ESCALA PARTNERS

DECEMBER QUARTERLY MARKET REVIEW

Q4 in review

Largest annual easing cycle since 2009

At least six major central banks cut interest rates during Q4 2024 including Canada (by 100bpts), Sweden (by 75bpts), the US, Switzerland and Europe (by 50bpts each), and the UK (by 25bpts). Australia, Norway and Japan left interest rates unchanged.

Over the year, monetary policy was eased by at least 825 basis points making it the largest annual easing cycle since 2009. By year-end, the momentum toward further cuts slowed significantly following the convincing election of Donald Trump in the US and signs the downward trend in inflation was fading.

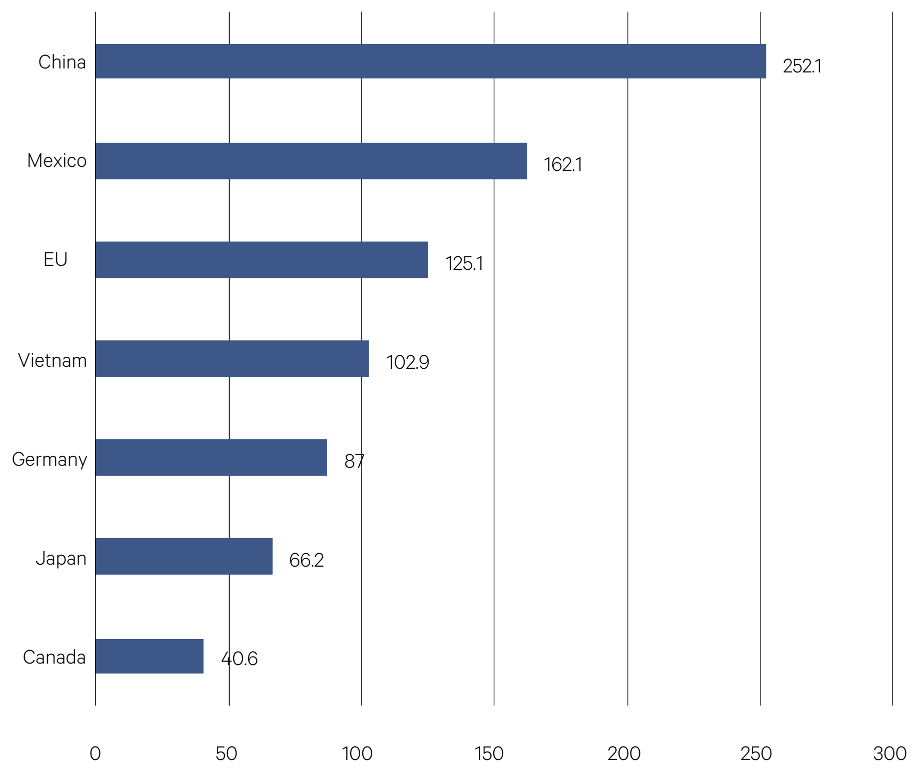
1. The Trump trade war

The November election resulted in a decisive victory for Donald Trump and the Republicans and led to November being the best month for global stock markets in over two years.

In one of his first announcements, Trump vowed additional tariffs on China, Mexico, and Canada. The US has sizeable trade deficits with each, importing mainly electrical and electronic equipment from China, vehicles and car parts from Mexico and mainly energy from Canada.

Fortunately for Australia, the US exports more than it imports. This makes Australia a smaller target for tariff hikes but it doesn't make us immune given our trade ties with China.

Chart 1: US trade deficits (US$b)



Source: Bloomberg

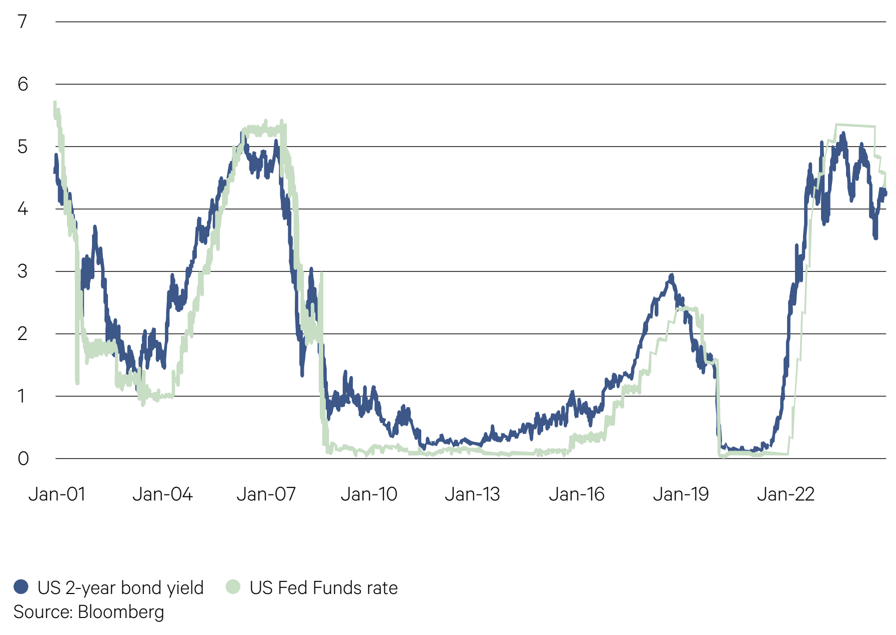
2. Curb your enthusiasm for further cuts

The Federal Reserve implemented two consecutive rate cuts in Q4 2024, including a 0.25 percentage point reduction in December, bringing the official interest rate down to a range of 4.25% to 4.50%. By the end of the quarter, however, stickier inflation and stronger growth saw the Federal Reserve curb its enthusiasm for significantly more easing in 2025. The market adjusted accordingly.

At the start of Q4 no fewer than seven interest rate cuts were priced. By the end of December that had fallen to less than two.

The shift away from significant easing of monetary policy weighed on equities (especially small cap) in the final month of the year and gave some support to the US dollar.

Chart 2: US 2-year yields lead official interest rates (%)



Source: Bloomberg

3. Budget battles in Europe and the UK

Pressure on federal budgets was very evident in Europe and the UK in Q4, leaving bond markets on alert. In Germany, the sacking of the Finance Minister over budget disagreements left the Chancellor with no choice but to call for early elections in February 2025. In France, Prime Minister Michel Barnier was forced to resign after trying to push through an unpopular budget bill that involved plans to narrow the deficit.

In the UK, the first Labour budget in 14 years created controversy when it included the largest increase in taxes (largely aimed at business) since 1993, taking the tax burden to its highest level on record.

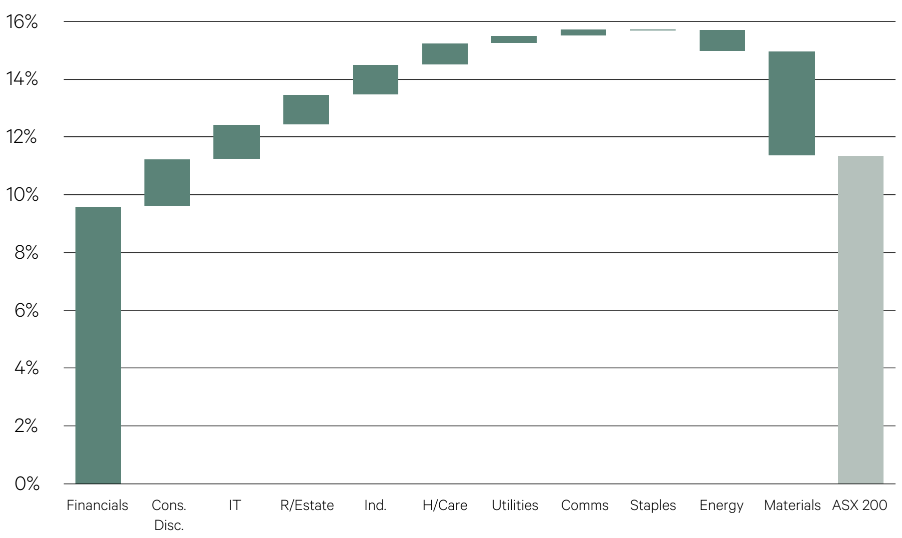
Despite this, the estimate of the deficit rose due to ambitious spending and borrowing measures. The bond market disliked what it saw, taking the UK's long-term bond yield to the highest level since 1998.

Chart 3: UK 30-year bond yield (%)

Source: Bloomberg, data as at 9/1/25

Australian Equities Quarterly Review

Chart 4: ASX 200 Sector Attribution: Financials drive the market in 2024

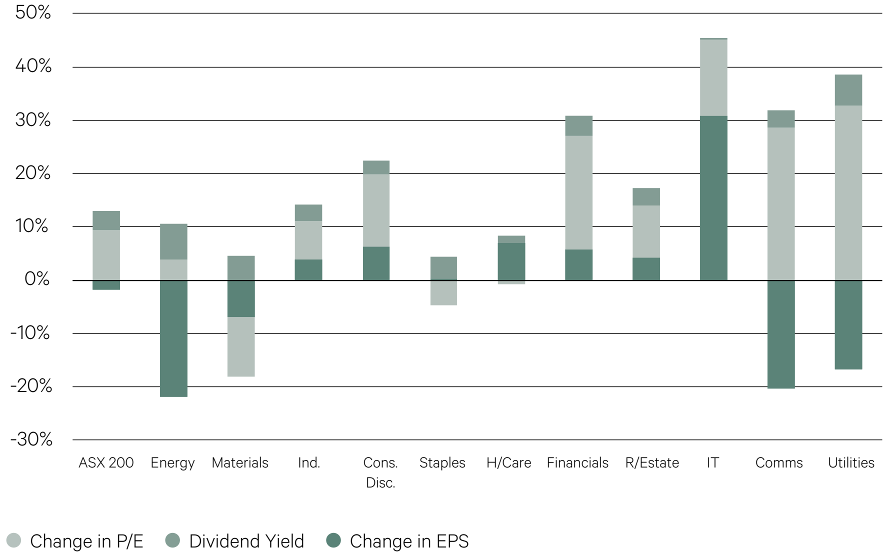


Source: Bloomberg

Financials, which account for nearly a third of the benchmark ASX 200 Index, were the primary driver of the market's returns in 2024 amid strong gains across the major banks and market-linked companies. Industrials provided a fairly even contribution across the board to the index, with consumer discretionary and IT leading the way.

Resources, however, were a significant drag on the index, with China's softening economy contributing to falling commodity prices and profits for mining and energy companies.

Chart 5: Rising P/E accounts for market's gains in 2024



Source: Bloomberg

Across 2024, forward earnings were flat to slightly down, with domestic equity returns instead driven by dividends and an expansion in P/E multiples. IT was a standout performer across all sectors, with returns largely a consequence of a large uplift in forward earnings, though returns were also enhanced by a lift in the P/E multiple.

Other sectors to do well – such as financials, consumer discretionary and real estate – all saw gains that were primarily a function of higher valuations.

	3m	1 Yr p.a.	3 Yr p.a.	5 Yr p.a.	10 Yr p.a.
Chester High Conviction Fund	-0.4%	12.7%	7.5%	12.2%	
Pendal Focus Australian Share Fund	0.9%	14.4%	8.0%	8.9%	9.7%
WaveStone Australian Share	-1.8%	9.2%	6.6%	7.8%	9.5%
Alphinity Sustainable Share	1.1%	14.3%	5.5%	8.7%	9.7%
Selector Australian Equities	0.3%	23.5%	4.7%	8.8%	
Selector High Conviction Equity A	-0.2%	20.9%	3.3%	7.1%	12.0%
Pendal Australian Share SMA	0.8%	14.0%	7.4%	8.5%	
S&P/ASX 200 Accumulation Index	***-0.8%***	***11.4%***	***7.4%***	***8.1%***	***8.5%***
Ophir Opportunities Fund	6.7%	42.8%	13.9%	18.0%	20.2%
Fairview Equity Partners Emerging Co	2.6%	15.3%	0.9%	7.6%	10.4%
QVG Opportunities Fund	5.1%	21.1%	0.7%	8.1%	
DNR Emerging Companies Fund	3.2%	25.9%	8.2%	15.3%	
Pendal Microcap Opportunities Fund	6.0%	33.4%	4.2%	13.8%	15.8%
S&P/ASX Small Ordinaries Accumulation Index	***-1.0%***	***8.4%***	***-1.6%***	***4.0%***	***7.3%***

Key points

– The Australian equity market fell slightly in the December quarter, though still finished the year in positive territory. For 2024, the ASX 200 Accumulation Index gained 11.4%, a third year in the last four of double-digit gains.

– The market followed a similar path to that of global equities in strengthening in the lead up to and in the immediate aftermath of the US election, with Trump's policies of lower taxes and deregulation viewed as supportive to markets.

– This preceded a pullback in December, with a Christmas rally failing to materalise as higher interest rates again came into focus, with the market beginning to price out the depth of the monetary easing cycle across 2025.

– From a sector perspective, many of the winners in the September quarter were laggards in the December quarter. This included real estate, which had previously benefited from a lower interest rate outlook.

– The resources sector also unwound most of the gains made following the announcement of China's stimulus measures in mid September. With follow-on stimulus announcements not forthcoming, the resources sector closed the year lower and was the primary drag on the broader market's returns in 2024.

– Most of our large cap managers generated returns that were broadly in line with the benchmark in the quarter. The Pendal SMA outperformed in each month of the quarter, primarily driven by stock selection. An underweight position in the expensive major banks was a key headwind for performance across most of our large cap funds.

– Despite this softer backdrop, our small cap managers delivered strong alpha above the benchmark in the December quarter and across the calendar year.

– Small cap funds that have been tilted towards more growth-oriented companies have been rewarded with strong performance, including from stocks such as Life360, HUB24 and Technology One – all of which have been held across multiple funds. The standout performers who capitalised on this trend in 2024 included DNR Emerging Companies, QVG and Pendal Microcaps.

– Small caps fell in unison with large caps in the December quarter. While they generated a total return of 8% for the calendar year, this nonetheless represented the fourth consecutive year that they have fallen short of large caps as they have been impacted to a greater degree by the higher interest rate environment.

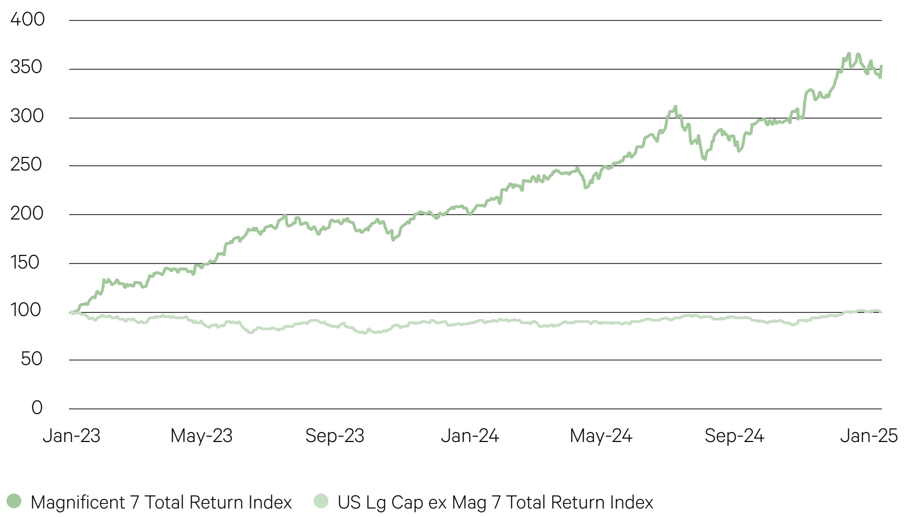
International Equities Quarterly Review

The S&P 500 recorded its best two-year performance since the late 1990s, with consecutive years of gains exceeding 20% in 2023 and 2024.

Key factors contributing to the performance include: cooling inflation and falling interest rates, and expectations of lower corporate taxes under a second Trump administration.

Outside of the 'Magnificent Seven' tech stocks, however, performance for the market was flat for the two-year period.

Chart 6: Not much happening outside of the Magnificent 7 tech stocks (Index: Jan-23=100)

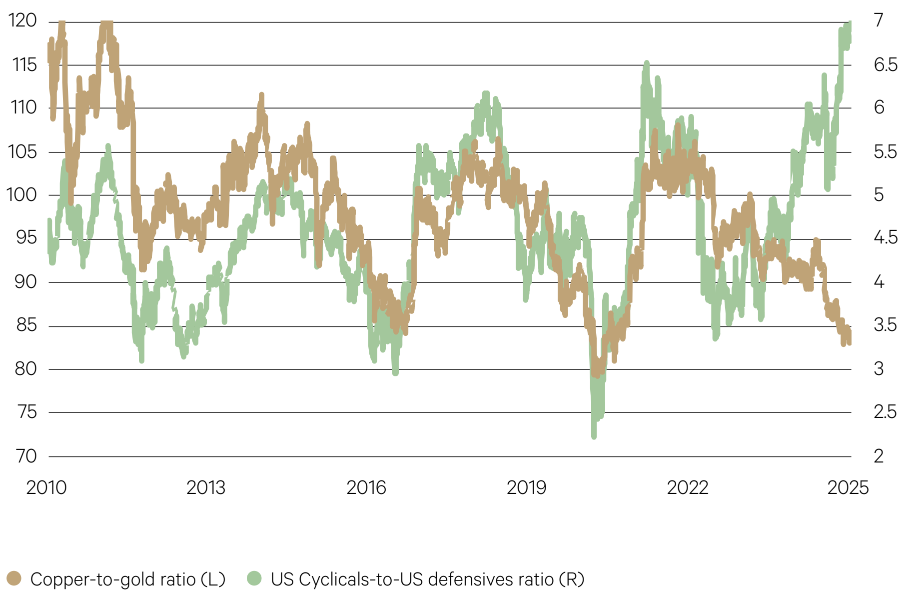


Source: Bloomberg

The previously close relationship between cyclicals/defensives and copper/gold has broken down recently. Copper has traditionally been seen as a cyclical commodity and gold traditionally considered a defensive asset.

Over the past 12 months or so, gold has been benefiting from increased demand as a safe-haven asset given the economic uncertainty. At the same time, tech stocks, part of the cyclical grouping, have benefited from the boom in AI. Neither trend looks likely to end anytime soon.

Chart 7: You can go your own way



Source: Bloomberg

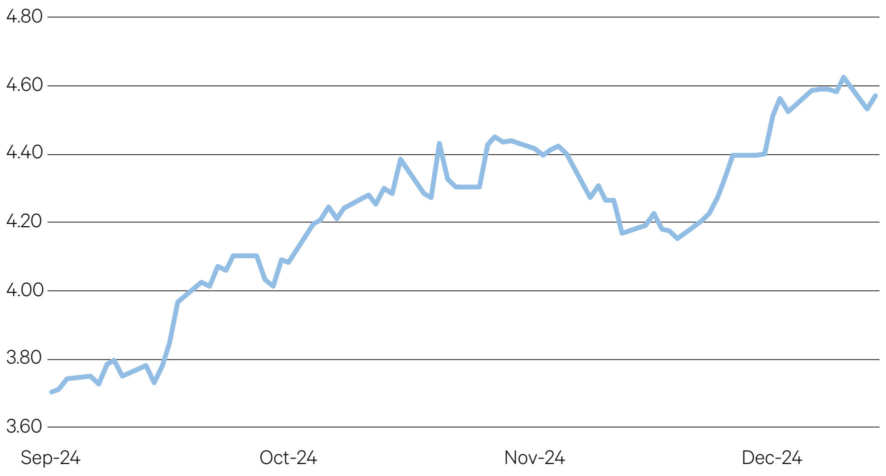
International Equities Performance Table	3 m	1 yr p.a.	3 yr p.a.	5 yr p.a.	10 yr p.a.
WCM Quality Global Growth	19.6%	45.5%	10.9%	17.3%	17.8%
Life Cycle Concentrated Global Share Fund	10.5%				
Barrow Hanley Global Share Fund	6.2%	19.7%	11.4%	12.2%	11.7%
GQG Partners Global Equity	8.5%	31.4%	17.1%	16.5%	
Loftus Peak Global Disruption	14.5%	41.6%	16.0%	21.6%	18.2%
Munro Climate Change Leaders	9.8%	65.6%	15.8%		
Impax Sustainable Leaders Fund A	3.3%	15.7%	3.2%	10.0%	
Artisan Global Discovery	14.5%	27.8%	4.4%		
Fairlight Global SMID cap fund	5.6%	13.5%			
Robeco Global Developed Enhanced Index	12.5%	32.6%			
Robeco Global Developed Enhanced Index (Hedged)	2.4%	21.8%			
MSCI AC World ex Aus ($A)	***11.1%***	***29.8%***	***11.3%***	***13.0%***	***12.4%***
ClearBridge Global Value Improvers	6.4%				
MSCI World Value NR Index ($A)	***7.3%***	***22.8%***	***10.9%***	***9.7%***	***9.7%***
MSCI Emerging Markets ($A)	***3.1%***	***18.5%***	***3.5%***	***4.3%***	***6.6%***
Fidelity Asia	5.1%	16.3%	1.5%	6.8%	11.2%
MSCI Asia-Pac Ex Japan ($A)	***-4.5%***	***16.2%***	***1.5%***	***4.4%***	***5.7%***
Quay Global Real Estate Fund (Unhedged)	-3.3%	8.1%	0.0%	4.5%	
Quay Global Real Estate Fund (AUD Hedged)	-9.8%	-1.0%			
ClearBridge RARE Infrastructure Income - Unhedged	1.2%	12.0%	5.0%		
ClearBridge RARE Infrastructure Income - Hedged	-5.3%	6.8%	1.6%	5.3%	
ClearBridge RARE Infrastructure Value - Unhedged	5.1%	15.3%	7.9%	7.4%	8.3%
ClearBridge RARE Infrastructure Value Fund - Hedged	-2.4%	8.6%	3.7%	4.9%	6.3%
FTSE EPRA Nareit Developed Index ($A)	***1.5%***	***12.4%***	***0.1%***	***2.5%***	***6.1%***

Key points

- The MSCI World Index fell slightly in the final quarter of 2024, down 0.4%. US equities outperformed with the S&P500 rising by 2.1%. The Nasdaq finished up 6.2% for the quarter.
- The US Federal Reserve cut interest rates for a third consecutive time at its last meeting for 2024 but the move was viewed cautiously given stubborn inflation. The voting members of the committee reduced the number of interest rate cuts they expect in 2025 by half.
- European equities were mixed with the DAX up by 3.0% but the French CAC down 3.3%. Japanese equities rose by 5.2% helped by a 9.4% decline in the yen against the US dollar and positive sentiment on the back of merger talks between Honda and Nissan. Chinese equities fell 2.9%.
- For 2024, Chinese equities were up 26.4%, marginally behind the Nasdaq which rose by 28.6%. The S&P500 was up 23.3% while European equities varied widely with the French market down 2.2% while German equities were up 18.8%. Divergence was also evident within Asia where South Korean equities were down 9.6% while equities in Singapore were up 16.9%.
- Over the past year, the Japanese Nikkei rose 19.2%, the highest year-end finish on record on the back of strong corporate earnings and a weaker yen. This comes after the Nikkei posted its largest single-day point loss on 5 August 2024 following the decision by the Bank of Japan to raise interest rates.
- With the Australian dollar down by 10.5% against the US dollar, hedged international equities funds underperformed unhedged over the quarter. Infrastructure and property funds were among the worst performers in the quarter as the prospect of lower interest rates in the US dimmed.
- The outperformer over the quarter was WCM which benefited, among other things, from its holding in Applovin, a technology company that helps businesses connect to their customers. The stock price rose by 148% over the December quarter. Loftus Peak was another outperformer adding 14.5% net of fees. A holding in Loftus Peak, Broadcom, benefited on news of a lift in its AI chip design business. One of the underperforming funds over the quarter was Barrow Hanley which was weighed down by its bias to value stocks.

Fixed Income Quarterly Review

Chart 8: US 10 year bond yield rises after the first rate cut (%)



Source: Bloomberg as at 31 December 2024

The US Federal Reserve delivered 50bps of cuts in the quarter, bringing the target interest rate to 4.25-4.50% to end the year 100bps lower. However, continued economic strength and persistent inflation dashed hopes for a significant decrease in rates for 2025.

At the December meeting, the central bank revised projections down, pencilling in just two cuts in the coming year from four in September. The benchmark 10-year yield finished the year nearly a full percentage point above its level leading into the first rate cut. There remains little scope for officials in the world's largest economy to ease without risking accelerating inflation, particularly with a looming Trump presidency and accompanying tax cuts and tariffs.

Chart 9: French/German spread reaches decade high (%)

Source: Bloomberg as at 31 December 2024

Political tensions in France threatened to destabilise the Eurozone, with bond investors unloading their positions in the second-biggest European economy. Efforts by the coalition government to reduce the nation's debt levels backfired, with yields reaching their highest level over benchmark German bonds in over a decade – briefly surpassing the once 'uninvestable' Greek sovereign debt.

The first sign of trouble came when President Macron called the snap election, with sovereign bonds selling off sharply in June. With a higher cost of debt and disenfranchised investors, France faces a challenge in reducing its deficit to the satisfaction of the EU.

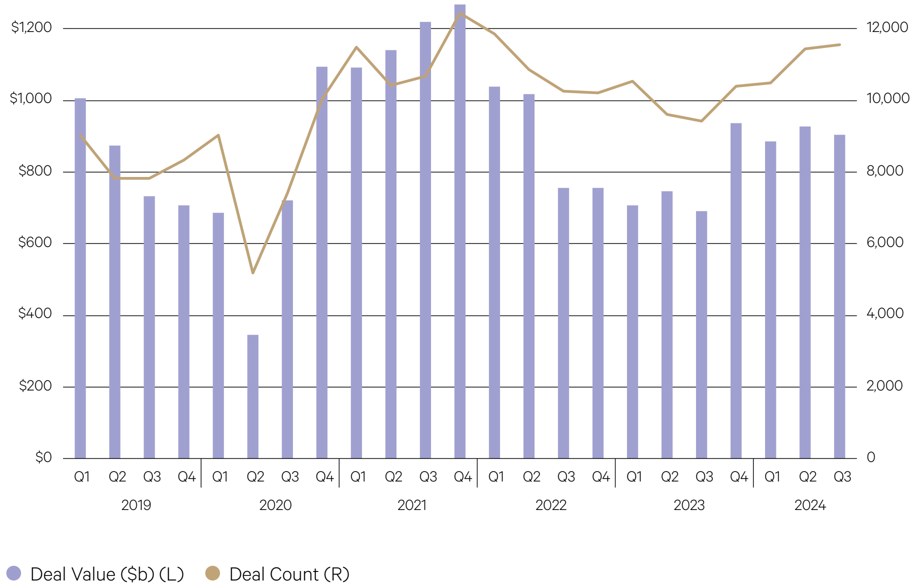
Fixed Income Performance Table	3 m	1 yr p.a.	3 yr p.a.	5 yr p.a.	10 yr p.a.
Perpetual Credit Income	1.9%	8.1%	5.6%	4.4%	4.2%
Alexander Credit Income Fund	2.1%	8.5%	6.4%	5.0%	
Realm Short Term Income Ordinary	1.5%	7.0%	4.8%	3.8%	
Realm High Income - Wholesale	2.3%	10.1%	6.9%	5.7%	4.9%
iShares Core Composite Bond ETF	-0.3%	2.9%	-0.9%	-0.3%	1.8%
Bloomberg AusBond Bank Bill Index	***1.1%***	***4.5%***	***3.2%***	***2.0%***	***1.9%***
Bloomberg AusBond Composite Index	***-0.3%***	***2.9%***	***-0.8%***	***-0.2%***	***2.0%***
Bentham Global Income Fund	-0.5%	4.9%	4.0%	4.4%	4.4%
PIMCO Global Bond	-0.8%	2.8%	-1.5%	0.1%	2.3%
Realm Global High Income	2.8%	12.8%			
Barclays Global Aggregate $A (Hdg)	***-1.2%***	***2.2%***	***-1.9%***	***-0.5%***	***1.8%***

Key points

- October and December saw yields up across the board as economic strength put a damper on hopes of further rate cuts. A 78bps rise in the US 10-year for the quarter saw the yield curve normalise after a record 783 days of inversion – marking only the second time the curve has uninverted without a recession.
- Central banks continued to cut rates over the quarter, though at a slower rate than initially expected. With inflation still running hot and a tight labour market, the Federal Reserve pared back its expectations for future cuts.
- There was still no movement from the Reserve Bank, although official comments shifted to a more accommodating tone, anticipating starting to cut rates in the first half of 2025 and closing the door on the chance of a hike this cycle.
- Continued weakness in the Eurozone cemented the need for further rate cuts, with slow economic growth expected to be amplified by the impact of trade tariffs.
- The Bank of Japan showed typical caution, however indicated it would be open to further hikes should inflation accelerate.
- Rising long term yields were a headwind for funds with interest rate exposure, with Bentham Global Income and PIMCO Global Bond retracing Q3 gains to end the quarter in the red.
- Strong running yields helped credit funds, despite spreads widening over the quarter. Funds with global exposure took advantage of volatility by buying European bonds at attractive prices.
- Higher all-in yields allowed managers to derisk portfolios without sacrificing yields. As a result, exposure to investment grade securities was elevated over the quarter.
- Realm Global High Income Fund celebrated its first birthday in November, rounding out the year as not only the best performer of our fixed income funds for the quarter, but also over 6 and 12 months.

Alternatives Quarterly Review

Chart 10: Global M&A activity per quarter

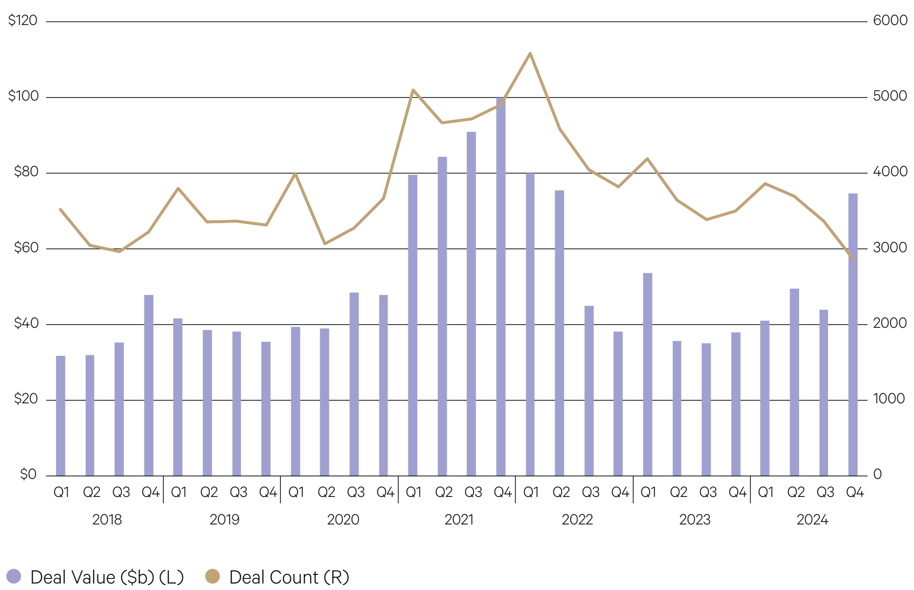


Source: Pitchbook, Sept 2024

The M&A recovery that commenced in the latter part of Q4 2023 continued in 2024. Global M&A activity has increased by 27% in deal value and 13% by deal count through the first nine months of the year compared to the same period for 2023. During Q1, PE activity lagged due to high borrowing costs.

That began to change in Q2 and continued throughout 2024. YTD buyout volumes have grown by 24% in value from 2023. The catch-up by PE dealmaking has arrested the decline in PE's share of M&A value. The M&A market will benefit if borrowing costs are reduced further which will contribute to sustained momentum in M&A volumes.

Chart 11: VC activity picks up in Q4 2024



Source: Pitchbook

Venture Capital (VC) markets saw a pick up in activity in Q4 2024 after a number of quarters of below average activity. Q4 2024 deal volume was up 97% on the same period a year prior as companies began to look to funding markets following a two year absence for many.

With AI driving much of the early-stage activity lately, software continued to see the greatest share of VC deals in 2024 followed by biotech, pharma and other health-tech industries. Regulatory changes in the US are likely to remove some of the barriers to acquisitions along with less interest rate uncertainty and improving valuations, meaning deal flow should continue to pick up into 2025.

Alternatives Performance Table	3 m	1 yr p.a.	3 yr p.a.	5 yr p.a.	10 yr p.a.
Hedge Funds					
Munro Global Growth Fund	10.4%	37.2%	8.6%	15.0%	
Tiger Global Hedge Fund (*Nov)	13.4%	28.1%			
L1 Capital Long Short Fund - Monthly Class	-7.6%	2.5%	6.4%	15.1%	17.8%
Infrastructure					
Morrison Growth Infrastructure Fund (*Sep)	1.8%	14.0%	28.7%		
Morrison & Co Infrastructure Partnership (*Oct)	2.3%	9.9%			
Macquarie Private Infrastructure Fund (*Sep)	2.3%	4.7%	6.2%		
Private Debt					
Merricks Capital Agriculture Credit Fund	2.2%	10.1%	10.0%		
Aquasia Enhanced Credit Fund	2.1%	9.8%	7.6%	6.3%	6.0%
Merricks Capital Partners	1.0%	8.1%	8.9%	8.6%	
Realm Strategic Income Enduring	2.4%	10.5%	8.7%		
Partners Group Global Income Fund	2.8%	11.3%			
West Street European Credit Fund (*Nov)	3.0%				
Private Equity					
Spire Oaktree Opps XI (AUD) Frst Cls	13.8%	15.4%	10.1%		
Partners Group Global Value Fund (*Nov)	2.9%	5.4%	4.8%	9.8%	10.5%
Hamilton Lane Global Private Asst (AUD) (*Nov)	3.0%	8.9%	9.6%	12.3%	
Hamilton Lane Global Private Asst (Unhedged) (*Nov)	6.4%	10.9%	13.0%		
Property					
Barwon Healthcare Property Fund	1.7%	2.3%	-0.9%	5.1%	6.8%
Charter Hall Direct Office Fund	1.3%	-14.1%	-8.9%	-1.2%	7.0%
Charter Hall Wholesale Property Series 2	-1.5%	-1.5%			
Venture Capital					
StepStone Secondaries Fund V (*Jun 24)	1.3%	4.2%			
StepStone SPRING (*Nov)	5.0%				

*Performance as at month end

Key points

Property

- Whilst transaction volume in Commercial Real Estate (CRE) markets remains subdued, it has seen a slight pick up from the recent low levels. Demand in office remains focused on prime grade buildings whilst B-grade and below continues to see weakness in occupancy and leasing rates. Capitalisation rates have stabilised over the quarter albeit following a number of quarters of cap rate widening. The Charter Hall Wholesale Property Series 2 was down 1.5% for the December quarter. The Fund suffered on softer valuations in office and retail whilst these were offset by gains on increased leasing activity in the industrial and logistics allocation within the portfolio.

Private Debt

- West Street European Private Credit Fund returned +3% for the three months ending Nov-24. Underlying loan income performed strongly, with the fund invested predominantly in first lien loans that are floating rate and directly originated. The portfolio currently comprises exposure to fourteen sub-sectors across ten countries, with the direct lending allocation diversified across 69 portfolio companies and the liquid investments portfolio diversified across 250 positions.
- Partners Group Global Income Fund returned +2.8% for the three months ending Dec-24. The fund provides exposure to a highly diversified pool of global private debt investments (371 loans) in syndicated and direct credit which are first lien, senior secured floating rate loans. The portfolio is diversified globally and invested across fifteen sub-sectors.
- Merricks Partners added +1.0% for the Q4 2024. The fund's performance was impacted by once-off provisions across four loans. Whilst there is some potential for a partial or full reversals of these provisions, the timing uncertainty to achieve outcomes on these loans warranted a conservative approach to valuation. The portfolio currently comprises 55 senior secured loans diversified across fourteen sub-sectors and is additionally diversified by geographic spread and borrowers. Credit default Swap (CDS) protection continues to provide the Fund with a cost-effective macro credit hedge.

Alternatives Quarterly Review – Key points cont.

Private Equity

– Private equity (PE) deal activity rebounded in 2024 following a couple of challenging years as total deal value rose by 19% and number of deals were up 12% on the prior year. With buyer and seller valuation gaps narrowing, it is likely that deal flow continues to gain further momentum in 2025. Technology and Healthcare were two of the biggest drivers of the increased deal flow throughout 2024.

– For the three months to Nov-24, Partners Group Global Value gained 2.9% while Hamilton Lane Global Private Assets finished up 3.0%. Partners Group gained from exits within their direct equity portfolio such as KinderCare, which completed a recent NYSE public listing, and a partial exit to a consumer staples retail store chain. Hamilton Lane gained on the back of strong performance of direct positions in software and also strong performance of secondaries positions more broadly.

Hedge Funds

– Equity long short manager Munro Global Growth returned +10.4% for the December quarter. The fund's long positions and currency contributed positively to performance, whilst short positions detracted from performance. Within the long book, artificial intelligence (AI) was a dominant theme with strong gains from names such as GE Vernova and Broadcom.

– Tiger Global added 13.4% over the three months to Nov-24, driven by gains in the public long book and currency. AI leaders including hyperscalers (Meta, Google) and semiconductor companies (TSMC, Nvidia), as well as non-technology positions (Apollo) were strong contributors. Positions in high-growth businesses in consumer internet (Sea Limited) were also additive.

– L1 Capital Long Short returned -7.7% over the December quarter. The portfolio was impacted by the exposure to the Australian market, where value and cyclical stocks fell more than momentum and high P/E stocks. Notable detractors include long positions in BlueScope Steel, Mineral Resources and Flight Centre.

Infrastructure

– The Macquarie Private Infrastructure fund returned +2.3% over the September quarter. The fund benefitted from positive performance for the majority of its unlisted infrastructure exposure, most notably driven by the fund's Australian exposure. Favourable movement in relation to the listed infrastructure exposure also positively contributed to returns. Offsetting this was unfavourable USD currency movement in relation to the fund's USD exposures. At an asset level, the announced sale of Queensland Airports Limited was the most meaningful positive contributor to returns.

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