Australian Asset Managers: 2025 Q4

Stabler near-term flows, but structural pressures remain.

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Morningstar Equity Research

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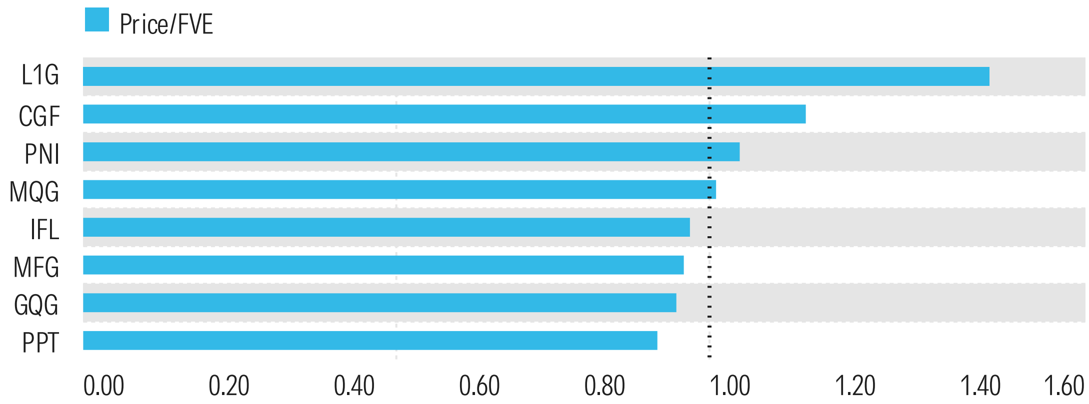
Executive Summary

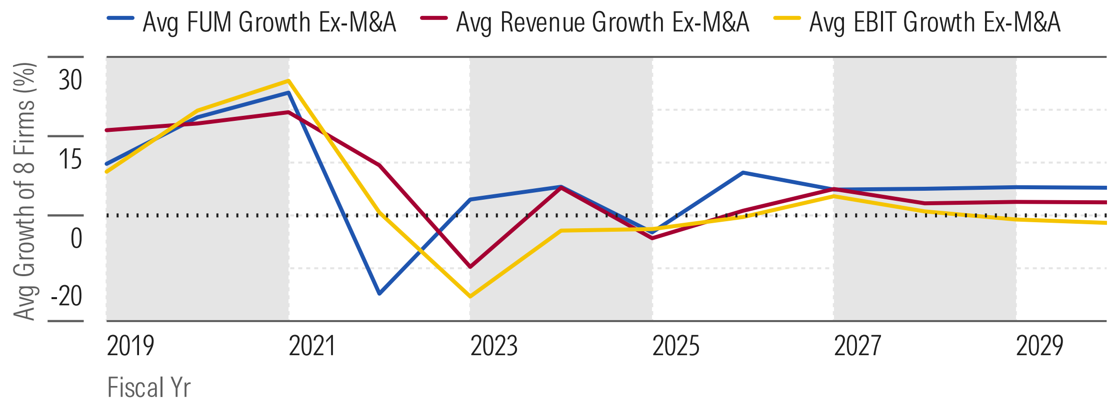
Value amid fundamental difficulties.

Selective Value Exists Despite Challenges

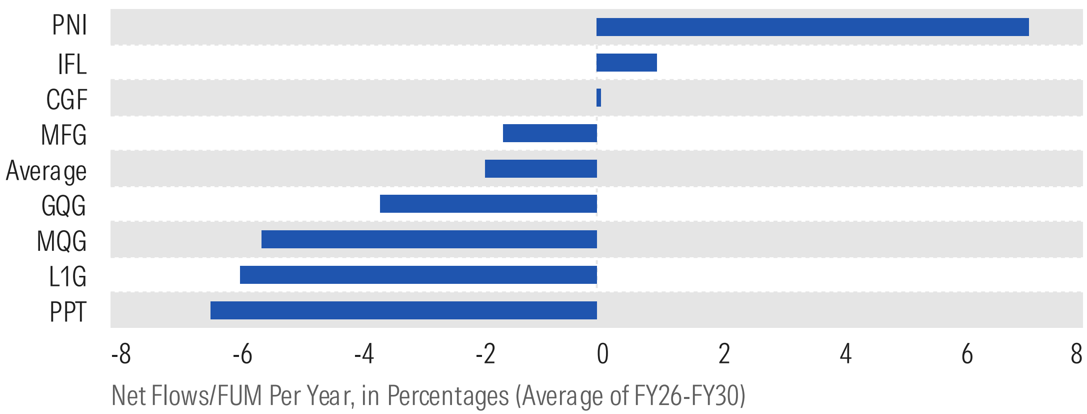
Our Coverage Isn't Cheap, but There's Select Value



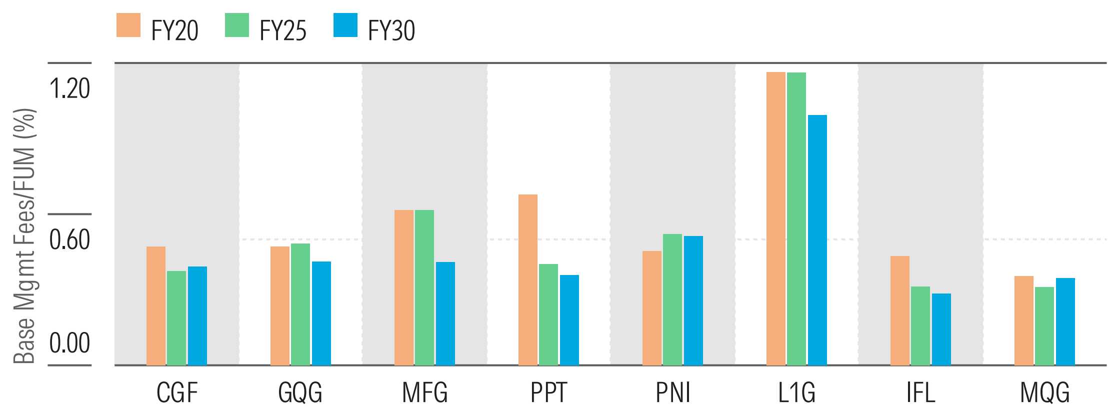
We Forecast a Decline in Long-Term Average^ Earnings



This Decline Is Due to Expected Net Outflows for Most



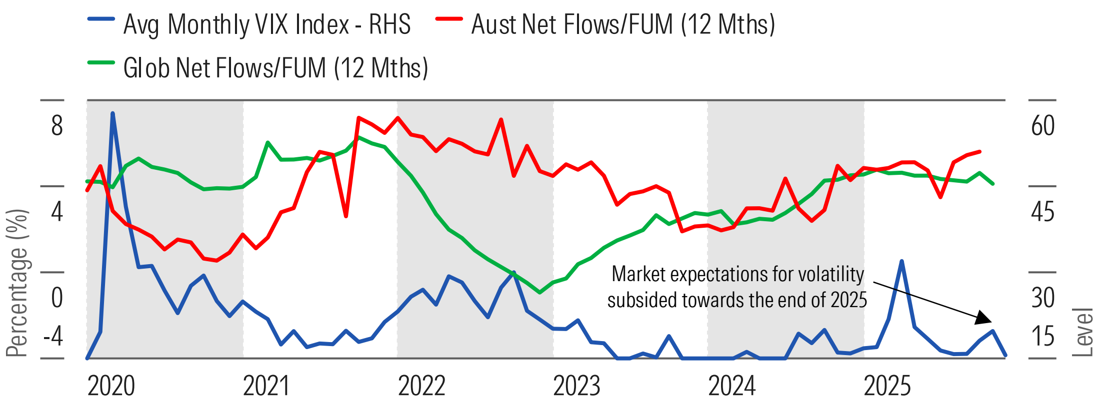
Compression in Base Management Fees* Is Also a Factor



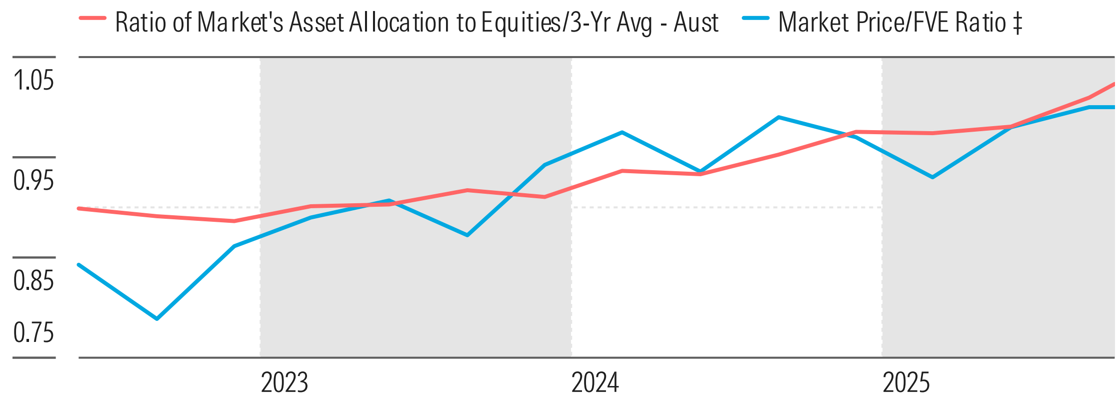
Source: Morningstar (top left). Data as of Jan. 14, 2026. Company filings, Morningstar (top right, bottom left and bottom right). Data as of Dec. 31, 2025. ^Average rates are for GQG Partners, Magellan Financial Group, Pinnacle Investment Management Group, L1 Group, and the asset management divisions 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.

Stable Environment, but Most Lack Flow Catalysts

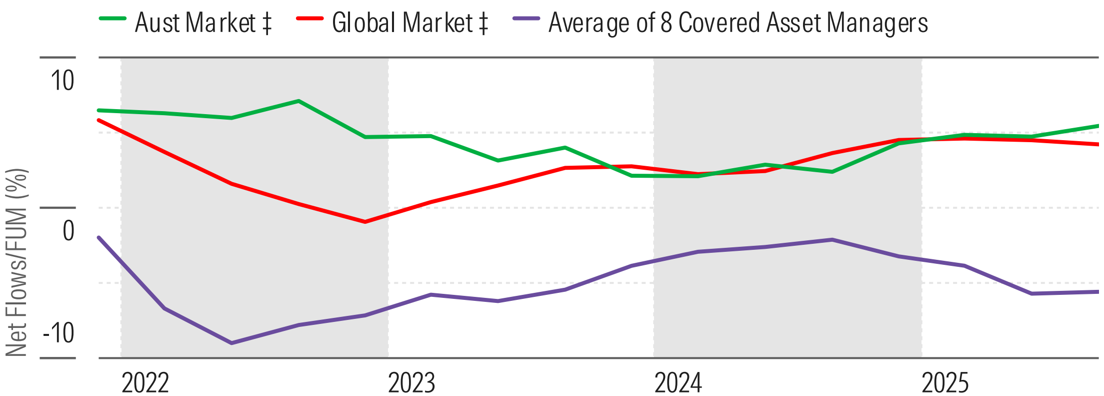
There's Macro Support From Solid Investor Optimism



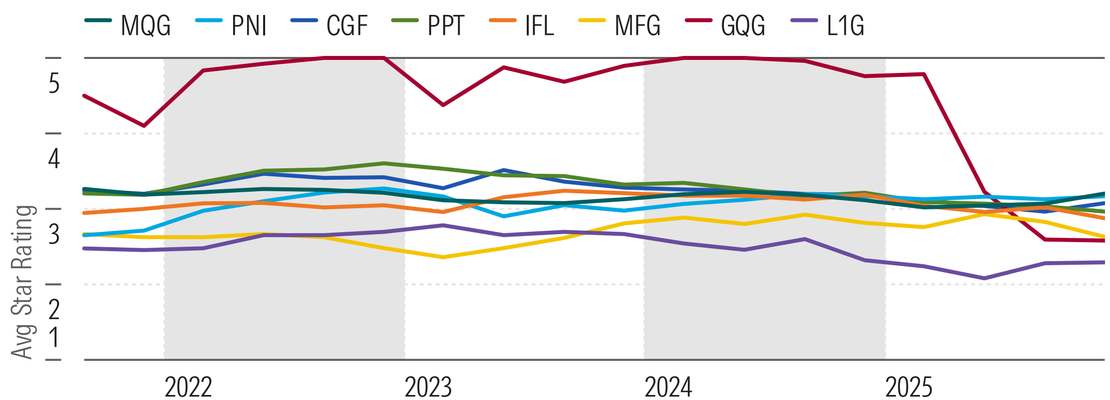
This Macro Support Is Leading to Higher-Risk Asset Allocations



Our Coverage Is Still Losing Share as a Cohort



Most Companies Under Our Coverage Lack Strong Performance^ to Attract Flows



Source: Cboe Exchange, Morningstar (top left). VIX Index data as of Dec. 31, 2025. Global flow data as of Nov. 30, 2025. Australia flow data as of Oct. 31, 2025. Morningstar (top right). Data as of Oct. 31, 2025. Company Filings, Morningstar (bottom left). Data as of Sep. 30, 2025. Morningstar (bottom right). Data as of Dec. 31, 2025. ‡ Average of close to 1,650 companies covered by Morningstar. ^Star rating data are for retail and wholesale share classes only. Note: 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.

Valuation

Scant margins of safety but value exists on relative basis

VALUATION

Fund Flows Across Our Coverage Likely to Be Variable

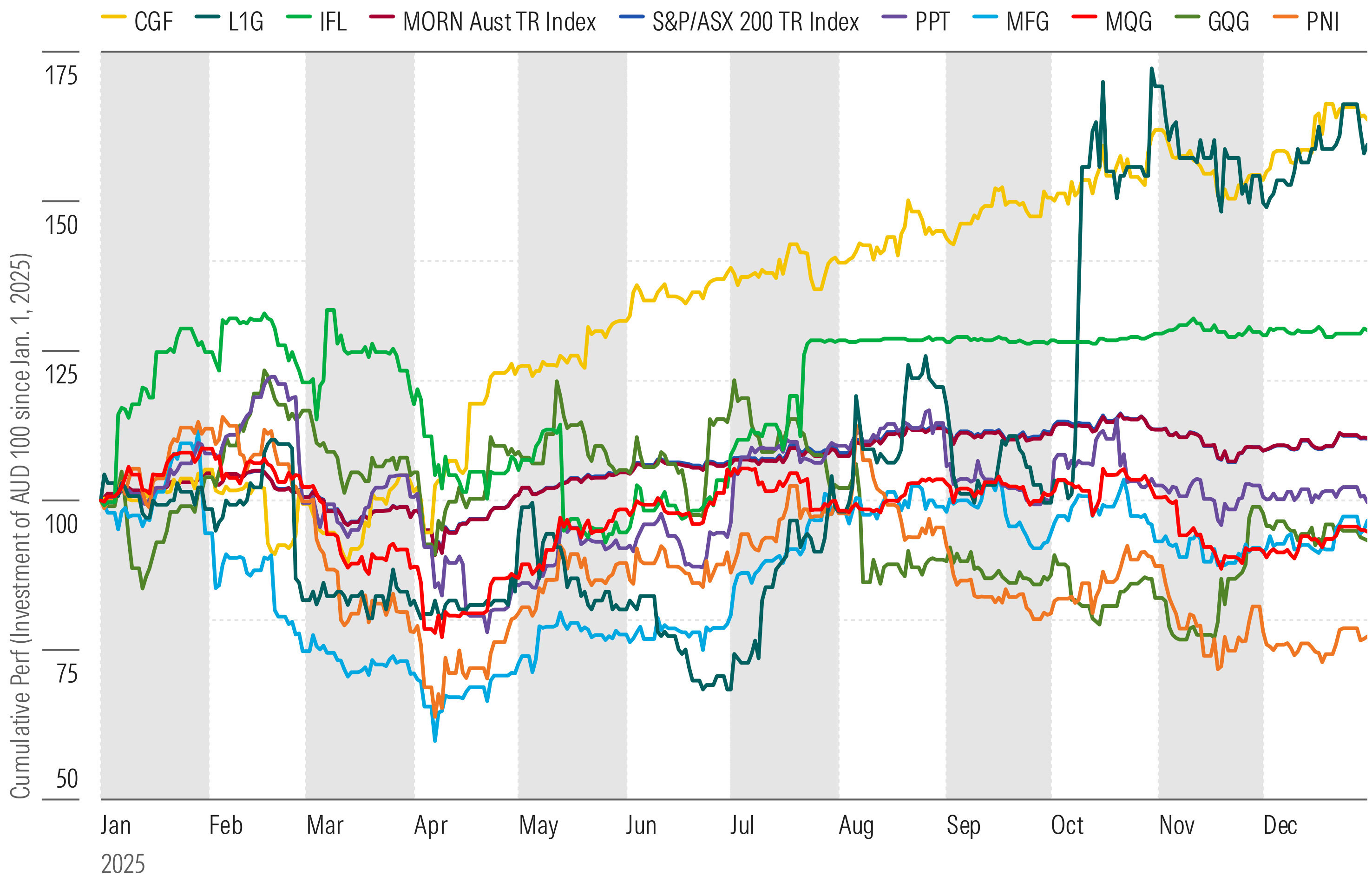
Market sentiment was fickle in 2025: buoyed by optimism around artificial intelligence and rate cuts; damped by geopolitical tensions, inflation concerns, and perceived market bubbles. Our coverage's net outflows averaged midsingle digits as a percentage of FUM in the September quarter, in line with the June* quarter. We expect medium-term flows for our coverage to remain lumpy. While investor appetite for risk assets is solid, equity valuations offer little margin of safety to absorb potential earnings shocks.

Most ASX-listed asset managers underperformed the ASX 200 Total Return Index in 2025, except Challenger, Insignia, and L1 Group. Challenger was a notable outperformer, benefiting from investor optimism for improved product sales and margins. Meanwhile, Insignia was priced for an anticipated acquisition by an external suitor, while L1 Group investors are pricing in strong fundamental improvements from the Platinum-L1 Capital merger.

For asset manager shares to outperform, lasting improvements in fund flows and operating margins are needed—a challenging feat for mature firms.

Shareholder Returns for Most Lagged the Index in 2025

ASX-listed asset manager total returns versus industry benchmarks

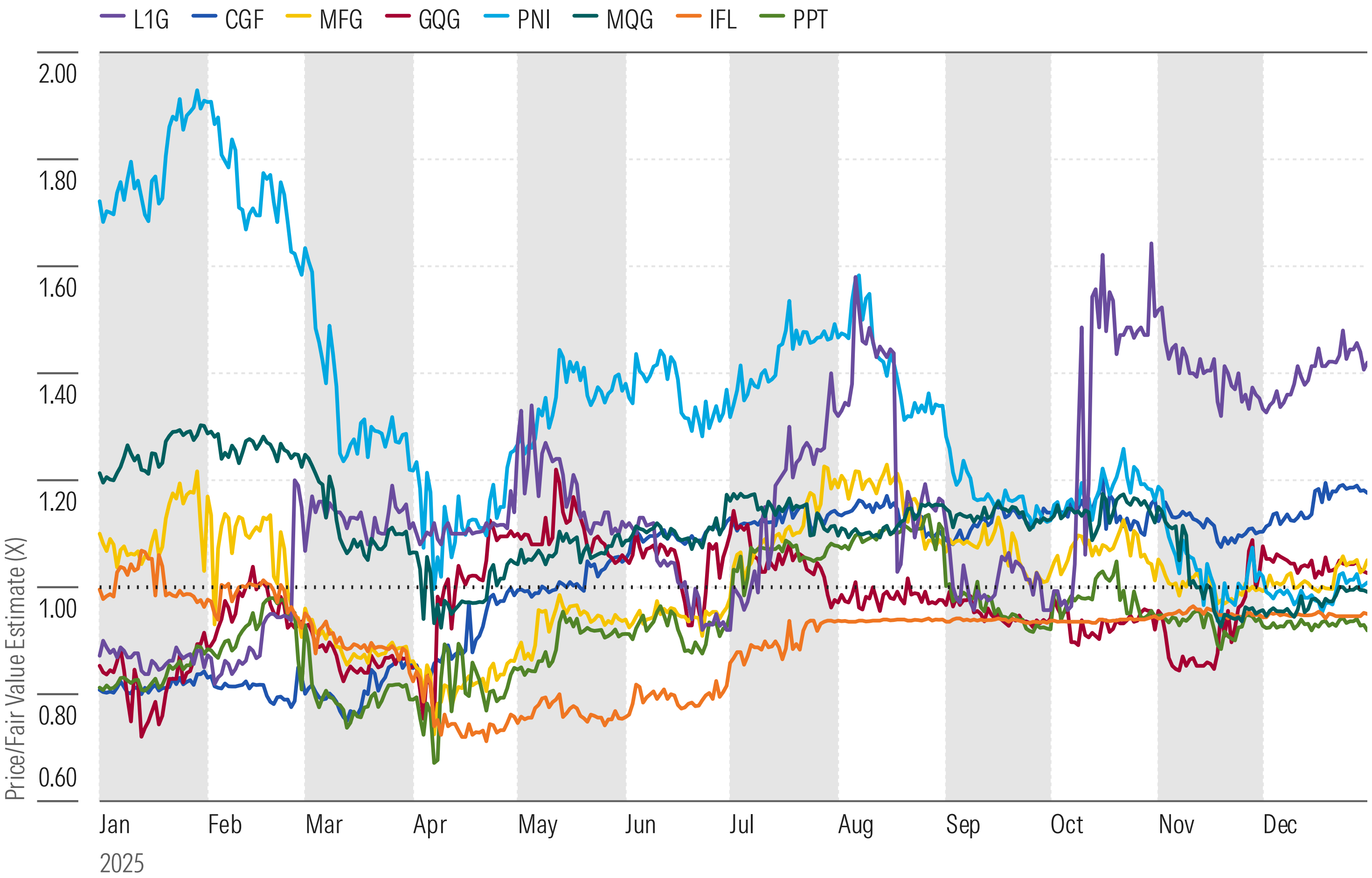


Source: Morningstar. Chart data as of Dec. 31, 2025. Data point for L1 Group reflects Platinum Asset Management in fiscal 2025 and prior, and the combined Platinum-L1 Capital entity starting fiscal 2026.
*Excludes Macquarie, which makes semiannual net flow disclosures.

Mildly Overvalued on Average, but Opportunities Remain

Our Coverage Is Not Cheap, Though There Are Relative Value Opportunities

Price/fair value estimate for ASX-listed asset managers



The cohort's average price/fair value ratio was 1.06 times as of Jan. 14, 2026, compared with 1.02 times as of Sept. 30, 2025. Asset manager shares are closely tied to market movements and are likely to remain more volatile than those of other financial services firms, such as banks.

The medium-term outlook for our coverage's fund flows is lumpy. Sentiment among equity investors is solid as rates have eased from peak levels, credit spreads are low, and expected volatility is modest. However, equities are currently not cheap. If corporate earnings disappoint or external shocks occur, investor risk appetite would be adversely affected, potentially damping asset manager fund flows.

Active managers also face structural headwinds, including market share losses and fee compression driven by passive investments.

We believe Perpetual and GQG currently offer better relative value within our coverage, with price/fair value ratios of 0.92 times and 0.95 times, respectively.

Source: Morningstar. Chart data as of Jan. 6, 2026. Data point for L1 Group reflects Platinum Asset Management in fiscal 2025 and prior, and the combined Platinum-L1 Capital entity starting fiscal 2026.

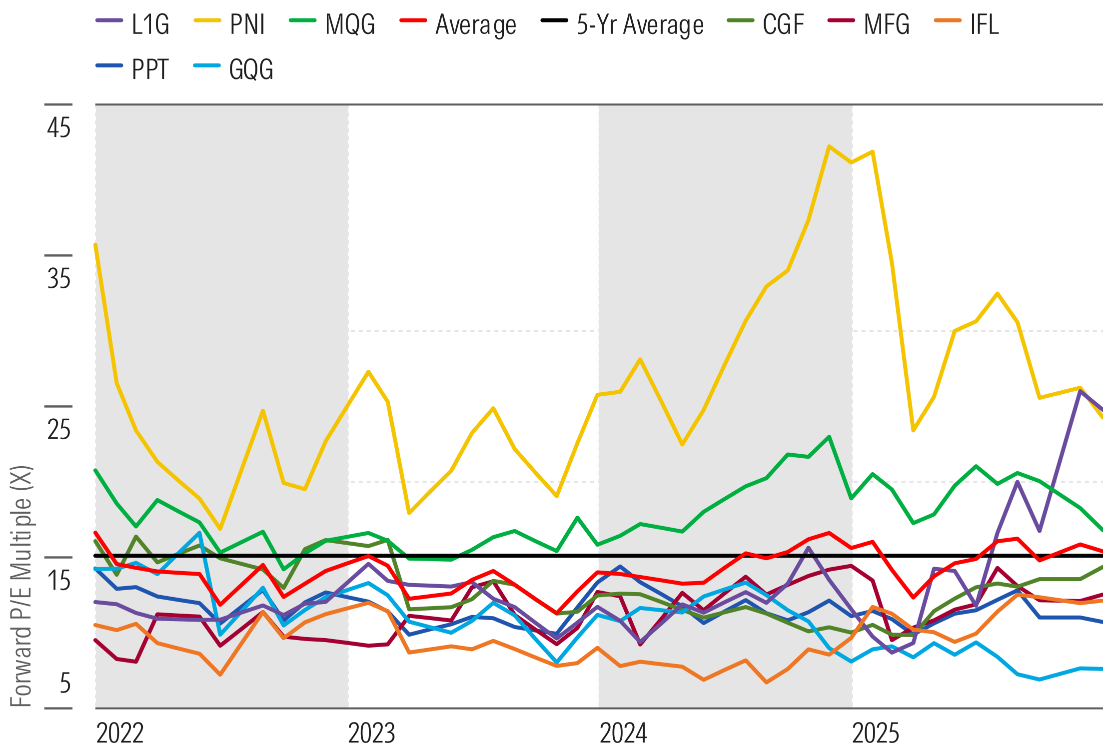
VALUATION

Valuation Multiples Mildly Stretched

Valuations for listed asset managers are mildly elevated, as reflected in price/earnings multiples and dividend yields. As of Dec. 31, 2025, the average forward P/E ratio and dividend yield across the eight firms we cover stood at around 15.4 times and 4.3% (or 4.9% excluding Insignia), respectively. This compares with a five-year historical average of 15.1 times and 5.3%, respectively. The wide dispersion between GQG's low forward P/E and high dividend yields suggests consensus numbers may be optimistic, making downward revisions likely.

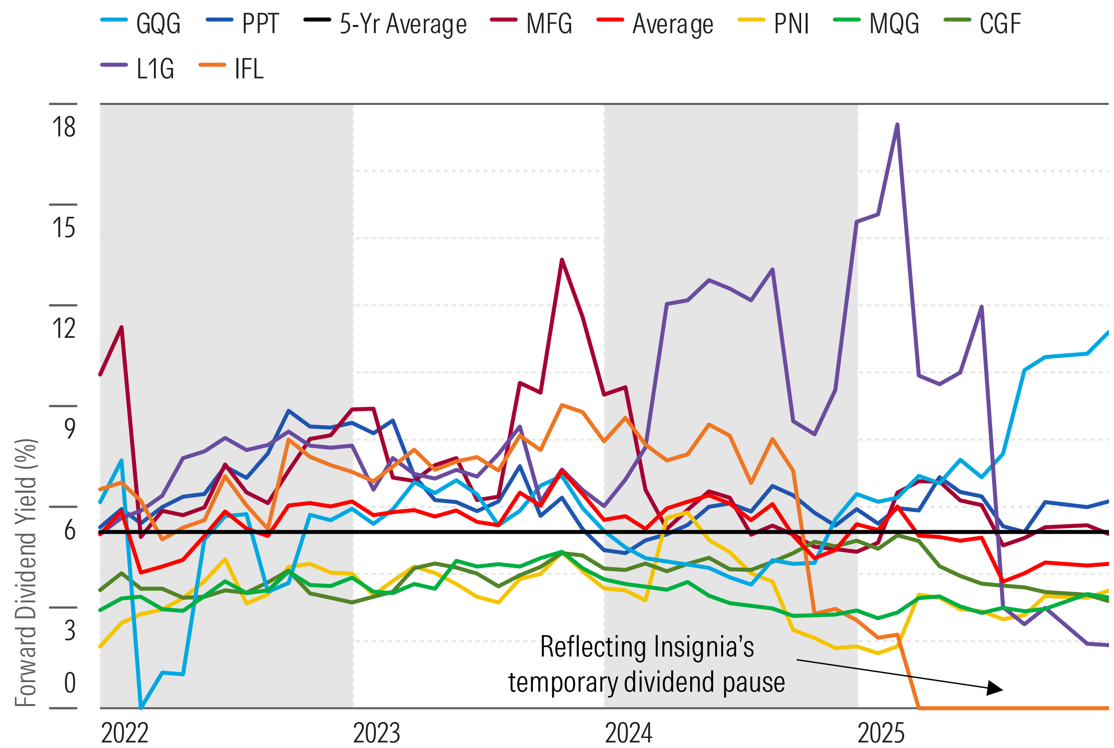
Price/Earnings Multiples High Overall, Though Some Still Offer Value

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



Wide Dispersion in Forward Yields, but Pockets of Value Exist

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



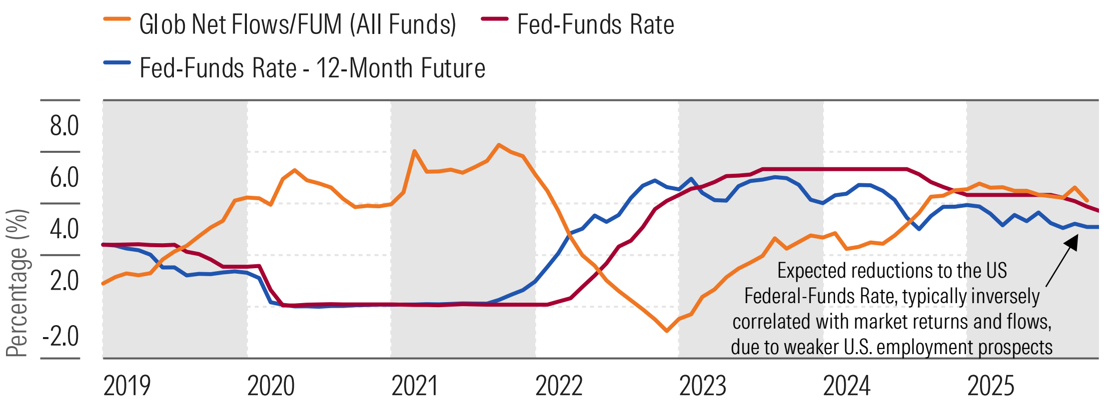
Source: Morningstar. Data as of Dec. 31, 2025. * Earnings and dividend forecasts are based on consensus estimates. Prices data are month end closing prices. Datapoint for L1 Group reflects Platinum Asset Management in fiscal 2025 and prior, and the combined Platinum-L1 Capital entity starting fiscal 2026.

Fund Flows

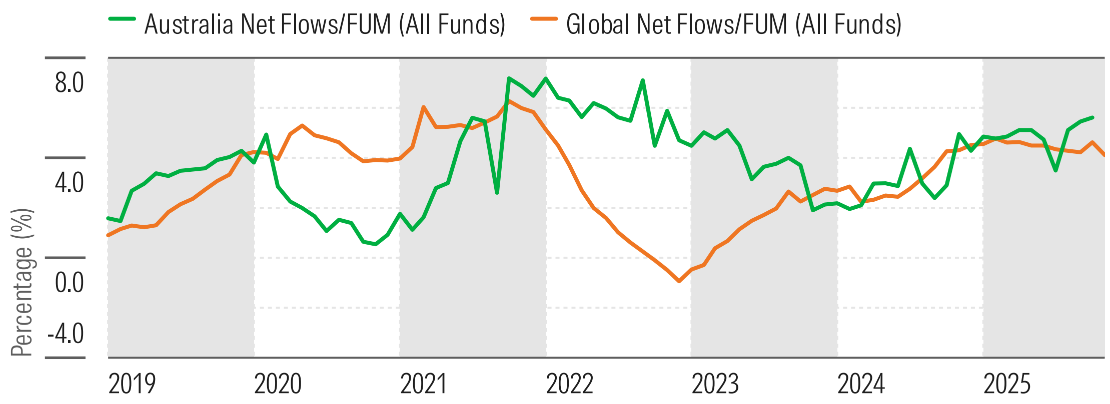
Stable outlook belies structural pressures on active funds.

Flow Outlook for Industry^ Likely Stable With US Rate Cuts Expected

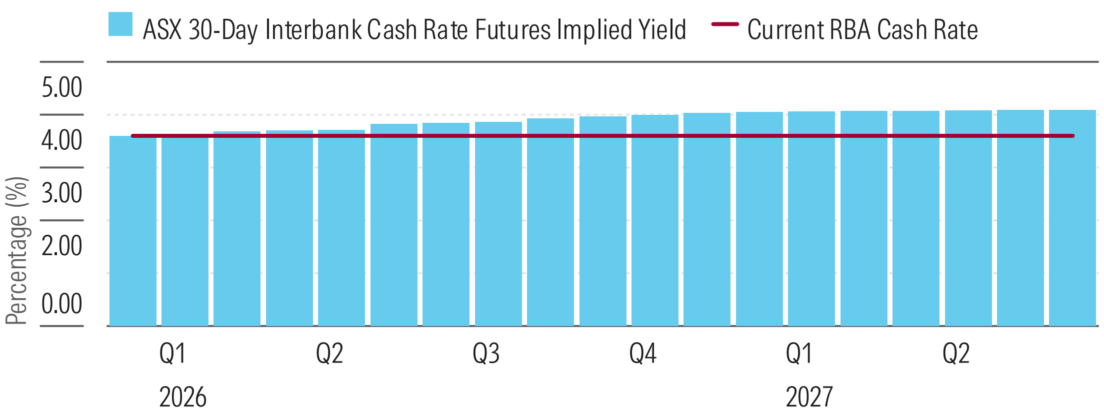
1) Global Flows* Buoyed by Expectations of Lower Cash Rates in the US



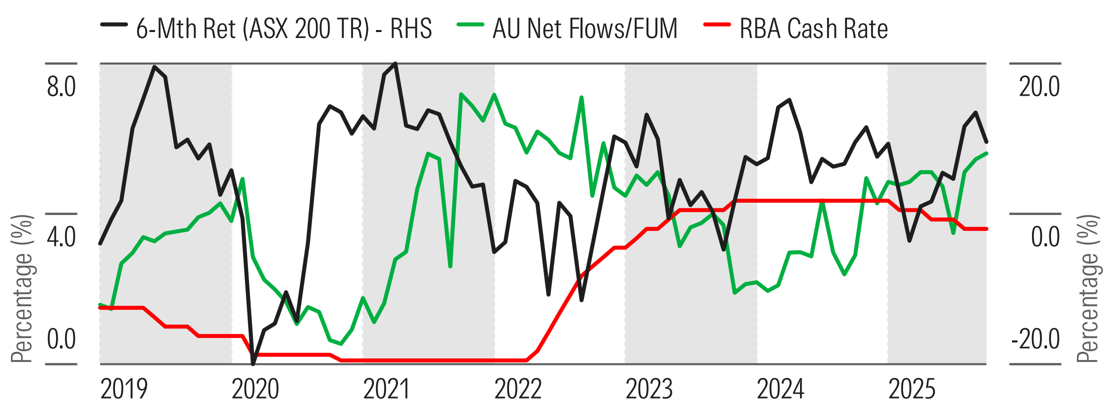
2) Australian Flows* Solid, Broadly Correlating With Global Trends



3) While the Market Expects Some Cash Rate Rises in Australia...



4) ...Investor Appetite is Unlikely to be Quelled Given Recent Strong Markets



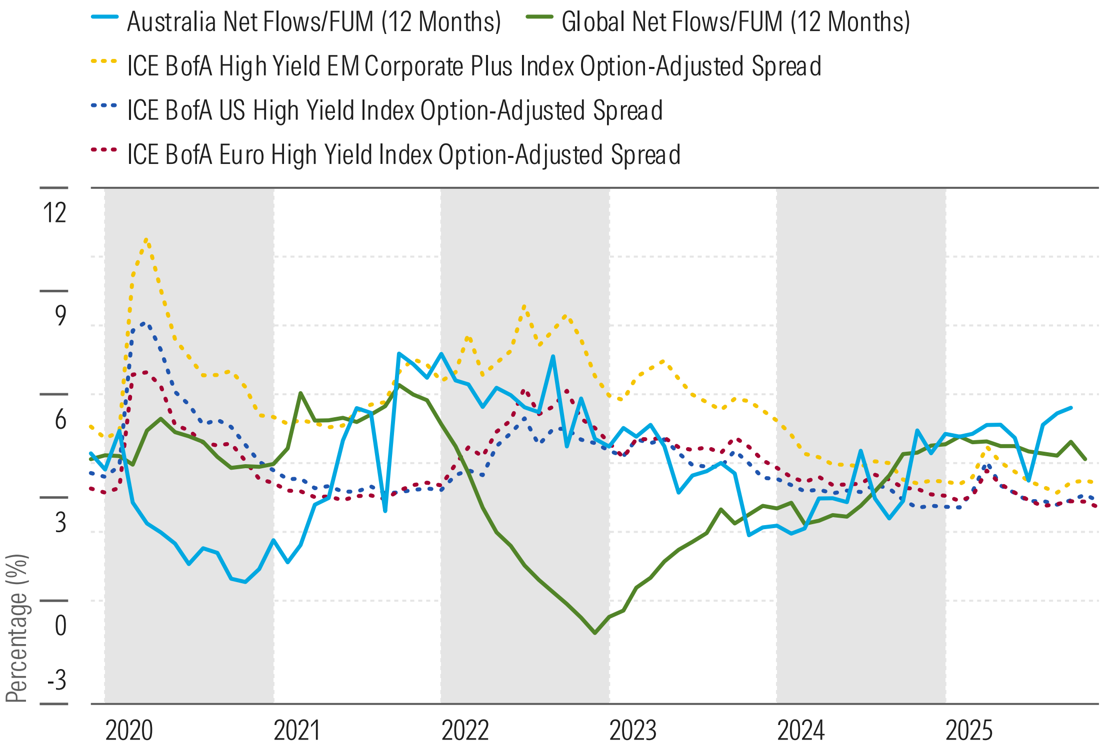
Source: Chicago Mercantile Exchange, Federal Reserve Board, Morningstar (top left). Data as of Dec. 31, 2025; Morningstar (top right). Data as of Nov. 30, 2025; Australian Securities Exchange (bottom left). Data as of Jan. 6, 2026; Reserve Bank of Australia, Morningstar (bottom right). Data as of Oct. 31, 2025. Note: ^ The broader market encompassing both active and passive managers, and not limited to our coverage. * 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.

Industry Outlook Positive as Market Expects No Major Shocks

Near-term flows into the asset management industry are likely to remain solid if investor expectations of market volatility—which correlate inversely with risk asset demand—remain muted as they are presently. Investors are looking past prior fears of U.S. tariffs or concerns of an artificial intelligence bubble, which bodes well for fund flows. However, any material surprises, such as unforeseen inflation shocks, earnings disappointments, or geopolitical or liquidity events, could dampen investor risk appetite.

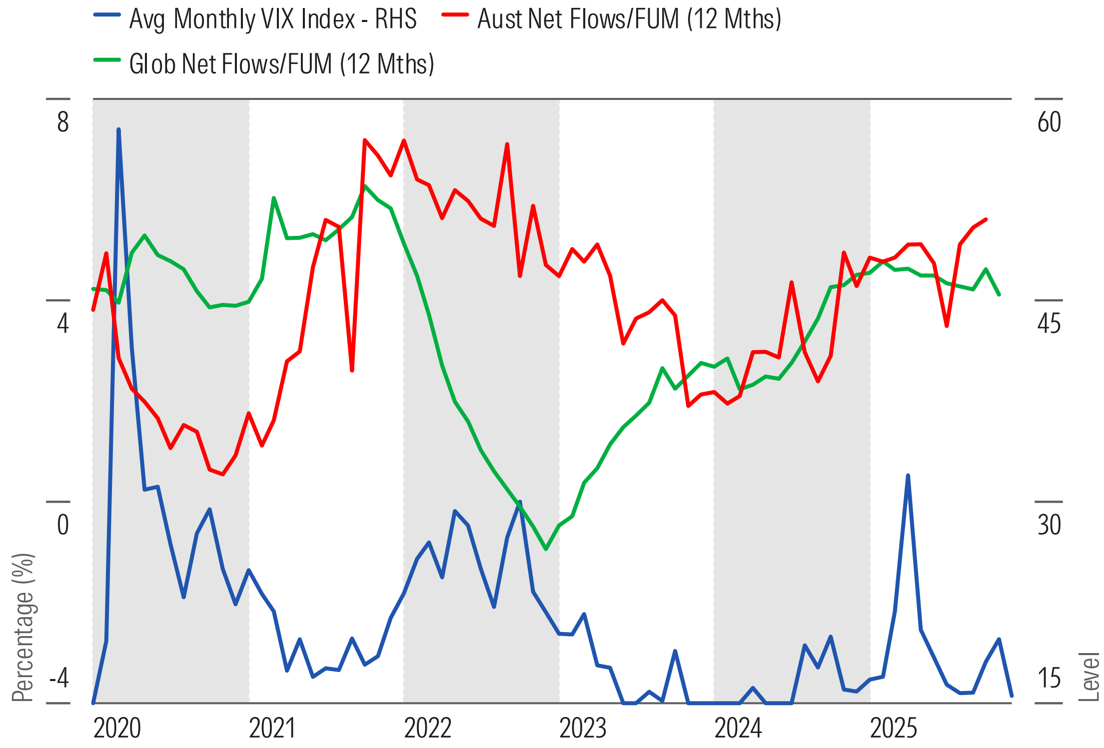
Credit Spreads Lower Than Historical Averages

Credit spreads and net flows



Volatility Expectations Subsided Considerably By the End of 2025

VIX Index and net flows



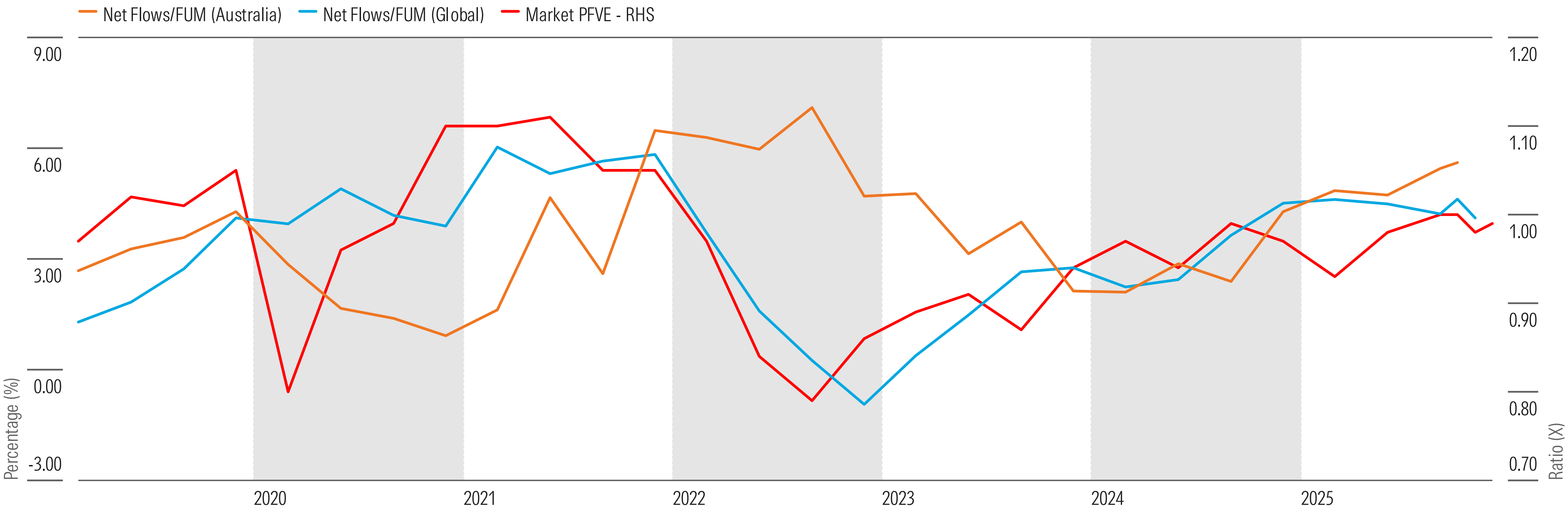
Source: Federal Reserve Bank of St Louis, Morningstar (Left); Cboe Exchange, Morningstar (Right). Credit spreads and VIX Index data as of Dec. 31, 2025. Global flow data as of Nov. 30, 2025. Australia flow data as of Oct. 31, 2025. Global flows are into open-ended funds, money-market funds, and ETFs. 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.

Valuations Suggest Stable Near-Term Industry Flows Absent Anomalies

Prevailing valuations according to our intrinsic assessments suggest appetite for risk assets remains stable. This in turn indicates relatively solid near-term flows for asset managers in general, absent anomalous events. The average price-to-fair value multiple for stocks covered by Morningstar Equity Research globally was 0.99 as of the end of December 2025, indicating shares are on average fairly-valued—a trend broadly consistent throughout the second half of 2025.

Present Valuations Indicate Stable Near-Term Flows Absent Anomalous Factors

Global market price/fair value* and net flows



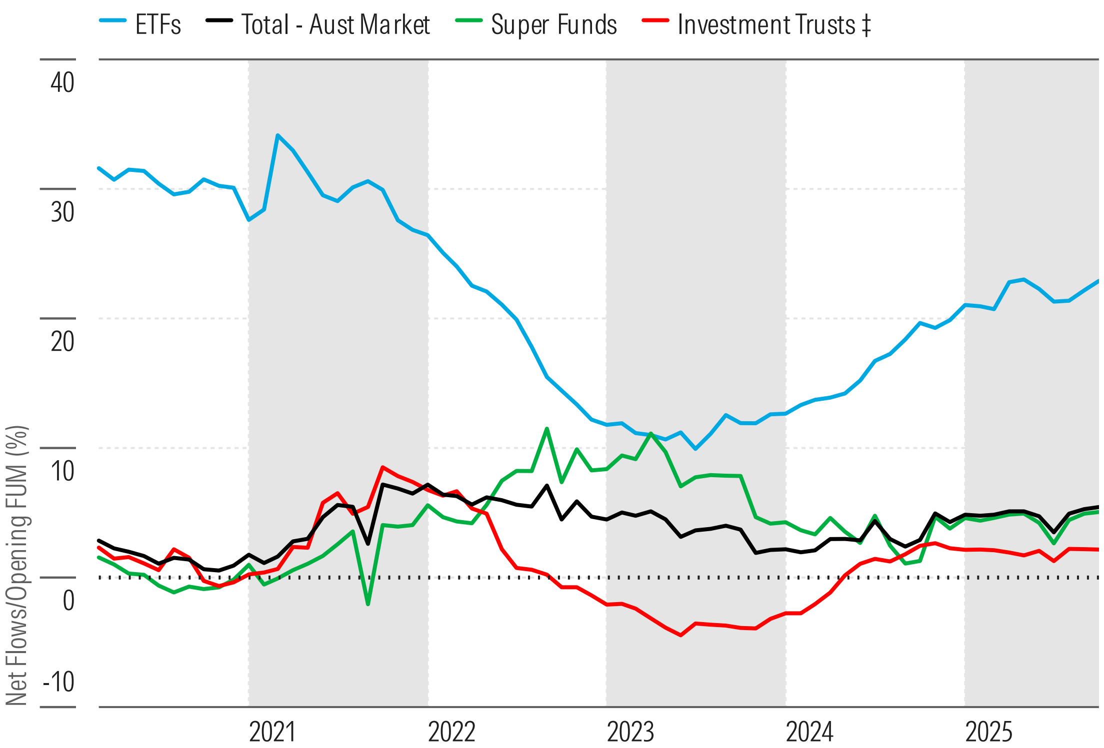
Source: Morningstar. Price/fair value multiple data as of Dec. 31, 2025. Global flow data as of Nov. 30, 2025. Australia flow data as of Oct. 31, 2025. Global flows are into open-ended funds, money-market funds, and ETFs. Australian flows are into ETFs, super funds and traditional active managers. Figures 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. *Average of close to 1,650 companies covered by Morningstar.

Active Managers Risk Ongoing Share Loss Without Differentiation

Traditional active managers will likely continue to cede market share to passive investments such as ETFs, which offer cost-effective, efficient exposure while resembling simpler active strategies. Within the active-management space, firms focused on standard equity and bond products face ongoing challenges because these products can be easily replicated by passive alternatives. In contrast, managers operating in more differentiated areas—such as private credit or specialized fixed-income strategies—are in a relatively stronger position.

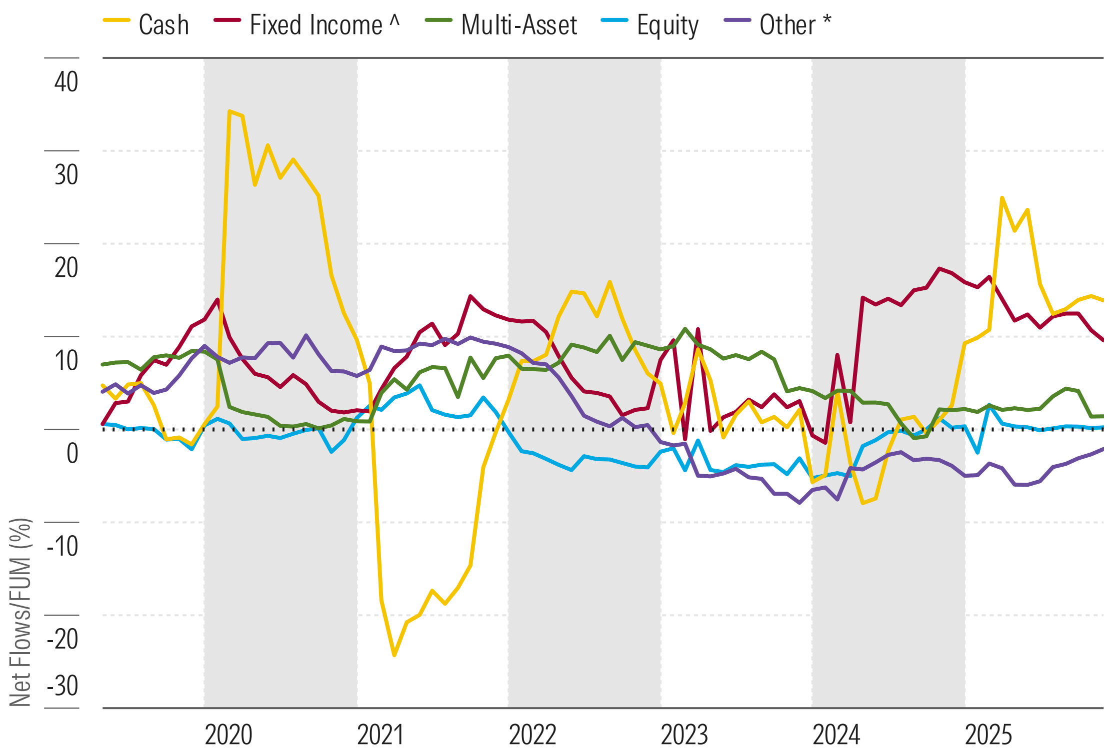
ETFs Are Experiencing the Strongest Market Share Growth

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



Nontraditional Fixed-Income Managers Seeing Stronger Flows

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



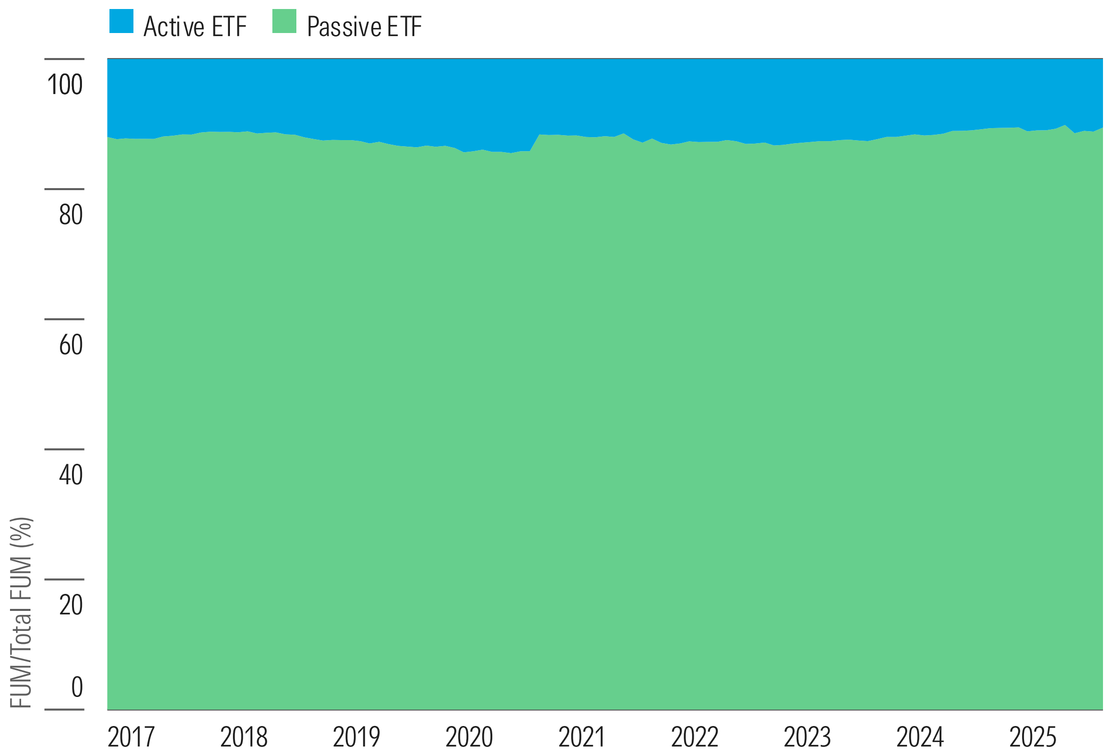
Source: Morningstar. Flow data as of Oct. 31, 2025. ‡ Investment trust entities consist predominantly of traditional active managers. ^ Includes non-vanilla fixed income such as private debt, diversified credit, mortgage-backed securities, and unconstrained fixed income. * Various other asset classes such as macro trading, multistrategy, systematic trend, unlisted and direct 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.

Performance Counts When Active Fees Are High and Passive Competition Is Fierce

Traditional active managers face continued market share losses, as many still charge high fees that are difficult to justify amid underwhelming 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 will likely remain intense, as passive leaders like Vanguard and BlackRock also offer actively managed products, leveraging their scale to compete more aggressively with traditional active managers.

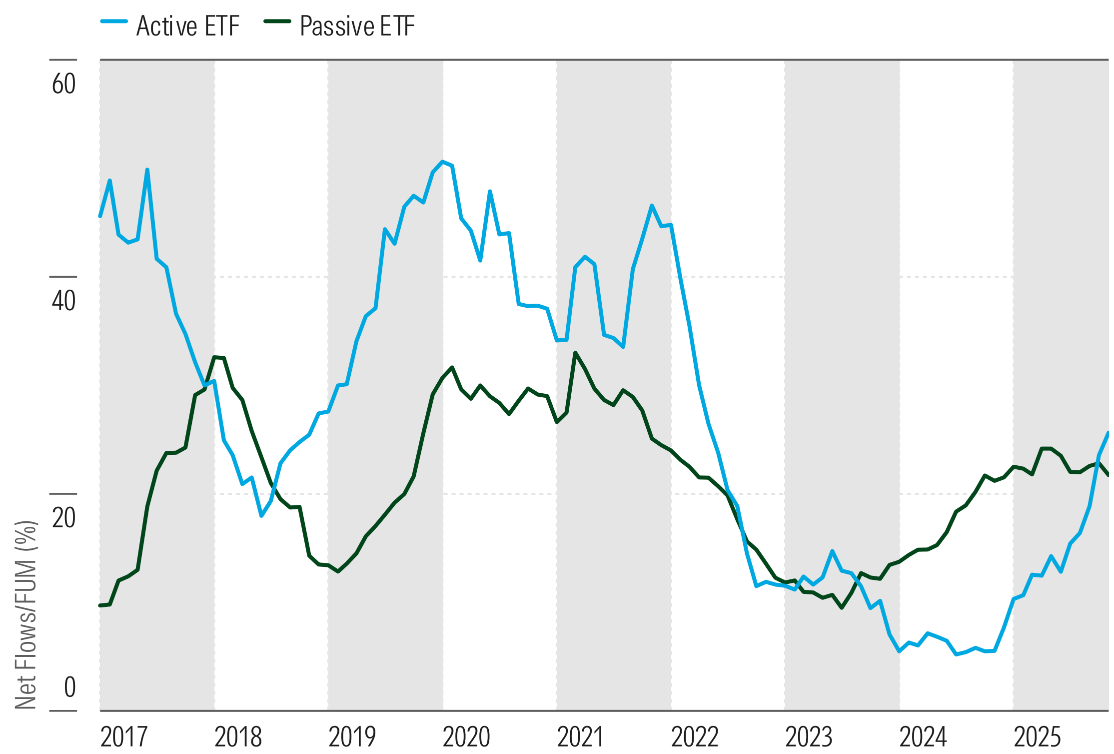
Passive ETFs Considerably More Popular Than Their Active Counterparts

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



Active ETF Flows Surge, but Performance Critical for Lasting Share Gains

Flow rates of active and passive ETFs—Australian market



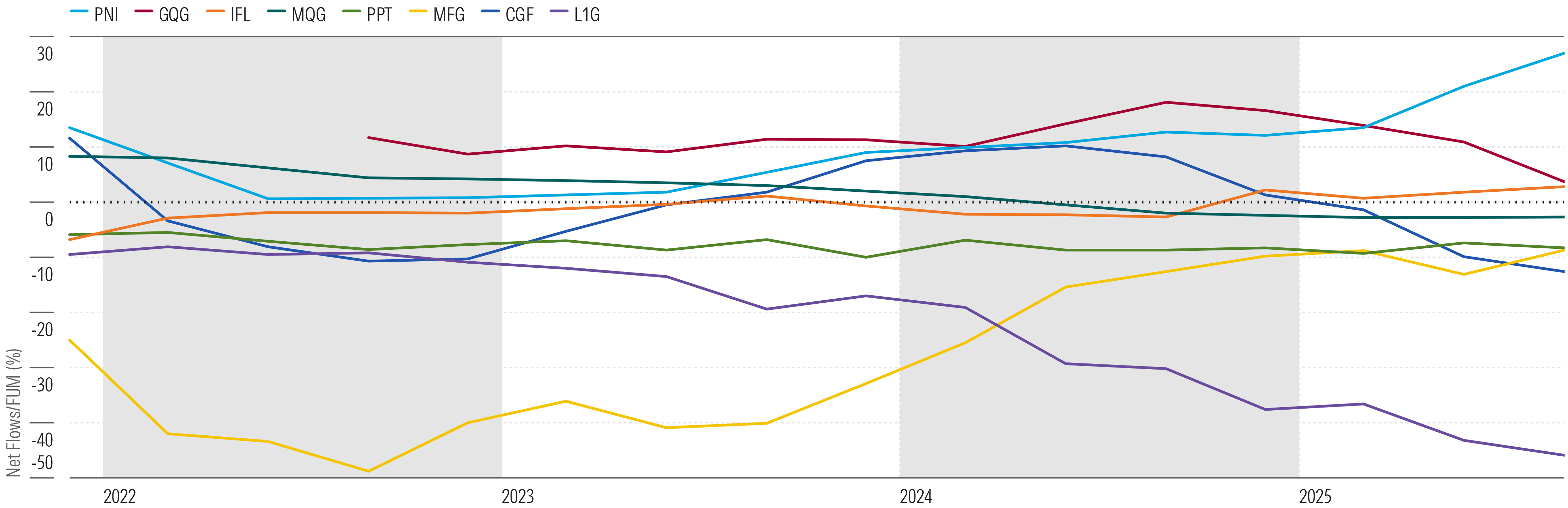
Source: Morningstar. Data as of Nov. 30, 2025.

Average Flows for Our Coverage Trail 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 5.6% of managed funds in the September quarter of 2025, roughly in line with the June quarter^. This is below the 5.4% and 4.2% growth recorded in the Australian and global markets, respectively, over the same period—suggesting market share losses at the cohort level*.

Peers Compete With Each Other For Flows Rather Than Growing Together

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



Source: Company filings, Morningstar. Data as of Sep. 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. L1G figures are prior to the Platinum-L1 Capital merger which completed in Oct. 2025.

Investment Performance

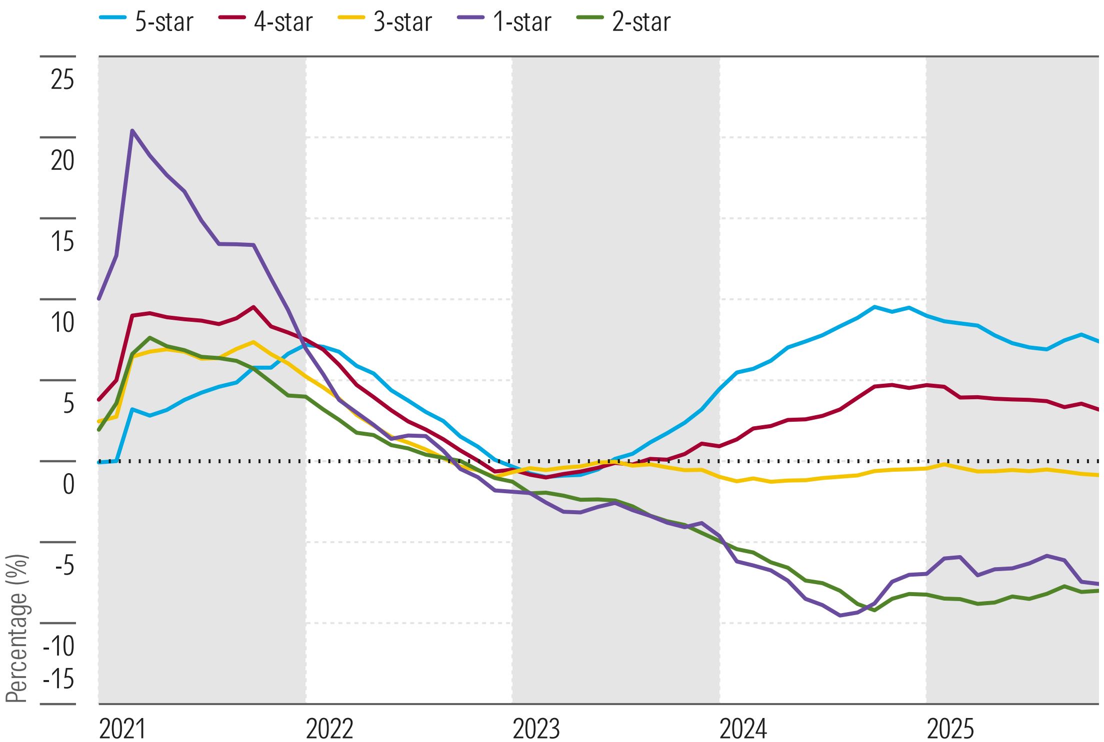
Modest returns cloud active manager outlook.

Active Managers Face High Performance Bar to Stem Passive Shift

Traditional active managers are facing consolidation, with average or weak performers at risk of losing assets or shutting down. The growth of passive investments, which offer index exposure at low cost, has left active managers who cannot beat their benchmarks in an increasingly difficult position. To attract and keep client assets, active managers need to consistently outperform, which is challenging to achieve in practice.

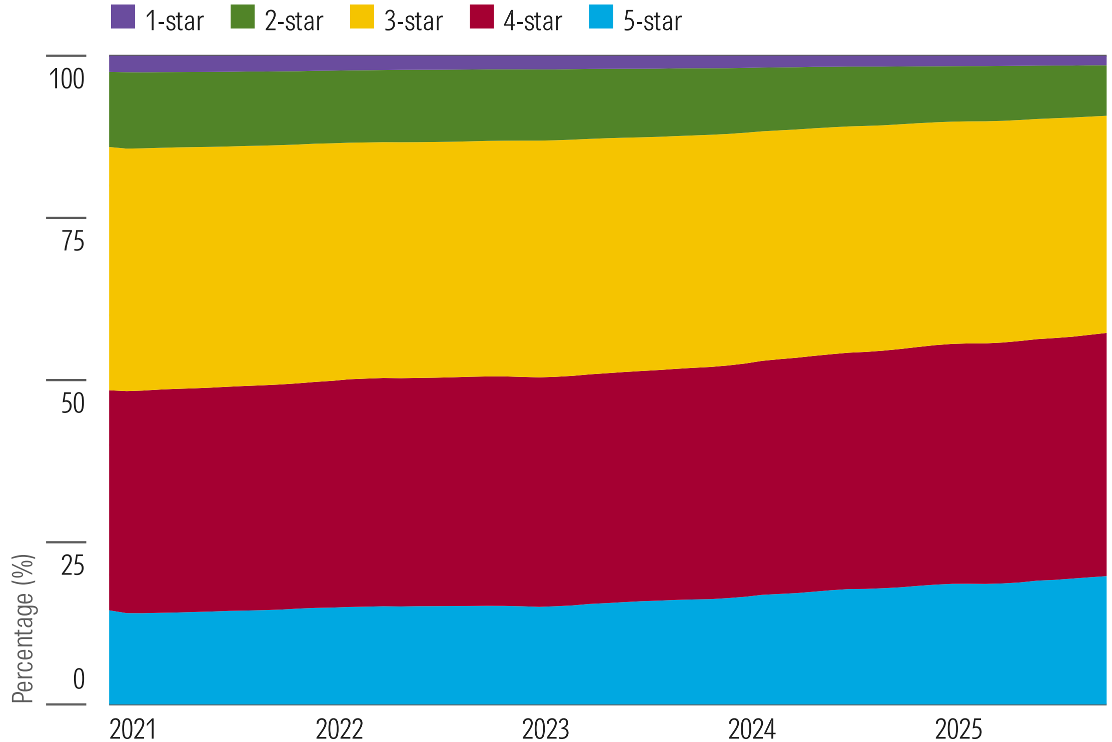
Net Flows Concentrate in Funds With Superior Performance

Net flows/FUM into funds by star rating* per year—global market^.



Top-Performing Funds Set to Continue Market Share Gains

Star-rated* funds' balance as a proportion of total funds—global market^.



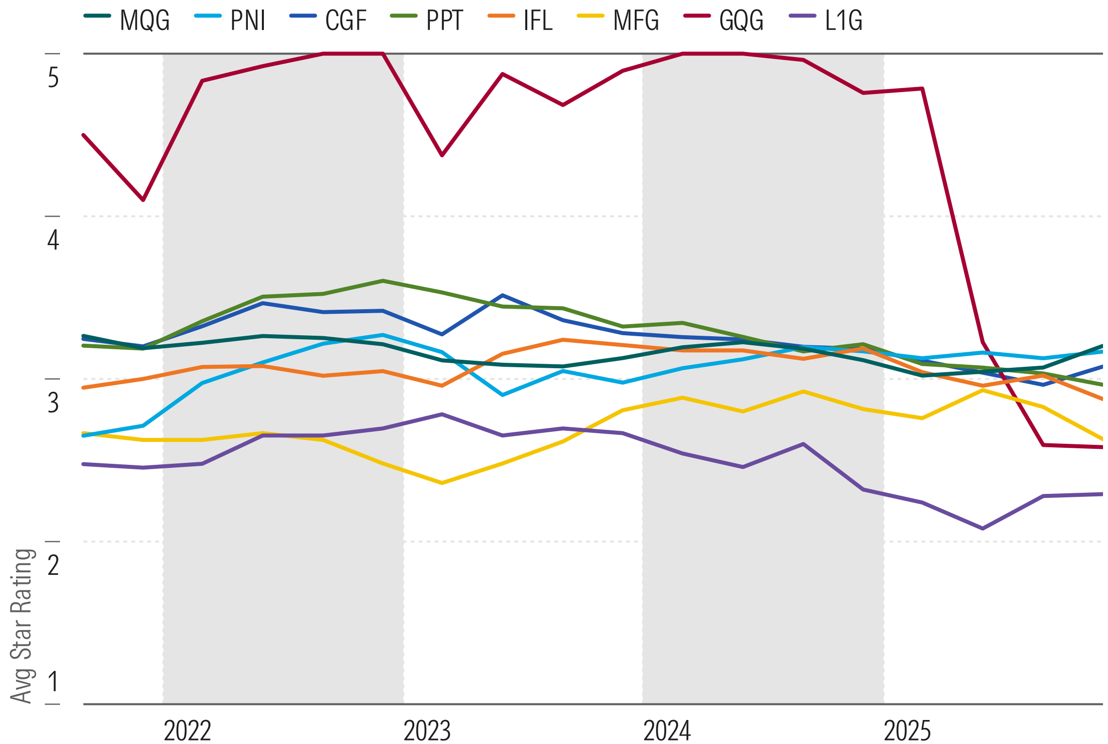
Source: Morningstar. Data as of Nov. 30, 2025. * The star rating is a quantitative measure of past performance, meant to help assess a fund's track record relative to its peers. The higher the star, the stronger the performance on a risk-adjusted returns basis. ^ Open-ended funds, money-market funds, 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.

Active Firms Face Tough Prospects for Market Share Rebound

Overall, our covered firms lack the consistent outperformance required to regain market share lost to passive ETFs and industry funds. Most achieve average returns relative to peers over longer periods, showing how difficult it is for active managers to consistently beat benchmarks. Without lasting and meaningful performance improvements, firms will need to adopt more defensive strategies such as adjusting staff compensation structures or forming external partnerships to protect market share and earnings.

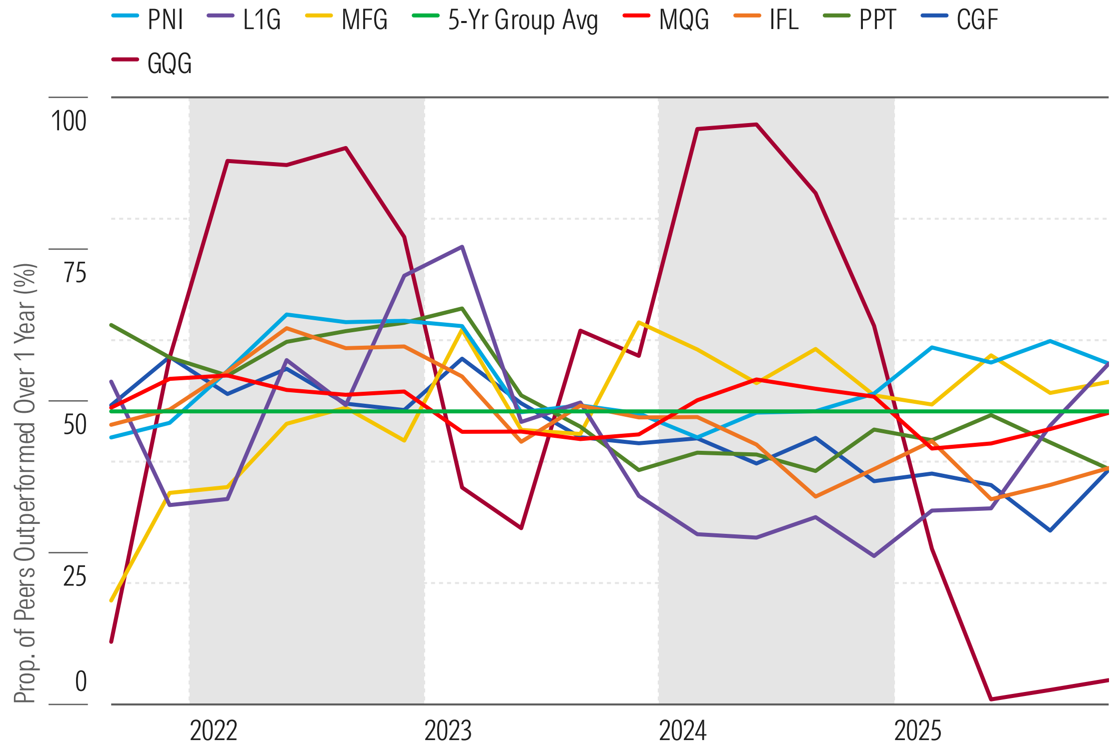
Lasting Strong Performance Rare Among Active Firms

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^).



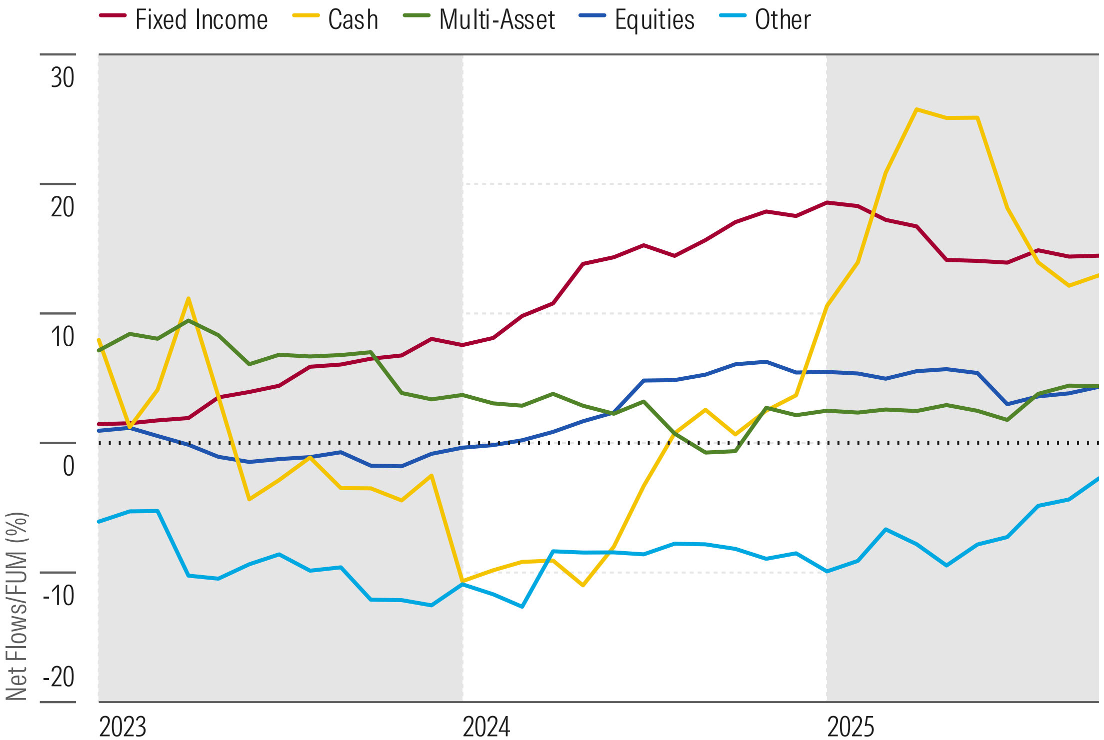
Source: Morningstar. Data as of Dec. 31, 2025. ^ Simple average for all retail and wholesale share classes only. * Category Peers refer to other funds with comparable investment styles and market capitalization constituency. The star rating is a quantitative measure of past performance to help assess 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.

Average Medium-Term Returns Expected for Our Coverage

Flows into most risk assets* are positive and should remain so for the foreseeable future. Investor appetite has grown, due to: (1) a moderation in flows into cash and in overall cash allocations, (2) higher allocations to equities and fixed income—which also include private credit and not only defensive bonds. However, with equities currently around fair value, we continue to expect more normalized returns^ ahead, rather than outsized returns.

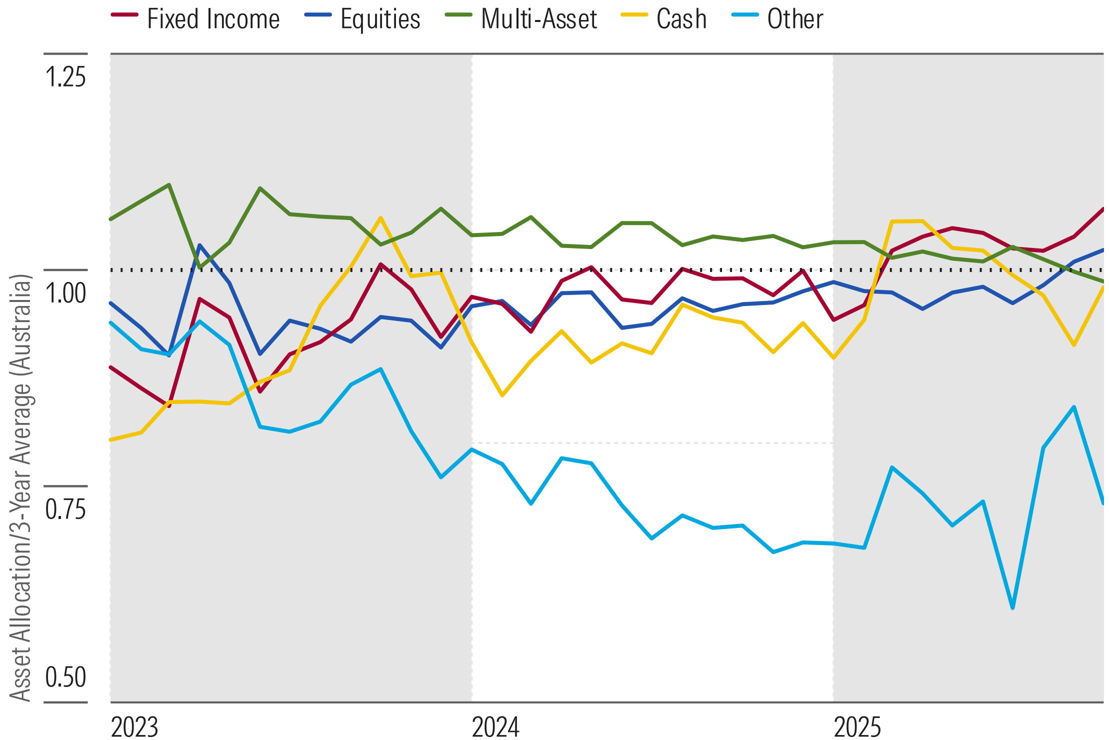
Most Risk Assets Experience Positive Net Flows

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



Appetite for Risk Assets Solid

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



Source: Morningstar. Data as of Oct. 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.

Earnings Outlook

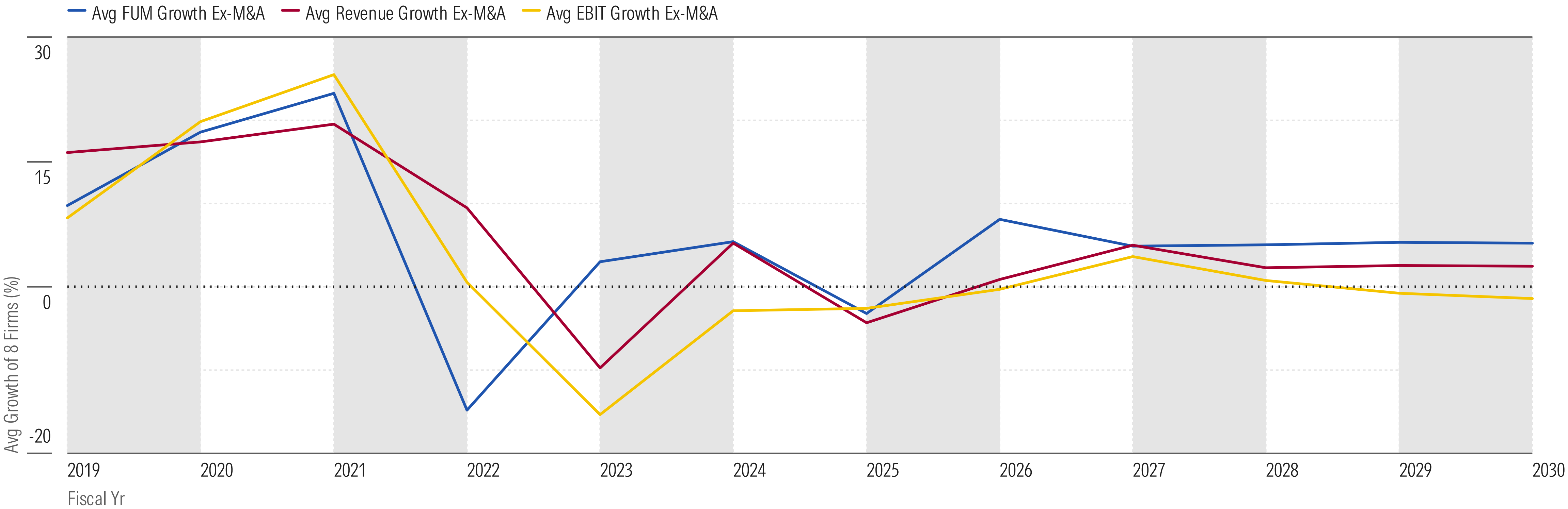
Lacking long-term growth catalysts.

Near-Term Cyclical Strength Unlikely to Offset Long-Term Structural Pressures

On average, our covered firms are likely to experience gradual earnings decline over the long term. We expect prevailing investor optimism—with recent market shocks now largely in rearview—to support steadier flows and investment performance, boosting funds under management and near-term earnings growth. However, counteracting factors like institutional rebalancing or unexpected negative events, alongside structural pressure on fees and flows from passive competition, will likely limit long-term earnings growth.

Active Manager Earnings to Erode Over Time Without Market Share Recovery

Average growth rates for covered asset managers



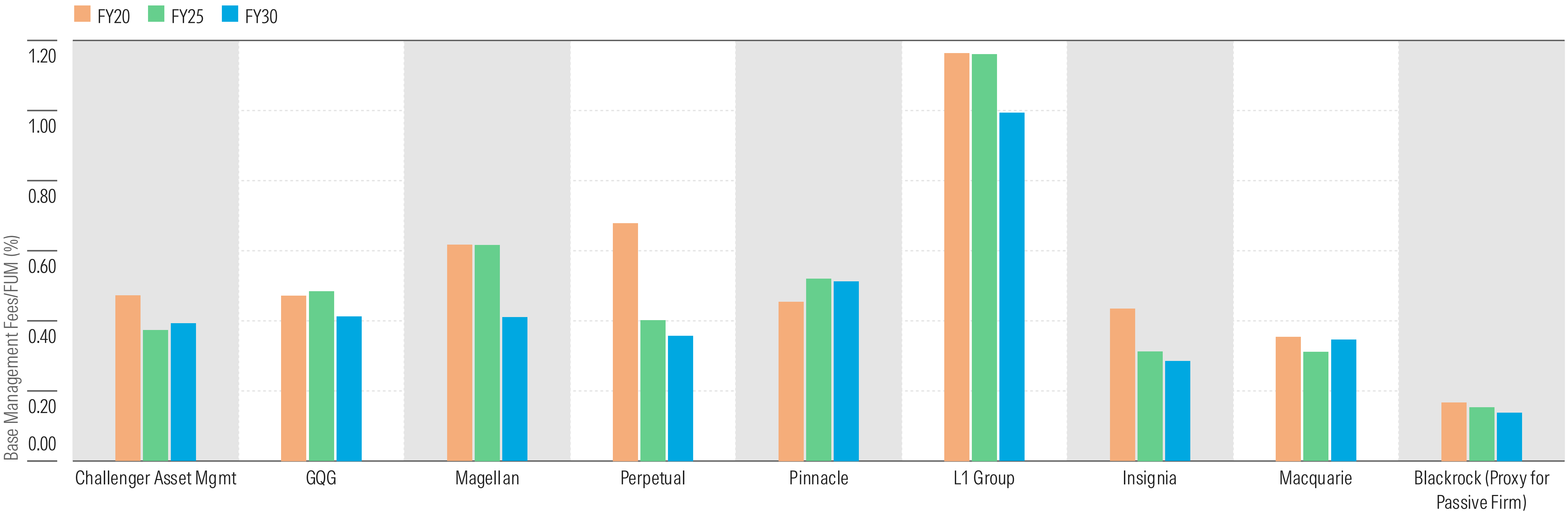
Source: Company filings, Morningstar. Data as of Dec. 31, 2025. Average rates are for the asset management divisions of Challenger, Perpetual, Insignia and Macquarie; as well as GQG, Magellan, Pinnacle, and L1 Group. Excludes impacts from mergers, acquisitions and divestments. Calculations for revenue 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.

Active Managers Facing Pressure to Lower Their Fees

We expect ongoing fee pressure across all our covered firms' strategies through fiscal 2030. Some firms, like Pinnacle, have resisted fee compression by moving into higher-margin asset classes. Others, such as L1 Group and Magellan, maintain higher blended margins either due to their smaller exposure to institutional mandates or have a large proportion of legacy FUM earning higher fees. Nonetheless, we see the overall fee trend as downward, with passive fund competition continuing to drive fee pressure and constrain earnings growth.

Product Mix Shifts Unlikely to Fully Counter Fee Pressure

Money-weighted average fee margins at the group level^



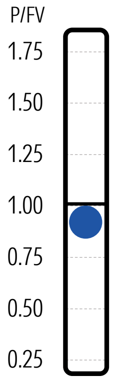
Source: Company filings, Morningstar. Data as of Dec. 31, 2025. Notes: ^ Base management fee margins only and exclude performance fees. Money-weighted, meaning inclusive of disparate client groups paying different fees and hence are not like-for-like. For example, fees on retail products are typically higher than for institutional products. Datapoints for Challenger Asset Management and Pinnacle assume 100% ownership of affiliate managers. Datapoint for L1 Group reflects Platinum Asset Management in fiscal 2025 and prior, and the combined Platinum-L1 Capital entity starting fiscal 2026.

Top Picks and Coverage

Valuations buoyed by stabilizing markets.

Selective Value Remains Despite Narrower Discounts

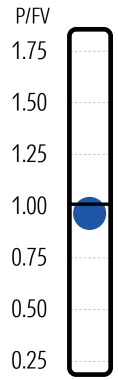
Perpetual (ASX:PPT)



Market Cap	Moat Rating	Last Close	Fair Value Est.	Rating
2bn AUD	None	18.70	20.30	★★★

We believe the market is not ascribing sufficient value to Perpetual's future cash flows. 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 sizable 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	1.64	1.70	★★★

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 occured with Magellan in 2022. At USD 164 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.

Not Cheap on Average, but Select Names Offer Value

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)	2.15	None	Medium	18.70	20.30	★★★	0.92	10.6x	6.1%	+0%
Pinnacle Investment Management (ASX:PNI)	4.07	Narrow	High	17.90	17.00	★★★	1.05	25.4x	3.4%	-19%
Australia Asset Managers - Diversified (Weighted Average)							**1.00**	**20.3x**	**4.3%**	**-12%**
GQG Partners (ASX:GQG)	4.81	None	High	1.64	1.70	★★★	0.95	10.9x	11.9%	+2%
L1 Group (ASX:L1G)	2.78	None	High	1.10	0.75	★★	1.45	23.8x	1.8%	+67%
Magellan Financial Group (ASX:MFG)	1.53	None	High	9.05	9.50	★★★	0.96	11.3x	5.7%	-9%
Australia Asset Managers - Boutique (Weighted Average)							**1.10**	**14.9x**	**7.8%**	**+20%**
Challenger (Asset Management) (ASX:CGF)	6.38	None	High	9.32	8.00	★★	1.15	14.3x	3.2%	+58%
Insignia Financial (ASX:IFL)	3.12	None	High	4.65	4.80	★★★	0.97	12.4x	0.0%	+10%
Macquarie Group (ASX:MQG)	78.95	Narrow	High	205.52	205.00	★★★	1.01	18.9x	3.3%	-6%
Australia Diversified Financials (Weighted Average)							**1.02**	**18.3x**	**3.1%**	**-1%**

Source: Morningstar. Data as of Jan. 14, 2026. 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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