Memo to: Auscap Ex-20 Australian Equities Fund Investors
From: Tim Carleton
Chief Investment Officer
Re: Annual Investor Letter
Date: 8 January 2026

Dear Investor,

Happy New Year. We wish you and your loved ones all the best for 2026.

The Auscap Ex-20 Australian Equities Fund (**Fund**) returned 18.8% net of fees during 2025. This compares with the S&P/ASX 300 Ex S&P/ASX 20 Index (**Index**) which returned 15.0%. The annualised net return for the Fund is 19.1% per annum since its inception in December 2023, compared to the Index return of 16.3% per annum.

Below are the calendar year returns of the Fund since inception.

Time Horizon	Auscap Ex-20 Australian Equities Fund (net return)*	S&P/ASX 300 Ex S&P/ASX 20 Index
2023*	8.6%	6.6%
2024	11.5%	11.7%
2025	18.8%	15.0%
Annualised	**19.1%**	**16.3%**
Total Since Inception	**43.9%**	**36.9%**

** Performance figures are calculated for the General Class net of all fees and expenses and assuming the reinvestment of all distributions. Note, the fund commenced on 1 December 2023. 2023 performance reflects 1 month only. Past performance is not indicative of future performance.*

Performance Evaluation

The Fund had a solid year in 2025, driven by the strong performance of a number of long term investments in the Auscap portfolio.

In terms of attribution for the Fund's performance in calendar year 2025:

- **Eagers Automotive**, Australia's largest auto dealership group and responsible for approximately 14% of new car sales in the domestic market, has been a Fund holding since inception. This year represented a year of good progress for the company. It took full advantage of improving conditions in the new car market as interest rates declined, continued its successful partnership with BYD as it expands its presence in Australia, entered the Canadian market with the acquisition of 55% of CanadaOne and entered into a partnership with Mitsubishi. High quality businesses often deliver positive surprises through unexpected developments. Eagers' 2023 partnership with BYD started to bear fruit in 2025, and the entrance into Canada, a large, fragmented car market in an English speaking country, was one such positive development that highlighted the benefit of owning high quality, major shareholder led businesses.

- **Northern Star Resources** and **Genesis Minerals** are two gold companies that we invested in during 2025, generating positive performance as the gold price rallied. Northern Star is Australia's largest domestically listed gold company. It has operations in Australia and Canada. Over recent years the company has been undertaking the development of a new mill at its largest production site (KCGM) in Kalgoorlie to double the plant's processing capacity. Commissioning is expected in the middle of 2026. We have been onsite a number of times in recent years to evaluate the development and progress of the new plant. Our expectation is that it will enable the company to materially lift gold production in future years and reduce operating costs per ounce. The completion of the acquisition of De Grey Mining in 2025 gives the company another growth angle following the KCGM expansion. It has also been a busy year for Genesis Minerals as it continues to consolidate the Leonora and Laverton gold district of Western Australia. It increased gold production 59% in FY25 on FY24, delivered strong earnings growth, purchased the Laverton gold project in May at an attractive valuation and signed an agreement with relevant parties to move an existing rail line to expand production and improve efficiency at one of their major sites. While the gold price is clearly driving the strong performance of all gold miners, leading to exceptional financial metrics and cash generation, we are invested in gold companies that are taking full advantage of the cycle by sensibly expanding production and, where possible, lowering costs.

- **Nick Scali** also contributed strongly to returns, again benefiting from a year of strong company performance. It took advantage of a rebound in activity in the domestic market as it continued to rollout its store network, currently numbering 110 stores across the Nick Scali and Plush brands. In the UK the company has rebranded the majority of stores and taken gross margins from 41% to over 58% inside 18 months of ownership. Management have indicated confidence that the brand is resonating with consumers ahead of a lift in marketing efforts to improve brand recognition. The UK remains a very significant opportunity for the company to grow earnings over time.

- **PLS Group**, one of Australia's most significant lithium spodumene producers, benefitted from an improvement in the lithium market during the second half of 2025 after three years of declining prices. The company is in a great position to take advantage of an improvement in the market due to the work they have done to improve operating performance over recent years, increasing output from 725kt in FY24 to 755kt in FY25 to a forecast 845kt in FY26, lifting recoveries and lowering operating costs over this period from $654/t to an expected $580/t in FY26. We have been onsite with PLS Group at their Pilgangoora operation three times in the last few years, and have been struck by how much work had been done to improve the efficiency of the site while times were tough, leaving the company in a wonderful position to profit as prices recover. Having followed the company and continued with our due diligence while lithium spodumene prices were depressed, we had a small position that we increased as prices started to improve in the middle of 2025 and the stock has done very well since.

- **Life360** is a family and friends location sharing application used by more than 90 million users globally. It delivered a solid return for the Fund over the year due to strong price appreciation. This was driven by good subscriber growth in the US and internationally, the rollout of a number of new features such as pet tracking, and a clearer focus on monetisation, through both increasing paid subscriber penetration, a lift in pricing and the introduction of advertising for non-paying users. Strong revenue growth is starting to translate into meaningful operating leverage, which we expect to continue into 2026.

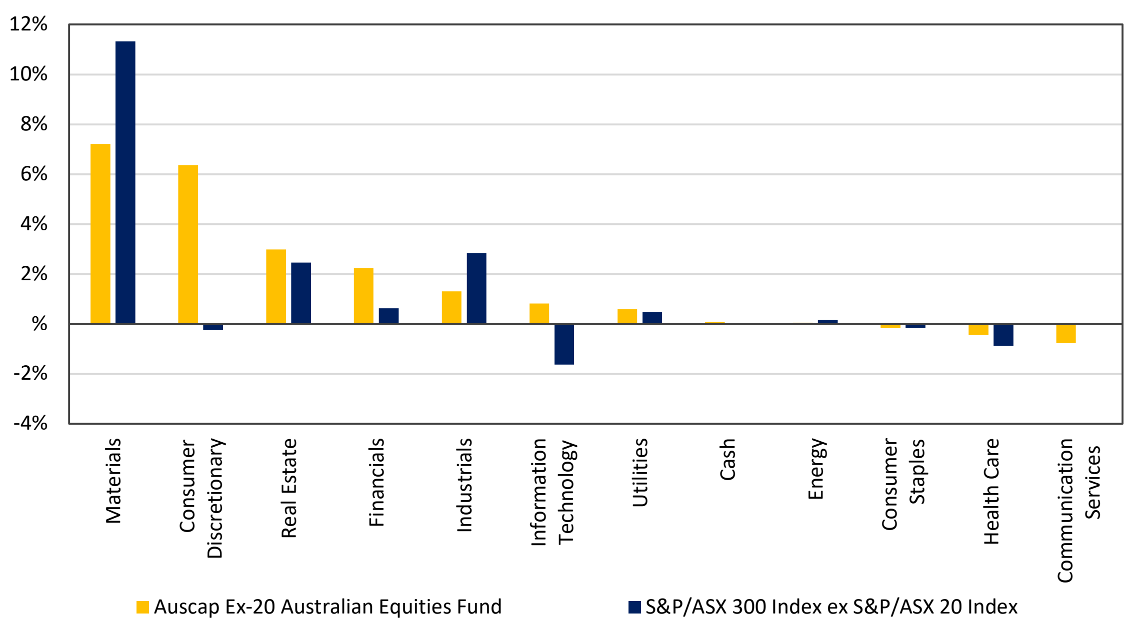
- **HomeCo Daily Needs REIT** and **Charter Hall Retail REIT** are two of Australia's larger convenience retail shopping centre groups and have both been in the portfolio for some time. Both companies were meaningful contributors to returns during the year. They represent monopoly assets in catchments with growing populations. The largest tenants are ASX listed companies and their occupancy levels are consistently circa 99%. The market is beginning to recognise the value of such assets. During the year both REITs paid handsome dividends, grew earnings and saw a narrowing in the discount to net tangible assets that they have traded at in the market. Both saw positive revaluation gains during the year, primarily driven by strong rental growth. We continue to be enthused by the value proposition both represent.

- **IDP Education**, a global leader in education services through its English testing service IELTs and its student placement business, contributed positively to returns since we built a meaningful position in the Fund over the June to September 2025 period. IDP Education has suffered in recent years due to a slowdown in demand that has resulted from a post COVID normalisation in student numbers, combined with the depressing effect on demand for their services that has resulted from anti-immigration sentiment in its major markets. This perfect storm provided us with an opportunity to invest in the business at a valuation well below our view of intrinsic value. As student markets around the world normalise over the coming years we expect that earnings will recover and the stock price will more closely reflect its fair value.

- **NIB Holdings**, a leading domestic private health insurer, contributed positively over the course of the year. Concerns about healthcare inflation not being adequately addressed through premium rate rises, which are dependent on Federal Government determination, abated over the course of the year, with NIB securing a 5.79% increase for the year starting 1 April 2025. Combined with good cost control, this led to good operating performance, which was reflected in the share price.

- There were no companies that detracted more than 1% from the Fund over 2025.

Auscap Ex-20 Fund and Index Sector Returns 2025



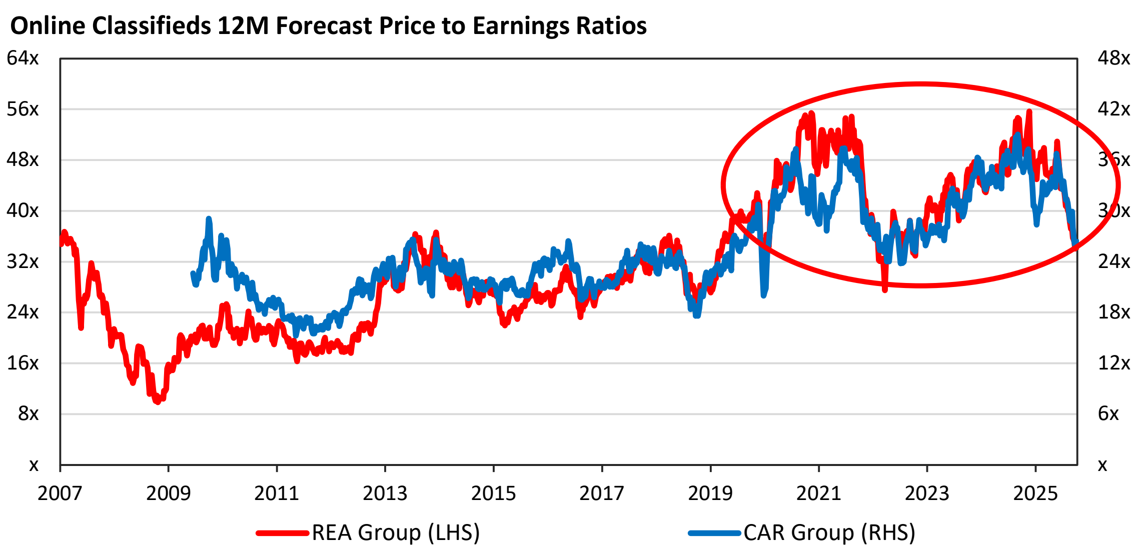
Source: Bloomberg, Auscap

As shown above, from a sector perspective, the Fund gained as a function of strong performance by its materials and consumer discretionary exposures, with a meaningful contribution from real estate, financial and industrial companies. By contrast, over 75% of the return of the S&P/ASX 300 Ex S&P/ASX 20 Index came from materials. Consistent with our investment philosophy, the Fund has been underweight the lower quality end of the resource spectrum. Such companies benefit significantly when commodity prices rise sharply, as they did in 2025, particularly in gold, lithium and copper. The focus on high quality businesses in other sectors more than compensated for this relative underperformance. The Fund had no sector exposures which detracted more than 1%.

The strong performance from the Fund came despite a difficult year for quality investing. We look to invest in high quality businesses, those companies that have sustainable competitive advantages which result in superior return on capital employed metrics compared to industry peers. According to Morningstar, quality as a style of investing underperformed the broader world market globally by almost 10% over the past year. We believe this underperformance is reflective of an unwinding of the premium that was built into high quality businesses during the era of declining interest rates that accelerated during the COVID period. As interest rates trended towards zero, a declining risk free rate justified ever increasing price to earnings multiples for high quality growth businesses, resulting in prices that considerably exceeded fair value for many listed companies. Paying too high a price for even the very best businesses will still often result in poor investment outcomes. And as the German proverb says, *"trees don't grow to the sky."*

It has taken some time for the air to come out of the balloon for many of these stocks. We have seen some of this valuation premium inflate the stock prices in select companies we own, and we have looked to use such appreciation to our advantage by trimming our holdings when this has been the case.

REA Group and CAR Group are both fantastic businesses, but the valuation premium built into both stocks during the extremely low interest rate environment in 2020 and 2021, which was inexplicably replicated in 2024, is obvious when observing multiples over a reasonable stretch of time, such as the last 20 years. We would suggest that the opportunity for REA Group for many years of earnings growth in 2014 was greater than it was in 2024, yet the multiple that the market was willing to pay for REA Group in 2024 was at times double the 2014 multiple. While we own both companies, position sizing is influenced by our view on valuation.

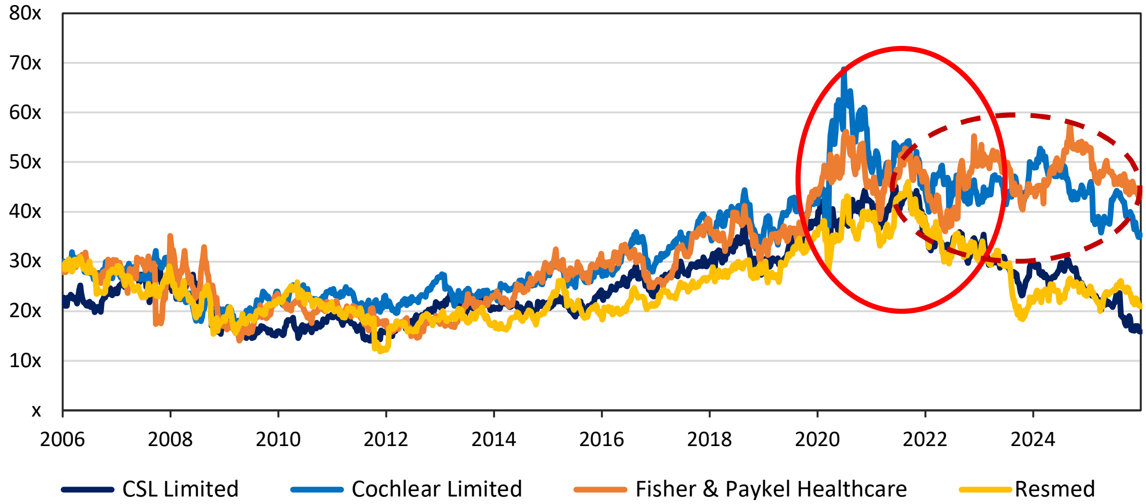


Source: FactSet, Auscap

Similarly, we have owned HUB24 and Netwealth since inception of the Fund. Both are fantastic businesses, but when companies start to trade on multiples north of 60 times current year earnings, as they both did during 2025, they are pricing in considerable earnings growth and business success into the current valuation. As a result, we have gradually reduced our exposure to these two companies. Both are high return on capital businesses growing in a sector with a large addressable market where they are winning considerable share. However, by definition, future returns are diminished as a result of elevated valuations.

Healthcare companies also became very expensive during the COVID era of extremely low interest rates, as companies with strong anticipated growth and long dated cash flows that were seen as highly reliable re-rated to very expensive multiples. Since this time Resmed and CSL have derated back to multiples that are similar to those witnessed before the era of low interest rates, partly due to the perceived threat of GLP-1s in Resmed's case and the recent issues facing CSL that have slowed its earnings momentum. By contrast, Cochlear and Fisher & Paykel Healthcare continue to trade on lofty multiples.

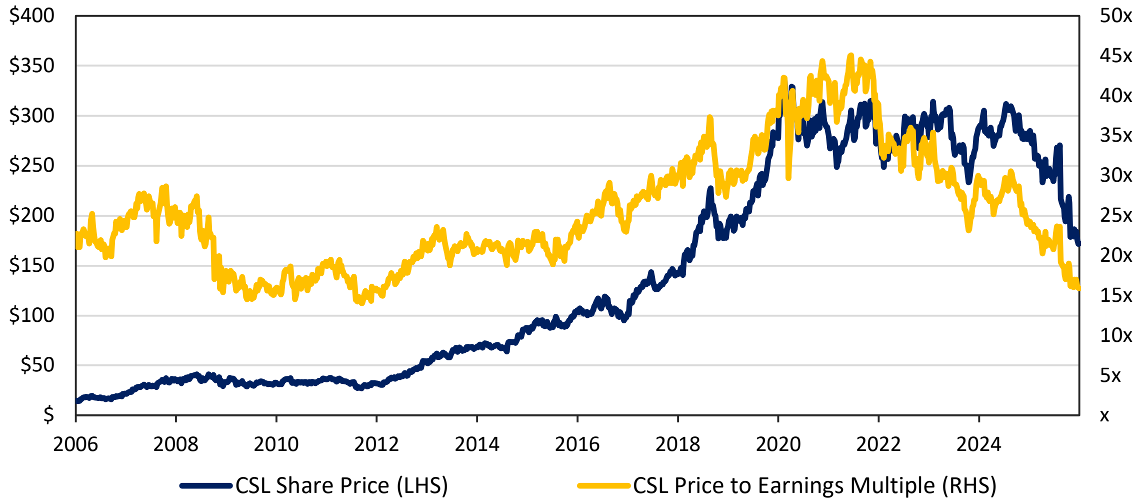
Healthcare Price to Earnings Ratios (Forecast 12M)



Source: FactSet, Auscap

CSL traded on north of 40x earnings in 2020 and 2021, becoming Australia's largest domestically listed company by market capitalisation. This extreme valuation priced in perfect execution and strong continued business performance. Who could have foreseen the poor outcomes from the Vifor acquisition, the extremely low current vaccination rates in the US affecting the Sequiris business and the competitive threats that have tempered expectations in the Behring business only a few years ago? The answer is very few. But this is the danger in buying stocks that have an excessive valuation. Any disappointment will be punished with a strongly negative share price reaction as both earnings forecasts and the multiple of earnings that the market is willing to pay for the business are reset lower.

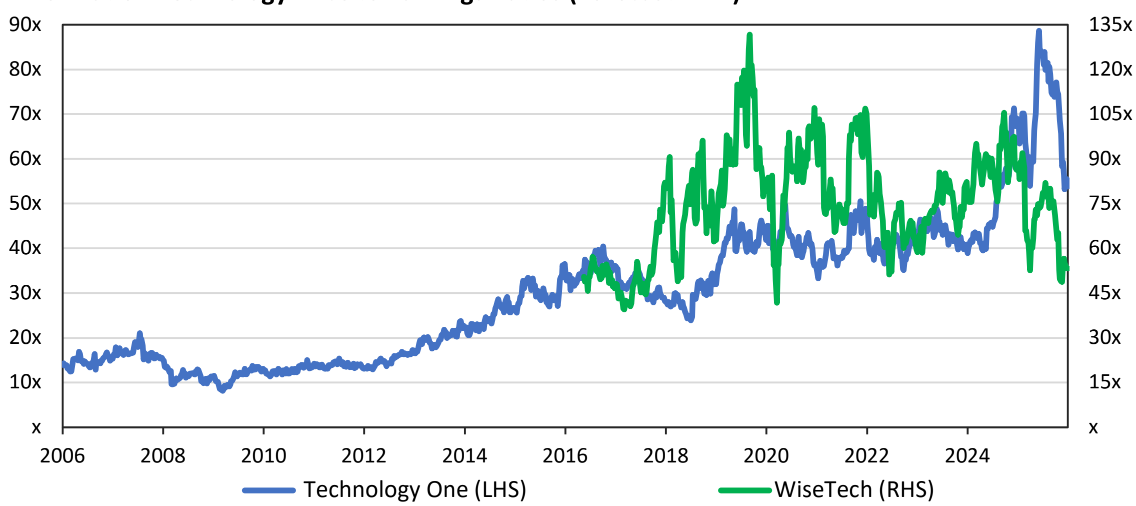
CSL Share Price and 12M Forecast Price to Earnings Ratio



Source: FactSet, Auscap

We have seen the same phenomenon in some of the well loved domestic technology companies, such as WiseTech and Technology One, as seen below.

Information Technology Price to Earnings Ratios (Forecast 12M)

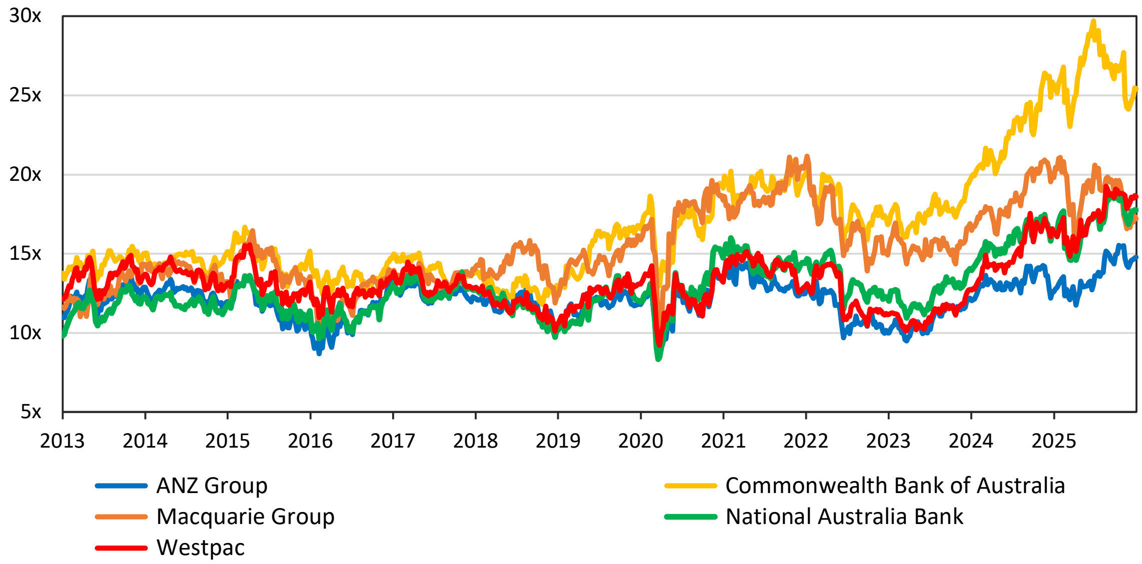


Source: FactSet, Auscap

We suspect markets will continue to experience a normalisation of multiples post the COVID extremes. We are excited about the prospect of more reasonable valuations for some of the country's best businesses on a go forward basis, and are optimistic that we will get an opportunity to add to or purchase shares in some of the country's great businesses at attractive valuations. In some cases this has already happened and businesses that we have been watching eagerly, waiting for the right opportunity, are now in the portfolio. Our watching brief of stocks we would like to own if the valuations continue to move lower is considerable. We are of the view that much of the money from investing comes from sensible buying and then holding for the long term, allowing the earnings growth to drive the returns delivered to shareholders. Making sure the valuation is in line with our estimate of fair value or better improves the probability that there will be asymmetry around our investment. A good outcome will be rewarded with a strong contribution to performance, and unexpected negative developments will not be too detrimental from a capital perspective.

We are very optimistic about the next decade for sensible active investing. Our investment philosophy focuses on quality businesses within a sensible valuation framework. By contrast, we do not think this is a time for passive investing in Australia. The Australian market is characterised by very large businesses that dominate the major indices that are going to struggle to materially grow, and in some cases even maintain, their current level of earnings over future years. The large banks are symptomatic of this phenomenon. At the time of writing, the four major domestic banks accounted for more than 24% of the ASX200. As the chart below demonstrates, they are trading at an extremely elevated multiple of forecast earnings.

Bank 12M Forecast Price to Earnings Ratios



Source: FactSet, Auscap

This is despite the emergence of a genuine competitive threat to their base business. Macquarie Group is taking share in the mortgage market at an alarming rate if you are an investor in ANZ, Commonwealth Bank, National Australia Bank or Westpac. This is aided by a modern technology stack and a lower cost of business, absent an expensive legacy branch network. Customers on the deposit side are easily lured by high interest savings accounts premised on a "no hoops, no catches" approach, with the flow of deposits to Macquarie in the 3 months to 30 September 2025 amounting to more than $20bn. The outsourcing of the mortgage customer relationship to independent mortgage brokers might have seemed like a good opportunity for the major banks years ago, but it has now made it remarkably easy for a motivated competitor to take share. Macquarie's turnaround times for mortgage brokers are the fastest in the market, allowing them to win significant share as long as they offer a competitive rate. Macquarie Group's Banking and Financial Services Group made up 21% of Macquarie's earnings in the last half year result, a number we expect will grow materially in coming years. At 6.7% of the mortgage market, the $30bn the big four banks make in net profit after tax is a huge opportunity for Macquarie, a threat that we think the big banks have realised too late. That you can buy Macquarie, the competitor winning share with a superior history of earnings growth, at a lower multiple of earnings than 3 of the 4 big banks, most of whom we suspect will struggle to maintain their current level of earnings over the medium term, is intriguing.

We think it is worth reiterating what we concluded with in our 2025 investor letter.

Our core belief is that the returns the Fund generates over time will be primarily a function of the dividend yield plus earnings growth our investments deliver, provided we can make acquisitions at sensible prices and with the appropriate discipline. In fact, we believe that this is the only sustainable way to generate returns from an investment in companies. To generate sustainably growing earnings, a company must have some form of durable competitive advantage, typically reflected in superior return on capital metrics. To us this defines a high quality business. Buying more of an asset that is trading at a particularly attractive price, and selling a little of assets we own if they trade at valuations above our view of fair value, is a process we engage in to enhance this underlying return. But the primary factors determining our total return will be the current level of earnings and the growth in those earnings over time for the investments we make in these quality businesses.

We always encourage a long term approach to investing in the Auscap funds. Taking an appropriate time horizon when investing in equities is crucial in ensuring that the results you, as an investor, receive are reflective of the operating performance and earnings growth of the businesses the Fund is invested in. Over short time periods fluctuations in sentiment and other exogenous factors can significantly impact performance. Over the long run it is the underlying earnings of the portfolio companies that become the primary driver of investment returns because the impact of the short term "noise" becomes less material to the cumulative return. This is what Benjamin Graham was referring to when he stated that "in the short run, the market is a voting machine but in the long run, it is a weighing machine." We are enthusiastic about the fundamental outlook for the companies in the Fund and we see the listed Australian equities market as a rich environment for active management opportunities.

Auscap Developments

In September 2025 we were delighted to announce an agreement with GSFM for the wholesale distribution of the Auscap Funds. GSFM partners with high calibre investment managers to deliver differentiated, quality investment strategies for its clients. The relationship will enable us to continue to focus on managing the portfolios while leveraging GSFM's expertise in expanding our investor base. This relationship will not affect our interaction with existing investors. You can still communicate directly with Auscap or the administrators of the funds that we manage.

Thank you for your investment in the Auscap Ex-20 Australian Equities Fund. We will continue to work tirelessly in 2026 to manage the portfolio in a manner that is consistent with our investment philosophy.

Kind regards,

Tim Carleton
Chief Investment Officer
Auscap Asset Management Limited

Disclaimer

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S&P Dow Jones Indices

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