

JANUARY 2025

MORNINGSTAR Industry Pulse



## Australian Asset Managers: 2024 Q4

No sign of improved competitiveness against passive investments.



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## Morningstar Equity Research

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### Important Disclosure

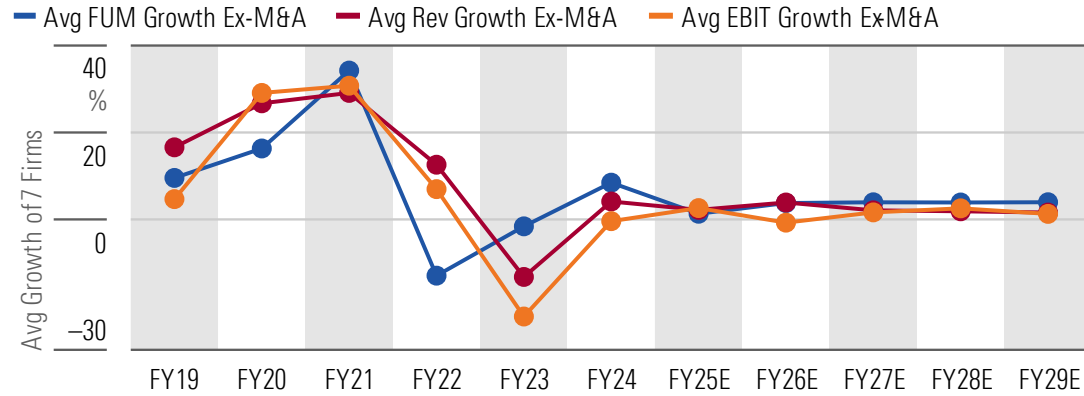
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# Executive Summary

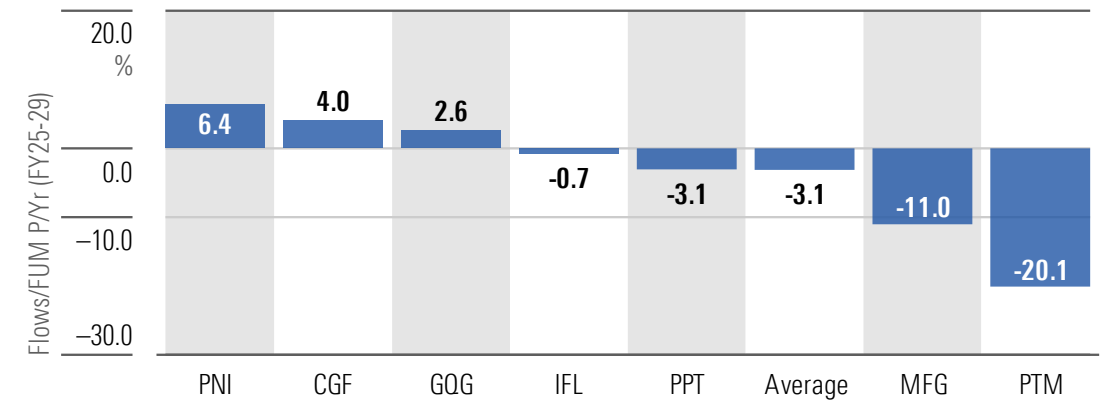
Medium-term earnings growth to moderate.

# Flow, Fee, and Valuation Headwinds Constrain Earnings Growth

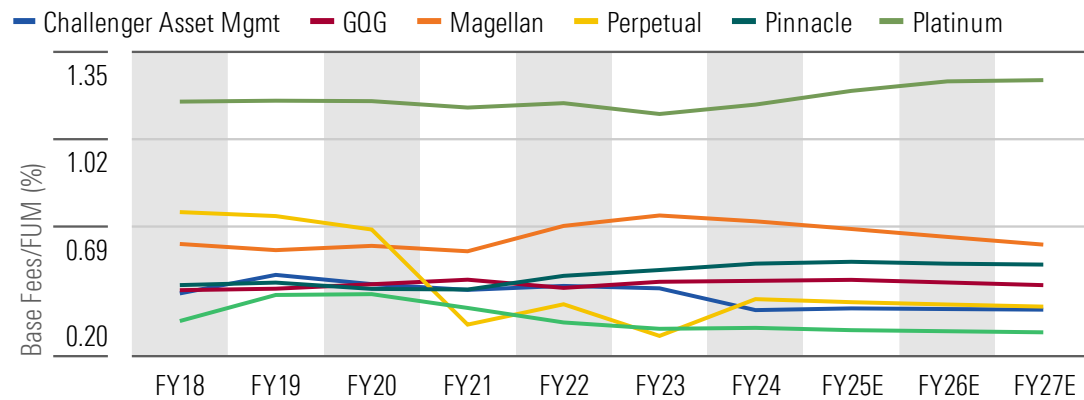
## 1) We Expect Average^ Earnings Growth to Moderate After Fiscal 2025



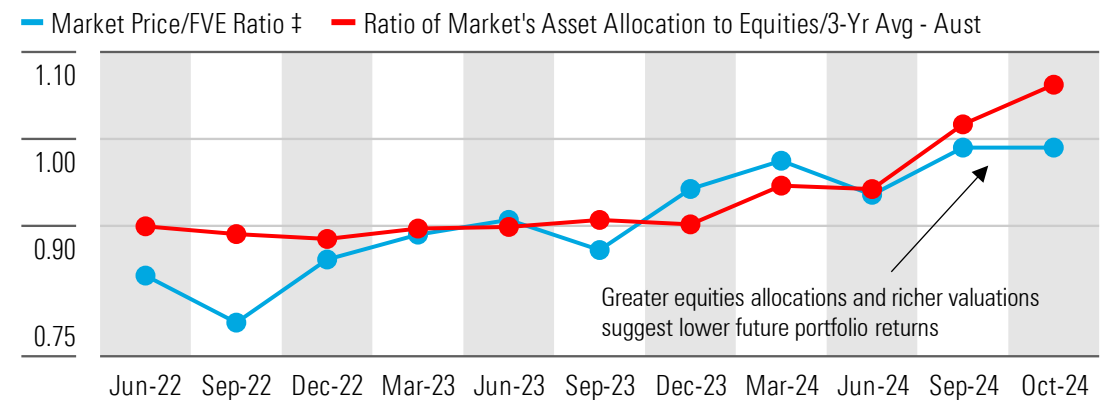
## 2) Given Expected Net Outflows for Most ...



## 3) ... And Compression in Base Management Fees\* ...



## 4) ... And Normalizing Portfolio Returns From Levels Seen in 2024

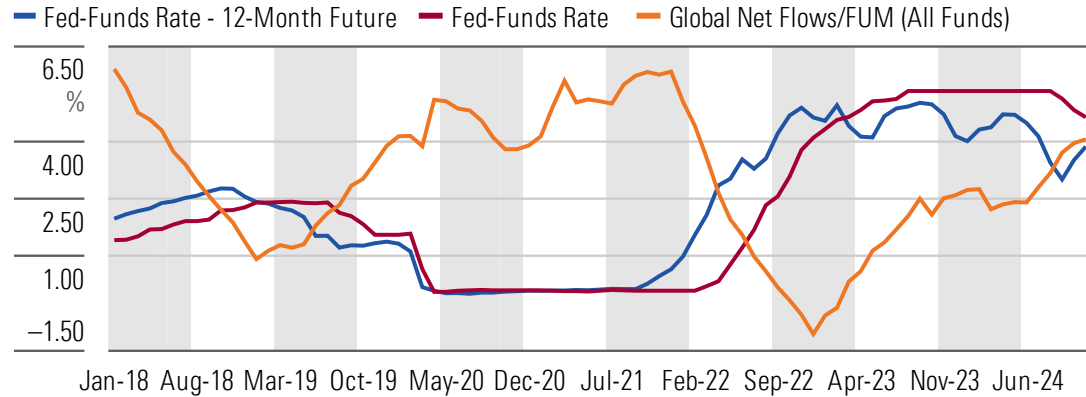


Source: Company filings, Morningstar (top left, top right and bottom left). Data as of Dec. 31, 2024; Morningstar (bottom right). Data as of Oct. 31, 2024. Notes: ^ Average rates are for CGF's asset management division, GQG, MFG, PPT's asset management division, PNI, PTM, and IFL's asset management division. \* Money-weighted, meaning inclusive of disparate client groups paying different fees and hence are not like-for-like. For example, fees on retail products are typically higher than institutional products. ‡ Average of close to 1,650 companies covered by Morningstar Equity Research globally.

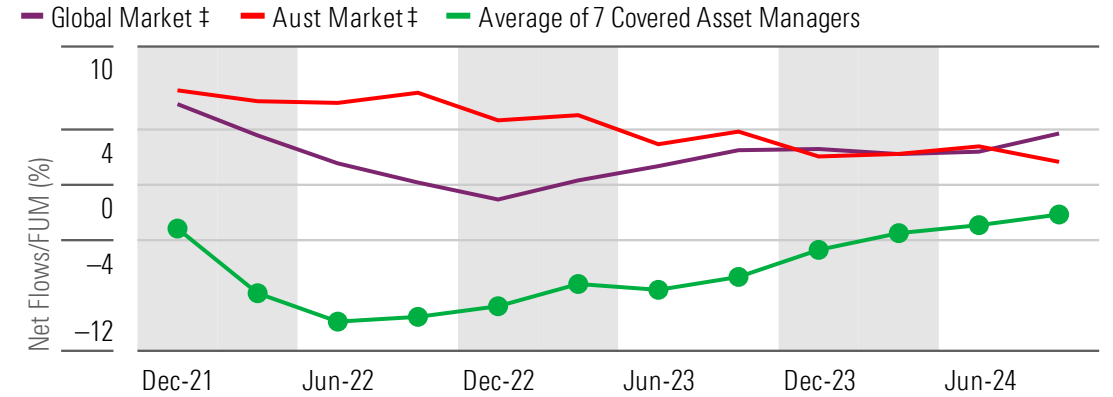
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# Headwinds From Passive Funds Outweigh Macroeconomic Improvements

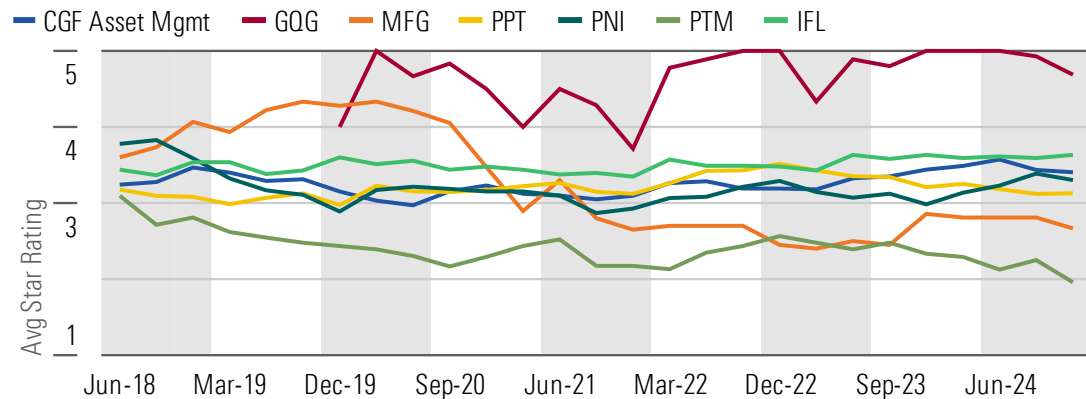
## 5) External Conditions Are Supportive of Flows into Risk Assets



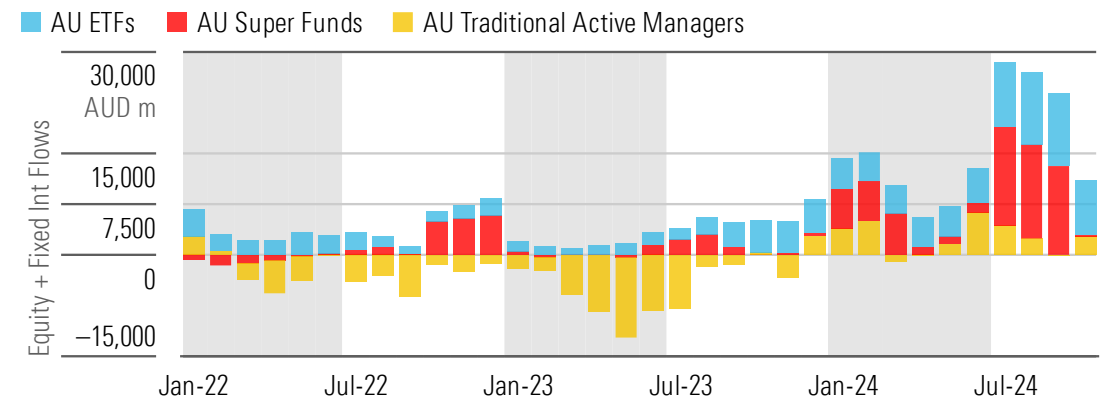
## 6) But Our Covered Firms Are Still Losing Share as a Cohort ...



## 7) ... As Many Lack Strong Overall Performance Records to Attract Flows



## 8) Active Managers Broadly Losing Share in Equities and Fixed Income



Source: Chicago Mercantile Exchange, Federal Reserve Board, Morningstar (top left). Data as of Nov. 30, 2024; Company filings, Morningstar (top right). Data as of Sept. 30, 2024; Morningstar (bottom left). Data as of Dec. 31, 2024; Morningstar (bottom right). Data as of Oct. 31, 2024. Note: † Global flows are into open-ended funds, money-market funds, and ETFs. Australian flows are into ETFs, super funds and traditional active managers. Figures are sourced from firms that report to Morningstar and should be considered a general representation of the market, though they may not fully capture total market flows.

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# Valuation

Opportunities despite recent rerating.

# More Effort Needed to Gather Assets, but Costs Are Constrained

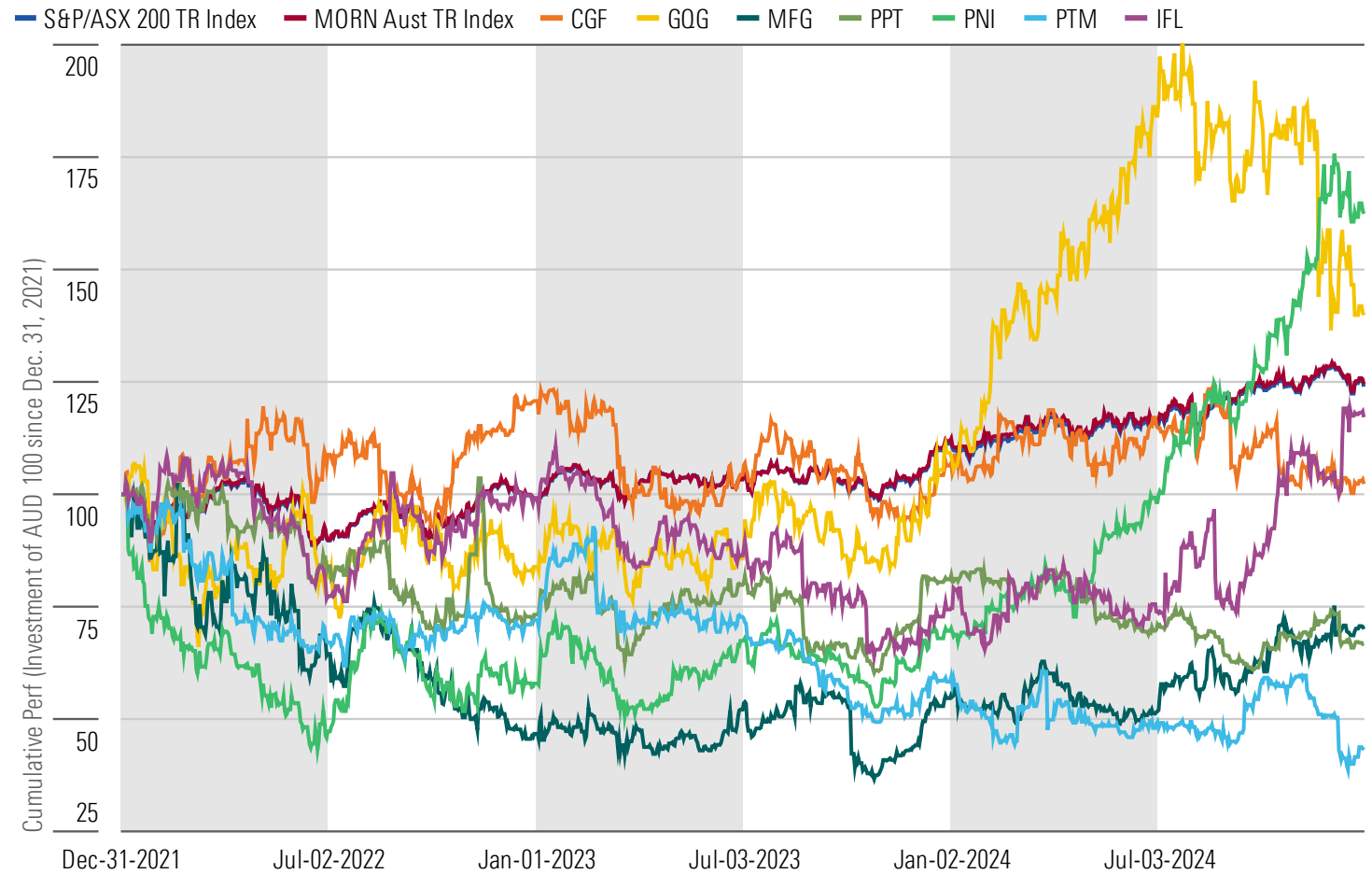
Total shareholder returns for most ASX-listed asset managers have lagged the S&P/ASX 200 Index since 2022, when interest rates rose from historic lows. For shares to gain momentum from current levels, further improvements in fund flows and operating margins are needed.

Shareholder returns for ASX-listed asset managers were mixed in 2024. GQG and Pinnacle outperformed the ASX 200 Total Return index, given strong performance and flows, while Magellan and Insignia also outperformed with fundamental improvements. Insignia also landed a takeover proposal from Bain Capital — since rejected by its board. Platinum was the weakest performer, with subpar returns, sluggish flows, and an aborted acquisition by Regal Partners.

Fund flows for our covered firms generally improved throughout 2024, supported by expectations of falling interest rates in 2025 and relatively low market volatility. But these tailwinds are transient. We expect them to focus on product expansion through partnerships or potential acquisitions, alongside cost management strategies such as aligning remuneration with business size, in 2025.

## Shareholder Returns for Most Still Lag the Index Since 2022

ASX-listed asset manager total returns versus industry benchmarks.

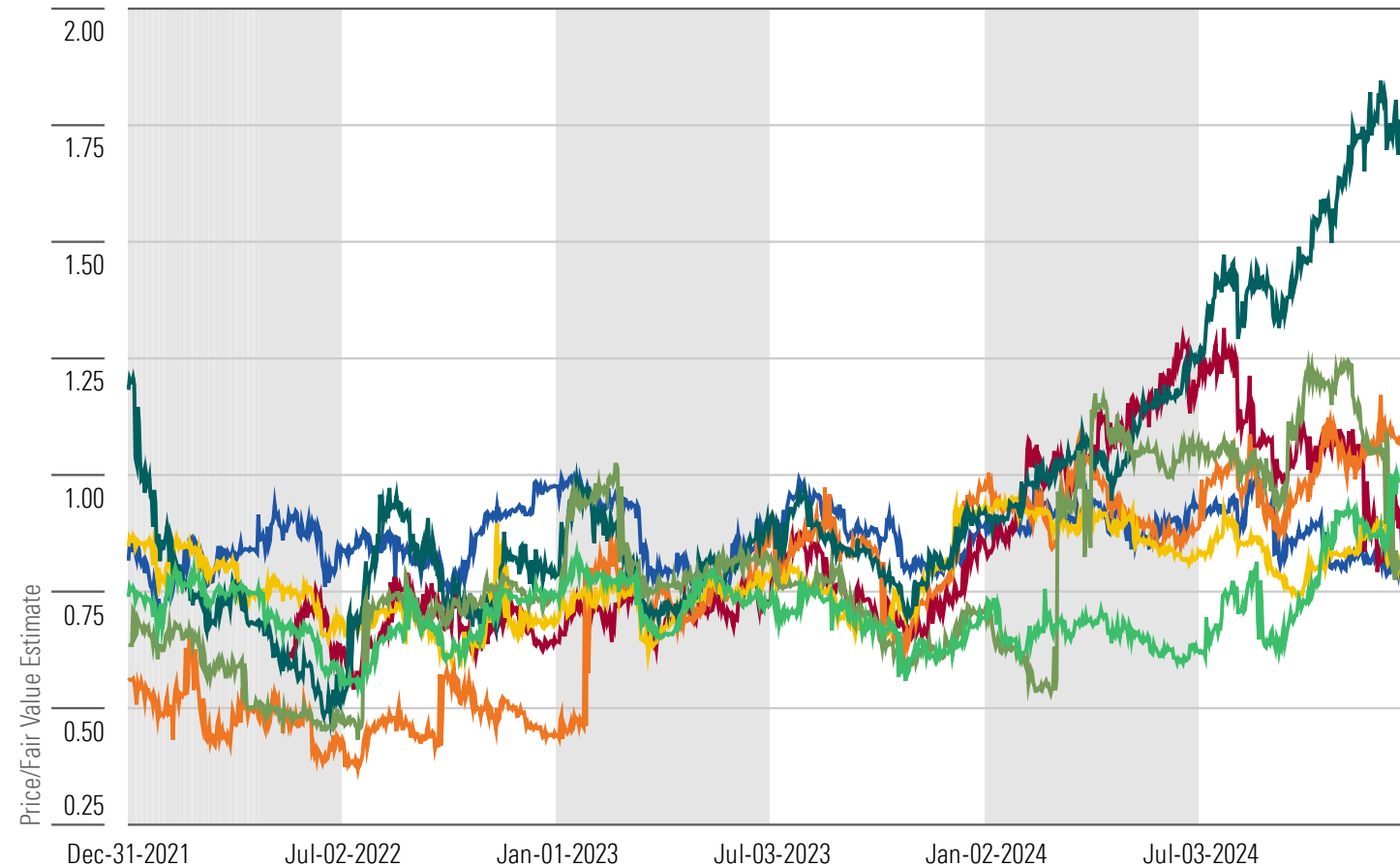


# Shares Generally Did Well in 2024, but There's Still Value

## Wide Dispersion in Valuations, Though Opportunities Remain

Price/fair value estimate for ASX-listed asset managers.

CGF GQG MFG PPT PNI PTM IFL



The cohort's average price/fair value ratio increased to 1.01 as of Dec. 31, 2024, from 0.85 at the start of 2024. However, valuations vary significantly. Pinnacle and Magellan are overvalued, while Challenger and Perpetual are undervalued.

Asset manager share prices have broadly benefited from stronger investor appetite for risk assets in 2024—through improved fund flows and asset price appreciation, which boosted their funds under management. Firm-specific factors hurt some share prices. The most notable was Platinum's capital return and weak flows, which led us to reduce the asset manager's fair value estimate.

Challenger, Perpetual, and GQG offer the greatest value out of our covered firms. We think the market underestimates several of their merits. For Perpetual, these include the potential value from cost reductions and likely flow improvements. For Challenger, we see strong demand for its products and likely gross margin expansion. For GQG\*, these are its strong long-term track record, below-peer average fees, widespread presence on recommended product lists, and good team stability.

Source: Morningstar. Data as of Dec. 31, 2024. Note: \*We acknowledge GQG's recent firm-specific issues and note Morningstar Manager Research has maintained its Gold/Silver ratings on GQG's products despite recent events. Notably, these include a resolved settlement between the SEC and GQG concerning employment nondisclosure agreements, the promotion of Siddharth Jain—Rajiv Jain's son—to deputy portfolio manager, which typically raises governance concerns, and GQG's substantial holding in Adani, which affected its short-term performance.

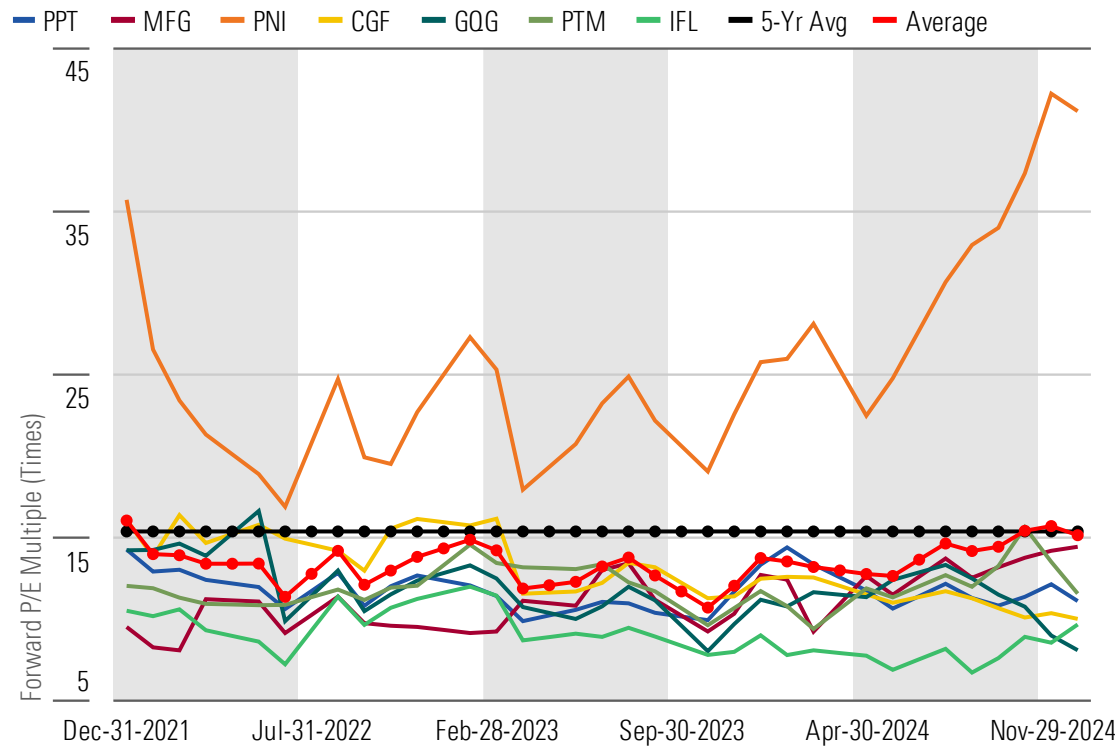
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# Relative Valuations Are Generally Fair

Price/earnings multiples and dividend yields suggest asset manager valuations are undemanding. In December 2024, the average forward P/E multiple and dividend yield for the seven firms we cover were 15.2 times and 5.5%, respectively. But we caution against relying solely on relative multiples, as they do not capture the long-term prospects for the industry.

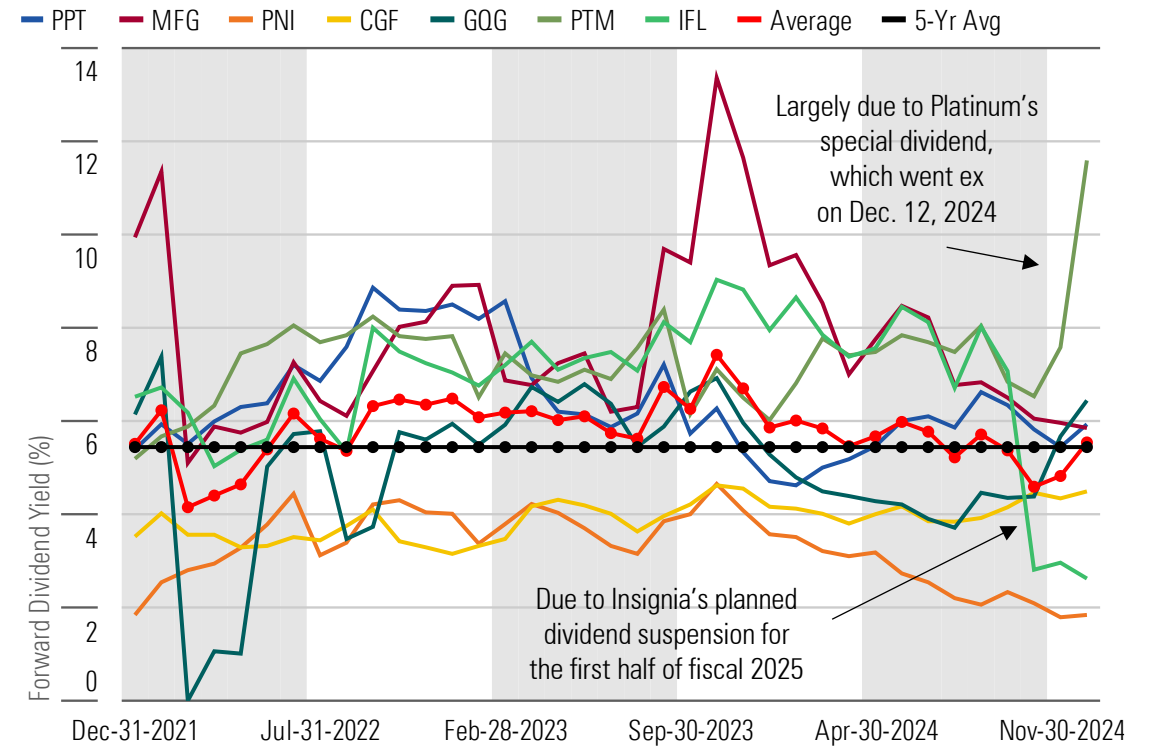
## Price/Earning Multiples Are Undemanding for Most Firms

One-year forward P/E multiple for ASX-listed asset managers.\*



## Forward Yields Mixed, but There's Still Value on Offer

One-year forward dividend yield for ASX-listed asset managers.\*



Source: Morningstar. Note: \* Based on consensus forecasts. Data as of Dec. 31, 2024.

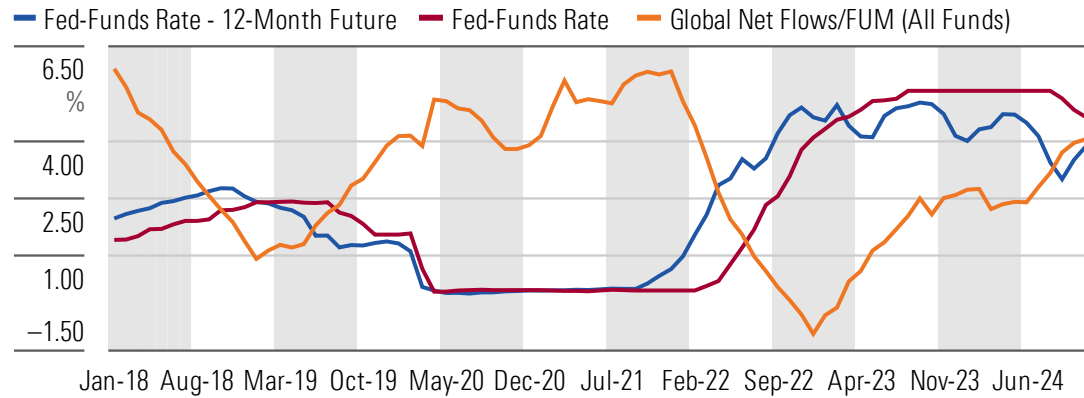
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# Fund Flows

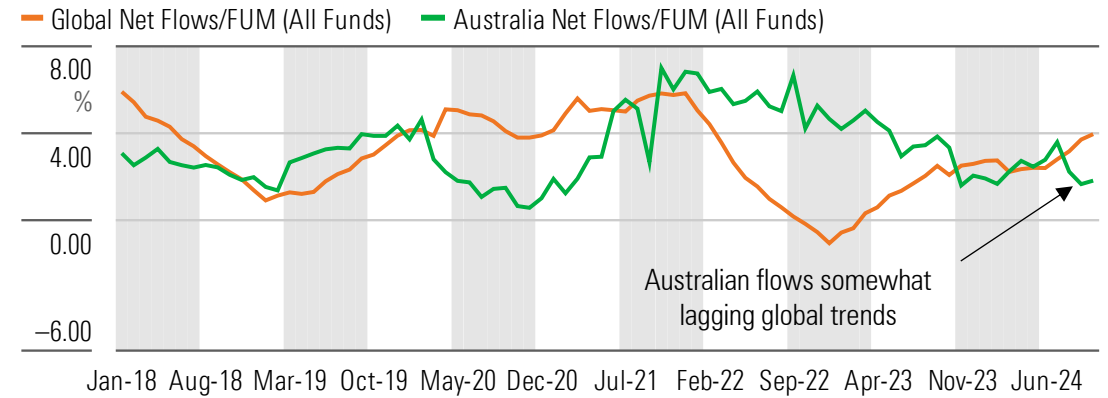
Macroeconomic outlook supportive, but active managers still challenged.

# Lower Rate Prospects Supportive of Fund Flows

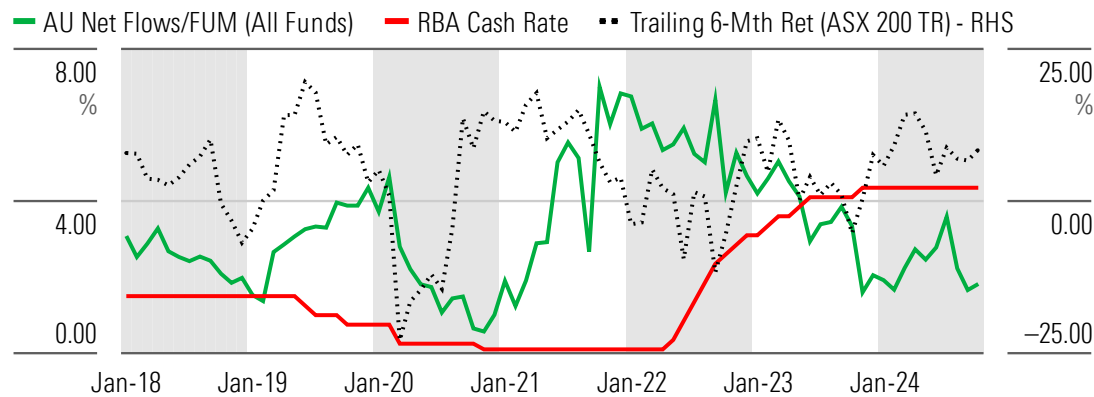
## 1) Global Flows\* Buoyed by Expectations of Lower Future Rates



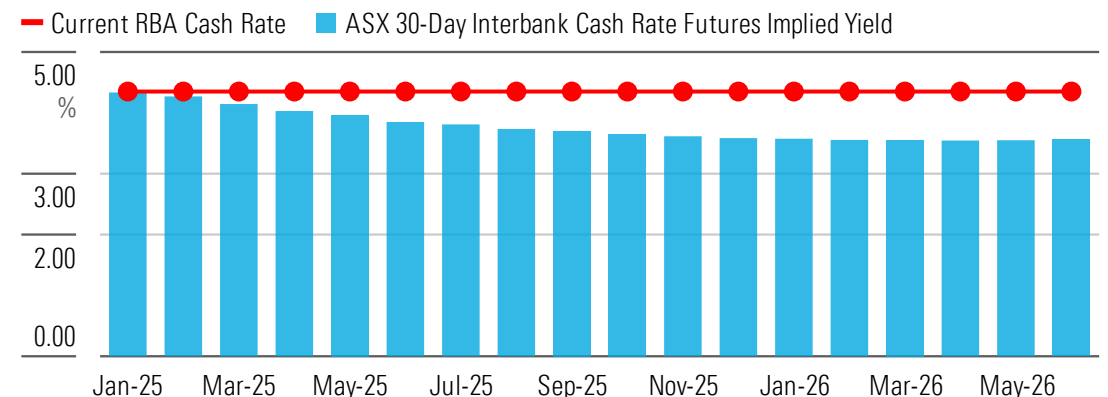
## 2) Australian Flows\* Lagging Global Flows Somewhat



## 3) We Believe Flows Into Australian Funds Should Improve ...



## 4) ... With Good Prospects of Rate Cuts in 2025



Source: Chicago Mercantile Exchange, Federal Reserve Board, Morningstar (top left). Data as of Nov. 30, 2024; Morningstar (top right). Data as of Oct. 31, 2024; Reserve Bank of Australia, Morningstar (bottom left). Data as of Oct. 31, 2024; Australian Securities Exchange (bottom right). Data as of Jan. 10, 2025. Note: \* Global flows are into open-ended funds, money-market funds, and ETFs. Australian flows are into ETFs, super funds and traditional active managers. Figures are sourced from asset managers that report to Morningstar and should only be considered as a general representation of the market.

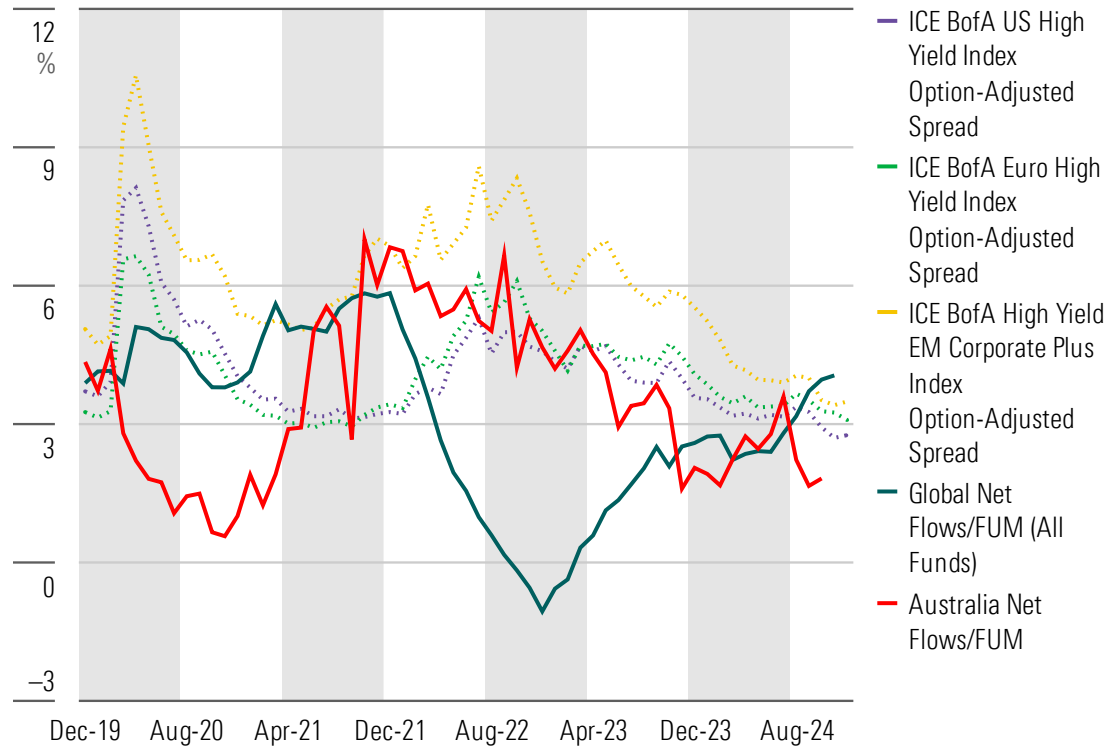
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# Benign Volatility Benefits Risk Asset Demand

The outlook for fund flows is constructive. Flows into risk assets are inversely correlated with investor expectations of market stress and volatility. Presently, credit spreads and the VIX Index—an indicator of anticipated US stock market volatility—are below long-term averages. Investors responded positively to Donald Trump’s presidential victory and the prospect of lower global interest rates, but there are risks that could derail investor optimism. For example, the potential implementation of Trump’s proposed tariffs, which may be inflationary.

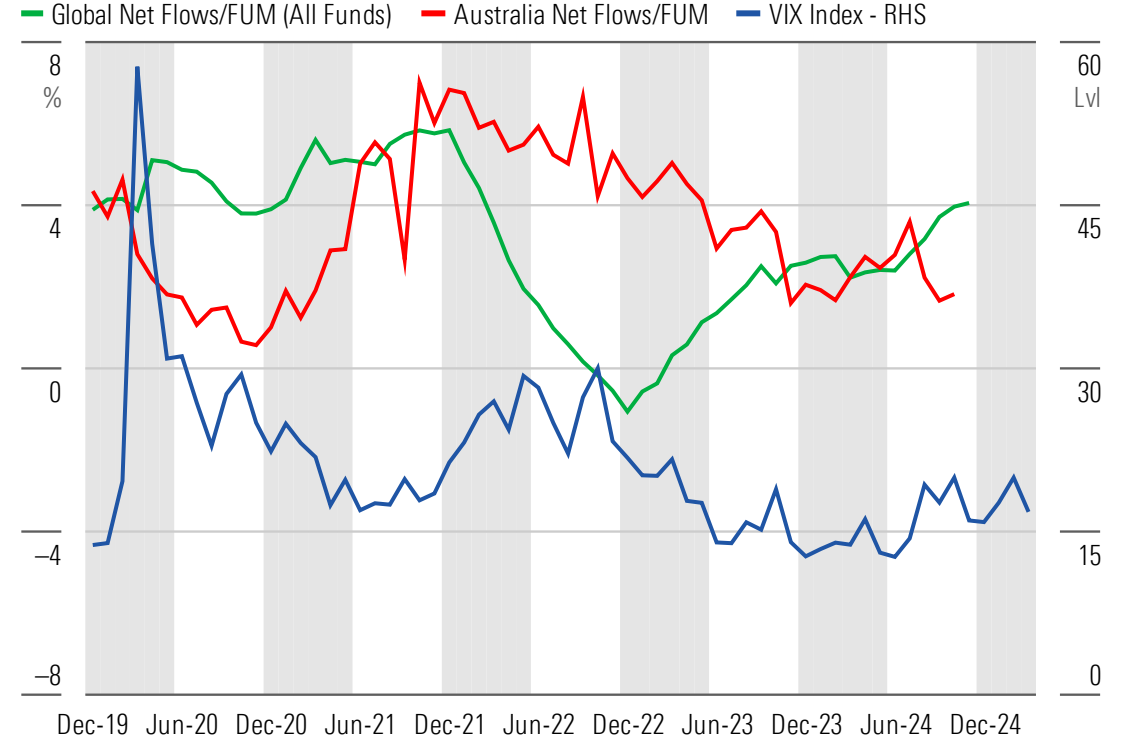
## Generally Contained Credit Spreads Presently Supportive of Flows

Credit spreads and net flows.



## VIX Index Supportive of Investor Risk Appetite for Now

VIX Index and net flows.



Source: Federal Reserve Bank of St Louis, Morningstar (Left); Cboe Exchange, Morningstar (Right). Credit spreads and VIX Index data as of Jan. 3, 2025. Global flow data as of Nov. 30, 2024. Australia flow data as of Oct. 31, 2024. Global flows are into open-ended funds, money-market funds, and ETFs. Australian flows are into ETFs, super funds and traditional active managers. Figures are sourced from asset managers that report to Morningstar and should be considered a general representation of the market, though they may not fully capture total market flows.

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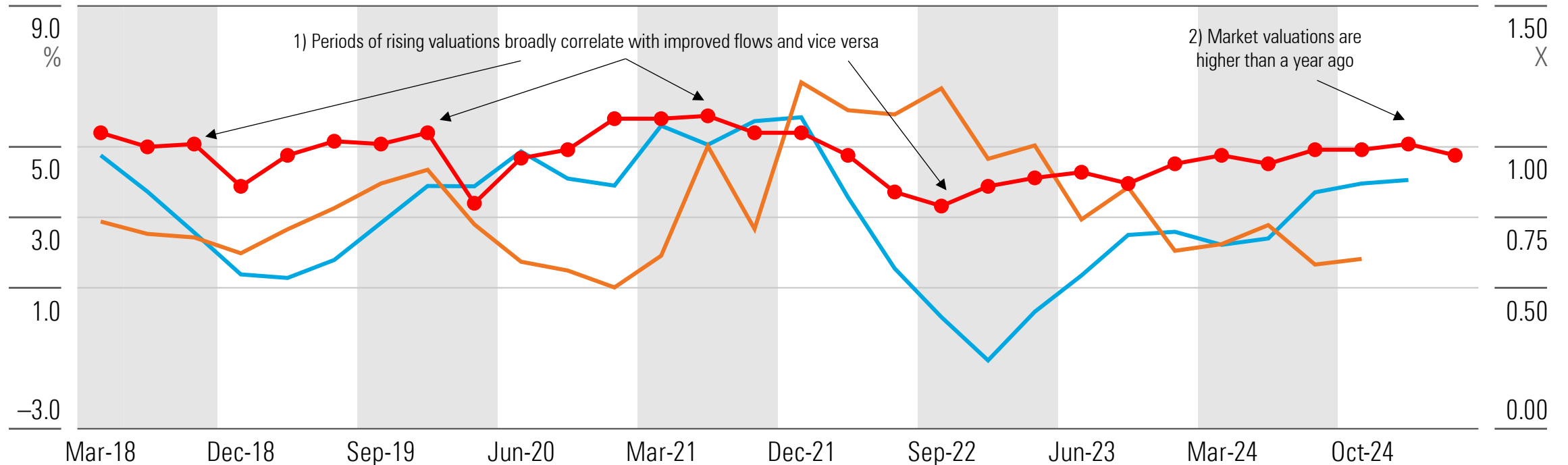
# Richer Valuations Supportive of Near-Term Flows

Given historical patterns, asset managers have better prospects for improved flows if the market shifts from undervaluation toward overvaluation. Rising market prices tend to correlate with improved investor appetite for risk assets. However, the inverse is also true. The average price/fair value multiple for stocks covered by Morningstar Equity Research globally was around 0.98 in 2024, compared with about 0.90 in 2023. History suggests robust near-term flows into risk assets given the typical lag to the strong recent market performance.

## Richer Valuations Suggest Market More Optimistic About Future Fund Flows

Global market price/fair value multiple and net flows.

— Net Flows/FUM (Global) — Net Flows/FUM (Australia) — Market PFVE - RHS

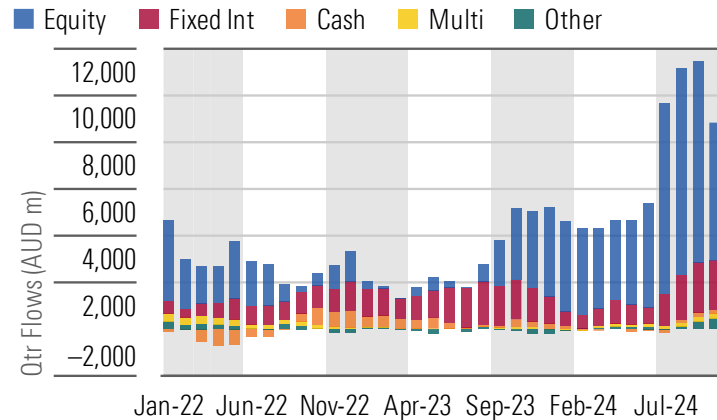


Source: Morningstar. Global flow data as of Nov. 30, 2024. Australia flow data as of Oct. 31, 2024. Price/fair value multiple data as of Dec. 31, 2024. Global flows are into open-ended funds, money-market funds, and ETFs. Australian flows are into ETFs, super funds and traditional active managers. Figures are sourced from asset managers that report to Morningstar and should be considered a general representation of the market, though they may not fully capture total market flows.

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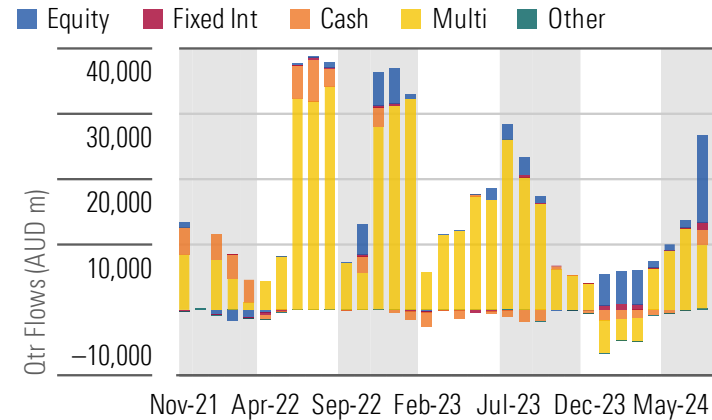
# Pool of Funds for Traditional Active Managers to Shrink

## ETFs Raking in Equities and Fixed Income Flows



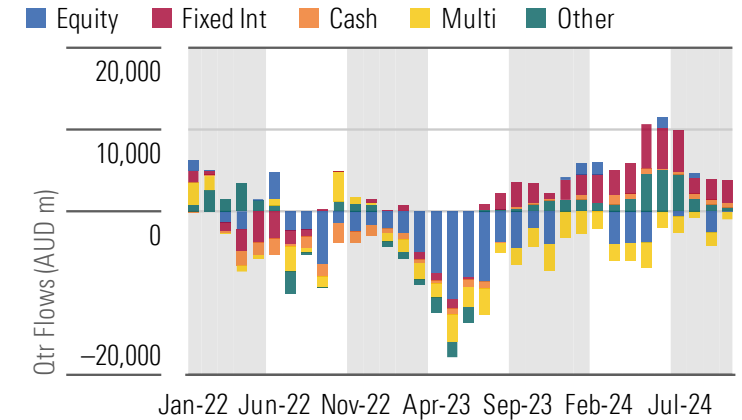
The shift toward low-cost exchange-traded funds, or ETFs, is likely to continue, especially in traditional asset classes like equities. Flows into ETFs remain solid, driven by strong investor appetite for risk assets. We expect ETFs will further capture market share from traditional active managers, including many of our covered firms, which largely focus on conventional equity and fixed income strategies. This trend is supported by the numerous advantages ETFs offer, including their ability to replicate simple active strategies, provide geographic diversification, offer lower fees, and allow ease of access.

## Super Funds Experiencing Net Inflows



Superannuation funds, in particular industry or profit-for-member funds will continue growing in scale and challenge traditional active managers. Through default choice and mandatory contributions, industry funds are pressuring fees and can tap into a broad range of investment opportunities, including unlisted options—a byproduct of scale. Inflows into multiasset funds likely reflect flows into default “MySuper” investment options. They’re known for simplicity, cost-effectiveness, and a balance of growth and defensive assets, which typically change with age.

## Active Managers Going Nontraditional



Active managers are likely to continue losing share in traditional equity and fixed income strategies. However, firms specializing in more unconventional products are better positioned for growth. These include investments in private debt, private equity, and specialized fixed-income strategies, such as diversified credit or non-investment-grade debt—which go beyond purchasing low-risk bonds. Such products typically carry higher risk, are accessible only to select investors, require intensive management, or involve subjective valuations, making them more difficult to replicate with passive investments.

Source: Morningstar. Charts illustrate flows for exchange-traded funds (left), superannuation and pension entities (middle), and traditional active managers (right). Flow figures are sourced from asset managers reporting to Morningstar and should be considered a general market representation, though they may not fully capture total market flows. ETF and active manager flow data as of Oct. 31, 2024. Super fund flow data as of Aug. 31, 2024.

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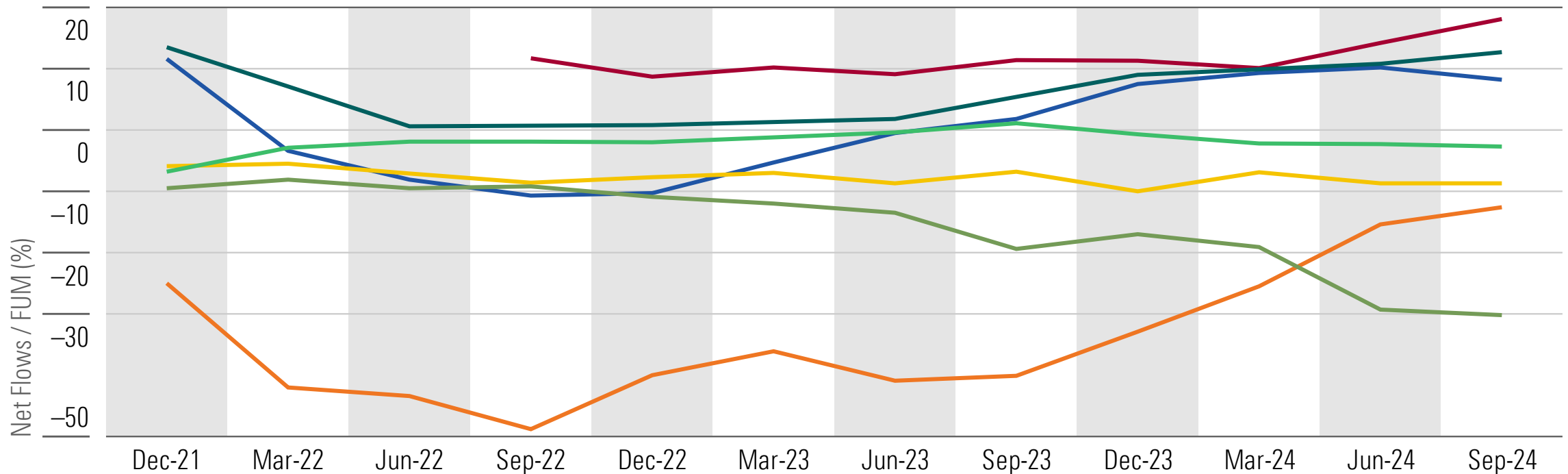
# Average Flows for Our Covered Firms Generally Lag the Broader Market

Active managers are likely to gain business at the expense of close peers rather than structural gains from passive investments. Average 12-month net flows for our covered firms improved for the fifth consecutive quarter to around negative 2% of opening FUM in September 2024, from about negative 8% at the end of June 2023, as flows recovered from prior cyclical lows. However, this remains below 2% and 4% for the Australian and global markets, respectively, for the same period — indicating share losses at the cohort level.\*

## Competition for Flows Among Active Peers to Intensify

Ratio of 12-month net flows over group funds under management.

— CGF — GQG — MFG — PPT — PNI — PTM — IFL



Source: Company filings, Morningstar. Data as of Sept. 30, 2024. Note: \* Company-specific flows are sourced directly from public disclosures. Meanwhile, commentary on the broader Australian and global market flows are based on data collated by Morningstar. Global flows are into open-ended funds, money-market funds, and ETFs. Australian flows are into ETFs, super funds and traditional active managers. Figures are sourced from asset managers that report to Morningstar and should be considered a general representation of the market, though they may not fully capture total market flows.

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# Investment Performance

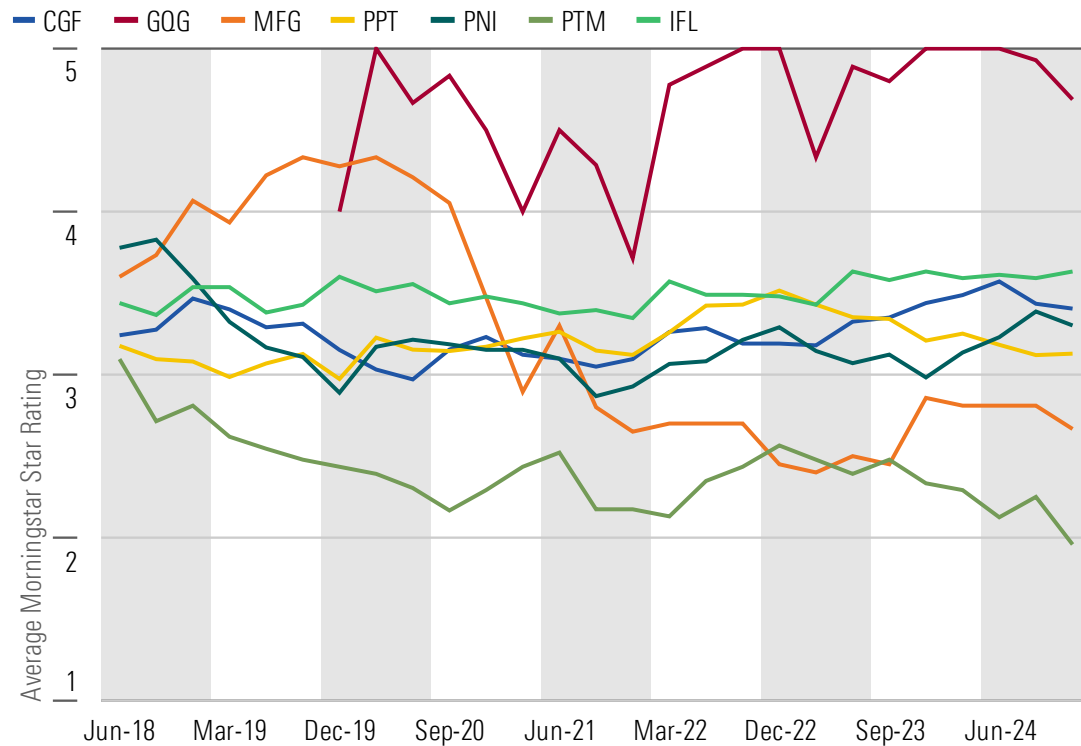
Relative performance unremarkable; mean reversion expected.

# Unlikely to Reverse Share Losses to Passive Funds

Our covered firms, as a group, lack the robust performance needed to reclaim market share lost to ETFs and industry funds. In the near term, we expect stronger performers like GQG to capture flows at the expense of underperformers such as Platinum. Specific issues at Adani Group companies and Novo Nordisk affected GQG’s near-term performance, but its overall track record is far stronger than its peers. Barring prolonged underperformance and ratings downgrades, we do not expect GQG to lose share to other active managers at this stage.

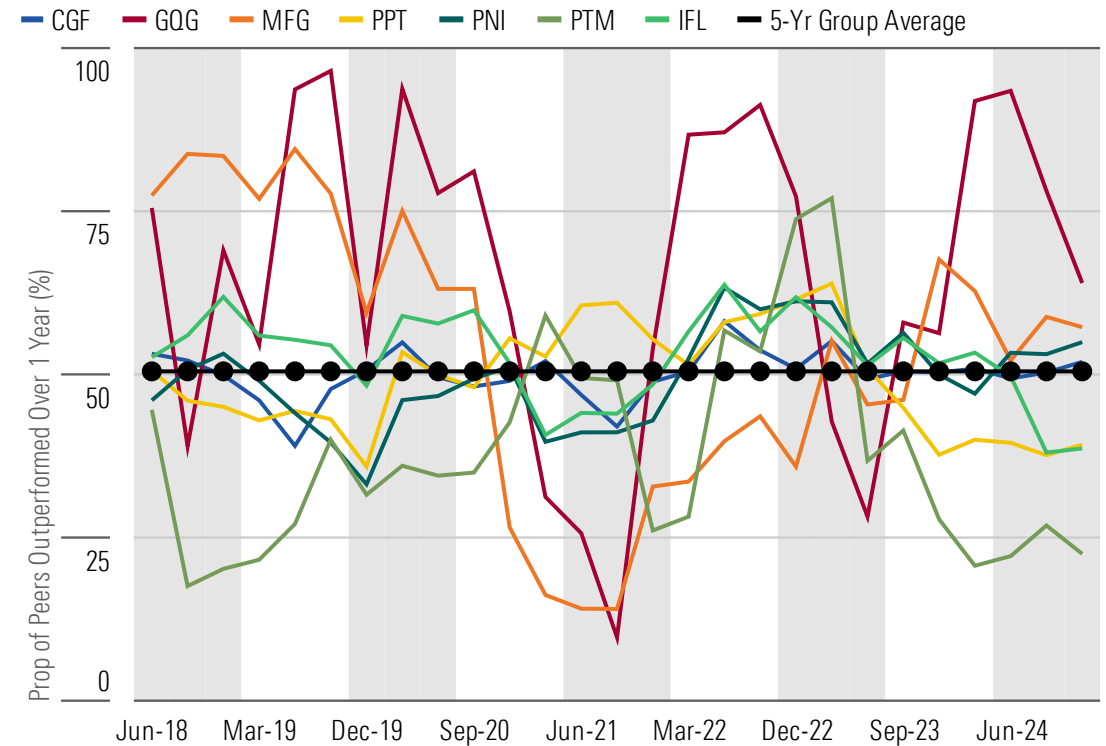
## Most Firms Lack Strong Track Record to Attract Flows

Star rating to measure longer-term relative performance (group level average^).



## GQG’s Near-Term Performance Dampened, but Overall Track Record Strong

Category peers\* outperformed over a one-year period (group average^).



Source: Morningstar. Notes: ^ Simple average for all retail and wholesale share classes. \* Category peers refer to other funds with comparable investment styles and market capitalization constituency. Data shows that the retail and wholesale share classes for all seven firms have, on average, outperformed about half of their category peers over a one-year period in the last five years. Data as of Nov. 30, 2024.

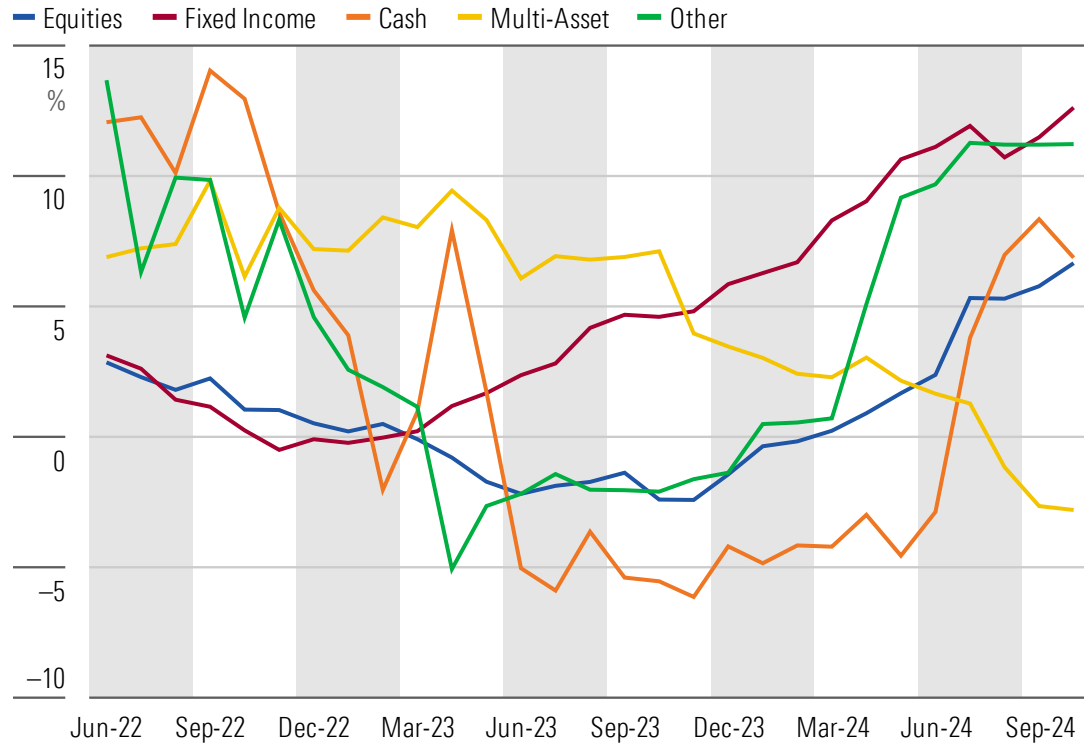
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# Medium-Term Portfolio Returns Likely Lower Than 2024's

Asset prices are getting stretched. Current allocations to risk assets\* relative to cash are rather aggressive, notably in equities. We expect active managers to face various challenges, including greater scarcity of undervalued securities, pressure to remain fully invested to avoid underperformance, and competition from passive funds that simply track the market. Accordingly, we anticipate portfolio returns for our covered firms to reduce to mid to high single digits over the medium term, from the double-digit returns many experienced in 2024.

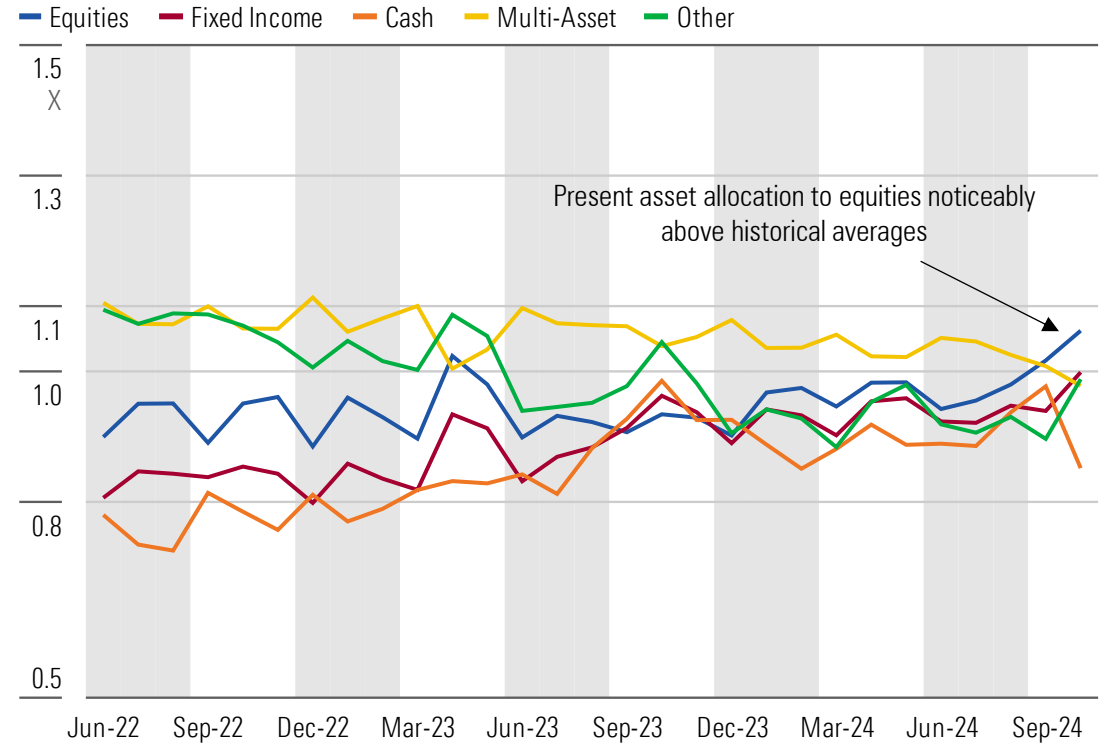
## Flow Rates for Most Asset Classes Improved in the Second Half of 2024

Net flows/funds under management by asset class – Australian market.



## Current Allocation to Risk Assets\* Indicate Strong Investor Optimism

Ratio of current asset allocation to three-year historical average – Australian market.



Source: Morningstar. Data as of Oct. 31, 2024. Note: \*Referring to asset classes that have significant price volatility. These include, but are not limited to, equities, high-yield fixed income, or alternatives.

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# Earnings Outlook

Near-term uplift, followed by moderation.

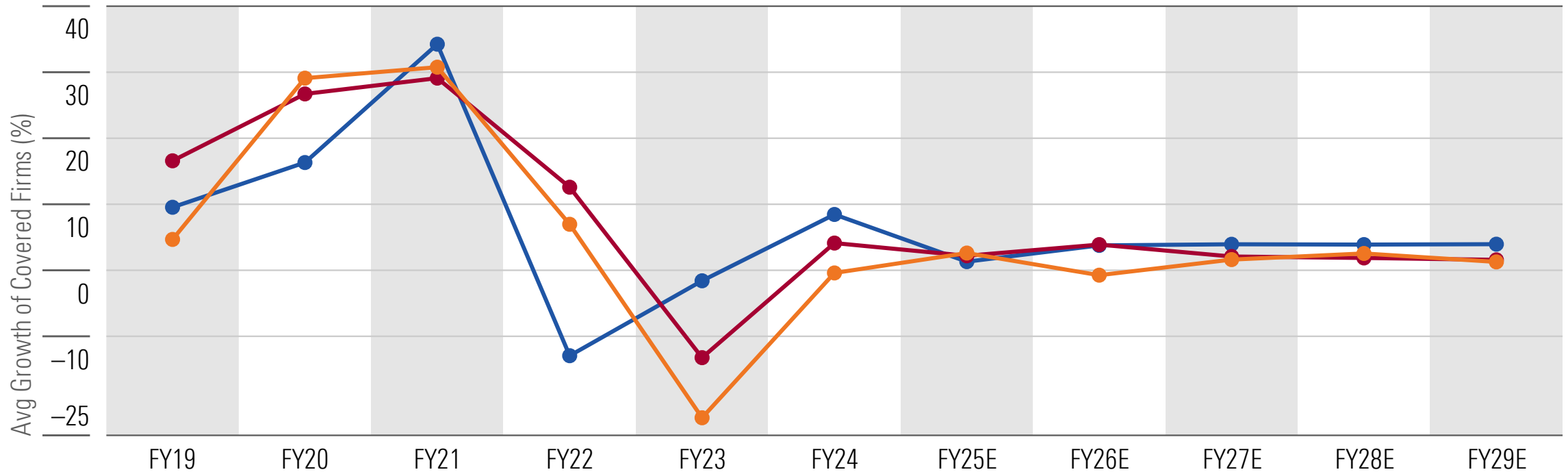
## Near-Term Improvements Likely, but Moderation Thereafter

On average, our covered firms are likely to see improved earnings growth in fiscal 2025, supported by strong flows and portfolio returns, alongside cost reduction measures throughout 2024. Current low levels of market volatility suggest flow momentum could extend into the second half of fiscal 2024. But we are skeptical about the durability of the prevailing investor optimism. As rate cuts are increasingly priced in, we expect net flows to slow down, with fee compression and higher investments in distribution further constraining earnings growth.

### Good Earnings Growth Likely to Moderate

Average growth rates for covered asset managers.

— Average FUM Growth Ex-M&A — Average Revenue Growth Ex-M&A — Average EBIT Growth Ex-M&A



Source: Company filings, Morningstar. Average rates are for Challenger Asset Management, GQG, Magellan, Perpetual, Pinnacle, Platinum and Insignia; and excludes impacts from mergers and acquisitions. Calculations for revenue include base management fees only and exclude performance fees. FUM growth is the sum of growth in net flows and investment returns. Data as of Dec. 31, 2024.

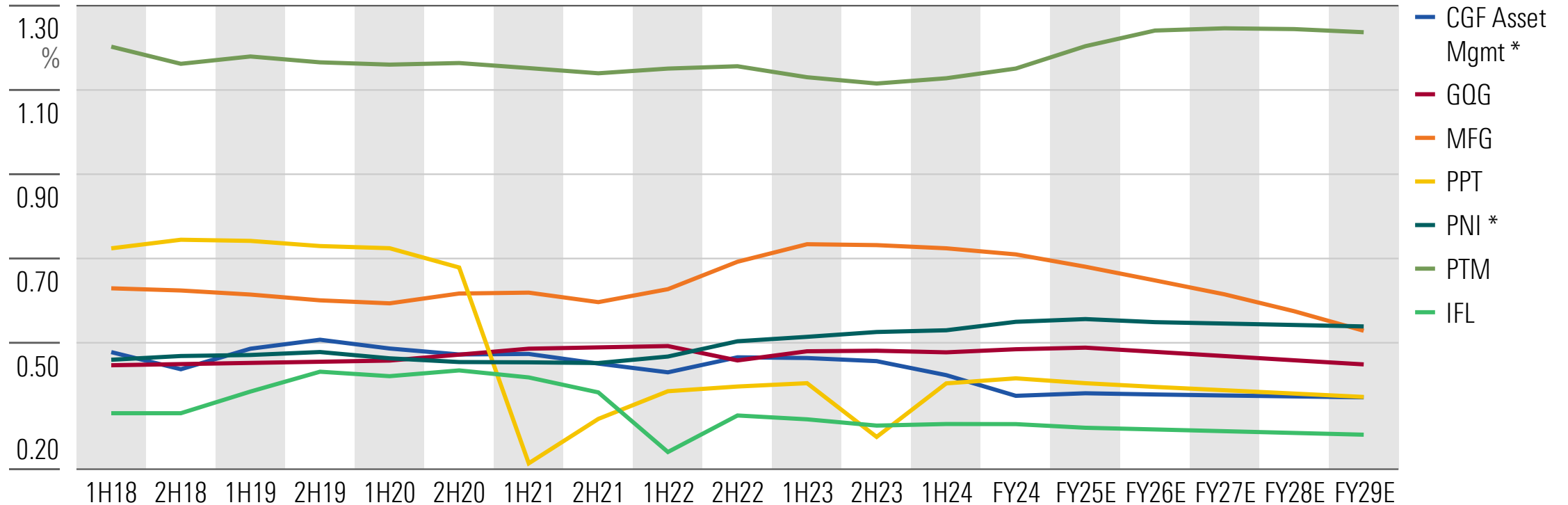
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# Headwind From Fee Compression to Pressure Earnings

We anticipate continued fee compression across all our covered managers through to fiscal 2029, with Magellan and Platinum facing the greatest risk due to their relatively higher fees. The projected increase in Platinum’s fee margins reflects a mix shift toward retail funds with a rapid loss of institutional mandates, which we expect to persist. However, we project fees for Platinum’s underlying strategies to compress, with a significant business reset needed to stay competitive amid weak performance and the aborted acquisition attempt by Regal.

## Our Covered Firms Will Likely Need to Lower Fees

Money-weighted average fee margins at the group level.^



Source: Company filings, Morningstar. Notes: ^ Money-weighted, meaning inclusive of disparate client groups paying different fees and hence are not like-for-like. For example, fees on retail products are typically higher than for institutional products. \* Assuming 100% ownership of affiliate investment managers. Data as of Dec. 31, 2024.

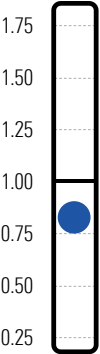
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# Top Picks and Coverage

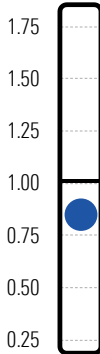
There's still value on offer.

# There's Still Value On Offer Despite Overall Richer Valuations

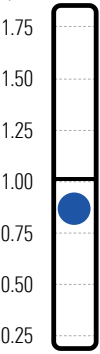
## Challenger (Asset Management) (ASX:CGF)

	<u>Market Cap</u>	<u>Moat Rating</u>	<u>Last Close</u>	<u>Fair Value Est.</u>	<u>Rating</u>
P/FV	4bn AUD	None	6.22	7.50	★★★★
 <p>We think Challenger's EPS can continue to grow at mid to high-single-digit rates while enhancing profitability relative to the last five years. We expect growth in annuity sales, particularly for lifetime products, driven by increasing demand from an aging population and partnerships with superannuation funds. The proportion of longer-dated product sales, including lifetime annuities, is growing, with new business annuity sales tenors rising and maturity rates continuing to fall. Lower maturity rates enhance the compounding of Challenger's investment assets, which supports higher yields and earnings. Moreover, strong performance across its boutique managers, and its extensive distribution network, will likely drive further fund management inflows.</p>					

## Perpetual (ASX:PPT)

	<u>Market Cap</u>	<u>Moat Rating</u>	<u>Last Close</u>	<u>Fair Value Est.</u>	<u>Rating</u>
P/FV	2bn AUD	Narrow	20.75	24.50	★★★★
 <p>We believe the market is pricing in an excessive deterioration in Perpetual's future cash flow generation, seemingly underappreciating the merits of its diversified business. A potential decline in interest rates could help moderate elevated asset management redemptions. There is room to centralize operations and remove duplication from the Pandal acquisition, improving margins. Additionally, its corporate trust and wealth management businesses face less competitive pressure and have more predictable earnings, offsetting potential volatility in asset management. The combination of improved flows, cost reductions, and Perpetual's inherently capital-light business model should also allow for gradual deleveraging without the need for external financing.</p>					

## GQG Partners

	<u>Market Cap</u>	<u>Moat Rating</u>	<u>Last Close</u>	<u>Fair Value Est.</u>	<u>Rating</u>
P/FV	6bn AUD	None	2.03	2.35	★★★★
 <p>We see a high-performing asset manager at a margin of safety in GQG. Near-term performance has been dampened, but we think this is offset by a long-term track record that outshines most peers, below-peer average fees, widespread presence on recommended product lists, and pristine asset consultant ratings. Past underperformance was short-lived as Chief Investment Officer Rajiv Jain tends to make swift portfolio changes, meaning we don't see it suffering from style headwinds as acutely as typical "value" or "growth" managers. Team stability remains and there are no reputational fallouts that warrant mass redemptions, which was the case with Magellan. The sheer size of GQG's FUM (USD 153 billion) means it is capable of earnings growth from the compounding of portfolio returns even if net flows are challenged.</p>					

## Wide Dispersion in Valuations

## Coverage List of ASX-Listed Asset Managers

Company (Ticker)	Market Cap (AUD bn)	Moat Rating	Uncertainty Rating	Last Close	Fair Value Estimate	Star Rating	P/FVE	P/E	Yield	1-Year Return
Perpetual (ASX:PPT)	2.38	Narrow	Medium	20.92	24.50	★★★★	0.85	11.6x	5.6%	-15%
Pinnacle Investment Management (ASX:PNI)	5.71	Narrow	High	24.93	13.40	★	1.88	40.9x	1.7%	+154%
<b>Australia Asset Managers - Diversified (Weighted Average)</b>							<b>1.58</b>	<b>32.3x</b>	<b>2.8%</b>	<b>+104%</b>
GQG Partners (ASX:GQG)	6.02	None	High	2.03	2.35	★★★★	0.86	13.4x	6.6%	+26%
Magellan Financial Group (ASX:MFG)	2.15	None	Very High	11.79	10.20	★★★	1.18	14.9x	5.5%	+38%
Platinum Asset Management (ASX:PTM)	0.4	None	High	0.69	0.80	★★★	0.86	9.9x	11.6%	-20%
<b>Australia Asset Managers - Boutique (Weighted Average)</b>							<b>0.94</b>	<b>13.6x</b>	<b>6.5%</b>	<b>+27%</b>
Challenger (Asset Management) (ASX:CGF)	4.3	None	High	6.10	7.50	★★★★	0.83	10.1x	4.4%	+1%
Insignia Financial (ASX:IFL)	2.96	None	High	4.45	4.60	★★★	0.97	12.0x	2.1%	+109%
<b>Australia Diversified Financials (Weighted Average)</b>							<b>0.89</b>	<b>10.9x</b>	<b>3.5%</b>	<b>+45%</b>

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