

SUMMARY

September performance was -1.1% taking since inception returns to +11.6% p.a.

COMMENTARY

September represented the third consecutive month of rising bond yields, pushing the ASX 300 down -2.4%. Our long positions fell in sympathy led by market linked positions like **HUB24**. This impact however was mitigated by a strong performance from the contractors and a broad-based contribution from the short book.

Key contributors for the month included **Southern Cross Electrical, Genus, Duratec** and **IPD Group**. Key detractors included **Zip, HUB24** and **MA Financial**. On the short side the key contributors were capital-hungry data centres and a structurally challenged media business. Our key detractors were two beaten-down stocks, an AI hype concept company and a takeover target.

Southern Cross Electrical, Genus and **Duratec** all build and maintain physical infrastructure (data centres, transmission lines, defence and energy assets). This work occurs regardless of consumer sentiment or interest rates. **Southern Cross** and **IPD Group** are more directly exposed to datacentre capex and have indicated strong trading conditions year to date. Genus commenced construction on North West Tasmanian Developments and won both a battery and windfarm. **Duratec** rallied off a depressed share price.

Zip fell over 20% with no company-specific news. Its FY26 result was a record, with cash EBTDA up 58% and guidance for a further ~26% growth in FY27, but BNPL sits in the most rate-sensitive corner of the market. Concern for funding costs and a more pressured US consumer are weighing on the stock. We believe the current valuation more than compensates for these risks. **HUB24** and **MA Financial** continued to de-rate as higher rates weighed on sentiment towards wealth platforms and alternative asset managers.

On the short side, capital intensity in a rising cost of capital world remains the central challenge for data centre owners. Deploying capital at returns in the high single digits only creates value if it can be funded with cheap debt and equity owners of data centres accept modest returns. In a rising rate world, the gap between required and realised returns narrows. This means lower share prices.

The other key short contributor of ours struggled as pressure on advertising spend, a softening consumer and a potential index exit have all manifest.

OUTLOOK

In a falling market, the important distinction between our long detractors and short contributors is permanence of the share price move. Our long positions may have permanently lower valuations however earnings are intact, and earnings growth underpins returns in the future. Our shorts conversely do not have this tailwind in a high cost of capital world, particularly in the face of falling earnings estimates.

Higher oil prices, reckless fiscal policy and crowding out effects from technology spend suggest a low probability of rate relief. Importantly, bond and equity markets have an excellent ability to price in known risks (lower share prices today for higher returns tomorrow).

Our investment style biases us towards taking on valuation risk in the portfolio today for higher earnings growth and higher certainty of returns in the future. We believe that when long term rates stop rising, the portfolio is well placed to participate on the way up. For more on this topic, our most recent webinar is available on our website.

NET PERFORMANCE

PERIOD	FUND RETURN
1 month	-1.14%
12 months	-16.47%
3 years p.a.	+7.45%
5 years p.a.	+3.91%
Since Inception*	+124.79%
Since Inception p.a.*	+11.58%

*Inception on 13th May 2019

TOP 5 HOLDINGS

1. Genus Group (GNP)
2. SCEE Group (SXE)
3. HUB24 (HUB)
4. Cuscal (CCL)
5. Duratec (DUR)