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EVIDENTIA PRIVATE

Implemented Portfolios

Portfolio Perspectives

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Key Messages for Investors

- **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.

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

Moving to mildly Underweight Australia Large Caps

As outlined in last month's Portfolio Perspective by Dan Moradi, investors in the Australian share market are faced with the poor choice of low growth or high multiples. Knowing that profit growth is a key driver of share market returns, investors must contend with either low expected profit growth within the Banks and Resources sectors or excessively high valuations for parts of the market where there is strong growth. With Australian Bank profits forecast to grow at a meagre 1.3% next year and a PE ratio of 31x for the ex-Banks/Resources sectors, choices are poor, particularly when stacked against a much broader global opportunity set.

Moving to mildly Overweight Emerging Markets (EM)

Again, as outlined by Dan's insightful work last month, EM profit growth forecasts have finally stabilised after a multi-year downgrade cycle. That cycle saw valuations compress such that relative to Developed Market Equities, EM now trades at a multi-decade low – an attractive entry point given expectations for low-double digit profit growth forecasts for this part of the market.

We note that in China, Taiwan and South Korea, the Information Technology sector has been a key driver of share price performance (and Healthcare and Consumer sectors to a lesser extent). We are carefully observing whether China's emerging recovery can extend beyond these sectors and see a more broad-based rally in these markets. India, which is not dominated by the Technology sector, has a higher weighting towards Financials and Industrials. We expect the coming income tax cuts and a more accommodating Reserve Bank of India, is expected to lead to a significant boost in consumption during 2026, which should positively impact earnings.

Moving to mildly Overweight Listed Infrastructure

We have a constructive view on Global Listed Infrastructure. Infrastructure assets are trading at attractive valuations, with a forward dividend yield of 4.9% compared to the long-term average of 5.0%. This stands in contrast to most growth assets, which are currently priced near the 90th percentile of their historical valuation ranges.

Investment in infrastructure projects is expected to remain strong. The Artificial Intelligence (AI) boom primarily located in the US, defence spending through Europe and the continued greening of electricity networks give rise in infrastructure investments through data centres, electric utilities and transportation networks.

This relative valuation advantage, combined with 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. Beyond valuation appeal, the asset class offers lower volatility and reduced market sensitivity (beta), qualities that we believe will be increasingly valuable should broader markets experience bouts of instability.

Is AI a Bubble?

We acknowledge that equity valuations continue to climb largely on the back of widespread enthusiasm for all things related to AI. At the heart of the debate are the real impacts AI is having on the economy.

A puzzle we have been trying to solve is the unusual pattern of job weakness ahead of obvious weakness in the broader economy. In typical cycles, trading conditions for business gets bad before employment conditions worsen. In many major economies today, the labour market is tough, yet arguably, macro conditions are solid.

The impact from AI might be behind this trend. According to the 2025 AI Index Report published by the Stanford Institute for Human-Centered Artificial Intelligence (HAI), AI systems evaluated on the SWE-Bench benchmark could solve only 4.4% of coding problems in 2023, but with rapid advancement, achieved 71.7% in 2024. This represents 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.

A research paper dated 26 August 2025 published by Brynjolfsson, Chandar and Chen titled "Canaries in the Coal Mine? Six Facts about the Recent Employment Effects of Artificial Intelligence" recently caught our attention. The study uses data from ADP, the largest payroll processing firm in America. The report focused on the period from January 2021 to July 2025 and included between 3.5 to 5 million workers each month creating a reasonable sample of what is happening in the US employment market.

The employment data highlight a clear generational divide emerging in the wake of AI adoption. While overall labour markets remain resilient, early-career workers -

particularly those aged 22 to 25 - are showing signs of strain in roles most exposed to automation. Employment in these highly AI-exposed occupations, such as software development and administrative assistants, declined by around 6%, even as employment for older cohorts in the same roles grew by 9%.

By contrast, jobs less affected by AI - such as nursing and maintenance and repair workers - have continued to see steady employment growth across all age groups up between 6-13%. This divergence suggests that AI's impact on employment is being felt most acutely at the entry level, where tasks are more easily automated and experience is less of a differentiator.

Taken together, the findings imply that AI's initial effects are being expressed more through employment displacement than wage suppression.

Generative AI is reshaping the landscape of early career entry, with automation potentially beginning to reduce demand for junior roles in several knowledge-based professions, even as overall employment growth remains resilient. This potential trend reflects a longstanding productivity challenge faced by major economies — achieving higher output with a leaner workforce.

This may be behind the softness in labour conditions seen in the labour differential survey from The Conference Board where the ratio between those who believe jobs are "plentiful" compared to those who feel they are "hard to get" is getting worse. Yet, overall employment conditions are fair.

Another anecdotal signof the changing labour market is Walmart's CEO announcing a three-year hiring freeze as AI is rolled out across its enterprise that employs 2.1 million worldwide.

While we acknowledge the disruption faced by those in the workforce, history offers perspective. As with the blacksmiths and typists of earlier eras, technological transformation has consistently given rise to new and often unforeseen opportunities.

While AI enthusiasm may be inflating valuations, the underlying technological shift appears genuine. The divergence in labour markets suggests AI's impact is already real, displacing some roles while boosting overall productivity. As with past innovations, disruption is a prelude to transformation. Whether markets are overestimating near-term gains or rightly anticipating a productivity boom, AI is clearly redefining the foundations of future growth.

What about the US government shutdown?

A prolonged government shutdown poses a meaningful drag on the US economy. Historical data show that the 2018–2019 shutdown lasted 35 days and cost the economy an estimated US$400 million per day in lost wages according to the Congressional Budget Office. Current US Treasury estimates place the cost of a shutdown at approximately $15 billion per week, or about 0.05% of U.S. GDP. While this may appear modest in percentage terms, the cumulative effect becomes significant if the shutdown persists for several weeks.

Given that the U.S. economy is forecast to grow only 1.6% over the next year, a lengthy or repeated shutdown could materially erode growth momentum. In essence, while the economy can absorb a brief disruption, an extended shutdown would meaningfully slow near-term economic activity.

We are continually recalibrating our view on the impact of the shutdown but still believe any impact will be temporary and not manifest as lasting harm on the economy. That said, as we approach a new record for the longest shutdown in US history, we stay alert to material damage that would change our positioning.

Outlook & Positioning

Australian equities present unattractive options, with weak profit growth in Banks and Resources or stretched valuations in other sectors. Given limited earnings prospects and better global alternatives, we move to mildly Underweight Australian Equities - Large Caps.

Emerging Markets now trade at multi-decade low valuations with stabilised profit growth forecasts, offering an appealing entry point. Improving conditions in China could further support the rally in the broader EM markets, we move to mildly Overweight EM.

Global Listed Infrastructure offers attractive valuations and a healthy dividend yield compared to most growth assets. With the prospect of lower interest rates and its defensive qualities, we move to mildly Overweight Global Listed Infrastructure.

AI enthusiasm may be driving lofty valuations, but the technology's transformative impact appears genuine. Despite short-term disruptions in the labour market, AI could be paving the way for long-term productivity and economic growth.

We are alert to the negative impacts on the economy from the US government shutdown but for now we maintain our view that it will not have lasting harm on the economy.

Growth Assets		Underweight		N	Overweight
Australian Equities – Large Cap					
Australia Equities - Small Caps					
Developed Market Equities – Large Caps					
Developed Market Equities - Small Caps					
Emerging Market 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

Asset Class	Position	Rationale
Australian Equities – Large Caps	Mild Underweight	Australian equities present unattractive options, with weak profit growth in Banks and Resources or stretched valuations in other sectors. Given limited earnings prospects and better global alternatives,
Australian Equities – Small Caps	Mild Underweight	Unprofitable junior miners make up a large portion of the Small Caps sector vs Large Caps. While they should benefit from an improving outlook for China, we prefer to gain exposure to this dynamic directly. There is also considerable froth in this portion of the market due to the strength in gold.
Developed Market Equities – Large Caps	Neutral	The Trump Administration's tariff policies are a headwind for growth, but the impacts will be manageable. Economic indicators have moderated year to date, but fears of a severe growth have diminished.
Developed Market Equities – Small Caps	Neutral	Valuations remain somewhat attractive. With US companies forming 63% of the small cap index, tariff policy uncertainty should fade as a headwind.
Emerging Market Equities	Mild Overweight	Emerging market equities are dominated by China, where a policy shift to support consumption and an economy that has recalibrated to be less dependent on the US since 2018 are supported by compelling valuations. The combination of attractive valuations and a stabilised earnings outlook offer an appealing entry point.
Global Listed Property	Mild Overweight	Attractive subsector valuations warrant an active approach to this sector. Office sector remaining structurally challenged but rental growth and healthy fundamentals are appearing in other areas of the sector (age care, data management, supply chains).
Global Listed Infrastructure	Mild Overweight	GLI offers attractive valuations, a healthy dividend yield compared to most growth assets, and is a beneficiary of lower interest rates. We also like its defensive qualities.
Growth Alternatives	Neutral	Some improvement in the exit environment for private equity. Private credit is offering attractive yields, but spreads remain tight. Global multi-strategy hedge funds that are liquid and can respond to rapid changes in macro conditions and sentiment.

Defensive Assets

Asset Class	Position	Rationale
Australian Bonds	Mild Overweight	Australian bond yields offer good value and provide safety from overseas volatility. Positive supply/demand dynamics further supported by a budget deficit likely to be less than government forecasts.
Global Bonds	Slight Underweight	US fiscal and monetary policy uncertainty is distorting the defensive qualities of Global Bonds. Japan is still in hiking mode.
Diversified Income	Neutral	Floating rate public credit still offers relatively attractive yields.
Conservative Alternatives	Neutral	Gold acts as a risk-diversifier against a further deterioration in economic conditions or escalation in geopolitical tensions.
Cash	Neutral	Cash provides optionality during this volatile period.

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