Qualitative Fund Research

Perpetual Diversified Real Return Fund

23 April 2024

RESEARCH IP Rating

The views and opinions in this document are considered valid for one year from the date published.

Qualitative Fund Research Contents

Rating Profile

Research Process Category	Factor Weight	Analyst Score	Maximum Score
Corporate & Investment Governance	15%	3.75	/ 5
Investment Philosophy & Process	20%	4.20	/ 5
People	25%	4.00	/ 5
Portfolio Construction & Implementation	15%	3.83	/ 5
Risk Management	15%	4.00	/ 5
Investment Fees	10%	4.43	/ 5
Overall Average Score		**4.02**	**/ 5**

Meet the Manager

Perpetual Limited is an ASX-listed, diversified financial services company which has been serving Australians since 1886. Perpetual provides asset management, private wealth and trustee services to local and international clients, with operations that span Australia, Asia, Europe, United Kingdom and the United States.

Perpetual's global multi-boutique asset management business offers an extensive range of specialist investment capabilities through seven brands across the globe. Within Australia, the combined group has a broad range of capabilities across Australian and global equities, credit, fixed income, multi-asset and environmental, social and governance (ESG) solutions. Further information on the Manager can be found in its online profile.
Perpetual's Australian Asset Management business is a signatory to the United Nations Principles of Responsible Investment (UNPRI). Our Responsible Investment Policy applies to our employees responsible for making active investment decisions. These include investment analysts and portfolio managers, across strategies that cover Equities, Credit and Fixed Income, and Multi-asset strategies. It is our policy that consideration of environmental, social and corporate governance (ESG) factors are incorporated into our investment analysis and decision making; and ownership practices.

The Perpetual Multi Asset team's overall philisophy is focused on qualty and value, offering a suite of funds that invest across a diverse range of asset classes. The team actively manages the asset allocation of these portfolios. In doing so, we seek to reduce the risk of losing capital and capturing the rewards of being invested in the right place at the right time. Further information on the capability can be found here: https://www.perpetual.com.au/asset-management/multi-asset/

Access the full range of Perpetual Asset Management investment options here.

Key Takeouts

The Perpetual Diversified Real Return Fund ("the Fund") will invest in a diversified range of asset classes. The combination of assets held by the Fund at any time are those which we believe provide the greatest probability of achieving the target return over rolling five-year periods. Perpetual may adjust the Fund's asset allocation to respond to changing market conditions and/or to take advantage of new opportunities.

Research IP Says

"Michael O'Dea is accountable for all final decisions in the portfolio. A notable aspect of his background is his experience in working in hedge funds. O'Dea believes he is able to make the most of this background in assessing the risk/return of certain strategies in a portfolio context. This derives from his understanding of the different types of alternative strategies accessible in the market currently and from his experience in previous roles."

"The team has a vast amount of experience overall, importantly much of this is in the multi-asset space. Several have worked together previously. The team have worked at Perpetual for over 9 years on average. The team is not large relative to the FUM it manages (particularly with the recent addition of Pendal funds). This is done deliberately, with the belief that a tight team allows for decisions that can be discussed and acted upon more efficiently."

"The asset allocation framework is crucial to understand how decisions are made by the Manager. There is no strategic asset allocation, instead the portfolio is anchored around four specified quadrants. In Research IP's opinion, this is not a common approach in the multi asset space and Perpetual has built an effective process around the concept.
The quadrants are Inflation protection, Return seeking, Diversifying opportunities, and Downside protection. The attractiveness of these quadrants is continuously assessed and invariably changes through the cycle."

The Fund

Fund Details	Perpetual Diversified Real Return Fund
Fund Code	Class W APIR PER0556AU Class Z (performance fee option) APIR PER6115AU
Responsible Entity / Trustee	Perpetual Investment Management Limited
Geographic Focus	Global
Sector / Asset Class	Multi Asset
Investment Objectives	The Fund 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.
Benchmark	The Fund has no Strategic Asset Allocation benchmark and uses wide asset allocation ranges to allow maximum flexibility in meeting the Fund's objective.
Alpha Objective	CPI + 5%
Management Fee	• Class W (standard fee option) - 0.85% pa management fee, no performance fee • Class Z (performance fee option) – 0.35% pa management fee with performance fee
Performance Fee	<u>Class Z (performance fee option)</u> • Performance Fee - 10% p.a. • Hurdle –target inflation rate **median** published by the Reserve Bank (currently 2.5% based on a target inflation rate of 2-3% p.a.) – used as a proxy for CPI. • Net – Performance fee is calculated each business day and is based on the Fund's performance **after** management fees and expenses have been deducted. • Perpetual High-Water Mark (HWM) is observed

	• Frequency – calculated daily, paid annually • **Maximum** cap on performance fee is 1.00%.
Estimate of Total Fund Charges	• Class W (standard fee option) – 0.97% (ex GST) – 1 November 2023 • Class Z (performance fee option) – 0.69% (inc GST) – 1 November 2023 As per the PDS dated 1st November 2023, total ongoing annual fees and costs for the Fund comprises: - management fees and costs - any applicable performance fees - transaction costs

Using this Fund

The Fund is diversified across several different asset classes, with access to a broader range of assets than a traditional balanced fund. The broad asset allocation ranges are unconstrained from a strategic asset allocation perspective. Research IP believes the Fund is suitable as a core portfolio holding for investors seeking capital growth similar to a balanced fund, but with a strong awareness of inflationary pressures, downside protection, and ultimately the preservation of capital.

The Fund aims to participate in both up and down markets. In practice Research IP believes the focus on downside protection will mean the Fund return will not match the market on the upside but will have a stronger likelihood of minimising drawdowns when the market is down.

Special consideration should be given to currency for New Zealand investors. The Fund is managed in Australian dollars.

The portfolio is constructed with the goal of managing it through economic and market cycles. Research IP believes an investor should have a minimum investment time horizon greater than five years, preferably longer.

Factor	Lower Limit	Upper Limit	Target
Typical number of holdings	15	40	
Expected Portfolio Turnover	market dependent	market dependent	14% last 12 months
Cash	0%	100%	Minimal

In managing the Fund to meet its investment objective, the Fund may implement a considerable amount of its exposures via derivatives and may invest in alternative and private market assets.

Currency is managed at the Fund level, taking into account currency exposure arising from underlying investments. Currency management is used to either hedge currency for an existing position or create exposure to a foreign currency. Net foreign currency exposure will be limited to 50% of the gross asset value of the Fund.

Funds Under Management

Fund currency	AUD
Current size of the Fund ($)	$1,057,566,999
Current FUM in the strategy, including mandates ($)	$1,244,025,992
Current total FUM of the Manager ($)	$22,496,479,435

What the Manager Says

Who holds accountability for the fund's outcomes and actions? How relevant is the work / career history of the investment team to the management of the funds?

Manager Statement:

On 14th March 2024, Perpetual announced that as part of a recent review of the Group's multi asset capabilities, the Perpetual and Pendal Multi Asset teams have been combined to create a single Perpetual Multi Asset Strategies Team. The combined team consists of nine investment professionals and is led by Michael O'Dea, Head of Multi Asset. Michael O'Dea is a highly experienced investor with 25 years industry experience, including the past nine years leading the team at Perpetual.

The combined team will manage $6.8 billion in AUM (as at 31 January 2024 including FUM and FUA).

Ultimate responsibility for the Fund is with Michael. David Hudson is responsible for generating and implementing active asset allocation ideas. Matthew Sherwood's responsibilities include undertaking macro-economic and financial market research. Geoff Ryan is responsible for portfolio management, trading and implementation of the Fund's strategy.

Name	Title	Role	Current Sector Coverage
Michael O'Dea	Head of Multi Asset	Fund Manager	Michael Is Responsible For The Suite Of Multi Asset Funds And Capital Markets Research.
Matt Sherwood	Head of Investment Strategy, Multi Asset	Fund Manager	Matt is responsible for monitoring, analysing and forecasting earnings growth, interest rates, currencies, economic growth and policy implications across major regions.
David Hudson	Head of Asset Allocation, Multi Asset	Fund Manager	David is responsible for generating and implementing active asset allocation ideas and the strategic asset allocation of multi asset funds.
Geoff Ryan	Portfolio Manager, Diversified Strategies	Fund Manager	Geoff is responsible for the portfolio management of the diversified funds and tactical asset allocation.

Quantitative Tear Sheet - https://portal.research-ip.com/

Platform is FREE to access via registration – performance data updated monthly.

Factsheet ***Report*** ***PDS*** ***Articles / Views***

For important Fund Facts view the RIPPL Effect

This is General Advice only and should be read in conjunction with the Disclaimers, Disclosures and Warnings at the end of this document.

A summary of other changes follows:

- Michael Blayney will be leaving the organisation – he will remain over the next six months in an advisory capacity.
- Alan Polley and Rita Bodrina (both part of the Pendal business) will take up roles in the combined team.
    - Alan has joined in a newly created role as Senior Sustainable Investments Lead
    - Rita will join as an Investment Analyst
- Michael O'Dea has been appointed the portfolio manager of the Pendal multi asset funds, mandates and separately managed accounts. He remains the portfolio manager of the Perpetual multi asset funds.
- The Perpetual active asset allocation process will be implemented across all Pendal Balanced Funds
- The Pendal Multi-Asset Target Return Fund will align to the investment approach and process of the Perpetual Diversified Real Return strategy.
- The strategic asset allocation and ranges for the Pendal multi asset products has not changed.
- The underlying manager mix for the Pendal multi asset products remains unchanged.
- Pendal's sustainable products will retain their sustainability approach, with continuing support from Regnan.
- Fees and buy and sell spreads for the Pendal multi asset funds are unchanged.
- Pendal brand and names of the Pendal multi asset funds remain.
- There are no changes to any of the Perpetual multi asset funds.

Research IP Opinion:

The investment team members, individually and collectively, have strong quantitative backgrounds. This was important to O'Dea in operating the fund strategy, as the desired process is a quantitative underpinning with a qualitative overlay.

O'Dea is accountable for all final decisions in the portfolio. A notable aspect of his background is his experience in working in hedge funds. O'Dea believes he is able to make the most of this background in assessing the risk/return of certain strategies in a portfolio context. This derives from his understanding of the different types of alternative strategies accessible in the market currently and from his experience in previous roles.

The team has a vast amount of experience overall, importantly much of this is in the multi-asset space. Several have worked together previously. The team have worked at Perpetual for over nine years on average. The team is not large relative to the FUM it manages (particularly with the recent addition of Pendal funds). This is done deliberately, with the belief that a tight team allows for decisions that can be discussed and acted upon more efficiently.

It is Research IP's view that the changes undertaken in March 2024 are not trivial but have been carefully considered and executed in a way that is least disruptive to people and process. The Perpetual products are essentially not changed at all, while the team has seen one senior departure and two additional members from the Pendal side.

Alan Polley's arrival in a newly created sustainability role is an interesting signal from Perpetual as to its commitment to sustainability practices.

It appears, at this early stage, that this transition has been smooth and moderately accretive in terms of the additional intellectual capital brought in by the two new team members. Nevertheless, these changes need more time to settle in before the longer-term consequences can be properly judged.

Has the CIO/ PM / Investment Team personally invested in the Fund? Do they have the same fee / cost structure as other investors?

Manager Statement:

Michael O'Dea is directly invested in the Fund and is paying the same fees as other investors.

Perpetual Asset Management, Australia has a staff Co-Investment Policy In place that provides for nominated investment professionals to invest up to 100% of their annual deferred STI award in a notional investment in an eligible Perpetual Fund (the remaining balance is received in Perpetual shares through a Perpetual employee share plan). Each investment team must invest in a Fund from their team. Most of the eligible Perpetual Multi Asset team co-invest in the Fund via deferred incentives or their superannuation.

Research IP Opinion:

An alignment of interest between the Manager and investors is important for the long-term management of any investment portfolio.

The fact that O'Dea and most of the multi asset team have 'skin in the game' is a positive sign for investors. Research IP considers this to be a key component of investor alignment. It is a sharp incentive for the investment team to pay forensic attention to their portfolio positions and what they mean for client outcomes (on an after-fee basis).

The short-term incentive plan helps to align the broader investment team's interests too, notably the plan means team members must invest in a Fund from their own team.

What are the reasons for investing in this fund?

Manager Statement:

We don't believe there is a "one size fits all" approach to portfolio construction. Arguably, low-cost passive investing (and rebalancing to SAA) is most suitable to a long-term investor in the accumulation phase with time to recover from bear markets. In contrast, active asset allocation (with a focus on risk mitigation) and active stock selection is more suitable for balancing sequencing and longevity risks in the de-cumulation phase.

We know with a high degree of confidence that returns from bonds and cash are going to be very low. In equity markets, extraordinarily low interest rates are intensifying the hunt for yield and contributing to very expensive equity valuations. There is a narrow segment of the investment universe that we expect to generate competitive returns over a five-year time horizon. These opportunities are primarily concentrated in the long neglected 'value' parts of the market and are not necessarily aligned with market cap weighted benchmark allocations.

In order to generate returns above expected inflation, investors need to be able to allocate to risk when it is likely to be rewarded (i.e., change their asset allocation) and manage risk through skillful portfolio construction. The problem is that not many model portfolios are set up to do that. The Diversified Real Return Fund offers investors an opportunity to take responsibility for aligning their investment objective with sensible portfolio construction and risk management.

Real return funds are designed to provide investors with a higher certainty of achieving a real return objective with a lower level of risk and sensitivity to extreme market events.

Merits of investing:

- The Multi asset team is highly experienced team and has a complementary set of skills. The team is focused exclusively on multi asset investing,
- The team draws on the breadth of Perpetual's internal investment capability,
- The team is innovative in research and continually assessing new investment opportunities and has consistently demonstrated that Perpetual is at the cutting edge of research,
- Access a wider range of assets: The Fund can invest in some harder to access investment opportunities, such as unlisted property, infrastructure, frontier markets and commodities strategies; as well as traditional assets,
- Lower volatility means more regular returns: by managing portfolios in a more holistic and flexible way, where the mix of exposures can respond quickly to changing market conditions, may assist in providing a more regular profile of returns for investors,
- Perpetual's multi asset team is based in Australia, meaning that investors can benefit from direct access and transfer of investment knowledge.

Research IP Opinion:

The types of assets that the Manager can allocate to is relatively broad and well-diversified, which is important in a multi asset context. More specifically (and beneficially), the investor has the ability to gain exposure to alternative assets, which can be harder to access alone given the cost or minimum sized investment requirements. The ongoing size of that exposure is essentially outsourced to the Manager who manages it in sympathy with the risk/return objectives of the overall Fund.

There is a definite focus on risk allocation throughout the investment process. The Manager is especially cognisant of tail risks. The attention paid to this aspect of the portfolio is one of the overall objectives of the Fund i.e. downside protection. This emphasis helps to address sequencing risk for investors. Sequencing risk refers to the timing and order of negative investment returns and the effect these have on the overall return for the investor, which are especially important when considering withdrawals from the Fund. Large and protracted drawdowns take a long time to recover from, which is exceedingly troublesome later in life.

Investors should be prepared to invest over a longer time horizon as the Fund emphasis is on investing through the full cycle. Attention is paid to the risk/return characteristics of securities as they change through the business and economic cycle.

The Manager is essentially attempting to smooth the longer-term return profile. An investor could expect less drawdowns compared to a standard balanced strategy, but also less upside. Over the long term (10 years and more) the Fund has displayed considerably lower volatility than its peers.

Research IP notes investors will gain access to investment strategies and structures that are not readily available to retail investors. This enhances the diversification an investor can achieve in their portfolio.

What are key criteria for the buying and selling decisions of the Fund?

Manager Statement:

The Fund employs an expansive investment universe and can allocate to investments across the full spectrum of available sources of return, including:

- Equities
- Fixed income
- Property/Infrastructure – listed and unlisted
- Commodity strategies
- Currency – developed and emerging markets
- Unlisted investments (max 20%)
- Derivatives

The Multi Asset Team uses a consistent asset allocation framework and risk budgeting approach to evaluate opportunities across different traditional and non-traditional asset classes, to carefully assess downside risk, transparency, prudent use of leverage, liquidity and net of fee expected returns.

Perpetual employs quantitative valuation and momentum models across most asset classes. These are combined with a fundamental assessment of a range of economic data releases including GDP, labour market, inflation, interest rates, earnings expectations, exchange rates and central bank actions. Signals and weights for each model (valuation, cycle and momentum) will differ across asset classes.

Portfolio position sizing is determined on the basis of:

- The strength of the view
- The risk of losing capital and volatility
- Liquidity
- The role within the portfolio

Our sell discipline is based on:

- The probability of achieving the investment objective has diminished.
- There has been an adverse change to the initial investment thesis.
- Risk management – the initial investment had a stop loss.

A superior risk adjusted investment with overlapping risks and high correlation to an existing position is included, and it is funded from an existing exposure.

Research IP Opinion:

The asset allocation framework is crucial to understand how decisions are made by the Manager. There is no strategic asset allocation, instead the portfolio is anchored around four specified quadrants. In Research IP's opinion, this is not a common approach in the multi asset space and Perpetual has built an effective process around the concept.

The quadrants are:

- Inflation protection
- Return seeking
- Diversifying opportunities
- Downside protection

The attractiveness of these quadrants is continuously assessed and invariably changes through the cycle.

The Manager has a strong awareness of macroeconomic and market dynamics such as inflation, and wide flexibility in asset allocation which gives the Manager the ability to rearrange the portfolio towards assets that could neutralise a potential rise in discount rates effectively.

Convexity is a key consideration built into the investment process. Convexity shows how the duration of a bond changes compared to changes in interest rates. However, the Manager also applies this concept to equities in the Fund, most applicable being dividend yielding stocks which could be compared to higher yielding bonds.

The discussion at the weekly meeting is important in contesting certain views across assets in the portfolio. The overlapping experience and expertise within the investment team provides for an animated debate, however the final decisions in the portfolio are made by O'Dea. It is not a portfolio by committee. Responsibility and accountability go hand in hand.

What are the key drivers of the Fund's performance?

Manager Statement:

The primary drivers of return over a full market cycle include:

- A diversified mix of traditional market exposures (equities, credit, property etc.)
- Asset allocation alpha
- Stock selection alpha
- Relative value opportunities between markets and in FX
- Alternative risk premia

In managing the Diversified Real Return Fund, we believe it is important to separate what you can know from that which is unknowable.

We know the following:

- The investment objective is inflation plus 5% over rolling 5-year periods while controlling downside risk -- the investment process is built around that objective.
- The price you pay is the largest determinant of future returns. By being disciplined about not overpaying it helps to remove negative convexity from the portfolio.
- However, we also know that value, by itself, is a poor timing signal. The economic cycle, changes in liquidity (policy responses) and market sentiment/momentum are used to complement value as a timing signal.
- Convexity management to protect portfolio left tail events and benefit from the volatility of markets is not alpha per se, but there is skill in the implementation of the strategy.
    - Cross asset class hedging
    - Optimising cost versus reliability (basis risk) and convexity
    - Managing the journey – locking in profits

Research IP Opinion:

The Manager has several levers to pull to drive the return towards the Fund objective. These are broad in terms of asset type and will be dependent on what part of the cycle the market is at, and critically, how the Manager sees different scenarios playing out.

As compared to a traditional balanced fund, the Manager has the ability to draw on assets that could be classed as 'alternative' to help achieve the return objective. For example, these assets could include unlisted property, active FX, commodities or emerging market debt. The asset allocation ranges support the ability of the Manager to utilise a wide range of instruments. According to the "Fundamental Law of Active Management" (Richard Grinold and Ronald Kahn) active portfolio management success relies heavily on the balance between skill quality (depth) and skill application (breadth). Managers should strive to improve both aspects to achieve superior results. In Research IP's opinion, Perpetual has put meaningful effort into improving its breadth of opportunity.

The allocation to equity has been a key driver of return. There is a value bias within this. As the market cycle moves towards a conclusion, the Manager is less likely to rely on equity to drive returns. There is a good core holding in alternatives, and a mindfulness of duration if yields rise.

The Manager's emphasis on downside protection and flexible asset allocation in turn works as a driver of return in that the Manager is seeking out the most appropriate place to allocate risk to recover from falls in the market.

What are the risks / adverse outcomes that could arise from investing in this Fund?

Manager Statement:

Our approach to avoid negative convexity and build in positive convexity is repeatable:

- It exploits a key bias of many market participants to generate income by embracing negative convexity. This bias shows no signs of abating.
- It is the common philosophy underpinning each key member of the team and has been used in different guises throughout each of our careers.
- Embedding humility into the process and a focus on margin of safety when it comes to expectations of future outcomes.
- Have a framework to make an informed judgement when it comes to cost, convexity and reliability of strategies managing left tail risks.

The two key risks of our approach are:

1. Lack of participation in a bull market may lead to peer relative underperformance. Clients could switch to investments that delivered higher historical returns at the wrong point in the cycle.
2. Not having sufficient portfolio protection in place during a bear market. This could be due to a combination of portfolio protection being too expensive to hold, at a time when a left tail event occurs.

While you can never completely rule out luck, you can improve the distribution of outcomes by focusing on what you do know being disciplined around price paid and employing a variety of strategies to manage left tail risks.

Research IP Opinion:

Too much of a focus on downside protection could overpower the ability to achieve a higher return in line with the return objective. There is a narrow selection of assets in the market that could reasonably be expected to achieve the return objective, in many cases the downside risks may outweigh the upside. The ability to weigh up these risks over the relevant time horizon will be essential to achieve the CPI + 5% objective.

Following on from this, there is key man risk in O'Dea, though this is somewhat by two factors: (1) the portfolio construction framework and implementation is adequately structured, and (2) the investment team have extensive experience in the industry, with overlapping responsibilities in a smaller team giving an element of cohesiveness.

What is the justification for the fees and costs that are charged?

Manager Statement:

Please refer to the Perpetual Investment Funds' PDS – page 37 for fees and costs explanations.

Estimated Total Ongoing Annual Fees and Costs (% Pa)

Fund	Management fees (% pa)	Estimated management costs (% pa)	Estimated performance fees (% pa)	Estimated transaction costs (% pa)	Estimated total ongoing annual fees and costs (% pa)
Perpetual Diversified Real Return Fund – Class W units	**0.85**	**0.08**	**n.a.**	**0.04**	**0.97**
Perpetual Diversified Real Return Fund – Class Z units	**0.35**	**0.08**	**0.22**	**0.04**	**0.69**

The total ongoing annual fees and costs for each Fund comprises of Management fees and costs, performance fees (if any) and Transaction costs.

We receive management fees for managing and administering the Fund and overseeing the Fund's investments. Fees are reviewed annually and may be adjusted to ensure we remain competitive against peers.

Management costs may be charged directly to the Fund and/or incurred indirectly in underlying funds. Management costs may include:

- operating expenses incurred in the proper performance of our duties and obligations relating to the management and administration of the Funds;
- other indirect management costs, which may be incurred from investing in derivatives in the fund or an underlying fund, and costs from underlying funds, e.g., management fees and expense recoveries of the underlying fund.

Research IP Opinion:

Research IP believes the Manager is transparent from a fees perspective and provides clear disclosure in its PDS.

Research IP notes the two different fee structures between Class W and Class Z. The performance fee applied in the Class Z is well-structured when considered along with the lower base management fee (of 0.35%) and cap on performance fees of 1.00% in any single year. However, there is a trade-off with a fund structure like this between maximising upside return and protecting investors capital.

The buy/sell spread is sensible given the active nature of the strategy and resulting transaction costs that will prevail as investors move in or out of the Fund.

Research IP observes that the Manager's management fee for Class W and Class Z are in the lower half compared to sector peer relevant balanced diversified funds, making it reasonably competitive.

Research IP notes that the hurdle for earning a performance fee is the median target inflation rate (currently 2.5%). This is used as a proxy for CPI, however, actual experienced CPI has been considerably higher than this level for some years now. It appears that the Fund's target alpha (5.00% p.a.) is not added to the performance fee hurdle, making it a reasonably low target to achieve. This is partially mitigated by the fact there is a performance fee cap of 1.00%, which in itself is unusual and welcome.

Describe the governance processes for managing organisational and investment decisions.

Manager Statement:

Perpetual uses ThinkFolio as its investment management system and compliance monitoring tool across all asset classes. Portfolio risk is monitored by the entire investment team using ThinkFolio for pre-trade compliance for listed securities, and our proprietary risk budgeting model.

The portfolio manager uses both an internal risk budgeting model and an external risk model (FactSet Multi Asset Class Risk Model) to measure the alignment of the risk exposures of mandates as closely as possible given the objectives and investment restrictions.

Perpetual has a dedicated Compliance team which sits within the Legal, Audit, Risk, Compliance, Company Secretariat and Sustainability (LARCCS). The LARCCS division is led by Perpetual's Chief Risk and Sustainability Officer who is responsible for Perpetual's enterprise risk management approach toward the efficient and effective governance of significant risks, including compliance risk. The Group Compliance and Risk Teams are operationally independent teams that have direct and unfettered access to the Perpetual Investment Management Limited (PIML) Board and Compliance Committee.

In addition, our investment compliance and investment administration teams as well as our custodian, ensure the portfolio remains within its stated investment limits. The Investment Review Forum (IRF) also monitors and oversees the investment decisions on a monthly basis and is responsible for risk oversight. The IRF can instruct the portfolio management team to reduce undesired risks if it so decided.

Research IP Opinion:

The combination of qualitative debate and predictive data presented on the team's market dashboard plays an important role in how decisions are made at the portfolio level. The 90+ page document is analysed at weekly meetings by the investment team. It is an iterative process where the Manager aims to assess the changes in the data over time and what that may mean for return/risk characteristics of the assets within the portfolio.

A record is taken of the rationale on different positions held within the portfolio. Minutes are taken on the team discussions. O'Dea makes the final decision and has overall accountability for the portfolio.

The proprietary risk model used by the Manager has an advantage in its familiarity to the team. The team has a strong understanding of the model given they built it themselves. It helps break out alpha from beta within the portfolio. This is complemented with FactSet's model showing risk attribution. In tandem the Manager uses them as feedback loops.

Perpetual have a clear, effective, and transparent Risk Management Framework across the business.

Describe how the Manager implements ESG, Corporate Sustainability policies and engagement.

Manager Statement:

Listed Equities – Active
When deciding whether to buy, retain or sell an investment, PAMA's investment managers consider those ESG risks that are relevant and material to the prospects of the investment. Our approach is detailed in PAMA's Responsible Investment (RI) Policy.

Listed Equities – Passive and Smart Beta
No ESG integration applies to these strategies.

Domestic Credit

Consistent with our RI Policy, we consider material ESG factors as part of our bottom-up credit analysis. We view ESG factors the same as other risk factors and evaluate their materiality on our investment rationale.

Other Asset Classes

Where we outsource to external managers, we do consider aspects of ESG in our due diligence process. However, our ability to integrate ESG into these asset classes may be limited, due to the use of externally managed pooled vehicles and the absence of well-developed ESG integration standards in certain asset classes such as global credit, infrastructure and unlisted assets. We do, however, consider country/market (geography) allocation risk issues, such as the governance (i.e. an ESG) risk in investing in emerging or frontier markets.

Tactical Asset Allocation (TAA)

Integrating ESG concepts (which tend to be long-term) into TAA decision-making (which is normally medium-term) is very difficult. Implementation issues (for example via derivatives) are typically via market cap indices.

Research IP Opinion:

Perpetual have been incorporating ESG considerations into their investment process for over a decade now. The integration of ESG factors is most applicable to the active listed equity holdings. Several external ESG research providers and tools are utilized to integrate ESG factors into their decision-making process.

Perpetual's voting record can be accessed on their website. The same voting decision is applied to Perpetual's entire shareholding across their different equity portfolios. However, the voting does not apply directly to multi-asset funds such as this one.

ESG factors are also applied to domestic credit in their risk assessment of potential investments.

The integration of ESG in other asset classes is limited and less standardized, making it less applicable.

Perpetual's approach to ESG investing is more focused on the materiality and long-term assessment of investments. This is in line with their approach to value and emphasis on risk management. There are no negative screens applied to the portfolio.

How does the ownership of the Manager and the compensation of the investment team align with the investors' interests?

Manager Statement:

Structure of asset manager incentive schemes

- Remuneration arrangements for more senior asset managers are typically structured to recognise and reward growth and retention of revenue or manageable profit of the strategies they support. In some instances, this results in an agreed revenue or pre-bonus profit sharing rate between Perpetual and the asset manager or team.
- Incentive arrangements within certain boutiques are funded based on the financial performance of the boutique. In some instances, adjustments are also made for investment performance, growth goals and other strategic focus areas (including risk overlays).
- For research roles and analysts, individual performance is generally assessed with reference to stock recommendations, attribution to performance, and ultimate investment performance against agreed investment targets, measured over a range of time horizons.
- Some funds attract performance fees. In the event an investment strategy exceeds a predetermined performance hurdle for a specific fund over the measurement period (generally over either a 6 or 12-month period) a performance fee is paid by the client. In some instances, the performance fee is shared between the asset management team and Perpetual.

Deferral/Long Term Incentive (LTI) arrangements

- Generally, asset managers have a portion of their variable remuneration awarded as either deferred short term incentives (STI) or long-term incentives (LTI) each year. This cycle of rolling awards ensures retention arrangements are in place and avoids cliff vesting events.
- For most asset managers, deferred incentives can be invested into either Perpetual Limited stock or units in funds that they are responsible for, further aligning asset managers to client outcomes and shareholder interests.

Research IP Opinion:

There is a good balance of incentives to help align investors' interests with the portfolio manager and investment team.

Staff ownership of Perpetual is important when assessing the success of the overall business and alignment with investors but given the smaller fraction of business FUM from this strategy Research IP believe think of more importance for investors is the performance outcome of the product itself and how that is linked to remuneration of the investment team.

Having 75% of the remuneration linked to performance is a positive. The deferred incentive is appropriate given the long-term nature of the fund itself. This will serve in some way to keep the team within the firm for longer too.

Research IP believes that aligning the interests of the investment team, clients and the firm can bring important benefits such as:

- By having "skin in the game," managers are more likely to meticulously analyse investment opportunities and actively monitor fund performance. Such personal stakes encourage prudent risk-taking and long-term value creation.
- Investing in the firm's stock and funds promotes a sense of partnership between managers, clients, and shareholders. They share common goals and outcomes.
- Managers become accountable not only to external investors but also to themselves. This reinforces commitment and responsible decision-making.
- Managers who invest in their own funds are more likely to adopt a long-term perspective. They prioritise sustainable growth over short-term gains.
- Alignment can encourage responsible investment practices, such as considering ESG factors. Managers recognize that their decisions impact not only financial returns but also broader societal and environmental outcomes.

Comment on assets under management, fund flow and capacity.

Manager Statement:

Overall FUM in the strategy was $1,244 million as of 31 December 2023. Of this, $798 million was in the Diversified Real Return Fund (DRRF). In addition to DRRF, the Perpetual Multi Asset team also manages a range of diversified, ESG and sustainable strategies.

We believe it is quite difficult to accurately calculate a hard capacity limit in dollar terms for any of our strategies. We regularly undertake a thorough review of capacity and can confirm ample capacity across all investment strategies.

Research IP Opinion:

Research IP believes it is unlikely the Fund will encounter capacity issues given the current FUM of the overall strategy or the types and size of the underlying assets.

The types of assets and ways to access these are broad which is a positive. These include:

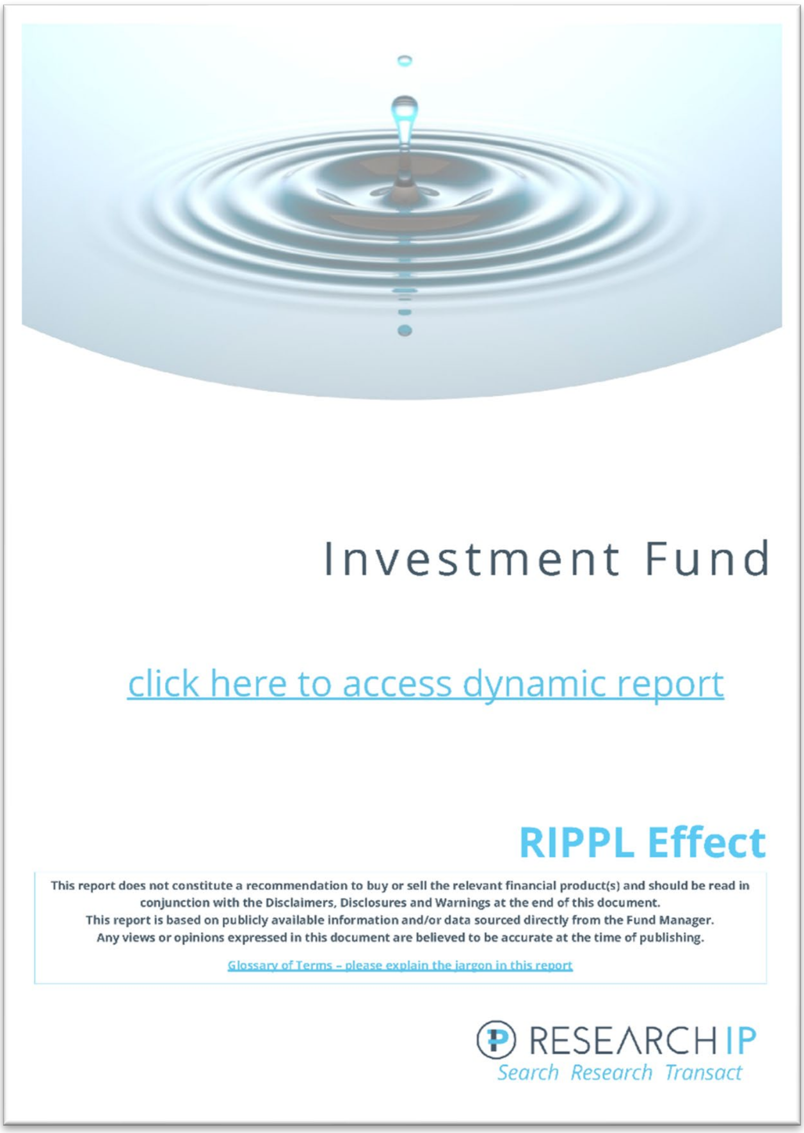
- Internal Funds
- Externally managed funds
- ETFs
- Exchange traded and over-the-counter (OTC) derivatives
- Direct securities

Current FUM in the overall strategy is over $1,200m. Growth of FUM has been consistent over the last 4-5 years, although it has essentially paused in 2023. Although the FUM in the strategy is smaller relative to peers it has been gaining traction in both the institutional and retail space.

Date	**Total FUM**	**Gross Inflows**	**Gross Outflows**	**Net Flows**	**Strategy - FUM**
31-Dec-19	$486,903,162	$164,918,354	-$126,984,016	**$37,934,339**	$656,440,600
31-Dec-20	$532,981,054	$185,013,819	-$158,814,583	**$26,199,236**	$821,120,642
31-Dec-21	$697,481,398	$310,335,829	-$186,522,390	**$123,813,439**	$990,315,628
31-Dec-22	$834,379,334	$310,984,298	-$174,782,511	**$136,201,787**	$1,242,511,947
31-Dec-23	$798,458,049	$146,345,016	-$205,645,948	**-$59,300,932**	$1,244,025,992

The RIPPL Effect

For important Fund Facts, please view the **RIPPL Effect report**:


Investment Fund

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RIPPL Effect

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Glossary of Terms – please explain the jargon in this report

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