Perpetual Investment Funds

PERPETUAL BALANCED GROWTH FUND

October 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

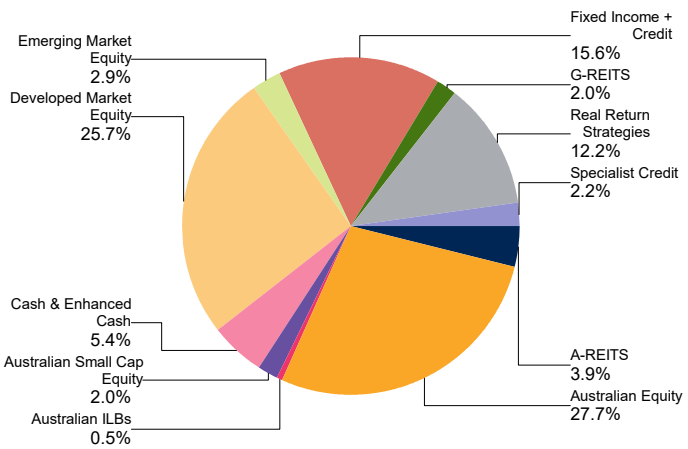
Management Fee: 1.04% p.a.

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



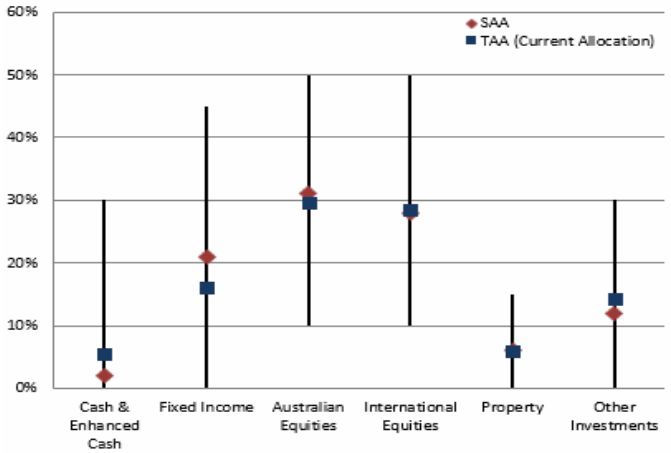
NET PERFORMANCE- periods ending 31 October 2026

	Fund	Benchmark	Excess
1 month	1.3	0.1	1.2
3 months	0.5	-0.2	0.7
1 year	5.5	3.5	2.0
2 year p.a.	7.1	8.3	-1.2
3 year p.a.	8.7	12.5	-3.8
5 year p.a.	6.0	6.7	-0.7
10 year p.a.	7.1	8.1	-1.0
Since incep. p.a.	7.3	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

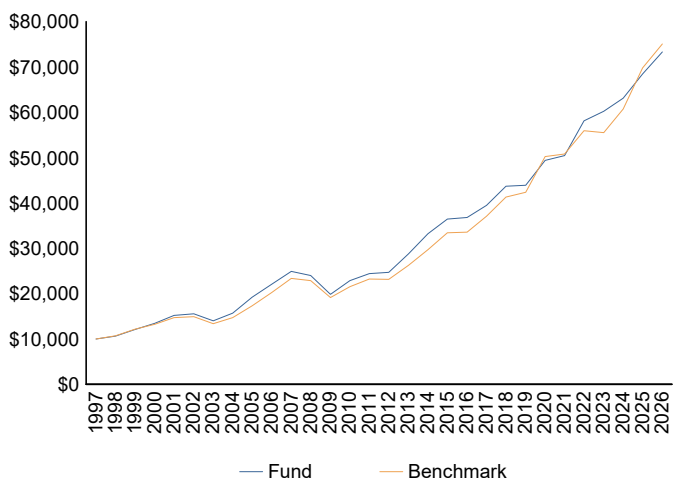
FUND TACTICAL AND STRATEGIC ALLOCATIONS INCLUDING ALLOWABLE MAXIMUM AND MINIMUM RANGES



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

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 higher bond yields in France and Italy heightened sovereign risk concerns.
- 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 their global peers, with the S&P/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.

Stock selection alpha from Global and Australian shares was the key determinant of outperformance over the month. Australian equity stock selection contributed across large and small cap exposures. Underweight allocation to materials – including BHP, South32 and Evolution Mining – contributed alongside key overweights EVT Limited, The Lottery Corporation and Pinnacle Investment Management.

Within Global equities, the Fund's value bias was rewarded as investment returns broadened over the month with equal-weighted and value-focused benchmarks outperforming their market-weighted and growth-oriented equivalents. The Barrow Hanley Global Share Fund and Global Allocation Alpha Funds both contributed materially to outperformance. The Fund continues to target less expensive parts of the global sharemarket in addition to providing greater sector and regional diversification relative to increasingly concentrated market weighted indices.

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, compared with only two sectors 15 months ago, while 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.

The Fund's defensive positioning is primarily focused on 10-year Australian government bonds alongside domestic credit and a small allocation to inflation-linked bonds. 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 position in the Perpetual Diversified Real Return Fund continues to deliver low-volatility absolute returns while retaining a relatively low correlation to equity markets.

OUTLOOK

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. October's rally notwithstanding, government bonds have offered diminished diversification benefits, with yields at times rising in tandem with equities during periods of elevated volatility, reinforcing the importance of the Fund's alternative sources of portfolio protection. The Fund retains multiple embedded risk protections and sources of portfolio convexity. We continue to carefully manage the Fund's exposure to global equities and maintain diversity in regional and sector allocations.

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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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.

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