Perpetual Asset Management Australia

INSTITUTIONAL UPDATE

June 2025

AUSTRALIAN EQUITIES STRATEGIES

The S&P/ASX 300 Accumulation Index staged a strong recovery over the June quarter, rising 9.48%. The rally came as fears of extreme tariff scenarios continued to recede, helping restore market confidence after a volatile start to the year. While geopolitical risks and global growth concerns lingered, sentiment improved as it became increasingly clear that the most aggressive US tariff proposals were unlikely to materialise. Markets have coined the term 'TACO trade'-'Trump Always Chickens Out'- to describe the pattern of tariff escalation followed by policy reversals, which has contributed to easing market volatility. Financials (+15.67%) supported gains as investor sentiment improved, while Communication Services (+14.08%) and Real Estate (+12.88%) outperformed amid rotation into resilient sectors. In contrast, defensives lagged with Health Care (+2.37%), Utilities (+2.03%) and Consumer Staples (+3.93%) underperforming as risk appetite returned. Materials (-0.36%) was the weakest sector, weighed down by softer commodity prices and concerns over Chinese steel demand. While investors have enjoyed solid gains, often driven by narrow pockets of the market, the outlook highlights the importance of finding value beyond the obvious leaders.

Looking ahead, we expect financial markets to grapple with a more complex and uneven growth backdrop. While recession fears have eased for now, the underlying risks - from geopolitical tensions to persistent fiscal imbalances - are yet to be resolved. The U.S. remains at the centre of global market attention, with high equity valuations, growing deficit concerns, and trade policy uncertainty likely to be key drivers of volatility in the second half of the year. In Europe, weak business conditions and rising tariff risks point to subdued growth. China's ability to stabilise growth will depend heavily on further policy support, particularly as consumer demand shows signs of fatigue. Closer to home, the near-term picture remains challenging. Growth is expected to remain below trend as the economy works through the lagged impacts of tighter policy, a weaker household sector, and slowing public sector spending. However, with inflation moderating and interest rates likely to ease further, policy settings are shifting toward support. In this environment, we see greater dispersion in market outcomes, reinforcing the importance of selectivity and discipline across portfolios as investors navigate the next phase of the cycle.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Australian Share Fund	1.4	8.5	4.4	7.6	7.4	10.0	12.7	8.4	8.2
S&P/ASX 300 Accumulation Index	1.4	9.5	6.4	13.7	12.8	13.3	11.8	8.7	8.8
Excess	0.0	-1.0	-2.0	-6.2	-5.4	-3.4	+0.9	-0.3	-0.7
Perpetual Concentrated Equity Fund	0.6	7.6	4.5	6.3	8.2	10.5	13.6	8.1	8.3
S&P/ASX 300 Accumulation Index	1.4	9.5	6.4	13.7	12.8	13.3	11.8	8.7	8.8
Excess	-0.8	-1.9	-1.8	-7.4	-4.7	-2.8	+1.8	-0.7	-0.5
Perpetual ESG Australian Share Fund	1.2	7.7	7.6	13.4	13.6	14.7	15.5	9.7	9.7
S&P/ASX 300 Accumulation Index	1.4	9.5	6.4	13.7	12.8	13.3	11.8	8.7	8.8
Excess	-0.3	-1.8	+1.3	-0.3	+0.8	+1.3	+3.8	+1.0	+0.9
Perpetual Pure Equity Alpha Fund – Class A	0.6	4.4	3.4	7.3	7.2	8.3	10.5	8.8	8.7
RBA Cash Rate Index	0.3	1.0	2.1	4.3	4.3	3.9	2.4	2.0	1.9
Excess	+0.3	+3.4	+1.4	+3.0	+2.9	+4.4	+8.2	+6.8	+6.8
Perpetual Share-Plus Long-Short Fund	0.8	8.3	2.0	7.2	9.7	12.9	14.5	9.9	10.1
S&P/ASX 300 Accumulation Index	1.4	9.5	6.4	13.7	12.8	13.3	11.8	8.7	8.8
Excess	-0.6	-1.2	-4.3	-6.6	-3.1	-0.4	+2.7	+1.2	+1.2
Perpetual Smaller Companies Fund	1.6	9.3	7.3	11.1	9.6	11.4	13.4	10.2	10.9
S&P/ASX Small Ordinaries Accumulation Index	0.8	8.6	6.4	12.3	10.8	10.0	7.4	4.6	7.6
Excess	+0.8	+0.7	+0.8	-1.1	-1.2	+1.4	+6.0	+5.6	+3.3
Perpetual Strategic Capital Fund - Class S	2.7	11.3	7.1	10.0	-	-	-	-	-
S&P/ASX 300 Accumulation Index	1.4	9.5	6.4	13.7	-	-	-	-	-
Excess	+1.3	+1.8	+0.8	-3.7	-	-	-	-	-

GLOBAL EQUITIES STRATEGIES

Looking back, the second quarter of 2025 will be remembered as a triumph for investor optimism. The sharp initial sell-off following the Trump tariff announcement was swiftly met with an equally sharp recovery. Yet again, value trailed growth, and broad market indexes pushed to all-time highs despite a steady stream of headlines that could have easily derailed the rally.

The global outlook remains clouded by uneven growth, fragile geopolitics, and persistent trade uncertainty. This backdrop has created familiar dispersion for investors, with less cyclically exposed or risk-on areas trailing the artificial intelligence (AI)-centric and technology-driven sectors. Once again, a narrow group of companies dominated returns—only three of the eleven GICS sectors outperformed the broader MSCI World Index. Notably, this narrowness was largely U.S.-led; the MSCI ACWI ex-U.S. Index saw twice as many sectors outperform without the same tech-driven skew. While market volatility has become the norm, it continues to present opportunity. Many investors have returned to recent momentum-driven winners, but the breadth of potential disruption - from geopolitical realignment to the unravelling of decades-old trade frameworks - suggests a much more dynamic environment ahead. Market concentration remains a key feature of this cycle, with the Magnificent 7 continuing to dominate global returns. While enthusiasm for AI has driven extraordinary gains - NVIDIA alone surpassing $4 trillion in market cap - rising capital intensity and unclear monetization paths raise questions about the durability of these premiums. History suggests these stocks may need time for fundamentals to catch up to valuations.

Global growth remains uneven, with the U.S. economy treading water amid conflicting signals. Recession fears have ebbed, but growth remains soft, and while tariffs were initially flagged as highly inflationary, their impact has so far been muted. Still, tariff receipts have surged past 2024 levels and are now a key funding source for fiscal initiatives like the One Big Beautiful Bill. In Europe, fiscal easing and rising defence spending are offsetting sluggish growth, while in emerging markets, China and broader Asia are seeing pressure from trade friction. However, a weaker U.S. dollar and falling rates may soften the blow. Market leadership remains narrow and AI-centric, yet dispersion elsewhere is creating opportunities. Regulatory shifts - like U.S. student loan reforms - are reshaping industries and unlocking new growth pockets, including in private credit. These structural changes mirror themes we've seen before: cyclical dislocations, misunderstood inventories, or underappreciated supply constraints. While the first half has been challenging for value, the setup for the remainder of 2025 and beyond is encouraging. Fiscal stimulus, rate cuts, and a shift in market focus could reignite broader participation.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Barrow Hanley Emerging Markets Fund	7.4	10.7	13.2	21.5	11.3	-	-	-	-
MSCI Emerging Markets Net Total Return (AUD)	4.1	6.5	8.9	17.5	14.8	-	-	-	-
Excess	+3.3	+4.3	+4.3	+4.0	-3.5	-	-	-	-
Barrow Hanley Global Share Fund - Class A	1.5	1.9	7.1	22.7	15.3	16.4	16.9	13.0	12.2
MSCI World Net Total Return Index ($A)	2.4	6.0	3.4	18.5	19.1	20.2	15.7	13.5	12.4
Excess	-0.9	-4.1	+3.7	+4.2	-3.9	-3.8	+1.2	-0.6	-0.2

CASH & FIXED INCOME STRATEGIES

The second quarter began with significant volatility in global financial markets, primarily driven by the announcement of 'Liberation Day' tariffs by US President Trump. Announcement of exemptions alongside a 90-day pause of reciprocal tariffs saw risk assets rally over the following months. Alongside tariffs, the key factors influencing global financial markets were middle east geopolitical concerns and the passage of the "one big beautiful bill" and its implications for the US fiscal deficit.

Domestic credit spreads were mixed over the quarter. A sharp selloff – most notably within higher beta subordinated sectors – in early April gave way to an extended rally. Elevated primary issuance volumes in the second half of the June quarter weighted on spreads as issuers returned to market after elevated April volatility interrupted primary supply.

Domestic bond yields fell and the yield curve steepened over the quarter. The RBA reduced the target cash rate 25bps to 3.85% in mid-May, the second of this easing cycle. Commentary was increasingly doveish with discussion of a 50bps cut was well received by financial markets, contributing the rally in longer duration sectors including technology. Global bond yields saw elevated volatility with US treasury yields selling off as concerns around the fiscal deficit intensified and Moody's lowered the US government's long term issuer rating.

Primary issuance was impacted by April volatility with a number of corporate deals being delayed and issuance volumes remaining very low through April before resuming in May. Major banks were very active following reporting season, and non-financial corporate hybrids saw increased activity. Demand was robust throughout May and June with a number of deals heavily oversubscribed, enticing and increasing number of opportunistic and kangaroo issuers to market.

The credit outlook improved throughout the quarter, ending June with a neutral reading

Valuation indicators remain marginally negative. While spreads have normalised from their April selloff, swap to bond spreads remain in negative territory, weighing on the outlook. Elevated primary issuance activity during June included a rise in opportunistic issuance including kangaroo deals from CDP and John Deere.

The macroeconomic outlook remains negative reflecting softening growth data and the anticipated impact of US tariffs. Lending conditions as expressed in the Senior Loan Officer Survey continue to weigh on the outlook after tightening in May.

Supply and demand indicators were neutral at quarter end. The heavy volume of recent primary issuance weighs on the outlook however thus far, issuers have met robust demand.

Improvement in technical indicators was the key factor in the improving credit outlook during June. US credit, equity and equity volatility all improved. Cash balances also remain elevated among real money accounts.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual High Grade Floating Rate Fund	0.5	1.3	2.6	5.8	6.3	5.8	3.9	3.5	3.4
Bloomberg AusBond Bank Bill Index	0.3	1.0	2.1	4.4	4.4	3.9	2.3	2.1	2.0
Excess	+0.1	+0.2	+0.5	+1.4	+1.9	+1.9	+1.5	+1.4	+1.4
Perpetual Credit Income Fund	0.6	1.1	2.5	6.4	8.0	7.6	5.4	4.6	4.6
Bloomberg AusBond Bank Bill Index	0.3	1.0	2.1	4.4	4.4	3.9	2.3	2.1	2.0
Excess	+0.3	0.0	+0.4	+2.0	+3.7	+3.7	+3.1	+2.6	+2.5
Perpetual Active Fixed Interest Fund	0.8	3.0	4.5	8.2	7.0	5.6	1.1	2.8	3.3
Bloomberg AusBond Composite Index	0.7	2.6	4.0	6.8	5.2	3.9	-0.1	1.8	2.3
Excess	+0.1	+0.4	+0.6	+1.4	+1.8	+1.8	+1.3	+1.0	+1.0
Perpetual ESG Credit Income Fund- Class A	0.7	1.5	3.0	7.2	8.3	8.0	5.7	4.7	-
Bloomberg AusBond Bank Bill Index	0.3	1.0	2.1	4.4	4.4	3.9	2.3	2.1	-
Excess	+0.3	+0.5	+0.9	+2.8	+3.9	+4.1	+3.4	+2.7	-
Perpetual Pure Credit Alpha Fund - Class W	0.6	1.2	2.8	7.1	8.7	8.4	7.0	5.7	5.9
RBA Cash Rate Index	0.3	1.0	2.1	4.3	4.3	3.9	2.4	2.0	1.9
Excess	+0.3	+0.2	+0.7	+2.8	+4.4	+4.5	+4.6	+3.7	+4.0

MULTI-ASSET STRATEGIES

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.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Balanced Growth Fund	1.3	4.6	4.7	9.5	8.6	8.7	9.8	8.0	7.7
Balanced Growth Index	1.7	6.6	5.1	12.6	12.3	11.9	9.0	7.7	7.7
Excess	-0.4	-2.0	-0.4	-3.1	-3.6	-3.2	+0.9	+0.3	0.0
Perpetual Diversified Growth Fund	1.1	4.1	4.6	8.9	7.9	7.4	7.6	6.6	6.4
Moderate Growth Index	1.4	5.3	4.7	10.8	10.2	9.6	6.5	6.1	6.2
Excess	-0.2	-1.3	-0.1	-1.9	-2.3	-2.2	+1.0	+0.5	+0.2
Perpetual Diversified Real Return Fund - Class W	0.9	2.6	4.8	8.2	6.5	5.8	5.8	5.3	5.1
Australian CPI +5% (Target Objective)							9.0	8.4	
Perpetual ESG Real Return Fund	1.1	4.0	4.9	8.7	5.9	4.7			
Australian CPI +5% (Target Objective)							-	-	

MORE INFORMATION

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* Due to CPI data being released by the Australian Bureau of Statistics later in the month after quarter end, CPI figures reported are lagged by one month.