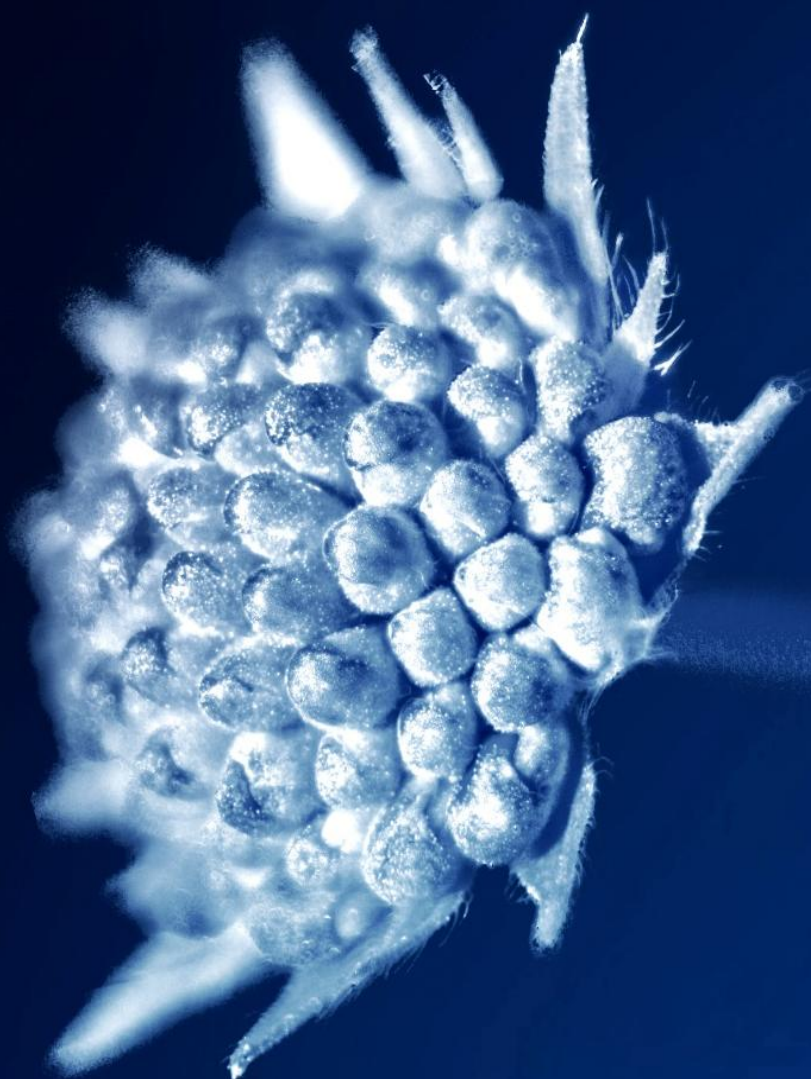

Perpetual Private

Asset allocation trends

in our not-for-profit portfolios –
revisited



Trust is earned.

Perpetual 

Over the past four years we have investigated how different not-for-profit organisations think about risk and return and how that has played through into portfolio construction. The aim has been to help investors assess their own investment goals, risk profiles and asset allocations to see if there are discrepancies worth further investigation. In October 2025 we revisited our client base to see if anything had changed.

Revisiting the analysis

We first shared this data having just come through Covid. Fast forward two years when we published an updated version of this paper and the post-Covid surge in government spending had driven a rapid rise in interest rates, reshaping risk-return dynamics and prompting investors to reassess portfolio construction. Meanwhile, the AI-led boom fueled equity market concentration and optimism, while regulatory change and increased ease of access spurred a structural shift towards private-market allocations.

Over the previous two papers we recommended Investment Committees and Boards used the data alongside the questions highlighted as a basis for discussion on their own portfolios.



Portfolio alignment and diversification considerations

1. Does your investment objective align to your cash flow needs?
2. Are you over prioritising income at the expense of total return?
3. In the current market environment, do you have an appropriate exposure to growth assets?
4. Is your equity allocation diversified enough?
5. Have you considered alternative investments as an additional portfolio diversifier? If so, are you sizing your allocation appropriately?

Fast forward to 2025....

...and we have seen easing rates, strong equity gains, and renewed geopolitical shifts.



Geopolitical conditions stayed volatile as Trump's tariff announcements and then reversals alongside fresh policy threats unsettled markets. Ongoing Middle East conflict and shifting China-US tensions added to uncertainty, keeping investors alert to trade and security risks.



Interest in private assets continued to rise as investors sought diversification and illiquidity premia. However, valuation practices within private equity and private credit have been drawing increasing scrutiny, with regulators and investors alike questioning governance standards.



Equity markets posted strong gains, buoyed by AI enthusiasm with valuations underpinned by investor belief in long-term productivity benefits. Concerns have been growing that parts of the equity market now look significantly overvalued.



After rapid tightening, rates have begun to ease as inflation cools, though unevenly across markets. Central banks remain cautious about reigniting price pressures, and uncertainty over the post-pandemic neutral rate continues to shape investment strategy.

* as of 22 October 2025



Has any of this impacted how not-for-profit organisations are thinking about their objectives and portfolios?

Methodology

When assessing any strategy – including an investment strategy – it’s a good idea to see how similar organisations approach the issue. So, we have assessed the objectives and asset allocations of a cross-section of our not-for-profit clients to give a picture of how our investors are thinking about risk and return.

Please note, while investment decisions should not be made based solely on this research, we believe this analysis uncovers some interesting trends. This has led us to posing four new questions – found at the end of this paper – that your Board or Investment Committee can use to help you assess whether your investment strategy is appropriate for your needs.

We reviewed a cross section of our client portfolio base as at 30 June 2025. Our review covered 219 not-for-profit portfolios with a total of \$3 billion and an average investment of \$10 million.

Number of not-for-profit clients assessed

FUM*	Number
0-\$2.5M	72
\$2.5M-\$5M	47
\$5M-\$7.5M	28
\$7.5M-\$10M	20
\$10M-\$20M	29
\$20M+	25

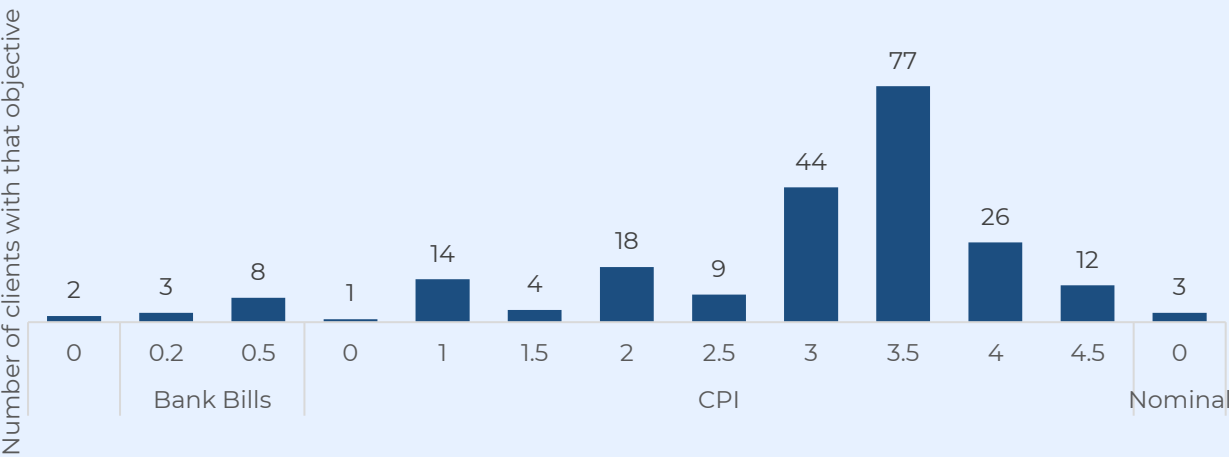
* Funds under management as at 30 June 2025
Source: Perpetual Private

Investment objectives

Not-for-profit investors are generally seeking to achieve a real (after inflation) return and so it’s no surprise that most objectives are stated in the context of consumer price inflation (CPI). Additional returns above inflation can be distributed as an income. This structure aims to ensure the buying power of any regular distributions does not fall over time.

Some 93% of our not-for-profit investors are using an inflation+ objective. As you can see from the chart below, two thirds are targeting returns of 3-4% above inflation. These findings are similar to our last report although we have seen a slight increase in cash+ investors.

Investors investment objectives



Source: Perpetual Private

Growth and defensive asset weightings

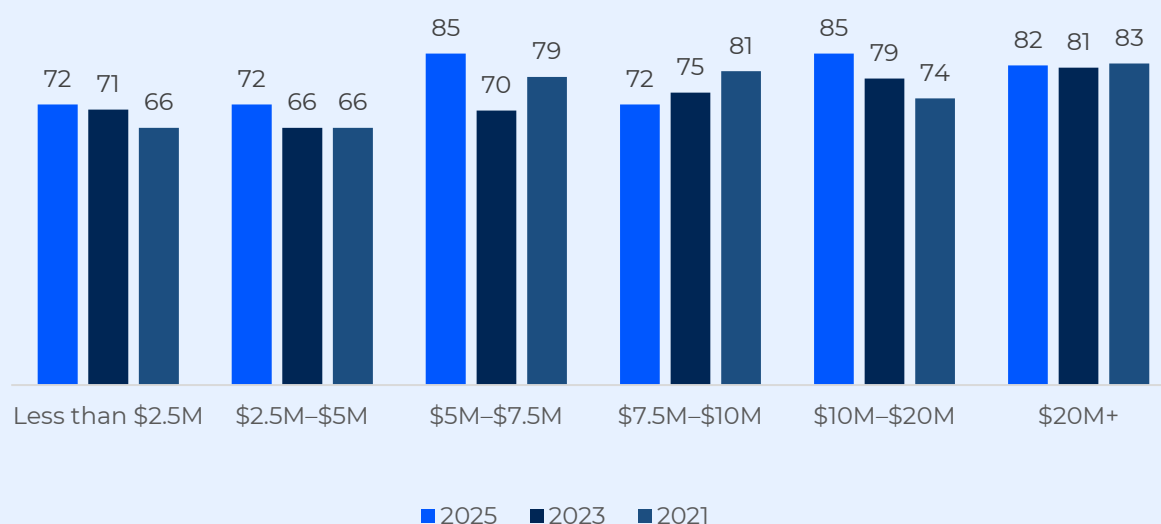
The allocation of assets between growth (such as equities, growth alternatives and real estate) and defensive assets (cash/fixed interest) is a key driver of total portfolio risk and return outcomes.

There is a difference in the weighting to growth assets between our smaller and larger portfolios; however, this difference has reduced since we started this analysis four years ago. Interestingly, this year we have seen the median allocations to growth assets increase across most investors.

There are a few factors that could be driving this. Easing central bank monetary policies alongside strong equity market returns could have been a factors. Within the rate cutting environment, it may also be that investors are find defensive assets less compelling. Or perhaps with an expectation that interest rates will settle higher than once viewed, a higher allocation to growth is required to meet clients' objectives.



Median investor growth weightings (%) by funds invested (\$)



Source: Perpetual Private

Same objectives, different asset allocations

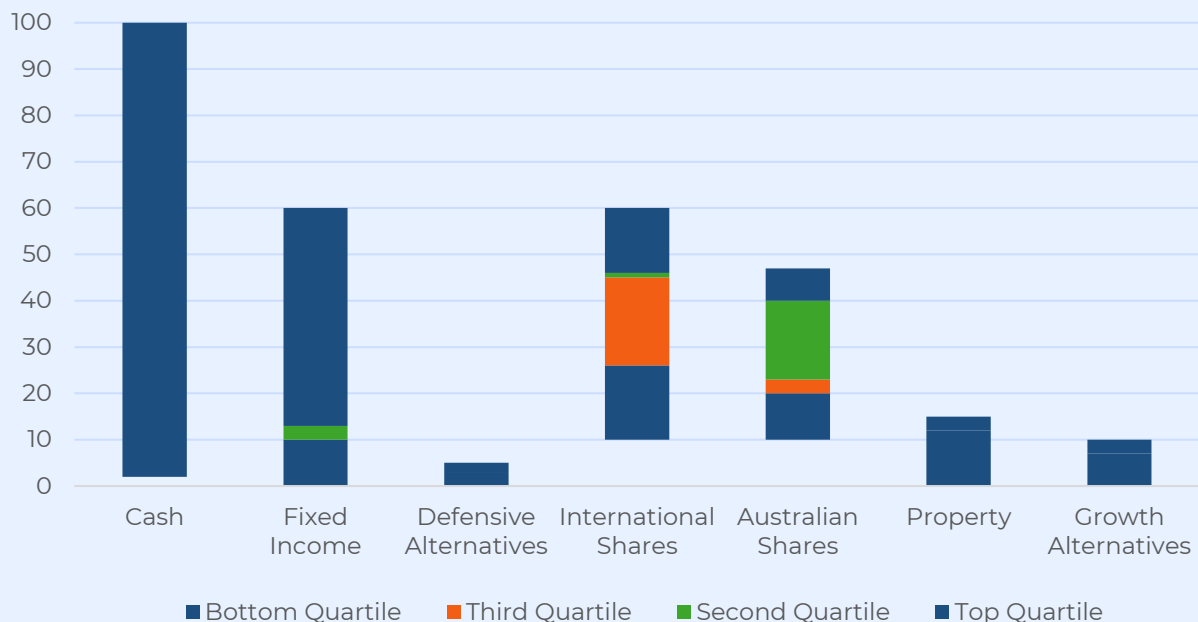
A Strategic Asset Allocation drives 80-90% of all risk and return outcomes. Yet, as we delved into how growth and defensive allocations were broken down by asset class in our not-for-profit portfolios, we found a meaningful variation between our investors – even those with the same investment objective. As in 2021 and 2023, it still appears not-for-profit organisations are taking different paths to achieve similar goals.

If we take the most common objective amongst our investors of CPI +3.5% as an example, the lowest and highest strategic asset allocation to different asset classes varied by more than 50%. This is shown by the blue bars in the chart below which indicate the extremes between the maximum and minimum allocations for each asset class.

The third and second quartiles represent most investors and so where you see larger green and orange bars in the chart, there was less alignment. This is true of international shares and Australian shares as it was in 2023. It was also true of fixed income in the 2021 review; however, this distribution has disappeared.

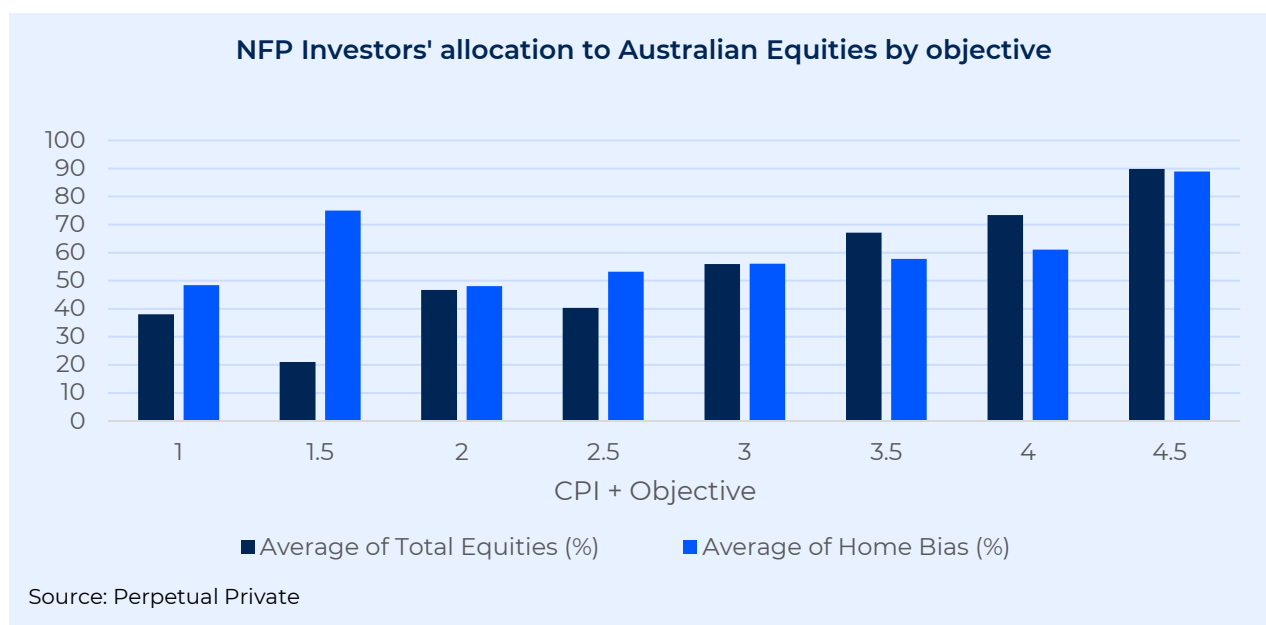
In 2021, those with higher strategic asset allocations to fixed income tended to have lower or no allocations to alternatives. Since then, we've seen an increase in investors allocating to fixed income and cash, most likely driven by a better return profile. The difference between equity holdings, on the other hand, was driven by relative weightings. Whilst the overall weighting to equities was broadly consistent, the allocation between Australian and international shares differed. This is consistent in the latest findings.

Investors with CPI + 3.5 % objective - Asset class breakdown



Source: Perpetual Private

Home bias



An overweight to Australian equities (home bias) is common practice in our not-for-profit portfolios because of the tax benefits of franking credits. However, trade-offs do exist. Australian equities are less diversified than international equities and therefore introduce greater investment risk. For example, our market is heavily skewed towards financials and materials and has limited exposure to the big tech businesses so important in the US.

We have seen the home bias reduce over the course of the last four years, particularly in the higher objective investors. This may be driven by the strength of returns seen in international markets.

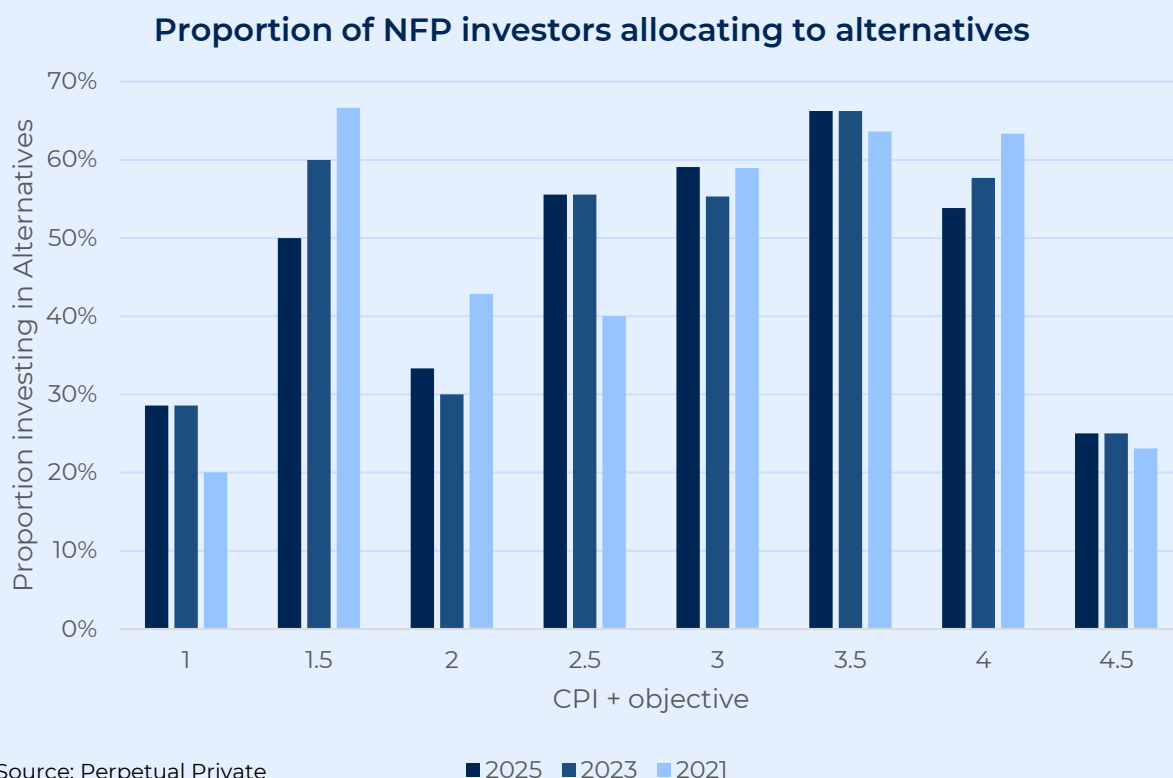
By having a more concentrated portfolio that doesn't contain important sectors that contribute to the global economy, portfolio returns could be impacted and have been in the last few years with tech driving growth in international markets.

Investors need to assess these trade-offs when making asset allocation decisions and this will lead to differences. Due to the benefits of franking credits, some level of overweighting is likely to be beneficial to most not-for-profit investors.



Alternatives

Across the portfolios that were assessed, 56% had an allocation to alternatives. This is an increase from our 2021 review. The most frequent allocation was 15% with the majority holding 12% in growth alternatives (such as private equity and hedge funds) and 3% in defensive alternatives (such as private credit). This varied with more cautious investors having a higher allocation to defensive alternatives. A breakdown of holdings by objective is shown in the chart below.



Allocations to alternatives have been increasing in recent years and we have seen a moderate increase over the past 12 months across our clients' portfolios at the total level although this has varied by objective.

It is important to note that there are risk and return trade-offs as alternatives are further up the risk spectrum than traditional fixed income, and in some cases equities. For example, alternatives are less liquid and often more complex than traditional assets. However, they do have risk and return drivers that differ from

more traditional asset classes. This means you can add an allocation of alternatives to a not-for-profit portfolio without significantly increasing the investment risk so long as the portfolio remains sufficiently diversified.

Alternatives are also more complex and less liquid than traditional asset classes and so only investors with a long investment time horizon should consider them. That said, as most not-for-profit investors are investing in-perpetuity, alternatives may be worth consideration.

Conclusions

We have now been running this analysis for four years and in that time the landscape has changed resulting in portfolio rebalances. In light of this, we have posed four new questions for investors to consider as part of their Committee and Board meetings:



What is driving your investment decision making?

With markets shifting and rates easing, it's easy to chase returns. Now is a good time to check your portfolio still aligns with your long-term goals.



Is your portfolio still appropriately diversified?

Global equities remain heavily concentrated in a handful of mega-cap tech stocks, raising the risk of overexposure if sentiment turns.



Do your investments reflect your values?

Stakeholders expect not-for-profits to show that their investments align with their mission and ethical standards. There are many ways to do this.



Have you reviewed the quality of your investment managers?

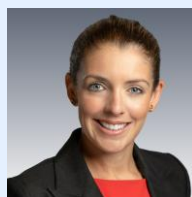
Failings in parts of the market have shown that not all managers are equal. Good governance is essential, particularly in opaque private markets.

Want to optimise your portfolio?

All not-for-profit organisations want to get the most from their investments – it can make a real difference to the communities they serve. If you have questions around your portfolio's asset allocation, home bias or alternatives holdings, or have any other questions on different approaches to investing, please get in touch with your financial adviser or contact us.

More information

1800 631 381
perpetualprivate@perpetual.com.au
perpetual.com.au/nfp



Author

Emily Barlow
National Investment
Director – NFP, Wholesale
and ESG

Emily specialises in working with wholesale and institutional investors, helping them to generate better risk adjusted returns through tailored investment analysis, portfolio construction, and governance advice.

Emily holds a Masters degree in Chemistry from the University of Oxford, the Chartered Financial Analyst designation, the CFA Institute Certificate in ESG Investing, the UK Investment Management Certificate and the CII Diploma in Regulated Financial Planning (UK).

Perpetual Private advice and services are provided by Perpetual Trustee Company Limited (PTCo) ABN 42 000 001 007, AFSL 236643. This information has been prepared by PTCo. It contains 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 or other 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. To view Perpetual Private's Financial Services Guide, please visit www.perpetual.com.au/fsg. Published in October 2025. 4063_1025

Trust is earned.

Perpetual