Perpetual Investment Funds
PERPETUAL DIVERSIFIED REAL RETURN FUND - CLASS Z
30 November 2024

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: $633.0 million as at 30 September 2024
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 NOVEMBER 2024

PERFORMANCE	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS PA	5 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Gross)*	0.68	1.20	3.22	7.00	3.90	4.80	6.36
Perpetual Diversified Real Return Fund (Net)	0.62	1.08	2.88	6.34	3.46	4.24	4.53

VOLATILITY^	3 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Class W)	2.66	3.20
Mercer Balanced Growth Median	8.60	7.75

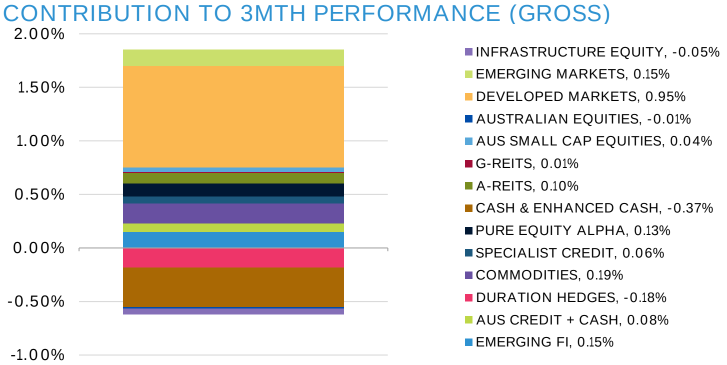
FUND OBJECTIVE OUTCOME AS AT 30 NOVEMBER 2024

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

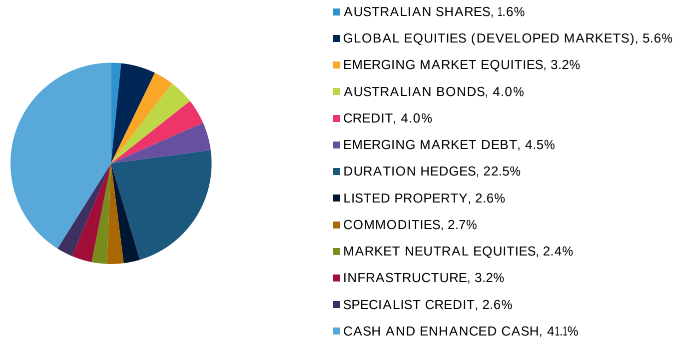
	5 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Gross - Class W)	4.8	6.4
CPI plus 5%	9.1	7.9

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

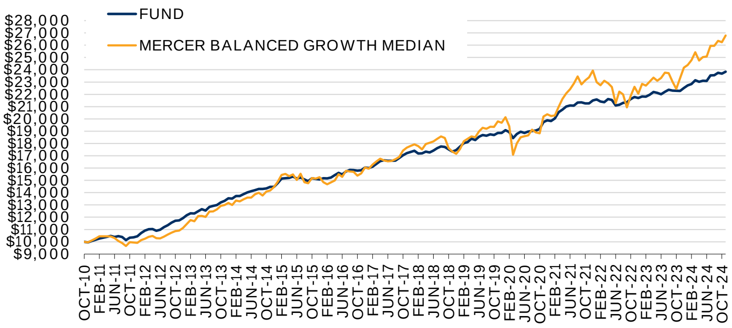
CONTRIBUTION TO 3MTH PERFORMANCE (GROSS)



PORTFOLIO SECTORS



GROWTH OF $10,000 SINCE INCEPTION



CHANGES IN ASSET ALLOCATION (%)

	3 MTHS	6 MTHS	1 YR
Australian Shares	-0.4	-4.1	-3.5
Global Equities (Developed Markets)	0.6	-3.2	0.5
Emerging Market Equities	0.2	-0.1	0.1
Frontier Market Equities	0.0	0.0	0.0
Australian Bonds	0.2	0.0	0.6
Credit	0.3	0.5	1.0
Global Bonds (Developed Markets)	0.0	0.0	0.0
Emerging Market Debt	0.3	0.6	0.9
Duration Hedges	0.3	-16.4	-10.7
Secured Private Debt	0.0	0.0	0.0
Unlisted Property	0.0	0.0	0.0
Listed Property	0.2	0.2	0.4
Commodities	0.2	0.0	-0.3
Market Neutral Equities	0.0	0.1	0.5
Infrastructure Debt	0.0	0.0	0.0
Infrastructure	0.1	1.0	3.2
Other Investments	0.0	0.0	0.0
Specialist Credit	-0.3	-0.1	0.3
Cash and Enhanced Cash	-1.7	21.4	7.0
Alternative Beta	0.0	0.0	0.0

FUND PERFORMANCE

The Diversified Real Return Fund returned 0.7% (gross) in November. Over the past year, the Fund has returned 7.0%% (gross) and over the past 5 years the Fund has returned 4.8% (gross) per annum compared with the objective of 9.1% (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 equity allocation was the key contributing factor to performance during the month. Developed market equities rallied, led by a strong month for US stocks. The Fund's UK equity income and deep value strategies performed well, however global and Australian equity stock selection detracted.

The Fund's US dollar exposure benefitted as the greenback rallied strongly reflecting the ongoing out performance of the US economy and the expected impact of the newly elected President's policies.

The Fund's exposure to a diversified basket of metals declined. Commodities were mixed during November with precious and base metals declining while Energy and softs performed well.

*All groups CPI measured and published by the ABS as at 30 September 2024

MARKET COMMENTARY

The results of the US presidential election were the key development during November alongside political and fiscal concerns in Europe.

- Developed markets equities (+4.9%) rallied led by a strong month from the US (+5.9%). US equities responded positively to the results of the US presidential elections and expectations for corporate profit growth under a second Trump administration. Performance was led by the financial sector reflecting the incoming administration's mandate for deregulation.

- European equities (-0.3%) were mixed with German stocks rallying (+2.9%) despite political uncertainty while French equities (-1.5%) fell on sovereign debt concerns. UK equities (+2.6%) rose but trailed the broader developed market.

- Australian equities (+3.7%) rose to new record highs during November notwithstanding the continued malaise of the Australian economy. The market was swept higher by the generally positive global sentiment towards equities.

- Asian markets fell with Japan (-2.2%) Hong Kong (-4.2%) Taiwan (-2.4%) and China (-4.1%) all posting declines. Chinese equities weighed on emerging market performance, which reacted to expected changes in US trade policy and the appreciating US Dollar.

- Bond markets retraced following their recent selloff. Investors had to weigh the US Federal Reserve (Fed)'s rate cut against the prospect of higher short term inflation under Trump's proposed trade policies. European bonds were supported by flagging economic growth prospects leading to expectations of further monetary easing from the European central bank.

November saw the global growth outlook for the US continue to diverge from the rest of the world. The resolution of the US election, including the Republican clean sweep across legislative and executive branches, is expected to be positive for the growth outlook. Accommodative taxation policies and a decreased regulatory burden has helped firm market expectations of a soft landing supported by resilient employment, strong corporate earnings growth and a vibrant consumer. With valuations well above fair value, however, much of the good news is already priced in.. While equities might not have much remaining headroom, the increasing likelihood of a soft landing provides optionality to the Fed to slow or pause monetary policy easing to have a better chance of inflation sustainably toward target.

The Federal Reserve (Fed) lowered interest rates by 25 basis points to a range of 4.50%-4.75%, citing easing labour market conditions and still-elevated inflation. Core CPI rose by 3.3% year on year, inconsistent with the Fed's 2% target. The upcoming months will likely see the Fed closely monitoring inflation and labour market conditions while considering whether additional rate cuts are necessary to sustain growth. Trump's planned tariffs have sparked fears of higher inflation, but we suspect this is likely to be modest, and should not impact growth too much, nor weigh on Fed policy debates. Our key concern with the incoming administration remains the fiscal deficit (6.4% of GDP) which is at a level commensurate with recessions and is expected to expand via tax cuts. We remain cognisant of the unsustainable path of fiscal policy and its potential impact on bond markets, with flow-on effects to equity market valuations.

Outside the US, the economic outlook is challenging in several regions. In Europe, the composite PMI dropped to a 10-month low, signalling contraction across both services and manufacturing. On the positive side, the European Central Bank (ECB) is expected to continue its accommodative stance, likely reducing interest rates further in December. Nonetheless, the region's weak economic data and political instability, including the collapse of the German coalition government and increasing concerns about French debt, suggest a challenging environment for growth. In the UK, economic data showed signs of weakness, with the services PMI falling to its lowest level since November 2023 and unemployment climbing to 4.3%.

Emerging markets struggled in November, pressured by rising concerns over the potential impact of US tariff increases alongside the strengthening US dollar. China's economic outlook in particular remains fraught. US trade policy, property sector overhang, sustained deflation, high debt and weak private sector confidence are ongoing challenges facing the outlook for China.

Meanwhile, the Australian economy has struggled in the wake of higher inflation and sustained elevated interest rates which have sparked six consecutive quarters of contracting GDP growth per capita. This is despite the support of strong population growth and fiscal expansion. Australia's economy is projected to grow at a subdued pace in 2025, driven by several factors including softening labour market conditions, and constrained household consumption.

The challenging economic outlook for ex-US markets and the uncertain path of inflation and monetary policy provide a difficult environment for investors to negotiate, especially given sustained elevated valuations in both the US and Australia. 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

Elevated equity valuations are underpinned by expectations of a soft landing for the global economy and supportive central bank action on policy rates. With so much good news already priced in, we maintain some caution. We continue to limit our exposure to equity market beta and our allocations remains focused on quality companies trading on low valuations, offering solid dividend yields, and good prospects for undertaking buy-backs.

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 sizable option protection when it i cheap to implement. These include put options on the S&P 500 and a call option on the USD versus the Hong Kong Dollar and the Chinese Yuan (which are low-cost downside protection for tail risks around China) and a put option on the USD against the Japanese Yen.

The Fund also maintains its exposure to 2-year US government bonds alongside modest exposure to Australian and emerging market fixed income and US 10-year government bonds. Our focus on the short end of the US yield curve reflects its high running yield and its higher sensitivity to further easing of official interest rates by the US Fed, and it benefits from lower sensitivity to any upside risk in US inflation.

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

MORE INFORMATION

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