

# Perpetual Investment Funds

## PERPETUAL DIVERSIFIED REAL RETURN FUND - CLASS Z

31 December 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:** \$589.4 million as at 30 September 2025

**APIR:** PER6115AU

**Management Fee:** 0.35% pa <sup>\*\*</sup>Refer to PDS for Management Costs

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

**Suggested minimum investment period:** Five years or longer

### TOTAL RETURNS % AS AT 31 DECEMBER 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)*	0.74	1.94	4.15	9.14	6.23	5.53	6.50	Perpetual Diversified Real Return Fund (Class W) Mercer Balanced Growth Median	2.10	3.12
Perpetual Diversified Real Return Fund (Net)	0.66	1.73	3.70	8.12	5.58	4.91	4.94		6.11	7.71

### FUND OBJECTIVE OUTCOME AS AT 31 DECEMBER 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)	5.5	6.5
CPI plus 5%	9.5	7.9

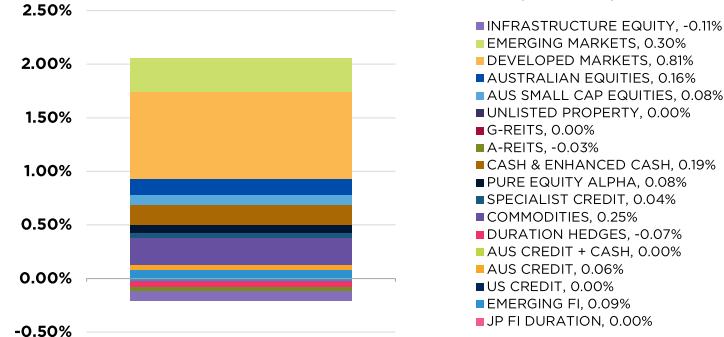
Past performance is not indicative of future performance.

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

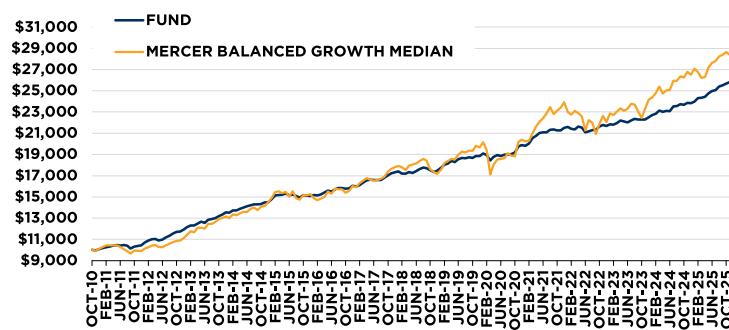
<sup>^</sup> Volatility and Mercer Balanced Growth Median data is lagged by 1 month

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

### CONTRIBUTION TO 3MTH PERFORMANCE (GROSS)



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



### 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.

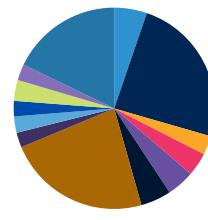
### FEES OPTION

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.

### PORTFOLIO SECTORS



### CHANGES IN ASSET ALLOCATION (%)

	3 MTHS	6 MTHS	1 YR
Australian Shares	0.3	0.5	0.2
Global Equities (Developed Markets)	1.2	-1.7	5.5
Emerging Market Equities	0.1	0.1	-0.1
Frontier Market Equities	0.0	0.0	0.0
Australian Bonds	0.1	0.1	-0.4
Credit	0.1	0.1	0.4
Global Bonds (Developed Markets)	0.0	0.0	0.0
Emerging Market Debt	0.1	0.0	0.2
Duration Hedges	0.0	-1.8	-0.9
Secured Private Debt	0.0	0.0	0.0
Unlisted Property	0.0	0.0	0.0
Listed Property	-0.1	0.0	-0.1
Commodities	-0.2	0.0	-0.2
Market Neutral Equities	0.1	0.2	0.0
Infrastructure Debt	0.0	0.0	0.0
Infrastructure	-0.1	-0.4	0.0
Other Investments	0.0	0.0	0.0
Specialist Credit	0.1	0.1	-0.1
Cash and Enhanced Cash	-1.6	2.7	-4.7
Alternative Beta	0.0	0.0	0.0

## FUND PERFORMANCE

The Diversified Real Return Fund returned 1.9% (gross) in the December quarter. Over the past year, the Fund has returned 9.1% (gross) and over the past 5 years the Fund has returned 5.5% (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 6.5% (gross) per annum compared with the objective of 7.9% (CPI plus 5%\*).

The Fund's return over the December quarter was primarily attributable to its global equity exposures as regional share markets extended their rally. Fund's value and UK equity income allocations performed strongly relative to their benchmarks, as did the benchmark unaware Global Deep Value strategy as the UK (+6.4%) and European (+5.0%) sharemarkets outperformed the US NASDAQ (+2.7%) as more questions were asked about valuations and rates of return of forthcoming AI infrastructure investment.

The Fund's stock selection alpha was also a strong contributor as tech valuation concerns among large cap US tech stocks saw Value sectors and securities outperform their growth peers. Elsewhere, stock selection within Australian equities also benefited from the rotation from growth to value with the Perpetual Australian share fund performing well, even though the rich valuations of the Australian sharemarket sparked a rare regional loss for the quarter, hedging of domestic equity market beta over the period cushioned the impact on performance.

However, as global equities continued to advance, the Fund's explicit downside protection positions marginally detracted even though there was elevated market volatility during the quarter which highlighted the value of cost-effective downside protection and the positive convexity provided by equity put options as volatility rises

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

### 1. RETURN SEEKING ASSET CLASSES

**Beginning of the Quarter: Low Allocation**

**End of the Quarter: Low Allocation**

Markets are facing challenges in the near term (softening growth, very strong 2026 EPS expectations and a likely pause by the US Fed) and long term (investors living in a '4% world' given high valuations and likely having priced in years of productivity improvement). 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 unexpected news.

The Fund retains exposure to Global Deep Value and UK Equity Income strategies, targeting undervalued companies overlooked by passive flows. These firms have offered, and 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. In scenarios where market performance broadens beyond the "Magnificent 7" stocks, the Fund's diversified, and value style—previously a headwind against concentrated momentum-driven equity indices—should drive performance, even in a sideways market. 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. 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.

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 any rise in US growth and inflation expectations. The Fund also added call options on very long dated US government bonds in November.

In addition, the Fund's cautious asset allocation is supported by a notable cash allocation, which provides solid income and significant optionality if 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.

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

Global equities resumed their rally in the second half of the quarter following elevated volatility in October in response to more trade tensions and the US government shutdown and rising concerns surrounding US AI stocks in early November. Similarly, bond markets were more volatile than the recent past as participants attempted to price the path of central bank policy and the data vacuum associated with the US government shutdown raised uncertainty about the quality and timing of inflation and labour market data.

- Global shares (+3.4%) extended their rally in the December quarter despite increasing concerns surrounding US tech valuations and the sustainability and ROI of AI related capex. This culminated in value stocks (+3.8%) recovering some of their recent underperformance to growth stocks (+1.1%) which also saw US stocks (+2.7%) underperformed the broader market.
- Japanese equities (+8.8%) led the pace of gains in regional sharemarkets as pro-growth government policies and corporate governance reforms reinforced the positive sentiment from a depreciating Yen, improving corporate performance and rising investment flows.
- UK equities (+6.9%) also outperformed led by large cap multinationals supported by declining Gilt yields and a depreciation in Sterling which supported the globally focused names in the FTSE 100.
- European equities (+5.2%) were also among the quarterly performance leaders as strong earnings surprises in key sectors, particularly *technology* (including semiconductor equipment and industrial tech), *financials* and *healthcare*, lifted sentiment across regional indices.
- In contrast, Australian Shares (-0.9%) underperformed as higher than expected inflation forced markets to revise expectations around the path of the RBA's monetary policy, which weighed on major banks and other financial stocks. This decline was partially offset by advances in the resource market as numerous commodities hit fresh record highs in the wake of strong metals demand from the AI investment boom.
- Meanwhile, Emerging markets (+5.7%) outperformed developed markets as the depreciating US Dollar, and attractive valuations boosted investor's appetite for cheaper priced tech exposures in the region, especially in Taiwan and South Korea.
- Elsewhere, US bond markets saw elevated volatility over the quarter as investors became more uncertain about the near-term path for US Fed policy. The US yield curve steepened driven by a -13 bps decline in 2-year yields whereas 10 year yields gave back earlier price gains in December.
- In contrast, Australian 10-year bond yields (+45 bps) moved higher in response to rising domestic inflation which sparked an increasingly hawkish monetary policy outlook.
- Gold (+14.2%) continued its rally, closing out a very strong year for precious metals.

Uncertainty surrounding the path of monetary policy – exacerbated by the absence of key economic data as a result of the US government shutdown – was a key consideration for investors throughout the December quarter. The US Federal Reserve elected to cut rates in October and December reflecting the moderation in hiring this year which has seen the U3 unemployment rate tick up to a fresh 4 year high of 4.5% for November, even though wages growth (3.8%) continues to outpace headline inflation at (2.7% year on year in November).

The Fed also announced plans to halt quantitative tightening by December, reflecting credit market liquidity concerns and speculation intensified around President Trump's eventual Fed chair pick, with economic advisor Kevin Hassett emerging as a front-runner although things here could rapidly change.

The December quarter also saw a weakening shift in sentiment toward AI with broad optimism giving way to increased scrutiny of capital expenditure, the likely payoff period and what sort of returns investors might expect. Meanwhile, corporate earnings results outperformed downbeat expectations in the third quarter reporting season with 85% of firms outperforming consensus, but the market reaction to results were somewhat muted reflecting how much good news was already priced in for revenue growth, EPS growth, margins and overall guidance. While AI technology itself is transformative, we see some parallels to the first tech boom and are wary of the business of providing AI services will meet the egregious profit expectations which are baked into forward looking valuations, and we look for opportunities outside this cohort.

Softer UK inflation and labour-market data clear the path for the Bank of England to lower official rates by -0.25% to 3.75% in December, with the market pricing more support in coming months. This precipitated a rally in UK Gilt yields which combined with a depreciation in Sterling lifted UK equity prices to fresh record highs. Meanwhile, the November Budget was better-than-feared, with greater-than-expected fiscal headroom and lower projected gilt issuance helping to stabilise market sentiment.

The outlook for continental Europe is mixed. Composite PMIs are in expansionary territory suggesting GDP growth will accelerate in 2026. Germany is facing more immediate growth challenges with Q3 GDP confirmed flat for the quarter as private consumption declined -0.3% given weaker outlays on services such as hospitality and catering, and other discretionary categories. Large scale fiscal stimulus is anticipated for 2026; however private sector remains subdued at best. Equity markets in Europe continue to trade below US and Australian valuations but remain expensive relative to long-term averages.

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## MORE INFORMATION

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