Perpetual Private

PERPETUAL SELECT REAL ESTATE FUND

June 2024

FUND FACTS

Investment objective: Income and long-term capital growth through investment in a diversified portfolio of Australian and international real estate investment trusts and unlisted property trusts.

Suggested length of investment: Five years or longer

BENEFITS

Offers investors a highly liquid access to the potential long-term growth in property markets, without having to hold and manage physical property assets.

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.

INVESTMENT APPROACH

The Fund combines specialist invesment managers with different investment styles and philosophies. This can help reduce the volatility of the Fund by avoiding over exposure to a particular specialist investment manager.

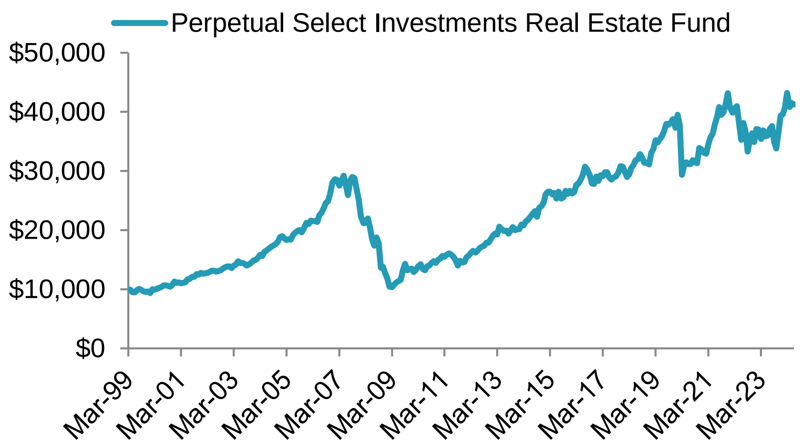
The currency exposure of international assets is monitored and hedging strategies may be implemented (using derivatives) with the aim of reducing the impact of adverse currency movements.

TOTAL RETURNS % (AFTER FEES) AS AT 30 JUNE 2024

	APIR CODE	1 MTH	3 MTHS	6 MTHS	1 YR PA	3 YRS PA	5 YRS PA
Perpetual Select Investments Real Estate Fund	PER0254AU	-0.5	-4.5	4.9	14.7	2.9	2.8
Perpetual Select Real Estate Composite Benchmark		0.1	-5.2	3.9	13.8	2.5	2.8

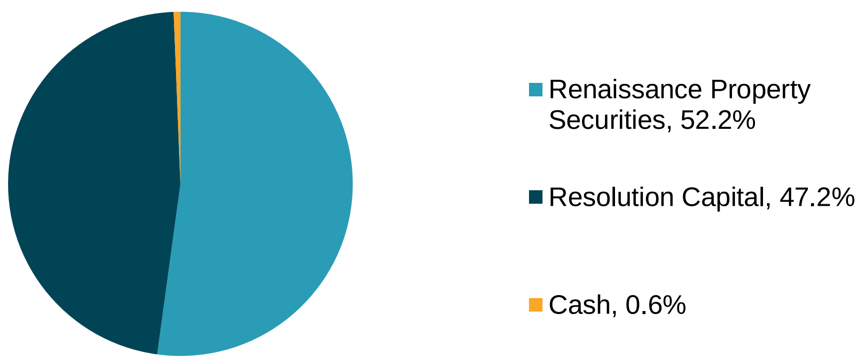
Past performance is not indicative of future performance

GROWTH OF $10,000 SINCE INCEPTION*



*The Growth of $10,000 chart includes reinvestment of dividends and capital gains, but does not reflect the effect of any applicable sales or redemption charges which would lower these figures.

PORTFOLIO EXPOSURES^



^Portfolio exposures represent the Perpetual Select Investments Real Estate Fund

TOP 10 STOCK HOLDINGS	WEIGHTS (%)
Goodman Group	18.2
Scentre Group Limited	8.4
Unibail-Rodamco-Westfield SE	4.2
Welltower Inc.	4.0
Stockland	3.6
Equinix, Inc.	3.2
Equity Residential	3.1
Mirvac Group	2.9
Vicinity Centres	2.8
Digital Realty Trust, Inc.	2.5

MANAGER INVESTMENT APPROACH	
Renaissance Property Securities	Diversified Australian Real Estate Investment Trust portfolio, fundamental bottom-up stock selection
Resolution Capital	Concentrated Global Real Estate Investment Trust portfolio, fundamental bottom-up stock selection

MARKET COMMENTARY

Volatility in bond markets and uncertainty around central bank policy action have been major drivers of the interest rate sensitive real estate market in recent times, and Q2 2024 was no different. Real estate investment trusts (REITs) are particularly sensitive to interest rates because higher rates increase the cost of borrowing and reduce the present value of future cash flows. Bond yields rose early in the quarter reflecting 'sticky' inflation and heightened concerns that central banks may need to tighten monetary policy, particularly in Australia and the US, where the interest rate environment is now assumed to be 'higher for longer'. With yields rising, both Australian REITs (A-REITs) and Global REITs (G-REITs) finished the quarter in the red.

After being one of the best performing asset classes in Q1 2024, A-REITs gave back some of the gains in Q2, returning -5.6%. However, over FY24, their performance remains robust, returning 23.8%, largely due to the strong performance of Goodman Group, which received a boost from the rising demand of investors seeking exposure to data centres.

G-REITs, impacted by higher global bond yields and a stronger Australian dollar, returned -4.7% over the quarter. Their full FY24 returns have been much more muted compared to their domestic counterparts, returning 4.2%. Commercial office valuations continue to weigh on the index as low occupancy rates result from an increased shift to employees working from home. More defensive sectors like residential, self-storage and healthcare were the best performers. All major regions finished the June quarter in the red in Australian dollars (AUD) terms, with Hong Kong and Japan being the biggest laggards. China's ongoing real estate woes, including a slowdown in property sales, high levels of developer debt, and continued regulatory crackdowns, have severely impacted the Hong Kong real estate market over the past several years.
Dave Cohen to review and make any edits/comments

PORTFOLIO COMMENTARY

The Perpetual Implemented Real Estate Portfolio/ Perpetual Select Real Estate Fund outperformed its benchmark over the June quarter.

Resolution Capital, the portfolio's sole exposure to Global REITs outperformed its benchmark over the quarter, net of fees. Relative outperformance came from overweight exposure to healthcare names, Welltower and Ventas and positions in Big Yellow (Self-storage) and Equity Residential (Multi-family). Nil exposure to Goodman Group and Avalon Bay detracted from returns as did Japanese Diversified holdings including Mitsui Fudosan.

Renaissance Asset Management, the portfolio's sole exposure to Australian REITs, outperformed its benchmark over the quarter, net of fees. The main contributors to performance during the quarter were underweight exposures to long-WALE stocks and positions in non-index Aspen Group and Carindale Trust. An underweight to Goodman was the largest detractor as the stock continues to benefit from positive sentiment around its move into data centres.

There were no manager additions or terminations to the Perpetual Select Real Estate Fund/Implemented Real Estate Portfolio during the quarter. We remain comfortable with our manager selection.

OUTLOOK

With rates being the primary driver of sector returns over the quarter, we continue to see wide dispersion among sectors and regions. Performance in the U.S. was more muted than in other regions, as asset valuations have adjusted more quickly to the prevailing conditions and hence reflect more reasonable levels. Transaction activity remains light but we have begun to see some domestic sales with Dexus in particular disposing of its stake in three assets and QIC announcing its intent to sell a Western Sydney shopping centre, the largest retail transaction in 20 years.

RETURNS BREAKDOWN (INVESTMENTS)

	FY 2024	FY 2023	FY 2022
Growth Return %	12.4%	0.0%	-12.4%
Distribution Return %	2.2%	2.0%	5.5%
Total Return %	14.7%	1.9%	-6.9%

DISTRIBUTION BREAKDOWN

	FY 2024	FY 2023	FY 2022
Cents per unit	2.0110	1.7652	5.7797

PRODUCT FEATURES

	INVEST.
Inception date	Mar 99
Management/Investment Fee (p.a.)*	1.25%
Ongoing fee discount	No
Admin fee	0.00%
Buy spread	0.24%
Sell spread	0.00%
Contribution fee	0.00%
Withdrawal fee	$0
Monthly member fee	$0
Min. initial contribution	$2,000
Min. additional contribution	$0
Savings plan	Yes
Withdrawal plan	Yes
Distribution frequency	Quarterly
Contact information	1800 022 033

*Additional fees and costs generally apply. Please refer to the Product Disclosure Statement for further details.

Sentiment around the impact of A.I., remains optimistic with data centre demand strong. This has been to the benefit of Goodman Group which has continued to outpace the A-REIT sector and Digital Realty in the US. Equinix should be a beneficiary but continues to face its unique challenges from the short-seller report issued earlier this year.

Equinix regained some of its 2024 losses after declaring that an internal audit had reaffirmed its financial reporting. Despite the rebound, the stock lagged the broader market and is likely to remain under pressure in the near-term. Prologis, the largest benchmark holding, sold off during April after lowering estimates for its 2024 earnings. The company is widely watched as a key U.S. industrial/warehouse operator and the announcement suggests that the sector is slowing as we alluded to last quarter. However, we will watch for further evidence and also note that any slowdown comes after a period of excessive rental growth that could not persist. At the other end of the spectrum, Goodman Group and Welltower benefited from positive sentiment on data centres and healthcare respectively.

We expect dispersion to continue throughout the year. Office valuations appear to have further to fall but we continue to see relative strength in newer, more sustainable assets in prime locations. Rental growth is moderating, particularly among industrial companies. This trend is likely to persist through the year although we expect growth to remain positive. Retail has the benefit of constrained future supply but is highly sensitive to slowing consumer spending as persistent inflation bites. Lack of supply is also a characteristic of residential markets although key regions in the U.S. risk too much development. Rents are forecast to slow in parts of the Sunbelt and South, including Miami, Nashville and Phoenix, which have been destinations of choice in migration trends. We continue to expect real estate returns to be moderate this year and the prospect of a higher for longer rate environment is consistent with this view. The risks to this view are those of increasing rates as a result of a bounce in inflation or an economic recession with poor rental growth or rising vacancies, either of which could lead to a sell-off in the sector. An upside surprise may result from a decrease in rates coupled with mild economic conditions.

MORE INFORMATION
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