



THIRD QUARTER / JANUARY - MARCH 2026

The first difficult quarter exposes hidden factor concentration.

The fund has recorded its first quarterly loss and its first period of benchmark underperformance. In response, we are undertaking the largest portfolio restructuring since inception.

-7.22%

Q3 GROSS TOTAL RETURN

1 JANUARY - 31 MARCH 2026

-4.99%

BENCHMARK

-2.22 pts

RELATIVE RETURN

+2.82%

SINCE INCEPTION

The main problem was hidden factor concentration

The portfolio looked diversified by sector, but too many holdings were exposed to the same underlying forces: premium valuations, long-duration growth expectations, AI and technology capital spending, and confidence that high-quality franchises would continue to command elevated multiples.

The rebalance focuses on diversifying earnings drivers rather than simply replacing the quarter's worst performers.

LARGEST POSITIVE CONTRIBUTORS

BAE Systems	+0.75 pts
BHP Group	+0.54 pts
SK Hynix	+0.45 pts

NINE-MONTH POSITION

A\$100 -> A\$102.82

Benchmark: A\$102.81

PORTFOLIO AT 1 APRIL 2026

29 equities

8% cash | 19% Australia

REGIONAL ALLOCATION

United States	35%
Europe	21%
Australia	19%
Emerging markets	12%
Japan	5%
Cash	8%

LARGEST NEW HOLDINGS

QBE Insurance	5%
Nvidia	3%
Broadcom	3%
GE Aerospace	3%
Cheniere Energy	3%
ICE	3%

KEY CHANGES TODAY

BHP 5% -> 6%

ASML 2% -> 4%

BAE 3% -> 4%

Cash 5% -> 8%



PERFORMANCE REVIEW

The first quarter of underperformance

The fund declined 7.22% on a gross total-return basis in Australian dollars, compared with a 4.99% decline for the benchmark. Eligible dividends and distributions added about 0.40 percentage points relative to the price-only result, while currency translation was a significant headwind.

-7.22%

GROSS TOTAL RETURN

-4.99%

BENCHMARK

-2.22 pts

RELATIVE RETURN

-4.72%

CONSTANT-CURRENCY TOTAL
RETURN

Where the quarter's return came from

Holding-level attribution is based on price returns after FX; headline performance also includes dividends/distributions.

BAE Systems

BHP Group

SK Hynix

Micron Technology

Cochlear

Aristocrat Leisure

Microsoft

Tencent

+0.75 pts

+0.54 pts

+0.45 pts

+0.45 pts

-1.41 pts

-1.10 pts

-1.02 pts

-0.88 pts

POSITIVE CONTRIBUTORS

BAE Systems was the largest positive contributor, followed by BHP, SK Hynix and Micron. TSMC, ASML and Eaton also added.

The gains came from defence, resources, semiconductors and electrification - precisely the kinds of earnings drivers that behaved differently from premium growth during the sell-off.

LARGEST DETRACTORS

Cochlear, Aristocrat, Microsoft and Tencent were the largest detractors. Trip.com, S&P Global, Intuitive Surgical and RELX also weighed materially on returns.

The losses were more correlated than their sector labels suggested, which is why the response today goes beyond stock-by-stock replacement.

PORTFOLIO POST-MORTEM

Diversified by sector did not mean diversified by underlying risk.

The January portfolio contained technology, healthcare, financials, consumer companies and industrials. Yet many of those holdings shared similar sensitivities to valuation, discount rates, growth expectations and capital-spending confidence.

PREMIUM GROWTH / DURATION

Microsoft, Intuitive Surgical, RELX, Visa and parts of the consumer portfolio all relied on investors continuing to pay high multiples for durable long-term growth.

When the valuation regime weakened, these businesses did not provide as much diversification as their sector classifications implied.

AI-CAPEX DEPENDENCE

The portfolio had exposure to semiconductors, cloud software and interconnects. These appear different operationally, but several depend on continued confidence in very large AI capital-expenditure programmes.

The quarter showed the need to spread AI exposure across layers while adding earnings drivers that do not depend on the same spending cycle.

CONSUMER / CYCLICAL OVERLAP

Travel, mobility and selected consumer businesses added exposure to discretionary demand, energy prices and macro confidence.

That overlap became less attractive as energy and geopolitical uncertainty increased.

What changes today

The new portfolio still owns structural growth and AI beneficiaries. The change is that capital is being spread across a wider set of economic engines so that one shift in discount rates, technology spending or consumer confidence is less likely to affect many holdings simultaneously.

DRIVER	DIRECTION	PORTFOLIO EXPOSURE
AI / semiconductors	Retained, broadened	TSMC, Nvidia, Broadcom, ASML, SK Hynix
Financial infrastructure	Expanded	QBE, ICE, LSEG, MUFG, HDFC
Power / electrification	Expanded	Eaton, Siemens Energy, Prysmian
Defence / aerospace	Expanded	BAE Systems, GE Aerospace

CORE LESSON

Portfolio diversification is being assessed by earnings driver, valuation sensitivity and macro factor - not sector label alone.



STOCK-LEVEL REVIEW

The response is not to sell every loser or chase every winner.

Today's decisions separate thesis deterioration from position-sizing errors and portfolio-role changes. Some weak holdings are retained; some winners are sold; and several strong performers receive more capital.

WEAKNESS, RETAINED

Microsoft 4% unchanged

A major quarterly decline does not alter the strategic Azure, enterprise software and AI thesis enough to justify an exit.

Alphabet 5% unchanged

Cloud and AI remain strong long-term drivers despite a double-digit AUD decline.

ResMed 2% unchanged

Recurring sleep-apnoea economics remain attractive despite weaker share-price performance.

WINNERS, STILL INCREASED

BHP 5% -> 6%

Copper exposure, balance-sheet resilience and real-asset diversification justify the largest portfolio weight.

BAE Systems 3% -> 4%

Defence backlog and structural spending remain compelling after a strong quarter.

ASML 2% -> 4%

The valuation and advanced-node demand setup justify more exposure despite a strong quarterly rise.

LOSSES, THESIS CHANGED

Cochlear 4% -> 0%

Earnings and guidance deterioration weakens the original case; the decline is not assumed to be a buying opportunity.

S&P Global 3% -> 0%

The 2026 earnings outlook weakened relative to expectations; financial infrastructure exposure is obtained elsewhere.

Trip.com 2% -> 0%

Travel, China domestic demand and energy sensitivity create too much cyclical overlap.



1 APRIL 2026 REBALANCE

Eleven new holdings broaden the portfolio's earnings drivers.

The new positions span insurance, software, AI infrastructure, aerospace, LNG, exchanges, power equipment, transmission, Japanese industrials and Indian banking. The common objective is diversification by economic driver rather than simply adding more names.

QBE Insurance

5%

Strong underwriting profitability, returns on equity and capital returns add a defensive earnings stream and restore Australian diversification.

Xero

2%

A major software valuation reset creates a contrarian opportunity, but the initial position is deliberately small given valuation-sensitive growth risk.

Nvidia

3%

Exceptional AI data-centre earnings momentum after valuation compression. The 3% cap limits concentration in high-duration AI expectations.

Broadcom

3%

AI networking and custom silicon broaden semiconductor exposure beyond foundry and memory, supported by strong cash generation.

GE Aerospace

3%

Engine backlog and recurring aftermarket revenue provide a different industrial earnings driver with multi-year visibility.

Cheniere Energy

3%

Contracted LNG infrastructure introduces energy-security exposure with a different profile from conventional commodity production.

Intercontinental Exchange

3%

Exchanges, clearing and data can benefit from volatility and add a less correlated financial-infrastructure earnings stream.

Siemens Energy

3%

Improving profitability and structural gas-power and grid backlog provide differentiated power-infrastructure exposure.

Prysmian

2%

Transmission and cable bottlenecks provide direct exposure to grid buildout, while the smaller weight reflects project and cycle sensitivity.

Hitachi

2%

Improving guidance and a diversified digital-industrial mix broaden Japanese exposure beyond finance and consumer technology.

HDFC Bank

2%

Improving margins, stable asset quality and Indian banking growth add a distinct geographic and economic driver.



REBALANCE DECISIONS

The restructuring is substantial, but it is not a retreat from growth.

Twelve holdings exit, four incumbents receive larger allocations, six are reduced and cash rises to 8%. The portfolio continues to own high-quality growth companies, but it is less dependent on one valuation and capital-expenditure regime.

Exits

HOLDING	CHANGE	RATIONALE
Cochlear	4% -> 0%	Earnings/guidance deterioration.
Meta Platforms	3% -> 0%	High capex and AI-return uncertainty duplicate portfolio duration risk.
S&P Global	3% -> 0%	2026 earnings outlook weakened; prefer exchange infrastructure.
Intuitive Surgical	3% -> 0%	Strong franchise, but valuation/duration overlap is too high.
RELX	3% -> 0%	Reduce premium recurring-data concentration.
Booking Holdings	2% -> 0%	Travel and consumer sensitivity less attractive in the current regime.
Sony Group	2% -> 0%	Japanese exposure rotates toward Hitachi's industrial/digital mix.
Prologis	2% -> 0%	Rates, refinancing and property sensitivity remain less attractive.
Trip.com Group	2% -> 0%	Travel, China demand and energy sensitivity create cyclical overlap.
Amphenol	3% -> 0%	Quality remains high, but alternatives rank more strongly today.
Micron Technology	3% -> 0%	Reduce memory-cycle duplication while retaining SK Hynix.
Uber Technologies	2% -> 0%	Mobility remains vulnerable to oil and consumer shocks.

INCREASES

BHP	5% -> 6%
Eaton	3% -> 4%
ASML	2% -> 4%
BAE Systems	3% -> 4%

REDUCTIONS

Aristocrat	5% -> 3%
Tencent	4% -> 3%
AstraZeneca	4% -> 3%
LSEG	3% -> 2%
Visa	3% -> 2%
SK Hynix	3% -> 2%

CASH

Cash	5% -> 8%
Reason	Tighter conditions
Also	Geopolitical / energy risk
Purpose	Preserve flexibility



PORTFOLIO AFTER REBALANCE

The portfolio entering the June quarter

The portfolio now contains 29 equities plus 8% cash. Technology remains important, but financials and industrials together account for 38%, while resources, defence, energy and infrastructure provide a broader mix of earnings drivers.

REGIONAL ALLOCATION

United States	35%
Europe	21%
Australia	19%
Emerging markets	12%
Japan	5%
Cash	8%

SECTOR ALLOCATION

Information Technology	23%
Financials	20%
Industrials	18%
Materials	9%
Communication Services	8%
Health Care	8%
Consumer Discretionary	3%
Energy	3%
Cash	8%

Holdings and target weights

AUSTRALIA

BHP Group	6%
QBE Insurance	5%
Evolution Mining	3%
Aristocrat Leisure	3%
Xero	2%

JAPAN

Mitsubishi UFJ Financial Group	3%
Hitachi	2%

UNITED STATES

Alphabet	5%
Microsoft	4%
Nvidia	3%
Broadcom	3%
Eaton	4%
GE Aerospace	3%
Cheniere Energy	3%
Intercontinental Exchange	3%
Eli Lilly	3%
ResMed	2%
Visa	2%

EUROPE

ASML	4%
AstraZeneca	3%
Munich Re	3%
BAE Systems	4%
London Stock Exchange Group	2%
Siemens Energy	3%
Prysmian	2%

EMERGING MARKETS

Taiwan Semiconductor Manufacturing	5%
Tencent Holdings	3%
SK Hynix	2%
HDFC Bank	2%

CASH

8%



OUTLOOK

Entering the new quarter with a broader mix of earnings drivers

The first nine months have produced almost exactly the same cumulative result as the benchmark. The portfolio must now earn future outperformance from the opportunities visible today rather than relying on the strong first two quarters.

WHAT WE ARE WATCHING

- Whether tighter financial conditions continue to pressure long-duration and highly valued growth equities.
- The durability of AI capital spending and whether returns broaden across networking, power, memory and enterprise deployment rather than remaining concentrated in a few winners.
- European defence and power-infrastructure investment, where structural backlogs may provide earnings visibility that is less dependent on consumer demand.
- Energy security and commodity conditions, particularly where physical infrastructure or real assets can diversify the portfolio from premium growth.

PORTFOLIO PRIORITIES

- Avoid assuming that sector labels alone provide diversification; evaluate every holding by underlying earnings driver and factor exposure.
- Retain structural growth where the franchise and valuation justify it, while limiting duplicated AI-duration and premium-multiple risk.
- Use 8% cash as an active reserve rather than forcing every dollar into a volatile opportunity set.
- Give incumbents no automatic advantage at future rebalances. A strong business can still be sold when its portfolio role or expected return is inferior to alternatives.

PERFORMANCE AND METHODOLOGY NOTES

- Performance basis: The -7.22% headline quarterly result is gross total return in Australian dollars, including eligible dividends and distributions. It is before fees, transaction costs, withholding tax, investor tax, franking credits and cash interest.
- Benchmark: 80% MSCI ACWI ex Australia Net Return AUD plus 20% S&P/ASX 200 Total Return, fixed from inception and rebalanced quarterly. The Q3 benchmark return was -4.99%.
- Attribution: Holding-level contribution figures are based on price returns translated to Australian dollars. Dividends and distributions are added separately to calculate headline gross total return.
- Rebalancing: New target weights are applied to the fund's current net asset value. Proceeds from trims and exits remain in the fund and are reallocated across the new portfolio; only the explicit 8% cash allocation remains uninvested.