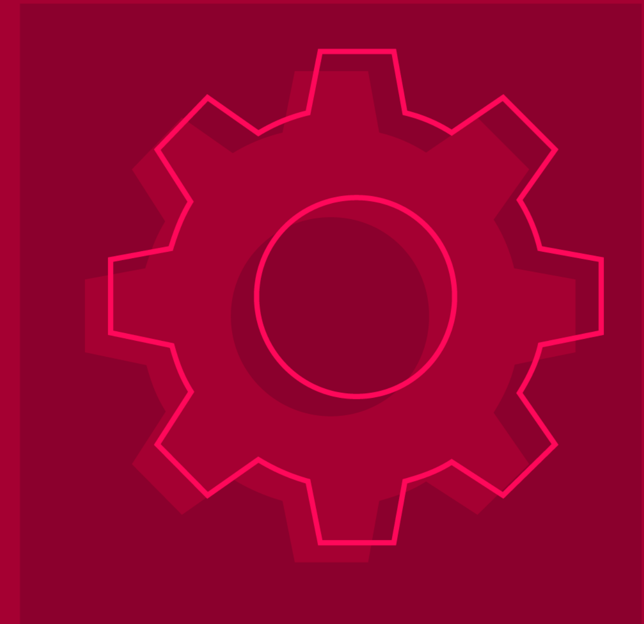
OCTOBER 2025

MORNINGSTAR Industry Pulse

Australian Asset Managers: 2025 Q3

A turnaround is still elusive.



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Morningstar Equity Research

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Important Disclosure
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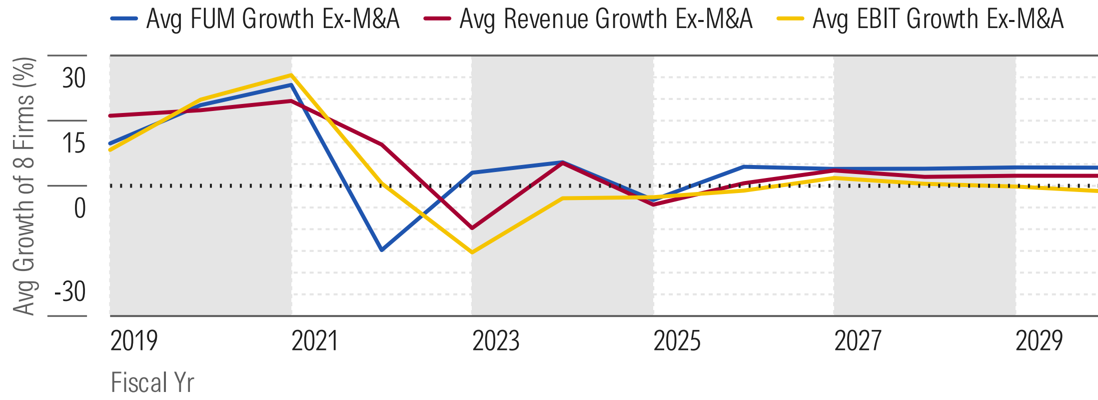
Executive Summary

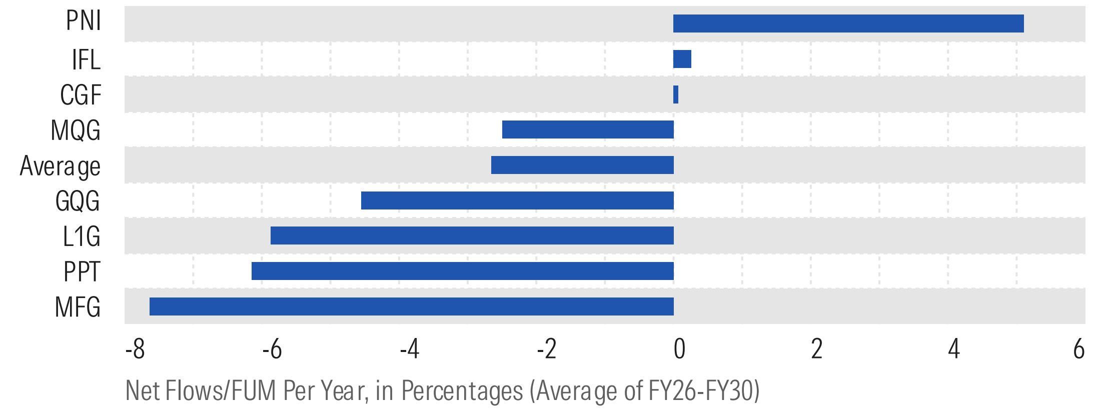
Lacking earnings growth catalysts.

Long-Term Earnings Growth Potential Damped

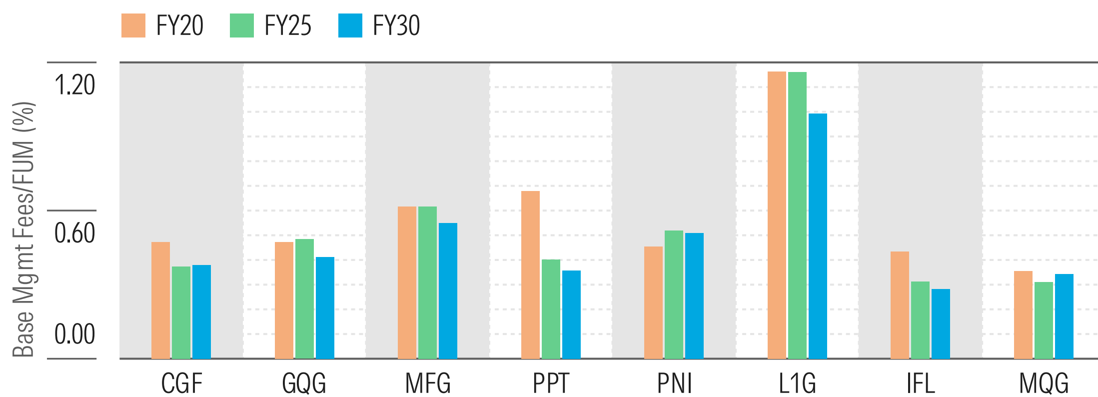
We Expect Average^ Earnings Growth to Decline Over the Long Term



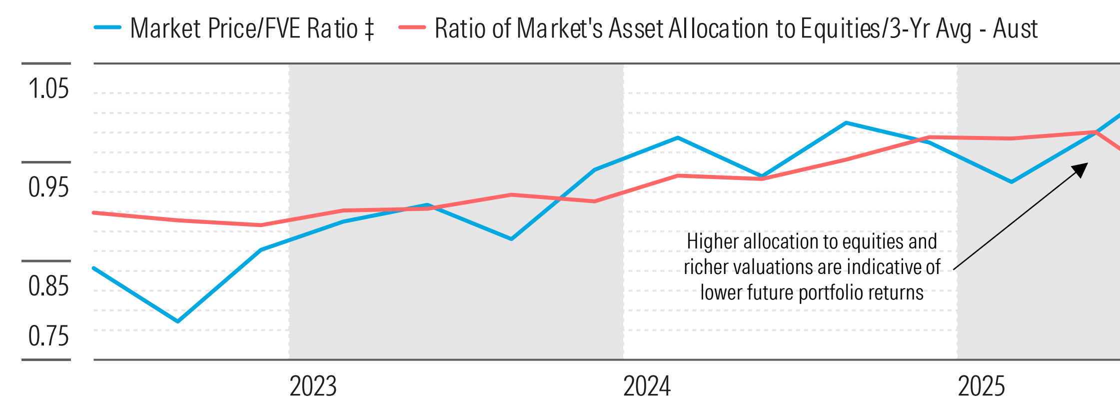
Our Forecast Net Outflows for Most Firms Indicate a Potential Decline



There Is Also Compression in Base Management Fees*



Plus, There Are More Modest Portfolio Returns Ahead

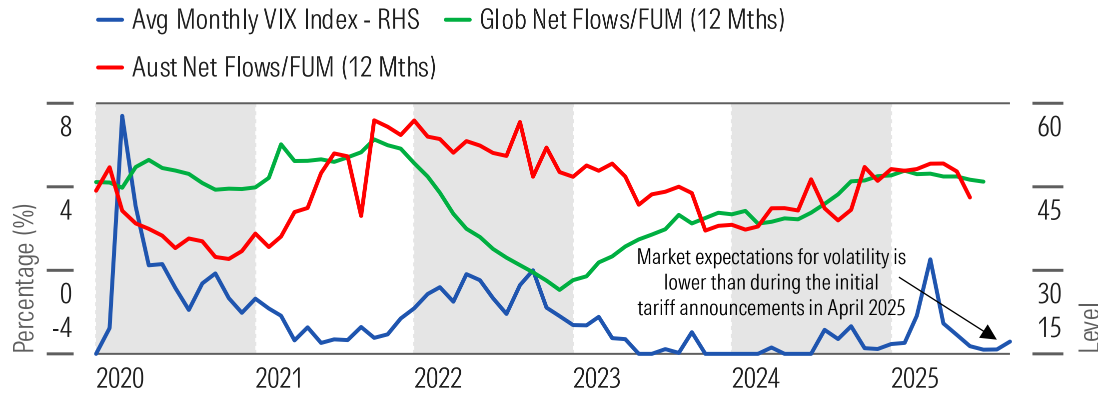


Source: Company filings, Morningstar (top left, top right, and bottom left). Data as of Oct. 17, 2025. Morningstar (bottom right). Data as of July 31, 2025. ^Average rates are for GQG Partners, Magellan Financial Group, Pinnacle Investment Management Group, L1 Group, and the asset management divisions of Challenger, Macquarie Group, Perpetual, and Insignia Financial. *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 those on institutional products. ‡Average of close to 1,650 companies covered by Morningstar Equity Research globally.

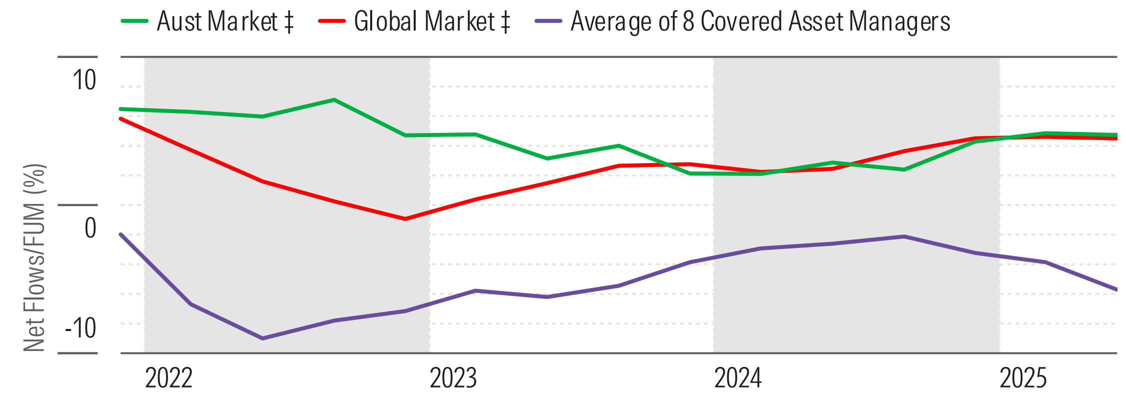
See Important Disclosures at the end of this report.

Structural Issues to Outweigh Macro Support

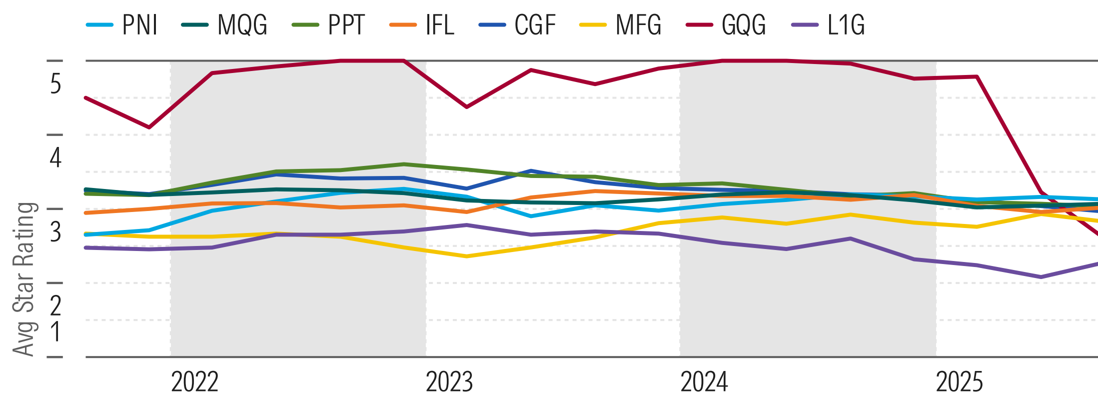
Volatility Expectations Are Below April 2025 Highs



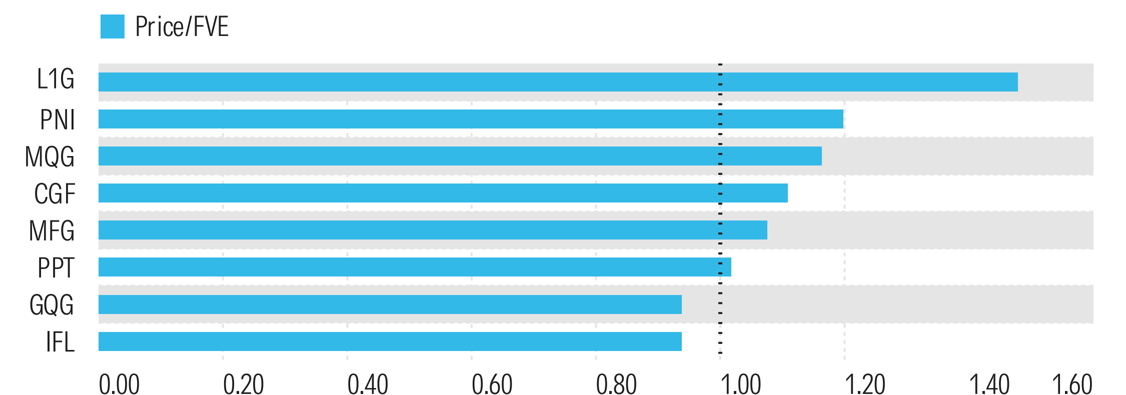
Our Coverage Is Still Losing Share as a Cohort



Many Firms Under Our Coverage Lack Strong Performance^ to Attract Flows



Nonetheless, There Is Still Some Value on Offer



Source: Cboe, Morningstar (top left). Data as of Oct. 12, 2025. Company filings, Morningstar (top right). Data as of June 30, 2025. Morningstar (bottom left and bottom right). Data as of Oct. 17, 2025. ^Star rating data are for retail and wholesale share classes only. ‡Global flows are into open-ended funds, money market funds, and ETFs. Australian flows are into ETFs, superfunds, and traditional active managers. Figures are sourced from firms that report to Morningstar and should be considered a general representation of the market and may not fully capture total market flows.

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Valuation

There is still value on offer despite narrower discounts.

VALUATION

Markets Buoyant, but Active Managers Face Structural Issues

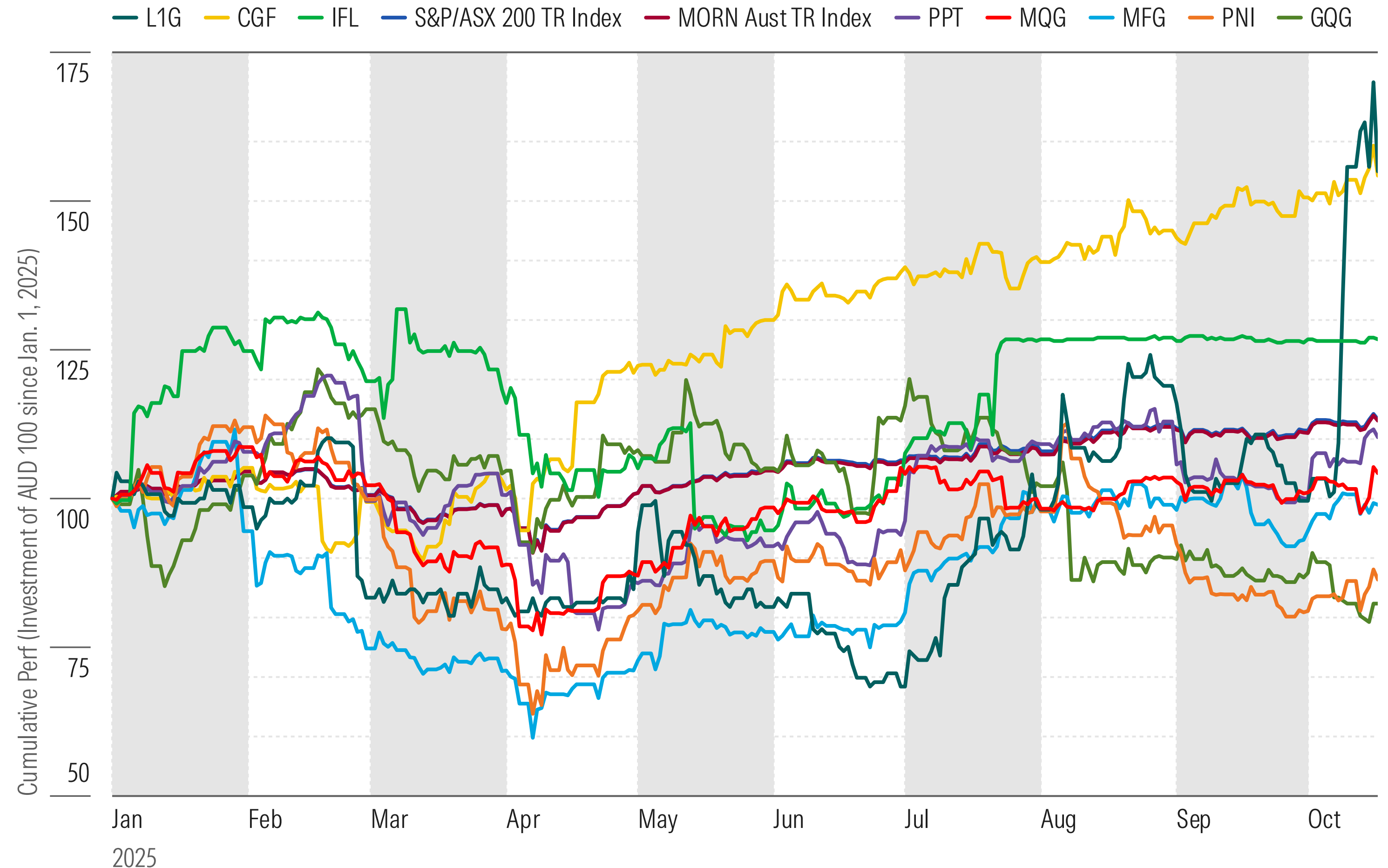
Equity markets appear to be buoyed by optimism around artificial intelligence and further expected cuts to the US federal funds rate. But this doesn't necessarily benefit traditional active managers with average performance, which make up most of our coverage. Flow growth for our coverage deteriorated for the third quarter going into June 2025*. We expect medium-term flows to be lumpier than levels seen in the last 12 months as the tariff relief rally fades and US stagflationary risks rise.

Most ASX-listed asset managers have underperformed the ASX 200 Total Return Index since the start of 2025. Challenger and Insignia are the more consistent outperformers. The former likely benefits from investor optimism on the potential for improved product sales and operating margins, while the latter is priced for an anticipated acquisition by an external suitor.

Shareholder returns for most ASX-listed asset managers have lagged the S&P/ASX 200 Index since 2022, when interest rates began rising from historic lows. For shares to arrest the underperformance, lasting improvements in fund flows and operating margins are needed.

Shareholder Returns for Most Lagged the Index Since the Start of 2025

ASX-listed asset manager total returns versus industry benchmarks



Source: Morningstar. Chart data as of Oct. 17, 2025. Data point for L1 Group reflects Platinum Asset Management in fiscal 2025 and prior, and the combined Platinum-L1 Capital entity starting fiscal 2026.

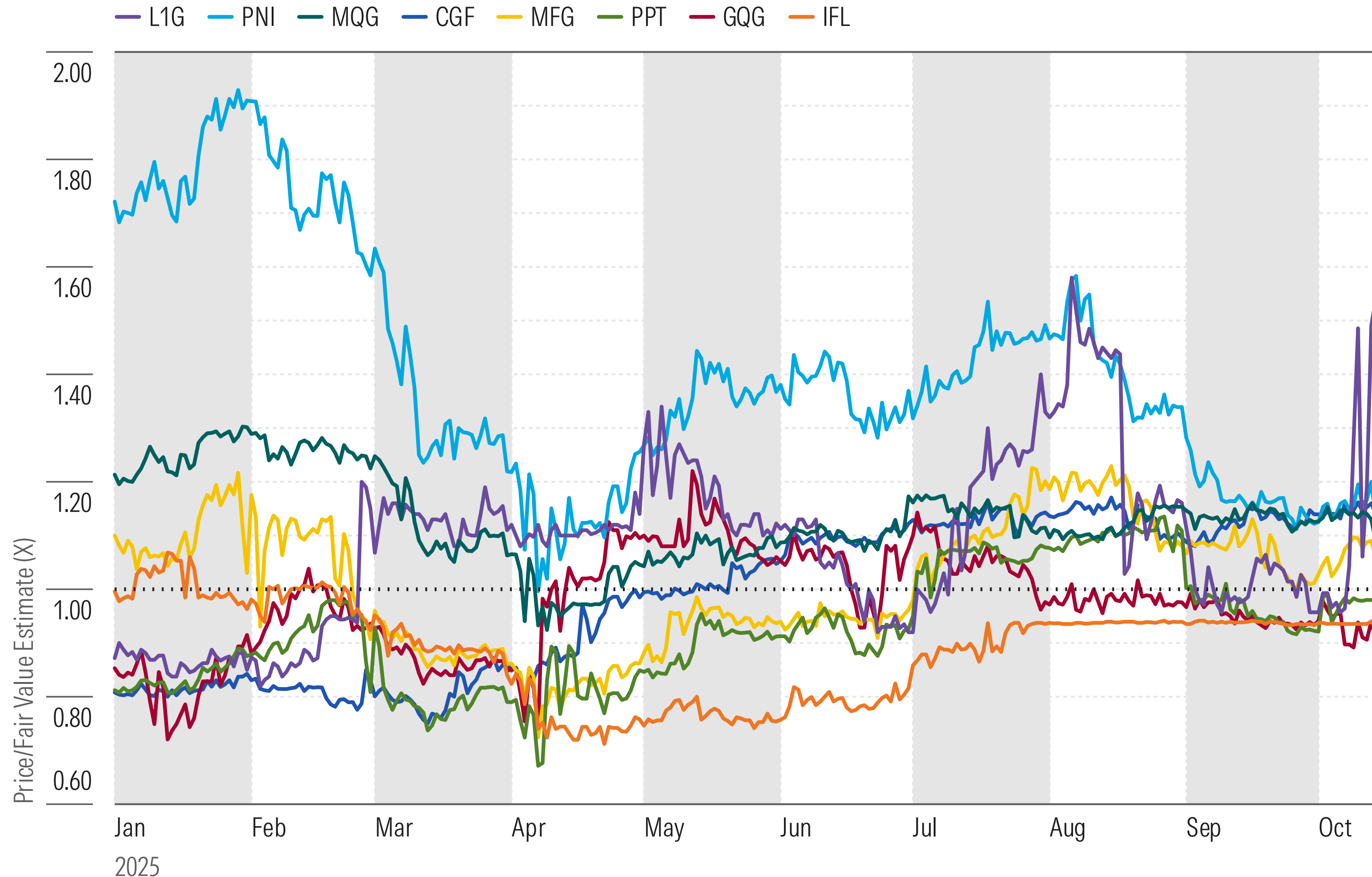
*Excludes Macquarie, which makes semiannual net flow disclosures.

VALUATION

Margins of Safety Are Narrower, but There's Still Value

Shares Are Overvalued on Average, but Opportunities Remain

Price/fair value estimate for ASX-listed asset managers



The cohort's average price/fair value ratio sits at 1.11 times as of Oct. 17, 2025, above 1.05 times as of June 30, 2025.

Shares of asset managers—closely tied to market movements—are likely to remain volatile, as investor sentiment is vulnerable to US tariffs and macroeconomic uncertainties. While share prices have improved since April 2025 on hopes that tariffs may be eased, the medium-term outlook for fund flows is fluid. Volatility could persist or intensify due to corporate earnings shocks from inflationary pressures or a broader slowdown.

Perpetual, Insignia, and GQG offer relative value within our coverage. We believe the market underappreciates several drivers. For Perpetual and GQG, these include the potential to offset redemptions-led earnings risks from cost reductions and the compounding of managed funds. For Insignia, share price drivers—aside from the prospects of being acquired—are likely to be slower fee compression, more stable medium-term fund flows, and the opportunity to reduce duplicated costs and extract scale efficiencies.

Source: Morningstar. Chart data as of Oct. 17, 2025. Data point for L1 Group reflects Platinum Asset Management in fiscal 2025 and prior, and the combined Platinum-L1 Capital entity starting fiscal 2026.

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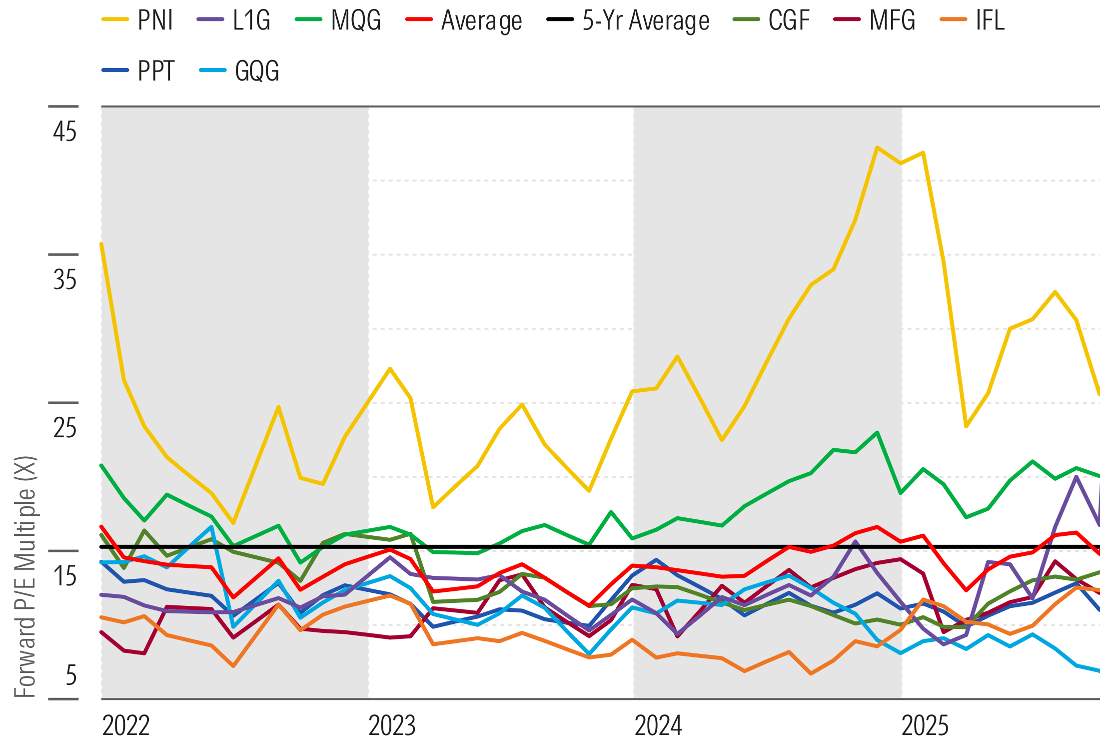
Multiples Are Somewhat Stretched

Valuations for listed asset managers are mildly expensive based on price/earnings multiples and dividend yields. As of Oct. 10, 2025, the average forward P/E ratio and dividend yield across the eight firms we cover stood at around 16 times and 4.2% (or 4.7% excluding Insignia), respectively. This compares with a five-year historical average of 15 times and 5.3%, respectively.

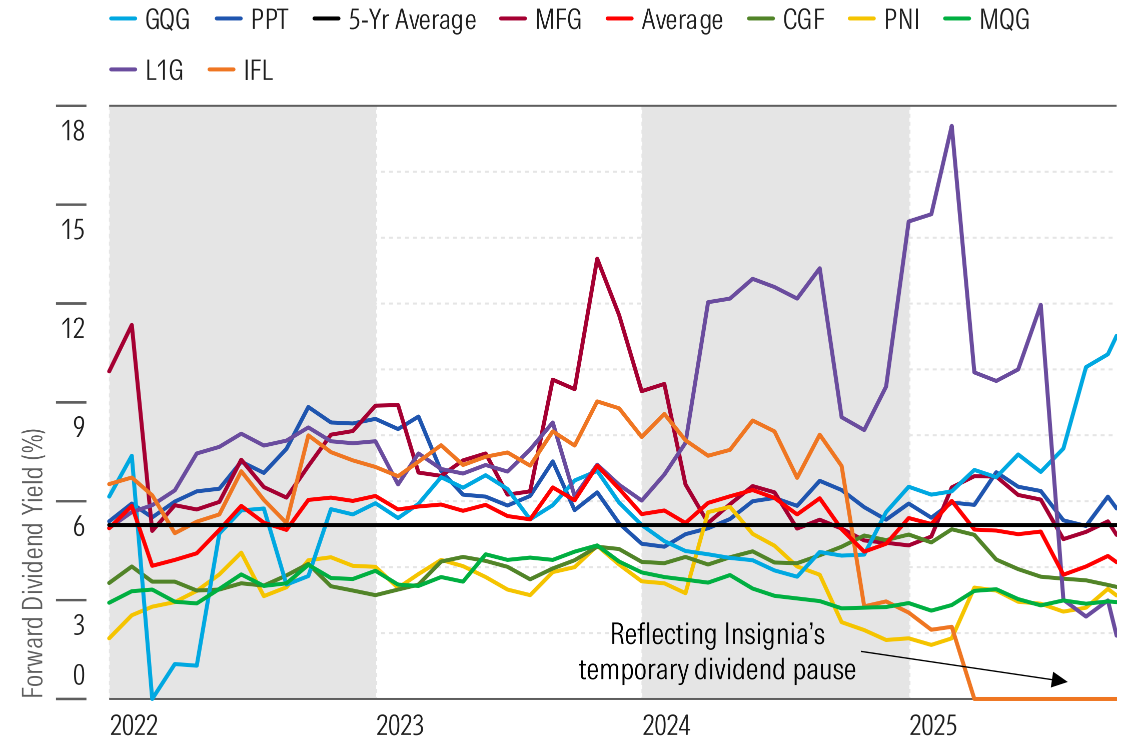
Price/Earnings Multiples Are Stretched, but Some Still Offer Value

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



Pockets of Value Despite Wide Dispersion in Forward Yields

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



Source: Morningstar. Data as of Oct. 12, 2025. * Earnings and dividend forecasts are based on consensus estimates. Prices data are month end closing prices. Datapoint for L1 Group reflects Platinum Asset Management in fiscal 2025 and prior, and the combined Platinum-L1 Capital entity starting fiscal 2026.

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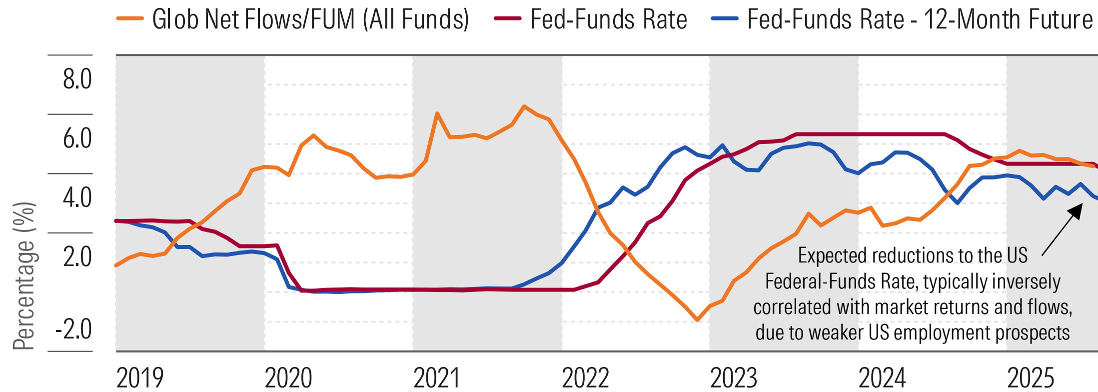
Fund Flows

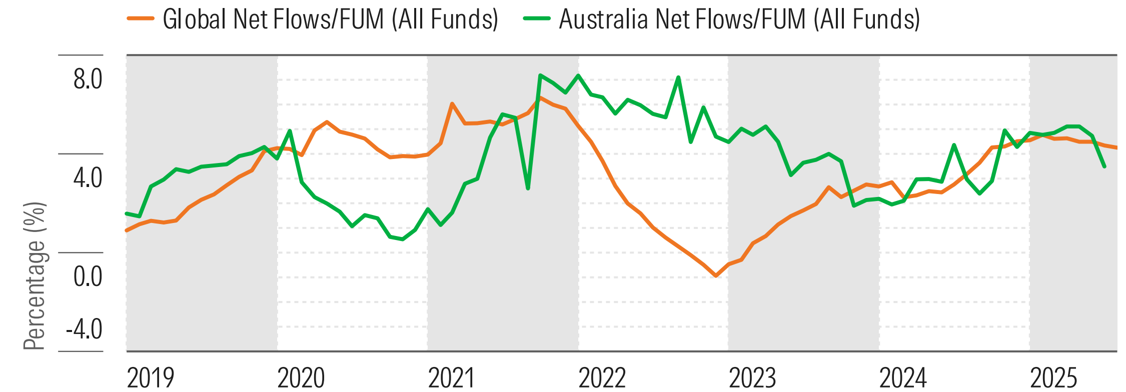
Our outlook is mixed, and structural issues persist.

The Interest Rate Trajectory Is Supportive for Near-Term Flows

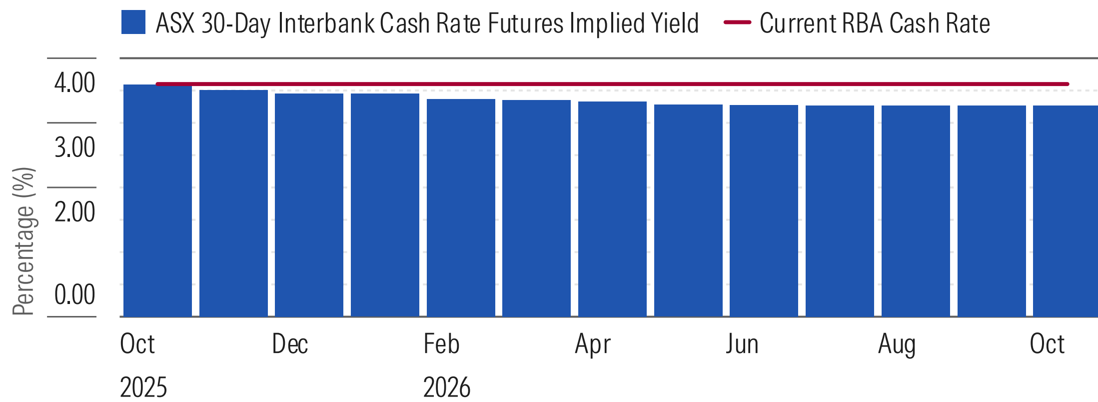
Global Flows* Remain Buoyed by Expectations of Lower Future Rates



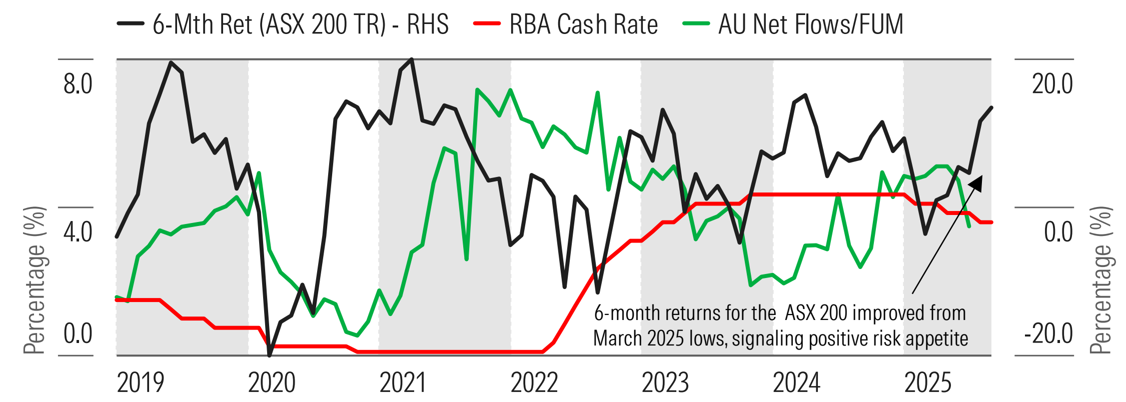
Flows Into Australia* Broadly Correlate With Global Trends



The Market Expects Further RBA Cash Rate Cuts, Though Not Much More



Recent Strong Markets Still Conducive to Flows Into Australian* Funds



Source: Chicago Mercantile Exchange, Federal Reserve Board, Morningstar (top left). Data as of Sept. 30, 2025; Morningstar (top right). Data as of Aug. 31, 2025; Australian Securities Exchange (bottom left). Data as of Oct. 6, 2025; Reserve Bank of Australia, Morningstar (bottom right). Data as of Sept. 30, 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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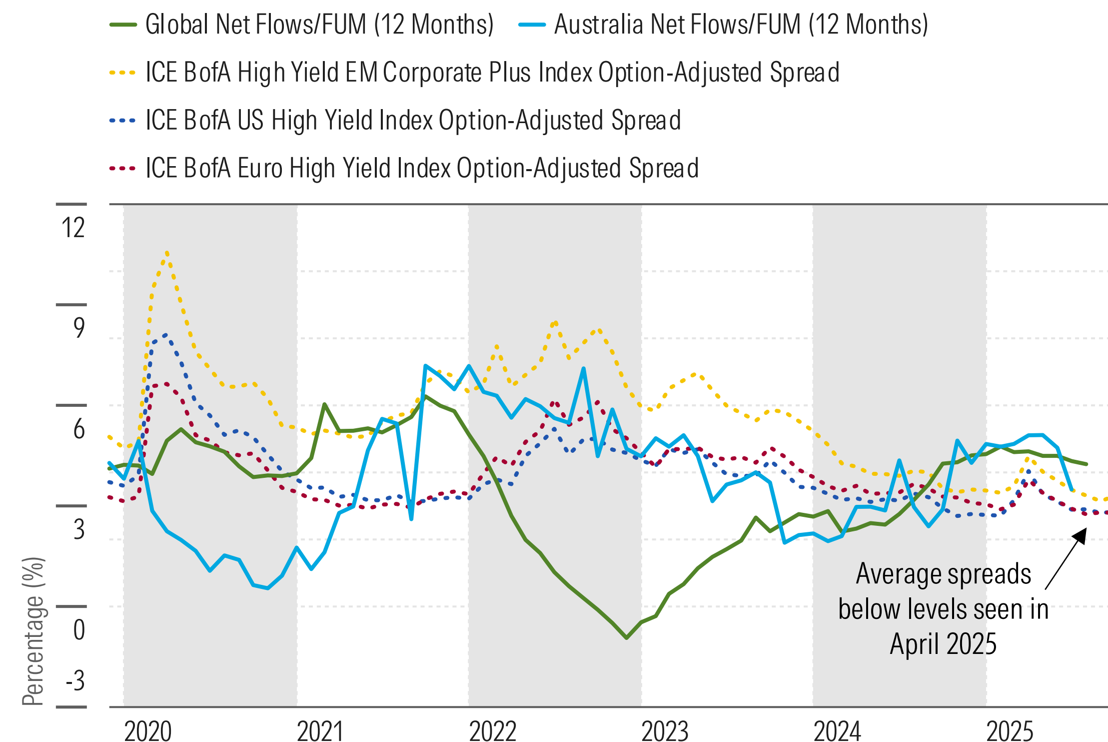
Volatility Contained, but We Expect Lumpier Flows

The outlook for fund flows is benign. Investor expectations of market volatility—which correlates inversely with flows into risk assets—are below levels seen in April 2025 when the US tariffs were initially announced. Investor sentiment has improved from then with trade negotiations moderating the expected severity of tariffs, but uncertainty persists. The potential for anomalous events, such as new tariffs or larger-than-expected earnings hits from inflation or a slowing economy, underscores our expectation for lumpier flows ahead.

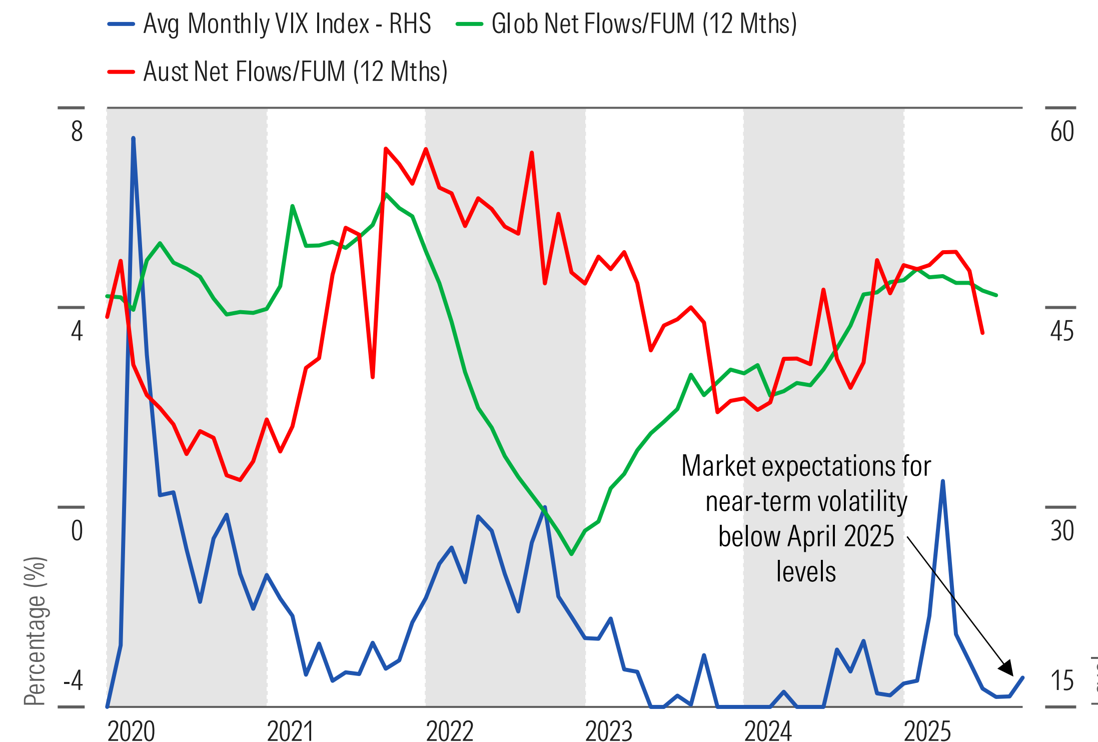
Credit Spreads Lower Than April 2025 Highs

Credit spreads and net flows



Volatility Expectations Are Below April 2025 Levels

VIX Index and net flows



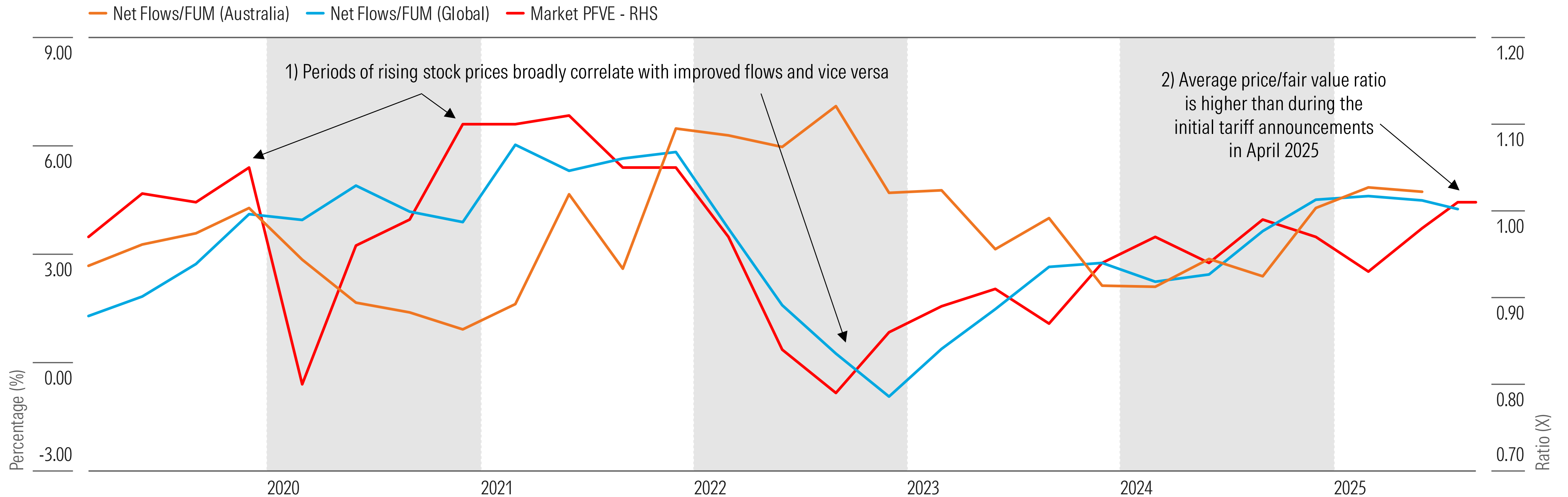
Source: Federal Reserve Bank of St Louis, Morningstar (Left); Cboe Exchange, Morningstar (Right). Credit spreads and VIX Index data as of Oct. 12, 2025. Global flow data as of Aug. 31, 2025. Australia flow data as of July 31, 2025. Global flows are into open-ended funds, money-market funds, and ETFs. 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.

Higher Stock Prices Conducive to Near-Term Flows

Appetite for risk assets has improved compared with April 2025 levels when the US tariffs were initially announced. This suggests relatively solid near-term flows, but we expect flows to moderate in the medium term. The average price/fair value multiple for stocks covered by Morningstar Equity Research globally increased to 1.01 in September 2025 from around 0.90 in early April 2025. This re-rating typically signals improving flows, though tariff uncertainties and the potential for earnings shocks or economic slowdowns pose downside risks.

Richer Valuations Indicate Solid Near-Term Flows; Longer-Term Flows Could Moderate Due to Anomalous Factors

Global market price/fair value and net flows



Source: Morningstar. Price/fair value multiple data as of Sept. 30, 2025. Global flow data as of Aug. 31, 2025. Australia flow data as of July 31, 2025. 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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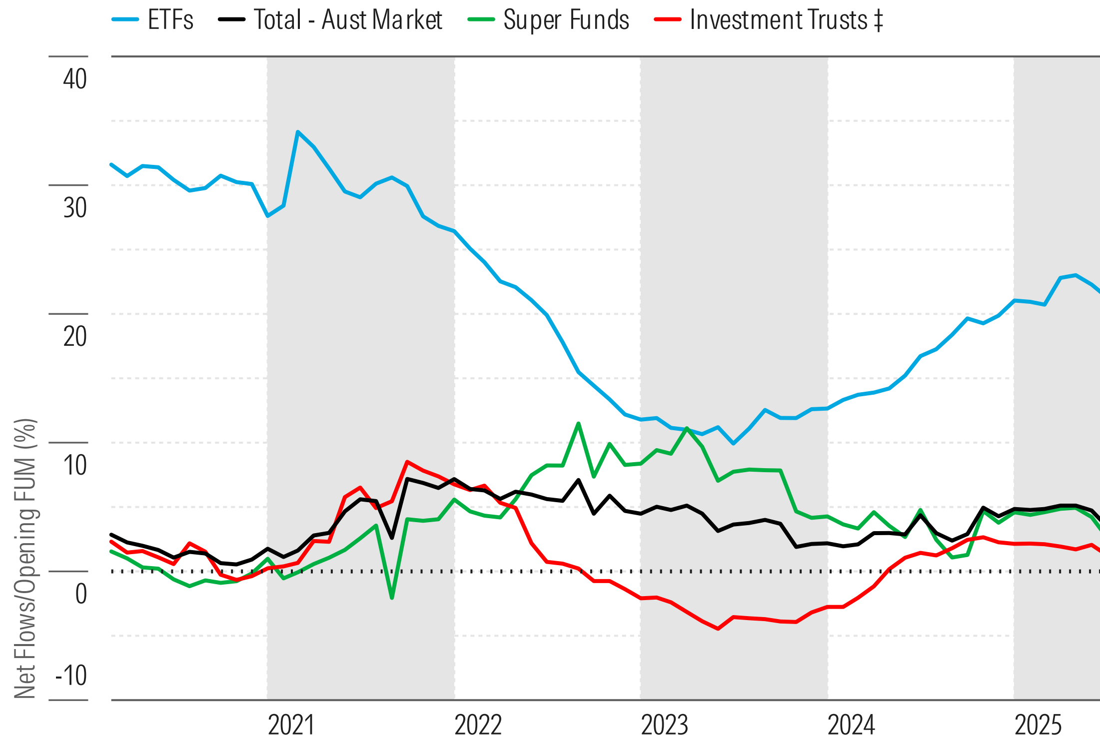
Active Managers Must Differentiate or Risk Continuing Market Share Loss

Traditional active managers are likely to continue losing market share to passive investments like exchange-traded funds, which offer lower fees and efficient access while replicating simpler active strategies. Among active managers, firms focused on conventional equity and fixed income products remain at risk, given their replicability by passive vehicles. Conversely, firms specialising in less commoditized segments—such as private credit or specialised fixed income strategies—are relatively better positioned to grow.

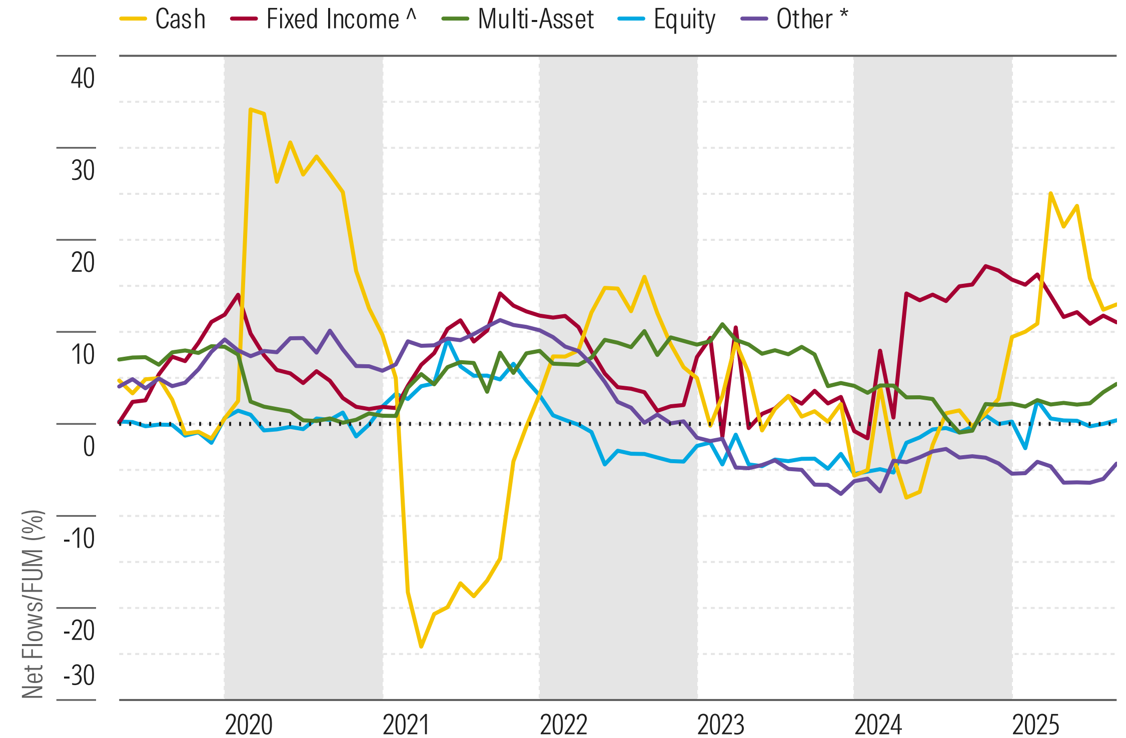
ETFs Are Experiencing the Strongest Market Share Growth

Flow rates of ETFs, superannuation funds and investment trusts ‡—Australia market



Active Managers Managing Exotic Credit Strategies Are Doing Better

Rate of flows among products managed by active managers—Australia market



Source: Morningstar. Flow data as of July 31, 2025. ‡ Investment trust entities consist predominantly of traditional active managers. ^ Includes non-vanilla fixed income such as private debt, diversified credit, mortgage-backed securities, and unconstrained fixed income. * Various other asset classes such as macro trading, multistrategy, systematic trend, property, and others. 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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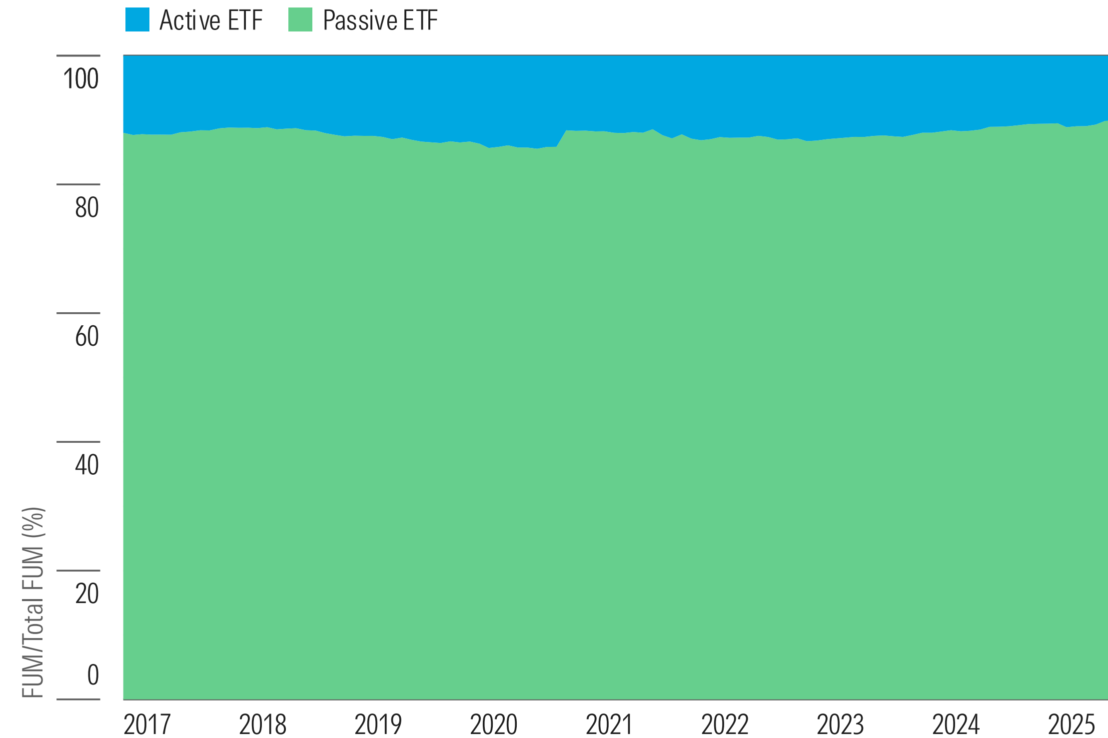
Performance Matters When Active Fees Are High and Passive Options Dominate

Traditional active managers face continued market share losses, as many still charge high fees that are difficult to justify amid unsatisfactory performance. Active managers have launched their strategies via ETFs in response to growing passive competition, yet passive ETFs still attract stronger flows due to their lower fees. Competition is further intensifying as passive leaders like Vanguard and BlackRock also offer actively managed products, leveraging their scale advantages to further compete with traditional active managers.

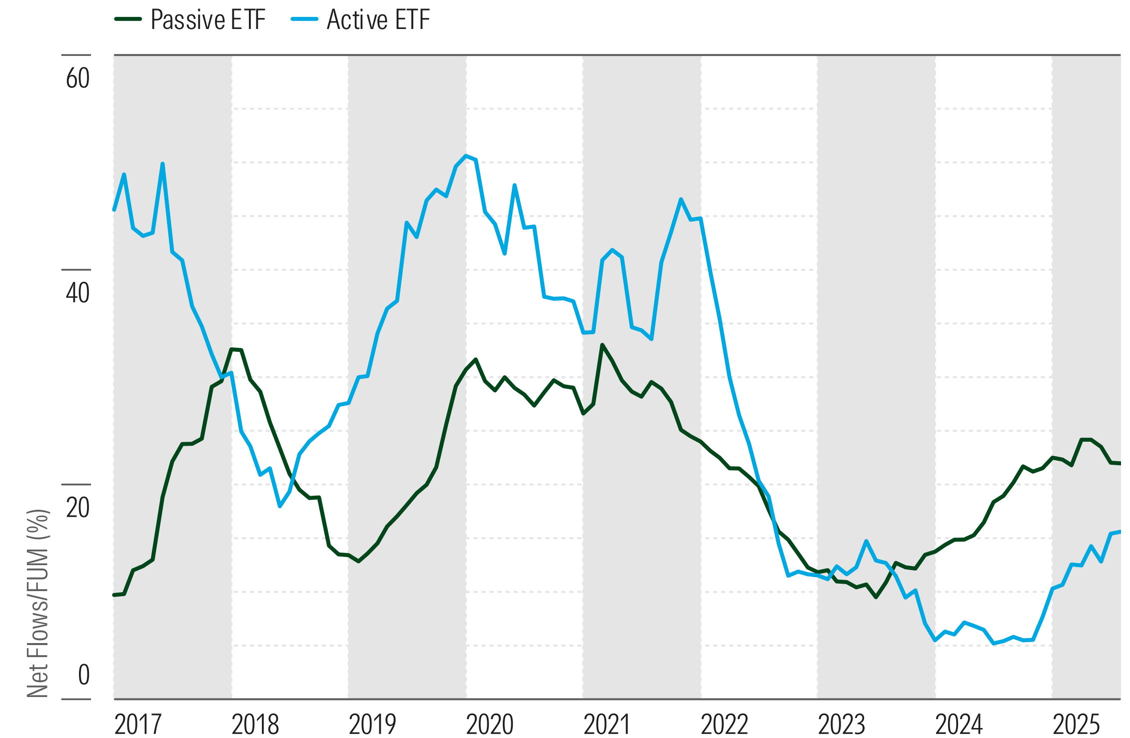
Passive ETFs Remain More Popular Than Their Active Counterparts

Market share of active and passive ETFs by FUM—Australian market



Passive ETFs Are Experiencing Stronger Flows Than Active ETFs

Flow rates of active and passive ETFs—Australian market



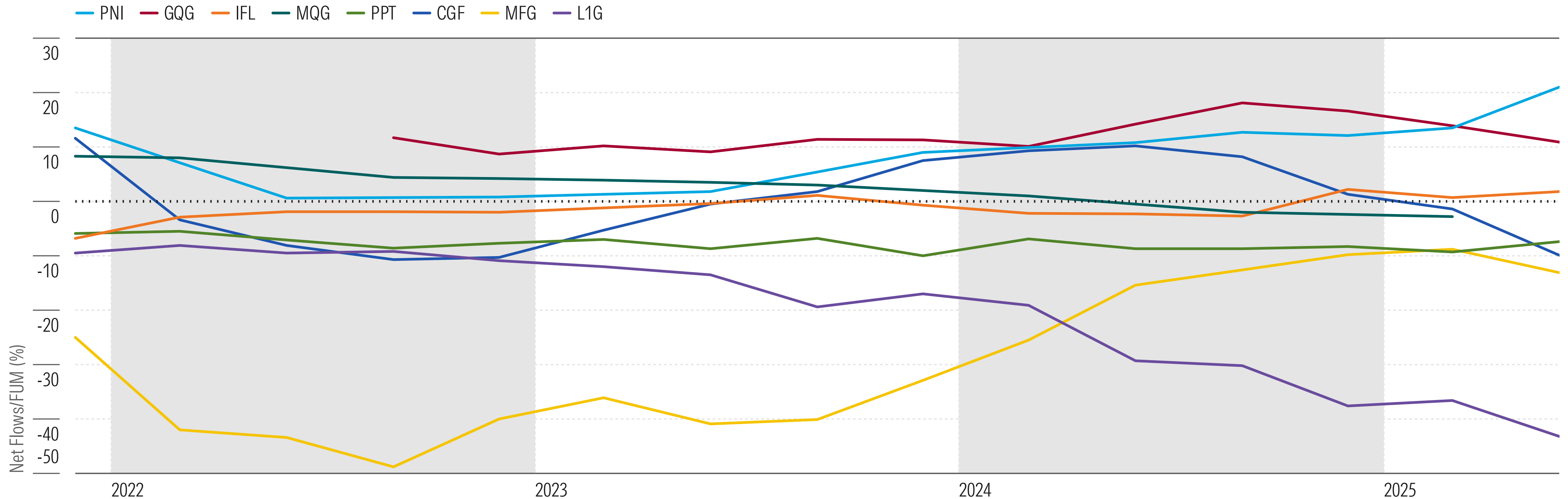
Source: Morningstar. Data as of Aug. 31, 2025.

Average Flows for Our Coverage Lag the Broader Market

We view traditional active management as nearly a zero-sum game, with firms growing by taking market share from peers rather than structurally winning against passive investments. Average 12-month net flows for our covered firms were negative 5.7% of managed funds in the June quarter of 2025^, a third consecutive quarter of decline. This is below the 4.7% and 4.5% growth recorded in the Australian and global markets, respectively, over the same period—suggesting market share losses at the cohort level*.

Flow Trends Point to Competition Among Peers, Not Collective Share Gains

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



Source: Company filings, Morningstar. Data as of June 30, 2025. Note: * Company-specific flows are sourced from public disclosures. Commentary on 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 firms that report to Morningstar and should be considered a general representation of the market and may not fully capture total market flows. ^ Excludes Macquarie, who discloses net flows semi-annually.

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Investment Performance

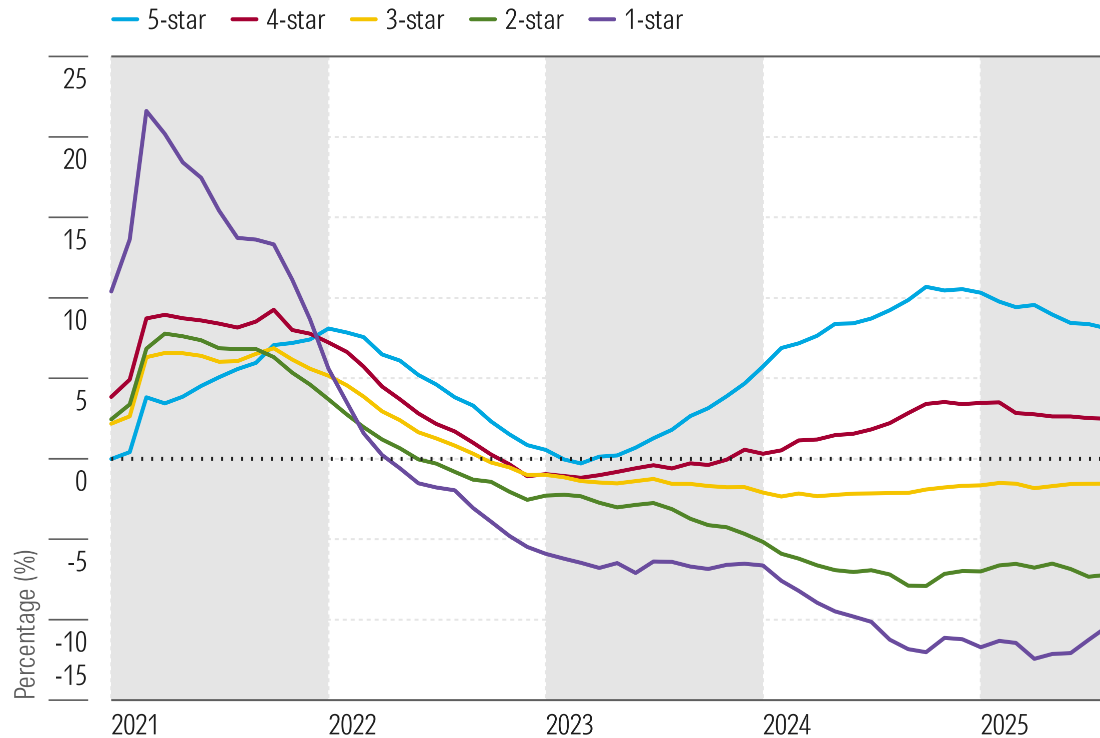
Tepid relative performance.

Active Managers Need Outstanding Performance to Win New Money

Traditional active managers face a shakeout, with average or underperforming firms at risk of losing FUM or facing closure. The rise of passive investments, whose basic value proposition is index tracking at a low cost, has made active managers who fail to outperform their benchmarks increasingly obsolete. To attract and retain flows, active managers must consistently deliver above-average returns, which is very difficult in practice.

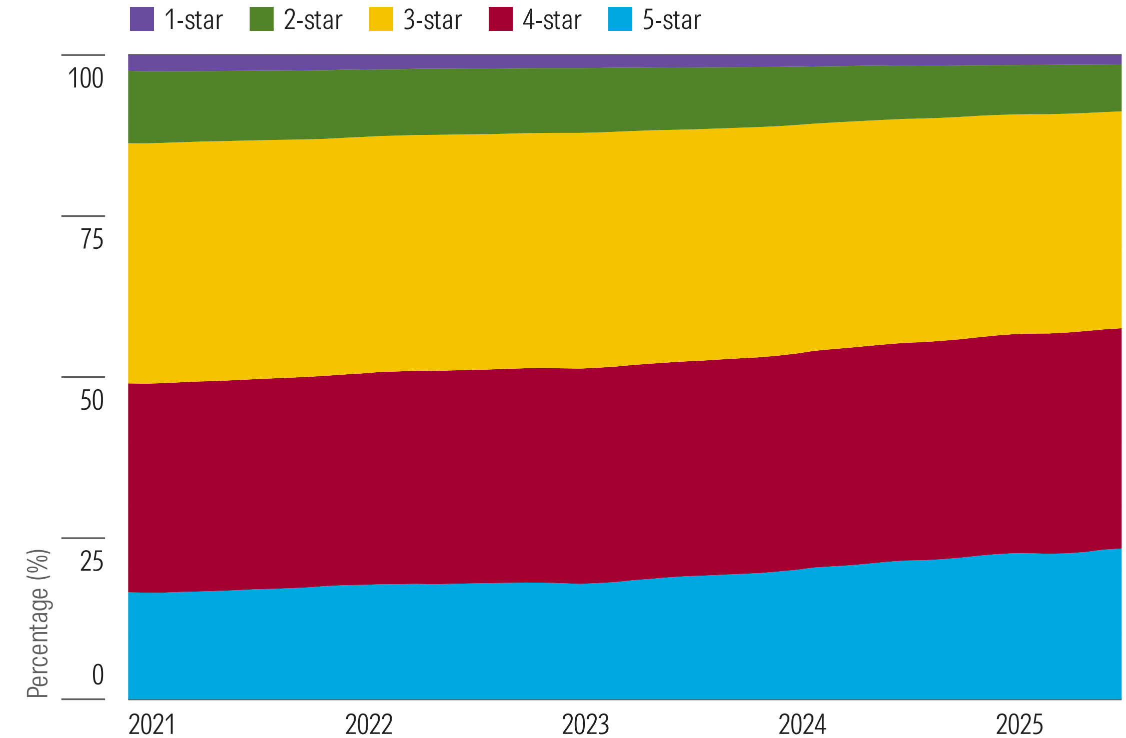
Only Firms That Substantially Outperform Are Attracting New Flows

Net flows/FUM into funds by star rating* per year – Global market^.



Funds With Exceptional Performance Poised to Continue Winning Share

Star-rated* funds' balance as a proportion of total funds – Global market^.



Source: Morningstar. Data as of Aug. 31, 2025. * The star rating is a quantitative measure of past performance, meant to help assess a fund's track record relative to its peers. The higher the star, the stronger the performance on a risk-adjusted returns basis. ^ Open-ended funds, money-market funds, and ETFs globally that are tracked by Morningstar. 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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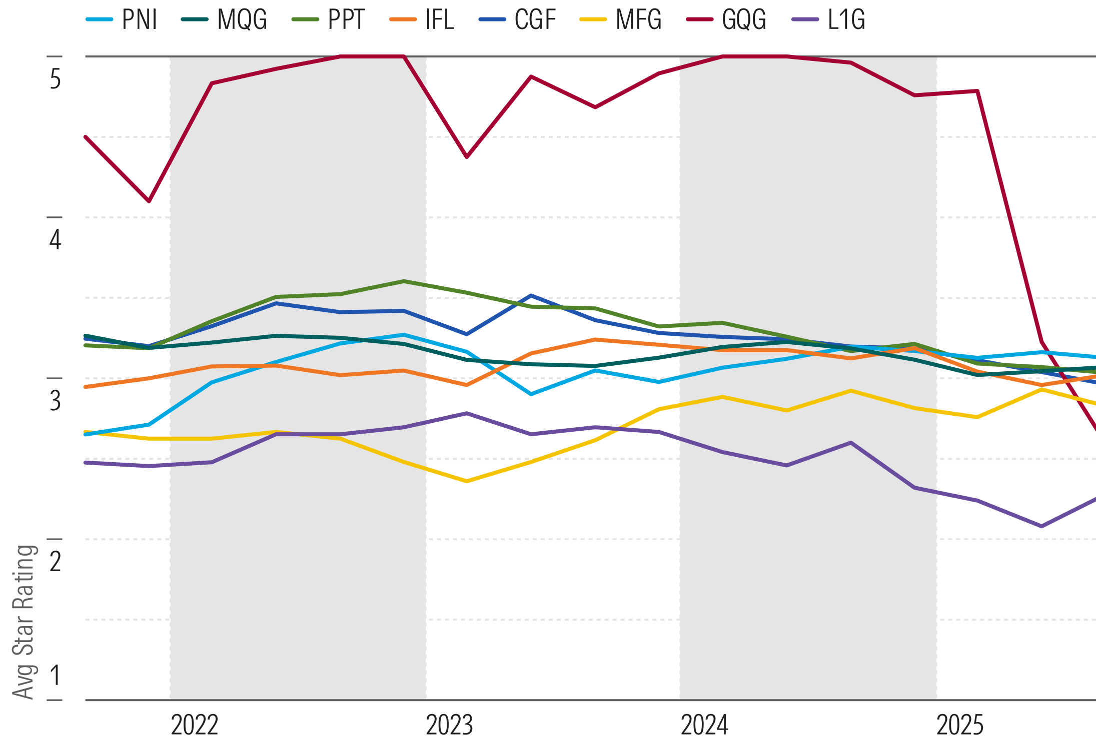
Market Share Recovery Unlikely

As a group, our coverage lacks the consistent outperformance needed to recapture market share lost to ETFs and industry funds. Most deliver average peer-relative returns. Even GQG—despite its stronger long-term track record—faces near-term challenges, demonstrating the difficulty of consistently outperforming. Barring lasting, significant performance improvements, firms will be forced to pursue more defensive measures such as realigning compensation or forging external partnerships to defend market share and earnings.

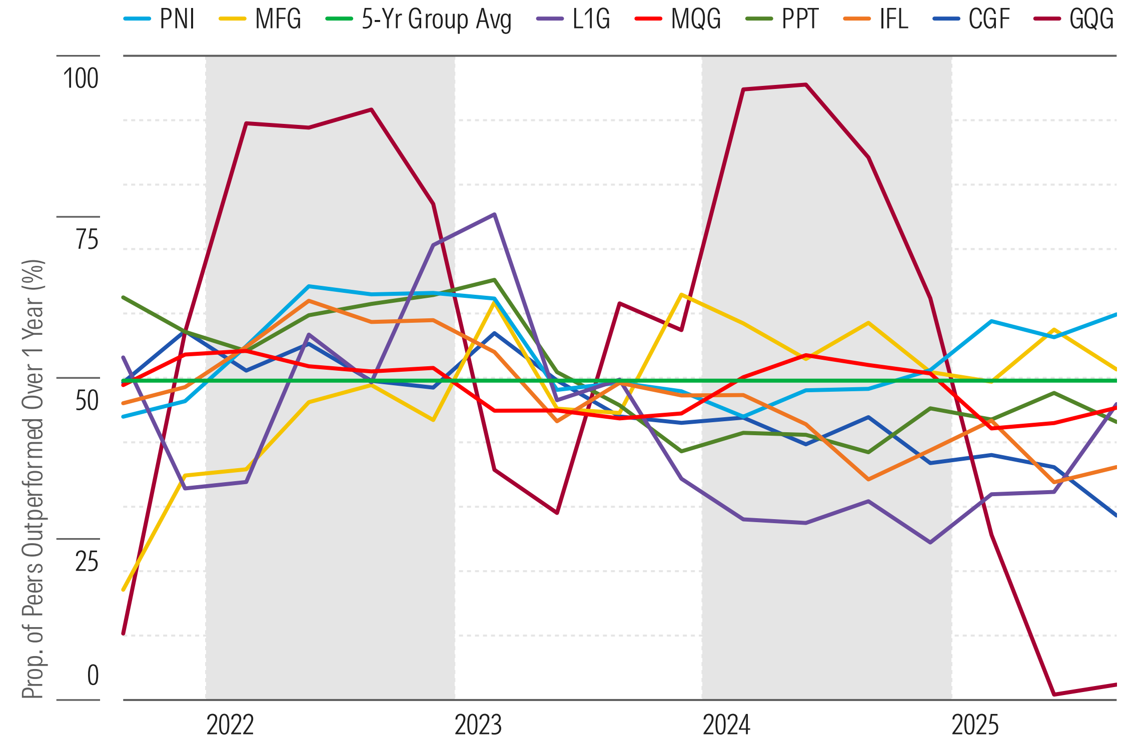
Most Firms Lack Strong Track Record to Attract Flows

Morningstar star rating to measure longer-term relative performance (group average^).



No Firm Consistently Beats the Crowd; Periodic Swings Likely

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



Source: Morningstar. Data as of Sept. 30, 2025. ^ Simple average for all retail and wholesale share classes only. * Category Peers refer to other funds with comparable investment styles and market capitalization constituency. The star rating is a quantitative measure of past performance to help assess a fund's track record relative to its peers. The higher the star, the stronger the performance on a risk-adjusted returns basis. Data shows the retail and wholesale share classes for all eight firms have, on average, outperformed about half of their category peers over a one-year period in the last five years.

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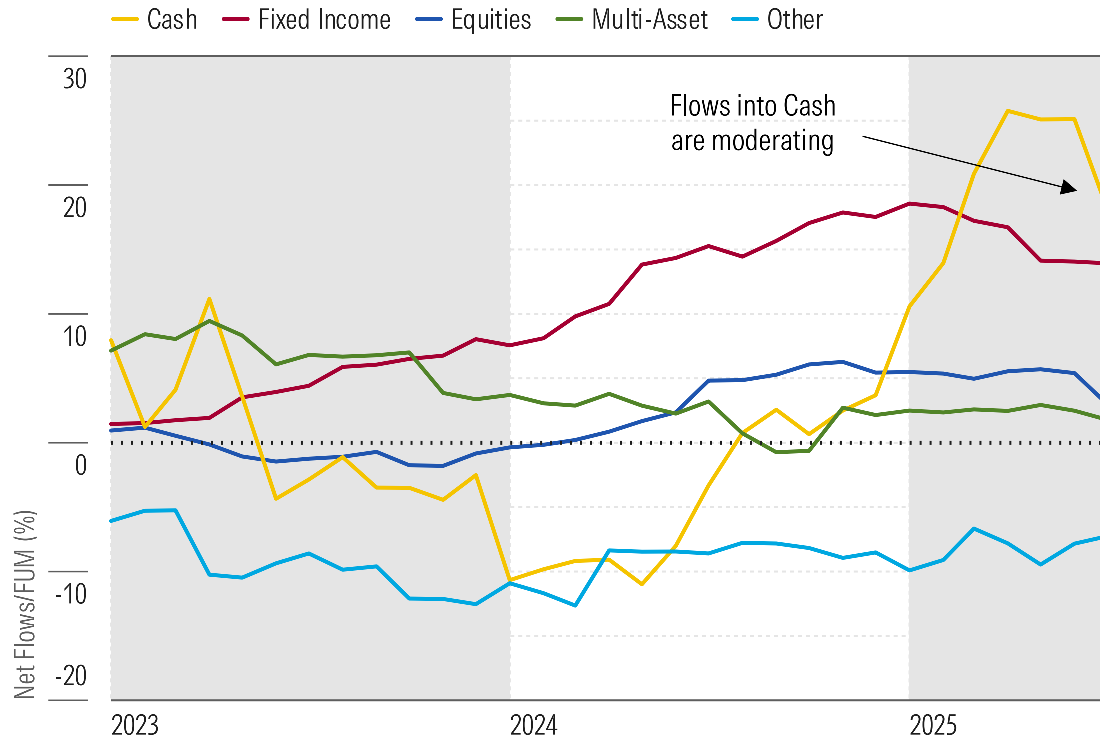
We Expect Modest Medium-Term Returns for Our Coverage

Flows into most risk assets* are positive and are likely to remain so for the foreseeable future. Investor appetite remains solid, seen from a moderation in the rate of flows into cash and in overall allocations to cash. Fixed income flows were also partly into more exotic products like private credit, and not solely to defensive bonds. Regardless, uncertainty around trade policy—and its implications for corporate earnings and the economy—underpins our expectation for more modest returns^ ahead, rather than the double-digit gains seen in 2024.

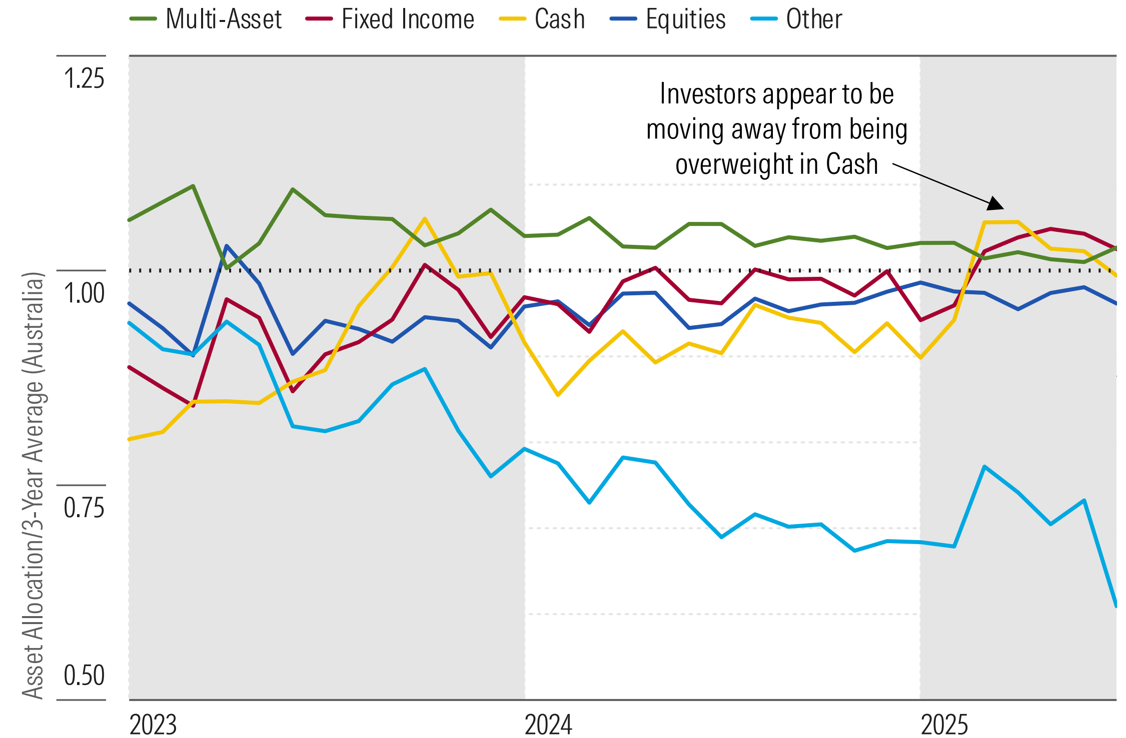
Flows Into Most Risk Assets Remain Positive

Net flows/funds under management by asset class—Australian market



Appetite for Risk Assets Rising

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



Source: Morningstar. Data as of July 31, 2025. Note: *Referring to asset classes that have significant price volatility, such as, but not limited to, equities, high-yield fixed income, or alternatives. ^ We project more normalised levels of investment returns for our coverage over the longer term. For equities, this equates to a normalised return assumption of 9% per year.

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Earnings Outlook

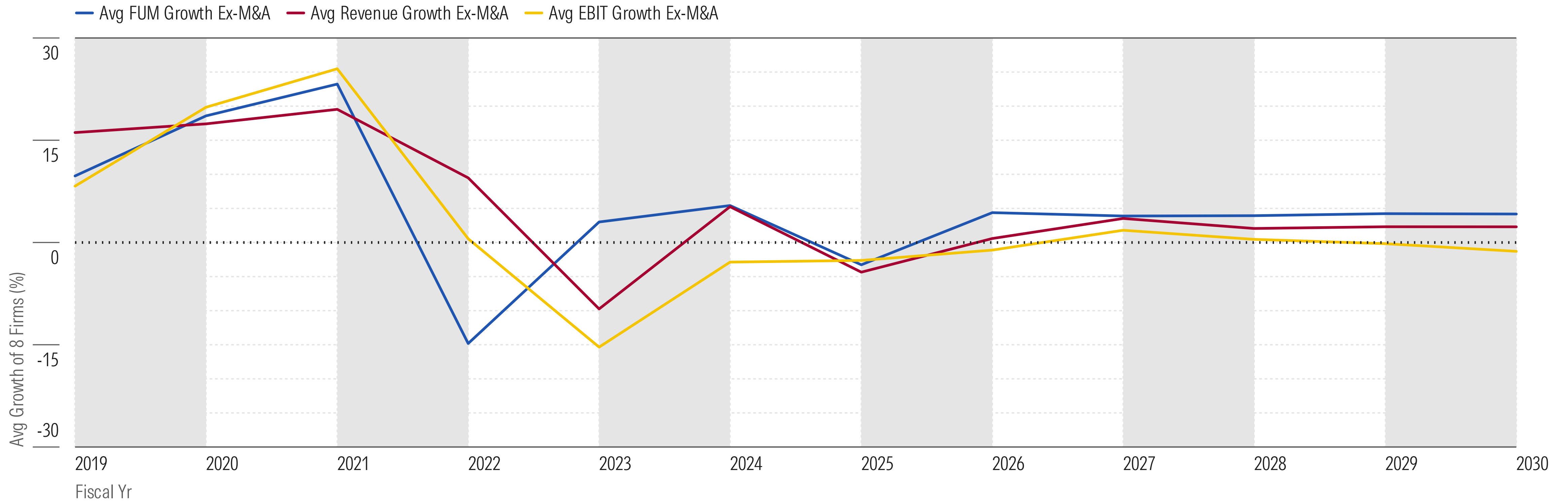
Near-term uplift, longer-term compression.

Near-Term Support, but Long-Term Pressures Remain

On average, our covered firms are likely to see a gradual earnings decline over the long term. The post-April 2025 equity market recovery was much stronger than we expected, leading to resilient flows and strong investment returns, resulting in higher funds under management that should support near-term earnings. But over time, as rate cuts are priced in, volatility rises from prior lows and competition plays out—we expect net flows to slow, with fee compression and higher investments in distribution constraining long-term earnings growth.

Average Earnings Likely to Fall Over Time, Unless Active Managers Regain Share From Passive

Average growth rates for covered asset managers



Source: Company filings, Morningstar. Data as of Oct. 17, 2025. Average rates are for the asset management divisions of Challenger, Perpetual, Insignia and Macquarie; as well as GQG, Magellan, Pinnacle, and L1 Group. Excludes impacts from mergers, acquisitions and divestments. 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. Datapoint for L1 Group reflects Platinum Asset Management in fiscal 2025 and prior, and the combined Platinum-L1 Capital entity starting fiscal 2026.

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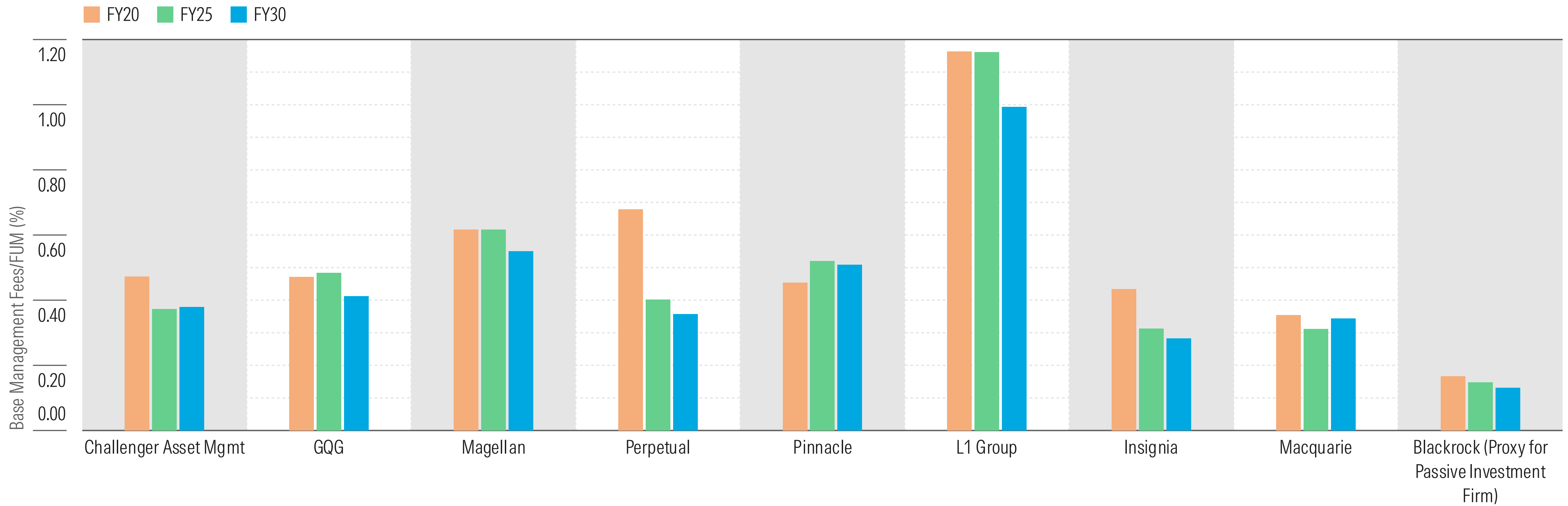
Active Managers Need to Keep Fees Competitive

We anticipate continued fee compression across all covered firms' investment strategies through to fiscal 2030. Some firms, like Pinnacle, have managed to withstand fee pressure by shifting their focus to higher-margin asset classes. Others, such as L1 Group and Magellan, have higher blended group margins, given their relatively lower proportions of lower-margin institutional mandates. However, we believe the broader trend on fees is downward, as competition from passive funds continues to exert fee pressure, capping earnings growth.

Headwinds From Fee Compression to Persist Despite Mix Shift Efforts

Money-weighted average fee margins at the group level^



Source: Company filings, Morningstar. Data as of Oct. 17, 2025. Notes: ^ Base management fee margins only and exclude performance fees. 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. Datapoint for L1 Group reflects Platinum Asset Management in fiscal 2025 and prior, and the combined Platinum-L1 Capital entity starting fiscal 2026.

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Top Picks and Coverage

There is value to be found.

There's Still Value on Offer Despite Overall Narrower Discounts

Insignia Financial (ASX:IFL)

Market Cap	Moat Rating	Last Close	Fair Value Est.	Rating
3bn AUD	None	4.51	4.80	★★★

P/FV 1.75 1.50 1.25 1.00 0.75 0.50 0.25

We believe the market underestimates Insignia's earnings growth potential, with cost-outs counterbalancing flatlining revenues. There is still ample room to remove duplicate or nonessential costs to extract scale efficiencies. Moreover, we expect revenues to stabilise over the long term rather than decline. This reflects our expectation for a slower compression in fees, and likely better fund flows over the medium term given improved offerings and legacy product closures. As administered funds increase, cost synergies are extracted, and operating margins stabilize; debt serviceability should improve, enabling greater shareholder distributions. Additionally, there is also ongoing interest from private equity firm CC Capital.

Perpetual (ASX:PPT)

Market Cap	Moat Rating	Last Close	Fair Value Est.	Rating
2bn AUD	None	20.90	20.30	★★★

P/FV 1.75 1.50 1.25 1.00 0.75 0.50 0.25

We believe the market has a relatively downbeat view of Perpetual's future cash flow generation. While investor concerns around outflows and margin compression—particularly in Asset Management—are valid, we believe these risks are already incorporated into our forecasts. We expect market returns to compound on the firm's sizeable funds under management, helping to offset redemptions and support revenue. The firm is also executing a simplification strategy, aimed at reducing duplicate costs. Additional earnings support comes from Corporate Trust, the segment facing the least competitive pressure. For this segment, we expect steady volume growth, resilient fees, and the cross-selling of ancillary products to underpin a more stable earnings stream.

GQG Partners (ASX:GQG)

Market Cap	Moat Rating	Last Close	Fair Value Est.	Rating
5bn AUD	None	1.60	1.70	★★★

P/FV 1.75 1.50 1.25 1.00 0.75 0.50 0.25

We believe the risk of redemptions and earnings compression at GQG—stemming from recent underperformance—is already reflected in our forecasts. Notably, our projected net outflows average 4% of funds under management per year through to 2029, below the industry base rate of around 0% for active equity managers. While near-term performance faces headwinds, we do not anticipate seismic mandate redemptions. Team stability remains intact, and there are no reputational issues that would trigger mass redemptions, as occurred with Magellan in 2022. At USD 167 billion in FUM, GQG is capable of growing FUM through portfolio return compounding even if net flows are challenged. We also expect the firm's below-peer average fees and strong asset consultant ratings to mitigate excessive redemptions.

Source: Morningstar. Data as of Oct. 17, 2025.

Overvalued on Average, Though Opportunities Exist

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)	2.37	None	Medium	20.90	20.30	★★★	1.02	11.9x	5.5%	+12%
Pinnacle Investment Management (ASX:PNI)	4.35	Narrow	High	19.55	16.00	★★	1.20	28.0x	3.1%	+5%
Australia Asset Managers - Diversified (Weighted Average)							**1.13**	**22.3x**	**3.9%**	**+7%**
GQG Partners (ASX:GQG)	4.71	None	High	1.60	1.70	★★★	0.94	10.1x	11.0%	-35%
L1 Group (ASX:L1G)	2.32	None	High	1.14	0.70	★★	1.48	26.0x	1.9%	+16%
Magellan Financial Group (ASX:MFG)	1.75	None	Very High	10.25	9.50	★★★	1.08	12.7x	5.1%	+2%
Australia Asset Managers - Boutique (Weighted Average)							**1.11**	**14.8x**	**7.4%**	**-14%**
Challenger (Asset Management) (ASX:CGF)	6.14	None	High	9.16	8.00	★★★	1.11	14.0x	3.3%	+45%
Insignia Financial (ASX:IFL)	3.02	None	High	4.51	4.80	★★★	0.94	12.1x	0.0%	+49%
Macquarie Group (ASX:MQG)	86.43	Narrow	High	229.00	195.00	★★★	1.16	20.9x	2.8%	+1%
Australia Diversified Financials (Weighted Average)							**1.15**	**20.2x**	**2.8%**	**+5%**

Source: Morningstar. Data as of Oct. 17, 2025. Datapoint for L1 Group reflects Platinum Asset Management in fiscal 2025 and prior, and the combined Platinum-L1 Capital entity starting fiscal 2026.

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