

Direct Equities Portfolio Performance

Responsible Investment Portfolio – March 2025 Quarter

Perpetual Direct Australian Equities Responsible Investment Portfolio

Returns including dividends*	3 months (%)	1 year (%)	3 years (%†)	5 years (%†)
Responsible Investment model portfolio	-2.0	-3.8	4.0	13.8
S&P/ASX 300 index	-2.9	2.6	5.3	13.2
Excess return (model return above benchmark)	0.9	-6.4	-1.3	0.6

*Past performance is not indicative of future performance. Client performance may differ due to timing of alignment with the model portfolio, advice fees, administration fees and transactional costs associated with the client's portfolio. Performance is indicative of the total return of the model portfolio's stocks over the period.

†Per annum, compounded.

The Australian stock market rallied through the first half of the March 2025 quarter as domestic economic data tended to be positive, and the Reserve Bank of Australia (RBA) eased interest rates. Looking back over the quarter however, the lasting influences were a volatile company reporting season and the re-emergence of significant global trade tensions leading up to President Trump's "Liberation Day" in early April.

Despite the positive start to the quarter, the share market was unable to regain the "melt-up" momentum lost in December. The benchmark ASX300 delivered a negative 2.9% total return for the quarter as worries took hold. The Responsible Investment Portfolio fared better with a total return of negative 2.1%, outperforming its benchmark by 0.8%. At the time of writing the outlook for markets is fluid and uncertain as tit-for-tat tariff announcements between major global economies are ongoing. Importantly though, our investment process emphasises financial health (i.e. conservative financial leverage / debt) allowing companies to face any worsening economic ructions without undue pressure.

Australia's economic data, including inflation figures and employment numbers, played a guiding role in the first half of the March quarter. February saw the RBA cut the official cash rate by a quarter of a percentage point to 4.10%, the first cut since November 2020, signalling a response to moderating inflation. The central bank now expects inflation to return to the 2-3% target range this year, see Figure 1, but it also is

wary of softer economic growth. Potentially countering the latter point though is consumer spending that has showed some signs of rebounding as well as improved sentiment in the housing market. Importantly, the RBA anticipates the labour market to remain strong: unemployment is expected to tick up slightly but then stabilise a touch above 4%.

Meet your Portfolio Manager

Daniel Nelson, Portfolio Manager



Daniel Nelson manages the Responsible Investment portfolio in Perpetual Private. Daniel is also the analyst responsible for research and advice on the Mining, Energy and Materials sector. Daniel joined Perpetual in 2011. He is a CFA charterholder and holds the CFA Institute Certificate in ESG Investing.



CERTIFIED BY RIAA

The Perpetual Direct Australian Equities Responsible Investment Portfolio has been certified by the Responsible Investment Association Australasia according to the operational and disclosure practices required under the Responsible Investment Certification Program.

See www.responsiblereturns.com.au for details¹.

Figure 1: RBA's Inflation forecast



Source: RBA Statement on Monetary Policy Feb 2025: <https://www.rba.gov.au/publications/smp/2025/feb/#:~:text=Reserve%20Bank%20Board%20Statement,Monetary%20Policy%20Board%20Statement>

General positivity in January and early February gave way to uncertainty for the remainder of the quarter. Pronouncements emanating from the White House and lacklustre results during Company Reporting Season through the rest of February caused the ASX index to give up 4% across the month of February. In this environment some of our favoured 'defensive' positions saw the best outcomes over the period (**Telstra (TLS)**, **Medibank (MPL)**, **Brambles (BXB)**). Through Reporting Season we noted three key points: the Australian consumer is remarkably resilient which aligns with some of the RBA's postulations, boring and dependable defensives play a key role in portfolio construction in uncertain and volatile times, and corporate Australia's financial health is strong with more capital being returned to shareholders through increased dividends and share buybacks.

Global trade tensions then took hold of the market's collective consciousness through March in the lead up to Trump's Liberation Day in early April. The prospect of the USA imposing tariffs on several trading partners and potentially the rest of the world too created considerable uncertainty. This led to concerns about disrupted global supply chains, weaker global economic growth, and reduced demand for Australian exports, impacting investor sentiment. Gold miners outperformed significantly due to rising gold prices driven by safe-haven demand amid this rise in uncertainty. Conversely, the banking sector faced concerns regarding net interest margin compression combined with a potentially disrupted economic environment. Finally, supermarkets received a fillip when the Australian Competition and Consumer Commission (ACCC) found that the major retailers should not be broken up.

Investment outlook

For the first time in a several years the investment outlook is not dominated by the direction of inflation and interest rates. At least as a first order concern. Instead, the market's eyes are firmly fixed on announcements emanating from the US White House as well as reactions from China and Europe. Escalating trade tensions are casting a shadow over the global economic outlook. This uncertainty is expected to continue influencing market sentiment and could lead to volatility in the ASX, especially for companies with significant international exposure or reliance on global supply chains.

Mounting trade tensions are a serious threat to global economic stability. The imposition of tariffs and retaliatory measures disrupts established trade flows and creates uncertainty for businesses. This can lead to reduced investment as company management and boards require a higher level of certainty to deploy capital, decreased and/or increasingly inefficient manufacturing output, and higher consumer prices for any goods or services that are touched by the changes. As global supply chains are interconnected, these disruptions can have a cascading effect which is likely to result in an overall slowing of economic growth. If these tensions escalate further and persist, the cumulative impact could trigger a global economic slowdown, and the risk of a broader recession cannot be dismissed. Financial markets have begun reflecting this apprehension.

Domestically, the RBA has set an easing bias in its tone while a federal election campaign is likely to provide promises of fiscal easing, with cost-of-living measures top of mind for voters and politicians. Further interest rate cuts are possible throughout 2025. Importantly, with the cash rate at 4.10% the RBA has scope to reduce rates further if indeed global growth slows and hinders the Australian economy.

So, while the global macro-economic outlook is uncertain with a broad economic slowdown likely if trade wars continue their current path, the Australian economic picture is relatively robust and relatively immune. Australian macro-economics are in a reasonable position with most potential workers employed and inflation on the right trajectory and the RBA has scope to provide support should it need to. At a micro-economic level, corporate Australia is well positioned with healthy balance sheets and a steady consumer.

Portfolio strategy

The macro-economic debate around whether central banks could navigate a soft-landing scenario that dominated portfolio strategy and company analysis in 2024 has been replaced in 2025 by analysis of global trade tariff exposures. As we enter this new macro-economic phase, one which appears at first glance to be an unwinding of the 20th century's globalisation, portfolio strategy around sector and stock positioning is tricky. Not least because we cannot with certainty know which changes will, and which won't, last.

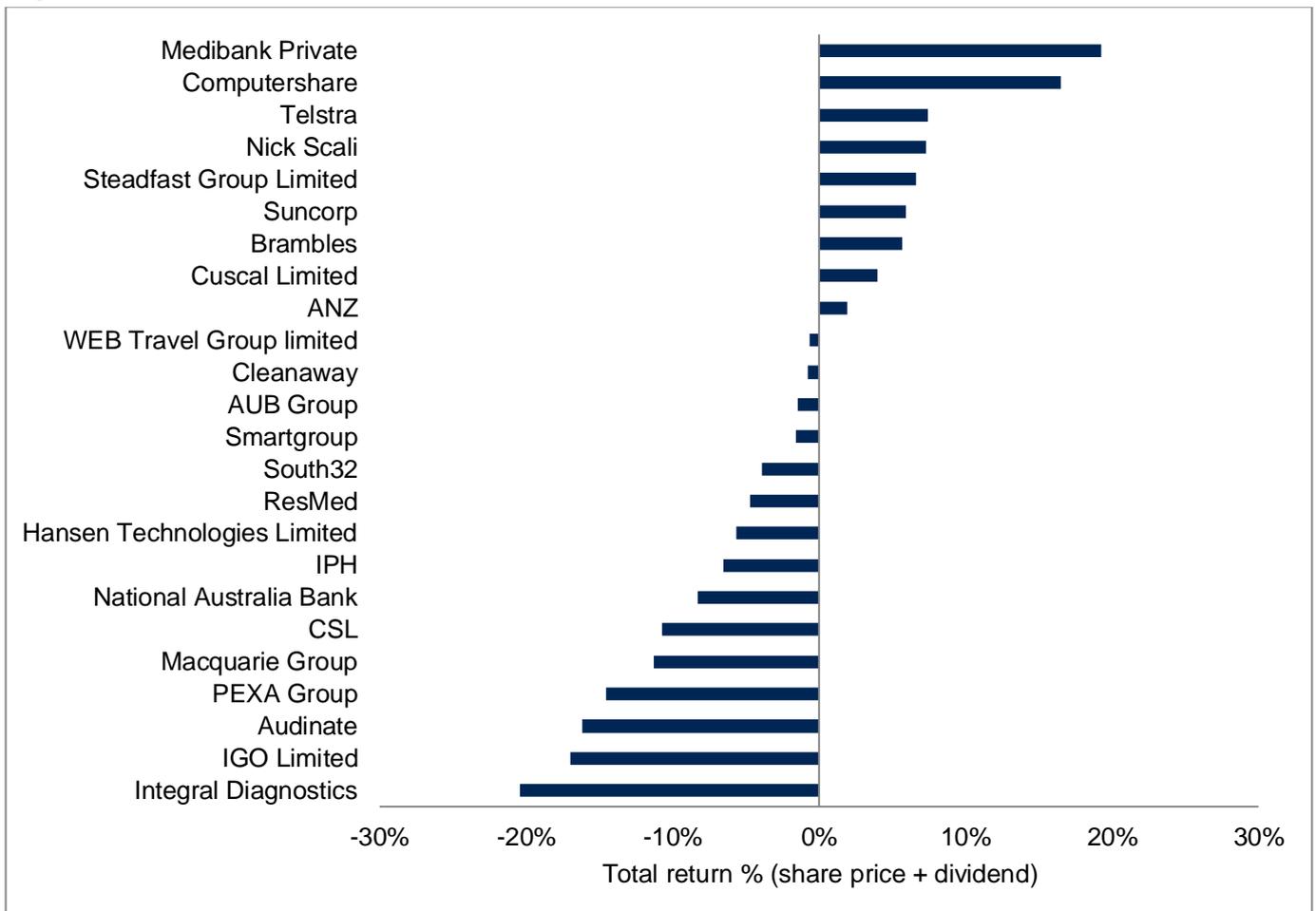
We exited the March quarter with a well-balanced portfolio of quality names that don't carry too much financial leverage. This is largely due to a good mix of defensive versus cyclical stock exposures in our portfolios during 2024 as we navigated numerous soft-landing scenarios. We did remove some degree of conservative bias during 2024 as we became more convinced around a soft-landing scenario but maintained exposures to **Medibank**, **Telstra**, **Suncorp (SUN)** and **Brambles** and built a new position in **Computershare (CPU)** (based on our view of higher-for-longer interest rates). In the March quarter as trade tensions rose, we

added to some of our more defensive style Healthcare investments (**CSL** and **Integral Diagnostics (IDX)**). We also swapped **AUB Group (AUB)** out for its larger and more stable peer **Steadfast Group (SDF)**. These more defensive style businesses, whose earnings are more dependable when growth is uncertain, should provide the portfolio with a solid foundation as trade tensions cause volatility to rise.

Beyond the immediate ructions of early April 2025, the possible paths forward are many and varied. We will be careful and deliberate in our portfolio moves, searching for the right longer-term investments. Indeed, it is in these environments where good quality companies are sometimes for sale at bargain basement prices.

We remain focused on finding long-term growth stories driven by the quality criteria that lie at the heart of our investment philosophy. Sustainable profitability, dominant market positions, conservative balance sheets and experienced management teams remain vital to the kind of medium-term outperformance that we are seeking to deliver. We seek to maintain concentrated portfolios of high conviction positions that reflect our best ideas at all times.

Figure 2: Responsible Investment model portfolio total return for the March 2025 quarter



Source: FactSet, March 2025. Past performance is not indicative of future performance.





Spotlight Article

Financial leverage

Early April 2025 brought with it Trump’s Liberation Day, a barrage of tariffs against all and sundry and a broadside against global trade. That tariff changes were coming was no secret, but the extent and size of them shocked markets which subsequently sank. When markets stumble on economic worries and recession whispers, keeping a close eye on a company’s debt – its financial leverage – becomes crucial. Think of it like this: when the economic seas get rough, companies with less debt are like sturdy ships that can weather the storm. They have more flexibility to navigate challenges, invest for the future, and aren’t weighed down by hefty interest payments. In uncertain times, lower leverage can mean the difference between a company staying afloat and potentially sinking. It’s a sign of resilience and a key factor to consider when looking for safer harbors in a volatile market.

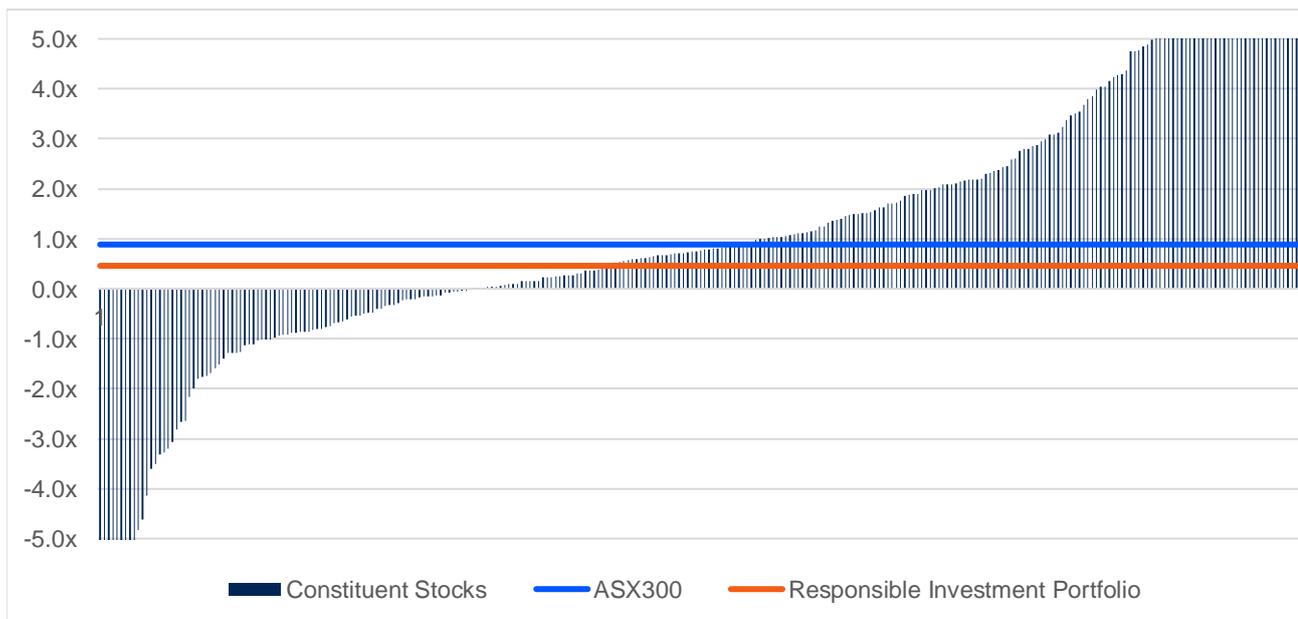
Financial leverage, or lack thereof, is one of our four markers of Quality. Periods like the Great Financial Crisis and market melt-down of 2007-9 show how quickly operating environments can change for the worse, far more swiftly than most companies can change their strategies. Lessons learned during those times lead us to retest our portfolio’s financial leverage whenever large negative events surface. Even if our

investment process says we should be fine, we test again. It is part and parcel of protecting the downside.

Figure 3 below, depicts the financial leverage within the benchmark ASX300, ex banking stocks. To determine financial leverage we look at the latest net debt to EBITDA ratio for each company (columns, graph capped at +/- 5 times). The horizontal blue line shows the index’s market cap weighted average financial leverage of 0.99 times. That means, that within the large cap stocks on the ASX net debt is essentially equal to EBITDA, a sound level that shows corporate Australia’s management teams have not sought to stretch or test their balance sheets. We would expect our portfolio to display more conservative debt levels than the benchmark and that indeed is the outcome. The orange line depicts the Responsible Investment Portfolio’s weighted average financial leverage at 0.5 times, approximately half that of the benchmark.

Once we are satisfied that an economic downturn does not represent an existential threat to the portfolio or its constituents, we can then get more nuanced around scenarios and sensitivities. We look to see what is being priced into an investment option and whether that makes for an opportunity to buy or sell.

Figure 3: Financial leverage of the ASX300 Benchmark ex Banks



Source: FactSet.

Portfolio changes – March Quarter 2025

Weight changes	Date	Previous weight %	New weight %	Sector
★ Steadfast Group	5/03/2025	0.0	3.2	Non-bank Financials
▲ CSL	5/03/2025	7.2	8.2	Health Care
▲ IGO Limited	5/03/2025	2.3	2.8	Metals & Mining
▲ Integral Diagnostics Ltd.	5/03/2025	1.7	2.2	Health Care
▲ Hansen Technologies Limited	5/03/2025	2.6	3.1	Communications & Technology
▼ Suncorp Group	5/03/2025	4.3	3.3	Non-bank Financials
▼ Computershare	5/03/2025	6.3	4.3	Non-bank Financials
⊙ AUB Group Limited	5/03/2025	2.7	0.0	Non-bank Financials
▼ Nick Scali Limited	11/02/2025	2.8	2.3	Consumer Discretionary

Top 5 high-conviction holdings – as at 22/04/2025

Model portfolio stock	Relative weight [‡] %	Holding weight %	Sector
Telstra (TLS)	+5.5	7.6	Communications & Technology
Brambles (BXB)	+5	6.2	Industrials
Resmed Inc. (RMD)	+4.8	5.6	Health Care
National Australia Bank (NAB)	+4.7	9.0	Banks
ANZ Banking Group (ANZ)	+4.5	8.0	Banks

[‡]Reflects portfolio manager conviction. Represents the percentage held above the stock's weight in the ASX 300 index.

¹ The Responsible Investment Certification Program provides general advice only and does not take into account any person's objectives, financial situation, or needs. Neither the Certification Symbol nor RIAA recommends to any person that any financial product is a suitable investment or that returns are guaranteed. Because of this, you should consider your own objectives, financial situation and needs and also consider the terms of any product disclosure document before making an investment decision. Certifications are current for 24 months and subject to change at any time.

Perpetual Private advice and services are provided by Perpetual Trustee Company Limited (PTCo) ABN 42 000 001 007, AFSL 236643. This publication 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 situations or needs. You should consider with a financial adviser whether the information is suitable for your circumstances. The information is believed to be accurate at the time of compilation and is provided by PTCo in good faith. This document may contain information contributed by third parties. PTCo does not warrant the accuracy or completeness of any information contributed by a third party. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on any information in this publication. Performance is indicative of the total return of the model portfolio's stocks over the period. Client performance may differ due to timing of alignment with the model portfolio, advice fees, administration fees and transactional costs associated with the client's portfolio. Past performance is not indicative of future performance. No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any portfolio, stock or the return of an investor's capital. No allowance has been made for taxation. Published in April 2025.

More information

Contact your financial adviser or call:
 Perpetual Private: 1800 631 381
 Email: perpetualprivate@perpetual.com.au
www.perpetual.com.au/advice

Trust is earned.

