

# Perpetual Investment Funds

## PERPETUAL ESG REAL RETURN FUND

31 January 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 2021  
**Size of fund:** \$40.9 million as at 31 December 2025  
**APIR:** PER0761AU  
**Management Fee:** 0.85% pa <sup>^^</sup>Refer to PDS for Management Costs  
**Investment style:** Diversified risk budgeting, active, value, ESG  
**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; ESG integration through Perpetual and Trillium Funds.

### 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.

### TOTAL RETURNS % AS AT 31 JANUARY 2026

PERFORMANCE	1 MTH	3 MTHS	6 MTHS	1 YR	3 YRS PA	5 YRS PA	INCEPT PA	VOLATILITY <sup>^</sup>	3 YRS PA	INCEPT PA
Perpetual ESG Real Return Fund (Gross)	0.01	0.82	2.25	6.85	4.76	-	3.05	Perpetual ESG Real Return Fund	-	-
Perpetual ESG Real Return Fund (Net)	-0.06	0.61	1.81	5.95	3.88	-	2.18	Mercer Balanced Growth Median	5.89	7.62

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. Volatility and Mercer Balanced Growth Median data is lagged by 1 month

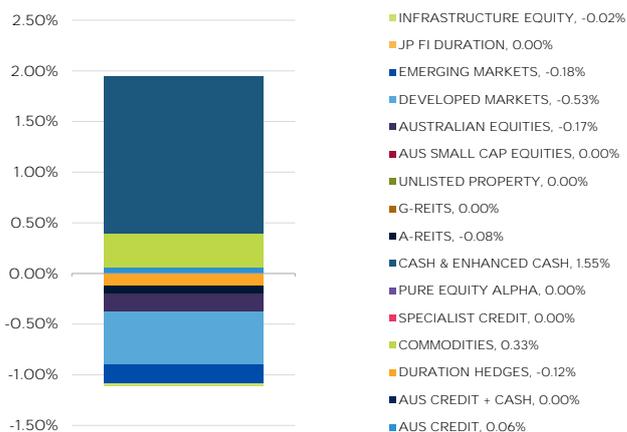
### CHANGES IN ASSET ALLOCATION (%)

	CURRENT	3 MTHS	6 MTHS	1 YR
Cash	19.3%	3.5%	1.5%	-1.8%
Fixed Income & Credit	39.4%	-0.9%	-0.4%	0.8%
Australian Equities	4.9%	-0.2%	0.2%	0.0%
International Equities	28.1%	-0.9%	-0.1%	2.6%
Commodities	1.6%	-1.4%	-0.8%	-1.4%
Property	2.2%	-0.1%	0.0%	-0.1%
Other Investments	4.4%	-0.1%	-0.4%	-0.1%

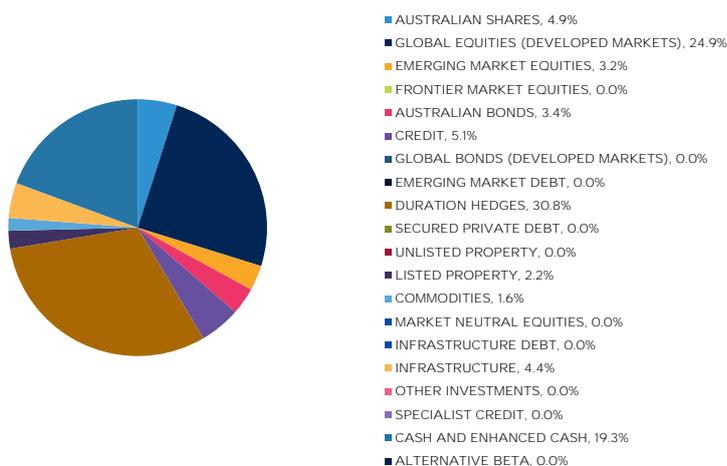
### ESG APPROACH

As a real return fund, the Fund applies a dynamic asset allocation approach, which is designed to allow the portfolio manager the greatest flexibility to achieve the fund's objective. There is no universal, consistent approach to ESG across every asset class in the Fund due to practical and fundamental issues of investing in each asset class. The Fund's approach to ESG screening will vary across asset classes and by investment strategy within each asset class where applicable. Please refer to the Perpetual Investment Funds PDS for further information.

### 3MTH CONTRIBUTION TO RETURN (GROSS)



### PORTFOLIO SECTORS



## FUND PERFORMANCE

The ESG Real Return Fund returned -0.1% (net) in January. Over the past 12 months, the Fund has returned 6.0% (net).

Global equity alpha was the most substantial contributing factor to performance over the month. The broadening of equity markets **returns rewarded the Fund's** global equity exposures across the JO Hambro UK Equity Income strategy and the global deep value equity strategy. All these strategies offer greater sector and regional diversification relative to increasingly concentrated market weighted indices and will continue to benefit if the rotation in market leadership persists.

**The allocation to commodities also performed well with the Fund's gold, silver and palladium exposures benefitting from a lower US Dollar.**

**Australian equity alpha detracted performance with the Perpetual ESG Australian Share Fund's underweight allocation to materials and stock selection within the sector, weighing on relative performance. The ESG premia detracted from during the period with sustainability benchmarks underperforming broad market peers. Other detractors over the month included the Fund's explicit downside protection positions and its US dollar exposures.**

## MARKET COMMENTARY

Equities performed and bond yields rose during a month hallmarked by rising geopolitical risks, tariff threats, US Dollar weakness, surging Japanese bond yields, and the pricing of 2026 RBA rate hikes.

- Global shares (+1.7%) ended the month higher although the key narrative was the broadening of equity market returns with small caps, value and ex-US markets outperforming, extending the rotation which commenced in 2025.
- US equities (+1.5%) trailed the broader developed market and experienced elevated volatility after renewed US tariff threats in mid-January, but prices recovered losses with a strong rally in the last week of the month.
- Japanese equities (+4.6%) led the pace of gains in developed markets as the rising risk of expansionary fiscal policy from the Japanese election spending spree would support domestic demand and corporate EPS growth.
- UK equities (+3.0%) outperformed the global index as the rotation away from highly valued US tech sectors sparked increased demand for traditional cyclical sectors which the UK market has an abundance of.
- European equities (+2.8%) outperformed as earnings expectation rose in line with solid economic data. In addition, European defence stocks rallied strongly on rising geopolitical tensions between the US and the rest of NATO over Greenland, which consolidated recent gains from increase government defence spending.
- Emerging markets (+8.8%) performed very strongly, supported by a weaker US dollar, ongoing strength in AI related technology which is trading on a much lower multiple within the region.
- Australian Shares (1.7%) performed in line with the global index with price increases led by resources stocks which benefited from rising commodity prices.
- Global bond yields rose on aggregate reflecting fiscal concerns and changing monetary policy expectations. The US curve steepened as 10-year bond yields rose 9bps whereas the domestic curve flattened as the policy sensitive 2-year tenor sold off sharply (+15bps) as rising inflation sparked pricing for near term rate hikes by the RBA.
- Precious metals including gold (+13.0%) extended their strong rally, notwithstanding a sharp decline in the final week of January, as the continued depreciation of the USD sparked rising demand for other safe havens.

**Geopolitical volatility was notable with the US's capture of the Venezuelan President, increased US tensions with NATO allies** over Greenland, and civil unrest in Iran, and continued to shape market sentiment throughout the month. President Trump introduced plans to impose a 25% tariff on the UK and seven European nations as leverage to gain their backing for his proposal to acquire Greenland. In response, the European Parliament paused the ratification of a previously negotiated trade agreement with the US, effectively delaying the reduction of tariffs on American imports. Adding to the tension, a Danish pension fund—despite being only a minute holder—announced it would sell its US Treasury positions, citing concerns about the long-term fiscal sustainability of the United States. Although diplomatic pressures eased somewhat following discussions at Davos, the episode reinforced the extent to which the US administration views tariffs as a strategic tool in negotiations. Risks associated with further tariffs is tempered however by the impending midterm elections where affordability is likely to remain a key focus for voters.

**The Federal Reserve kept interest rates steady in January, noting economic activity had strengthened to a “solid” pace while inflation remained “somewhat elevated.” Inflation improvement was slow, with December CPI at 2.7% amid persistent services inflation ex-housing.** The broader US economy stayed resilient: unemployment edged down to 4.4%, core inflation was unchanged, yet consumer confidence weakened and pending home sales fell sharply. Late in January, President Trump nominated Kevin Warsh to lead the Federal Reserve which precipitated a sharp reversal in the previously relentless rise of safe haven precious metals, and the US Dollar bounced as markets were constructive about the prospect of a Warsh-led US Fed. While he has more recently argued for lower rates during his last stint at the Fed, he spoke publicly about his desire to shrink the Fed balance sheet as it was distorting asset prices.

Alongside the broadening of global equity market performance, January saw a bifurcation of performance within the tech sector where supply chain companies including semi-conductor stocks strongly outperformed AI and SAAS names. We continue to have concerns around the sustainability of capital expenditure in the AI sector. So far, the cash burn for Open-AI is \$140 billion, greater than any single loss during the GFC. At the same time, the business model for model developers has limitations broad-based competition is likely to culminate in a contestable, mediocre margin business with ongoing demands for improving computing power. 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. We look for opportunities outside this cohort.

Outside the US, the focus was Japan, where long-term bonds had their worst start to a year since 1994 due to rising fiscal and persistent inflation concerns. PM Takaichi hopes to address inflation by reducing food and energy taxes, which in concert with BOJ tightening and the declining Yen, further adds to debt concerns. Equities continue to be buoyed by the expansionary fiscal agenda and the rally intensified after parliament was dissolved ahead of an early February snap election.

Europe saw improved macroeconomic data during January with the Eurozone CPI falling to 1.9% in December – its first sub 2% reading in eight months – and the **regional composite Purchasing Managers' Index (PMI) remained in expansion territory at 51.3. Meanwhile, Dec-25 German growth exceeded expectations, resulting in +0.4%Y growth in 2025 after two years of recession.** Large scale fiscal stimulus is anticipated for 2026; however the private sector remains subdued at best. Equity markets in Europe continue to trade below US and Australian valuations but have elevated 12MF PEs when compared with its long-term average.

**Australia's trimmed-mean inflation rose only +0.2%M in December but gained +0.9%Q over the quarter which was well in excess of the RBA's forecast which combined with an unexpected drop in unemployment to 4.1%, saw markets shift towards expecting a -0.25% RBA hike in February.** Employment grew just 1.1% in 2025—below population growth and well down from 2024—though a lower participation rate has kept unemployment contained. While recent spending data has improved, the medium-term outlook looks tepid with zero real wages growth for the next few years, and a cautious corporate sector.

Elevated valuations, a lacklustre longer term domestic economic outlook and rising risks of RBA rate hikes in 2026 is a challenging backdrop for local investors. Meanwhile, government bonds are offering less reliable diversification and are signalling a less certain path for inflation. 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

Markets are facing challenges in the near term (two Fed cuts and EPS growth of +15% for 2026 are already factored in) and long term (**investors living in a '4% world' given high valuations and likely having priced in years of productivity improvement**). **Valuations are above the 90th percentile** in every region (ex-UK and Japan) which combined with narrow market leadership and the preponderance of value-agnostic passive funds, have made regional equity markets increasingly vulnerable to unexpected news.

The Fund retains exposure to the Trillium Global Sustainable Opportunities Fund and Perpetual ESG Australian Share Fund alongside Global Deep Value and UK Equity Income strategies, targeting undervalued companies overlooked by passive flows. These firms 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 help drive performance. 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

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 and contagion. 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 rises 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.

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## MORE INFORMATION

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