Perpetual Investment Funds

PERPETUAL DIVERSIFIED REAL RETURN FUND - CLASS Z

31 October 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: $648.8 million as at 30 September 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 31 OCTOBER 2026

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)*	1.33	0.58	4.06	7.03	7.20	5.25	6.51	Perpetual Diversified Real Return Fund (Class W)	2.81	3.18
Perpetual Diversified Real Return Fund (Net)	1.22	0.51	3.62	6.23	6.42	4.65	5.04	Mercer Balanced Growth Median	6.19	7.48

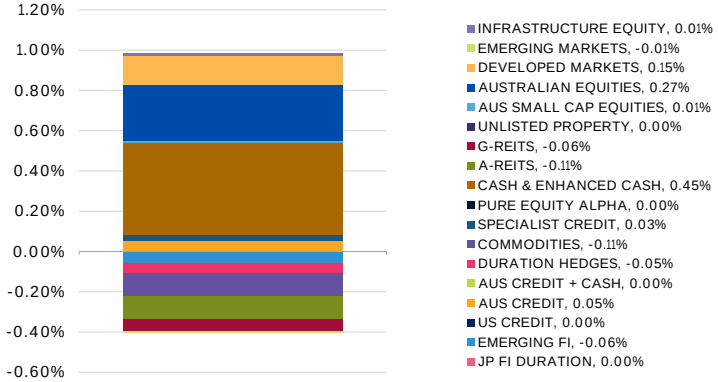
FUND OBJECTIVE OUTCOME AS AT 31 OCTOBER 2026

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

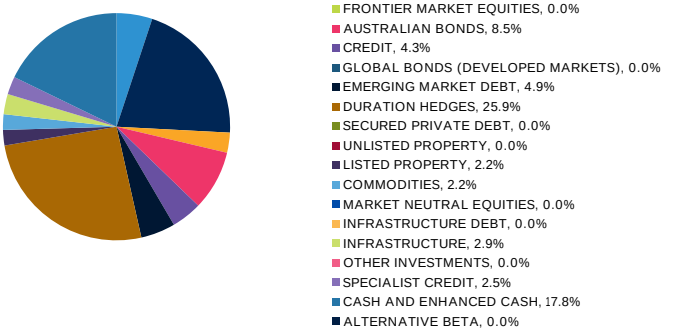
	5 YRS PA	INCEPT PA
Perpetual Diversified Real Return Fund (Gross - Class W)	5.3	6.5
CPI plus 5%	9.8	8.0

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

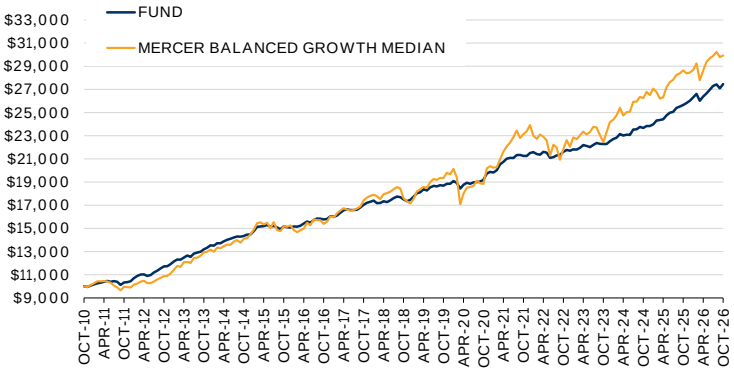
CONTRIBUTION TO 3MTH PERFORMANCE (GROSS)



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)	-3.6	-4.6	-3.8
Emerging Market Equities	-0.1	0.0	-0.4
Frontier Market Equities	0.0	0.0	0.0
Australian Bonds	-0.1	0.2	4.9
Credit	0.0	0.2	-0.1
Global Bonds (Developed Markets)	0.0	0.0	0.0
Emerging Market Debt	-0.2	0.0	0.0
Duration Hedges	0.2	1.1	2.4
Secured Private Debt	0.0	0.0	0.0
Unlisted Property	0.0	0.0	0.0
Listed Property	-0.2	-0.1	-0.3
Commodities	0.4	0.4	-0.7
Market Neutral Equities	0.0	-2.3	-2.4
Infrastructure Debt	0.0	0.0	0.0
Infrastructure	-0.1	-0.1	-0.5
Other Investments	0.0	0.0	0.0
Specialist Credit	0.0	0.1	0.0
Cash and Enhanced Cash	3.8	5.2	0.9
Alternative Beta	0.0	0.0	0.0

FUND PERFORMANCE

Global equity stock selection alpha was the standout driver of returns in October, as the sharp sell-off in AI-related technology stocks rewarded the Fund's value-oriented and deliberately diversified equity exposures. The Barrow Hanley Global Share Fund, dividend-weighted global equity and Global Deep Value strategies all rose, outperforming developed market equities. Meanwhile, the Fund's underweight exposure to Korean and Taiwanese semiconductors within the EM exposure contributed as AI supply-chain beneficiaries weakened. Elsewhere, the Fund's long equal-weighted S&P 500 futures and short cap-weighted global equity futures trade contributed as the equal-weighted S&P 500 outperformed the cap-weighted index by almost six percentage points. Stock selection among Australian shares also contributed marginally.

Defensive assets also contributed as government bond yields retreated sharply from September's highs. The Fund's Australian inflation-linked bond exposure performed well as domestic real yields fell and the Fund's allocation to two-year US Treasuries also benefited performance as markets pared back the number of hikes priced for 2027.

In contrast, the Fund's exposure to a diversified basket of commodities detracted slightly over the month. Precious metals declined.

MARKET COMMENTARY

October was marked by a rotation out of crowded AI-related positioning and into value, defensive and energy sectors, alongside the first meaningful government bond rally in many months.

- Global equities (MSCI World -0.8%) and US equities (S&P 500 -0.9%) declined, but the headline masked a rotation beneath the surface. The MSCI World Value index rose +2.7% while the MSCI World Growth index fell -4.2%, and the equal-weighted S&P 500 (+5.0%) outperformed the cap-weighted index by almost six percentage points. Energy (+12.5%), consumer staples (+10.7%), health care (+9.8%) and utilities (+8.2%) led the advances, while IT (-6.9%) and communication services (-13.5%) lagged, with mega-cap technology stocks among the largest detractors.

- Japanese equities fell (TOPIX -3.5%) as semiconductor and AI supply-chain stocks sold off and the Bank of Japan signalled further tightening ahead.

- European equities also declined (Euro Stoxx 50 -2.1%) led by the banks as the regional rise in bond yields sparked rising sovereign risks in France and Italy

- UK equities were among the strongest major markets (FTSE 100 +1.3%), supported by a large weighting to energy and defensive sectors and limited exposure to the AI theme.

- Australian shares also outperformed its global peers, with the ASX 300 (+1.1%) rising as banks, utilities and health care led and investors rotated out of resources.

- Emerging markets (MSCI EM -7.4%) sold off heavily, with losses concentrated in technology-heavy Korea (-16.3%) and Taiwan (-5.7%). Chinese equities (MSCI China -7.2%) declined on weak domestic demand and intensifying competition, and Brazil (Bovespa -9.9%) reversed sharply after President Lula's unexpected run-off victory.

- Government bonds rallied strongly as investors sought diversification, reversing part of the third quarter's sell-off, with the notable exception of France, where the 10-year yield breached 5% for the first time since 2002.

- Commodities were mixed. Oil rose to a six-month high, following tanker attacks, Houthi strikes on Saudi infrastructure and reports of possible US strikes on Iran. Elsewhere, precious metals declined reflecting elevated real yields.

October saw a material change in market leadership as mega-cap technology stocks were impacted by concerns around AI capex. Since the US market peaked on 6 October, the ten largest AI-related stocks materially underperformed the remaining 490 stocks in the S&P 500 (-12.0%, -0.6% respectively) which remained resilient. While corporate earnings results were strong in aggregate, investors reacted poorly to hyperscaler results that paired record capital expenditure with slowing monetisation. With hyperscaler free cash flow set to turn deeply negative in 2027, the build-out increasingly depends on external capital, and stress in the debt of more leveraged 'neocloud' providers was an early warning sign. Corrections of this magnitude in the AI space have been common since late 2022 (seven in total) and this one has so far been orderly and confined to AI-related names. The signals we are watching are lower capex guidance, wider spreads on AI-related debt and private credit, and downward revisions to semiconductor earnings.

The concerns around AI-related stocks unfolded against a resilient macro backdrop. US third-quarter GDP grew at a 3.4% annualised pace, with private domestic final sales up 5.0% annualised, and euro area GDP grew +1.6% annualised over the quarter despite the energy shock, tighter financial conditions and political turbulence in France. French bonds sold off further, pushing the spread to German Bunds to its widest since the 2011-12 eurozone crisis, as social unrest, a divided parliament and the approaching 2027 election weighed on the fiscal outlook.

Meanwhile, the US Federal Reserve held the federal funds target range at 3.75–4.0% in a 10-2 vote with both dissenters favouring a hike, upgraded its description of activity to 'strong' and retained a tightening bias. Fed Chair Warsh's comments that the economy is not overheating and that tighter financial conditions and improving productivity are having the desired effect saw markets trim the number of hikes priced for 2027. Our view remains that the roughly 50bps of 2027 Fed hikes priced by markets look too hawkish given US wage growth of around 3% and productivity growth above 2%, which leaves the US as the only major economy capable of returning core inflation to target without an extended period of sub-trend growth. The ECB held its deposit rate at 2.50% but openly debated a hike and is widely expected to tighten in December, while the Bank of Japan held at 1.25% and lifted its inflation forecast.

Domestically, inflation pressures continued to build. The September quarter trimmed mean CPI rose +1.0% over the quarter and +3.7% over the year, materially stronger than the Reserve Bank of Australia (RBA) had forecast, with headline inflation running above +4%. The RBA left the cash rate at 4.60% through October before lifting it by 25bps to 4.85% on 3 November, an 18-year high and the fifth hike of 2026. The RBA now expects trimmed mean inflation to remain above 3% for the coming year and not to return to the top of the target band until late 2027, citing higher fuel prices and tighter capacity. Unit labour costs are broadly in line with core inflation while productivity growth is weak, suggesting that further hikes may be necessary, or an extended period of sub-trend growth.

The outlook remains finely balanced. Global GDP and earnings growth are stronger and broader than expected, yet the US remains the standout, being the only major economy combining above-trend growth, rising productivity and contained unit labour costs. Elevated valuations, an unresolved Middle East conflict and the growing reliance of the AI capex cycle 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.

CURRENT POSITIONING

Global equity markets remain characterised by elevated valuations, concentrated index leadership and strong retail participation, particularly in the United States, where the cyclically adjusted P/E sits around 41x and roughly 30% of the S&P 500 is tied to the AI theme. Encouragingly, the earnings expansion is broad with all eleven US sectors growing earnings in the third quarter relative to two 15 months ago, whereas Europe is delivering strong results against a high bar, and Japan and the UK are expected to deliver earnings growth comparable to the US for a second consecutive year. It is this breadth, rather than a handful of mega-cap stocks, that the Fund's equity exposure is built around.

Against this backdrop, the Fund retains its preference for attractively valued and cash-generative equity exposures, including the Barrow Hanley Global Share Fund alongside dividend-weighted global equity, Global Deep Value and UK Equity Income strategies. These allocations target undervalued, companies that are overlooked by passive flows and whose performance does not rely on further valuation expansion to meet the CPI plus 5% objective. 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. Further diversifying the Fund's global equity allocation is a position in long equal-weighted S&P 500 futures against short cap-weighted global equity futures. We retain the position, which also provides a degree of protection against a disorderly unwind of crowded AI-related positioning. The outperformance of the Fund's global equity exposures and equal-weighted vs cap-weighted trade in October illustrates the value of diversification when narrow market leadership reverses.

The Fund also has zero exposure to private markets given their liquidity and valuation risks, where a left-tail event could expose vulnerabilities and trigger contagion. The pressure on debt issued by leveraged AI infrastructure providers during October is a live example of how quickly financing-dependent business models can be repriced. The Fund complements this with option protection where it is attractively priced. 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 two-year bonds now offer an attractive running yield 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.

The Fund also maintains a meaningful allocation to inflation-sensitive assets. The portfolio retains exposure 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 Australian inflation-linked bonds (ILBs). With current real yields above 3%, ILBs provide a combination of real income, AAA-rated sovereign credit quality, inflation protection and liquidity, making them an attractive defensive anchor within the broader portfolio.

Overall, the Fund remains positioned for a world where valuations matter, inflation remains structurally higher than in the pre-pandemic era, and market leadership continues to broaden beyond a narrow group of mega-cap stocks. We believe a combination of attractively valued equities, inflation-sensitive assets, short-duration fixed income and targeted downside protection provides a robust framework for achieving the Fund's long-term return objective while preserving resilience across a wide range of economic and market outcomes.

This publication has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider whether the information is suitable for your circumstances and we recommend that you seek professional advice.
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.
To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital. All investing involves risk including the possible loss of principal.

MORE INFORMATION

Investor Services 1800 022 033
Email PerpetualUTqueries@cm.mpms.mufg.com
www.perpetual.com.au

Perpetual