Perpetual Asset Management Australia

INSTITUTIONAL UPDATE

July 2025

AUSTRALIAN EQUITIES STRATEGIES

Australian equities extended their winning streak in July, with the ASX 200 gaining 2.35% to 8,742.80, its fourth straight monthly advance. The index set a fresh all-time high on 7 July before momentum stalled, trading sideways for the remainder of the month. Markets balanced optimism over prospective RBA rate cuts with caution around looming U.S. tariff deadlines. While President Trump's tariff agenda dominated headlines, the impact was muted as front-loaded shipments softened the near-term blow, and late-month trade agreements with Japan and the EU lifted sentiment. Sector rotation was evident with an unwind in crowded bank positions, ongoing since late June, weighed on Financials (-1.0%), while Materials (+4.1%) benefited from stronger iron ore prices. Gold miners lagged as safe-haven demand faded, marking a second month of underperformance. Healthcare was the standout (+8.8%), driven by a 74.8% surge in Clarity Pharmaceuticals, robust gains in CSL, and a 43.8% rally in Mesoblast. Consumer Discretionary (+3.1%) outperformed on positioning ahead of potential rate cuts. The RBA held the cash rate at 3.85%, deferring a widely expected 25 bp cut. Governor Bullock emphasised timing over direction, with the 6-3 vote split highlighting internal debate. Q2 CPI, released late in the month, showed inflation easing to 2.1% y/y, below forecasts, firming expectations for an August cut. Corporate news was active with Johns Lyng Group jumping 23% on a $1.1B takeover offer, while Origin Energy gained 8.2% on value-unlocking news from Octopus Energy. Lifestyle Communities plunged 36.6% on an adverse VCAT ruling, and Botanix fell 53.1% on softer sales momentum. Earnings revisions skewed slightly negative, with 82 upgrades versus 104 downgrades, suggesting selective positioning remains key in the months ahead.

Markets stand at a critical crossroads. Concerns over U.S. debt and deficit continue to mount following passage of the "big, beautiful bill," yet risk appetite has proven resilient. Global equities, led by growth and technology names, have extended the rebound that began in mid-April, erasing much of the tariff-driven sell-off. Investor enthusiasm has been underpinned by strong corporate earnings - particularly in tech, where Nvidia again delivered revenue growth well ahead of expectations - and by signs central banks remain ready to ease policy if growth slows. Beneath the surface, however, a deeper rotation may be underway. U.S. equities still trade near peak valuations, with profit margins stretched. Although the U.S. dollar continues to roll over, it remains near generational highs. Historical precedents in 1985 and 2000 suggest such peaks often coincide with turning points in global capital flows, with investors rotating to regions offering more compelling valuations, including select emerging markets. Policy currents are also shifting with Trump pressing for broader market access while challenging currency and regulatory tools; the U.S. and U.K. are pursuing banking deregulation; Germany is advancing reflation via reforms and a €500b investment plan. With Australian and U.S. equities in the 96th–97th valuation percentile, asymmetric risks skew downside. Together, these forces suggest an imminent inflection in market levels and leadership.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Australian Share Fund	1.7	5.6	3.2	5.1	7.3	9.4	13.2	8.3	7.9
S&P/ASX 300 Accumulation Index	2.4	8.2	4.3	11.9	12.6	12.1	12.2	8.9	8.7
Excess	-0.8	-2.6	-1.1	-6.8	-5.3	-2.7	+1.0	-0.6	-0.8
Perpetual Concentrated Equity Fund	1.9	5.1	2.9	4.4	8.0	9.8	14.5	8.1	8.1
S&P/ASX 300 Accumulation Index	2.4	8.2	4.3	11.9	12.6	12.1	12.2	8.9	8.7
Excess	-0.6	-3.1	-1.4	-7.4	-4.6	-2.3	+2.3	-0.8	-0.5
Perpetual ESG Australian Share Fund	2.4	6.4	6.4	11.1	12.5	12.9	16.4	9.8	9.4
S&P/ASX 300 Accumulation Index	2.4	8.2	4.3	11.9	12.6	12.1	12.2	8.9	8.7
Excess	0.0	-1.9	+2.1	-0.8	-0.1	+0.9	+4.3	+0.9	+0.8
Perpetual Pure Equity Alpha Fund – Class A	0.9	3.7	4.4	8.7	8.2	8.9	11.2	9.1	8.7
RBA Cash Rate Index	0.3	1.0	2.0	4.3	4.3	4.0	2.4	2.0	1.9
Excess	+0.6	+2.7	+2.4	+4.5	+3.9	+5.0	+8.7	+7.0	+6.8
Perpetual Share-Plus Long-Short Fund	2.9	6.8	2.5	7.7	10.6	12.3	15.4	10.3	9.9
S&P/ASX 300 Accumulation Index	2.4	8.2	4.3	11.9	12.6	12.1	12.2	8.9	8.7
Excess	+0.4	-1.5	-1.7	-4.2	-2.0	+0.2	+3.3	+1.4	+1.3
Perpetual Smaller Companies Fund	1.6	9.4	6.8	9.9	8.1	8.8	13.8	10.4	10.9
S&P/ASX Small Ordinaries Accumulation Index	2.8	9.7	4.6	11.5	10.4	7.1	7.7	5.2	7.8
Excess	-1.2	-0.2	+2.2	-1.7	-2.3	+1.7	+6.1	+5.2	+3.2
Perpetual Strategic Capital Fund - Class S	1.4	7.5	7.7	8.7	-	-	-	-	-
S&P/ASX 300 Accumulation Index	2.4	8.2	4.3	11.9	-	-	-	-	-
Excess	-1.0	-0.8	+3.4	-3.2	-	-	-	-	-

GLOBAL EQUITIES STRATEGIES

The month of July extended the second quarter's themes of persistent policy uncertainty, geopolitical tension, and rapid economic data shifts. Despite these headwinds, global equity markets remained resilient, with the U.S. leading gains once again. The S&P 500 rose 2.24%, driven largely by growth-oriented sectors, especially Information Technology, which contributed over 75% of the index's monthly return. Growth continued to outperform value, reversing early-year trends and narrowing the year-to-date spread to just 11 basis points. Emerging markets outperformed developed international peers, with Chinese equities rallying 4.8% on strong export data and easing tech restrictions. Developed markets outside the U.S. lagged, particularly Europe, where investor sentiment weakened amid rising tariffs and economic uncertainty. North America saw muted reactions to ongoing tariff developments, with markets buoyed by the passage of the "One Big Beautiful Bill" in the U.S., which extended tax cuts and boosted corporate CAPEX deductions. Trade deals with Japan and the EU helped stabilize sentiment, though elevated tariffs continue to pose inflationary risks. China's strategy of managing external headwinds while cautiously supporting domestic demand continued, though internal growth remains uneven. Europe faced headwinds from blanket U.S. tariffs and weakening domestic demand, with the ECB signaling rate cuts ahead. As seen in prior growth-led months, market breadth narrowed. Only five of the 11 MSCI World Index sectors outperformed, with Information Technology (+4.1%), Energy (+2.5%), Utilities (+2.35%), and Communication Services (+1.56%) leading. Defensive sectors like Consumer Staples and Health Care underperformed, down 2.65% and 2.97%, respectively.

Global political developments continue to shape market dynamics, with tariffs remaining a central theme. While the long-term implications of these policies are still unclear, the clash between ideology and political pragmatism is intensifying. Geopolitical tensions and events – from the war in Ukraine and Middle East conflicts to elections across Europe, the Americas, and Asia – continue to inject uncertainty into markets. The recent U.S.-Japan trade deal, which includes 15% tariffs and significant investment commitments, exemplifies the administration's strategy of country-specific, comprehensive agreements. Similar deals with Korea and the EU also helped provide some certainty, even if that is the highest tariff level in generations. With trade/tariff deals with China and India outstanding, there is still plenty of uncertainty. However, these agreements often validate higher baseline tariffs than previously expected, adding inflationary pressure and complicating growth forecasts. As macro issues tend to swing markets up and down, it is important to remember that the best time to find value is when markets are either fearful or exuberant about a small opportunity set and are ultimately overlooking good companies with solid operating fundamentals. The strength of our investment proposition is our ability to identify dislocations within the market and find those specific securities that have been dislocated for reasons that do not impair their long-term fundamental strength. As we continue to apply our investment process, we believe our current portfolio is well positioned to provide strong investment results going forward, and we are mindful in these tumultuous periods that opportunities will present themselves of which we will be prepared to take advantage.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Barrow Hanley Emerging Markets Fund	4.0	16.5	14.5	26.0	11.2	-	-	-	-
MSCI Emerging Markets Net Total Return (AUD)	3.8	12.0	11.8	18.8	14.2	-	-	-	-
Excess	+0.2	+4.5	+2.6	+7.2	-3.0	-	-	-	-
Barrow Hanley Global Share Fund - Class A	0.9	5.4	5.1	17.2	14.4	16.4	16.9	12.8	11.8
MSCI World Net Total Return Index ($A)	3.1	11.2	3.8	17.4	19.7	19.0	16.3	13.6	12.1
Excess	-2.2	-5.8	+1.3	-0.2	-5.3	-2.6	+0.6	-0.9	-0.2

CASH & FIXED INCOME STRATEGIES

July saw risk assets including credit and equities rally despite rising yields, US trade concerns and uncertainty around the path of monetary policy easing. Domestic and US equities reached all time highs, supported by robust corporate earnings results while domestic credit spreads rallied.

The domestic bond yield flattened marginally over the month as long term yields fell despite elevated volatility early in July. The Reserve Bank of Australia defied market expectations, remaining on hold in July when a rate cut was more than 90% priced in, precipitating a sharp move higher in yields. The RBA cited upcoming Q2 inflation data as a key consideration, noting that inflation risks were balanced while the labour market "remains strong". At month end, futures markets had fully priced in a August rate cut.

Credit spreads narrowed over July while trading in a relatively tight range. The contraction in spreads reflected new issue supply alongside the broader risk-on sentiment across risk assets with domestic and global equities also rallying. Non-financial corporates, infrastructure and utilities sectors were the top performing sectors over the month. Subordinated bank spreads also performed well over the month, supported by subdued primary supply with the spread between tier 2 and senior bank paper compressing.

Primary market activity was orderly and demand for issues was robust, contributing to spread compression. National Australia bank priced $1.5B of tier 2 paper which met strong demand despite the 15-year non-call 10 tenor. There was activity among financials and offshore banks with Macquarie ($2B), Norfina Suncorp Bank ($1.75B) and Rabobank Australia ($1.5B) issuing senior unsecured bonds. CIBC came to market raising $2.5B in a covered bond transaction. Securitisation activity was subdued in early July with a number of smaller ABS deals before larger RMBS issues from Latrobe ($1B) and Thinktank ($750M) pricing in the last week of the month. In the last week of July, a $500M corporate deal from Dyno Nobel highlighted strong market demand, building a book that was 8 times oversubscribed.

The credit outlook improved to positive in mid-July before declining ending the month with a neutral reading.

Valuation indicators remain marginally negative. While US and domestic spreads are finely balanced, swap to bond spreads remain in negative territory, weighing on the outlook. Primary market issuance has normalised somewhat after a period of elevated volumes including a number of opportunistic transactions.

The macroeconomic outlook remains negative reflecting softening growth data and uncertainty around the 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 indicator declined in the second half of July, ending the month in marginally negative territory. A lower volume of upcoming maturities and heavier anticipated supply conspire to detract from the outlook. Robust market demand continues to provide a tailwind.

Technical indicators remain strongly positive reflecting supportive US credit, equity and equity volatility indicators. Cash balances also remain elevated among real money accounts and intermediary positioning shows capacity, supporting the outlook.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual High Grade Floating Rate Fund	0.6	1.8	2.8	5.9	6.3	6.0	3.9	3.6	3.5
Bloomberg AusBond Bank Bill Index	0.3	1.0	2.0	4.3	4.3	3.9	2.4	2.1	2.0
Excess	+0.3	+0.8	+0.8	+1.5	+2.0	+2.0	+1.5	+1.5	+1.4
Perpetual Credit Income Fund	0.9	2.3	2.7	7.0	8.1	7.7	5.4	4.7	4.6
Bloomberg AusBond Bank Bill Index	0.3	1.0	2.0	4.3	4.3	3.9	2.4	2.1	2.0
Excess	+0.6	+1.4	+0.7	+2.7	+3.7	+3.8	+3.0	+2.6	+2.6
Perpetual Active Fixed Interest Fund	0.2	1.5	4.4	6.6	6.8	4.6	1.0	2.8	3.2
Bloomberg AusBond Composite Index	0.0	0.9	3.7	5.2	4.9	2.7	-0.2	1.8	2.2
Excess	+0.2	+0.6	+0.7	+1.4	+1.8	+1.8	+1.2	+1.0	+1.0
Perpetual ESG Credit Income Fund- Class A	1.1	3.1	3.4	8.0	8.6	8.2	5.7	4.9	-
Bloomberg AusBond Bank Bill Index	0.3	1.0	2.0	4.3	4.3	3.9	2.4	2.1	-
Excess	+0.8	+2.1	+1.4	+3.7	+4.2	+4.2	+3.3	+2.8	-
Perpetual Pure Credit Alpha Fund - Class W	1.0	2.4	3.2	7.4	8.7	8.7	6.9	5.8	6.0
RBA Cash Rate Index	0.3	1.0	2.0	4.3	4.3	4.0	2.4	2.0	1.9
Excess	+0.7	+1.4	+1.2	+3.2	+4.4	+4.7	+4.5	+3.8	+4.1

MULTI-ASSET STRATEGIES

Markets edged higher in July as investors parsed easing trade tensions, solid corporate earnings, and a cautious yet steady approach from global central banks. Softer macroeconomic data towards the end of the month tested the rally but the profit taking was not overly large.

- US equities (+2.2%) reached new all-time highs, rallying on easing trade concerns and supportive earnings results. Growth sectors and securities, led by large cap technology substantially outperformed value. This was led by the technology sector, which strengthened on positive second quarter earnings results and easing of trade restrictions around exporting chips to China.

- Australian Shares (+2.4%) were supported by moderating inflation print and improving US China trade negotiations.

- UK shares (+4.2%) performed strongly led by large cap stocks including pharmaceutical, energy and consumer staple names as investors overlooked a higher-than-expected June CPI print (core inflation rose to 3.7%Y) which could trigger concerns on the amount of easing the BoE could undertake in 2025.

- Emerging markets (+3.1%) performed well, led by China (+4.6%) despite headwinds from a strengthening US dollar. Chinese stocks benefitted from ongoing progress in trade negotiations and concessions around AI chips.

- Japanese equities (+1.4%) moved into positive year-to-date returns as exporters benefited from a favourable trade deal with the US while the House of Councillors election result was supportive also.

- European shares (+0.3%) rose despite trailing the broader developed market. The EU's trade deal with the US did not ease concerns around growth and sparked declines in equities and bond yields.

US trade policy remained a key consideration throughout July with the US announcing new deals with several major partners including Japan, the EU and South Korea. While the progress was well received by markets – notably among cyclical sectors including resources – the deal announcements are vague and key negotiations with China remain outstanding. While markets continue to react well to temporary measures such as tariff pauses, we remain concerned about impact on US corporates and/or US consumers which is likely to leave growth quiet anaemic in H2'25. While we are yet to see the full inflation impact, real consumer spending growth has already slowed, and could soften further as the erosion of real spending power intensify as tariff increases are passed onto end-consumers.

Despite the uncertain conditions for international commerce, second quarter company profit results were robust. With over two-thirds of S&P 500 constituents having reported by month end, 81% exceeded consensus expectations. Firms are also managing their cost base well with high margins despite 4 years of rising real wages growth which provides some additional ballast to the outlook. The combination of strong balance sheets, high margins and slightly better than normal profit growth, gives firms a better foundation to handle near term shocks from the impact of tariffs.

The US Federal Reserve (The Fed) kept interest rates unchanged, alongside the Bank of Canada, European Central Bank, Reserve Bank of Australia (RBA), and Reserve Bank of New Zealand. The Fed was on hold despite two dissenting opinions advocating for an easing. There are a number of key data expected prior to the Fed's September meeting including two payrolls and CPI reports. Core inflation rose 0.2% month-on-month, pushing the annual rate to +2.9%Y, while headline inflation climbed 0.3% for the month and 2.7% over the year—both figures still above the Fed's 2% target.

The RBA was the only surprise, keeping the target cash rate unchanged despite futures markets pricing in a greater than 90% chance of a cut by month end. The rationale cited labour market tightness and trimmed mean inflation (2.9% YoY) only just re-entering the target band (2-3%). Australian employment softened late in the month, cementing expectations for an August cut with two subsequent cuts priced in over the remainder of 2025 at July month end. More policy support is needed as the Australian economy looks flat with households not spending 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 (the economy has only remained in expansion thanks to population growth and fiscal expansion).

China's economy has thus far shown resilience to higher tariffs, with second quarter GDP (+5.2% YoY) beating consensus expectations reflecting growth in exports and manufacturing activity. The shape of Chinese exports has transformed with weaker US exports offset by stronger exports to the rest of the world as goods were diverted to other countries with more favourable trade regimes. The ongoing tariff negotiations between the US and China remain a focus with broad ramifications including for the Australian economy and resources sectors.

The macroeconomic outlook weak corporate performance, the unclear path for inflation and monetary policy represent a challenging backdrop for local investors. We anticipate modest returns and elevated volatility from market cap benchmarks reflecting high starting valuations and the subdued macro backdrop but government bonds are offering less reliable diversification in the face of rising government debt. We continue to carefully manage the Fund's exposure to global equities and maintain diversity in regional and sector allocations.

Gross Performance	1M%	3M%	6M%	1Y%	2Y%	3Y%	5Y%	7Y%	10Y%
Perpetual Balanced Growth Fund	1.0	4.6	3.9	7.2	8.4	8.3	10.2	7.9	7.6
Balanced Growth Index	1.8	7.0	4.3	11.2	12.1	10.6	9.2	7.8	7.6
Excess	-0.8	-2.4	-0.3	-4.0	-3.7	-2.3	+1.0	+0.1	-0.1
Perpetual Diversified Growth Fund	0.8	3.8	4.1	7.0	7.7	7.0	7.8	6.6	6.3
Moderate Growth Index	1.3	5.2	4.1	9.4	10.0	8.4	6.6	6.1	6.1
Excess	-0.5	-1.4	0.0	-2.5	-2.3	-1.5	+1.1	+0.5	+0.2
Perpetual Diversified Real Return Fund - Class W	0.3	2.6	4.5	6.5	6.2	5.8	5.7	5.2	5.1
Australian CPI +5% (Target Objective)							9.6	8.4	
Perpetual ESG Real Return Fund	0.2	3.5	4.5	6.7	5.4	4.3			
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.

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