Perpetual Investment Funds

PERPETUAL DIVERSIFIED REAL RETURN FUND - CLASS Z

30 September 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.

Inception date: May 2018

Size of Strategy: $651.3 million as at 30 June 2026

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 30 SEPTEMBER 2026

PERFORMANCE	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS PA	5 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Gross)*	-1.22	0.47	4.12	6.17	6.70	4.88	6.46
Perpetual Diversified Real Return Fund (Net)	-1.13	0.39	3.65	5.43	5.96	4.31	4.94

VOLATILITY^	3 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Class W)	2.80	3.18
Mercer Balanced Growth Median	6.37	7.48

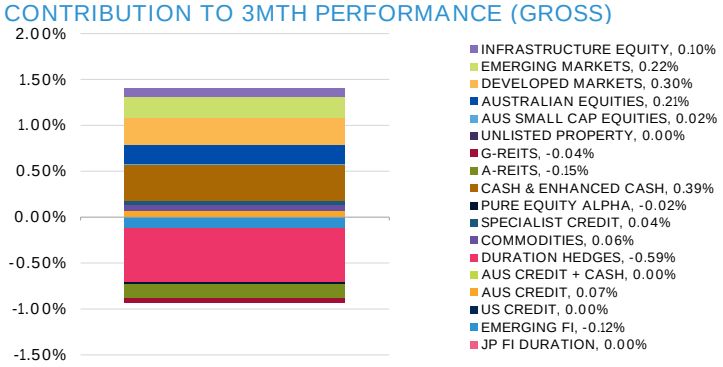
FUND OBJECTIVE OUTCOME AS AT 30 SEPTEMBER 2026

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

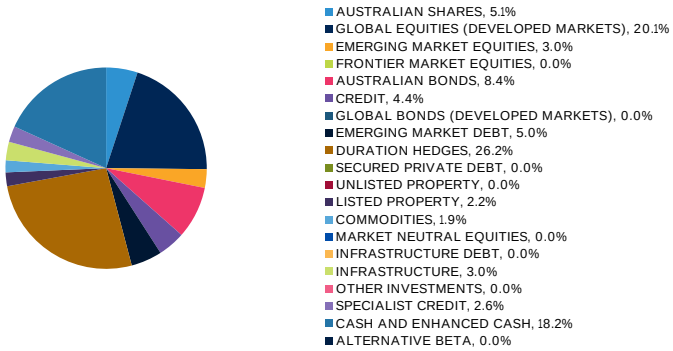
	5 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Gross - Class W)	4.9	6.5
CPI plus 5%	9.8	8.0

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

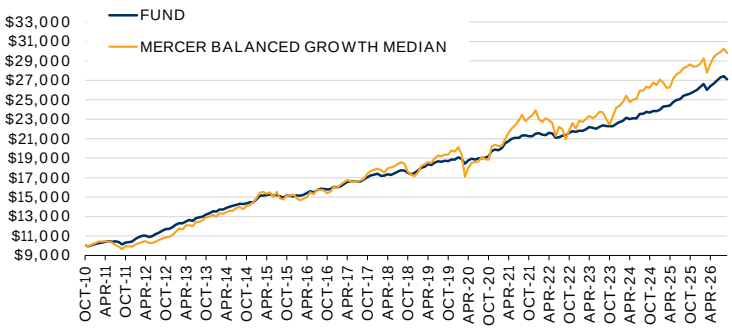
CONTRIBUTION TO 3MTH PERFORMANCE (GROSS)



PORTFOLIO SECTORS



GROWTH OF $10,000 SINCE INCEPTION



CHANGES IN ASSET ALLOCATION (%)

	3 MTHS	6 MTHS	1 YR
Australian Shares	0.1	0.0	0.1
Global Equities (Developed Markets)	-5.4	-1.0	-2.9
Emerging Market Equities	-0.1	0.0	0.0
Frontier Market Equities	0.0	0.0	0.0
Australian Bonds	-0.2	5.0	4.8
Credit	0.1	0.2	0.0
Global Bonds (Developed Markets)	0.0	0.0	0.0
Emerging Market Debt	-0.2	-0.1	0.2
Duration Hedges	0.5	-0.4	3.2
Secured Private Debt	0.0	0.0	0.0
Unlisted Property	0.0	0.0	0.0
Listed Property	-0.2	0.0	-0.3
Commodities	0.1	0.1	-0.9
Market Neutral Equities	-2.3	-2.3	-2.4
Infrastructure Debt	0.0	0.0	0.0
Infrastructure	-0.2	0.1	-0.5
Other Investments	0.0	0.0	0.0
Specialist Credit	0.1	0.1	0.0
Cash and Enhanced Cash	7.8	-1.8	-1.3
Alternative Beta	0.0	0.0	0.0

FUND PERFORMANCE

The Diversified Real Return Fund returned 0.5% (gross) in the September quarter. Over the past year, the Fund has returned 6.2% (gross), while over the past five years it has returned 4.9% (gross) per annum, compared with the objective of 9.8% (CPI plus 5%*) over rolling five-year periods. Since inception in 2010, the Fund has returned 6.5% (gross) per annum, compared with the objective of 8.0% (CPI plus 5%*).

Global equity alpha was mixed for performance over the quarter. Shifting market leadership and the broadening of investment returns over July and August benefited the Fund's allocation to the Barrow Hanley Global Share Fund and Global Deep Value strategies, while the JO Hambro UK Equity Income Fund was rewarded as the energy sector rallied (+21.3%) in response to increased military action in the Middle East which sent crude prices +42.0% higher. Stock selection alpha softened in September and the Barrow Hanley and Global Deep Value strategies gave back a portion of gains.

Australian equity stock selection was benign for performance, with underweight exposure to the domestic major banks proving supportive while key overweights in the materials sector detracted. Within emerging markets, an underweight to AI supply chain names, including SK Hynix and Samsung, added value as semiconductor stocks sold off sharply in July.

Fixed income exposures detracted from performance as bond yields rose sharply across major markets. Exposure to two-year US government bonds was affected as short-end yields rose almost 70bps over the quarter, with the US Federal Reserve delivering its first rate hike since 2023. Rising Australian yields also weighed on the Fund's inflation-linked bond and domestic listed property exposures.

Within alternatives, allocations to metals, soft commodities and sustainable listed infrastructure LICs contributed to performance, with the latter supported by renewed investor focus on energy security.

*All groups CPI measured and published by the ABS as at 30 June 2026

1. RETURN SEEKING ASSET CLASSES

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

Elevated P/E ratios and market concentration, alongside the preponderance of valuation-agnostic passive funds, have made regional equity markets increasingly vulnerable to unforeseen events. On a cyclically adjusted 10-year basis, US equities sit among the most expensive readings in market history (a CAPE of around 41x), and roughly 30% of the S&P 500 is now tied to the AI theme. With bond yields rising, the US equity risk premium relative to the nominal 10-year Treasury yield has turned negative for the first time in 24 years, leaving little margin for error. Encouragingly, earnings growth is broadening beyond the US, with 12MF World ex-US EPS growth approaching a five-year high with Europe and the UK expected to deliver a second consecutive year of double-digit EPS growth.

Alongside its value-focused global and domestic equity exposures, the Fund retains allocations to Global Deep Value and UK Equity Income strategies, targeting undervalued, cash-generative companies that are overlooked by passive flows and whose returns are not reliant on further valuation expansion to deliver returns of CPI plus 5% per annum. These holdings trade at a material discount to global benchmarks and provide genuine geographic diversification, including a substantial overweight to the UK and a large underweight to expensive US mega-cap technology. Broadening earnings growth outside the US should also support shareholder returns through buybacks and dividend growth in these strategies.

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

Given the Fund's cautious positioning towards return-seeking assets, diversifying opportunities remain a key focus of risk management. These include:

- 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 holds long equal-weighted S&P 500 futures against short market weighted global equity futures. This position extends the tilt away from the mega-cap and AI thematics. We believe earnings participation is broadening beyond the largest AI-related names which should benefit this allocation.

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 we have zero exposure to private markets given their liquidity and valuation risks, where a left-tail event could spark vulnerabilities and contagion. The collapse of Sydney developer Bathla Group during the quarter, which owed roughly $3.35 billion to 40 separate private credit funds and prompted redemption suspensions, is a live case study of the concentration and liquidity risks embedded in parts of the private credit sector.

The Fund complements this with option protection where it has been attractively priced to implement. This includes cost-effective, layered S&P 500 put structures that risk only a low single-digit basis-point premium while delivering asymmetric protection across shallow, moderate and deep drawdown scenarios without requiring precise market timing.

The Fund's defensive posture is supplemented by fixed income exposures centred on the short end of the US yield curve. Following the repricing of Fed expectations, US 2-year bonds now offer a running yield of around 4.85% and greater stability in crises than longer-dated bonds, which are more sensitive to US inflation expectations and fiscal risks. Holding securities at the short end of the US curve reduces the portfolio's exposure to rising inflation, while offering the potential for capital gains should US inflation moderate and the market's pricing of further Fed tightening prove excessive.

4. INFLATION PROTECTION

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

We are living in a decade of higher inflation driven by deglobalisation, decarbonisation, political populism, larger fiscal deficits, higher tariffs, and lower immigration (outside Australia and the UK). The need for inflation hedges is reinforced by the Middle East conflict, which pushed Brent crude back above US$100 per barrel during the quarter, and by increased spending on defence, critical infrastructure and the stockpiling of critical commodities. The Fund maintains its allocation to a diversified basket of commodities (including gold, grains, livestock, silver, palladium, platinum and copper), which are typically positively correlated with inflation.

Further contributing to the inflation-protection quadrant is the Fund's allocation to inflation-indexed bonds (ILBs). After 15 years of policy distortion — including deeply negative real yields during 2020–21 — investors are receiving genuine carry, compensation for term premia, inflation protection and a liquidity premium from an AAA-rated Commonwealth sovereign security. This is a defensive asset and a return-generating anchor, and it simultaneously hedges inflation, duration and macro uncertainty — aligned with the Fund's inflation and downside protection objectives.

MARKET COMMENTARY

The September quarter was marked by renewed geopolitical and inflation tensions, as the breakdown of US-Iran diplomacy pushed Brent crude back above US$100 per barrel and central banks across the developed world resumed tightening. Global bond markets sold off sharply, with long-dated yields reaching multi-decade highs amid higher energy prices, heavy sovereign issuance and record debt-financed AI investment. Equity markets nonetheless proved resilient, with exceptionally strong corporate earnings allowing several indices to reach record highs in August and early September, before rising yields, higher oil prices and a stronger US dollar weighed on most markets late in the quarter. Beneath the surface, market leadership swung sharply — from a broadening rotation into value and cyclicals in July to a renewed narrowing around AI-related technology late in the period.

- Developed market (MSCI World +1.8%) and US equities (S&P 500 +2.3%) rose modestly over the quarter as strong earnings growth outweighed higher bond yields.
- Value, cyclicals and the equal-weighted S&P 500 outperformed in July as investors rotated out of AI supply chain names, but AI-related technology reasserted itself in September, when bond yields rose as numerous central banks tightened rates which left Information Technology and Communication Services as the only sectors to advance.
- Japanese equities were volatile, with the Nikkei 225 (-4.1%) falling in July as the semiconductor correction spread across Asia, before recovering in August and September supported by strong earnings growth, accelerating buybacks and ongoing governance reforms.
- Emerging markets were dominated by the AI semiconductor cycle. The Korean KOSPI 200 index (-20.9%) experienced heavy losses (albeit after an +84% rise in Q2'26 but the Taiwanese TAIEX (+4.9%) recovered after an initial price decline in July. Chinese equities (MSCI China +3.0%) gave up a portion of their recent gains in September, weighed down by soft retail sales, fixed investment and property activity.
- European equities (Euro Stoxx 50 -0.7%) lagged as a hawkish ECB resumed hiking and investors questioned the earnings outlook with both monetary policy and higher oil prices set to weigh on activity. UK equities held up better, with the FTSE 100 (+1.8%) supported by its greater exposure to energy and commodity-related sectors and stronger dividend support.
- Australian shares (+1.3%) rose in July and August before falling in September as rising bond yields and the RBA's fourth rate hike of 2026 weighed on rate-sensitive sectors, while the Australian dollar weakened substantially against the US dollar as markets priced in an increasingly aggressive Fed hiking cycle, although this remains data dependant.
- Global bond markets endured a challenging quarter. US 2-year yields rose 72bps to around 4.89% as the Fed delivered its first hike since 2023 and the dots noted two more hikes in 2027 beyond what was guided in June. Meanwhile, the US 10-year yield rose around 80bps to above 5.3%, its highest level in almost a quarter of a century. The Australian 10-year yield followed the global uplift and closed the quarter at 5.35%, its highest level since 2011 as investors fretted over Australia's poor productivity record over the past decade, and UK 30-year gilt yields approached 6% for the first time since 1998.
- Commodities had a very strong quarter, led by oil (+42.0%) given developments in the Middle East, copper (+6.9%) in response to rising AI data centre build outs and gold (+3.8%) where quarterly capital growth was front loaded.

Geopolitics re-emerged as a central driver of markets. The June memorandum of understanding between the United States and Iran unravelled in July after a failed round of talks, and intermittent hostilities resumed. Oil prices eased through the first half of August on hopes of a durable agreement to reopen shipping through the Strait of Hormuz, before reversing sharply as direct exchanges of fire resumed late in the month. In September the conflict widened into a broader fight over the region's energy and transport infrastructure, with Houthi attacks on Saudi targets and the postponement of Hormuz negotiations. Our base case is one of continued low-grade attrition — persistent tit-for-tat strikes with Hormuz flows well below normal levels — which suggests oil prices remain elevated, while a direct naval clash or attempted closure of the Strait is a more likely tail outcome than a negotiated stand-down.

Central banks shifted decisively towards tightening, with +0.25% hikes implemented by the US Fed, ECB, RBA, Bank of Japan and two hikes by the RBNZ. The US Federal Reserve delivered its first rate increase since 2023 in September, lifting the target range by 25bps to 3.75%–4.00%, after Chair Warsh's Jackson Hole address emphasised the committee's discomfort with inflation running persistently above target. The ECB raised its deposit rate by 25bps to 2.50%, the Bank of Japan lifted its policy rate to 1.25%, its highest level in more than three decades and the RBA unanimously raised the cash rate for a fourth time this year by 25bps to 4.60%to its highest level since 2011. With headline CPI rising to 4.0% y/y in August and the trimmed mean steady at 3.6% y/y, the Board has left the door open to a further increase in November, following the release of the September quarter CPI. In contrast, the Bank of England held rates at 3.75% in a split 6-3 vote.

The broader macro backdrop remains remarkably resilient despite higher energy prices and bond yields at long-term highs. September flash PMIs pointed to the strongest global activity in around four years, with the US composite PMI reaching 58.4—its highest level since 2021—and the euro area composite reaching a 41-month high, as growth broadened beyond technology and AI investment. US June quarter GDP was revised up to an above-trend 2.2% annualised rate, while September quarter growth was tracking at around 3.5%. This resilience was further reflected in a wealth of upward earnings revisions - US economy-wide corporate profits rose 23% y/y in the June quarter national accounts, with margins near an 80-year high. Europe's improving momentum—supported by rising credit growth, a falling savings rate and German fiscal easing—has strengthened the region's earnings outlook.

The AI investment theme remained a key source of both market leadership and market volatility. Rising bond yields are becoming increasingly consequential for the AI investment cycle, as hyperscalers fund a growing share of their capital expenditure through debt, with US hyperscalers issuing more than US$250 billion of long-term bonds in 2026 alone. The five largest hyperscalers are collectively expected to spend $5.6 trillion on AI infrastructure through to 2030 which will see them produce negative free cashflow for one of the few times this century, with the forecast 2028 recovery predicated on AI monetisation scaling faster than capital expenditure. Structurally higher bond yields raise both the hurdle rate for these projects and the cost of external financing needed to bridge the gap. The question is no longer whether AI will transform the economy, but which participants will capture the economic value. We remain concerned about the quality of, and expected returns from, the trillions of dollars being committed, and continue to look for better valued opportunities outside this cohort.

'Domestically, the Australian economy is increasingly two-paced. National dwelling values fell 3.7% over the September quarter, and the four rate hikes since February have cut households' borrowing capacity. The collapse of Sydney developer Bathla Group has stalled around 2,000 homes under construction and put a further 13,000 in the pipeline at risk. Meanwhile, an AI-driven data-centre investment cycle (~$110 billion over four years) is arriving with capacity pressures still present and construction constraints binding in Queensland and Western Australia. As in the 2010–12 mining boom, this reinforces the case for a higher-for-longer cash rate. Outside resources, Australia is also a laggard in the global earnings cycle, reflecting weak productivity growth, an exhausted leverage cycle and a smaller boost from Chinese fiscal impulse than in past commodity booms.

The outlook for markets remains finely balanced. US exceptionalism remains the main game given its exposure to the AI thematic but global GDP and earnings growth are stronger and broader than expected. However, only the US combines above-trend growth, rising productivity and contained unit labour costs, giving core inflation the potential to move towards 2% without the sub-trend growth required elsewhere. Elevated valuations, an unresolved Middle East conflict with oil around US$100 per barrel and the AI capex cycle's growing reliance on debt financing leave little margin for error. With government bonds offering less reliable diversification as market volatility increases, risk management remains 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 no individual position, or cluster of positions, places the medium-term investment objective at undue risk.

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