Perpetual Investment Funds

PERPETUAL BALANCED GROWTH FUND

September 2026

FUND FACTS

Investment objective: The fund aims to provide long-term capital growth and income through investment in a diversified portfolio with an emphasis on Australian and international share investments.

FUND BENEFITS

Provides investors with access to a diverse range of growth and income producing assets. Active management and asset allocation techniques are employed in order to further enhance the fund's return and manage risk.

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 consideredbefore 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.

Benchmark: Balanced Growth Index (Internally generated composite)

Inception Date: October 1997

APIR: PER0063AU

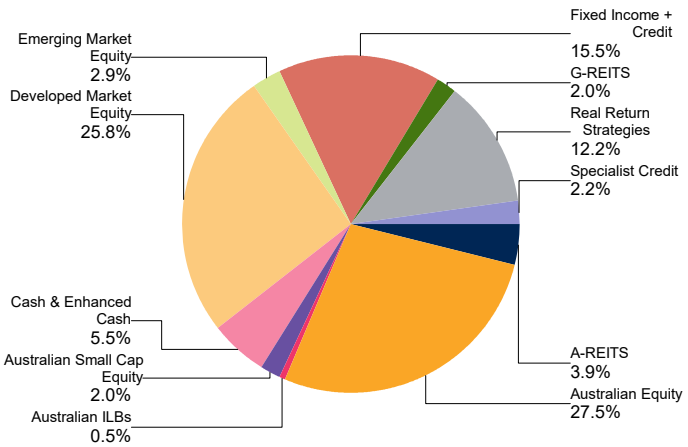
Management Fee: 1.04% p.a.

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

Investment style: Active, fundamental, disciplined, value

Suggested minimum investment period: Five years or longer

PORTFOLIO SECTORS



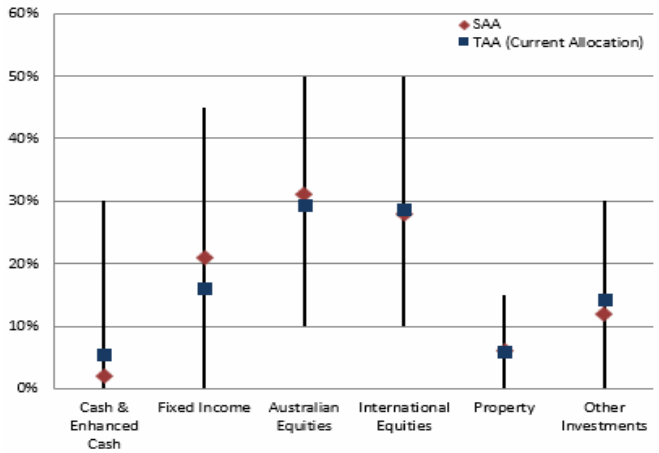
NET PERFORMANCE- periods ending 30 September 2026

	Fund	Benchmark	Excess
1 month	-1.5	-0.7	-0.7
3 months	0.2	0.3	-0.1
1 year	5.2	4.9	0.4
2 year p.a.	6.0	8.0	-2.0
3 year p.a.	7.6	11.5	-3.9
5 year p.a.	5.7	6.7	-1.0
10 year p.a.	6.9	8.0	-1.1
Since incep. p.a.	7.2	7.3	-0.1

Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

ASSET ALLOCATIONS AND INVESTIBLE RANGES

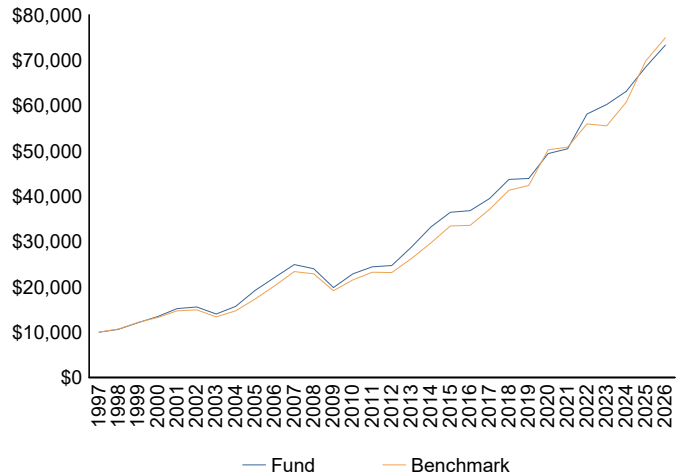
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



STRATEGIC AND TACTICAL ASSET ALLOCATIONS

The Strategic Asset Allocation (SAA) is the neutral allocation acting as an anchor for active positioning, while the Tactical Asset Allocation (TAA) process adjusts the asset allocation according to market opportunities and risks.

GROWTH OF $10,000 SINCE INCEPTION



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. However, AI-related technology reasserted itself in September as bond yields rose and numerous central banks tightened rates, leaving 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 2026, while 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. Meanwhile, the Australian dollar weakened substantially against the US dollar as markets priced in an increasingly aggressive Fed hiking cycle, although the outlook remains data dependent.
- 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 dot plot indicated two further hikes in 2027 beyond the guidance provided 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 move higher 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. UK 30-year gilt yields approached 6% for the first time since 1998.
- Commodities had a very strong quarter, led by oil (+42.0%) amid developments in the Middle East, copper (+6.9%) in response to rising AI data-centre build-outs and gold (+3.8%), for which 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 and Bank of Japan, and two hikes delivered 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 remaining persistently above target. The ECB raised its deposit rate by 25bps to 2.50%, while the Bank of Japan lifted its policy rate to 1.25%, its highest level in more than three decades. The RBA unanimously raised the cash rate for a fourth time this year, by 25bps to 4.60%, 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 annualised rate of 2.2%, while September quarter growth was tracking at around 3.5%. This resilience was further reflected in substantial 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 US$5.6 trillion on AI infrastructure through to 2030, which would see them generate negative free cash flow for one of the few times this century. The forecast recovery in 2028 is 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 the 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 reduced 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 of approximately $110 billion over four years is arriving while capacity pressures remain and construction constraints persist 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 stimulus than in past commodity booms.

Australian equity stock selection made a marginally positive contribution to performance over the quarter across small- and large-cap exposures, supported by strong performance from key overweights, including AMP, Ramsay Healthcare and Ansell.

Global equity alpha made a mixed contribution to performance over the quarter. Shifting market leadership and the broadening of investment returns in July and August benefited the Fund's allocation to the Barrow Hanley Global Share Fund. Stock-selection alpha softened in September, and the Fund gave back a portion of its gains. Within emerging markets, an underweight exposure to AI supply-chain names, including SK Hynix and Samsung, added value as semiconductor stocks sold off sharply in July.

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 are among the most expensive in market history, with 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 12-month forward World ex-US EPS growth approaching a five-year high, and Europe and the UK expected to deliver a second consecutive year of double-digit EPS growth. The Fund is close to benchmark weight in equities, with a marginal underweight exposure to Australian stocks. All equity exposures remain focused on stock-selection alpha opportunities, while exposure to equity beta is carefully managed.

We continue to manage downside risks by maintaining little or no exposure to the most expensive parts of the global equity and credit markets. We also have zero exposure to private markets, given their liquidity and valuation risks and the potential for a left-tail event to trigger 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 remains below benchmark weight in fixed income, a position that contributed to relative performance as bond yields rose sharply in September. Fixed income exposures remain primarily focused on 10-year Australian government bonds, alongside domestic credit and a small allocation to inflation-linked bonds.

The Fund maintains its allocation to the Perpetual Diversified Real Return Fund, which continues to deliver low-volatility absolute returns while retaining a relatively low correlation with equity markets.

OUTLOOK

The outlook for markets remains finely balanced. US exceptionalism remains the dominant theme, given its exposure to AI, while 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. We continue to carefully manage the Fund's exposure to global equities and maintain diversity across regional and sector allocations. The Fund retains multiple embedded risk protections and sources of portfolio convexity.

The Balanced Growth Fund gains its exposure to Australian Shares by investing in an underlying Australian Share Fund/s which primarily invests in Australian listed or soon to be listed shares but may have up to 20% exposure to stocks outside Australia. The investment guidelines showing the Fund's maximum investment in international shares do not include this potential additional exposure. Short positions may be part of the underlying Australian Share Fund's strategy. Currency hedges may be used from time to time.
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The product disclosure statement (PDS) for the Fund, issued by PIML, should be considered before deciding whether to acquire, dispose, or hold units in the Fund. The PDS and Target Market Determination can be obtained by calling 1800 022 033 or visiting our website www.perpetual.com.au.
Total returns shown for the Fund have been calculated using exit prices after taking into account all of Perpetual's ongoing fees and assuming reinvestment of distributions. No allowance has been made for taxation. Past performance is not indicative of future performance.
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