity income strategies performed well, as did allocation to sustainable listed infrastructure LICs and domestic REITs. Allocation to a diversified basket of metals also contributed to returns.

Stock selection alpha within the Barrow Hanley Global Share Fund and the Economic Diversification Global Equity fund (a dividend focused smart beta strategy) detracted from performance as growth sectors and securities strongly outperformed value. Australian equity stock selection also detracted from performance as underweight allocation to financials – including CBA – impacted relative performance. Global equity puts also detracted throughout May and June as the relief rally continued.

Fixed income exposures were mixed over the quarter. While Australian and emerging market bonds exposures added to performance, the Fund's US 2-year government bond exposures were impacted by elevated yield volatility as concerns around US sovereign credit quality escalated.

*All groups CPI measured and published by the ABS as at 31 March 2025

### 1. RETURN SEEKING ASSET CLASSES

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

We have observed a volatile first half of 2025, reflecting likely 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 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 underpinned 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 and maintain diversity in regional and sector allocations within the return seeking quadrant.

The Fund retains exposure to value and deep value global equities, UK income-based equities (which continue to offer solid dividend income and buybacks, as well as potential for some valuation re-rating) alongside allocation to Australian value and strategic capital strategies.

Meanwhile, the Fund has very low allocation to credit including 0% exposure to US high yield – reflecting very narrow spreads which produces low-adjusted returns in periods of stress.

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 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 and lower vulnerability to temporary rises in US inflation from US trade policy.

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 disruptive US trade policy reignite inflation.

The portfolio also maintains a small 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

Financial markets recovered from initial volatility in the wake of President Trump levying larger tariffs than the market was expecting, but when the US leader announced a 90-day moratorium markets stabilised and then rallied as tariffs on China were scaled back. This gave the market strong momentum which enabled it to shake off concerns around the US fiscal outlook and a sharp rise in geopolitical tensions in the Middle East, and to rally strongly over the remainder of the quarter.

- Developed markets (+9.7%) staged a rapid recovery from a sharp selloff in early April. Equity gains were led by US stocks (+10.9%) where robust corporate earnings results and renewed investor confidence saw US large cap tech strongly outperform the broader market. Accordingly, growth sectors and securities outperformed value with the Russell 1000 Growth returning +17.8% over the quarter well in excess of the value index (+3.8%).

- European equities advanced (+3.2%) despite trailing the broader developed market, led by Germany (+7.9%). European stocks were supported by increased defence spending – agreed to at the June Nato summit – and successive rate cuts as the ECB continued its easing cycle.

- Japanese equities performed very strongly despite the rally in the Yen, with the Nikkei 225 returning +13.9%. Rising dividends and share buybacks as a result of ongoing corporate governance reforms were very well received.

- Emerging markets (+8.1%) rallied strongly as the US Dollar weakened. The market rise was impressive as Chinese equity market performance (+2.6%) which is the largest component MSCI EM index, underperformed of its regional peers as tariff uncertainty weighed on sentiment.

- US bonds saw elevated volatility over the quarter reflecting concerns around sovereign credit quality. Australian (-22bps) UK (-18bps) and German (-10bps) 10-year bond yields all rallied as the global central bank easing cycle progressed. However, with the Fed on hold and US inflation showing little sign of tariff impact (so far) meant the US 10Y treasury yields (+2 bpts) did not participate in the regional decline. There was considerable commentary around the rise in the US term premia associated with the soon-to-be-enacted FY26 US Federal Government funding bill, but this increase was evident in numerous regions, and did therefore did not explain the US bond underperformance.

- Gold (+5.3%) reached a new all-time high in April as investors looked to safety as volatility spiked, and although prices declined as risk sentiment improved, the price of bullion remained near peak levels.

In early April, the immediate aftermath of the 'Liberation Day' announcements saw the VIX index spike to a level last seen during the Covid selloff. US equities corrected before a relief rally over the second half of April and equity performance was characterized by large intraday moves. Markets continued to recover throughout May and June, supported by the announcement of a trade agreement between the US and China which significantly reduced tariffs on most Chinese imports from 145% to 30%, and China reducing its tariffs on US imports from 125% to 10%.

While the pause eased near term growth fears in both economies, macro data were mixed amid signs that the pace of the 5Yr expansion in moderating. First quarter US GDP growth declined -0.2% which was the weakest reading since the first quarter of 2022, underpinned by the front running of tariffs by business which sparked a surge in US imports. While US domestic demand growth also slowed to a 9-quarter low of +1.9%, it remained above trend. While markets have been unsettled by the trade war, President Trump has shown a willingness to respond to market pressures and now seems to be focused on trade deals which benefit the US and would improve the growth outlook. However, few of these are yet to be agreed to and signed with the end of the 90-day pause period looming.

Elsewhere, rising fiscal sustainability concerns were attributed to US bonds marking time while their regional peers declined during the quarter. The Trump administration's reconciliation bill narrowly passed the House of Representatives in May and US 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. A further risk to US bonds is the Trump administration's increasingly combative relationship with the Federal Reserve and the President's demand for further easing. We consider the risks here low as Trump's influence over the voting committee is next to nothing.

Outside the US, the growth outlook remains clouded by ongoing uncertainty surrounding international trade. The European Growth Commission cut its growth forecasts in response to the Trump administrations tariff regimes and the European Central Bank cut rates twice during the quarter, and President Lagarde's suggested to the market that the end to the easing cycle was coming. We maintain that European growth is likely to contract in the second quarter in the wake of a large trade drag (the reverse of which boosted growth in the first quarter to +2.5%) and is set to remain below-trend over the remainder of 2025.

Geopolitical risks were heightened towards the end of the June quarter as a surprise series of airstrikes by Israel against numerous Iranian nuclear sites, combined with US intervention on 22 June, sparked a temporary rise in the global oil price. The impact here was minimal as prices where low to begin with, only rose up to the post-2022 average and the strikes were over in less than two weeks. Accordingly, geopolitical risks have subsequently dissipated, and oil prices have receded. While heightened aggression in the Middle East remains a concern, we believe it is unlikely to have any material market effect.

Elsewhere, the Australian economy looks flat with households not spending recently large tax cuts, businesses remaining cautious about any material rise in investment and per capita GDP growth in negative territory for 8 of the past 9 quarters. Irrespective, the economy has remained in expansion territory due to large population growth and significant fiscal expansion – which is expected to continue following the May 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 including discussion around a 50bps cut. By quarter end, futures markets had priced in a more than 90% chance of a further 25bps cut at the July meeting, but we were sceptical as the Bank typically likes to view the quarter inflation print before changing rates, which implied that an August cut is more likely. While the impact of US tariffs – most notably via Chinese demand – is clouding the outlook, market sentiment is upbeat with the economy expected to grow at a faster pace in 2025 driven by increased government spending, tax cuts, and lower interest rates. Despite these potential growth tailwinds, we sense that the Australian economy is likely to stay in the slow lane given the lack of economic reform.

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 benchmarks, reflecting high starting valuations and increasing concentration of capital gains in benchmark indices. Meanwhile, government bonds are offering less reliable diversification in the face of rising government debt, and the risk of elevated and 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.



## MORE INFORMATION

Investor Services 1800 022 033
Email PerpetualUTqueries@cm.mpms.mufg.com
www.perpetual.com.au

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