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LIS LONSEC INVESTMENT SOLUTIONS

EVIDENTIA PRIVATE

Implemented Portfolios

Portfolio Perspectives

November 2025

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Portfolio Perspective – A Unified Investment View

We are pleased to present this edition of *Portfolio Perspective* as a significant milestone in the evolution of the Evidentia Group. The unification of Evidentia Private, Lonsec Investment Solutions, and Implemented Portfolios under a single ownership structure has brought with it the opportunity- and the responsibility - to align our investment thinking across the enterprise.

For the 19 investment professionals who contribute to our collective views, the process of convergence has been both collaborative and constructive. Encouragingly, we found far more common ground than difference, allowing a unified investment philosophy to emerge naturally and with clarity.

While the views expressed in *Portfolio Perspective* represent the Evidentia Group "house view," they are intended as the foundation for further refinement.

Each client group's unique objectives and circumstances guide how these ideas are tailored and implemented across the solutions we deliver.

– The Evidentia Group Investment Team

Key Messages for Investors

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- **Australia Large Caps:** Moved to mildly Underweight due to limited profit growth from Banks and Resources and stretched valuations elsewhere, making global alternatives more attractive.
- **Emerging Markets:** Shifted to mildly Overweight as profit forecasts stabilise and valuations sit at multi-decade lows, with expected double-digit earnings growth driven by improving conditions in China, South Korea, and India.
- **Listed Infrastructure:** Increased to mildly Overweight given attractive valuations, stable dividend yields, and support from potential rate cuts, offering defensive qualities amid market volatility.
- **AI**-driven enthusiasm is boosting valuations, but genuine productivity gains are also becoming evident; early-career workers face displacement as automation advances, echoing past technological transitions.
- **US Government Shutdown:** A prolonged shutdown could meaningfully slow near-term US growth, costing about US$15 billion per week, though the overall impact is expected to be temporary if resolved promptly.

Outlook for Australian Equities Remains Challenged

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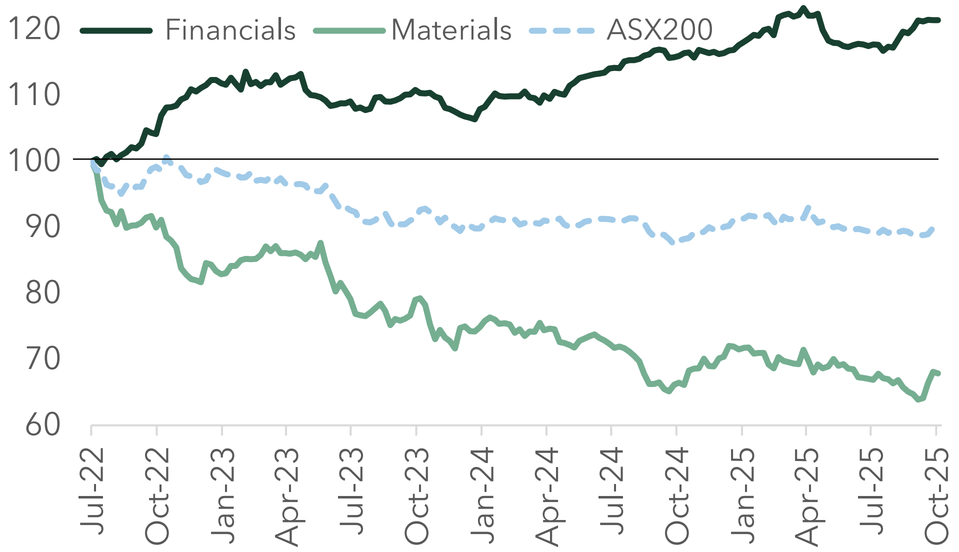
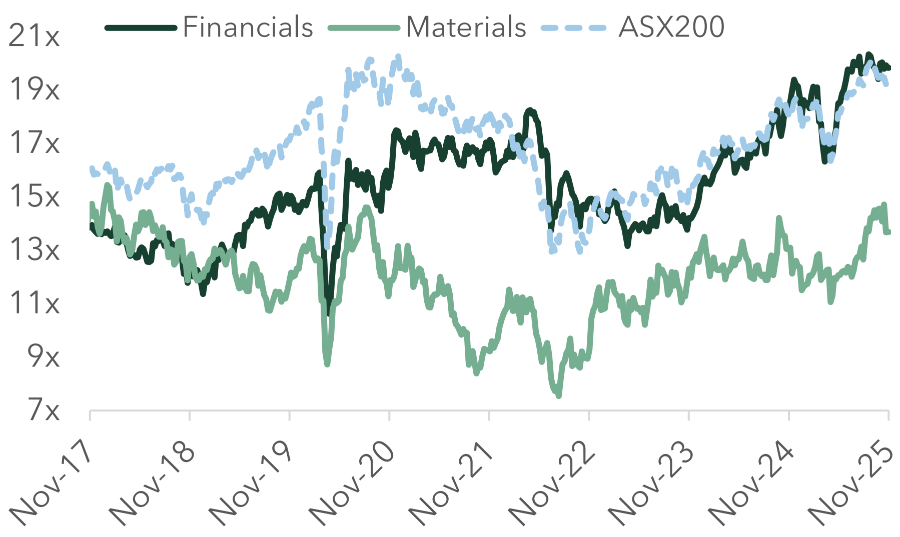
Higher commodity prices are needed to lift the ASX higher from here

ASX200 earnings revisions on a 12-months forward basis



- Lower commodity prices have driven earnings for the Resources sector lower over the last 3 years.
- Banks earnings estimates have been trending higher over the same period, as profits recovered from the COVID-19 trough.
- The net impact has resulted in three years of sluggish earnings growth for the market.

ASX200 PE ratio close to historical peak



- The rally in Bank shares has driven market PE close to peak historical levels.
- Higher commodity prices are needed to lift the ASX higher from here.

Source: Factset, Evidentia Group estimates

Australian Share Prices Face Headwinds

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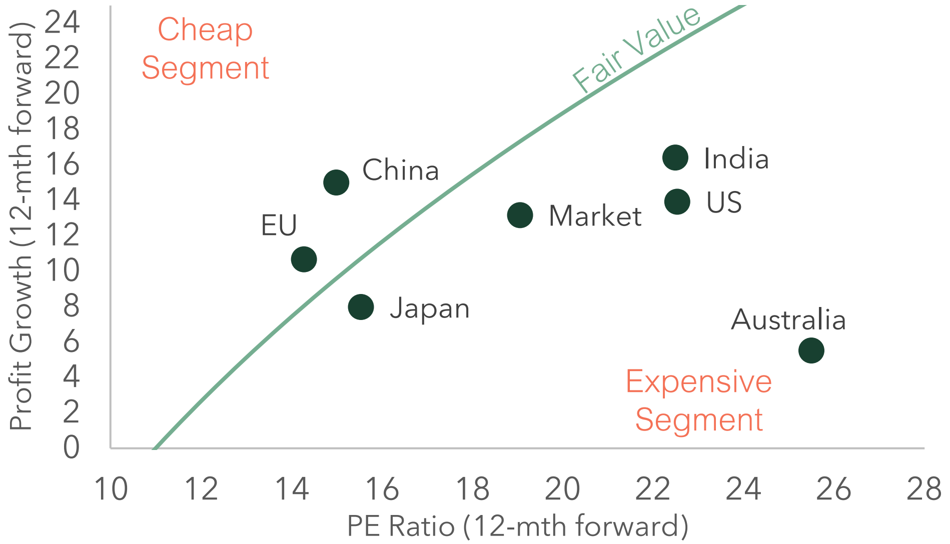
Modest earnings growth and starting high multiples are headwinds

Poor investor choice: low growth or high multiple

FY26	EPS Growth	PE Ratio
ASX 100	5.5%	25.5x
Resources	3.3%	15.9x
Banks	1.3%	21.7x
Ex-Resources/Banks	8.5%	30.8x

- At a sector level, how much further can the Banks run given such a modest profit growth forecast? Resources forecasts are at the mercy of highly uncertain commodity prices.
- The growth outlook for the industrial universe on the ASX (excluding Banks and Resources) appears more appealing in FY26, where profits are expected to grow by 8.5%. However, a forward PE multiple of ~31x for this cohort more than captures the forward growth trajectory.

Global opportunity set is more compelling vs Australia



- The global opportunity set is more compelling.
- Superior growth for lower multiples can be found in other markets.

Source: Factset, Bloomberg, Evidentia Group estimates. Multiples based on Evidentia's in-house earnings estimates that exclude non-recurring items and adjusted for other distortions.

Emerging Markets (EM) Profits Rebounding

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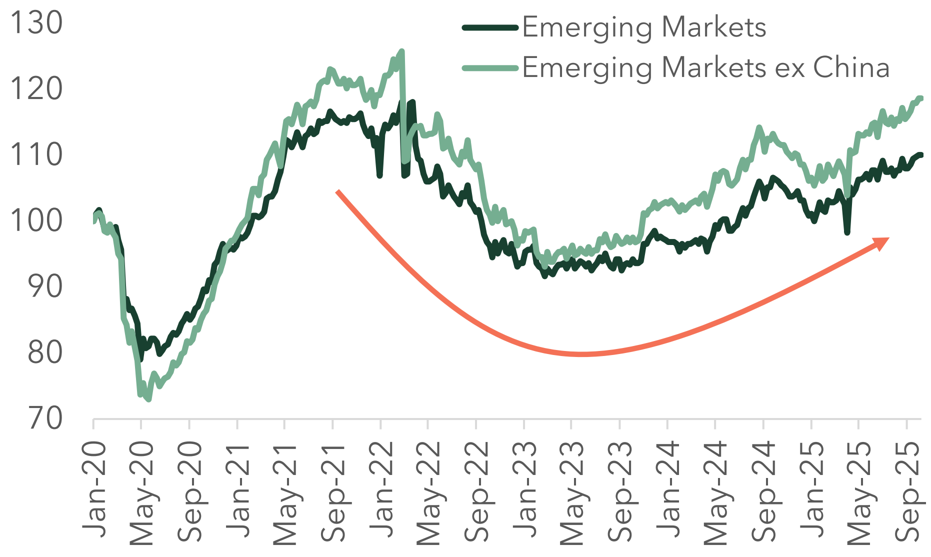
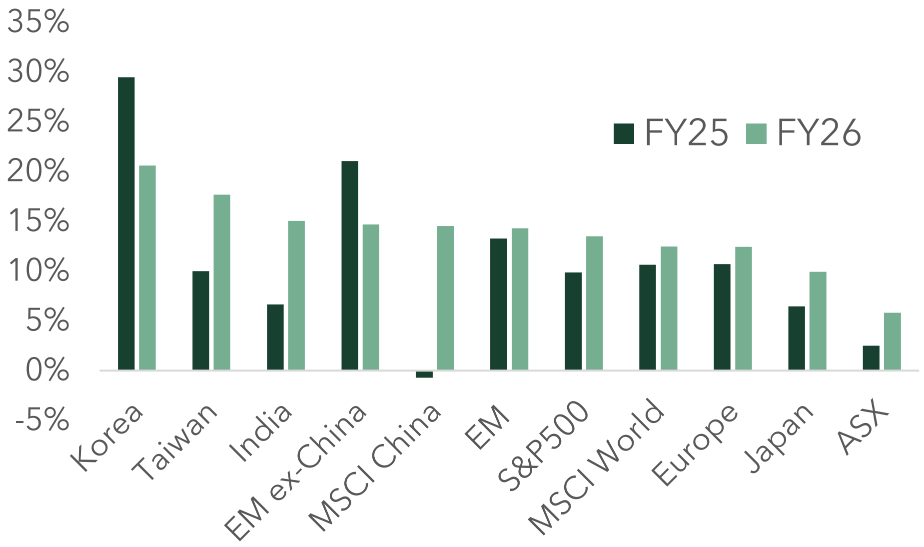
Earnings revisions have turned the corner across Emerging Markets

EM earnings revisions rising on a 12-month forward basis



Consensus profit forecasts remain very strong for the region



- From a bottom-up perspective, aggregate earnings in EM reached their peak in 2021, followed by a 21.6% decline over the subsequent two years before bottoming out in 2024.
- Despite underwhelming macro data from China, earnings across EM have staged a comeback over the past 18 months (+11% over 2024 and 14% over 2025), driven by stimulatory government policy and a resurgence from the 'New Economy' in China.

- Looking beyond China, the positive earnings trajectory has followed a similar pattern in Taiwan and South Korea, which constitute 20% and 11% of the MSCI Emerging Markets benchmark, respectively.
- Looking ahead, consensus earnings estimates for EM have remained stable YTD, with current forecasts for profit growth of 13.9% in 2025 and 16.1% in 2026 (22.5% and 17.2% for EM ex-China).

Source: Factset, Evidentia Group estimates

Emerging Markets (EM) Valuations

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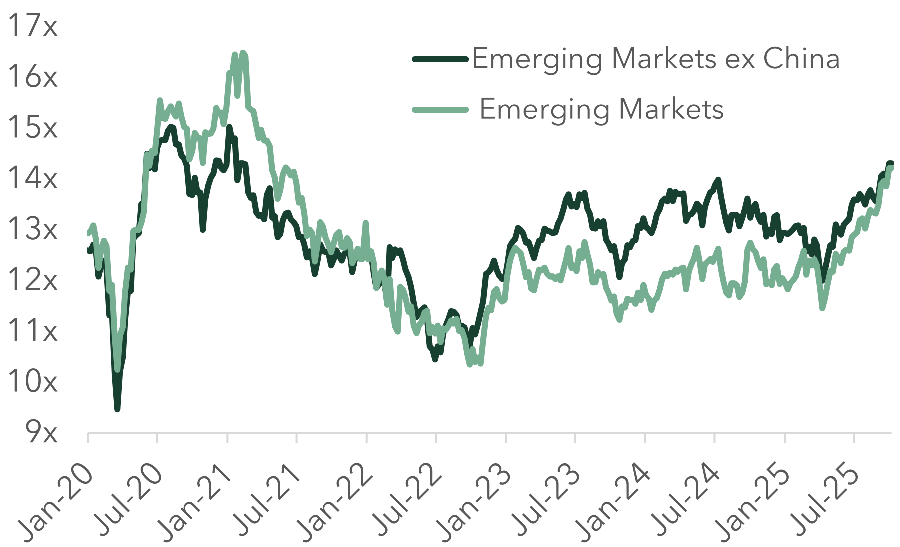
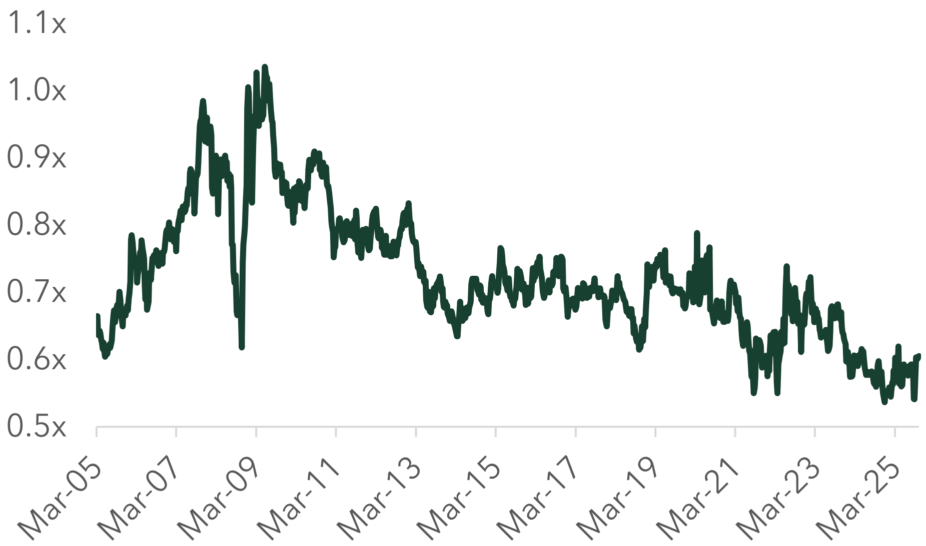
Emerging Markets valuations look attractive relative to Developed Markets (DM)

EM forward PE ratio



Relative Valuation, EM equities trading at large discount to DM



- From a valuation lens, despite rallying 50% since October 2023, the forward PE ratio for EM equities currently stands at ~16x - certainly not in the expensive category should the expected earnings growth materialise over 2025-26.

- Despite a strong rally year to date, EM valuations remain at a substantial discount to US equities.
- As a subset, China Technology is also trading at a material discount to the Magnificent 7 in the US.
- The catalysts for closing this gap include: A positive outcome in the US-China trade relations, a weaker US dollar, EM central banks reducing their key policy interest rate further, and China policy support.

Source: Factset, Evidentia Group estimates

Emerging Markets (EM) Relative Performance

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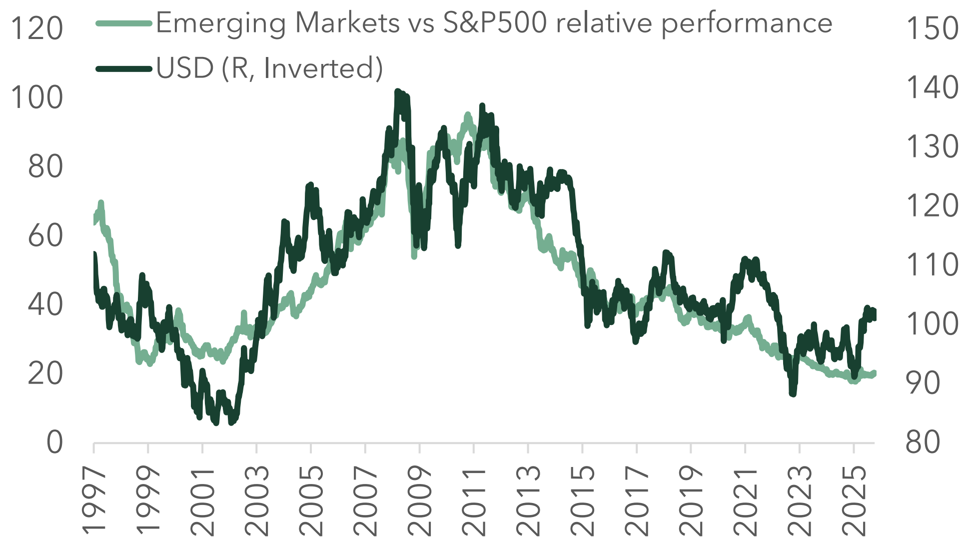
A weaker US dollar and stabilising earnings projections are favourable tailwinds for EM equities

EM vs DM forward profit revision index

- Forward earnings estimates for EM equities have stabilized versus DM equites, after a multi-year downgrade cycle.
- This has been driven by positive earnings momentum from China's 'New Economy' sectors.
- This is a positive sign for EM equities, and a precursor to EM outperformance should this trend persist.

EM relative performance and the US dollar (inverted)



- Foreign exchange markets are a key factor in driving EM equity performance.
- EM equites have historically outperformed during periods of US dollar weakness.
- Any further weakness in the US dollar will be a positive tailwind for EM Equities.

Source: Factset, Evidentia Group estimates

Constructive View on Global Listed Infrastructure (GLI)

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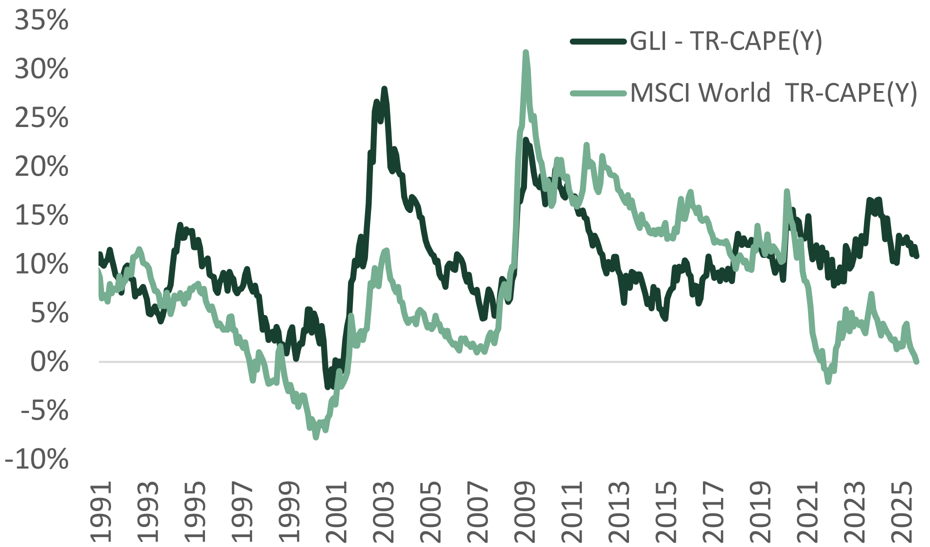
Very attractive valuation compared to most growth assets

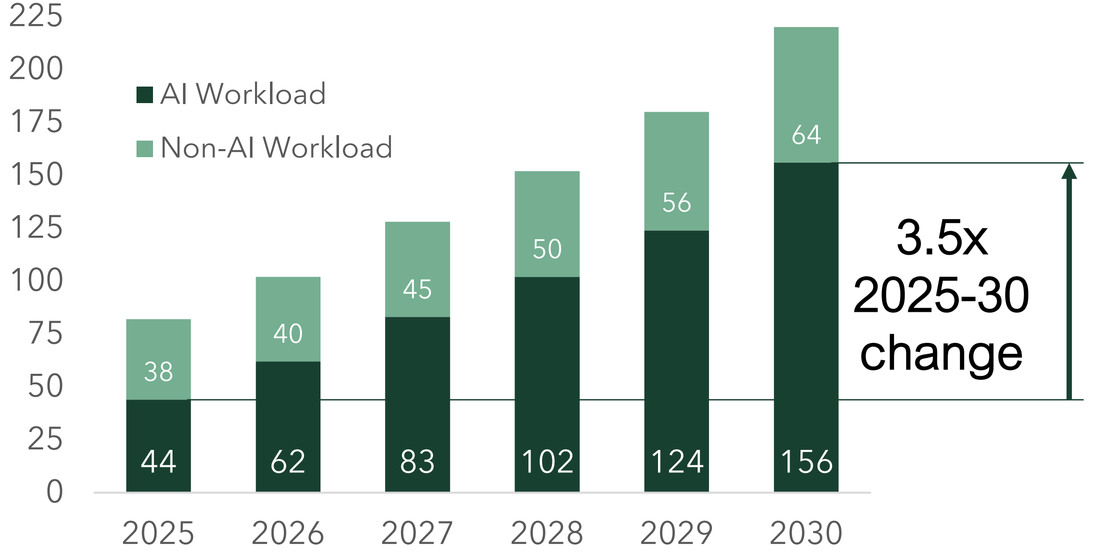
Cyclically Adjusted PE Ratio (CAPE) for GLI very compelling



- Infrastructure assets are trading at attractive valuations, with a forward dividend yield of 4.9% compared to the long-term average of 5.0% versus most growth assets, which are currently priced near the 90th percentile of their historical valuation ranges.
- The prospect of lower interest rates as major Central Banks keep reducing their key policy interest rate, provides a supportive backdrop–particularly for regulated utilities and other capital-intensive, leveraged infrastructure businesses.

Data centre power demands will likely boom too

Est. global data centre capacity demand, 'continued momentum' scenario (Gigawatts)



- Investment in infrastructure projects is expected to remain strong. The AI boom primarily located in the United States, defense spending through Europe and the continued greening of electricity networks give rise in infrastructure investments through data centres, electric utilities and transportation networks.
- The asset class offers lower volatility and reduced market sensitivity (beta), qualities that will be increasingly valuable should broader markets experience bouts of instability.

Source: Factset, McKinsey, Evidentia Group estimates

Is Artificial Intelligence (AI) a Bubble?

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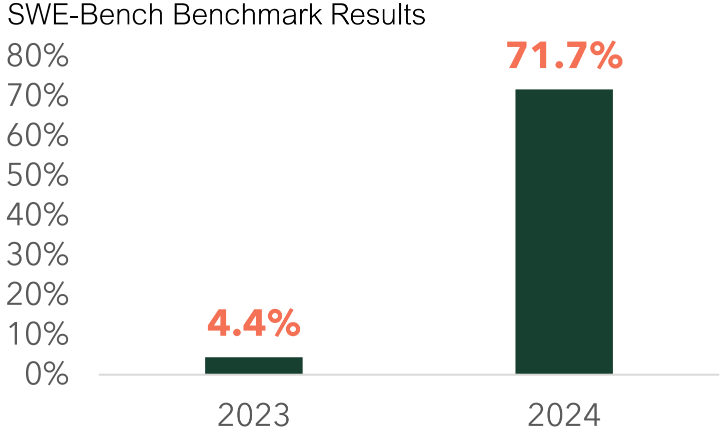
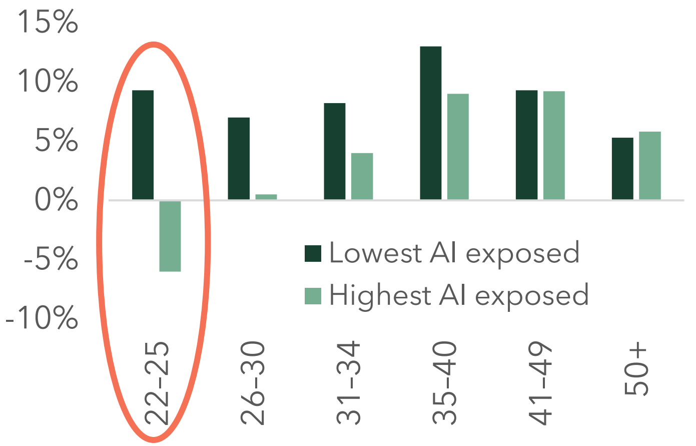
At the heart of the debate are the real impacts AI is having on the economy

Large Language Models (LLM) capabilities are leaping forward



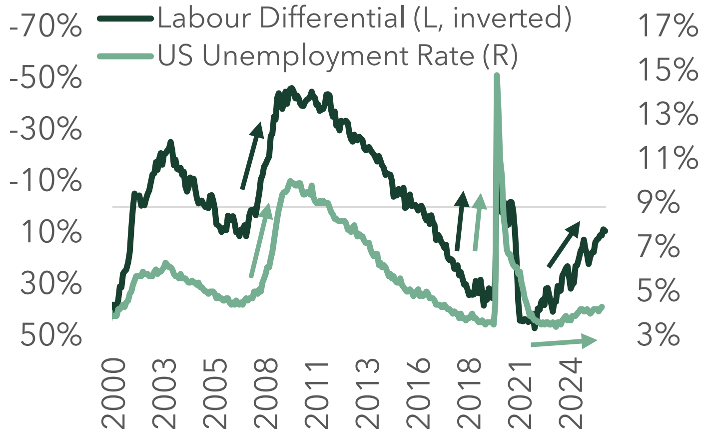
- The 2025 AI Index Report from the Stanford Institute for Human-Centered Artificial Intelligence (HAI) - AI systems evaluated on the SWE-Bench benchmark solved only 4.4% of coding problems in 2023, but achieved 71.7% in 2024.
- A substantial leap in the capability of large language models (LLMs) to address real-world software engineering tasks.
- As AI continues to advance at this pace, its potential to substitute for human labour is likely increasing as well.

Early-career workers aged 22-25 are showing strain in roles most exposed to automation



- Employment in AI-affected jobs fell 6%, while older cohorts in the same roles grew 9%. Less AI-exposed fields saw steady growth of 6–13% across all ages.
- This suggests AI is impacting entry-level roles the most.
- Generative AI is reshaping early career paths, reducing demand for junior knowledge roles even as overall employment holds firm.

Is this the elusive productivity lift that has evaded the US for so long?



- This may be behind the softness in labour conditions where the ratio between those believing jobs are "plentiful" compared to those who feel they are "hard to get" is getting worse (labour differential). Yet overall employment conditions are fair.
- AI's impact is real, displacing some roles while boosting overall productivity.
- Whether markets are overestimating near-term gains or rightly anticipating a productivity boom, AI is clearly redefining the foundations of future growth.

Source: HAI, Canaries in the Coal Mine? Six Facts about the Recent Employment Effects of Artificial Intelligence-26 Aug 2025, The Conference Board, Factset, Bloomberg Evidentia Group estimates

What About the US Government Shutdown?

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A prolonged government shutdown poses a meaningful drag on the US economy.

- Historical precedent from the 2018–2019 shutdown, which lasted 35 days, shows it cost the economy roughly US$400 million per day in lost wages.
- Current U.S. Treasury estimates suggest a similar event today could cost around US$15 billion per week, or about 0.05% of GDP — an impact that compounds significantly if the disruption endures.
- With the U.S. economy projected to grow only 1.6% over the coming year, a lengthy or repeated shutdown could materially weaken already modest growth momentum.
- While short-term disruptions can typically be absorbed, extended fiscal paralysis risks slowing near-term economic activity and undermining confidence across key sectors.
- Although current assessments suggest the effects will be temporary, the situation remains fluid. As the shutdown nears a potential record length, ongoing monitoring is warranted to identify any shift toward more lasting economic harm that could warrant a reassessment of outlook and positioning.

Source: Congressional Budget Office, US Treasury, Evidentia Group estimates

Outlook and Positioning

Stretched valuations require rotation to where we believe there is better relative value

Growth Assets	Underweight		N	Overweight	
Australian Equities – Large Cap					
Australian Equities – Small Cap					
Developed Market (DM) Equities – Large Cap					
Developed Market Equities – Small Cap					
Emerging Market (EM) Equities					
Global Listed Property					
Global Listed Infrastructure					
Growth Alternatives					

Defensive Assets	Underweight		N	Overweight	
Australian Bonds					
Global Bonds					
Diversified Income					
Defensive Alternatives					
Cash					

Growth Assets

- Australian Equities: Weak profit growth in Banks and Resources, with stretched valuations elsewhere, makes this market unattractive versus global alternatives.
- Small Caps: Dominated by unprofitable junior miners; while China's recovery may help, exposure is better gained directly. Gold strength adds froth to valuations.
- Global Equities: Tariffs remain a mild headwind, but overall growth fears have eased as economic indicators stabilise.
- Emerging Markets: China-led markets benefit from stronger consumption policies, reduced U.S. dependence, and appealing valuations.
- Global Listed Property: Requires active management; while offices face structural challenges, rental growth is improving in sectors like aged care and logistics.
- Global Listed Infrastructure: Attractive valuations, solid dividend yield, and defensive traits make it a beneficiary of lower interest rates.

Defensive Assets

- Australian bond yields offer good value and provide safety from overseas volatility. Positive supply/demand dynamics further supported by demonstrable better fiscal discipline relative to peers.
- US fiscal and monetary policy uncertainty is distorting the defensive qualities of Global Bonds. Japan is still in hiking mode.
- Gold acts as a risk-diversifier against a further deterioration in economic conditions or escalation in geopolitical tensions.

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