

## Perpetual Investment Funds

# PERPETUAL GLOBAL ALLOCATION ALPHA FUND

May 2025

### FUND FACTS

**Investment objective:** Aims to provide long-term capital growth and outperform the MSCI World ex Australia Net Total Return Index (AUD) with lower risk (before fees and taxes) over rolling three-year periods.

### FUND BENEFITS

Provides investors with long-term growth opportunities across global equities. The fund is run by high quality investment teams.

### 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.

**Benchmark:** MSCI World Ex Australia Net Total Return Index (AUD) - since 1st October 2022

**Inception Date:** March 1999

**Size of Portfolio:** \$70.46 million as at 31 Mar 2025

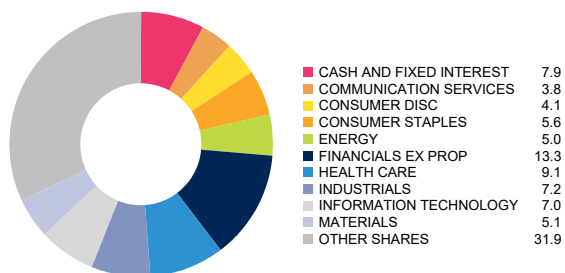
**APIR:** PER0066AU

**Management Fee:** 0.55%\*

**Investment style:** Active, fundamental, disciplined, value

**Suggested minimum investment period:** Five years or longer

### PORTFOLIO SECTORS



### TOP 10 STOCK HOLDINGS

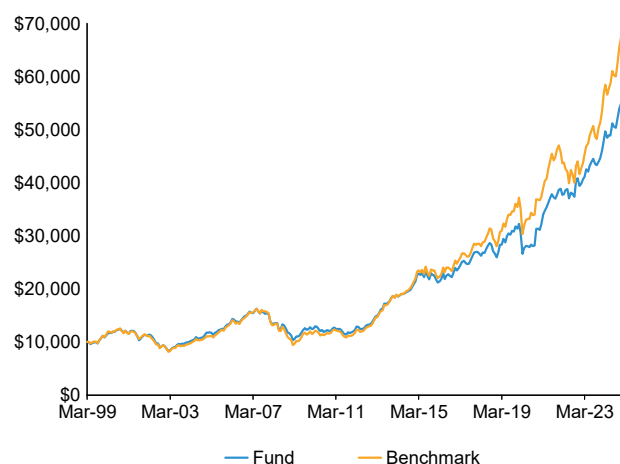
	% of Portfolio
Sanofi SA	1.1%
Merck & Co., Inc.	1.1%
Bank of Nova Scotia	1.0%
Microsoft Corporation	0.9%
BAE Systems plc	0.8%
Rheinmetall AG	0.8%
National Grid PLC	0.8%
Standard Chartered PLC	0.7%
VINCI SA	0.7%
Public Storage	0.7%

### PERFORMANCE- periods ending 31 May 2025

	Fund	Historical <sup>1</sup> Performance	Benchmark	Excess
1 month	3.59	-	5.34	-1.75
3 months	-1.61	-	-1.43	-0.18
1 year	14.07	-	17.60	-3.53
2 year p.a.	15.19	-	19.64	-4.45
3 year p.a.	-	12.91	17.26	-4.35
4 year p.a.	-	12.03	13.54	-1.50
5 year p.a.	-	14.72	15.51	-0.79
7 year p.a.	-	11.06	12.97	-1.91
10 year p.a.	-	9.27	11.14	-1.87

<sup>1</sup>Effective 1 October 2022 the Fund Investment strategy has changed; including the investment objective, investment approach and benchmark of the Fund. Past performance is not indicative of future performance. Returns may differ due to different tax treatments.

### GROWTH OF \$10,000 SINCE INCEPTION



\*Information on Management Costs (including estimated indirect costs) is set out in the Fund's PDS.

## MARKET COMMENTARY

Equity markets continued to rally in May, taking comfort from the pause of tariffs and confidence in the “Trump Put” – the President’s propensity to reverse course to stabilise equity markets.

- Developed market equities (+6.0%) rallied strongly led by the US with the S&P 500 returning 6.3% while the more growth-oriented NASDAQ Composite returned 9.7% for the month. Easing concerns around US trade policy – following an agreement between the US and China to suspend reciprocal tariffs for 90 days – provided a tailwind alongside robust first quarter corporate earnings results. US earnings were stronger than expected, with 78% of S&P 500 companies beating estimates.
- Australian equities (+4.2%) extended their recovery, benefitting from the improving outlook for global trade relations in addition to monetary policy easing.
- European shares rose, led by Germany (+6.7%) as a renewed tolerance for larger fiscal spending outweighed lingering concerns around tariff negotiations after the Trump administration threatened to increase tariffs further on EU imports in June before re-extending the deadline for negotiation to July 9.
- UK equities (+3.8%) trailed the broader developed market over the month. The Bank of England lowered rates by 25bps in early May however an acceleration of CPI (3.5% in April up from 2.6% in March) saw futures remove the pricing for one -0.25% 2025 rate cut which weighed on equity returns.
- Japanese equities (+5.1%) performed well on the back of depreciating Yen, as well as easing recession concerns and corporate governance reforms resulting in rising dividends and buybacks.
- Emerging markets (+3.2%) trailed developed markets despite the de-escalation of trade tensions, but the market has fully recovered from its April trade-related malaise, and central banks are able to ease rates which should support sentiment moving forward.
- Credit spreads benefitted from improved risk sentiment with US high yield in particular rallying strongly.
- US 10-year bonds (+24bps) sold off on fiscal concerns following the passing of the Trump administration’s reconciliation bill and uncertainty around the revenue impact of tariffs. Meanwhile, Moody’s reduced its sovereign credit rating for the US to Aa1 – aligning with S&P and Fitch – noting large annual deficits and rising interest costs.

US trade policy again dominated global financial market sentiment during May. Markets continued to recover, supported by the announcement of a 90-day trade agreement that significantly reduced tariffs on most Chinese imports from 145% to 30%, and China reducing its tariffs on US imports from 125% to 10%. There remains significant uncertainty, however, as disputes over rare earth minerals persisted at month end. While the pause eased US recession fears, economic data were mixed. US GDP fell -0.2% (Seasonally Adjusted Annual Rate) over the first quarter, the lowest reading and first decline since Q1 2022. The key contributor was increasing imports as US corporates increased inventory in anticipation of tariff announcements, but domestic demand remained strong at +2.5% SAAR which indicated that the US economy remained on a sound footing to absorb the impact of President Trump’s tariff increases. In addition, GDP growth estimates for the second quarter have strengthened with the Atlanta Fed’s GDP Now number for Q2 around +3¼%, but this gauge has varying degrees of accuracy given the typical vagrancies around all national account releases.

Elsewhere, rising fiscal sustainability concerns contributed to elevated bond market volatility during May. The Trump administration’s reconciliation bill narrowly passed the House of Representatives in May and would be expected to significantly increase the deficit. Bond markets reacted poorly with the yield curve steepening as investors demanded a greater compensation for term risk. We have for some time been concerned around the path of US fiscal policy with the congressional budget office projecting a US\$1.9T deficit representing 6.5% of GDP. While the tax cuts included in the ‘Big Beautiful Bill’ were expected to be offset by tariff revenue, this was undercut by the administration’s willingness to pause or reduce tariffs in response to market movements and the uncertainty around the legality of the tariffs. In late May the US Court of International Trade ruled that President Trump’s administration do not have the authority to impose baseline 10% or reciprocal tariffs through the use of emergency powers, however there are various other channels which these tax increases can be enacted, and the decision is subject to ongoing appeal.

Outside the US, the growth outlook remains clouded by ongoing uncertainty surrounding international trade. The EU growth outlook weakened with the flash composite PMI receding into contractionary territory (49.5) during May. The European Central Bank (ECB) kept rates on hold after cutting in April. President Lagarde maintained caution, highlighting the vulnerability of the economy to external shocks such trade tensions with the US and markets almost fully pricing a June cut by month end. We maintain that European growth will likely remain above trend this year, but will be only marginally above the pace of 2024 given improvements in domestic final sales.

Elsewhere, the Australian economy has faced challenges due to higher inflation and sustained elevated interest rates, leading to seven consecutive quarters of contracting GDP growth per capita until a modest +0.1%Q expansion was recorded in Q4’24, only for declines to restart in Mar-25. Irrespective, the economy has remained in expansion territory due to large population growth and significant fiscal expansion – which is expected to continue post the federal election. Meanwhile, the RBA reduced the target cash rate 25bps to 3.85% in mid-May, the second of this easing cycle, with commentary increasingly dovish with internal discussion of a 50bps cut was well received by financial markets even though it was not implemented. Governor Bullock noted that monetary policy is well placed to respond decisively to international developments.” Despite the rate cut, Australian 10-year bond yields rose +16 bps to 4.27% over the month, mirroring global trends . While the impact of US tariffs – most notably via Chinese demand – is clouding the outlook, the economy is projected to grow at a faster pace in 2025, driven by increased government spending, tax cuts, and lower interest rates.

## PORTFOLIO COMMENTARY

Rheinmetall AG positively contributed to relative performance during May, continuing an outperformance trend for European defense companies. Rheinmetall reported quarterly results during the month, demonstrating strong execution with group sales rising 46% year-over-year to €2.305 billion, driven by a 73% surge in defense sales to €1.795 billion. The company’s backlog grew by 56% year-over year to over €62 billion. Rheinmetall also announced another joint venture, this time with Lockheed, to produce missiles in Europe. The company continues to deliver results against a favorable geopolitical backdrop for European defense companies.

Carnival Corporation positively contributed to relative returns in May as it recovered from fears earlier in the year surrounding the macroeconomic environment. The company executed on a strategic financial initiative during the month by completing a \$1 billion private offering of 5.875% senior unsecured notes, which it used to redeem \$993 million of outstanding 7.625% notes due in 2026. This saves the company \$20 million per year in interest costs. Coupled with sustained lower oil prices, Carnival outperformed during the month.

Merck & Co., Inc. detracted from relative performance during the month as it navigated a complex landscape marked by regulatory headwinds and market volatility during the period. U.S. policy developments, including proposed drug pricing reforms by HHS and CMS, pose potential risks to Merck's pricing strategy and long-term margins, particularly for flagship therapies like Keytruda. The company also faces operational challenges, such as the suspension of GARDASIL shipments to China and the looming threat of biosimilar competition for Keytruda by late 2028. Despite these pressures, Merck reported meaningful clinical progress, including a successful Phase 3 trial in ovarian cancer and the launch of another in esophageal carcinoma. These advancements underscore Merck's continued investment in innovation as it prepares for a more competitive and regulated market environment.

Sanofi SA detracted from relative performance during the month as it experienced a mix of setbacks and strategic developments during the period. A key pipeline candidate failed to meet expectations in one of two late-stage trials for a respiratory condition, leaving its future uncertain pending further data and regulatory discussions. In parallel, Sanofi is preparing for a major product launch in respiratory care and made a large acquisition of Blueprint Medicine for \$9B to strengthen its immunology and rare disease portfolio. Given the elongated nature of pipeline opportunities and a large acquisition, we are closely monitoring the company.

## OUTLOOK

We have observed a volatile start to the year reflecting disruption to international trade regimes and growth concerns. Valuations remain expensive relative to history in many regions, and elevated market concentration and the preponderance of passive investment continue to contribute to heightened sensitivity of equity markets. We remain concerned about the long-term return expectations for equities given these high starting valuations and the dominance of US equities in global benchmarks. The past decade of US exceptionalism - culminating in the extraordinary run of the Magnificent 7 tech stocks - has created very strong global equity returns. The stellar gains in US equities and their leading tech firms, represents a bring forward of investment returns, rather than a new steady state of ongoing out-performance

We continue to manage downside risks by maintaining little or no exposure to the most expensive parts of equity and credit markets and complementing this with option protection where it has been attractively priced to implement. These include put options on the S&P 500, call options on the GBP against the US dollar, USD calls versus the Hong Kong Dollar and a put option on the USD against the Japanese Yen.

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Cash levels have not been calculated on a look-through basis. The underlying investments of the fund will also have a proportion of their assets invested in liquid assets. The publication has been prepared and issued by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535 AFSL No 234426, as promoter for the Perpetual WealthFocus Superannuation Fund. The information contained in this document is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The information contained in this document is in addition to and does not form part of the product disclosure statement (PDS) for the Perpetual WealthFocus Superannuation Fund. The PDS for the Perpetual WealthFocus Superannuation Fund ABN 41 772 007 500, issued by Equity Trustees Superannuation Limited (ETSL) ABN 50 055 641 757, AFSL 229757, RSE L0001458, should be considered before deciding whether to acquire or hold units. The PDS and Target Market Determination can be obtained by calling 1800 011 022 or visiting [www.perpetual.com.au](http://www.perpetual.com.au). Neither PIML, ETSL nor any of their related parties guarantee the performance of any fund or the return of an investor's capital. Total returns shown for the Perpetual WealthFocus Superannuation 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.

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## MORE INFORMATION

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