

Vertium Equity Income Fund

Fund Update | 30 September 2025

Key Facts

Awards

Money magazine's Best of the Best Awards—Australian Equity Income 2024
 Financial Standard Leadership Award—Australian Equity Income Focused 2023

Investment objective

Higher level of income than the Index
 Lower volatility and drawdown than Index
 Potential for capital growth over the medium to long term (net of all fees)

Benchmark Index

S&P/ASX 300 Accumulation Index

Inception date

April 2017

Number of stocks

20 - 40

Distribution

Quarterly

Management fee

0.97 p.a.

Buy/Sell spread

+0.25 /-0.25

Minimum investment

\$20,000

APIR

OPS1827AU

Suitable investors

1. Low-risk or low-tax investors
2. Pre-retirees and retirees
3. Endowments and charities

Key Platforms

Asgard | BT Panorama | CFS | HUB24
 IOOF | Linear | MLC | Netwealth
 Oneview | Praemium | MyNorth
 Macquarie | Mason Stevens

Capital preservation metrics (since inception) ^

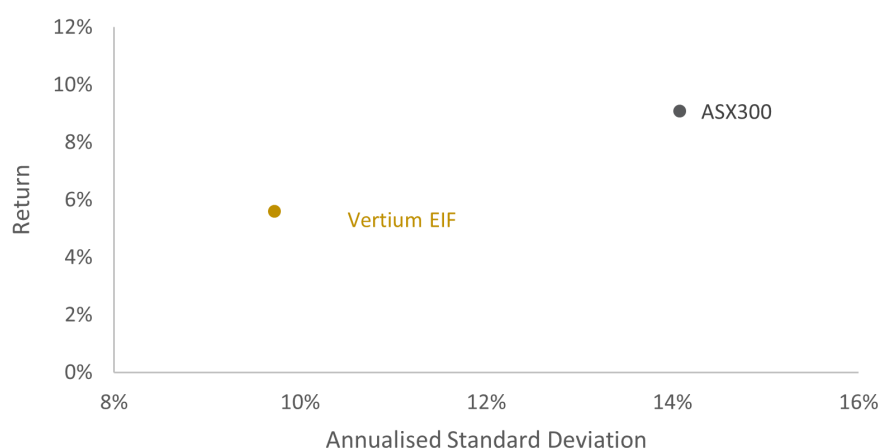
	Fund	ASX300
Outperformance frequency in down markets	82%	N/A
Down market capture ratio	66%	1
Beta	0.65	1
Maximum Monthly Drawdown	-13.8%	-20.8%

Performance (%)

	1 Mth	3 Mth	6 Mth	1 Yr	3 Yr pa	5 Yr pa	Since Inc. pa
Income	1.0	1.0	4.4	6.2	5.9	5.8	5.9
Growth	-1.4	1.6	3.7	-4.3	2.6	2.9	-0.3
Fund total net return (excludes franking)	-0.4	2.7	8.2	1.9	8.4	8.7	5.6
Income	0.6	1.1	1.8	3.5	4.1	4.2	4.2
Growth	-1.25	3.9	13.1	7.2	10.9	8.7	4.9
Index total return	-0.7	5.0	14.9	10.8	15.0	12.9	9.1
Fund beta	N/A	N/A	N/A	0.74	0.68	0.65	0.65
Franking credits	0.0	0.0	0.3	1.1	1.4	1.3	1.4
Grossed-up income	1.0	1.0	4.5	7.4	7.0	6.9	7.2
Grossed-up total return	-0.4	2.7	8.5	3.0	9.8	10.0	7.0

Return versus risk (since inception)

Return vs risk (since inception)



Portfolio Dashboard

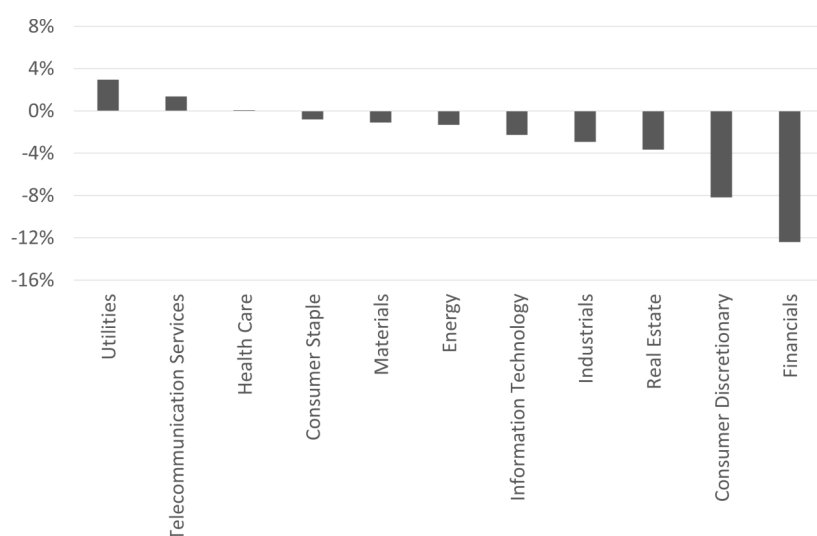
Top 10 holdings	ASX Code
BHP Group	BHP
Westpac Banking Corp	WBC
ANZ Group Holdings Ltd	ANZ
Orica Ltd	ORI
Qube Holdings Ltd	QUB
Fisher & Paykel Healthcare Corporation Ltd	FPH
National Australia Bank Ltd	NAB
CSL Ltd	CSL
Challenger Ltd	CGF
Telstra Group Ltd	TLS

Number of stocks	35
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Size exposure	%
Large Cap	51
Mid Cap	19
Small Cap	2
Effective Cash	28

Option exposure	%
Shares	87
Call Options	-8
Put Options	-8
Effective Cash	29

Sector Weightings



“Our equity income fund is designed with conservative investors in mind. We seek to deliver the benefits of equity exposure including attractive, tax effective income - with a commitment and focus on capital preservation.”

Jason Teh

Chief Investment Officer

FOR MORE INFORMATION, VISIT [VERTIUM.COM.AU](https://www.vertium.com.au)

Notes: As of 31.08.2021 the calculation of Income and Growth return series has been updated in line with FSC Standard NO. 6. ^Based on monthly data. Past performance is not a reliable indicator of future performance.

Disclaimer: The total return performance figures quoted are historical, calculated using soft close, end-of-month mid-prices and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. The performance is quoted net of all fees and expenses. The index does not incur these costs. This information is provided for general comparative purposes. Soft close unit prices are interim unit prices struck at month end before all transactions for the month have been completed. Performance data available on the Vertium website, [vertium.com.au](https://www.vertium.com.au), however, is based on hard close unit prices which are struck after all transactions for the month have been completed. ^ Month-end unit prices are hard-close and cum-distribution. # In order of highest to lowest weighting at the end of the reported month. Past performance is not a reliable indicator of future performance. Positive returns, which the Vertium Equity Income Fund (the Fund) is designed to provide, are different regarding risk and investment profile to index returns.

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Vertium Asset Management Pty Ltd (ABN 25 615 639 659), is a Corporate Authorised Representative (Corporate Authorised Representative Number 001258758) of Clime Asset Management Pty Ltd (ABN 72 098 420 770), AFSL 221146.

Quarterly perspective | the Markets

September 2025

The S&P/ASX 300 Accumulation Index delivered a 5.0% return for the September quarter. The best-performing sector was Materials (+21%), led by Lynas Rare Earths, which returned +95%. The worst-performing sector was Healthcare (-9%), with CSL bearing the brunt of the losses at -17%.

Australia's annual GDP growth rate for Q2 CY2025 increased to 1.8%. The unemployment rate also increased slightly to 4.2% in August 2025. The annual inflation eased to 2.1% in Q2 CY2025.

Commodity prices presented a mixed picture during the quarter. The copper price (-1%) was flat while the iron ore price (11%) rose. The Brent oil price (-1%) and the Newcastle thermal coal price (-3%) were also relatively flat. The gold price (18%) soared during the quarter.

Brave New World: Flows versus Fundamentals

Valuation bubbles are euphoric but fleeting, driven by short-lived speculative flows. The 2000 Dot-com boom (December 1998 to February 2000) and the 2021 COVID surge (March 2020 to January 2021) each lasted around 12 months before the speculative herd ran out of steam. These episodes drove unsustainable valuation spikes, illustrating how speculative flows can rapidly inflate stock valuations to stratospheric heights before swiftly dissipating.

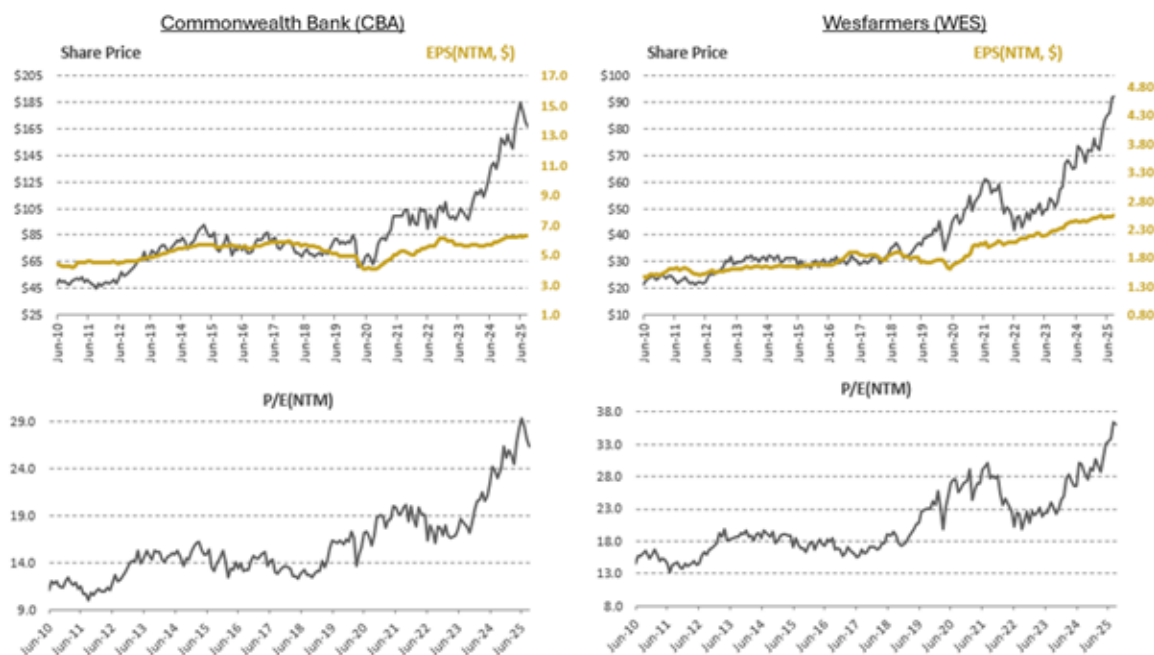


Source: FactSet

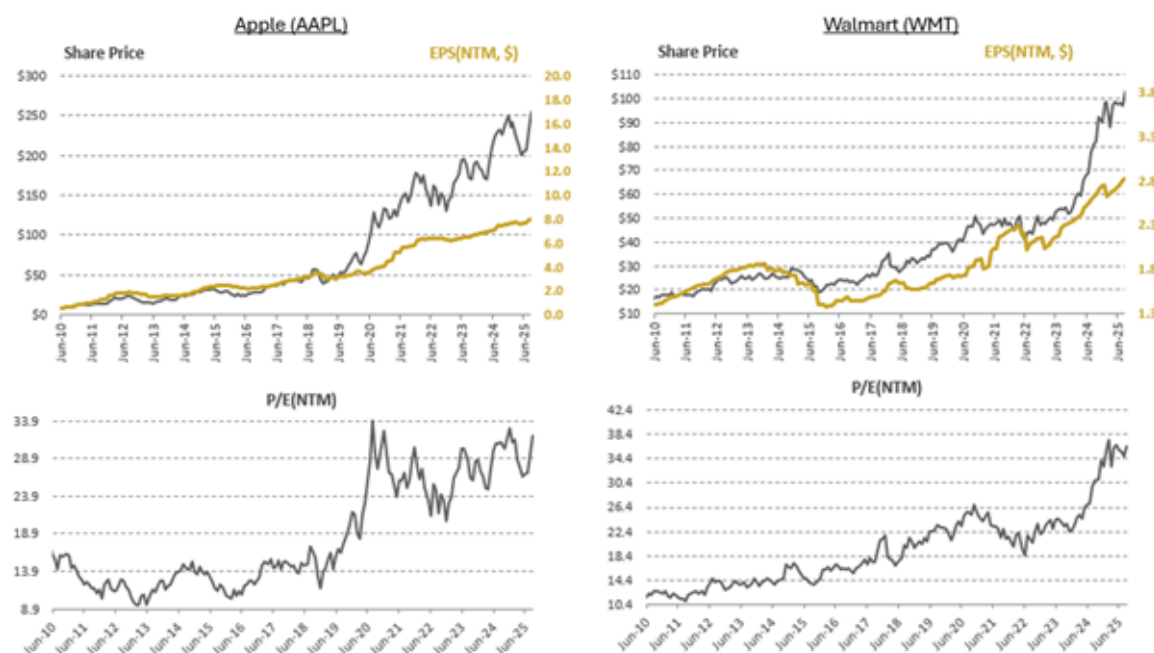
However, when overvaluation persists for years, it points to a structural force at play. Unlike the fleeting Dot-com and COVID bubbles, in recent years the overvaluation of large-cap stocks, particularly mega-caps, has been remarkably persistent. Large, mature companies like Australia's Commonwealth Bank (CBA) and Wesfarmers (WES) and the United States' Apple (AAPL) and Walmart (WMT) exhibited a surge in valuations starting from 2019, well before the COVID bubble.

Quarterly perspective | the Markets

Australian Mega-Cap Stocks



United States Mega-Cap Stocks



Source: FactSet

This mega-cap overvaluation theme is now several years old — far exceeding the typical one-year lifespan of speculative bubbles. At what point do we acknowledge this is not fleeting exuberance but a profound structural change?

A recent research paper, “Passive Investing and the Rise of the Mega-Firms” (Jiang, Vayanos, and Zheng, 2024), offers key insights. The authors demonstrate how inflows into passive funds disproportionately elevate the prices of the largest firms. Mega-caps, with their dominant index weights, enjoy a systematic bias toward higher valuations—not from speculation, but from the mechanical arithmetic of market-cap-weighted allocation.

Quarterly perspective | the Markets

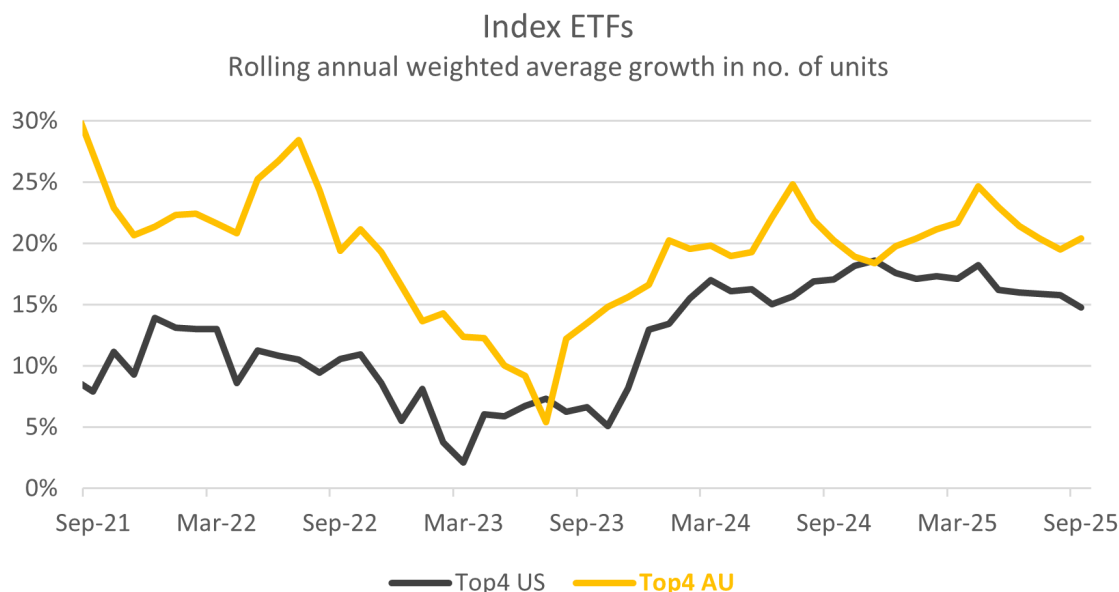
Passive investing: From Niche to Dominant Force

Passive investing began modestly in 1976 when the Vanguard Group launched the first publicly accessible index fund. For decades, it remained a fringe option, with assets growing slowly through the 1990s while trailing active funds. But momentum built after 2015, as passive strategies overtook active ones in inflows. By 2024, passive funds had surpassed active funds in total assets under management (AUM), reshaping market dynamics through sheer dominance in both capital flows and overall share.



The rise of exchange-traded funds (ETFs) has supercharged this trend. Today, the four largest index ETFs in the US—Vanguard S&P 500 ETF (VOO), iShares Core S&P 500 ETF (IVV), SPDR S&P 500 ETF Trust (SPY), and SPDR Portfolio S&P 500 ETF (SPLG)—hold a combined US\$2.2 trillion in assets under management (AUM), representing about 3.7% of the S&P 500's market capitalization. In Australia, counterparts like Vanguard Australian Shares Index ETF (VAS), iShares Core S&P/ASX 200 ETF (IOZ), SPDR S&P/ASX 200 ETF (STW), and BetaShares Australia 200 ETF (A200) manage approximately A\$46 billion, or roughly 1.8% of the ASX 200. Collectively, these funds grew (excluding market movements) by 15% in the US and 20% in Australia over the past year. Maintaining these rates for the next three years could boost their sizes by 45% and 67%, respectively, further eroding active funds' market share.

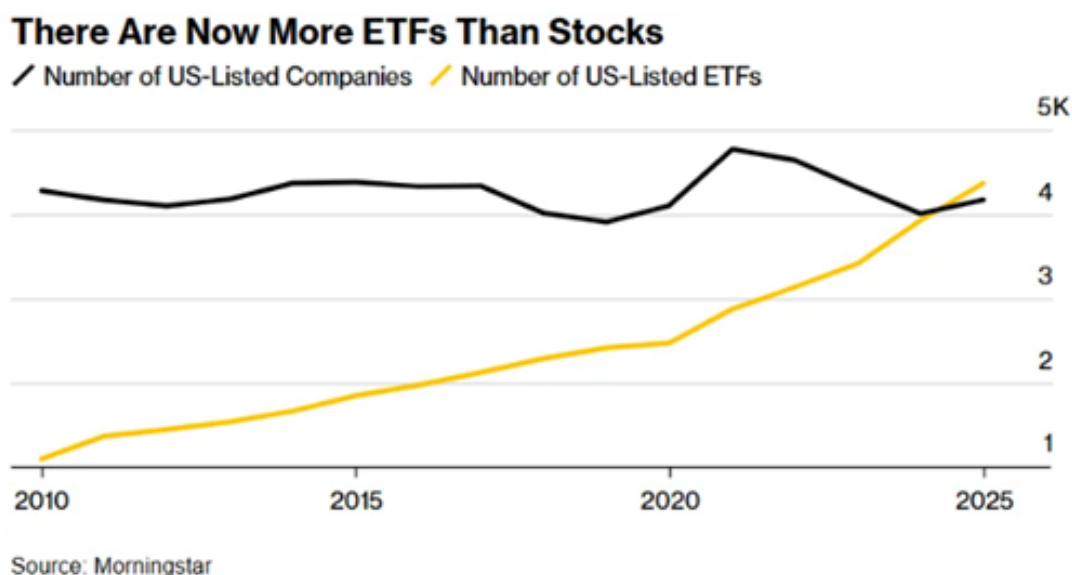
Quarterly perspective | the Markets



Source: Bloomberg

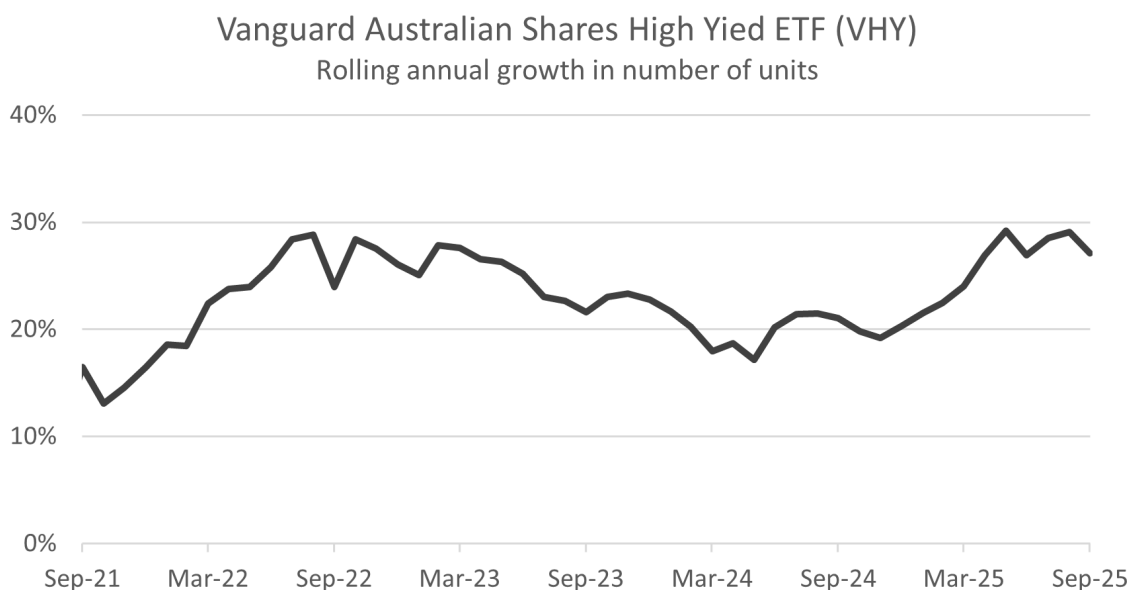
Smart Beta: Quasi-Passive Amplifier

Passive investing's dominance has also sparked a boom in smart beta strategies, which blend passive market exposure with systematic tilts toward specific factors like higher dividends, value, or momentum. ETFs now span diverse themes, from clean energy (ICLN) and robotics (ROBO) to cybersecurity (CIBR) and even portfolios mimicking US Senators' stock holdings (NANC and KRUZ). Demand for US smart beta ETFs has surged to the point where they outnumber the stocks listed on US exchanges.



Significant flows into smart beta funds are adding further fuel to mega-cap overvaluation, as many of these strategies rely on market-capitalization weighting as a baseline for portfolio construction. For example, the Vanguard Australian Shares High Yield ETF (VHY), which targets high-dividend-yield stocks, holds CBA as one of its largest absolute positions due to CBA's dominant index weight despite its modest yield. VHY's AUM stands at A\$5.5 billion, having grown its units by 27% last year. If that pace continues, its AUM could reach A\$7 billion (ignoring market movements), representing an additional A\$1.5 billion in inflows over the coming year.

Quarterly perspective | the Markets



Source: FactSet

Superannuation: Australia's Unique Amplifier

Australia presents an additional structural layer through its A\$3.9 trillion superannuation industry. The 2021 introduction of the MySuper Performance Test, under the Your Future Your Super reforms, has inadvertently accelerated the shift toward passive investing. Administered by the Australian Prudential Regulation Authority (APRA), the test compares funds' eight-year annualized returns against benchmarks for each asset class. Underperforming products face closure or forced mergers. To avoid regulatory scrutiny and penalties, many superannuation trustees have embraced "benchmark-hugging" strategies. This pivot funnels trillions into passive-like strategies, further reinforcing the structural overvaluation of Australian mega-caps.

Conclusion

In this brave new world of investing, fleeting speculative flows can still flare up, but structural inflows from passive strategies have redefined market norms. What began as a democratizing force has ballooned into a juggernaut, embedding overvaluation into mega-caps through relentless, arithmetic-driven allocations. If these trends persist—and there's little sign of slowdown—mega-caps' valuations in general will likely remain stubbornly elevated. In a flow-dominated landscape, fundamentals alone no longer dictate valuations, especially for mega-caps. Adapting means recognizing that these giants aren't just leading the pack — they're engineered to outlast it.

Reference:

Jiang, H., Vayanos, D., & Zheng, L. (2025). Passive investing and the rise of mega-firms. *Review of Financial Studies*

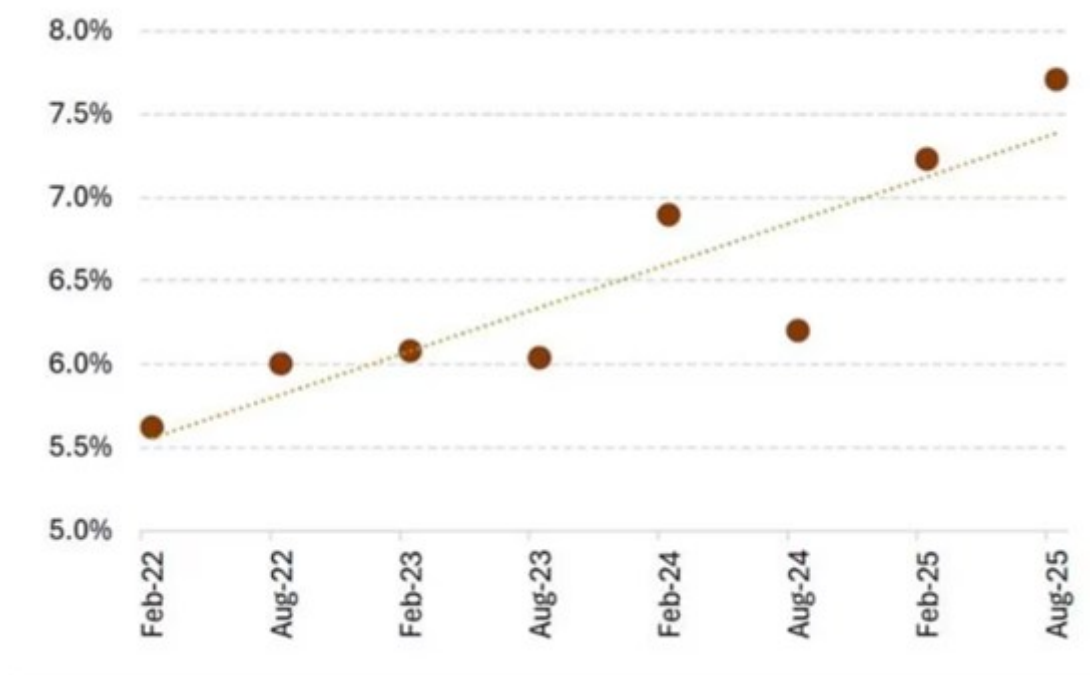
Quarterly perspective | the Portfolio

For the September quarter, the Vertium Equity Income Fund posted a total net return of 2.7%. The Fund distributed 1 cent per unit for the quarter. This helped deliver a robust 6.2% annual income return, significantly surpassing the benchmark's 2.7%. When accounting for franking credits, the grossed-up annual income return reached a healthy 7.4%.

The Fund's focus on capital preservation acts as an insurance policy against market risk, as evidenced by its annual portfolio beta of 0.74, which is about 26% lower than the benchmark's volatility. This translates to a smoother investment experience, with fewer dramatic swings in value compared to the broader market. This approach is particularly valuable in the current environment of elevated market valuations.

The August 2025 reporting season was the most volatile on record, marred by unprecedented market fluctuations. Intra-day share price swings during reporting seasons have surged by 40% over the past three years, reflecting heightened market sensitivity.

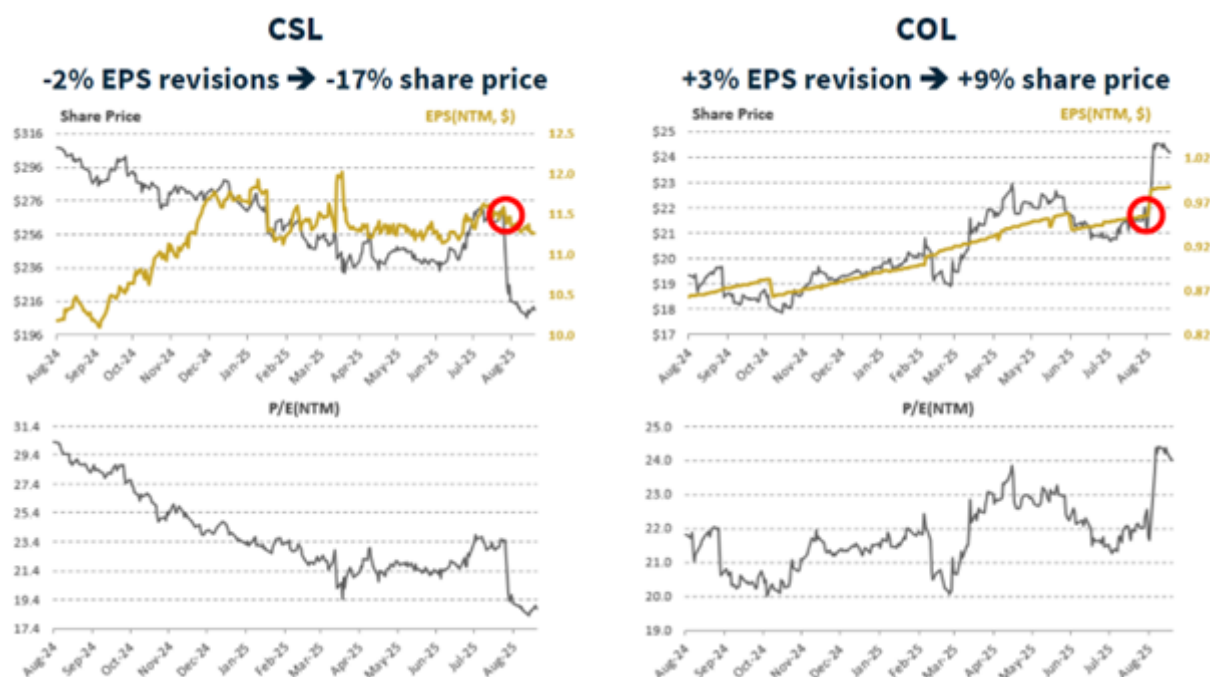
Volatility reached record highs - Intra-day swings:



Source: UBS, Factset, *% change between high and low price of day

This extreme turbulence was driven by rapidly shifting investor sentiment and structural changes in market dynamics. A pivotal research paper, "Passive Investing and the Rise of the Mega-Firms" by Jiang, Vayanos, and Zheng (2024), provides critical insights into these forces. The authors argue that the rapid growth of passive investing, particularly through index funds, disproportionately inflates the valuations of the largest firms and heightens their price volatility, as their stock prices become more sensitive to shifts in investor flows than to fundamental performance. The paper highlights how this dynamic amplifies market instability during reporting seasons, as evidenced in August 2025, when unexpected earnings outcomes triggered outsized price movements in large-cap stocks. For instance, large-cap stocks such as CSL and Coles (COL) exhibited extreme volatility on their results days.

Quarterly perspective | the Portfolio



Source: FactSet

Notable contributors for the quarter were Seek (SEK) and Ampol (ALD). Seek (SEK), a leading online employment platform, delivered FY25 results that aligned closely with market expectations. The company reported that ad volumes in its core Australia and New Zealand (ANZ) markets, which had been under pressure due to economic uncertainty, showed early signs of stabilization. This recovery was attributed to improving employer confidence and a gradual uptick in hiring activity. Seek's management forecasted a conservative 10% yield growth for FY26, underpinned by the successful launch of its Advanced tier product. This new offering, designed to enhance employer access to premium recruitment tools and analytics, is expected to drive incremental revenue growth by catering to high-value clients. Additionally, the broader macroeconomic environment played a supportive role. Central banks, including the Reserve Bank of Australia, began easing monetary policy in mid-2025, lowering interest rates to stimulate economic activity. This policy shift is anticipated to bolster business confidence, increase job postings, and, consequently, boost Seek's ad volumes over the medium term.

Ampol (ALD), a major player in the Australian fuel and convenience retail sector, announced a transformative \$1.1 billion acquisition of EG Australia, a deal that significantly strengthens its market position. By consolidating its operations with EG Australia's extensive network of fuel and convenience retail sites, Ampol aims to achieve greater economies of scale, streamline supply chain operations, and enhance its competitive edge in a fragmented market. The acquisition is projected to deliver high single-digit earnings per share (EPS) accretion and double-digit free cash flow per share accretion, reflecting improved operational efficiency and cost synergies. The deal, however, remains subject to approval by the Australian Competition and Consumer Commission (ACCC), with an expected completion date in mid-2026. Investors responded positively to the announcement, viewing it as a strategic move to bolster Ampol's long-term profitability in a sector facing increasing competitive pressures.

The Fund's performance was further enhanced by zero exposure to Commonwealth Bank (CBA), Australia's largest bank. While CBA reported FY25 results that met market expectations, its stock underperformed due to a broader market rotation away from traditional large-cap financials. Investors shifted capital into other large-cap stocks, including the remaining three major Australian banks (ANZ, NAB, and Westpac) and consumer-focused companies like Wesfarmers.

Quarterly perspective | the Portfolio

In contrast, Amcor (AMC), a global leader in packaging solutions, was a drag on the Fund's performance. The company reported a disappointing 4Q25 result, primarily due to weaker-than-expected volumes and cost pressures in its North American beverage packaging business. Soft demand for beverage packaging, driven by reduced consumer spending and inventory destocking by key clients, weighed on revenue. Additionally, rising input costs, including raw materials and energy, eroded margins, further dampening investor sentiment. In response, Amcor's management announced it is exploring the sale of its North American beverage division, which analysts estimate could fetch over \$1 billion. This potential divestiture aims to refocus the company on higher-margin segments and improve its financial flexibility. Despite the near-term challenges, Amcor's valuation remains attractive, trading at a record-low price-to-earnings (P/E) ratio. This valuation is supported by high single-digit EPS growth, driven by the successful integration of its recent acquisition of Berry Global's packaging business.

Concluding Remarks

The market remains vulnerable to volatility, with pockets of significant overvaluation alongside compelling opportunities. The Fund remains disciplined in its approach to ensure investors benefit from both attractive income and sustainable risk-adjusted returns.

We are grateful for the trust you place in managing your capital and appreciate your continued support.