



EPISODE NINE | INSIDE THE VAULT

Tim Carleton, Auscap Asset Management
Damien McIntyre, GSFM

Hello and welcome back to GSFM's podcast Conversations. This year we've been going 'inside the vault' with our investment partners and today's conversation is with our newest investment partner, Tim Carletonne, managing director of Auscap Asset Management. Tim joins our CEO Damien McIntyre to discuss the Aussie equity market, the investment case for actively managed mid-caps and their role in client portfolios.

Before I hand over, I need to read this important notice:

The information contained in this podcast is general and does not consider your objectives, financial situation or needs. The information and views contained in this update reflects, as of the date of recording, the current opinions of the participants and are subject to change without notice. Before making an investment decision in relation to the Auscap High Conviction Australian Equities Fund or the Auscap Ex-20 Australian Equities Fund, investors should consider the appropriateness of this information, having regard to their own objectives, financial situation and needs and read and consider both the Product Disclosure statement and the Additional Information. Auscap Asset Management has produced a Target Market Determination in relation to the Funds. The TMD sets out the class of persons who comprise the target market for the Auscap High Conviction Australian Equities Fund and Auscap Ex-20 Australian Equities Fund, both of which can be downloaded from the GSFM website. Past performance information given in this podcast is provided for illustrative purposes only and should not be relied upon as (and is not) an indication of future performance. This podcast was recorded on Monday 1 December 2025.

Damo and Tim, the floor is yours

Damien McIntyre

Thank you very much, Tracey. Good morning, Tim. Welcome to the Conversations podcast.

Tim Carletonne

Thanks Damo.

Damien McIntyre

Just by way of background, our Conversations series really is a forum where we get together with our funds management partners and we introduce them to the listeners, and we try and have a sort of wide ranging discussion. And the objective is that there's something in the subject matter that is a light bulb moment for the listeners that either makes an issue clearer or perhaps a system in communicating something about the asset class and markets within which you work to their clients. So that's the objective of it. So hopefully the questions I ask you, Tim, are good enough to get that information.

What I might start with, though, is to wind back to the beginning and sort of why we came together. And I think the reason why GSFM chose to partner with you and your team at Auscap is because, firstly and obviously, we didn't have a partner in Australian equity, so we really wanted to fill that space. But we took the best part of 18 months to get to know one another.

And what we found particularly attractive was a number of things. Firstly, Auscap has an investment team which is made up of a blend of youth and great experience. And the investment team really are the architects of the

decisions that are made and constructive portfolios. So, we really have to work with a high-quality team. And from our point of view, we certainly think you deliver that to our clients, Tim. But equally, you have strategies that generate alpha. And certainly, the high conviction strategy, which has a long track record, is in the top of the top quartile, really, over long periods of time.

So, this also is important to you, our clients, because this is what active management is all about. It's about generating alpha on a consistent basis and then being able to maintain that for a long period of time. So, congratulations to you. And then equally with the ex-20 fund, the ex-20 fund is in an asset class that also generates alpha over long periods of time. And it's a great complement to your high conviction strategy. But also, clients can invest in this with confidence. It's not a small cap strategy, for example, that has limited capacity. There's plenty of runway with this product. And we think that clients can benefit from it for a long period of time. So that's sort of enough of the ad.

Maybe I can just ask you, Tim, if you could just quickly introduce to the audience Auscap and the evolution of your business.

Tim Carletonne

Yeah, sure, and that's a very kind introduction, Damo. Much appreciated, and we're very excited about the partnership with GSFM. It really lets us focus on what we do best, now that we've got a partner that can look after the distribution aspect of the business. So Auscap has been around since 2012. Our high-conviction strategy just celebrated its 13th birthday yesterday, actually. And we really have quite a simple investment philosophy.

Our approach is that the longer you are invested in a stock or a fund or even the market more broadly, the more likely your total return is going to become a function of two things. One is the dividend or distribution yield that the fund or market or individual company provides you with, and the second is the earnings growth that your portfolio or the individual company delivers over time. And so, your total return is going to be A plus B with one caveat, and the caveat is the assumption that you haven't materially overpaid for that asset in the first place.

And the reason for that is the longer you stretch time, the less all of the other things that dominate the newspaper discussion on a day-to-day basis become relevant. There's a very good quote that over the short run, the market is a voting machine, and over the long run, it's a weighing machine, and what's being weighed is earnings. The return from the earnings that you get is in the dividend yield that you receive. The rest of the earnings that aren't paid out are reinvested to try to generate additional earnings on a go-forward basis. We think about what companies will deliver the best combination, the most reliable combination, the best risk-adjusted combination of those two attributes over time.

Our answer is to look for the really high-quality dominant businesses in their particular sectors or fields. And the reason for that is fairly self-explanatory. If I have two companies operating in a sector, and one is delivering a 25% return on invested capital, and the other is delivering a 10% return on invested capital, and they operate in exactly the same space, there must be something about the first business that enables it to earn two and a half times the rate of return of its competitor. And that's its competitive advantage. So, our job, once we've identified the businesses that are producing economic returns that suggest they have a competitive advantage, our job is to go and work out what that is. And if we can get comfort that that competitive advantage is sustainable and preferably growing, then we make the long-term assumption that those businesses are going to deliver better earnings growth over time. And that should be fairly self-explanatory if both of them invest another million dollars. Because one is going to earn \$250,000 of additional net profit after tax on that investment. The other one has to invest two and a half times that quantum to deliver the same incremental return on earnings.

We're really looking for the best of businesses, those that are competitively advantage. And sometimes the reason for that competitive advantage is fairly obvious. If you take REA versus Domain, REA has about three times the revenue base. And both companies need to put about the same amount of investment into their cost structure. They both have the same IT costs, they both have the same marketing advertising costs, they both have the same sort of staffing levels required. And so, all of the incremental returns go to a larger peer over time. And that's seen REA triple its earnings over the last decade while domains earnings have gone backwards.

Sometimes it's far more nuanced. So, the highest long-term return on equity delivered by any company in the market that we're aware of is Nick Scali. It's managed to deliver about a 50% return on equity since it began its listed life more than 20 years ago. And that is many, many multiples of the return on capital metrics that you see for a lot of its peers. And that answer is far more nuanced. But if we get comfort that a business has a competitively advantaged position, our conclusion from that, as long as there is sufficient runway for future growth and future

market share opportunities, is that those businesses are going to deliver better long-term earnings growth compared to their peers, which is going to lead to portfolios delivering a more attractive total return than the broader market. And like I said, the second part of that is making the assumption that you haven't materially overpaid for that asset in the first place.

If I bring that down to a very, very simple investment philosophy, it's quality-first value-focused. We're looking for the best businesses that are listed in the domestic market, but we are cognizant of the price that we pay. And we want to pay fair value or better for each of the investments that we make.

Damien McIntyre

Great start. How do you build conviction in the companies that would sit within your portfolios? Without, of course, giving away all the secrets, but how do you get to the point where you have this high degree of confidence and you're ready to pull the trigger?

Tim Carletonne

Yeah, the simple answer to that is very slowly. We have a view that there are 70 to 80 really high-quality businesses in the market, and so we spend most of our time trying to focus on that list of 70 to 80 businesses. We want to spend as much time as possible in and around their operations. That could be with the company, it could be with their competitors or their suppliers or their customers, we're in the game of constantly trying to gather new information so that our understanding of those businesses improves over time, so that if we get an opportunity that we're ready to take advantage of it. And normally those opportunities come at a moment when the market is really fixated on the emergence of a potentially negative threat to the business. So we want to have well and truly evaluated those potential threats, and if we have a view that this issue is likely to be temporary and the market's view is going to be impacted in the short term, but earnings aren't going to be affected in the long run, then that's when we're typically buying into these really good businesses. And that list of 70 to 80 companies really doesn't change that often over time.

So, we've been running now for 13 years, as I mentioned, and I suspect there are little more than five businesses that have come into or gone out of that list, and the five that came out, three were taken over, and two actually lost their competitive advantage. And so, our view on their position in the market changed such that they were no longer of interest to us.

It takes us a long time to get comfortable with a new issue or an IPO. We start with a simple premise that if the vendor that's selling stock to the market who knows everything about the business is happy with the sale price, definitionally we probably shouldn't be happy with the purchase price. And a couple of meetings with management and a prospector certainly aren't going to fill us with confidence that we know a sufficient amount about that business to get comfortable with the IPO price. We like to analyse companies that look interesting at IPO for typically five years before we get enough knowledge about that business to have comfort. And I'll give you a recent example of this.

We invested in Reliance for the first time a couple of years ago, and I think by that stage it had already been listed for five or six years. In the intervening period, we've been down to their Melbourne operations on multiple occasions. We've been to the US with them on a couple of occasions. We've spent a lot of time around management and listening to them. We had five years of listed accounts. They had diversified the business significantly. I think earnings had more than doubled, and yet we got an opportunity to buy in at below issue price well and truly past the point at which they listed. And at that point, the asymmetry around information probably switches because most of the participants dealing in that stock are public participants at that point in time, and we get confidence that we have probably done a lot more due diligence than a lot of the vendors.

So, we are happy buyers in that circumstance. But it does take us a long time to get comfort that a business should be in that list of really high-quality business that we think are naturally competitively advantaged for us to proceed with an investment decision.

Damien McIntyre

Interesting. Now of the two products you run, you have the High Conviction Fund and the Ex-20 Fund. Unless something's changed in the last month to the best of my knowledge, you've only got one top 20 position within the High Conviction Fund. Is that still correct?

Tim Carletonne

It is. The only material position in the High Conviction Fund that's in the 20 is Macquarie Group.

Damien McIntyre

Okay, so what is it about the mid-cap sector that makes it such a great front end for you and your process?

Tim Carletonne

I think there are a few things, I mean Australia is a funny market in a sense, it's known as the home of the cosy oligopoly and the reason historically for that is fairly obvious: it's geographically challenged, it has a relatively small population base. So once a company or a few companies become dominant in their sector, they've been very good at pressing that advantage and as a result you've ended up with a fairly small number of companies dominating individual industries.

And that's true of the large end if you think about the banks or the large miners or the supermarkets but it's also true of the mid-cap space where there are a lot of companies that are dominant in their particular fields but the real difference between the large cap and the mid-cap space from our perspective is the organic growth opportunities at the large end of the market for many companies are largely exhausted so they have taken about as much market share as they're able to take which means that on a go-forward basis the best case for a lot of these companies and (I'm sure we'll get to the banks at some point) is to grow in line with the market. But of course, there are always emerging competitive threats and so there is potential downside from that.

The mid-cap universe you tend to find a whole lot of businesses that are already in the position where they are the market leader but there is still a huge runway of prospective share gain and therefore growth on an ongoing basis. We try to think about what these businesses might look like 10, 15 and 20 years down the track so if I throw out a few names in the consumer space Eagers Automotive is very dominant in the dealership space but they only have a 14% share of the market. Nick Scali, we think has room to at least double their domestic offering even though they've now proceeded with an offshore expansion.

In healthcare businesses like Sonic and Resmed are clear leaders but there are lots of opportunities for their markets to continue to grow at very, very attractive rates. In consumer staples you look at companies like Chemist Warehouse and there are still very large opportunities for them to continue to expand their store network both domestically and internationally.

So there are a lot of businesses that sit outside the ASX-20 that over a 10, 15, 20-year time frame look like they have ample opportunity to grow their earnings very materially and that's going to lead to a more attractive total return. We think a lot of the businesses that will struggle to do that are at the larger end of the market.

Damien McIntyre

So, do you think that in the middle small cap space, do you think it's true that there's a competitive advantage for active managers given that the banks will focus all their research activity on the ASX-20 because that's where the most brokerage is? Do you think that there is this structural advantage because these companies are under-researched?

Tim Carletonne

Listen, I think the research coverage is certainly less than the large end, but the real opportunity I suspect comes from the fact that I think a lot of domestic investors and retail investors are underweight the mid-cap part of the universe, and as a result, the valuations from our perspective are particularly compelling relative to the earnings growth that's on offer over the coming decade.

We would almost invert that question and say, do we think large caps are over-owned, and the answer on that front is most certainly yes. Retail investors have been convinced in a number of sectors, and you can use the banking sector or the mining sector, to buy the dip over time, and historically they've been attracted by the dividend yields. But they've also seen capital appreciation, and for a number of decades that capital appreciation was the result of the banks and the miners growing their earnings at quite attractive rates.

We fast forward to today, and over the last decade the banks actually haven't grown their earnings at all. They have gone sideways for a decade, and yet there's still been a mentality in the domestic market for both mums and dads and institutional investors to continue to buy the dip in the banks, but the capital appreciation you've seen

particularly in recent years has entirely been a function of paying more for the same dollar of earnings, such that today we sit here and the banks are trading at their most expensive multiple of earnings that we have seen in the last 30 years, and that's really quite unusual. And the reason it's unusual is that probably for the first time in at least a couple of decades the banks are facing a very, very serious competitive threat, and the competitive threat comes in the form of Macquarie.

Macquarie are taking share very, very rapidly off the large banks and the other smaller players in the banking space, and we expect that will continue to be the case. Over the last 12 months to I think the end of September 2025, Macquarie took 21% of the share of new loans, the loan growth in the mortgage market. That compares to their market share that's sitting a little above 6%, so they're running a three to four times system, and that has accelerated since the start of this financial year. And so, for the first time there's this competitive threat, and when we think about the situation with the domestic banks, we actually think that the existing incumbents are at quite a competitive disadvantage. They have lost their competitive advantage. The competitive advantage that Macquarie has over its peers is it has a much leaner cost structure.

If you think about Macquarie, they have the cleanest tech stack, so they're not trying to deal with legacy systems. We saw Westpac's recent announcement that they're going to try to merge something like 27 systems over the next couple of years for a very, very significant incremental cost. While Macquarie's tech stack is new, they don't have that issue, which means that it's very leverageable. And then the second advantage they have is they don't have the branch network. So, their cost structure is materially lower than all of the major banks that are obviously facing that issue around what to do with their high-cost branch network. And the end result of that means that Macquarie can compete on the two sides of the balance sheet that you need to compete to take share.

The first is the deposit side. Obviously, they're offering a very competitive deposit offering in the market. At the moment, it's 4.25% for up to \$2 million at call, no conditions. That is resulting in them winning tens of billions of dollars of deposits on a per-quarter basis. As a result, their deposit book is growing very quickly. And on the other side of that, the banks really have been asleep at the wheel in allowing the mortgage brokers to become the crucial intermediary between the financial institutions and the end customers. In the last quarter, just under 80% of all mortgages in Australia were written by mortgage brokers. And so, Macquarie is able to very easily disrupt that market because they target the real customer. The real customer today is the mortgage broker. And all the mortgage broker cares about is a slightly lower rate, but more importantly, a very fast turnaround time. And Macquarie comfortably have the fastest turnaround times in terms of approving mortgages in the market. And they're trying to get that time down to less than a day. If they are able to be successful on that front, it's going to see them continually win a very, very significant part of the market from the majors.

So, we sit here today, and we think, well, the banks are very expensive. They're offering dividend yields well under 5%. And yet for the first time, they've got a very serious competitor that we think is going to challenge their position over time. And it's difficult to see how the major banks will respond. Our suspicion is that for a period of time, they will see share until they're ultimately forced to respond. And that's going to be very bad for bank earnings over the coming decade. That is one part of the market. It's 25% of the index that we certainly think is very over owned.

By contrast, you look at retail portfolios and you actually see relatively low levels of exposure to companies outside the 20, despite the fact that there are so many names in that space that market leaders should continue to deliver very strong earnings growth and as a result, very attractive total returns for investors over time. That's not every company that's outside the 20. So, we do think that active stock picking is going to be critical to be successful in the mid cap space. The research coverage is less than for the large caps. And so, the best part of the market for active management really lies in that mid cap space.

Damien McIntyre

I know you shared this with us in public forums, but in the ASX-20, another large constituent is Rio, BHP and Fortescue. Commodities made piles of money exporting to China over a long period of time, but the trajectory of their demand is under threat also, isn't it?

Tim Carletonne

Yeah, that's right. So, it looks quite apparent now that Chinese steel consumption peaked in 2020 and it's been declining over the last five years. The Chinese have tried to deal with that by increasing their level of exports quite substantially. In that time period, they've gone from virtually not exporting steel products to exporting about 100 million tonnes of steel a year. But obviously that has to displace supply that's coming from elsewhere. China have

really been quite phenomenal since 2000 in terms of how they have accelerated their industrial development and that has resulted in a phenomenal surge in steel demand within China, such that today their consumption represents over 55% of global consumption.

And to put that in context, last year they produced about a billion tonnes of steel and India sat second and they produced about 160 million tonnes. So, their consumption absolutely dwarfs all of the other major economies. The US and Japan are third and fourth and they both produce and consume less than 100 million tonnes a year. The steel and iron ore story really revolves around Chinese consumption.

Our concern is that over the next decade or two, it's hard to see that China won't need to reduce their consumption of steel very materially. We wouldn't be surprised if it halves and potentially drops more than that. And there is no country or combination of countries that is likely in the short term to take up the slack, which means you're in a global environment where steel demand is likely to decline. And as a result, the demand for iron ore that's only used for the production of steel is also likely to decline.

On the other side of that, you actually have a number of countries trying to increase their production. The two Simandou projects in Guinea are the first two mines in Africa of real significance. And there are quite a number that sit in the pipeline behind that, and they will be well and truly economic at prices around this level. And to put that in context, you need about one and a half tonnes of iron ore to make a tonne of steel. So, the 120 million tonnes that's coming online from Simandou is enough to generate about 80 million tonnes of steel, which like I said, is about the equivalent, the US or Japan annual consumption of steel.

You're in an environment where over the next couple of years, you're going to see declining demand at an aggregate level and increasing supply, which we suspect will be negative for price, which means that it's negative for iron ore earnings of the majors. And as you mentioned, they make up 10 to 15% of the domestic market and they're very likely to experience a declining earnings profile. And unfortunately, it really doesn't stop at the miners.

We can make a similar case for a number of the other sectors that really are facing unprecedented competition, the supermarkets spring to mind in the ASX-20, which we think results in it likely to be a market where you really want to be with an active manager that's not super index aware because the index might actually turn out to be quite a poor way of getting exposure to Australian listed companies.

Damien McIntyre

So, you offer two funds, the High Conviction Fund and that's index unaware for want of a better description. And then the Ex-20 Fund is more sector aware, isn't it? And the reason I'm asking you this is because we've just run through the three behemoths in the index being materials, banking and to some extent, retail. And you manage that trade-off in the Ex-20 Fund.

Tim Carletonne

Yes. Well, there's an old adage that says know what you own and know why you own it. And so, we have two different funds and they serve different purposes. And I guess what we say to any existing or prospective investor is the most important thing is that you share an investment philosophy with that manager. If the philosophy that someone espouses doesn't naturally resonate, then you're actually better off looking for a manager whose investment philosophy does resonate because otherwise at the moment of stress, because all managers will go through periods of strong performance and relatively weak performance at different points in the cycle, if you don't firmly believe in the investment approach of any manager that you're invested in, that will get tested at the worst possible time.

Once we get past that point, we have two funds and they're designed for two very different purposes. So, the High Conviction Fund has no index awareness at all. Its positions are sized according to our conviction. Historically, it's had a 90% active share. So that means it looks 90% different to the All Ordinaries Index against which it is compared. And so over time, it can deviate quite meaningfully from the index. And when we've assessed that, we've realised that the major reason for that over discrete time periods is our sector allocation. We will have material overweights and material underweights. And things might be going particularly well if we're overweight a couple of sectors that are experiencing very strong performance. But the inverse is also true that if we are overweight sectors that are doing very well, and we're overweight sectors that are lagging, that can have a negative relative impact on our performance compared to the index. So, it's very important that investors in that fund understand that there will be points in time where our performance will look quite different to the broader market.

Now, we appreciate that for some advisers, that's not a great product for their clients to invest in, particularly if they're trying to allocate clients evenly over the year as they organise their meetings. And so, we designed the Ex-20 Fund, and its purpose is slightly different. It specifically doesn't invest in the ASX-20 and we're aware that a lot of retail portfolios already materially overweight the top 20 companies. So, it invests from the 21st largest company down to the 300th largest company in the domestic market.

Most importantly, we take that Fund's index (the ASX300 Ex-20 index) and we look at its sector weights and we're really trying to mirror the sector weights as they are in that index. And so, what we're trying to do in this fund is we're trying to isolate our ability to pick the right stocks and make the performance compared to that index a function of whether we have successfully picked the best companies in that index as opposed to having very material sector overweights and underweights through time. And as a result, we expect that fund will exhibit less volatility, it will directionally move in a similar vein to the index that it's measured against and we're really looking for consistency of alpha generation.

If we can deliver 4% of gross alpha over time, we'll achieve the objective of that fund. So, it's going to look very different from a sector perspective, and you'll notice that its sector exposures are quite similar to that ex-20 index. Even though a lot of the stocks within both portfolios are common, they'll be differentiated by their weights and as a result, the sector exposures of the two funds.

Damien McIntyre

Yeah, well the whole purpose of active management is to provide diversification, real diversification. That argument is right when the winds are at your back and I understand the sensitivity of where the wind is when you're walking into the wind. But as you say, it's vital that people understand why they're in this fund from the outset and what it gives them. And I think clearly, as you've outlined, to most ASX200 players who are sensitive to the dominance of the 20, this is very different. And under the right circumstances, this will perform really well. Now, I know you love all your children equally, but in your portfolio at the moment, who are the names that excite you the most?

Tim Carletonne

Well, the names that excite us the most are typically the ones that we are adding to our exposure to at different points. And it's interesting, the market at the moment has become quite focused on the cyclical parts of the market and we're seeing those valuations bid up and we've been reducing in aggregate our exposure to some of those parts of the market as they have become more expensive.

The unloved parts of the market at the moment are largely concentrated in some of the defensive sectors. So, we're finding some very interesting opportunities in healthcare at the moment. We're finding some interesting opportunities in real estate, primarily in the retail assets that really are monopoly positions in different markets around the country. And the only sector that you would say is a cyclical area of the market that we're finding some interesting opportunities in is in the building and construction space.

It was very interesting to observe multiple Reece buybacks take place in the last month or so. So first of all, they announced an off-market buyback to buy back up to \$400 million worth of their stock at a significant premium to where the stock was trading prior to that announcement. They only got \$365 million worth tended in at that buyback price. And so, they followed up with the residual \$35 million as an on-market buyback that can last the next 12 months.

We really think that in that space, you've seen a number of headwinds that have all come to fruition at the same time. There's been tariffs, there's been a weak US housing market and then there's been some company specific issues within some of the companies that operate in that space that have resulted in valuations we think being quite attractive on a through the cycle basis. So, we have been adding to our exposure in companies like Sonic Healthcare, in businesses like Homeco Daily Needs REIT and Charter Hall Retail REIT and then in companies like Reece and Reliance.

Our suspicion is that over the next five to 10 years, we hope that the purchase prices that we have paid for those investments are going to look very attractive and that has come at the expense of some of the other parts of the market that are probably more the focus of most of the participants at the moment, but that focus is being reflected in pretty full valuations.

Damien McIntyre

At this point in time inflation has been incredibly sticky. The most recent inflation print was a higher number than most expected and that in turn has changed the way people are thinking about interest rates. Where's your head now on that subject and how is that shaping your portfolio, if at all?

Tim Carletonne

Well to some extent it adds to our hesitation around valuations in the cyclical parts of the market and it increases our conviction in the attractiveness of some of the defensive parts of the market because we have been concerned the market has been very fixated on interest rates coming down even though the economic data and the inflation data really hasn't been supportive of that argument for some time. And so obviously in the last month or so we've seen a number of data points that suggest that the RBA is likely to be on hold for some time and if anything, the likely direction of interest rates if we get further poor prints on the inflation front is likely up rather than down. And so again we think that the relative attraction of some of the defensive parts of the market will increase if that looks like it's going to be the case.

We would say this - the market in the last 18 months has generally seen the outperformance of lower quality parts of the market and the reason for that is fairly self-explanatory. If you have a general boost to economic activity and earnings that comes from declining interest rates that is far more beneficial in percentage terms to lower quality businesses.

If I have one business that has a 20% EBIT margin and another that has a 2% EBIT margin and they both get a 2% boost from declining interest rates from a function of cheaper financing costs and obviously increased economic activity the impact to the bottom line for the higher margin business is much less in percentage terms than for the lower quality business so we've seen the real outperformance of lower quality parts of the market and conversely the real underperformance of high quality businesses over the last year or two.

If we're going into an environment where that is likely to be reversed, or at least no longer be a tailwind, we suspect that quality will re-emerge as a part of the market that generates very strong outperformance. In tough times you tend to find that the best businesses they really use those tough times to increase their advantage over their peers and take a lot of share. If we go into a slightly trickier environment in 2026, we think that positions the high-quality businesses really well to continue to grow share over time and get the economic leverage from their natural advantage.

Damien McIntyre

One last question before we wrap things up. Can you explain or talk us through your emphasis on high quality businesses? Because that really is something that sets you apart from your peer group.

Tim Carletonne

At a simple level, we're really looking for the best businesses within each of their sectors or sub-sectors. And the best business isn't necessarily the business with the highest market share. It's the business with the best unit economics or the best product that has an opportunity to take material share away from their competitors. And if they're successful in doing that, then that's going to lead to much stronger earnings growth over time.

We are looking for businesses that have a natural advantage over their peers that we can identify that are focused on using that advantage to grow earnings at much faster rates than the broader market. And if we're successful in doing that, we think that will be reflected in share prices over time. We probably spend a disproportionately small amount of time focused on what a share price is doing. We know that over any reasonable stretch of time, share prices will ultimately follow earnings. And if there is a disconnect between the two, that's an opportunity to either add to our existing holdings where the disconnect is in our favour or to reduce our holdings where the share price has run a little bit ahead of the fundamentals of the company. And that happens quite frequently in listed markets.

It's one of the advantages of being in listed markets if you're with a manager that can take advantage of that. Because as Howard Marks frequently says, the market goes from assuming a situation or a company is flawless to hopeless in regular cycles and back again. So, if you can recognise that the stock price moves overshoot the underlying changes in the environment for a business and you can take advantage of that, then you can deliver considerable alpha and your portfolio as a whole will exhibit potentially stronger underlying earnings growth than even the constituents within it. So that is certainly something that we think has done well for us over time.

But our core belief is to only invest in the best businesses in the first place because they will deliver the earnings growth that will really underline the performance of a portfolio as long as your holding period is sufficiently long.

Damien McIntyre

Congratulations on what you created through time and that's certainly what's really important to us at GSFM and indeed is a large reason why we partnered with you is your long-term performance and clearly your process works. Your process leads you to a portfolio of holdings that generates significant alpha over and above the benchmark and really is the reason for being. So well done you, well done to the team. Thanks very much for your time this morning Tim and we look forward to a) chatting again in in this forum but b) really getting stuck in as we get into 2026 and spreading the Auscap message.

Tim Carletonne

Likewise Damo, thanks very much for your time.