

Vertium Equity Income Fund

Fund Update | 31 March 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

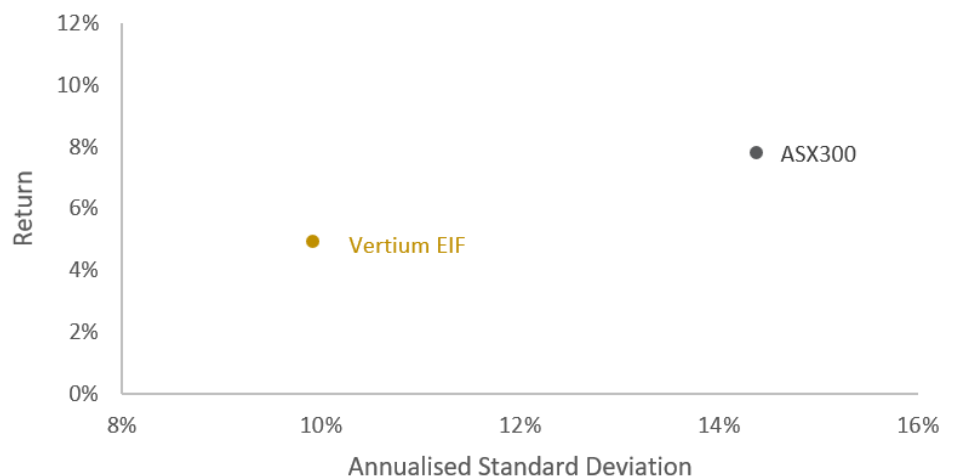
Capital preservation metrics (since inception) ^

	Fund	ASX300
Outperformance frequency in down markets	81%	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	1.9	5.2	5.4	5.6	5.7
Growth	-3.8	-3.8	-7.7	-7.2	-2.4	4.1	-0.8
Fund total net return (excludes franking)	-2.7	-2.8	-5.8	-2.0	3.0	9.7	4.9
Income	0.6	1.1	1.6	3.5	4.1	4.1	4.1
Growth	-4.0	-3.9	-5.2	-0.8	1.2	9.1	3.6
Index total return	-3.3	-2.9	-3.6	2.6	5.3	13.2	7.8
Fund beta	N/A	N/A	N/A	0.79	0.64	0.65	0.65
Franking credits	0.2	0.2	0.8	1.6	1.6	1.4	1.4
Grossed-up income	1.3	1.3	2.8	7.1	7.0	6.7	7.0
Grossed-up total return	-2.5	-2.5	-4.9	-0.1	4.6	10.8	6.2

Return versus risk (since inception)



Portfolio Dashboard

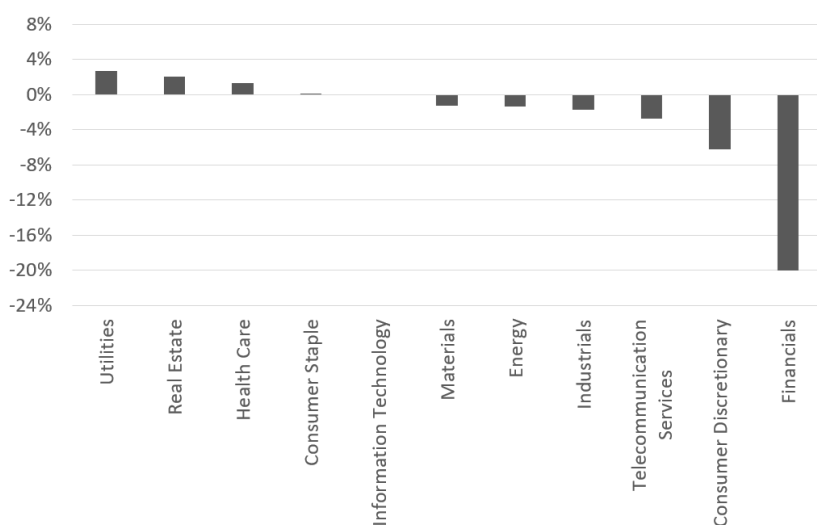
Top 10 holdings	ASX Code
BHP Group	BHP
CSL	CSL
QBE Insurance	QBE
Mirvac Group	MGR
Brambles	BXB
Xero	XRO
Goodman Group	GMG
Origin Energy	ORG
Westpac Banking Corporation	WBC
Ancor	AMC
Woodside Energy	WDS

Number of stocks	32
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Size exposure	%
Large Cap	62
Mid Cap	11
Small Cap	0
Effective Cash	27

Option exposure	%
Shares	86
Call Options	-5
Put Options	-8
Effective Cash	27

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

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, 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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Quarterly perspective | **the Markets**

The S&P/ASX 300 Accumulation Index declined -2.9% in the March quarter. The best performing sector was Industrials (2.4%) led by Transurban with a +2.4% return. The worst performing sector was Information Technology (-18.2%), with Wisetech Global bearing the brunt of the losses at -32.8%.

On the economic front, Australia's GDP annual growth rate was 1.3% in the last quarter of 2024. The unemployment rate increased to 4.1% in February 2025, up from 3.9% in the prior three months. The annual inflation rate eased to 2.4% in the final quarter of 2024. It was the lowest reading since the first quarter of 2021, as goods inflation eased mainly due to declines in electricity and fuel prices.

Commodity prices presented a mixed picture during the quarter with several divergences. The copper price (+11.1%) was a standout performer while the iron ore price (-1.1%) was lacklustre. The Brent oil price (-0.1%) was flat while the Newcastle thermal coal price (-9.1%) continued to falter. Conversely, the gold price (+19.0%) soared due to geopolitical concerns.

Crossing the Rubicon: Has America's Debt Spiral Gone Too Far?

In 49 BC, Julius Caesar crossed the Rubicon River, sparking a civil war that ended the Roman Republic – a moment now synonymous for decisions from which there is no turning back. Today, the United States (US) shows signs of financial strain, suggesting it may be nearing its own Rubicon—not with soldiers, but with an escalating burden of debt that threatens global economic stability.

Recent policies have accelerated this trajectory. From 2021 to 2025, President Biden's administration pursued significant spending, often criticised as reckless. Despite a robust post-COVID economy with unemployment under 4% and steady GDP growth—Biden enacted the \$1.9 trillion American Rescue Plan, the \$375-\$550 billion Infrastructure Act, and the \$700 billion Inflation Reduction Act. These measures drove annual deficits to 5–6% of GDP, unusually high for periods outside recessions. The spending spree contributed to inflation peaking at 9.1% in 2022, exacerbating a cost-of-living crisis that may have influenced Biden's re-election defeat. This fiscal excess also sparked a speculation frenzy, creating a COVID stock market bubble reminiscent of the Dot-com boom and bust in the early 2000s.

Speculative booms and busts | Nasdaq/S&P500 ratio



Source: Iress

Quarterly perspective | the Markets

This mounting debt has deepened fiscal challenges. Federal debt now exceeds \$36 trillion, with a debt-to-GDP ratio of 122%, rivalling post-World War II highs. Unlike the postwar era, when growth and austerity eased the burden, today's deficits approach \$1.9 trillion annually, or about 6.2% of GDP. Interest payments reaching \$892 billion in 2024 are the fastest-growing budget item and are projected to climb to \$1.5 trillion by 2030, according to the Congressional Budget Office. This creates a vicious cycle, as borrowing to cover interest payments further inflates the deficit.

In 2025, President Trump inherited this fiscal challenge from Biden's spending spree, prompting urgent action. His response to reigning in bloated budget deficits focuses on two strategies: cutting spending and raising new revenues. The newly created Department of Government Efficiency (DOGE), led by Elon Musk, has reportedly trimmed \$150 billion and aims to save \$1 trillion annually by streamlining agencies and programs. On the revenue side, Trump has avoided traditional tax hikes, instead proposing unconventional measures like a \$5 million Gold Card for foreign citizenship and aggressive tariffs. Under the guise of protecting American industries, these tariffs are unequivocally intended to raise revenues. The "Liberation Day" tariff announcement on April 2, 2025, potentially generating \$400 billion yearly at 20% rates, has intensified market volatility. Investors, including those in Australia, are bracing for uncertainty in global trade and growth.

Trump's bold tariff strategy risks appearing more reckless than strategic and requires careful execution to avoid unintended consequences. It echoes the 1930s Smoot-Hawley Act, which deepened the Great Depression by choking global trade. A similar misstep today could trigger a recession, slashing tax revenues and necessitating more government spending to stabilize the economy—further ballooning the debt.

US import-weighted average tariffs applied (since 1990)



* 25% on steel & alu and on auto, an additional 20% on China + reciprocal tariffs (10% universal, 125% on China); ** current +25% on sectors not yet under increased tariffs (pharma, semiconductors, copper & lumber)

Note: weighted-average tariffs based on a short-term import-demand price elasticity of -0.7, except in China, where a third of intermediate goods are hard to substitute short-term.

Source: Pictet Asset Management, CEIC, Refinitiv, WTO, USTR

Here lies the Rubicon's edge. Excessive debt could upend economic norms, especially during a downturn. If markets lose confidence in US fiscal management, they might demand higher yields on Treasuries, even in a recession. Rising rates would spike borrowing costs, crowding out funds for Social Security, defence or infrastructure.

Quarterly perspective | **the Markets**

Businesses would face costlier loans and slowing hiring, while consumers would struggle with pricier mortgages, dampening demand. Once markets demand permanently higher yields, reversing course requires painful decisions - steep tax increases and drastic spending cuts – that are politically toxic and could deepen a recession to reset the economic landscape.

Signs suggest the US is nearing this critical threshold. Stock markets are faltering amid threats of a global slowdown, while bonds, traditionally a haven, are showing cracks, failing to provide capital preservation as yields rise unexpectedly. The US dollar, typically correlated with interest rates, has also faltered despite rising yields since the tariff announcement on “Liberation Day”. These market dynamics resemble those of an emerging market economy, as investors grapple with uncertainty over debt and policy shifts.

Have the US dollar and interest rates decoupled?

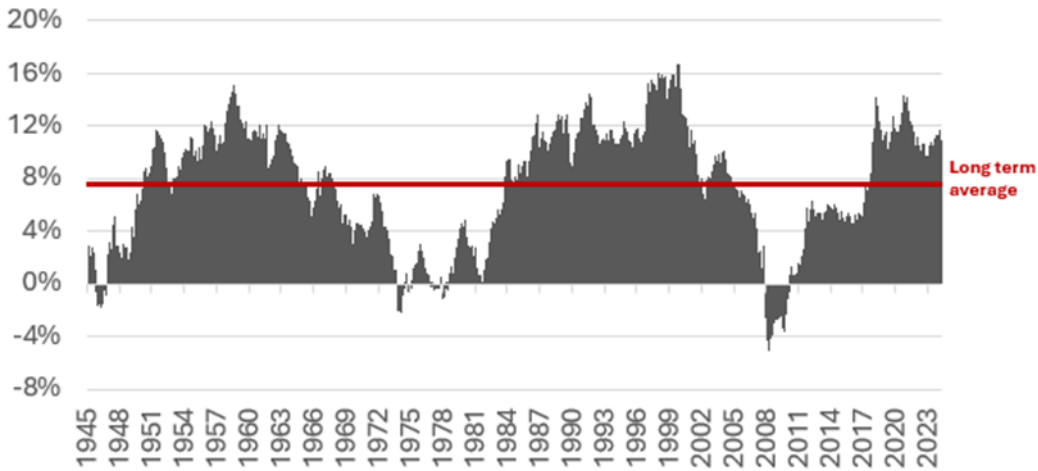


Source: Iress

The market environment today differs starkly from a decade ago. Low valuations and robust economic growth once fuelled exceptional stock market returns. The S&P 500 delivered an annualised return of 10% over the past decade, a significant premium over the long-term average of 8% in the post-World War II era.

Quarterly perspective | **the Markets**

S&P500 annualised 10-year return



Source: Iress

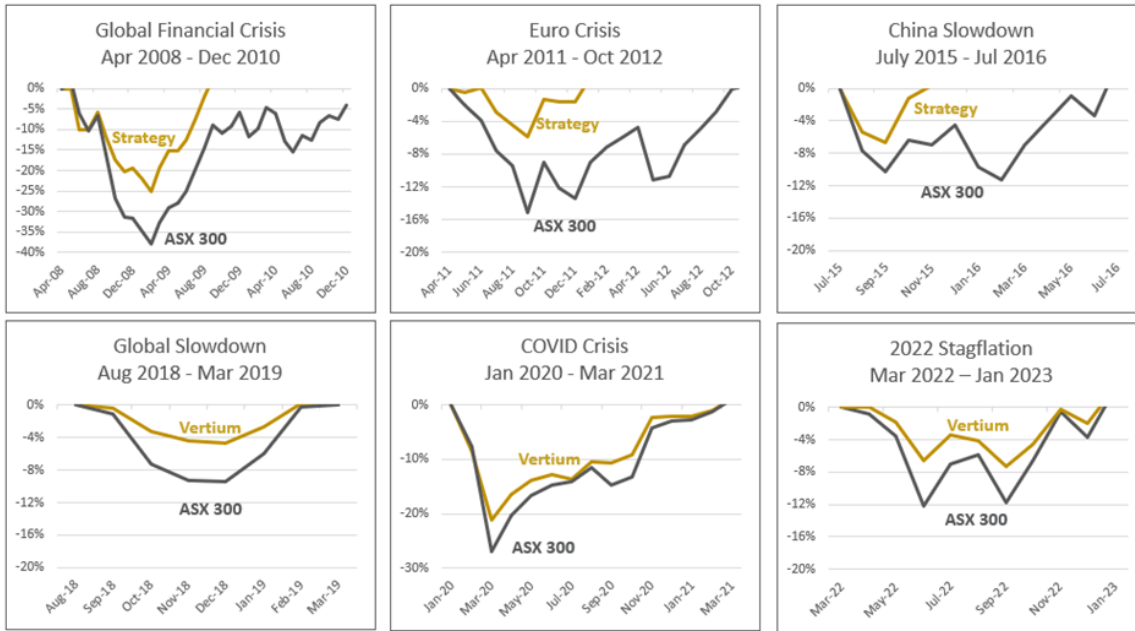
Now, conditions have shifted. Fiscal austerity due to spiralling debt, the risk of an economic slowdown from a tariff war, and elevated valuations create a backdrop for lower returns and heightened market volatility. This precarious outlook extends beyond the U.S., with Australia's stock market vulnerable to any correction triggered by America's fiscal challenges, given the two economies are closely tied to global risk sentiment.

Caesar's Rubicon ushered in an empire; America's could usher in limits. Biden's reckless spending and Trump's hard-hitting reforms have brought the debt crisis into sharp focus. A misstep—whether a recession or market revolt—could constrain America's future, with ripple effects felt across the globe, including Australia. The decade of high stock returns is likely over, and the coming years will probably be marked by lower returns and elevated market volatility.

Quarterly perspective | **the Portfolio**

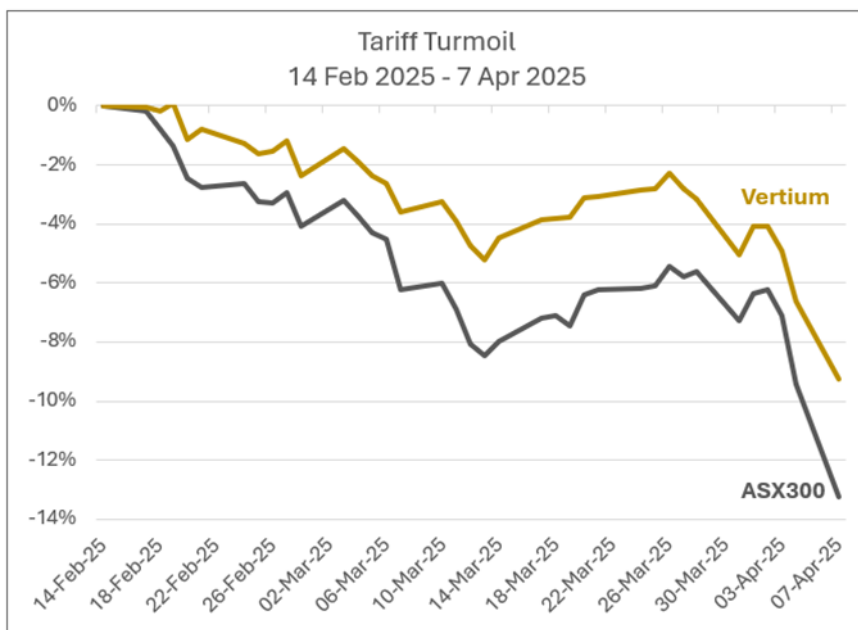
The Vertium Equity Income Fund posted a total net return of -2.8% for the March quarter. The Fund distributed 1 cent per unit, reinforcing its commitment to delivering above-market income.

The Fund’s focus on capital preservation, reflected in its low annual portfolio beta of 0.79, shielded investors from 21% of the market’s volatility over the year. This low-beta strategy tempered returns in the quarter’s bullish first half but proved resilient when volatility increased in the latter half. Over 17 years, the Fund’s defensive approach has consistently protected capital during significant market downturns, and the recent correction was no exception.



Source: Vertium

The Fund’s insurance against market volatility cushioned 30% of the market correction from mid-February to early April, triggered by tariff announcements.



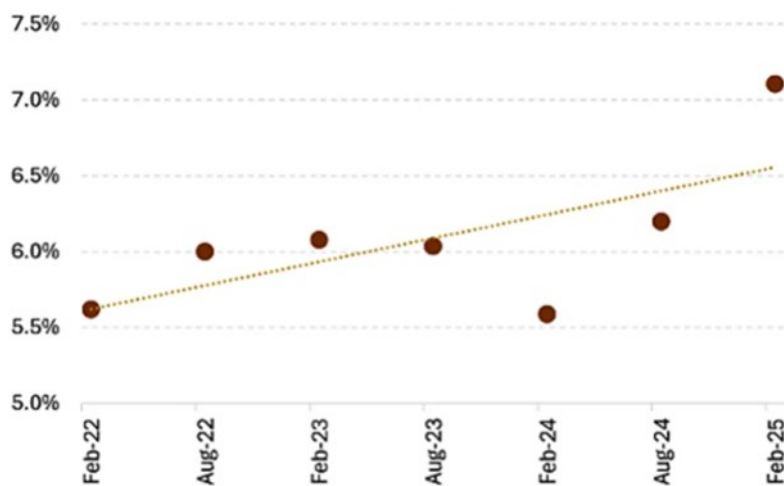
Source: Vertium

Quarterly perspective | **the Portfolio**

February Reporting Season

The February 2025 reporting season was the most turbulent on record, driven by the structural rise of passive investing. With fewer active managers to balance market reactions, stock prices swung wildly on earnings surprises.

Share price trading range on result day*



Source: UBS, Factset, *High price on result day relative to low price for the average stock.

Largest earnings revisions (ASX100) in February 2025 reporting season

		Weekly EPS(NTM) revision			
		Industrials		Resources	
Best	TLX	13%	none		
	A2M	8%			
	PME	6%			
	MPL	5%			
	CPU	5%			
	SIG	5%			
Worst	REH	-12%	VEA	-27%	
	IEL	-12%	MIN	-23%	
	ORA	-10%	LYC	-14%	
	CSL	-5%	ALD	-10%	
	ORG	-5%	BEN	-7%	
			PLS	-6%	

Source: FactSet

Quarterly perspective | **the Portfolio**

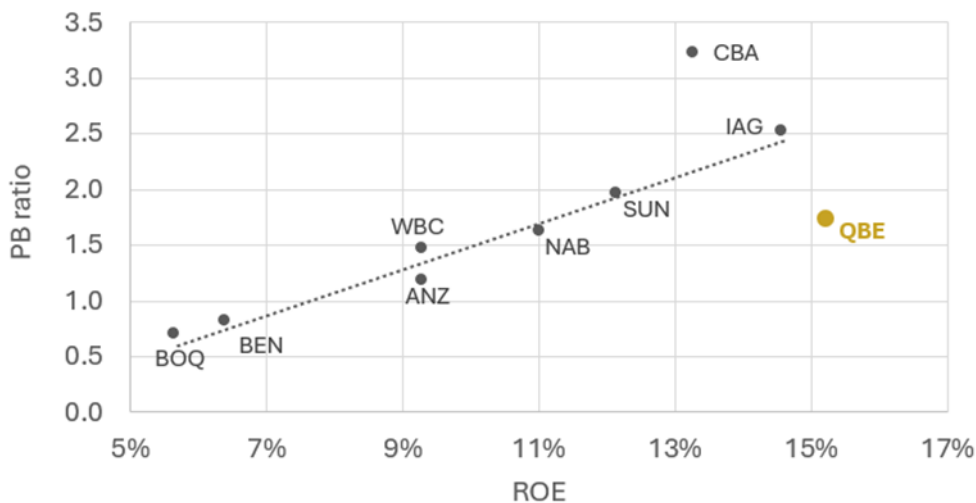
During reporting season, the Fund sidestepped most downgrades, which outpaced upgrades 2:1, maintaining stability. There were mixed results with some of our holdings:

- CSL disappointed with weaker-than-expected flu vaccine sales, impacting results.
- Telix Pharmaceuticals (TLX) offset this, upgrading guidance as its Illuccix drug continued to capture market share in prostate cancer imaging.

Earnings revisions often amplify stock price moves, but extreme market expectations can magnify even minor earnings changes. Two insurance stocks illustrate this:

- IAG: Trading at a lofty 20x Price/Earnings (P/E) ratio, IAG's defensive earnings couldn't prevent a 13% single day drop after a minor 1% EPS cut—a classic case of high valuation risk outweighing low earnings risk.
- QBE: At a modest 11x P/E ratio, QBE's slightly upbeat outlook fuelled outperformance, highlighting its undervaluation. Despite this, QBE's superior return on equity (ROE) versus peers suggests market expectations remain low.

ASX100 Financials | Value (PB ratio) vs Quality (ROE)

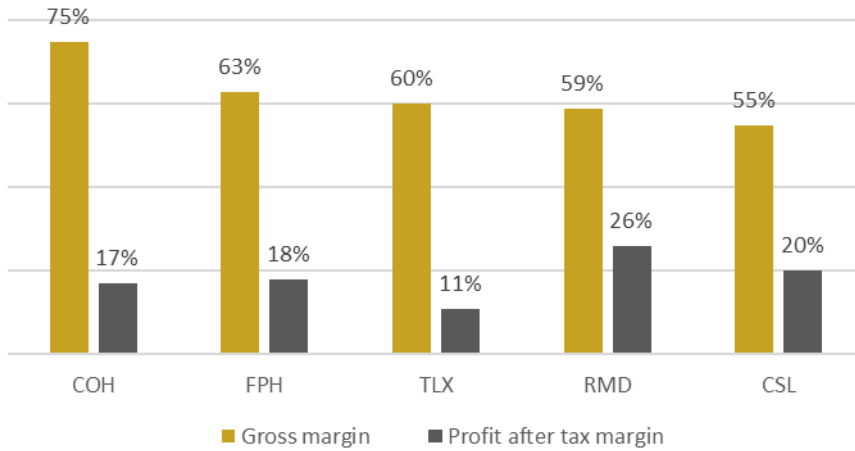


Source: FactSet

TLX, a Fund holding, exemplifies another stock mispriced by the market. Its 53x P/E ratio might suggest overvaluation, but this overlooks its fundamentals. TLX's gross margins rival those of top healthcare firms, yet heavy R&D investment depresses its profit margin.

Quarterly perspective | **the Portfolio**

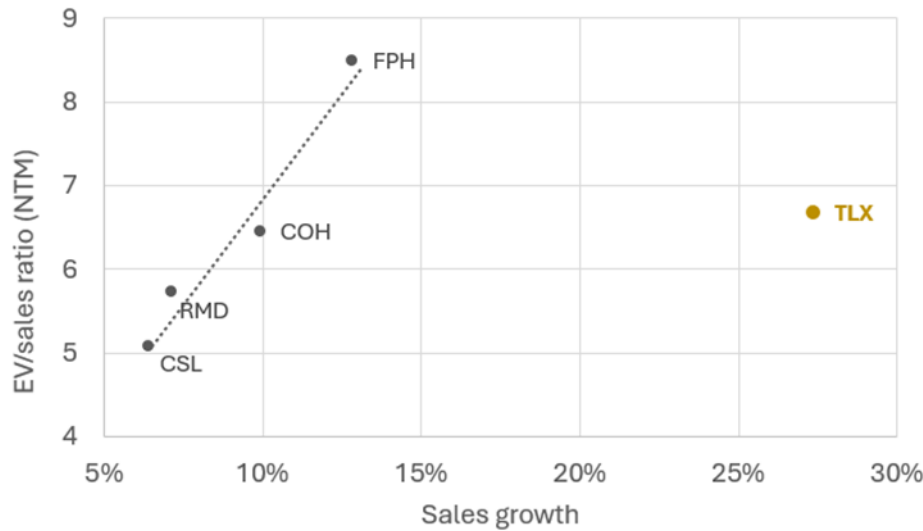
Healthcare stocks profitability



Source: FactSet

Since TLX’s true profitability is obscured by elevated and short-term R&D expenses, screening for value using P/E ratio is misleading. A better approach is to use enterprise value-to-sales (EV/S) ratio multiple and compare it to underlying sales growth. High growth companies warrant higher valuation multiples and vice versa.

ASX100 Healthcare | Value (EV/Sales ratio) vs Growth



Source: FactSet

Quarterly perspective | the Portfolio

Currently, TLX's projected sales growth significantly outpaces peers, yet the market undervalues its future potential. To illustrate, we outline two valuation scenarios for TLX as the business matures:

1. R&D Failure

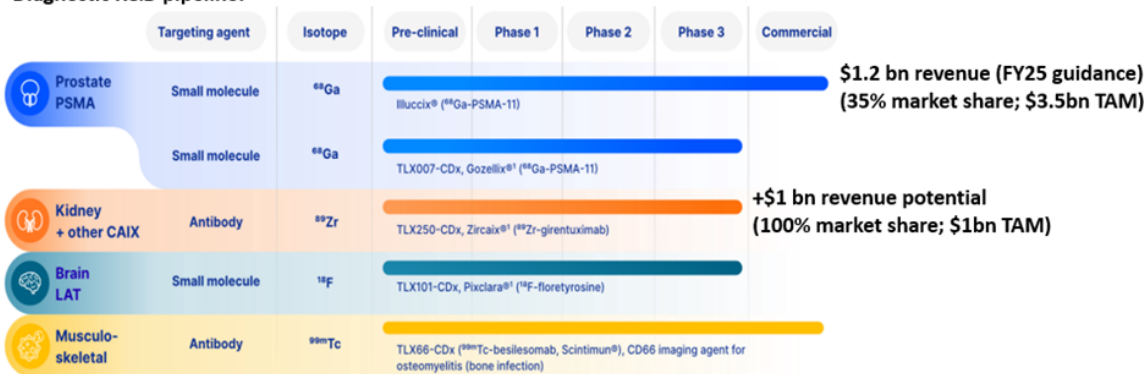
If TLX's R&D pipeline stalls, Illuccix alone (\$1.2 billion revenue) supports a derated 5.1x P/S ratio, typical of mature firms like CSL. This implies a 24% share price decline.

2. R&D Success

Assuming no further Illuccix growth (\$1.2 billion revenue) and the commercialisation of Zircaix (\$1 billion revenue) and TLX-592 (\$2.7 billion revenue), with no other pipeline wins, total sales could reach \$4.9bn. At 5.1x PS ratio, the market capitalisation could hit \$25 billion – a 177% upside.

TLX R&D portfolio

Diagnostic R&D pipeline:



Therapeutic R&D pipeline:



Even with a 50% chance of pipeline success, TLX's risk-reward profile is compelling, driven by its asymmetric return potential.

Concluding Remarks

The current market environment presents a complex picture, with pockets of overvaluation alongside compelling opportunities. Recent market volatility has exposed some stocks disconnected from their fundamentals. 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.