

# Perpetual Investment Funds

## PERPETUAL DIVERSIFIED REAL RETURN FUND - CLASS Z

31 July 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 2018

**Size of Strategy:** \$583.3 million as at 30 June 2025

**APIR:** PER6115AU

**Management Fee:** 0.35% pa ^^Refer to PDS for Management Costs

**Investment style:** Diversified risk budgeting, active, valu

**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 Z is the performance fee option.  
The maximum performance fee is 1%  
The performance hurdle is 2.5%, the middle of the RBA target inflation rate.

### TOTAL RETURNS % AS AT 31 JULY 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 Diversified Real Return Fund (Gross)*	0.32	2.62	4.50	6.45	5.81	5.72	6.42	Perpetual Diversified Real Return Fund (Class W)	2.14	3.16
Perpetual Diversified Real Return Fund (Net)	0.28	2.34	4.01	5.74	5.25	5.09	4.75	Mercer Balanced Growth Median	7.69	7.73

### FUND OBJECTIVE OUTCOME AS AT 31 JULY 2025

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

	5 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Gross - Class W)	5.7	6.4
CPI plus 5%	9.7	7.9

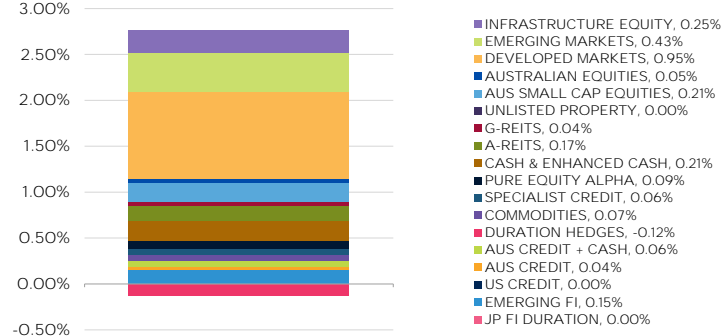
Past performance is not indicative of future performance.

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

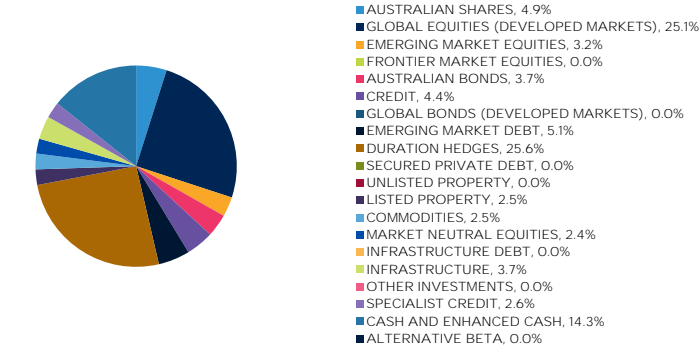
^ Volatility and Mercer Balanced Growth Median data is lagged by 1 month

\* Gross performance presented here is for the Perpetual Diversified Real Return Fund Class W

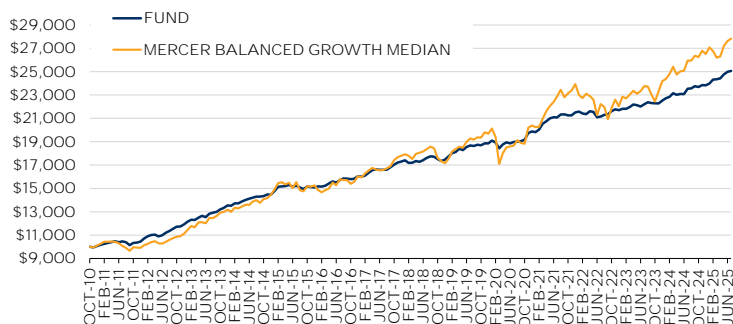
### CONTRIBUTION TO 3MTH PERFORMANCE (GROSS)



### PORTFOLIO SECTORS



### GROWTH OF \$10,000 SINCE INCEPTION



### CHANGES IN ASSET ALLOCATION (%)

	3 MTHS	6 MTHS	1 YR
Australian Shares	-0.2	0.1	-0.3
Global Equities (Developed Markets)	0.5	2.4	10.9
Emerging Market Equities	0.1	0.0	0.2
Frontier Market Equities	0.0	0.0	0.0
Australian Bonds	-0.2	-0.4	-0.4
Credit	0.3	0.4	0.9
Global Bonds (Developed Markets)	0.0	0.0	0.0
Emerging Market Debt	0.3	0.3	1.0
Duration Hedges	1.2	2.1	-14.5
Secured Private Debt	0.0	0.0	0.0
Unlisted Property	0.0	0.0	0.0
Listed Property	0.0	0.0	0.0
Commodities	0.0	-0.5	0.1
Market Neutral Equities	-0.1	-0.1	0.1
Infrastructure Debt	0.0	0.0	0.0
Infrastructure	0.3	0.6	0.6
Other Investments	0.0	0.0	0.0
Specialist Credit	-0.1	-0.1	-0.1
Cash and Enhanced Cash	-2.2	-4.9	1.6
Alternative Beta	0.0	0.0	0.0

## FUND PERFORMANCE

The Diversified Real Return Fund returned 0.3% (gross) in July. Over the past year, the Fund has returned 6.5% (gross) and over the past 5 years the Fund has returned 5.7% (gross) per annum compared with the objective of 9.7% (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%\*).

Global and domestic equity exposures contributed to absolute performance over the month as equities rallied, supported by successive US trade agreements and robust corporate earnings results. Alongside developed market beta, our allocation to emerging markets, UK equity income and global deep value strategies performed well.

The gains from equity market beta were partially offset by stock selection alpha given underperformance from the Barrow Hanely Global Share Fund and Perpetual Australian Share Fund weighing on performance in an environment where growth stocks – led by US tech – outperformed value, despite **their collective elevated valuations**. The Fund's allocation to short end US government bonds also detracted as the US yield curve flattened and 2-year yields rose 23bps, reflecting concerns that the US Fed may cut rates fewer times this year than had been factored into market prices.

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

## MARKET COMMENTARY

Markets edged higher in July as investors parsed easing trade tensions, solid corporate earnings, and a cautious yet steady approach from global central banks. Softer macroeconomic data towards the end of the month tested the rally but the profit taking was not overly large.

- US equities (+2.2%) reached new all-time highs, rallying on easing trade concerns and supportive earnings results. Growth sectors and securities, led by large cap technology substantially outperformed value. This was led by the technology sector, which strengthened on positive second quarter earnings results and easing of trade restrictions around exporting chips to China.
- Australian Shares (+2.4%) were supported by moderating inflation print and improving US China trade negotiations.
- UK shares (+4.2%) performed strongly led by large cap stocks including pharmaceutical, energy and consumer staple names as investors overlooked a higher-than-expected June CPI print (core inflation rose to 3.7%Y) which could trigger concerns on the amount of easing the BoE could undertake in 2025.
- Emerging markets (+3.1%) performed well, led by China (+4.6%) despite headwinds from a strengthening US dollar. Chinese stocks benefitted from ongoing progress in trade negotiations and concessions around AI chips.
- Japanese equities (+1.4%) moved into positive year-to-date returns as exporters benefitted from a favourable trade deal with the US while the House of Councillors election result was supportive also.
- **European shares (+0.3%) rose despite trailing the broader developed market. The EU's trade deal with the US did not ease concerns around growth and sparked declines in equities and bond yields.**

US trade policy remained a key consideration throughout July with the US announcing new deals with several major partners including Japan, the EU and South Korea. While the progress was well received by markets – notably among cyclical sectors including resources – the deal announcements are vague and key negotiations with China remain outstanding. While markets continue to react well to temporary measures such as tariff pauses, we **remain concerned about impact on US corporates and/or US consumers which is likely to leave growth quiet anaemic in H2'25**. While we are yet to see the full inflation impact, real consumer spending growth has already slowed, and could soften further as the erosion of real spending power intensify as tariff increases are passed onto end-consumers.

Despite the uncertain conditions for international commerce, second quarter company profit results were robust. With over two-thirds of S&P 500 constituents having reported by month end, 81% exceeded consensus expectations. Firms are also managing their cost base well with high margins despite 4 years of rising real wages growth which provides some additional ballast to the outlook. The combination of strong balance sheets, high margins and slightly better than normal profit growth, gives firms a better foundation to handle near term shocks from the impact of tariffs.

The US Federal Reserve (The Fed) kept interest rates unchanged, alongside the Bank of Canada, European Central Bank, Reserve Bank of Australia (RBA), and Reserve Bank of New Zealand. The Fed was on hold despite two dissenting opinions advocating for an easing. There are a number of key **data expected prior to the Fed's September meeting including two payrolls and CPI reports. Core inflation rose 0.2% month-on-month**, pushing the annual rate to +2.9%Y, while headline inflation climbed 0.3% for the month and 2.7% over the year—both figures still above the Fed's 2% target.

The RBA was the only surprise, keeping the target cash rate unchanged despite futures markets pricing in a greater than 90% chance of a cut by month end. The rationale cited labour market tightness and trimmed mean inflation (2.9% YoY) only just re-entering the target band (2-3%). Australian employment softened late in the month, cementing expectations for an August cut with two subsequent cuts priced in over the remainder of 2025 at July month end. More policy support is needed as the Australian economy looks flat with households not spending 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 (the economy has only remained in expansion thanks to population growth and fiscal expansion).

**China's economy has thus far shown resilience to higher tariffs, with second quarter GDP (+5.2% YoY) beating consensus expectations** reflecting growth in exports and manufacturing activity. The shape of Chinese exports has transformed with weaker US exports offset by stronger exports to the rest of the world as goods were diverted to other countries with more favourable trade regimes. The ongoing tariff negotiations between the US and China remain a focus with broad ramifications including for the Australian economy and resources sectors.

The macroeconomic outlook weak corporate performance, the unclear path for inflation and monetary policy represent a challenging backdrop for local investors. We anticipate modest returns and elevated volatility from market cap benchmarks reflecting high starting valuations and the subdued macro backdrop but government bonds are offering less reliable diversification in the face of rising government debt. 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 positive but volatile first half of 2025, reflecting likely disruption to international trade regimes and growth concerns. Valuations remain 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 sensitive to unexpected news. 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 and a half 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 value and quality focused Australian shares.

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 and USD calls versus the Hong Kong Dollar.

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.

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## MORE INFORMATION

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