Quarterly Commentary March 2025

PELLA
RESPONSIBLE INVESTING

Investment Manager

Pella Funds Pty Ltd
ABN 56 650 744 791 | AFSL 541327

Level 1, Suite 117, 165-167 Phillip Street, Sydney, NSW 2000, Australia.

Tel +61 9188 1500

www.pellafunds.com

Responsible Entity

The Trust Company (RE Services) Limited
ABN 86 000 431 827 | AFSL 235150

Level 18, Angel Place, 123 Pitt Street, NSW 2000, Australia.

Tel +61 9229 9000

www.perpetual.com.au

Message from the CIO

Jordan Cvetanovski
CIO and Portfolio Manager

The AI revolution is still in its formative stages, arguably only beginning within the past two years, and is likely to unfold over several decades. As noted in our 2Q23 quarterly report, we expect this revolution to progress through several stages. We are currently in the implementation phase, characterised by a significant build-out of the infrastructure required to support AI adoption. Reflecting this, Pella holds a meaningful position in companies we define as '*AI Enablers*' (Figure 1).

In 1Q25, the sustainability of the AI investment boom came into question. To assess the implications of this shift, we examined the share price performance of AI Enablers during the quarter. This analysis required a robust set of expectations data, so we limited the sample to AI Enablers with financial estimates from at least ten credible brokers. The table below summarises the companies included in our analysis.

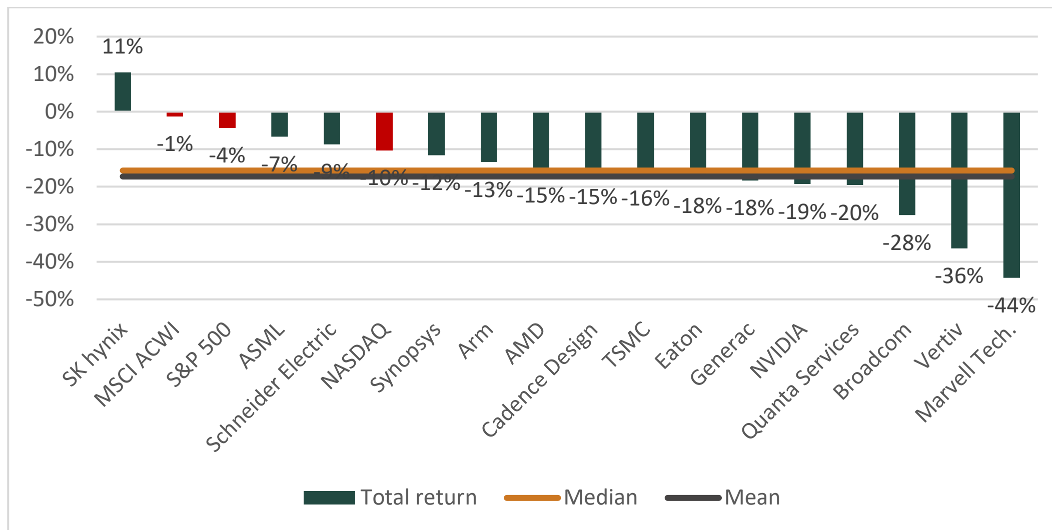
Figure 1 – AI Enablers

Company	Why It's an AI Enabler
AMD	Designs CPUs and GPUs that support AI training and inference.
Arm	Designs processors widely used in edge AI applications.
ASML	Produces EUV lithography machines used to fabricate the advanced AI chips.
Broadcom	Semiconductors and networking chips for AI data centres.
Cadence Design Systems	Provides software for developing AI-optimised chips and systems.
Eaton	Provides power management and energy storage solutions for AI data centres.
Generac	Supplies backup power solutions for AI data centres.
Marvell Technology	Produces infrastructure semiconductors for AI-driven cloud and edge computing.
NVIDIA	Designs GPUs that are foundational to training and running complex AI models.
Quanta Services	Builds and maintains infrastructure needed to support AI data centre expansion.
Schneider Electric	Delivers energy management and automation systems for AI-intensive environments.
SK hynix	Supplies high-performance memory chips that are essential for AI applications.
Synopsys	Provides software for developing AI-optimised chips and systems.
TSMC	Manufactures advanced semiconductors used in AI.
Vertiv	Provides critical infrastructure for data centres that is essential for AI workloads.

Source – Pella Funds Management

AI Enablers have underperformed this year. As illustrated in Figure 2, only SK hynix has posted positive returns and outperformed the MSCI ACWI and S&P500, while just three—SK hynix, ASML, and Schneider—have outpaced the NASDAQ Composite. Returns for the remaining group range from -12% (Synopsys) to -44% (Marvell Technology), with median and mean returns of -16% and -17%, respectively. Overall, AI Enablers have been a key source of underperformance.

Figure 2 – Total return (in US$) year-to-date



Source - Factset

Drivers of the underperformance

Weak returns among AI Enablers aren't due to altered growth or earnings forecasts. From 31-Dec-24 to 31-Mar-25, only Generac and AMD saw consistent downgrades in revenue and EPS estimates of at least 3% p.a. Other companies experienced minor revisions, with overall expectations remaining stable, indicating that the recent share price declines aren't linked to near-term fundamentals.

Given that the weak share price performance of the AI Enablers is not explained by changes in growth or earnings expectations over the next three years, three other explanations are possible: (i) there has been a revision in longer-term growth expectations; (ii) the market increased the discount rate applied to value the AI Enablers; (iii) AI Enablers' were previously overvalued.

To determine if reduced long-term growth assumptions impacted share prices, we applied Pella's valuation framework to back-calculate implied growth rates from market prices. Pella's model defines long-term as years four to ten, estimating growth rates internally due to the absence of reliable long-term forecasts.

Figure 3 compares the long-term (4–10 year) revenue growth rates implied by the AI Enablers' current free cash flow yields and medium-term (1–3 year) consensus revenue expectations with each company's historical growth rates. For the historical benchmark, we calculated both the median annual growth rate and the compound annual growth rate (CAGR) using data from either 2004—or the earliest available year—through to 2019. This captures performance across multiple economic cycles while excluding the temporary uplift from COVID. For example, over the 2004–2019 period, Quanta Services achieved a median growth rate of 14% and a CAGR of 13%.

We value these companies using a hurdle rate of 8.5% for lower-risk businesses and up to 9.5% for higher-risk ones. The table shows that the long-term growth assumptions implied by current market pricing are consistently below the historical rates these companies have delivered, even before the onset of the AI revolution. This suggests that current market expectations may understate the companies' long-term growth potential based on their established track records.

Figure 3 – Implied required 4-10 year growth rate versus historic growth rate

	4-10 year (1)		Historic growth	
Company	8.5% hurdle rate (2)	9.5% hurdle rate (3)	Median	CAGR
Quanta Services (4)	-2%	0%	14%	13%
SKhynix (4)	0%	0%	14%	11%
Broadcom (5)	4%	7%	12%	23%
NVIDIA (4)	7%	10%	12%	12%

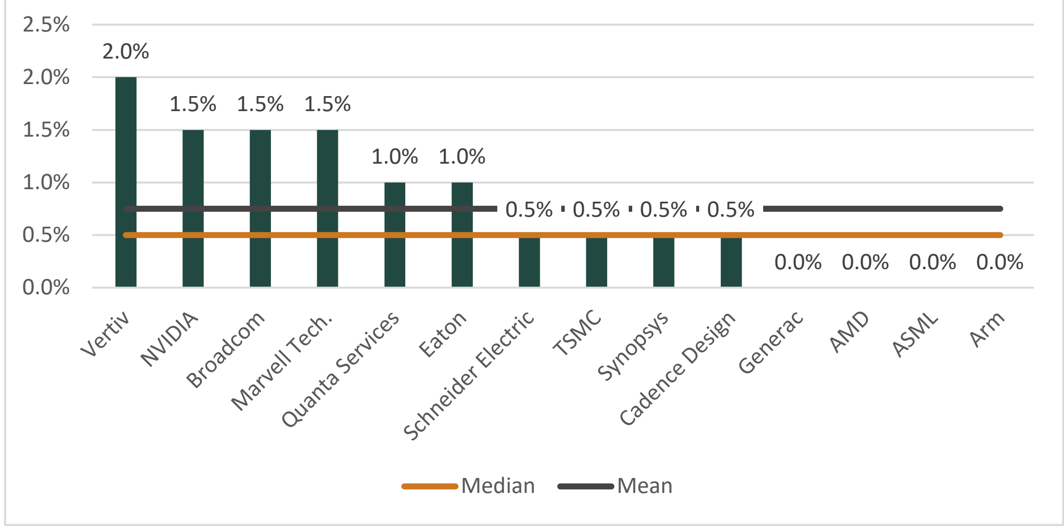
Synopsys [4]	9%	12%	10%	7%
ASML [4]	3%	5%	9%	14%
Generac [6]	1%	3%	9%	11%
TSMC [4]	4%	7%	9%	12%
Cadence Design [4]	10%	14%	9%	5%
Schneider Electric [4]	2%	4%	7%	7%
Marvell Tech. [4]	7%	9%	6%	8%
Eaton [4]	4%	7%	6%	6%
AMD [4]	4%	7%	4%	4%
Vertiv [7]	0%	2%	n/a	n/a
ARM [7]	23%	29%	n/a	n/a

Source – Pella Funds Management, Factset

(1) Implied required revenue growth given the companies' FCF yields and applying Pella's FCF-to-Growth framework
(2) Implied required long term growth rate if we apply an 8.5% hurdle rate
(3) Implied required long term growth rate if we apply a 9.5% hurdle rate
(4) Historic growth for 2004-to-2019
(5) Historic growth for 2007-to-2019 – 2007 was the earliest available year
(6) Historic growth for 2006-to-2019 – 2006 was the earliest available year
(7) Does not have data predating 2019

Another factor may be an increased discount rate applied by the market. For example, Vertiv's implied discount rate rose by 2.0% to 10.5%, NVIDIA's by 1.5% to 10.0%, and Schneider Electric's by 1.0% to 9.5% over the period, with overall median and mean increases of 0.5% and 0.75% respectively.

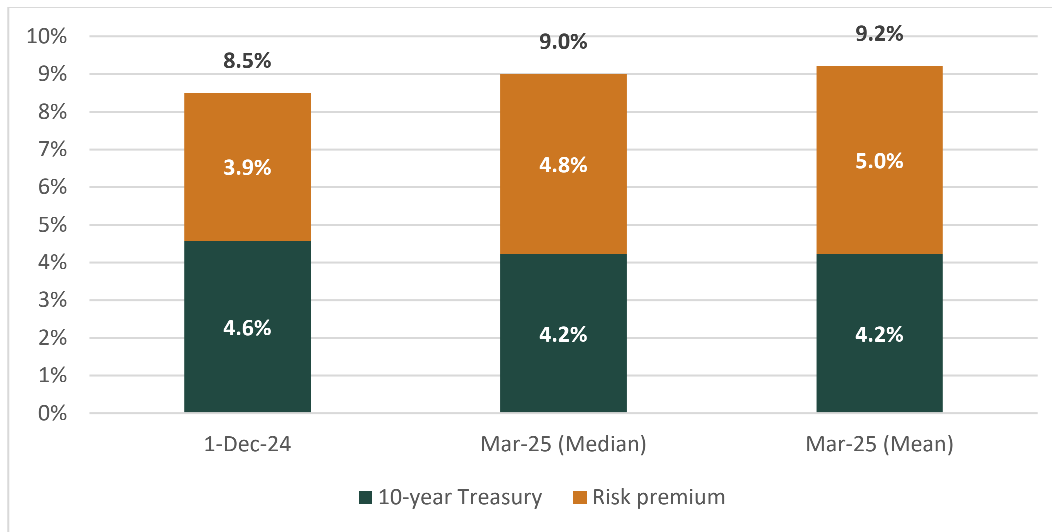
Figure 4 – Change in implied discount rate



Source – Pella Funds Management

It is notable that the group's discount rate increased despite a decline in the risk-free rate, as measured by the US 10-year Treasury yield. This implies that the rise in the discount rate was driven by an increase in the group's risk premia. As shown in Figure 5, the risk premia rose from 3.9% to 4.8% (applying the group's median increase) or 5.0% (applying the group's mean increase). The implied 0.8% to 1.1% increase is relatively large on a base of 3.9% as on 31-Dec-24.

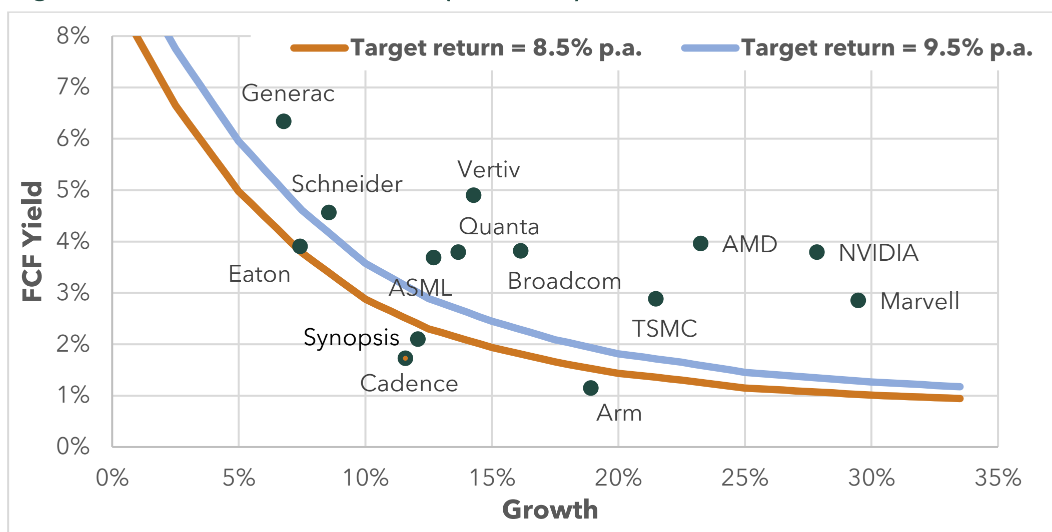
Figure 5 – Implied discount rate used to value AI Enablers



Source – Pella Funds Management, Factset

The final potential explanation for the selloff in AI Enablers considered in this report is that these stocks may have previously been overvalued. To assess this, we analysed their valuations using Pella's FCF Yield-to-Growth framework (Figure 6). The ochre line in the chart represents the FCF Yield-to-Growth relationship required to meet Pella's target long-term return of +8.5%. Companies trading above this line exceed our valuation hurdle, while those below it do not. As shown in the chart, on 19-Jan-25—the day before the AI Enablers' selloff began—most of the names in this group were trading comfortably above our valuation threshold. This suggests that, based on our framework, these stocks were not expensive at the time. Accordingly, valuation does not appear to be a convincing explanation for the subsequent selloff.

Figure 6 – AI Enablers' valuations (19-Jan-25)



Source – Pella Funds Management, Factset

(1) SK Hynix doesn't fit on the chart because its FCF yield (+16%) is too large for the charts scale

What Triggered the Pessimism?

In this section, we examine three events from the quarter that contributed to a less optimistic outlook for AI Enablers: the launch of DeepSeek's R1 model, a report by Cowen noting Microsoft's cancellation of AI capex leases, and comments from Alibaba's Chairman, Joseph Tsai.

On 20-Jan-25, DeepSeek launched the 'R1' AI model, which requires less capital investment while matching the performance of peers like Google and Microsoft. The market's realization that less infrastructure

investment may be needed led to a significant drop in the share prices of AI infrastructure providers.

On 24-Feb-24, TD Cowen released a note stating that Microsoft cancelled several U.S. data centre leases, possibly indicating an oversupply of data centre capacity. This led to another round of significant share price declines for AI Enablers.

On 25-Mar-25, Alibaba's Chairman Joseph Tsai, warned of a potential bubble in AI data centre construction, noting excessive speculative investment, prompting further declines in AI Enablers' share prices.

Pella's Perspective

AI represents a revolutionary computing platform set to replace previous paradigms, unfolding in a competitive arms race where significant investment is crucial for relevance. Historical examples like BlackBerry, Hewlett Packard, and Yahoo show the risks of not adapting. Current tech leaders are mindful of this history and recognize the need to invest heavily in AI infrastructure.

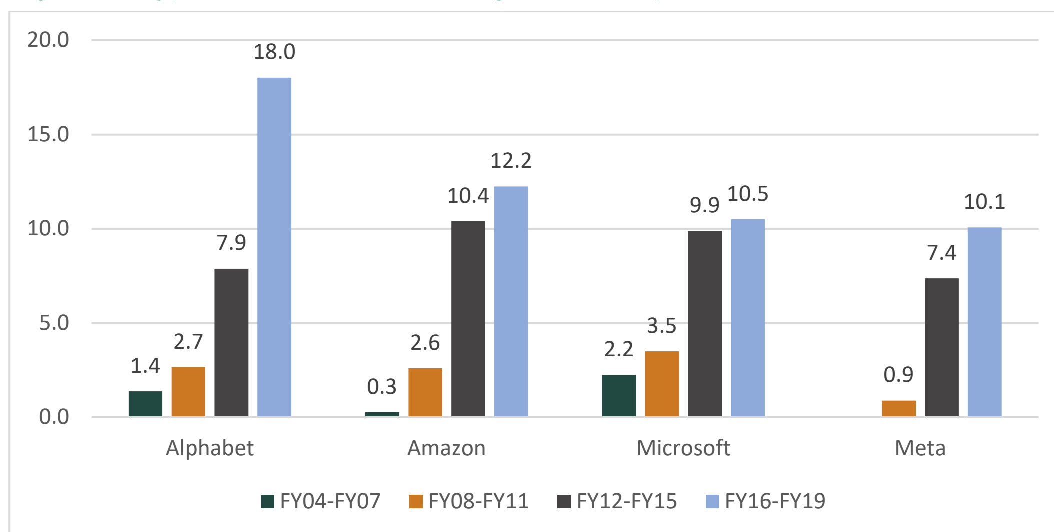
Figure 7 – Reasons why AI capex investment is an arms race with winner-takes-all dynamics

Key Argument	Abbreviated Explanation
Competitive Differentiation	Early, substantial investment promotes rapid scaling and secures market leadership.
Economies of Scale	Scaling reduces costs and establishes competitive barriers.
Strategic Infrastructure	Capex creates durable systems that secure long-term customer engagement.
Innovation and R&D	R&D enhances technological capabilities and market position.
Network Effects	Expansive infrastructure increases data usage and model improvements.
Market Confidence	High capex reflects growth confidence and meets investor expectations.
Integration	Seamless software and hardware integration enhances efficiency and market barriers.
Technological Leadership	Ongoing investment fosters innovation and leadership in technology.
Strategic Partnerships	Collaborations with key players strengthen market position and complicate competition.
Winner-Takes-All Dynamics	Built infrastructure leads to cost efficiencies and market dominance.

Source – Pella Funds Management

Hyperscalers, the main customers for AI Enablers, are large technology companies like Amazon, Microsoft, Alphabet (Google), and Meta. Historical data (Figure 8) show these companies consistently increasing their capex, with Alphabet's capex growing 129% in the four-year period up to FY19, underscoring a steady rise in AI investment. The idea that Hyperscalers might materially curtail their capex growth goes against this established longer-term (i.e. prior-to-AI) trend.

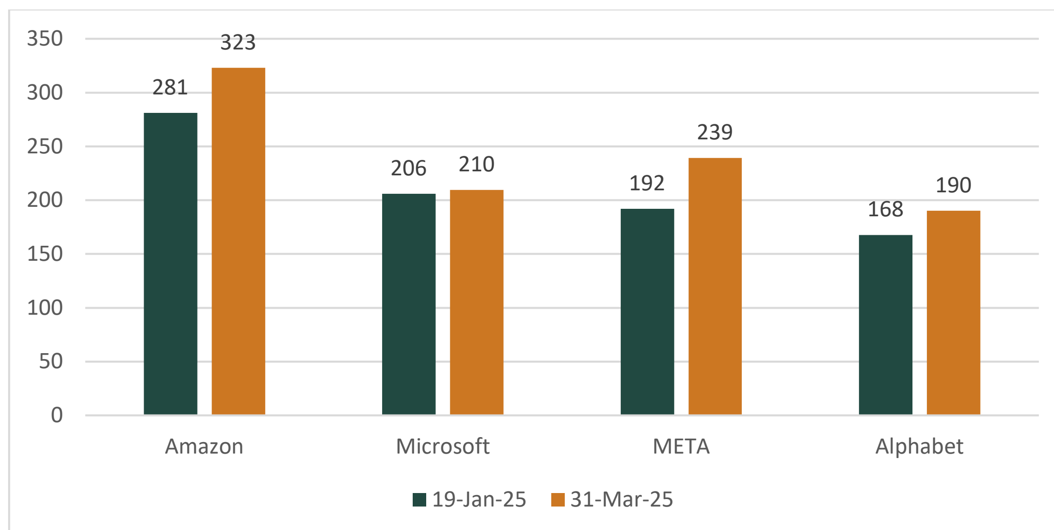
Figure 8 - Hyperscalers' historic average annual capex; $Bn



Source - Factset

The growing investment in AI infrastructure is also evident in the consensus capex forecasts for the Hyperscalers since sentiment towards the AI Enablers turned cautious following DeepSeek's release of R1 on 20-Jan-25. As shown in Figure 9, consensus estimates for every Hyperscaler have **increased** over this period, with the aggregate capex forecast rising 14%, from US$847bn to US$962bn.

Figure 9 – Consensus cumulative capex forecasts for 2025-2027; US$Bn



Source – Factset

In addition to Hyperscaler investments, significant projects like Project Stargate, involving OpenAI, SoftBank, Oracle, and MGX, plan to invest $500bn in U.S. AI infrastructure by 2029, starting with $100bn. Stargate is already building its first 24/7 AI data centre. Another group, AI Infrastructure Partners, including BlackRock and NVIDIA, has committed $30bn initially, aiming for $100bn. These investments supplement Hyperscaler contributions, expanding the overall AI infrastructure development.

Company Commentary

Our review of recent statements from AI Enablers and Hyperscalers confirms ongoing strong growth in AI. The statements below highlight the strength and persistence of this trend:

- *"AI represents, for sure, the biggest opportunity since cloud and probably the biggest technology shift and opportunity in business since the Internet."* – Amazon
- *"We remain confident in our AI strategy and believe we are still in the very early innings of a multi-year adoption cycle."* – AMD
- *"Data centre construction build rate doubled between 2023 and 2024. At 2024 build rates, it would take seven years to consume the current backlog."* – Eaton
- *"With AI and large language models, we've seen in the past two years an acceleration of that market... that translate for us in our end-market in really double-digit growth for the future."* – Schneider Electric

Some companies suggest that AI investment growth may moderate in the second half of the year.

- *"Sequential growth in datacentre GPU revenue will moderate over the next few quarters."* – AMD
- *"We're seeing continued investment from customers… although with lower visibility into the second half of 2025.*" - ASML
- *"The [capex] growth rate will be lower than FY2025 and the mix of spend will begin to shift back to short-lived assets, which are more correlated to revenue growth"* – Microsoft

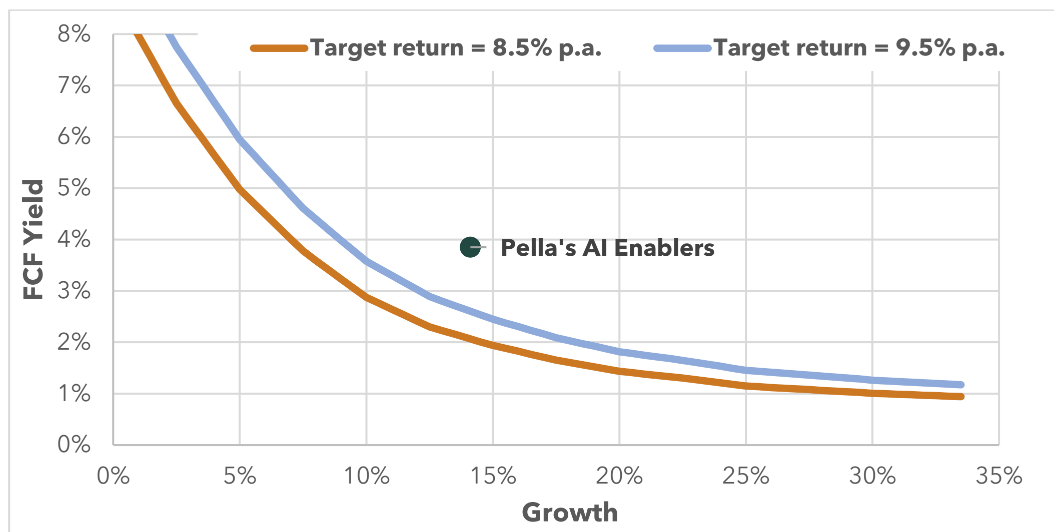
However, a slowdown from the current triple-digit growth is natural given the scale of investment. Importantly, our valuations only require mid-single digit longer-term growth—well below the historical capex expansion from Hyperscalers.

Pella's Positions

Figure 10 shows the Free Cash Flow (FCF) Yield-to-Growth relationship for our AI Enablers portfolio. The analysis confirms that these positions meet our valuation criteria, implying a long-term return of roughly 12%p.a.—significantly above our 8.5% target. This

reinforces our confidence in the portfolio's strong valuation and long-term growth potential.

Figure 10 – FCF Yield-to-Growth relationship of Pella's AI Enablers positions



Source – Pella Funds Management

Final Thoughts

The decline in AI Enabler share prices during 1Q25 has led some investors to question the sustainability of the AI infrastructure cycle. However, our analysis shows that this reaction is driven more by short-term noise and sentiment shifts than by any fundamental deterioration. While long-term growth expectations have moderated slightly and perceived risk has increased, the size of the adjustments in price are out of proportion with the underlying data.

AI infrastructure remains a long-term, structural investment theme. Hyperscalers continue to maintain—and in many cases, increase—their capex at historically consistent levels, while new entrants like Project Stargate and AI Infrastructure Partners add further investment. Recent comments from AI Enablers and their clients underscore the sustained demand in the market.

We believe the market has become distracted by the short-term news-flow and has begun to underestimate the full scope and strategic importance of this infrastructure cycle. We are just about to transition from the Training phase of the AI journey to the Inference phase. The Training phase was fairly short in duration, involved only a handful of easily identifiable players, and effectively came down to a maximum intensity race to the finish line. The Inference phase will be different. It will be spread out over a much longer period of time, will involve a much larger number of players, and will be more of an iterative optimisation process. Perhaps not a marathon – because the early birds will still catch the juiciest worms – but definitely not a simple sprint. Therefore, as we go through this transition, the expansion in data centre capex may end up being a bit slower and lumpier than what we've seen so far, but it will be much longer in duration and spread across a lot more players than just the Hyperscalers.

Therefore, we do not view the current share price dip as a warning sign that the end is near. We still see significant growth potential in the companies that stand to benefit most from the AI transition.

As shown in Figure 10, our portfolio holdings within the AI Enablers group not only meet but exceed our stringent price-for-growth valuation criteria, suggesting a robust long-term return of around 12% per annum—well above our 8.5-9.5% risk-adjusted target range. This gives us confidence that our portfolio is well positioned to benefit from the ongoing AI revolution, despite the short-term volatility.

Portfolio Positioning

In 1Q25, the Pella Global Generations Fund delivered a return of -4.9%, underperforming our benchmark, MSCI ACWI (AUD), which declined by 2.0%. Despite these short-term headwinds, we remain steadfast in our long-term strategy. This report highlights key market developments, explains our strategic portfolio adjustments, and outlines our confident outlook for future growth. Our targeted exposures—across high-growth regions such as Europe and China, and strategic themes like AI infrastructure—position us strongly to capitalize on emerging opportunities.

Over the past quarter, we observed several significant market events and shifts in investor sentiment that have influenced our portfolio's performance.

The release of DeepSeek R1 was one of the most pivotal events this quarter, as highlighted in our CIO Report. This development triggered a broad sell-off among US-centric AI Enablers. The sell-off was not isolated to the chips space; it cascaded into the broader US IT sector and even affected segments within the Industrials sector across the US and Europe. Despite the negative short-term reaction, we believe that this sell-off was unwarranted. Our analysis suggests that the long-term potential of these AI enablers remains intact, and we are confident that the market will eventually reprice these opportunities accordingly.

In contrast, DeepSeek R1 has been a boon for Chinese companies that are building AI services. With the announcement, the expectation emerged that the new technology would lower capital expenditure requirements for AI service development. This resulted in a robust rally among the Chinese tech giants, with companies like Alibaba and Tencent emerging as clear beneficiaries. The divergent performance between US and Chinese companies underscores the global reallocation of capital in response to technological innovation and policy developments.

The 4Q24 earnings season for US Big Tech was disappointing by many measures. While trading at high valuations, these companies reported lacklustre results, which resulted in a broad-based weakness across the US tech complex. The underperformance in this segment has contributed to the overall negative tone in the US market, compounding the headwinds from other sectors.

During the quarter, we also saw growing evidence that the implications of Trump-era policies are starting to weigh on the US stock market and the US dollar. Data indicates that most Global Industry Classification Standard (GICS) sectors in the US delivered negative returns, a performance in stark contrast to the positive outcomes observed in markets across Asia, Europe, and Latin America.

The US Industrials sector has been particularly affected, with transportation stocks experiencing significant declines. Notably, while US automobile and parts companies broadly underperformed, several Chinese automobile manufacturers and even some European automakers posted strong returns. This divergence is a clear indication that certain policy decisions have begun to have a measurable impact on market performance.

In response to these challenges, European policymakers, and Germany in particular, have taken decisive steps to counteract the adverse effects of the prevailing policy environment. A series of strategic measures have been implemented to stimulate domestic growth:

- **Domestic Defence Investment:** Recognizing the critical need for enhanced domestic security, European governments have increased investments in defence. This has had a positive impact on local defence stocks.
- **Fiscal Stimulus in Germany:** The announcement of Germany's broad-based fiscal stimulus has provided a much-needed boost to multiple sectors of its economy, supporting industrial output expectations and consumer confidence.
- **Pro-Growth Policy Shift:** There is an emerging consensus in Europe toward a less restrictive fiscal agenda. This renewed focus on growth is already starting to benefit sectors such as banking, energy, and telecommunications, painting a more optimistic picture for the region's future economic performance.

Fund Performance Drivers

Our portfolio's significant exposure to US-centric AI enablers was the primary headwind this quarter. However, our long-term conviction in this innovative theme remains strong. We continue to hold approximately 16% of the portfolio in this segment, confident that these companies will rebound and drive future returns.

Our strategic decision to underweight low-quality cyclical sectors such as energy, utilities, and banks

reflects our commitment to high-quality, growth opportunities. While lower quality sectors provided solid returns in the last quarter, those periods have generally proved to be fleeting, and our deliberate focus on transformative trends positions us to benefit as the market evolves.

Among our individual holdings, Novo Nordisk has been a notable drag on performance. The company has been losing market share to Eli Lilly in the US weight loss medication market, which has weighed on its stock performance. Despite these challenges, we remain committed to Novo Nordisk based on its compelling valuation and significant growth prospects. Over the past 20 years, Novo Nordisk has consistently delivered material growth and is now trading in the bottom quartile of its historic PE multiple range. We believe that its strong positioning in the global diabetes and weight loss markets presents substantial long-term growth opportunities, justifying our continued holding.

On the upside, our exposure to high-quality China plays has contributed positively to the Fund's performance. These positions have benefited from the capital allocation towards China due to the government's increasingly pro-consumption and market friendly policies. Furthermore, our underweight position in the broader US Tech sector—outside of our strategic exposure to AI enablers—has helped mitigate additional drag. By sidestepping the valuation pressures and volatility that have beset the wider US tech market, we were able to preserve capital and enhance our relative returns.

Looking Ahead

As we navigate through the evolving market landscape, our strategic positioning remains focused on areas that we believe are poised for long-term growth:

- **Europe:** We are increasingly optimistic about Europe's economic outlook. With robust fiscal stimulus measures and a clear pro-growth policy shift, European markets, particularly in Germany, are well-positioned for a broad-based recovery. Our exposure to high quality European industrials is expected to yield positive returns.
- **China:** The strong performance of the Chinese market continues to bolster our conviction in the region's recovery potential. The technological innovation and regulatory stability seen in this region offer attractive opportunities.
- **AI Infrastructure:** We remain committed to investing in AI infrastructure. Recognizing its transformative impact on business processes and technology, we see this area as a key driver of future growth.
- **US Tech (Selective Exposure):** While we maintain a cautious stance on the broader US Tech sector, our focused exposure to AI enablers reflects our belief in their long-term value. This selective approach allows us to navigate the ongoing volatility and valuation challenges in the market.

Looking ahead, we remain confident in our long-term strategy. Our focus on growth regions and structural themes—such as Europe, Asia, and AI infrastructure—positions the portfolio to benefit from emerging opportunities while maintaining a disciplined approach to risk. We believe the market has yet to fully appreciate the transformative potential of these high-growth areas. Our companies are characterised by low financial leverage, faster growth, and more attractive valuations than the Benchmark. In addition, our positioning—reduced US exposure, limited consumer-facing businesses, and a greater allocation to under-owned regions and sectors—leaves us well placed for a potential rotation away from crowded US markets and the US dollar. These attributes reinforce our conviction in the Fund's medium-term outperformance potential, even amid short-term volatility.

PORTFOLIO SEGMENTS

Core:

The Fund's exposure to the Core segment remained relatively stable at 74% versus 73% as of 31-Dec-24. The most significant changes were adding a European infrastructure company, a US industrial, and a US healthcare business, which partly offset lower exposure to some technology companies.

Cyclical:

Exposure to the Cyclical segment remained stable at approximately 12% versus 12% as of 31-Dec-24. The most material changes were exiting Lululemon and Mosaic, while adding a new a European industrial.

Innovation:

Exposure to the Innovation segment also remained relatively stable at approximately 6% versus 7% as of 31-Dec-24. There were no material changes to the Innovation positions.

Stock in Focus

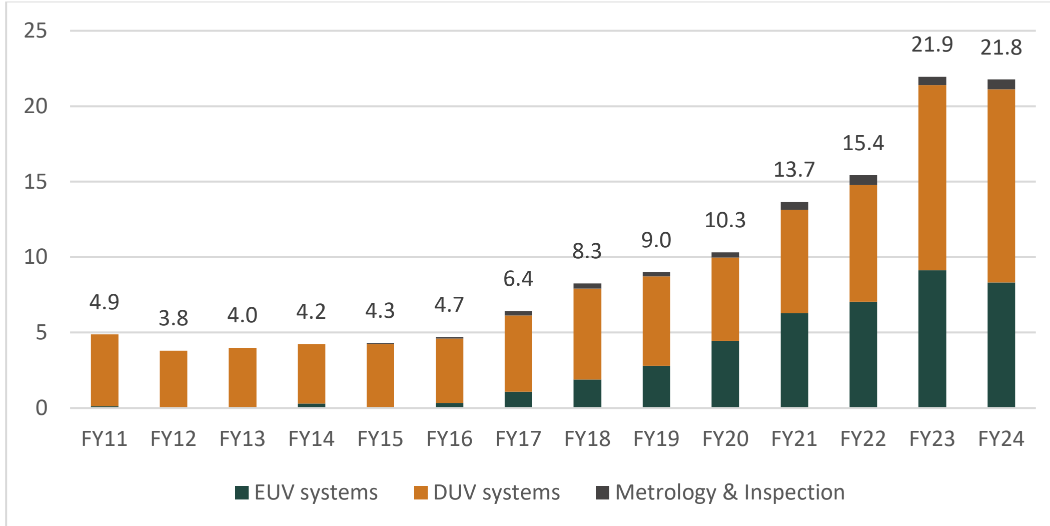
Ronald Yu
Investment Analyst

ASML is the undisputed global leader in the design and production of advanced lithography systems—a cornerstone technology used by virtually every chipmaker worldwide. Each system, comprising over 100,000 components and weighing more than 100 tonnes, projects light through a precise blueprint to etch intricate patterns onto silicon wafers. This process is critical for enabling transistor shrinkage, allowing the semiconductor industry to produce smaller, more energy-efficient transistors that significantly boost device performance and functionality.

Business overview

ASML offers a comprehensive suite of systems including lithography, metrology, and inspection, along with upgrades and servicing for its installed base. Its lithography portfolio features both extreme ultraviolet (EUV) systems, which operate at a 13.5nm wavelength, and deep ultraviolet (DUV) systems, which operate at 193nm or higher. In FY24, system sales comprised 77% of total revenue, with service and field options making up the remaining 23%. Within system sales, EUV systems represented 38%, DUV systems 59%, and metrology and inspection systems 3%. While EUV systems are pivotal for enabling continued transistor shrinkage, DUV systems remain the industry workhorses.

Figure 11 - ASML system sales (€bn)



Source: Company reports, Pella estimates

Why invest in ASML?

Pella is invested in ASML due to its dominant market position, robust long-term growth prospects, and strong fundamentals. ASML leads the global lithography market with a 100% share in EUV systems and over 90% overall, enabling it to capture significant market value. EUV systems, priced at over €150m—and the latest generation exceeding €300m—underscore the premium nature of ASML's offerings. In contrast, competitors such as Nikon and Canon provide only DUV or older generation systems, with FY24 sales of approximately €1bn and €1.5bn respectively, compared to ASML's €28bn.

The company is well positioned to benefit from sustained semiconductor demand driven by AI, as well as growth in electric vehicles, industrial electronics, infrastructure, and smartphones. At its recent Investor Day, ASML highlighted a FY30 sales opportunity of

€44-60bn. With FY25 guidance at €32.5bn, this translates to a CAGR ranging from 6% to 13%.

ASML's strong customer relationships and supply-chain visibility are evidenced by a €36bn backlog at the close of FY24—equivalent to more than 1.4 times the expected lithography system sales for FY25. The long lead times and prepayment structure further reinforce the stability of its order book.

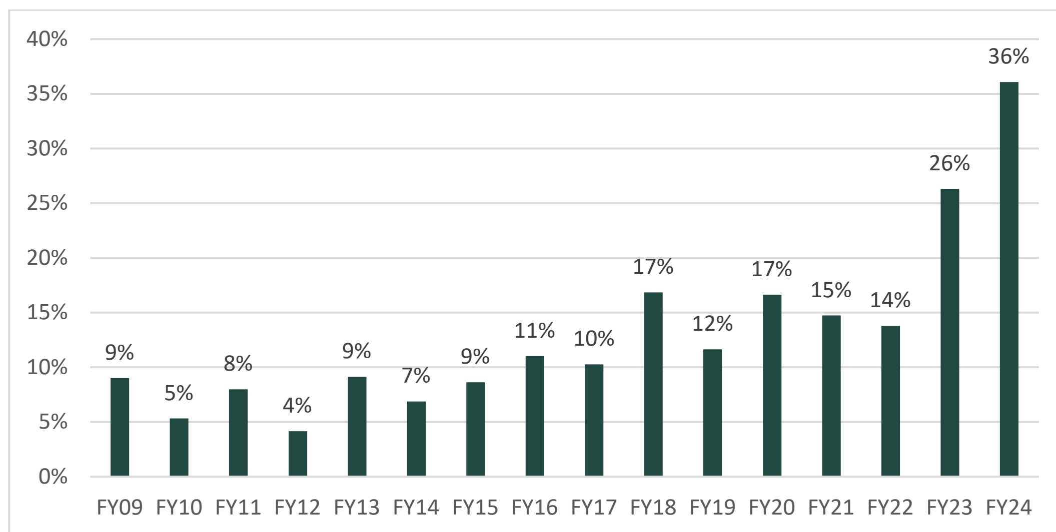
Moreover, ASML's competitive edge is bolstered by its substantial investment in research and development—over €6bn over seventeen years to pioneer EUV technology alone, and with annual R&D expenditures exceeding €4bn compared to closer to €100m for Nikon's Precision Equipment business and around €200m for Canon's Industrial Business unit positioning ASML to maintain its technological leadership. The recent shipment of a next-generation high numerical aperture EUV system further differentiates ASML from its competitors, who remain reliant on DUV technology.

Finally, while ASML already enjoys a healthy gross profit margin of around 52%, there is potential for further expansion to 56-60% by FY30, driven by higher average selling prices, increased volumes in EUV systems, and an upswing in upgrades and servicing.

Key concern one – further restrictions on selling into China

ASML's lithography systems are predominantly sold in Asia, with China accounting for 36% of FY24 sales, South Korea 23%, and Taiwan 15%. However, due to US national security concerns, ASML has never sold EUV systems in China, and increasing restrictions now affect which DUV systems can be sold there. With a normalized backlog and further restrictions, China's share is expected to fall to around 20% of FY25 sales, with potential for further decline in the future.

Figure 12 – ASML sales to China



Source: Company reports, Pella estimates

Key concern two - reduction in foundry competition and inefficiencies

ASML's foundry customers include major players such as TSMC, Samsung Electronics, and Intel. While TSMC continues to dominate, Samsung and Intel have faced capacity constraints, with concerns that Intel might exit the foundry business, potentially reducing competition and impacting ASML's sales. Additionally, ASML benefits from the global push for technological sovereignty, as countries encourage domestic semiconductor production to secure supply chains. However, this momentum appears to be slowing, particularly with the US potentially renegotiating CHIPS Act grants.

Valuation

ASML is trading at a FY25 free cash flow yield of 3.6%. Under Pella's price-for-growth framework, the company requires an annual sales growth rate of 8.0% to justify its valuation—modest compared to its target of a 10% CAGR at the midpoint through FY30.

Conclusion

ASML remains a high-quality business that has experienced a temporary decline in sales growth due to weak semiconductor end markets and specific customer challenges. However, Pella views this as an attractive entry point given the company's significant long-term growth potential. With an anticipated

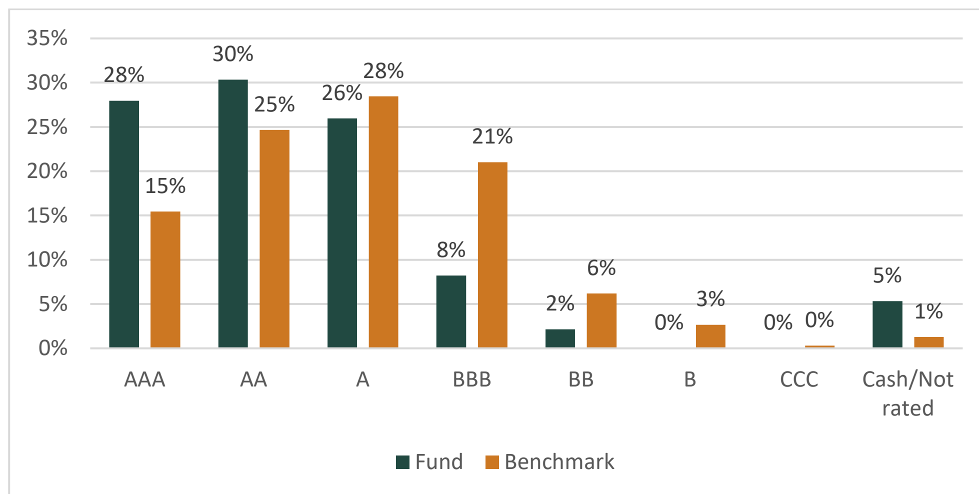
reacceleration of sales as end markets recover, Pella expects ASML to achieve medium-term sales growth in the high-single to low-double digit range, accompanied by improving margins.

Responsible Investing

During 1Q25, Pella met its Responsible Investing targets. The Fund avoided investing in companies on its exclusion list, achieved superior ESG metrics to its Benchmark (MSCI ACWI) and maintained portfolio carbon intensity of at least 30% lower than the Benchmark. Additionally, Pella was an active steward of investors' capital and engaged in several initiatives that exemplify the corporate alignment with the principles it expects from its investments.

Figure 13 illustrates that the Fund's average exposure to stocks with MSCI ESG ratings of AAA or AA was 58%, compared to 40% for the Benchmark. Additionally, the Fund had 10% exposure to companies rated BBB or lower, versus 30% for the Benchmark. We believe this supports our view that the Fund had superior ESG characteristics relative to the Benchmark during the quarter.

Figure 13 – Fund Vs. Benchmark ESG rating distribution [1]

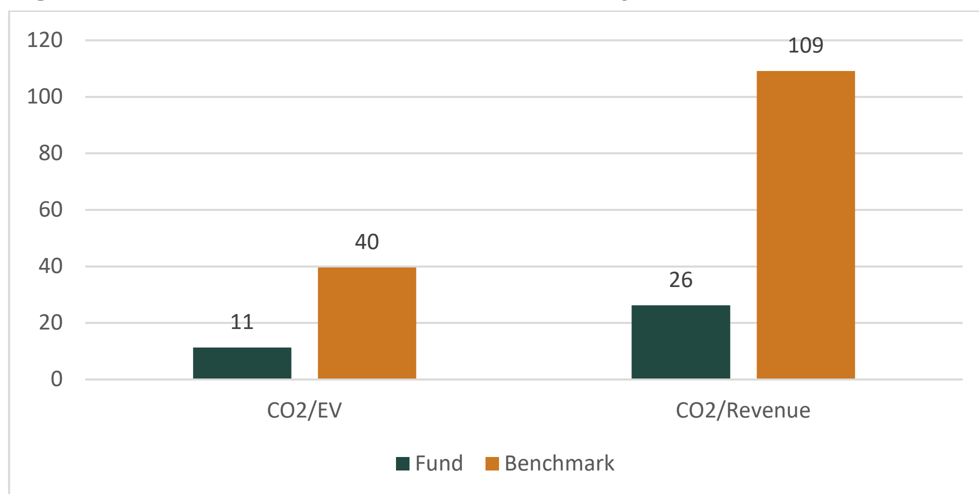


Source – Pella, MSCI ESG Manager

(1) Calculated using each stock's average weight over the quartile and their quarter end MSCI ESG rating

Figure 14 compares the Fund's carbon intensity, measured relative to enterprise value (EV) and revenue. It illustrates that the Fund's carbon intensity relative to enterprise value and relative to revenue was c72% and 76%, respectively, lower than the Benchmark. This means the Fund surpassed its carbon intensity target of being of at least 30% lower than the Benchmark.

Figure 14 – Fund Vs. Benchmark carbon intensity [1], [2], [3]



Source – Pella, MSCI ESG Manager

(1) Calculated using average stock weights over the quarter

(2) Carbon intensity to EV = tonnes (mils) of CO2 (scope 1 and 2) per US$m of EV

(3) Carbon intensity to sales = tonnes (mils) of CO_2 (scope 1 and 2) per US$m of sales.

Pella also participated in all its shareholder votes during the quarter, and our voting strings are summarised in Figure 15.

Figure 15 – Pella's 3Q24 voting track record

Company	Meeting Type	Vote String
Midea	EGM	FFF
B&M European Value Retail	OSM [1]	F
Sika	AGM	FFFFFFFFFFFFFFFFFFFFFFFF
Novo Nordisk	AGM	FFFFFFFFFFFFFFFFF

(1) Ordinary Shareholder Meeting

The Midea EGM related to the repurchase and cancellation of certain restricted shares and the B&M Ordinary Shareholder Meeting was to elect a Director. There were no controversial ESG-related ballots to vote on in the Sika AGM, but there was one controversial matter at the Novo Nordisk AGM.

Pella voted FOR the Proposal Regarding Regulated Working Conditions at Construction Sites, contrary to Novo Nordisk's management recommendation. Pella supports this initiative as it aligns with robust ESG principles, advocating that Novo Nordisk must ensure its contractors uphold collective agreements that benefit all employees and foster a positive working environment.

On the corporate front, Pella has enhanced its Responsible Investment policies, including the creation of an Animal Welfare Policy and updates to our Responsible Investing and Climate Change & Biodiversity policies. These policies will be made available on our website.

Additionally, we have submitted our application for Climate Active certification and are currently awaiting their response. We are aware that Climate Active is experiencing delays in its processing times, and we are hopeful for the completion of their assessment before the end of 2Q25.

Pella Global Generations Fund

Performance

Net of all fees	PGGF Class B	MSCI ACWI (AUD, net)	Relative
1 month	-4.7%	-4.2%	-0.6%
1 quarter	-4.9%	-2.0%	-2.9%
1 year	5.6%	12.2%	-6.6%
3 years – p.a.	11.6%	13.8%	-2.2%
Inception to date – p.a. (1)	7.7%	9.7%	-2.0%

(1) Per annum return since inception on 1 January 2022

Past performance is not indicative of future performance. Performance returns are net of fees and assume reinvestment of distributions. Actual investor performance may differ due to the investment date, date of reinvestment of income distributions, and withholding tax applied to income distributions.

Fund Holdings

As of 28 Feb 2025

Holdings Name	Sector	Country
3i Group	Financials	United Kingdom
Adobe	Information Technology	United States
AIA Group	Financials	China
Amazon	Consumer Discretionary	United States
Arthur J Gallagher & Co.	Financials	United States
ASML	Information Technology	Netherlands
B&M European Value Retail SA	Consumer Discretionary	United Kingdom
Broadcom	Information Technology	United States
Coloplast A/S	Health Care	Denmark
Edwards Lifesciences	Health Care	United States
Epiroc	Industrials	Sweden
HCA Healthcare	Health Care	United States
HDFC Bank	Financials	India
Hong Kong Exchanges & Clearing	Financials	Hong Kong
ICICI Bank	Financials	India
IMCD NV	Industrials	Netherlands
Lantheus Holdings	Health Care	United States
lululemon athletica	Consumer Discretionary	United States
Marsh & McLennan	Financials	United States
Mastercard, Inc.	Financials	United States
Microsoft	Information Technology	United States
Midea	Consumer Discretionary	China
Mosaic	Materials	United States
Novo Nordisk	Health Care	Denmark
Nutrien Ltd.	Materials	Canada
NVIDIA	Information Technology	United States
Prysmian Group	Industrials	Italy
ResMed, Inc.	Health Care	United States
Schneider Electric	Industrials	France
Sika AG	Materials	Switzerland
Spirax	Industrials	United Kingdom
TSMC	Information Technology	Taiwan
Uber Technologies, Inc.	Industrials	United States
UnitedHealth Group	Health Care	United States
Vertiv Holdings	Industrials	United States
VOLVO AB	Industrials	Sweden

Fund Analytics

As of 31 March 2025

Geographic & Asset Allocation

Asset Class	Fund	Benchmark
Developed Markets	**80%**	**90%**
United States	39%	64%
Europe	36%	14%
Japan	0%	5%
Others	4%	7%
Emerging Markets	**11%**	**10%**
Emerging Asia	12%	8%
Latin America	0%	0%
Others	-1%	2%
Cash	**9%**	**1%**

Source – Pella Funds Management

Top Ten Holdings

Company	Sector	Country
3i Group	Financials	UK
AIA Group	Financials	China
Arthur J Gallagher	Financials	USA
ASML	Information Technology	Netherlands
Coloplast A/S	Health Care	Denmark
Edwards Lifesciences	Health Care	USA
Marsh & McLennan	Financials	USA
Midea	Consumer Discretionary	China
Schneider Electric	Industrials	France
UnitedHealth Group	Health Care	USA

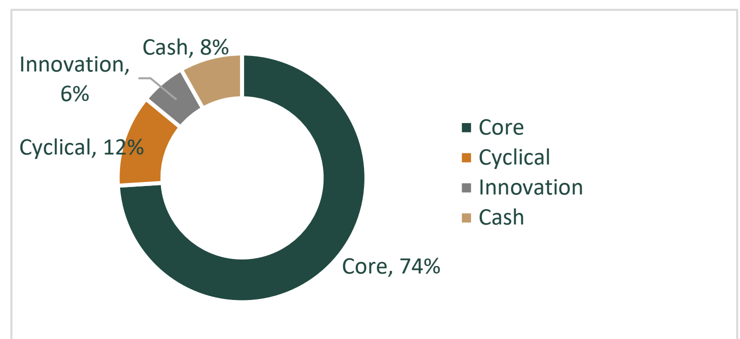
Source – Pella Funds Management

Currency Exposure

Currency	Direct	Exposure
USD	52%	52%
EUR	13%	13%
HKD	11%	11%
GBP	9%	9%
DKK	8%	8%
SEK	3%	3%
AUD	2%	2%
CHF	2%	2%

Source – Pella Funds Management

Fund Segment Allocation



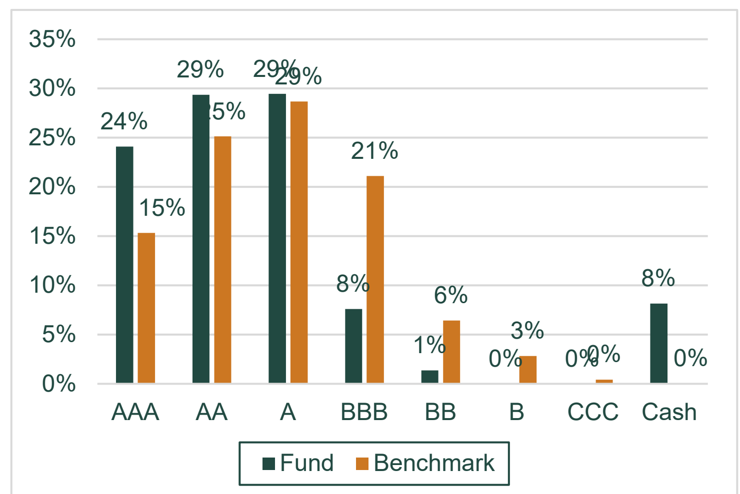
Source – Pella Funds Management

Sector (GICS) Allocation

Sector	Fund	Benchmark
Financials	25%	18%
Industrials	23%	10%
Health Care	20%	10%
Information Technology	14%	25%
Consumer Discretionary	7%	11%
Materials	4%	3%
Communication Services	0%	8%
Consumer Staples	0%	6%
Utilities	0%	3%
Real Estate	0%	2%
Energy	0%	4%
Cash	8%	0%

Source – Pella Funds Management

MSCI ESG Rating Distribution



Source – Pella, using MSCI ESG data

Key Information

Portfolio Manager	Jordan Cvetanovski
Inception date	1-January-2022
Price Class B (NAV)	$1.44
Buy/Sell spread	+0.25% /-0.25%
Minimum	$25,000
Additional Investment	$1,000/ $1,000 per month on a regular savings plan.
Pricing frequency	Daily
Distribution frequency	Annual
Base fee	0.65%
Performance fee	15% above benchmark
Benchmark	MSCI All Country World Index ("MSCI ACWI") (A$, net) *
APIR code	PIM5678AU
ISIN	AU60PIM56781
Platform Availability	BT Panorama HUB24 DASH Macquarie Wrap Netwealth North/MyNorth Praemium Direct Online Application

* The fund's investable universe differs to its benchmark. The fund's negative screen excludes several activities that are included in the benchmark such as fossil fuel mining, transportation, or electricity generation; weapons; alcohol; and casinos. The fund also excludes companies that are rated CCC by MSCI. In addition, the fund can invest in companies that are not included in the benchmark, provided those companies satisfy the fund's liquidity requirements. Thus, the fund may be of a different return and risk profile then the benchmark.

Contact Us

Joy Yacoub
Head of Distribution
M: 0414 226 007
E: joy.yacoub@pellafunds.com

This document has been prepared by Pella Funds Management. ("Pella") and issued by The Trust Company (RE Services) Limited ABN 45 003 278 831, AFSL 235 150 ("Perpetual") as the Responsible Entity and issuer of units in the Pella Global Generation Fund. It is general information only and is not intended to provide you with financial advice and has been prepared without taking into account your objectives, financial situation or needs. You should consider the product disclosure statement (PDS), prior to making any investment decisions. If you require financial advice that takes into account your personal objectives, financial situation or needs, you should consult your licenced or authorised financial advisor. The PDS and Target Market Determination can be obtained at (www.pellafunds.com). All information, data and statistics in this document are current as at the date of this document unless otherwise specified. While care has been taken in the preparation of this document, none of Pella Funds Management or Perpetual nor any of its related bodies corporate, or their directors, partners, employees, or agents, make any representation or warranty as to the accuracy, currency or completeness of any statement, data or value included in this document. To the maximum extent permitted by law, Pella and Perpetual and its related bodies corporate, and their directors, partners, employees, and agents, expressly disclaim any liability which may arise out of the provision to, or use by, any person of this document. Past performance is not indicative of future performance.