

Performance report – March 2026 quarter

Perpetual Direct Australian Equities Responsible Investment Portfolio

Returns including dividends [§]	1 months	3 months	6 months	1 year
Responsible Investment model portfolio	-7.02	-4.36	-4.74	6.77
S&P/ASX 300 Index	-7.30	-2.04	-2.91	11.59
Excess return (model return above benchmark)	0.28	-2.32	-1.83	-4.82

[§] Performance figures shown represent the performance of the Portfolio run on HUB24. All performance figures shown are net of investment management fees, but before administration fees, performance-based fees and taxes. Past performance is not indicative of future performance.

Returns including dividends [*]	3 years [†]	5 years [†]
Responsible Investment model portfolio	7.5	6.0
S&P/ASX 300 Index	9.4	8.5
Excess return (model return above benchmark)	-2.0	-2.4

^{*} Performance figures shown represent the performance of the Portfolio run on Perpetual Wrap. All performance figures shown are gross of ongoing advice, administration, and transaction fees unless otherwise stated. Past performance is not indicative of future performance.

[†] Per annum, compounded.

The data presented in these tables represents the performance of two separate instances of the same Portfolio; on different platforms, under differing fee structures. This performance data is not intended to be used as a comparison but is simply indicative of the performance of each distinct deployment of the Portfolio.

The March quarter

Australian equities experienced a volatile March, with a 7% pullback reversing the early-quarter rally. Inflation proved firmer than expected, prompting a repricing of the interest-rate outlook and reinforcing expectations of further Reserve Bank of Australia (RBA) tightening. Against this backdrop, the half-year reporting season was broadly constructive, with investors rewarding companies that delivered on fundamentals, protected margins and maintained disciplined capital management. Late in the quarter, escalation in the Middle East became the dominant driver of risk sentiment, as disruptions and threats to key shipping routes increased energy-price uncertainty and revived inflation concerns. Markets rotated toward traditional defensives, while Energy outperformed on higher oil prices and supportive earnings. In this environment, we have maintained a balanced portfolio, emphasising quality exposures with resilient demand and pricing power, while remaining selective in cyclicals where valuations and fundamentals offer appropriate compensation for risk.

Portfolio Manager



Daniel Nelson, CFA
Daniel holds the CFA Institute Certificate in ESG Investing.



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The Perpetual Direct Australian Equities Responsible Investment Portfolio has been certified by the Responsible Investment Association Australasia according to the operational and disclosure practices required under the Responsible Investment Certification Program. See responsiblereturns.com.au for details¹.



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A 7% market drawdown through March fully reversed, and more than offset, the January–February rally. The year opened with solid gains; however, sentiment moderated after December-quarter inflation printed above expectations, reinforcing the case for the Reserve Bank of Australia's (RBA) first rate increase in more than two years. Against this increasingly hawkish backdrop, Australian companies entered the half-year reporting season with limited scope for earnings disappointment. Results generally underscored a renewed focus on fundamentals rather than a deterioration in confidence, with companies rewarded for disciplined execution and prudent capital management. This resilience was reflected in February as the market continued to advance. Those gains were later relinquished as escalating tensions in the Middle East culminated in coordinated strikes by the United States and Israel on key Iranian targets, followed by retaliatory measures, including restrictions on transit through the Strait of Hormuz (a critical chokepoint for Middle Eastern exports). Concerns about supply-chain disruption, fuel security and renewed inflationary pressures prompted broad de-risking into quarter-end. This move was compounded by the RBA's decision to increase the cash rate again at its March meeting, an outcome that would have differed markedly from market expectations only six months earlier.

The implications of the conflict were evident in sector performance, with investors rotating toward traditional defensives as volatility rose. Consumer Staples (for example, **Woolworths Group**, +2.4% in March) and Utilities were the primary beneficiaries, while **Consumer Discretionary** extended its underperformance. Energy was the standout due to substantially higher oil prices. This was a relative drag on the portfolio's performance as it does not invest in fossil fuel producing companies.

Early strength in the barbell sectors of Banks and Mining faded later in the quarter. Diversified miners still posted solid returns, with **Rio Tinto** +12% and **South32** +21%, while the Big Four banks were mixed. **Commonwealth Bank** (+6%) and **Westpac** (+2%) held on to gains, while **ANZ Group** (-1%) and **National Australia Bank** (-2%) weakened in March and finished the quarter in negative territory.

Investment outlook

Looking ahead, the near-term outlook remains highly uncertain. Current geopolitical developments, most notably in the Middle East, are a key driver of market volatility. This has, at times, eclipsed corporate fundamentals and contributed to a more unpredictable investor environment. In this context, the primary market transmission channel is energy. Disruption risk around key maritime bottlenecks increases the likelihood of oil prices remaining higher for longer, even if hostilities ease. Public analysis notes that the Strait of Hormuz typically carries around one quarter of global seaborne oil trade (around 20 million barrels per day), and material disruptions have been associated with sharp increases in benchmark crude prices.

Sustained energy price strength would be expected to lift costs across fuel, utilities and freight, maintaining inflationary pressure and complicating the return to target ranges. Shipping effects also matter: higher insurance premiums, re-routing and tighter capacity can extend lead times and raise landed costs, reinforcing near-term price pressures.

An energy-led cost shock can also weigh on real incomes and margins, creating a credible downside threat to domestic and global growth. In such episodes, inflation typically accelerates first, with growth effects following as higher input costs and weaker confidence constrain consumption, capital expenditure and broader activity.

Domestically, the market has shifted from anticipating easing to pricing a more restrictive policy stance, as inflation has proven more persistent than expected and the Reserve Bank of Australia (RBA) has adopted a more hawkish tone. This has generally reduced appetite for rate-sensitive exposures (including Consumer Discretionary, REITs and parts of Small Industrials) and supported later-cycle exposures such as Resources, alongside higher-quality industrial businesses with stronger pricing power and more resilient demand. The RBA increased the cash rate at its March 2026 meeting, reinforcing the repricing of the domestic rate outlook.

Fiscal settings will also influence the domestic outlook. The forthcoming Federal Budget is expected to involve difficult trade-offs, balancing cost-of-living pressures with fiscal credibility and the objective of avoiding measures that could re-ignite inflation.

At a bottom-up level, corporate Australia appears well positioned overall, supported by generally healthy balance sheets and, in many cases, conservative capital structures. This provides a buffer in a more volatile macro environment and supports continued investment, working-capital management and selective strategic opportunities should dislocations persist.

Portfolio strategy

Over the past six months, the macroeconomic and geopolitical backdrop has shifted materially: monetary policy has turned from easing to tightening; the Middle East has moved from conflict, to relative calm, and back again; and artificial intelligence has become more embedded as a driver of structural change. Through the post-COVID recovery and into a soft-landing scenario, we have maintained a balanced portfolio, an “all-weather” mix of stocks and sector exposures designed to sustain returns across a range of economic conditions. We have not taken a large directional bet; instead, we have focused on companies with strong underlying Quality and fundamentals.

This positioning reflects ongoing geopolitical uncertainty (from Ukraine to the Middle East and the lagged effects on energy infrastructure) and heightened policy uncertainty in the United States, and it has served the portfolio well amid elevated volatility. Persistently higher inflation has also led the RBA to shift from expected rate cuts to further increases in the cash rate. In this environment, markets have favoured higher-quality companies with the ability to pass through rising input costs, including defensives and resource exposures. Many of our longer-running positions are defensive in nature (with stable demand) and are primarily domestic, with some global exposure: **Telstra**, **Medibank**, **Woolworths**, **Brambles**, **Rio Tinto** and **South32**. The shift in the direction of monetary policy also influences the types of revenue streams we prefer.

There has been a rapid rotation toward later-cycle sectors such as Resources, which tend to benefit from, or be more resilient to, higher inflation and interest rates. As such, we took profits on our exposures to **South32** and **IGO** following an extended period of outperformance, as rising prices and improved lithium fundamentals drove relative appreciation, largely independent of the dynamic interest rate setting. This followed our decisions to add to our South32 position in September 2025, and invest in Rio Tinto in April 2025 which also proved fruitful. We remain comfortably positioned to see out the execution of growth objectives across quality resources names.

In March, we made a suite of changes to the portfolio. These changes were informed by stock-specific information from February’s reporting season, as well as opportunities arising from, at times, sharp share-price reactions to emerging themes and geopolitical developments.

On this basis, we introduced **REA Group**. Concerns that artificial intelligence (AI) could disrupt parts of the technology industry weighed on a number of related share prices and created an opportunity to invest in REA Group, one of the highest-quality businesses in the sector. We believe concerns about AI-driven disruption to the company’s business model are overstated, and that AI is more likely to support the company’s product offering over time.

Geopolitical and macroeconomic developments over the past year have lifted commodity prices. While most resources companies have benefited, performance has been uneven across the sector. **South32** performed particularly strongly, and we reduced our position, rotating further into **Rio Tinto**, a larger and more diversified producer with high-quality assets. We also took profits in **IGO**, locking in some of the recent gains. We remain underweight the Big 4 banks given our assessment of the domestic macro outlook. In the smaller company space, we exited our positions in **Audinate**, **Integral Diagnostics**, and **Nine Entertainment**. Recent data and meetings with the former two make it clear that the timeframe to realise the investment case in each is stretching further out. Whereas for Nine, the investment case has played out following the sale of Domain Holdings (DHG) and subsequent M&A has changed the outlook beyond our investment thesis.

In all three cases we believe there are superior investment options elsewhere. We initiated a new position in **Judo Bank** and topped up our holdings in recently acquired **Service Stream** and **Aussie Broadband**.

We remain focused on long-term growth opportunities aligned with the quality criteria at the heart of our investment philosophy. Sustainable profitability, strong market positions, conservative balance sheets and experienced management teams remain central to the medium-term outperformance we seek to deliver. We continue to maintain concentrated portfolios of high-conviction positions that reflect our best ideas.

Figure 1: Responsible Investment model portfolio total return for the March 2026 quarter



Source: FactSet, March 2026. Past performance is not indicative of future performance. Holdings based on the Perpetual Wrap portfolio.

Stock in spotlight

PEXA faces regulatory test

Recently, there have been two developments from two separate regulators which seek to address Pexa's e-conveyancing near-monopoly structure. One has failed to gain any meaningful traction (Interoperability), while the other (NSW IPart pricing review) is coming from a different angle and is nearing a draft determination in June.

All this focus for a company that charges an average one-sided e-conveyancing fee when buying/selling a residential property of only ~\$80, an immaterial fee in the context of residential property sales. The total industry revenue pool is less than \$400m. Nonetheless, with Pexa's ~90% market share the optics are poor for regulators and politicians, and these checks & balances need to run the gauntlet. Meanwhile, to advertise a property listing on realestate.com.au (REA Group) costs multiple thousands of dollars (typically >\$5k) with annual 'above inflation' price increases (8-10%) through strong duopoly market concentration.

Two separate but related regulatory paths

The Australian Registrars National Electronic Conveyancing Council (ARNECC) has finally walked away from e-conveyancing competition reform called 'interoperability'. This comes as no surprise and in part is a reflection of the banking system's desire to deal with only one platform to reduce cost and risk. In a separate coincidentally timed development, the NSW Independent Pricing and Regulatory Tribunal (IPart) has published a Methodology Paper (MP) as part of a review process where a draft report is expected in June. The MP discusses Initial Asset Base valuation techniques akin to 'regulated assets' in the physical infrastructure space (eg. gas pipelines). The paper is initially seeking feedback only.

Valuation outcomes of a price reset

PEXA's share price fell significantly on the release of IPart's methodology paper, from ~\$15 to ~\$12 per share. The market was spooked by some 'illustrative examples' suggesting that, on one methodology only (Initial Asset Base), pricing could be reset significantly lower. There are considerable unknowns at present and scope for industry engagement. Pexa commented that "IPART's methodology paper contains information which does not constitute a decision, is open to change and contains illustrative examples which should not be read as guidance."

We do not believe this is part of any pre-determined outcome of IPart's review. The paper also discusses alternative methodologies including PEXA's preferred DCF approach which would draw a 'line-in-the-sand' value that "preserves continuity where there is confidence that current prices reasonably reflect the efficient costs and risks of providing the service". We would also note that the last IPart pricing review (2019) found that PEXA's transaction pricing was reasonable including an annual adjustment for inflation.

Below we show various share price valuations for PEXA, under different methods, both at the current (undisturbed) e-conveyancing transaction pricing, and at a level 20% lower (the same price as at the 2019 IPART review). While we believe there is a low probability of a price reset our \$14 DCF valuation in that scenario is 12% above the current share price. Ultimately, we see further upside to our base case and remain comfortable in our investment thesis and holding position.

Figure 2: Share price valuation outcomes

Share Price Valuation Method			
Average transaction price	DCF	P/E multiple (FY29 20x to 25x)	EV/EBITDA multiple (FY29 15x)
No change scenario – Current pricing (FY28 est. ~\$85 per one-side)	\$18	\$18 - \$22	\$26
Negative scenario – Pricing rest -20% (FY28 est. ~\$67 per one-side)	\$14	\$12 - \$15	\$19

Source: Perpetual Private Wealth

Figure 3: Next steps for the iPart Review



Source: NSW IPart Methodology Paper, 31 March 2026

Top 5 high-conviction holdings – as at 06/04/2026

Model portfolio stock	Relative weight [‡] %	Holding weight %	Sector
PEXA Group (PXA)	+4.3	4.3	Communications & Technology
Telstra (TLS)	+4.1	6.4	Communications & Technology
Cuscal Limited (CCL)	+3.8	3.8	Non-bank Financials
Steadfast Group Limited (SDF)	+3.7	3.9	Non-bank Financials
Macquarie Group (MQG)	+3.5	6.2	Non-bank Financials

[‡]Reflects portfolio manager conviction. Represents the percentage held above the stock's weight in the ASX 300 index. Weights based on Perpetual Wrap portfolio.

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More information

1800 631 381

pcresearch@perpetual.com.au

perpetual.com.au/managed-accounts

