Perpetual Investment Funds

PERPETUAL GLOBAL ALLOCATION ALPHA FUND

June 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

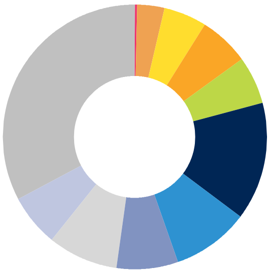
Provides investors with long-term growth opportunities across global equities. The fund is run by high quality investment teams.

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



CASH AND FIXED INTEREST	0.4
COMMUNICATION SERVICES	3.2
CONSUMER DISC	5.4
CONSUMER STAPLES	6.0
ENERGY	5.7
FINANCIALS EX PROP	14.7
HEALTH CARE	9.4
INDUSTRIALS	7.5
INFORMATION TECHNOLOGY	8.4
MATERIALS	6.4
OTHER SHARES	32.9

TOP 10 STOCK HOLDINGS

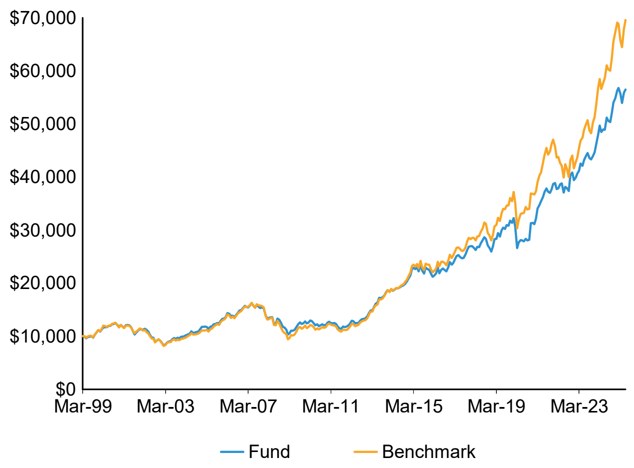
	% of Portfolio
Merck & Co., Inc.	1.3%
Microsoft Corporation	1.2%
Sanofi SA	1.0%
Bank of Nova Scotia	0.9%
Apple Inc.	0.8%
Exxon Mobil Corporation	0.8%
Newmont Corporation	0.8%
BAE Systems plc	0.8%
Rheinmetall AG	0.8%
National Grid PLC	0.7%

PERFORMANCE- periods ending 30 June 2025

	Fund	Historical[1] Performance	Benchmark	Excess
1 month	1.12	-	2.45	-1.33
3 months	1.43	-	5.94	-4.51
1 year	15.57	-	18.58	-3.01
2 year p.a.	14.36	-	19.25	-4.89
3 year p.a.	-	15.06	20.37	-5.30
4 year p.a.	-	11.74	13.02	-1.28
5 year p.a.	-	15.03	15.98	-0.95
7 year p.a.	-	10.84	12.93	-2.10
10 year p.a.	-	9.78	11.80	-2.01

[1]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

Financial markets recovered from initial volatility in the wake of President Trump levying larger tariffs than the market was expecting, but when the US leader announced a 90-day moratorium markets stabilised and then rallied as tariffs on China were scaled back. This gave the market strong momentum which enabled it to shake off concerns around the US fiscal outlook and a sharp rise in geopolitical tensions in the Middle East, and to rally strongly over the remainder of the quarter.

- Developed markets (+9.7%) staged a rapid recovery from a sharp selloff in early April. Equity gains were led by US stocks (+10.9%) where robust corporate earnings results and renewed investor confidence saw US large cap tech strongly outperform the broader market. Accordingly, growth sectors and securities outperformed value with the Russell 1000 Growth returning +17.8% over the quarter well in excess of the value index (+3.8%).
- European equities advanced (+3.2%) despite trailing the broader developed market, led by Germany (+7.9%). European stocks were supported by increased defence spending – agreed to at the June Nato summit – and successive rate cuts as the ECB continued its easing cycle.
- Japanese equities performed very strongly despite the rally in the Yen, with the Nikkei 225 returning +13.9%. Rising dividends and share buybacks as a result of ongoing corporate governance reforms were very well received.
- Emerging markets (+8.1%) rallied strongly as the US Dollar weakened. The market rise was impressive as Chinese equity market performance (+2.6%) which is the largest component MSCI EM index, underperformed of its regional peers as tariff uncertainty weighed on sentiment.
- US bonds saw elevated volatility over the quarter reflecting concerns around sovereign credit quality. Australian (-22bps) UK (-18bps) and German (-10bps) 10-year bond yields all rallied as the global central bank easing cycle progressed. However, with the Fed on hold and US inflation showing little sign of tariff impact (so far) meant the US 10Y treasury yields (+2 bpts) did not participate in the regional decline. There was considerable commentary around the rise in the US term premia associated with the soon-to-be-enacted FY26 US Federal Government funding bill, but this increase was evident in numerous regions, and did therefore did not explain the US bond underperformance.
- Gold (+5.3%) reached a new all-time high in April as investors looked to safety as volatility spiked, and although prices declined as risk sentiment improved, the price of bullion remained near peak levels.

In early April, the immediate aftermath of the 'Liberation Day' announcements saw the VIX index spike to a level last seen during the Covid selloff. US equities corrected before a relief rally over the second half of April and equity performance was characterized by large intraday moves. Markets continued to recover throughout May and June, supported by the announcement of a trade agreement between the US and China which significantly reduced tariffs on most Chinese imports from 145% to 30%, and China reducing its tariffs on US imports from 125% to 10%.

While the pause eased near term growth fears in both economies, macro data were mixed amid signs that the pace of the 5Yr expansion in moderating. First quarter US GDP growth declined -0.2% which was the weakest reading since the first quarter of 2022, underpinned by the front running of tariffs by business which sparked a surge in US imports. While US domestic demand growth also slowed to a 9-quarter low of +1.9%, it remained above trend. While markets have been unsettled by the trade war, President Trump has shown a willingness to respond to market pressures and now seems to be focused on trade deals which benefit the US and would improve the growth outlook. However, few of these are yet to be agreed to and signed with the end of the 90-day pause period looming.

Elsewhere, rising fiscal sustainability concerns were attributed to US bonds marking time while their regional peers declined during the quarter. The Trump administration's reconciliation bill narrowly passed the House of Representatives in May and US 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. A further risk to US bonds is the Trump administration's increasingly combative relationship with the Federal Reserve and the President's demand for further easing. We consider the risks here low as Trump's influence over the voting committee is next to nothing.

Outside the US, the growth outlook remains clouded by ongoing uncertainty surrounding international trade. The European Growth Commission cut its growth forecasts in response to the Trump administrations tariff regimes and the European Central Bank cut rates twice during the quarter, and President Lagarde's suggested to the market that the end to the easing cycle was coming. We maintain that European growth is likely to contract in the second quarter in the wake of a large trade drag (the reverse of which boosted growth in the first quarter to +2.5%) and is set to remain below-trend over the remainder of 2025.

Geopolitical risks were heightened towards the end of the June quarter as a surprise series of airstrikes by Israel against numerous Iranian nuclear sites, combined with US intervention on 22 June, sparked a temporary rise in the global oil price. The impact here was minimal as prices where low to begin with, only rose up to the post-2022 average and the strikes were over in less than two weeks. Accordingly, geopolitical risks have subsequently dissipated, and oil prices have receded. While heightened aggression in the Middle East remains a concern, we believe it is unlikely to have any material market effect.

Elsewhere, the Australian economy looks flat with households not spending recently large tax cuts, businesses remaining cautious about any material rise in investment and per capita GDP growth in negative territory for 8 of the past 9 quarters. Irrespective, the economy has remained in expansion territory due to large population growth and significant fiscal expansion – which is expected to continue following the May 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 including discussion around a 50bps cut. By quarter end, futures markets had priced in a more than 90% chance of a further 25bps cut at the July meeting, but we were sceptical as the Bank typically likes to view the quarter inflation print before changing rates, which implied that an August cut is more likely. While the impact of US tariffs – most notably via Chinese demand – is clouding the outlook, market sentiment is upbeat with the economy expected to grow at a faster pace in 2025 driven by increased government spending, tax cuts, and lower interest rates. Despite these potential growth tailwinds, we sense that the Australian economy is likely to stay in the slow lane given the lack of economic reform.

PORTFOLIO COMMENTARY

BAE Systems plc positively contributed to relative performance during the quarter, supported by a steady trading update and reaffirmed guidance for 7–9% constant currency revenue growth and 8–10% EBIT and EPS growth. The UK based defence contractor, which provides advanced defence, aerospace, and security solutions globally, emphasized strong order momentum across its portfolio, including recent wins in electronic systems and naval platforms. Management noted that the vast majority of its U.S. deliveries are produced domestically, insulating the company from potential tariff risks, while the weaker U.S. dollar is expected to have only a low-single-digit impact on financials. BAE also has exposure to the Aukus submarine program, which is under early-stage review by the U.S. government, but the strategic importance of the alliance suggests any disruption is likely to be temporary and may even accelerate Australian defence spending.

Microchip Technology Incorporated positively contributed to relative performance during the quarter as shares rebounded on signs of a cyclical bottom and improving fundamentals. The company, which designs and manufactures microcontrollers and analogue semiconductors, reported March quarter results that exceeded revenue expectations despite a sequential decline, and issued a June quarter outlook that was well ahead of consensus. Management pointed to March as the trough in revenue declines, with bookings improving into April, and guided to sequential growth driven by inventory normalization and stronger demand. While gross margin missed due to lower utilization, the company expects margin expansion in the June quarter as inventory levels continue to decline, and operating leverage improves. The Aerospace & Defence segment was a standout, benefiting from increased defence spending, and is expected to remain a growth driver. The stock remains attractively valued on normalized earnings with a dividend yield of 2.6%.

Halliburton Company detracted from relative performance during the quarter as shares declined on expectations for a slowdown in global capital expenditures in the second half of 2025, driven by weaker oil prices. As the second largest global oilfield services provider, Halliburton is closely tied to upstream investment cycles, and the near-term outlook has softened alongside commodity price volatility. However, OPEC's recent announcement to increase supply has improved the medium-term outlook, as higher activity levels will likely require replacing aging capacity and more services. While the timing of a recovery remains uncertain, Halliburton is well-positioned to benefit from a rebound in global oilfield activity. The stock trades at 8.5x forward earnings and offers a 3.1% dividend yield.

Elevance Health, Inc. detracted from relative performance during the quarter due to mounting concerns over its exposure to the Medicare Advantage (MA) segment, which, while only 5% of its membership, accounts for over 20% of premiums and a similar share of revenues. The company, a leading managed care organization offering health insurance through commercial, Medicaid, and Medicare plans, has not yet acknowledged material issues in its MA business, unlike peers who have already reset expectations. However, analysts flagged that Elevance's aggressive MA membership growth, combined with a richer-than peer benefit posture, could expose it to significant downside risk if utilization trends worsen or pricing proves inadequate. Industry-wide MA margin compression has already hit competitors, and Elevance's margins in this segment are estimated to be near breakeven, raising the possibility of a 20–40% EPS hit if trends deteriorate further. In addition, the company's ACA exchange business, which comprises a meaningful portion of its government-sponsored revenue, faces uncertainty due to potential GOP-led funding cuts, which could pressure enrolment and profitability. The stock trades at 10.7x forward earnings with a dividend yield of 1.7%.

OUTLOOK

We have observed a volatile first half of 2025, reflecting likely 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 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 underpinned 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.

MORE INFORMATION

Investor Services 1800 022 033
Email PerpetualUTqueries@cm.mpms.mufg.com
www.perpetual.com.au

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