

Asset allocation report

June quarter 2025



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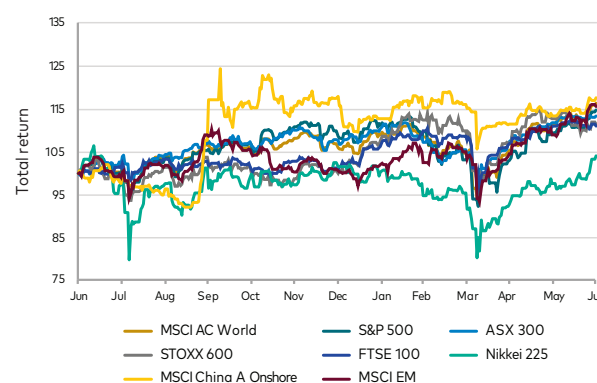
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Quarter in review

Global equity markets rebounded sharply in the second quarter of 2025, recovering from the widespread selloff triggered by tariffs introduced in early April. U.S. equities led the way, returning over 11% for the quarter driven by a resurgence in growth stocks, specifically the technology sector (**Figure 1**). The energy and healthcare sectors were notable laggards in the U.S., posting losses of 8% and 7% respectively over the quarter. Emerging markets equities led by Latin America, gained 10.3% while Chinese equities have remained relatively flat this year, returning just 1.7% over the calendar year despite a strong finish in 2024. U.K. and European equity markets saw momentum slow in the second quarter, but year-to-date have posted strong returns of 9.5% and 11.1% respectively. Australian equities posted a solid gain of 7.6% with the materials sector dragging, reflecting softer commodity prices and global demand concerns.

The U.S. Federal Reserve (Fed) continued to hold the federal funds rate steady throughout the quarter after commencing its easing cycle in September last year. Meanwhile, the Reserve Bank of Australia (RBA) cut the cash rate target by 25 basis points for the second time this year, bringing it to 3.85%. Globally, treasury yields experienced turbulence in early April but gradually stabilised as investors grappled with renewed concerns over the federal deficit and waning demand for USD denominated debt. By the end of the quarter, 30-year yields in both the U.S. and Australia had settled around 4.8% after peaking near 5.0% in mid-May. There was a further steepening of the U.S. yield curve with 30-year yields rising by 15 basis points, while the short end 5-year and 2-year yields fell by 18 and 19 basis points respectively. In Australia, falling yields across the curve supported a 3.0% return in the composite index outperforming the Global Aggregate that returned 1.6% over the quarter (**Figure 2**).

Figure 1. Global equities rebounded with U.S. and emerging markets equities leading the way.

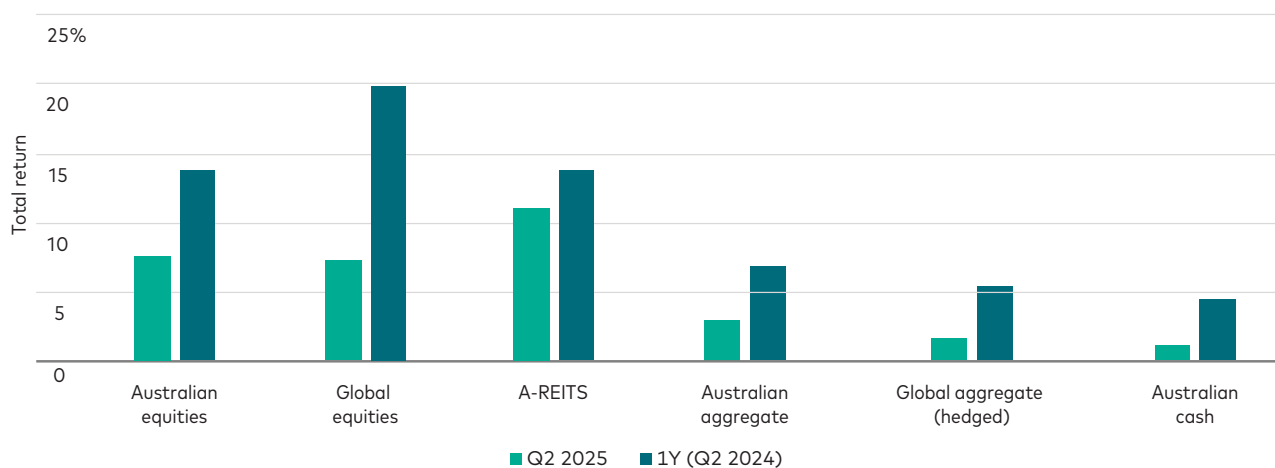


Note: Total return indexed to 30 June 2025. Returns are cumulative total returns denominated in local currency of each security's country of domicile with MSCI EM USD denominated. Past performance is not an indication of future performance.

Sources: Bloomberg, as at 30 June 2025.

Commodities presented a mixed picture. Gold continued its upward trajectory, albeit at a more modest pace, rising 5.4% in Q2 following an 18% surge in the first quarter of 2025. Investor appetite for precious metals extended beyond gold, with platinum emerging as a standout performer. Platinum prices soared over 37% during the quarter and are now up nearly 50% year-to-date. Conversely, energy commodities faced downward pressure. Brent crude oil prices fell by 8% over the quarter despite escalating geopolitical tensions in the Middle East. In foreign exchange markets, the U.S. dollar continued to weaken, extending its poor performance from Q1 2025. The DXY index fell another 6.9% during the quarter, bringing its year-to-date decline to just over 10%. The Australian dollar appreciated by 4.7% against the USD during the quarter while the Swiss franc was among the top-performing currencies, gaining 11% over the quarter reinforcing its safe haven status while the Euro also posted notable gains up over 8%.

Figure 2. Fixed income continued its momentum over the quarter



Note: Note: Returns are cumulative total returns denominated in AUD. Past performance is not an indication of future performance.

Sources: Bloomberg, as at 30 June 2025.

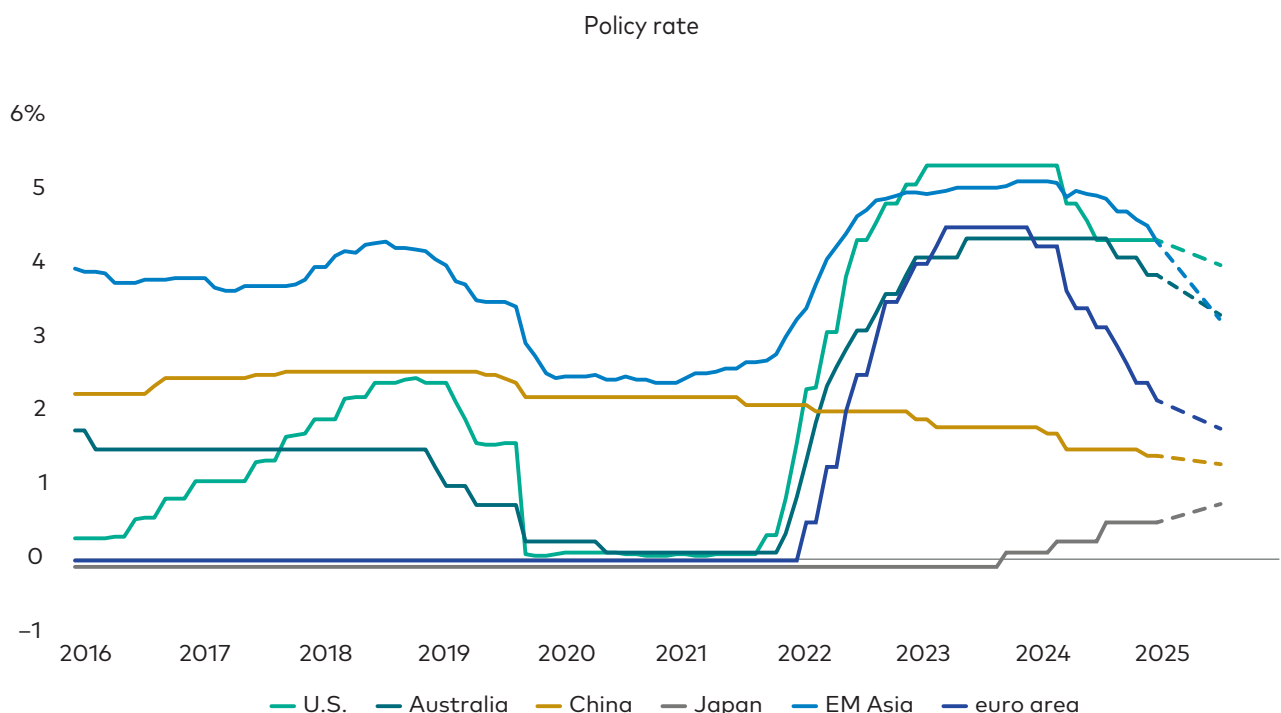
Economic outlook

Despite unprecedented trade policy uncertainty, the global economy is still in expansion mode, albeit with slowing growth. Ongoing trade talks and potential deals offer a temporary reprieve, but not complete relief from the impact of tariffs. As tariff uncertainty persists, it continues to weigh on the growth outlook. Nonetheless, positive trade developments between the U.S. and China have led us to lower our estimate of the effective U.S. tariff rate by year-end, boosting our U.S. growth projections to 1.5% in 2025, up from 0.75%. We now anticipate a higher threshold for further trade escalations.

Despite the slump in soft data at the start of the year, hard data has not weakened to the same extent. Although U.S. Q1 GDP was negative, private domestic demand (excluding

tariff-distorted trade and inventories categories, and government spending) held up. However, looking forward we'd expect some softening of private domestic demand as the surge in business capex due to front loading ahead of tariffs fades. Monetary policy is likely on hold for now and recent tariff developments should mitigate worst-case dual mandate challenges for the Fed ahead. If the labour market maintains strength, the Fed can afford to be patient. We expect the Fed to achieve cuts in 2025 if tariff pressures peak in the summer months, with cuts expected in the second half of the year. However, policy nuance will matter, and uncertainty is high currently. Inflation expectations and the expectation for tariff inflation persistence will play a central role.

Figure 3. With the heightened uncertainty, expect a more cautious stance among central banks.



Sources: Vanguard calculations, based on data from CEIC as at 7 July 2025.

In Europe, we expect economic growth to track around 1% in both 2025 and 2026, slightly below trend. Softening global activity, in part driven by elevated policy uncertainty and higher tariffs, is expected to weigh on demand.

In China, the better-than-expected de-escalation of U.S.-China trade tensions is likely to result in a smaller drag on exports. The front-loading effect amid uncertainties surrounding the 90-day negotiation window could boost China's exports in the coming months, though a payback effect may emerge later this year as conditions stabilise. However, we are still cautious on the downside risks. Although notably reduced from the prohibitive level, the effective tariff rate on China remains elevated (approximately 41%), much higher than it was prior to the tariff announcements, which is set to weigh on Chinese exporters and economic activity. Given the complexity of the issues at stake—including both tariff and non-tariff barriers—the trajectory about how trade discussions evolve remains highly uncertain.

However, with trade tensions defused and the domestic economy holding up well so far, policy makers will feel less urgent to aggressively stimulate the economy and be prone to adopt a more reactive stance. As a result, additional stimulus could be held for now and the near-term focus is on policy implementation. In terms of the policy measure, the policy makers will take a middle course in the near term, gradually pivoting policy mix towards

consumption, while not decisively breaking path-dependent reliance on investment and supply side. On the monetary policy front, we expect the People's Bank of China to cut the 7-day reverse repo rate by only 10 basis points to 1.3%, alongside further reductions in the reserve requirement ratio to facilitate fiscal expansion. Overall, we have upgraded our China 2025 growth forecast to 4.6%, as the push from a truce deal in the U.S.-China trade war offsets reduced policy stimulus.

For Australia, while uncertainty surrounding U.S. trade policy is likely to weigh on business confidence, the better-than-expected U.S.-China trade deal, low direct tariff exposure, and high commodity share of exports have reduced the downside risk of external shocks to domestic economic activity. Domestically, the quarterly trimmed mean CPI has returned to the target band for the first time since Q4 2021, although it's close to the upper limit and is likely to remain in the top half of the band in the near term. However, supply-side weakness, especially the lacklustre productivity growth, will continue to challenge the disinflation progress. Considering that the labour market remains tight, which will continue to exert upward pressure on unit labour costs, we believe that the disinflation process in Australia will be slow. On balance, the combination of weaker global growth and heightened uncertainty should lead the RBA to take a cautiously dovish pivot, with further rate cuts to 3.35% by end of this year.

Market outlook

Divergence in performance across regions continued to be a theme for the second quarter of 2025. A broad rebound in equity markets was supported by disparate drivers (**Figure 4**). Valuations broadly recovered throughout the quarter, towards levels closer to the start of the year. Earnings remained robust in the U.S. while emerging markets benefitted from 'bring-forward' trade activity. Depreciation of the USD against broad global currencies including the AUD contributed to a tailwind on U.S. and aggregate global equities.

As a result of the broad rallies in equity markets, our forward-looking expectations have broadly downgraded compared to last quarter. Strong returns from valuations in Q2

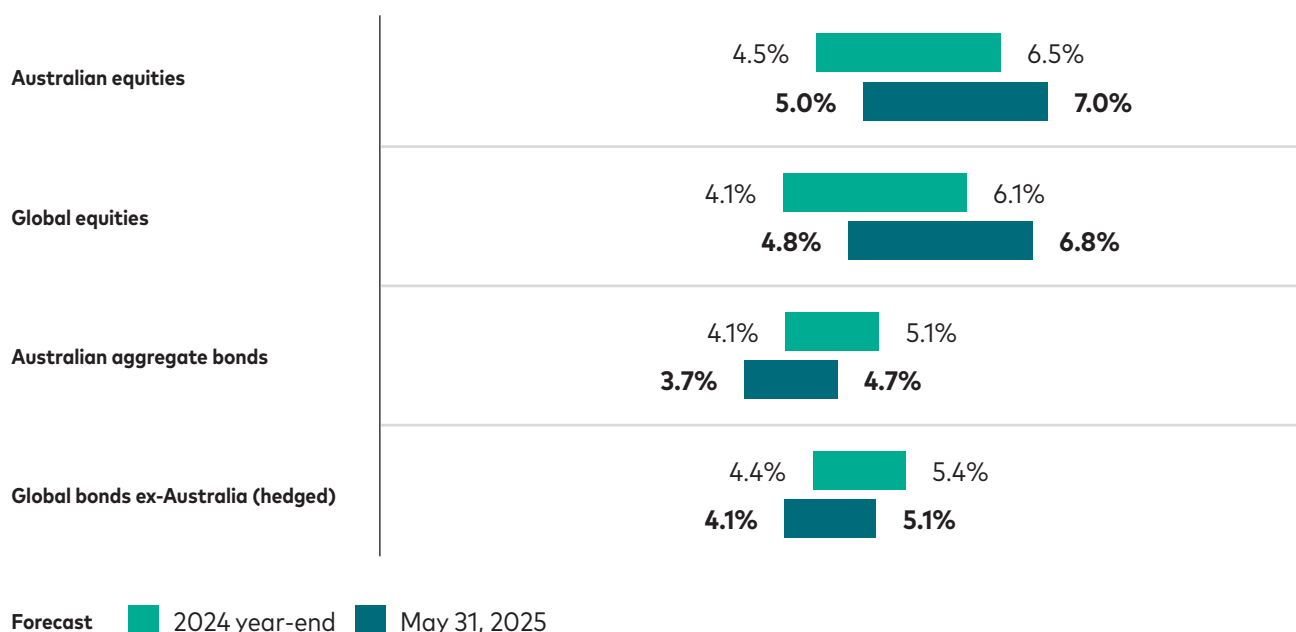
are not expected to be enduring sources of returns, rather increasing the price of future earnings and decreasing future expected returns. Meanwhile, a broad weakening of the USD brings the USD closer to our estimates of long-term fair value, reducing an expected headwind to unhedged global equities. Overall, we expect 10-year annualised returns of 6.0% for Australian equities and 5.8% for ex-Australia equities (unhedged). With valuations close to the levels at the start of the year, we remain cautious about elevated valuations and earnings expectations without much room to miss. Still, we continue to be constructive on equities as a long-term driver of returns and as part of a diversified portfolio.

Figure 4. Valuations and currency were broad contributors to Q2 2025 returns.



Note: Index returns decomposed into change in valuations, EPS, dividends and currency for calendar quarter. Past performance is not an indication of future performance. **Sources:** Vanguard calculations, Refinitiv, as of 30 June 2025.

Figure 5. Projected 10-year outlook closer to start of year.



IMPORTANT: The projections and other information generated by the Vanguard Capital Markets Model (VCMM) regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from the VCMM are derived from 10,000 simulations for each modeled asset class. Results from the model may vary with each use and overtime.

Note: Figures are based on a 2-point range around the 50th percentile of the distribution of return outcomes for equities and a 1-point range around the 50th percentile for fixed income.

Sources: Vanguard, July 2025 using 31 December 2024 and 31 May 2025 VCMM simulations.

For fixed income, we expect a 10-year annualised return of 4.2% for Australian bonds and 4.6% for ex-Australia bonds hedged to AUD. These are not substantially changed from the prior quarter as yields remained relatively range bound. Despite uncertainty and recession risks, we continue to expect yields to remain at elevated levels relative to the post-GFC era, supported by higher neutral rates and recovering term premia.

Long-term market outlook

The charts below show the Vanguard Capital Markets Model (VCMM) return forecasts over the next 10 years for a range of asset classes and Vanguard's Diversified Funds.

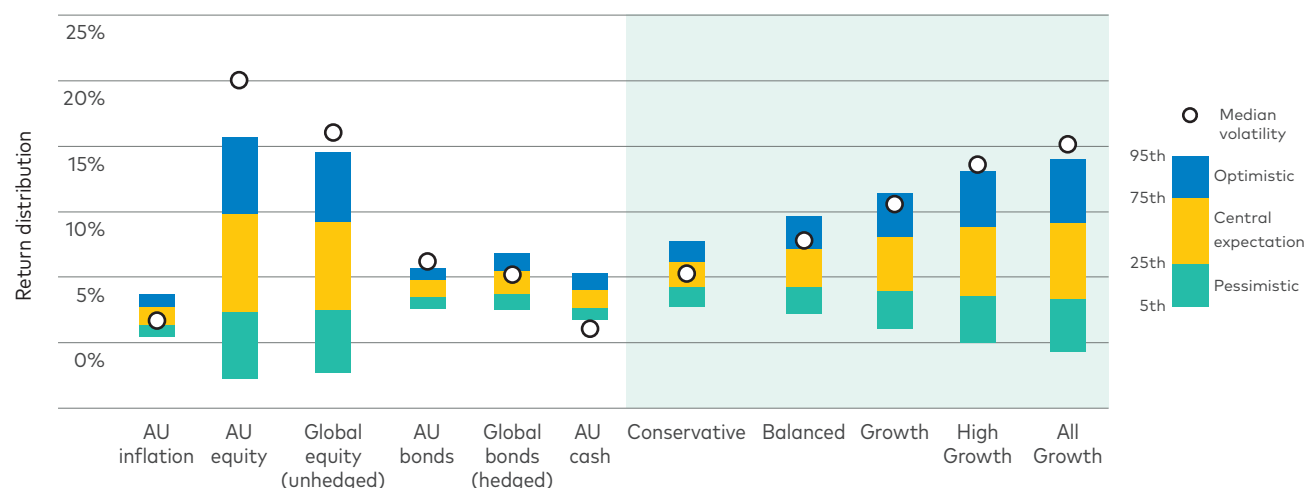
It shows two concepts: the range of annualised 10-year nominal returns and the median volatility experienced.

The bars show the range of return outcomes over a 10-year period. The central return expectations for the asset class or portfolio are shown in the middle of the bars. Observations in the optimistic or pessimistic regions should not come as a surprise though; goals and portfolios should always be positioned with these possibilities in mind. The white circles show the median volatility forecasts. This

represents the volatility of the asset classes that can be expected over the 10-year period. The chart shows that equities are expected to produce a higher return over a 10-year period than bonds, however the trade-off is that an investor can expect a more volatile experience and greater uncertainty over the end point, which could be a much wider range of outcomes.

An important point to remember is that asset returns are not perfectly correlated, which means that if an Australian equity return over 10 years is in the optimistic range, this does not necessarily mean that Australian bond returns will also be in the optimistic range. Combining assets can therefore present strong diversification benefits.

Figure 6a. Projected 10-year nominal return outlook



Note: The projections or other information generated by the VCMM regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from the VCMM are derived from 10,000 simulations for each modelled asset class in AUD. Results from the model may vary with each use and over time. Source: Vanguard, July 2025 using 31 May 2025 VCMM simulation.

Source: Vanguard, July 2025 using 31 May 2025 VCMM Simulation.

Figure 6b. Projected 10-year nominal return outlook

	RETURN PERCENTILE					MEDIAN VOL.
	5TH	25TH	MEDIAN	75TH	95TH	
Australian Inflation	0.5%	1.5%	2.1%	2.7%	3.7%	1.8%
Australian Equity	-2.7%	2.4%	6.0%	9.9%	15.8%	20.2%
Global Equity (unhedged)	-2.3%	2.6%	5.8%	9.3%	14.7%	16.2%
Australian Bonds	2.6%	3.5%	4.2%	4.8%	5.8%	6.3%
Global Aggregate Bonds (hedged)	2.6%	3.8%	4.6%	5.5%	6.9%	5.3%
Australian Cash	1.7%	2.7%	3.5%	4.2%	5.3%	1.1%
Conservative	2.8%	4.3%	5.2%	6.3%	7.8%	5.4%
Balanced	2.2%	4.3%	5.7%	7.3%	9.7%	7.9%
Growth	1.1%	4.0%	6.0%	8.1%	11.5%	10.7%
High Growth	0.0%	3.6%	6.2%	8.9%	13.2%	13.8%
All Growth	-0.7%	3.4%	6.3%	9.3%	14.0%	15.3%

Notes: The projections or other information generated by the VCMM regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results, and are not guarantees of future results. Distribution of return outcomes from the VCMM are derived from 10,000 simulations for each modelled asset class in AUD. Results from the model may vary with each use and over time.

Source: Vanguard, July 2025 using 31 May 2025 VCMM Simulation.

The next two charts show the trade-off between targeting a CPI+ return target and the risk of a loss along the way. Taking more risk means that an investor increases the probability that they will achieve their target over 10 years. Highlighting the importance of

managing expectations, it also means there is the increased probability of experiencing a negative return or a large annual loss in at least one year over the 10 year period.

Figure 7a. Probability of achieving real return

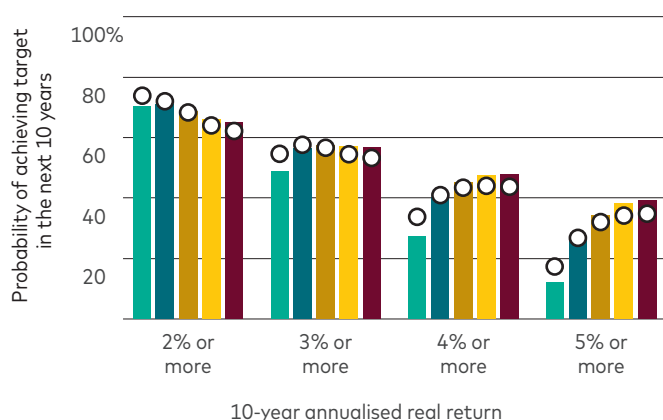
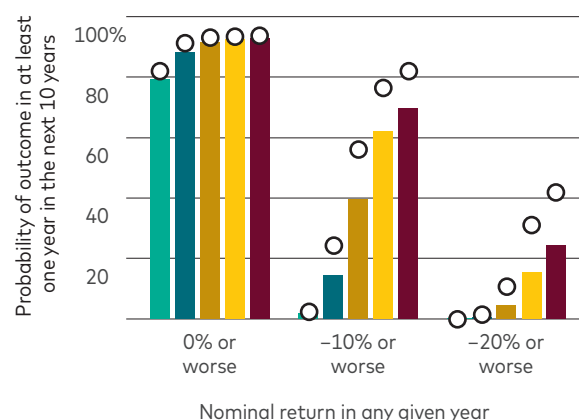


Figure 7b. Downside risks



Conservative Balanced Growth High Growth All Growth ○ December 2024

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Source: Vanguard, July 2025 using 31 May 2025 and 31 December 2024 VCMM Simulation.

About Vanguard's Investment Strategy Group

Vanguard's Investment Strategy Group is a global team of economists and investment and portfolio construction strategists with a wide variety of specialties, ranging from monetary policy to index construction to market trends. Their research serves as the basis for Vanguard's investment principles and methodology, guides Vanguard's global leadership and influences decisions about our investment offerings and portfolio construction.

Research-based investment approach

As part of Vanguard's broader Investment Management Group, ISG plays an essential role in developing Vanguard's investment methodology, which is carried through in the implicit and explicit advice solutions available to our clients. Our global chief economist and head of ISG reports directly to Vanguard's global chief investment officer. We work closely with Vanguard's in-house portfolio managers. Notably, our global chief economist is integrated into Vanguard Fixed Income Group through our portfolio management process. Through that process, ISG advises our fixed income investment managers on the macroeconomic outlook, expected monetary policy and other factors to support day-to-day portfolio management. Vanguard's investors around the world benefit from our collaborative approach to investment management, research and thought leadership.

Vanguard Capital Markets Model

The Vanguard Capital Markets Model® (VCMM) projections are based on a statistical analysis of historical data. Future returns may behave differently from the historical patterns captured in the VCMM. More important, the VCMM may be underestimating extreme negative scenarios unobserved in the historical period on which the model estimation is based. The VCMM is a proprietary financial simulator developed and maintained by Vanguard's Investment Strategy Group. It is a long-term tool that takes into account current macroeconomic conditions and equity and bond valuations to forecast distributions of future returns for a wide range of asset classes and portfolios. The primary value of the VCMM is in its application to analysing potential client portfolios. VCMM asset-class forecasts—comprising distributions of expected returns, volatilities, and correlations—are key to the evaluation of potential downside risks, various risk-return trade-offs, and diversification benefits of various asset classes.

Asset allocation

Vanguard's approach to asset allocation is to provide long-term returns that match investors' desired level of risk. The broad allocations to defensive (fixed income) and growth (equities) are the main factors influencing the risk-return profiles of our asset allocation strategies.

Our asset allocation approach is designed with a medium to long-term investor in mind (a time horizon of at least five years), reflecting the reality that the majority of Australian investors need to accept some market risk in order to reach their investment goals.

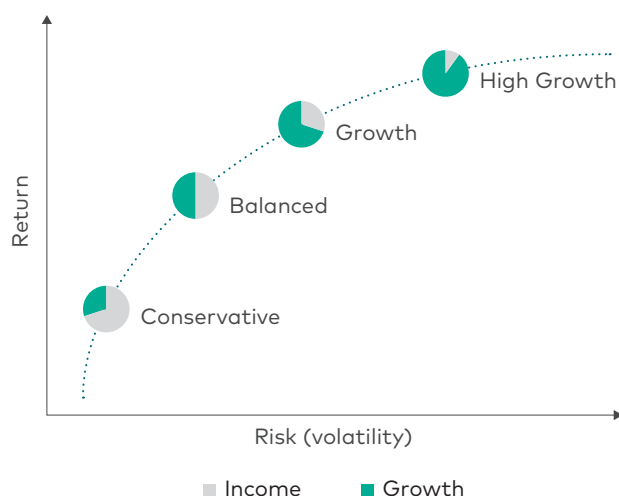
Why diversification matters

We believe that a successful investment strategy starts with an asset allocation suitable for its objective. In practice, diversification is a rigorously tested application of common sense: markets will often behave differently from each other—sometimes marginally, sometimes greatly—at any given time.

Owning a portfolio with at least some exposure to many or all key market components ensures the investor of some participation in stronger areas while also mitigating the impact of weaker areas.

Many investors lack the time, interest, or skills, and can become overwhelmed by the choice of investment options, asset classes, and other implementation hurdles such as choosing between index and active management. Investors also face behavioural risks in adhering to their investment plan over time due to the temptation of performance chasing or overreacting to market events.

Vanguard Diversified Funds provide professionally managed portfolio solutions designed to help medium to long-term investors achieve their goals and overcome these challenges.



Note: The example is for illustrative purposes only.

Understanding Vanguard's SAA process

For multi-asset funds, such as Vanguard Australia's Diversified Funds, Vanguard's Investment Strategy Group (ISG) conducts an annual review of the strategic asset allocation (SAA) of the funds. The team considers new asset classes, currency exposure, home bias, regulatory and tax impact, investment costs, investor behaviours, and implementation factors amongst others. The ISG team presents a recommendation to maintain or change the SAA to Vanguard's global Strategic Asset Allocation Committee (SAAC), which oversees all of Vanguard's multi-asset funds. The SAAC is comprised of senior leaders from the Investment Management Group and Vanguard's advice businesses and is co-chaired by Vanguard's global chief economist. Upon approval of a change to the SAA, Vanguard assesses the feasibility, tax impact, and costs of the recommended changes and presents to the Board of Vanguard Australia for approval prior to implementing the changes.

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The VCMM projections are based on a statistical analysis of historical data. Future returns may behave differently from the historical patterns captured in the VCMM. More importantly, the VCMM may be underestimating extreme negative scenarios unobserved in the historical period on which the model estimation is based.

The Vanguard Capital Markets Model® is a proprietary financial simulation tool developed and maintained by Vanguard's primary investment research and advice teams. The model forecasts distributions of future returns for a wide array of broad asset classes. Those asset classes include U.S. and international equity markets, several maturities of the U.S. Treasury and corporate fixed income markets, international fixed income markets, U.S. money markets, commodities, and certain alternative investment strategies. The theoretical and empirical foundation for the Vanguard Capital Markets

Model is that the returns of various asset classes reflect the compensation investors require for bearing different types of systematic risk (beta). At the core of the model are estimates of the dynamic statistical relationship between risk factors and asset returns, obtained from statistical analysis based on available monthly financial and economic data from as early as 1960. Using a system of estimated equations, the model then applies a Monte Carlo simulation method to project the estimated interrelationships among risk factors and asset classes as well as uncertainty and randomness over time.

The model generates a large set of simulated outcomes for each asset class over several time horizons. Forecasts are obtained by computing measures of central tendency in these simulations. Results produced by the tool will vary with each use and over time.

An investment in Vanguard Diversified Funds is subject to investment and other known and unknown risks, some of which are beyond the control of VIA, including possible delays in repayment and loss of income and principal invested. Please see the risks section of the Product Disclosure Statement ("PDS") for the relevant Vanguard Diversified Fund for further details. Neither Vanguard Investments Australia Ltd (ABN 72 072 881 086 AFSL 227263) nor its related entities, directors or officers give any guarantee as to the success of the Vanguard Diversified Funds, amount or timing of distributions, capital growth or taxation consequences of investing in the Vanguard Diversified Funds.

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