

# Quarterly Overview



| As of 30 September 2026                   | 1 mth<br>(%) | 3 mths<br>(%) | 6 mths<br>(%) | 1 yr<br>(%) | 3 yrs<br>(% pa) | 5 yrs<br>(% pa) | 7yrs<br>(% pa) | Inception<br>(% pa)* |
|-------------------------------------------|--------------|---------------|---------------|-------------|-----------------|-----------------|----------------|----------------------|
| Chester High Conviction Fund (after fees) | -3.7         | 1.0           | 5.1           | 1.2         | 11.6            | 8.8             | 11.9           | 11.7                 |
| S&P/ASX 300 Accumulation Index            | -2.4         | 1.3           | 5.5           | 2.4         | 11.3            | 7.5             | 7.8            | 8.4                  |
| <b>Outperformance (after all fees)</b>    | <b>-1.3</b>  | <b>-0.3</b>   | <b>-0.4</b>   | <b>-1.2</b> | <b>+0.3</b>     | <b>+1.3</b>     | <b>+4.2</b>    | <b>+3.4</b>          |

\*26 April 2017.

“It’s not whether you’re right or wrong that’s important, but how much money you make when you’re right and how much you lose when you’re wrong.” Stan Druckenmiller

In early 2001, having just started in the finance industry, we were in the market for a car upgrade, and were looking through the classifieds for a used car. We came across a private sale of an old Ford Falcon out in the back blocks of Craigieburn, which was well outside our comfort zone, but within our budget. Our younger brother came along for moral support despite knowing slightly less about cars than we did. Once we arrived to inspect the car, we were greeted by a 12-year-old boy of Indian descent, who was to be translating the discussion for his elderly father, who clearly spoke little English. We started by asking tentative questions around a roadworthy certificate and mileage, while desperately hoping they wouldn't see the imposters standing beside them. All pretence of having any knowledge about cars was abandoned when our younger brother asked confidently for the vendor to “pop the bonnet”. He then stood over the bonnet of the car with his left hand on his chin thoughtfully asking questions around the oil filter, the carburetor and the alternator, parts of the engine he had only read about and couldn't actually identify. Watching the 12-year-old son translate the questions to the father, for him to answer the questions in his native tongue whilst stifling a knowing smirk gave our game away. He knew, that we knew, that we had no idea what we were talking about. Which in our minds, is a lot like investors asking questions around the neo-cloud model and the AI capex wave underpinning the entire global equities market.

## Global equities are one big AI trade

We are very cautious over the continuing pace of the AI capex roll out. Firmus was obviously a high-profile test of sentiment in the Australian market. We were hopeful from an ASX perspective that the IPO would work to broaden out the opportunity set within the Australian market. We were never close to understanding the investment case internally. There were simply too many variables to arrive at a valuation margin of safety to invest in the company anywhere near AUD43bn. The execution risk was too high and is now higher. **We have a pretty simple framework. If we don't understand something, we don't invest in it.** If Open AI and Anthropic are warning of the risk to humanity posed by AI, the risk to the acceleration of AI capex spend we think is diminishing, and with that the narrative of the future of AI may be in the middle of a well-earned correction. While the US market is in an AI driven upgrade cycle, it is most likely that equity markets remain well supported. S&P500 eps growth for FY26 is forecast at 30.2%, driven by Technology and Communication Services (the Mag7 effectively), although we do note that around 50% of this eps growth is driven by the hyperscalers marking to market their investments in unlisted companies (Open AI, Anthropic). We are concerned by the circularity of such eps momentum, given it can unwind equally quickly if valuations were to fall. The fact that annualised recurring revenue for both Open AI and Anthropic appears to be plateauing rather than accelerating is another warning in our eyes.

The AI bubble is completely reliant on 3 key assumptions. 1/ A shortage of compute (chips). Until the past 12 months chips have been seen to be a commodity. 2/ No issues with AI factory rollouts with access to power and water availability. 3/ Ongoing access to capital to fund the astronomical capex intentions. Firmus has just failed this test.

## The direction of interest rates?

One of the major drivers of equity markets is clearly the bond market, where over the past 6 weeks we have seen a remarkable back up in bond yields (US 10yr yield rising from 4.4% to 5.3% in 6 weeks). This has come on the back of a more hawkish Fed than we may have thought 8 weeks ago, with futures pricing in 2 more rate hikes over the next 6 months. The Australian 10yr bond rising to 5.4% is as high as it has been for 15 years, with the prospect of further rate hikes. This has made it a difficult backdrop for the ASX300 over the past 3 months, with government spending clearly influencing much of this move, whilst trying to lay the blame on rising energy costs (which clearly aren't helpful). Arguably we have been too sanguine on this move higher in rates, due to the structural challenge of the US debt burden and what a 5.3% 10yr bond means for the US interest expense. So, there are two . The short-term focus on inflation (the AI boom is clearly creating a strong backdrop for the US economy and helping keep the Australian economy out of recession) is a headwind for equity market valuations. However, our highest conviction view is that the US cannot afford to maintain interest rates at current levels.. Running a US deficit of 6% of GDP in a strong economy and an interest bill of 20% of total revenue and rising is a recipe for medium term disaster.

# Quarterly Overview

It may take an equity market drawdown to see any further intervention in the US bond market, but we believe some form of intervention (by the Fed) is inevitable given the prohibitive cost of debt for the US Government at 5.3%. We can debate whether this back up in yields is due to inflation expectations, economic strength or the challenge of financing the deficit (and hence lenders require a higher interest rate for the higher level of risk associated with the deficit funding). We do note though that on the well-known Buffett Indicator (the current stock market capitalisation divided by GDP), the US market has never been more expensive. Whilst credit conditions are not stressed yet (but cracks are appearing) and eps momentum continues, this in isolation doesn't mean that much, but if earnings falter due to AI uncertainty (which is starting to appear) and interest rates keep rising, the asymmetry of risk here (in the US) feels uneven. The Australian challenge is more acute, given the lack of confidence in policy settings currently, the willingness to invest in Australia right now is lacking, outside private equity where we have seen a noticeable pick up in listed companies being bid for. We put this down to two factors. Firstly, private equity takes a 3-5 year view (not a 6-month view which most investors seem to take), and secondly, the rise in passive investing and hollowing out of active managers in the mid/small cap end of the ASX300 has seen extreme divergence in the valuations being afforded the top 20 names on the ASX and the rest of the market. **We have a high degree of confidence that the valuation support across our portfolio for the eps growth it is generating is as high as it has ever been.** Patience, we believe, will be rewarded over the next 2-3 years. We might just need a change in monetary policy settings first.

## So, what does this mean for positioning?

We try to insulate the fund as much as possible from macro variables by allocating most of the capital (60-70%) to predictable cash generating companies where there is evidence of sustainable cash flow growth with valuation support. **We are finding incredible opportunities currently to invest in some predictable cash generating companies at remarkable valuations.** We still believe we are in a period of fiscal dominance which provides a supportive environment for hard assets, we have tweaked up our investment in cyclicals, while a consistent allocation to gold equities tends to assist the fund in times of inherent volatility. Our philosophy with the Chester High Conviction Fund remains to protect and then grow (what we hope to be) generational wealth. Protecting capital means a rigorous focus on asymmetric investing.

## Portfolio changes this quarter

We made only minor changes to the portfolio over the quarter. It took a new position in Alcoa (AAI) as structurally, there is a rational argument for the current copper to aluminium ratio (sitting at around 4.5x) to revert towards the long-term average of closer to 3.5x (copper/aluminium). Historically there has been an economic rationale to start substituting copper wires for aluminium when the ratio widens too much, however we do note that AI factories and associated infrastructure will need the reliability of copper as a superior conductor, which is not to say other uses of copper can not be substituted. The AAI stock price has been under severe pressure since the acquisition of S32's assets, which to our way of thinking, adds scale, geographic diversity and material cost synergies with rationalisation to the AAI asset base over the coming years. While AAI is subject to higher energy prices, which is a current headwind, the 18% rise in the alumina price and the 10% rise in the aluminium price since the acquisition was announced will more than offset the energy increase at spot prices. We see material upside to AAI at current prices, trading at just 5.5x FY27 PER or <3x EBITDA. The portfolio also added FDC during the quarter as one of the very few IPOs we have participated in. FDC is a founder-led construction and fit-out company that has grown revenue by 8% per annum for over 35 years. It is one of the strongest corporate cultures we have come across that was priced (in our mind) too cheaply for the cash flow profile and the strength of the balance sheet. It has risen over 30% since listing in what was a well-executed book build. The fund also increased holdings in The Lottery Corp (TLC), which has seen a significant short position build up (over 200m shares) based on what appears to be the likelihood of TLC being removed from an MSCI Index in November. The shares to be sold are around 101m. The only other explanation for the short position could be the poor FY26 run of jackpots that saw TLC deliver negative revenue growth in FY26. It is statistically unlikely for this to eventuate again (revenue growth has been 4.5% CAGR for 30 years). In our mind, TLC remains the highest quality infrastructure-like company on the ASX.

Stocks that were reduced over the course of the 3<sup>rd</sup> quarter included AGL, whereby we still remain of the view that as AGL transitions towards a generation fleet that is fully renewable, the valuation multiple attached to those cash flows will be materially higher than the 4.5x EBITDA multiple that AGL currently trades on. We are concerned over the trajectory of cash flows over the next 12-18 months as the electricity pricing across the East Coast remains soft, and AGL is still to transition out of some long-term coal and gas contracts in 2028, which will have a material impact on their earnings over the FY28/FY29 period. We also took the opportunity to reduce our position in Iress (IRE) given the strong run up into the August result. IRE remains deeply discounted on today's cash flows, which is to say the market remains deeply concerned around the future risk of disruption to the X-Plan business model, a view we have sympathy with. Through September we lightened our position in Maas Group (MGH) given the run up in the share price on the back of the MGH investment in Firmus. MGH is now trading effectively as a listed proxy for Firmus.

## How is the portfolio positioned?

Navigating the geopolitical conflict and the AI bubble (both winners and losers) has created a tricky stock picking environment. While we have a new Fed Chair with the backdrop of strong US economic data, the ongoing deficit spending across the western world remains unavoidable. Whilst we remain of the view that current bond yields are unsustainable for Western governments, the direction of travel is currently causing valuation challenges from an equity perspective. This lends itself to the notion of financial repression (inflation being higher than interest rates over the medium term) as the solution for the debt burden the world is faced with. This framework leads our investment thesis that has been focused on structurally higher inflation during this decade, as opposed to the past 2 decades of deflationary forces. Our focus remains on four key areas of investing, which are listed below and have been consistently applied for the past 5 years.

**Gold.** We continue to hold a high conviction view that gold equities will perform strongly over the next 2-3 years. While gold has suffered a drawdown through 2026 for a variety of reasons (liquidity, real interest rates and momentum unwinding), the underlying fundamental reason for holding gold as a portfolio diversifier has only increased in our view, albeit needing lower rates to stabilise the momentum. Gold equities currently comprise around 9% of the portfolio.

**Real assets.** Artificial Intelligence will find it hard to disrupt real assets. Investing in assets that are very hard to replicate or occupy a strategic position within an industry is a strong starting point. All remain essential services in a modern economy. We would place **MIN, EGH, ALD, SKG, AAI** and **STO** in this category.

**Valuation margin of safety.** An asymmetric risk profile. We would place **LNW, LLC, NUF** and **AUB** in this category. A material discount to book value has provided a strong starting point in many cases with catalysts emerging over the next 12-18 months to see the valuation gap close. Several of these positions simply haven't worked as yet, with the catalysts for any re-rating being pushed to the right. Sentiment remains extremely poor for LLC, while we remain excited by the opportunity in front of Nufarm (NUF) and AUB Group (AUB) over the coming 12-18 months.

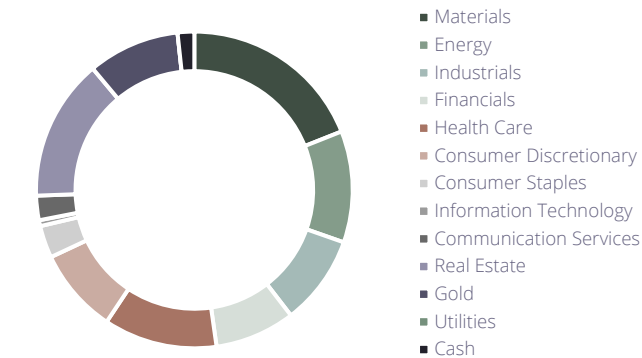
**Quality at a reasonable price.** How likely is a company to be able to display an economic moat with a strong industry position? We would place **CSL, RMD, NEU, TLC** and **NWS** in this category. We have increased our health care exposure over the past 3 months as CSL recovered and Telix (TLX) has multiple catalysts in front of it over the next 12 months.

## The Portfolio

The CHCF posted a 1.0% gain in the quarter, relative to the 1.3% gain in the ASX300 Accumulation Index. Maas Group (MGH) led the outperformers for the quarter as their 3.2% investment in Firmus was poised to deliver a significant uplift in the Firmus IPO process. Clearly, post October, this IPO did not proceed and hence the value of the MGH stake in Firmus is very much unknown. The associated revenue uplift with MGH's electrical work for Firmus AI factories will also underpin the MGH cash flows over the next 18 months. **As discussed earlier, we have taken the opportunity to lighten our holdings given our caution around the sustainability of the Firmus IPO price.** Genesis Minerals (GMD) also had a strong quarter on the back of the long-awaited merger with Vault (VAU). The realised synergies from this merger are far greater than any competitor could realise, hence the strong share price reaction during the 3<sup>rd</sup> quarter as Regis (RRL) stepped away. Nufarm (NUF) also had a strong quarter despite tweaking down FY26 EBITDA guidance in September. The growing acceptance of the strength in the NUF seeds portfolio, on the back of a successful investor day and the recent Vylor spin-off from US peer Corteva (who separated their crop protection business from their seeds business, now called Vylor) which was valued at 16x EV/EBITDA creates a significant value uplift to the NUF seeds portfolio on a look-through basis. The underperformers for the quarter were led by Develop (DVP), which gave guidance for the full year of their Woodlawn Copper/Zinc mine in NSW which guided to a grade profile below market expectations. We still see significant upside to DVP on a two-year view as Woodlawn production is joined by Pioneer Dome (FY27) and Yitirrti (FY29) to generate strong cash flow growth over the next 3 years. Mineral Resources also retraced 18% over the quarter on softer lithium pricing, despite a strong FY26 result.

| Top 3 holdings              | Portfolio breakdown            |       |
|-----------------------------|--------------------------------|-------|
| Nufarm                      | Materials ex Gold              | 19.0% |
| Light & Wonder              | Real Estate                    | 14.5% |
| AUB Group                   | Health Care                    | 11.6% |
| Top 3 portfolio attribution | Bottom 3 portfolio attribution |       |
| Maas Group                  | Develop Global                 |       |
| Genesis Minerals            | Mineral Resources              |       |
| Nufarm                      | Lynas Corp                     |       |

Fund weights - diverse sector exposure



# What are we thinking about?

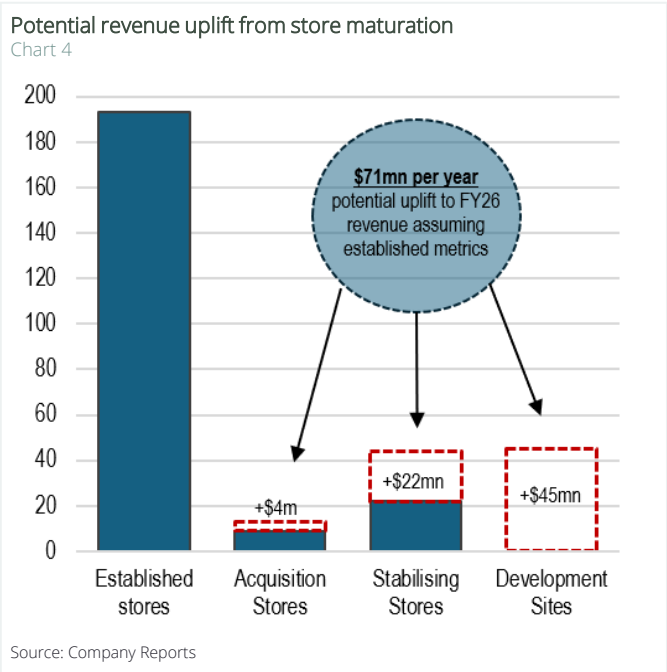
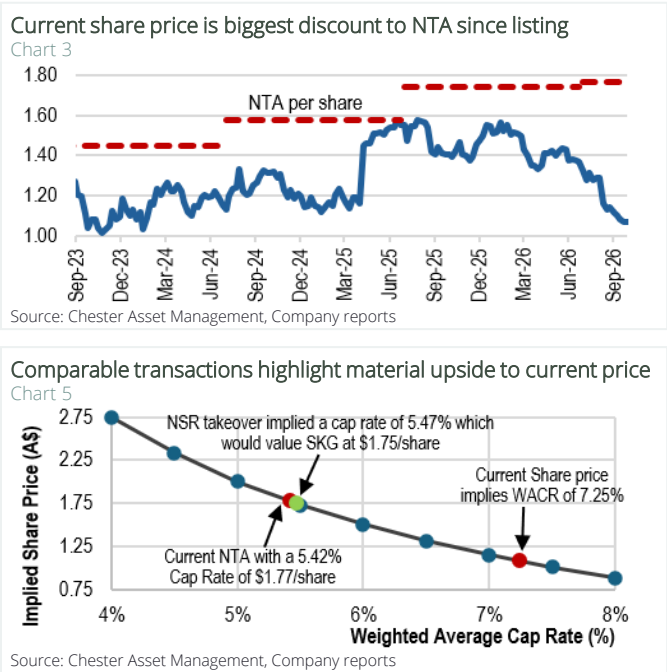
| THEME                                      | EQUITY CONSIDERATIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|--------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| GEOPOLITICS                                | It's difficult to write anything conclusive on the state of global affairs, given the ongoing posturing (US sending another aircraft carrier to the Middle East) and on-again, off-again nature of dialogue between the different actors. It's also increasingly difficult to frame an informed view, given the sheer amount of disinformation available (from all sides). The one thing we do know is that Europe has released over 100mbbls of oil from their strategic stockpile reserves (SPR), while the US has just released another 40mbbls, which will see the US SPR below 250mbbls from a peak of 727mbbls in 2010. Given how much these SPR releases have kept a ceiling on oil price in 2026, the conflict would want to be resolved quickly. Freight rates are also soaring, neither of which is helpful to the current inflationary pressures.                                                                                                                                                                                                                                                                                             |
| HOW DO BOND YIELDS REVERSE COURSE?         | Combined with the above inflationary pressures, US deficit spending and stronger economic data, global bond yields are in almost uncharted territory now having been in a bear market since the end of COVID. Across the Western World, 10yr bond yields are trading at levels they haven't been for 15-25 years. This is a very unhelpful backdrop for equity valuations and like all asset classes, momentum begets momentum, until a catalyst arrives to reverse the current trajectory. There are three reasons bonds could reverse course. 1/ The end of the conflict and a material drop in energy prices, 2/ a significant slowdown in AI capex spend, which would lead to economic weakness and therefore a potential shift to monetary policy or 3/ a Federal Reserve intervention given the damage to the US fiscal position. The RSI (relative strength indicator) on the US treasury 10yr ETF is below 15, a signal that suggests the price action is extremely bearish.                                                                                                                                                                     |
| US DOLLAR/ GOLD                            | The US dollar has had a strong 6 months due to a number of factors. A flight to safety in the escalation of the Iran war, stronger economic growth and a more hawkish Fed (Warsh) than we may have thought otherwise. Throw in the demand for US equities and the trend has been very powerful. Our long-term thesis of believing the US Dollar will decline relative to hard assets hasn't actually changed at all. Current US interest expense is annualising over US\$1.3Tn per year which is over 20% of all US receipts. The US continues to run a budget deficit of around USD2Tn in 2026 or 6.3% of GDP which will see US Public Debt at USD42Tn next year. We are in the camp of "nothing stops this train". For this reason, we have long been of the view that the easiest way to solve the deficit spending is to reduce the interest burden with lower rates, which may mean suppressing long term rates, via intervention. Perhaps this thesis needs more equity market volatility to be considered a logical next step. A rising USD is unhelpful for risk assets, including mid/small cap outperformance and commodity price performance. |
| AUSTRALIAN MONETARY POLICY                 | While this may take another 3-6 months to be reflected in hard data, the anecdotal feedback suggests that the RBA will have to consider whether to change its current hawkish bias. Small businesses are really struggling, with tax payments via credit cards a lost source of working capital relief. Insolvencies in FY27 are up 15% on FY26 thus far. Clearly the current policy settings have been taken extremely poorly by consumers and businesses, with consumer confidence in October close to 30-year lows and housing prices are annualizing a 10-12% correction across the major cities. An easier monetary policy stance would augur well for the underperformance of small caps in 2026 as we try to extrapolate better times ahead. Unless you're an electrician building data centres, there is not much joy for domestic consumption.                                                                                                                                                                                                                                                                                                  |
| AI CAPEX SPENDING AND CIRCULAR INVESTMENTS | One of the reasons we remain cautious on the AI infrastructure build out is the circularity of investments between the major players within the industry, which has all the hallmarks of the financing tricks used in the lead up to the Tech bubble crashing in 2001. The sheer level of commitments signed by Open AI and Anthropic to all the hyperscalers and Nvidia is of genuine concern given neither party will be close to breaking even for 3-5 years.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| SOFT COMMODITIES                           | Historically an energy cycle leads a soft commodity cycle, which is holding true in 2026. Rice, wheat, cotton and soybean are all up materially CYTD, which tends to flow through to farmer profitability feeding agriculture companies' revenue growth. NUF and RIC are both well placed to benefit from this macro cycle over the next 12-18 months.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| PRIVATE CREDIT – BATHLA GROUP              | We are watching carefully for the cockroach theory. When there is one large group that fails, it is rarely a stand-alone event in isolation. It would not be surprising to see more dominoes fall over the coming months, particularly with financing costs going the wrong way. The issues surrounding other high-profile private credit funds are also a significant concern. When promised returns are too good to be true, they most often end badly.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| M&A                                        | While traditionally a late cycle thematic, we have witnessed a plethora of Australian listed companies be subject to an M&A transaction or speculation, which in our view, was simply a reflection that passive investing has ignored the mid/small cap part of the market where there are material valuation anomalies. SDF, EQT, RWC, CWY, BET, AUC, PPT, VAU and FPR all represent companies where the market failed to appropriately value the cash flow stream. Private equity has the luxury of taking a 5-year view, not a 3-month view.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |



# Stock Selection

## Storage King Group (SKG)

|             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DESCRIPTION | <p><b>Storage King Group (SKG ASX)</b>, previously Abacus Storage King (ASK), was spun out of Abacus Group (ABG) in a de-stapling in June 2023. At the time it was one of only 2 storage REITs, but after National Storage REIT (NSR) was acquired by a Brookfield GIC Consortium it became the only ASX listed storage REIT. SKG has had corporate interest of its own, receiving an unsolicited non-binding takeover proposal from Ki Corporation and Public Storage at AUD1.47/security (in April 2025) which was later revised to AUD1.65/security before the bid was withdrawn in August 2025.</p> <p>SKG owns 151 sites with 132 of those sites fully operational stores and 19 future stores. ~90% of sites are located in metropolitan areas with 30 operating sites in Sydney, 26 in Melbourne and 21 in Brisbane and the Gold Coast.</p>                                                                                                                                                                                                                                      |
| VALUATION   | <p>Our DCF valuation of SKG is <b>AUD1.50/share</b>, while NTA is <b>AUD1.78/share</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| QUALITY     | <p>Storage as an asset class and SKG are attractive for a number of reasons:</p> <ul style="list-style-type: none"><li>• Diversification – SKG in particular has &gt;90k units let with 75k customer agreements across its operating sites highlighting the limited exposure and hence risk from any one customer</li><li>• Growth – Given the diversified portfolio SKG has the ability to increase rents periodically. The business also has a strong development pipeline with an estimated completion value of AUD690m</li><li>• Geography – ~90% of SKG’s portfolio being located in Metropolitan Regions</li></ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| INSIGHT     | <p>Higher interest rates, combined with the need to balance capital returns and investment in an attractive development pipeline, have created a short-term headwind for the share price, despite supporting the long-term growth of the underlying business.</p> <p>Albeit with storage assets continuing to transact at low cap rates, we believe SKG has optionality on divesting non-core development sites and underperforming assets at or above book value which could have the effect of reducing net debt and crystallising value to support the share price in the short term.</p> <p>The current share price represents the largest discount to NTA since SKG began trading as a standalone company, with the stock now trading at an implied 7.25% cap rate. SKG is now the only remaining listed self-storage asset on the ASX, following the acquisition of National Storage REIT (NSR) at an implied 5.47% cap rate. Applying the same cap rate to SKG’s portfolio would imply a valuation of approximately AUD1.75/share, around 65% above the current share price.</p> |



# Stock Selection

## Telix Pharmaceuticals (TLX)



### DESCRIPTION

**Telix Pharmaceuticals (TLX ASX)** is a global radiopharmaceutical company that uses targeted imaging and radiation therapy to diagnose and treat cancer. Its prostate cancer imaging agents, Illuccix and Gozellix, fund its "theranostics" strategy: a scan identifies patients whose tumours carry a target, then a therapy treats that same target.

Founder-led by Dr Christian Behrenbruch, TLX controls the full chain from development and isotope supply to manufacturing, distribution and sales. Its next value drivers are BiPASS (wider prostate imaging), the Pixclara launch in brain cancer, a potential Zircaix launch in kidney cancer, and late-stage therapies in prostate, kidney and brain cancer.

### VALUATION

Our DCF valuation of TLX is **AUD26.00/share**

### QUALITY

TLX is becoming a globally scaled radiopharmaceutical platform, pairing a growing PSMA imaging franchise with hard-to-replicate radiopharmacy, isotope supply, manufacturing and distribution capabilities. Illuccix and Gozellix fund expansion into brain, kidney and other cancers, while the theranostics pipeline offers material long-term upside as targeted radiotherapies gain adoption. TLX is well placed to benefit from rising cancer incidence, earlier diagnosis and wider use of imaging to select patients for treatment.

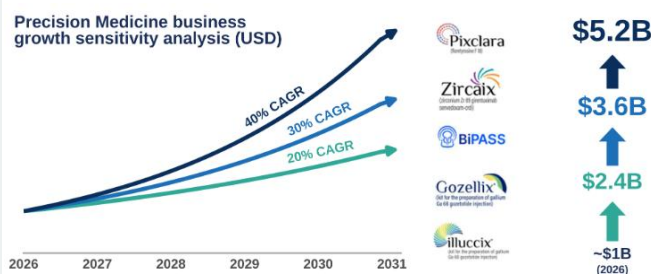
### INSIGHT

Forecasting earnings for a company like TLX, with products still awaiting approval, can be difficult. However, we continue to see upside to consensus, supported by TLX's own projections of 20–40% annual revenue growth for its Precision Medicine business alone. That would take Precision Medicine to USD2.4–5.2bn by FY31, against consensus of ~USD2.0bn for the whole group, which is below even TLX's low case. We expect upgrades as Illuccix and Gozellix expand overseas, Zircaix (kidney) and Pixclara (brain) are commercialised, BiPASS lifts the number of prostate scans and the therapeutics pipeline matures. After allowing for the chance each product fails, we forecast FY31 revenue of USD2.9bn, 43% above consensus, and USD5.0bn (+145%) if everything is approved.

We value the core business, including Illuccix global at AUD12.80/share, excluding any BiPASS upside. At the current share price this implies the market is valuing the remainder of the business at AUD2.20/share, which we value at AUD13.20/share risked which includes BiPASS (AUD2.45), Zircaix (AUD2.50), Pixclara (AUD2.50) and the therapeutics pipeline (AUD5.75). Investors are effectively buying the pipeline at 17 cents in the dollar. Our risked valuation of AUD26/share is 73% above the current share price, rising to ~AUD52/share if everything is approved.

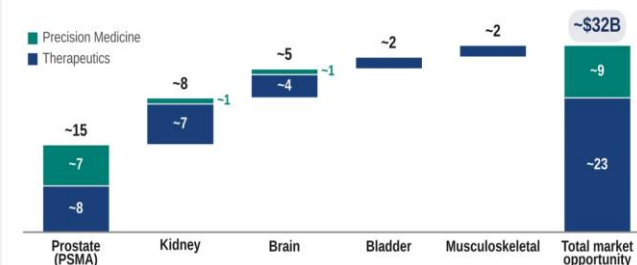
### Growth sensitivity to Precision Medicine business unit

Chart 6



### Telix TAM of the product suite

Chart 7



### Valuation analysis

Chart 8

| TLX Potential Opportunities    | FY31 Market   | Estimated Share | Unrisked Revenue | Risking    | Risked Revenue | Risked Valuation | Comments                                                       |
|--------------------------------|---------------|-----------------|------------------|------------|----------------|------------------|----------------------------------------------------------------|
| Measure                        | USDm          | %               | USDm             | %          | USDm           | AUD/share        |                                                                |
| RLS, Corporate, Other, D       |               |                 | 300              | 100%       | 300            | 9.70             | RLS Revenue ~USD200m currently, nominal growth                 |
| Illuccix & Gozellix PSMA PET   | 3,500         | 35%             | 1,225            | 100%       | 1,225          |                  | Current Market USD2.5bn, TLX USD3.5bn (expanded market)        |
| BiPASS PSMA PET Upside         | 3,200         | 35%             | 1,120            | 20%        | 224            | 2.45             | TLX Upsized market estimate (USD6.7bn), 1.7m scans             |
| Illuccix Global                | 3,000         | 15%             | 450              | 100%       | 450            | 3.10             | Global market similar size to US, estimates 1/3 the size of US |
| TLX-250 (Kidney) - US          | 1,000         | 30%             | 300              | 90%        | 270            | 2.50             | Current TAM USD750m + growth, refer below                      |
| TLX101-CDx (Brain) - US        | 1,000         | 30%             | 300              | 90%        | 270            | 2.50             | Current TAM USD470m + growth, refer below                      |
| TLX-591 & 592 Therapeutics     | 8,000         | 20%             | 1,600            | 30%        | 480            | 5.75             | TAM could be USD23bn but they aren't in all markets yet        |
| <b>Total</b>                   | <b>19,700</b> | <b>25%</b>      | <b>4,995</b>     | <b>1%</b>  | <b>2,919</b>   | <b>26.00</b>     |                                                                |
| <b>Consensus / Share price</b> | <b>N/A</b>    | <b>N/A</b>      | <b>2,041</b>     | <b>N/A</b> | <b>2,041</b>   | <b>16.16</b>     |                                                                |
| <b>% &gt; consensus</b>        |               |                 | <b>145%</b>      |            | <b>43%</b>     | <b>61%</b>       |                                                                |

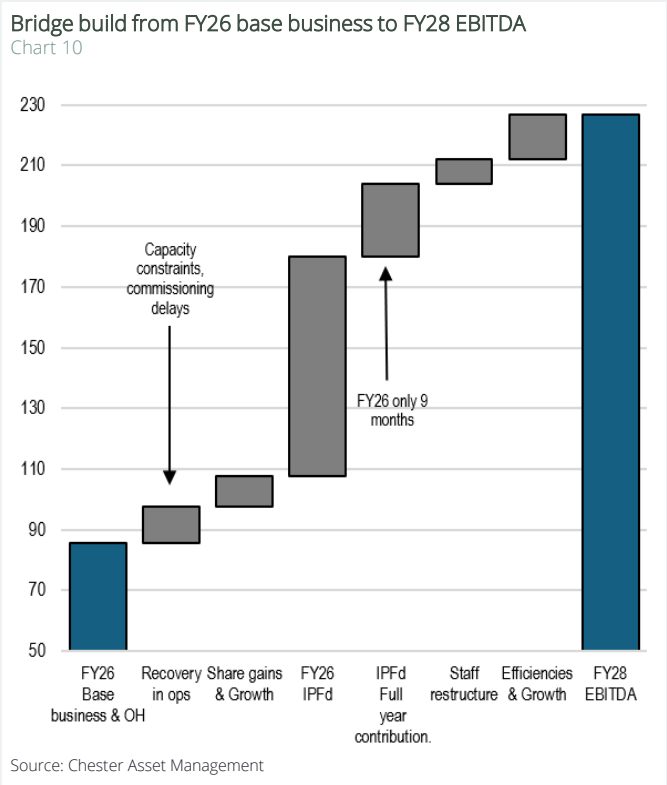
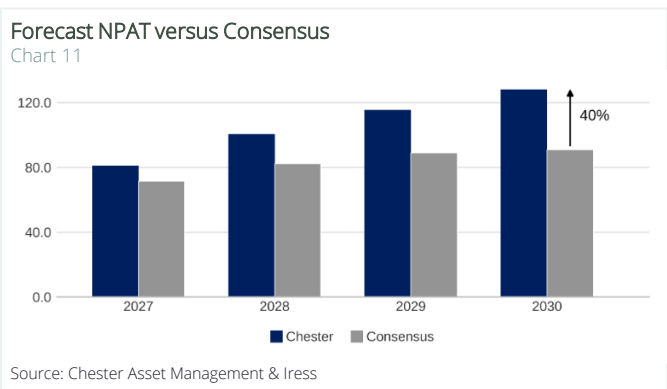
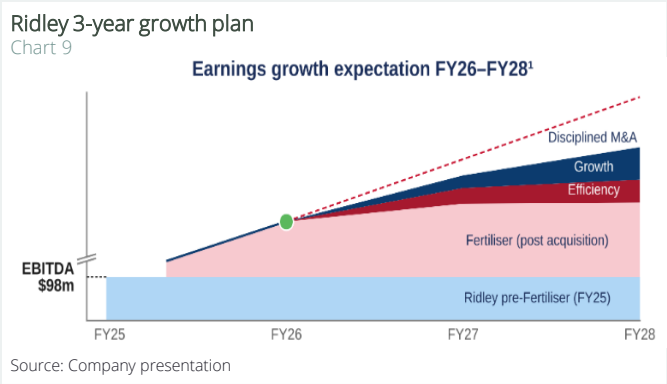
Source: Chester Asset Management

# Stock Selection

## Ridley Corporation (RIC)



|             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|-------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DESCRIPTION | <p>Ridley Corporation (RIC ASX) is Australia's largest provider of animal nutrition solutions across both bulk stock feeds and packaged feeds and ingredients across a wide range of monogastric, ruminant, aqua and other species. RIC operates an extensive supply chain throughout eastern and southern Australia with a total capacity of ~2Mtpa from 13 feed mills, two rendering/ingredients recovery sites, a packaging site, and a supplements facility.</p> <p>In 2024 RIC acquired Oceania Meat Processors which includes facilities in Melbourne adjacent to their Laverton plant and Timaru in New Zealand which has recently completed an expansion. In May 2025 RIC also announced the transformative acquisition of Incitec Pivot's Fertilisers Distribution Business (IPFd), Australia's #1 distributor of fertilisers, adding a highly complementary pillar to the company's growth and reinforcing RIC's position as one of Australia's leading diversified agricultural companies.</p>                                     |
| VALUATION   | <p>Our DCF valuation of RIC is <b>AUD3.80/share</b></p> <p>Currently trading at 10x FY28 price-to-earnings</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| QUALITY     | <p>We have seen a marked improvement in the quality of RIC since 2019 with the commencement of Quinton Hildebrand as MD with Mick McMahon being appointed Chairman the following year as part of a board refresh. Prior to these management changes RIC had a stretched balance sheet with net debt/EBITDA above 2.5x and underutilised assets. Since then, however, we have seen strong working capital management, rationalisation of the feed network, changed pricing strategy and divestment of their Westbury plant leading to improved earnings and cash flow. We believe IPF Distribution adds a layer to growth and provides diversification benefits complementary to Feed and Packaged ingredients.</p>                                                                                                                                                                                                                                                                                                                            |
| INSIGHT     | <p>We see the opportunity in IPF Distribution (IPFd), acquired from DNL, as similar to the one RIC itself offered when Quinton first took over and estimate it can deliver ~AUD10m p.a. of incremental EBITDA. The FY26 result has already validated the acquisition. The gain on bargain purchase confirms IPFd was bought below net asset value, IPFd earnings came in ahead of market expectations, and management announced a further AUD8m of cost-out from staff rationalisation. Separately, DNL's sale of Phosphate Hill to Mayfair means the site stays open, adding potential ~AUD8m of EBITDA upside beyond the original acquisition case.</p> <p>Taken together, we see potential for &gt;AUD50m of EBITDA to be added by FY28+, on top of the base business (~AUD100m) and the IPFd acquisition (~AUD75m). We are also constructive on continued market share gains in Bulks and a recovery in Ingredients as operational issues normalise and tallow prices recover. This supports our above-consensus projections for RIC.</p> |





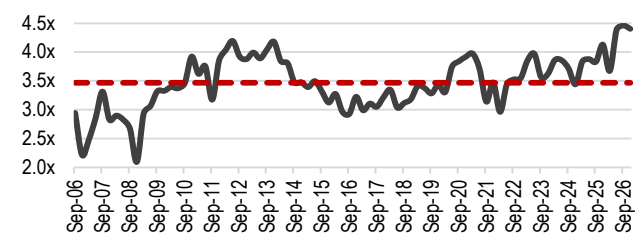
# Stock Selection

## Alcoa Corporation (AAI)

|             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| DESCRIPTION | <p><b>Alcoa Corporation (AAI ASX)</b> is a vertically integrated aluminium producer. It mines bauxite, refines alumina, smelts and casts aluminium, and generates energy across Australia, Brazil, Canada, Iceland, Norway, Spain and the United States. It reports through two segments, Alumina and Aluminum. The Alumina segment mines bauxite and refines it into alumina, which it sells to smelters and industrial chemical producers under third-party supply contracts. The Aluminum segment sells primary aluminium as commodity-grade and value-added ingot, along with aluminium powder and scrap, to customers in transportation, building and construction, packaging, wire and other industrial markets.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| VALUATION   | <p>We value AAI at <b>AUD82.50/share</b> using 5x EV/EBITDA forward earnings using USD3,500/t aluminum price which implies a copper price of USD5.50lb (USD12,125/t) using 3.5x spread.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| QUALITY     | <p>AAI is the leading listed pure-play upstream aluminium producer, spanning bauxite, alumina and primary metal. The South32 acquisition, closing 1H27, makes it the world's largest bauxite miner with about 13% global share. It also lifts AAI to about 26% of ex-China alumina (#1, roughly double Rio Tinto) and about 11% of ex-China primary aluminium (#3 behind Rusal and Rio).</p> <p>AAI's bauxite base is genuinely tier one: Boddington, the world's second-cheapest bauxite mine, takes the portfolio to the 18th percentile of the global cost curve, and its refineries sit in the cheaper half. The result is unmatched ex-China scale in the raw materials that feed the aluminium chain.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| INSIGHT     | <p>Copper now costs ~4.6x as much as aluminium (US\$14,500/t vs US\$3,170/t). That's above January 2026's 4.3x record and well above the ~3.5x 20-year average, the level at which manufacturers start to consider switching. For the same conductivity, aluminium weighs about half as much as copper and costs about a tenth as much in metal. Substitution is already standard in HVAC and is spreading into cables and automotive wiring. Because retooling makes the switch sticky, we see this as structural new demand for aluminium, supporting higher prices and AAI.</p> <p>Supply is also at risk. Yunnan holds ~14% of China's aluminium capacity and runs ~80% on hydropower, so its output depends on rainfall. Smelters are the first load cut in a dry season, and the 2022–23 drought took ~2Mt offline. NOAA now puts a very strong El Niño at &gt;90% likely through the 2026–27 northern winter, which typically brings below-normal rainfall to Yunnan. China is already at its 45Mt capacity cap, so lost tonnes can't be replaced domestically. That tightens the global market and supports LME prices, and AAI benefits directly as a producer outside China.</p> <p>After the South32 acquisition, AAI will have ~3.5Mtpa of smelting capacity. On our cost estimates, every USD100/t rise in the aluminium price adds ~USD293m to EBITDA. If the copper/aluminium ratio returned to its ~3.5x average with copper unchanged, aluminium would be ~USD4,150/t. That implies annualised EBITDA of ~USD6.1bn after the price-linked payments to South32 (the CVR), nearly double CY27 consensus of USD3.2bn. We believe the risk vs reward in AAI here is compelling.</p> |

Copper vs Aluminium price ratio (x)

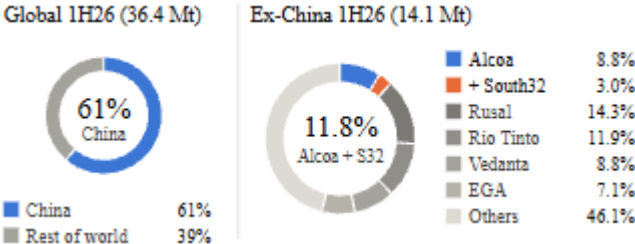
Chart 12



Source: Iress

World aluminium supply 1H26

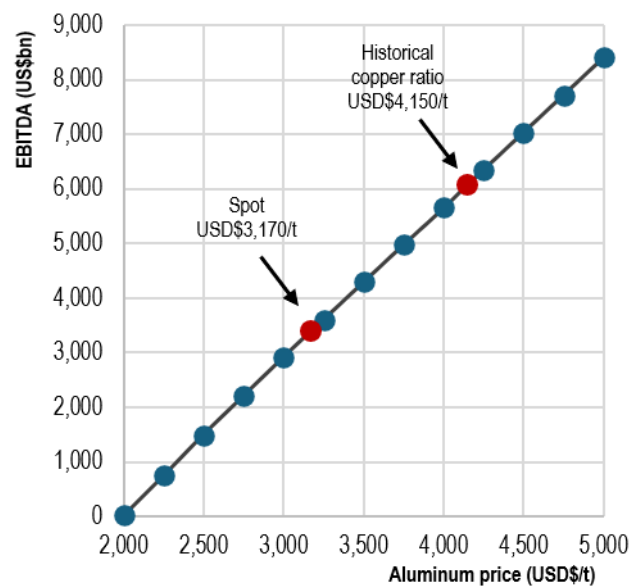
Chart 14



Source: Rusal, Alcoa

EBITDA sensitivity to aluminium price

Chart 13



Source: Chester Asset Management



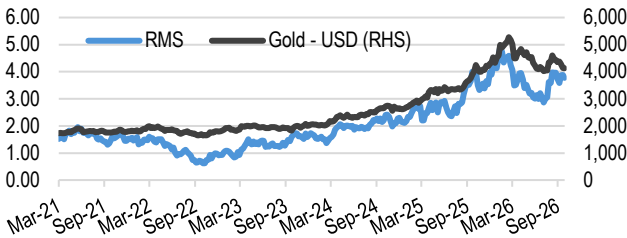
# Stock Selection

## Ramelius Resources (RMS)

|             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|             | <p><b>Ramelius Resources (RMS ASX)</b> is a Western Australian gold producer built on a hub-and-spoke model. Its core processing centre at Mt Magnet is fed by high-grade satellite deposits, including Penny and Cue, which are selectively mined and hauled to the mill. This lets RMS optimise grade, keep the plant running near capacity and limit capital intensity. RMS has also simplified the portfolio by selling the Edna May hub, which had been on care and maintenance since April 2025, to Forrestania Resources.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| DESCRIPTION | <p>The merger with Spartan Resources strengthens this strategy by adding the high-grade Dalgaranga project, whose ore is hauled to Mt Magnet. That feed displaces lower-grade material and lifts group margins. Mt Magnet's mill capacity is being expanded from 2Mtpa to 4.3–5Mtpa, partly by reusing equipment from Dalgaranga. This makes Mt Magnet the main growth engine, with mine life extending to 2043. Rebecca-Roe will add a second hub, with a 3.25Mtpa mill and first gold targeted for the December 2028 quarter. Together with an active exploration program, these projects underpin a target of 560–610koz of annual production by FY30, up from 205–225koz guided for FY27. That growth reinforces RMS's position as a disciplined, high-return mid-tier WA gold producer.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| VALUATION   | <p><b>AUD7.45/share</b> NAV risked, 6% WACC<br/>Gold price USD4,150/oz, AUDUSD0.70, (AUD5,925/oz LT)</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| QUALITY     | <p>RMS combines a proven operating team with a strengthened high-grade asset base. Management has a long track record of disciplined dealmaking, delivering value-accretive acquisitions and successful integration of new operations, most recently through the merger that brought the high-grade Dalgaranga deposits into the portfolio. Dalgaranga's orebody is notable for its high grades and underground potential, which enhances group margin resilience and provides flexibility in how RMS sequences ore across its processing hubs.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| INSIGHT     | <p>RMS's new four-year outlook partly confirms our view that outer-year production would exceed market expectations. RMS now targets 560–610koz of annual production by FY30, up from 205–225koz guided for FY27. Despite this upgrade, we believe there is more upside to unlock than RMS is currently targeting:</p> <ul style="list-style-type: none"><li>• <b>Dalgaranga mining rates look conservative:</b> As former Spartan investors, we have followed Dalgaranga closely for several years. The outlook assumes the Never Never underground mine reaches 1.0–1.1Mtpa which we view as conservative. We see upside to mining rates as they get into the wider zone of the orebody. Albeit, timing is uncertain, and this upside may not come through until after FY30.</li><li>• <b>Mt Magnet could reach 5.0Mtpa:</b> RMS's base case is 4.3Mtpa, with an option to go to 5.0Mtpa. The AUD280m expansion includes infrastructure built to handle more than 4.3Mtpa. We see a clear path to 5.0Mtpa, around 16% more throughput than the base case.</li><li>• <b>High-grade feed can replace low-grade ore:</b> Never Never and Pepper hold an Ore Reserve of 7.0Mt at 7.3g/t for 1.6Moz. That gives RMS significant optionality to replace lower-grade Mt Magnet ore (~2g/t) with ~7g/t Dalgaranga feed. That is more than three times the gold per tonne through the same mill, which would lift margins materially.</li></ul> |

RMS share price versus spot gold

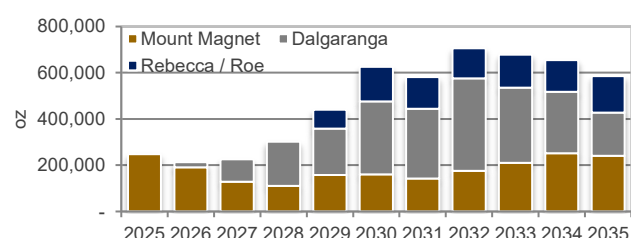
Chart 15



Source: Iress

Annual production forecasts

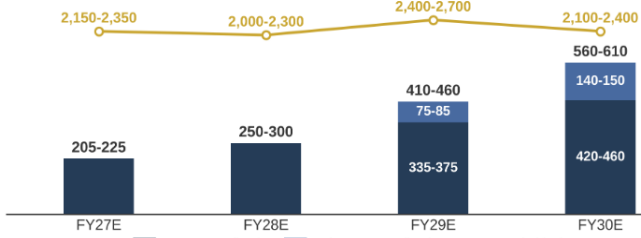
Chart 16



Source: Chester Asset Management

4-year production (Koz) and AISC (AUD\$/oz) outlook

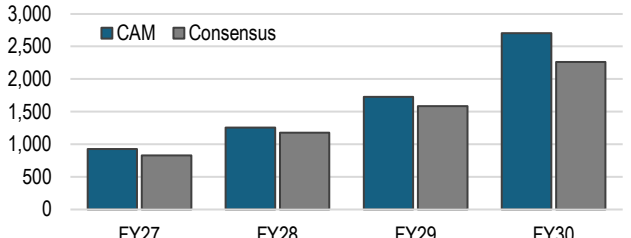
Chart 17



Source: Company Reports

Consensus EBITDA estimates

Chart 18



Source: Chester Asset Management, Various Analyst Reports

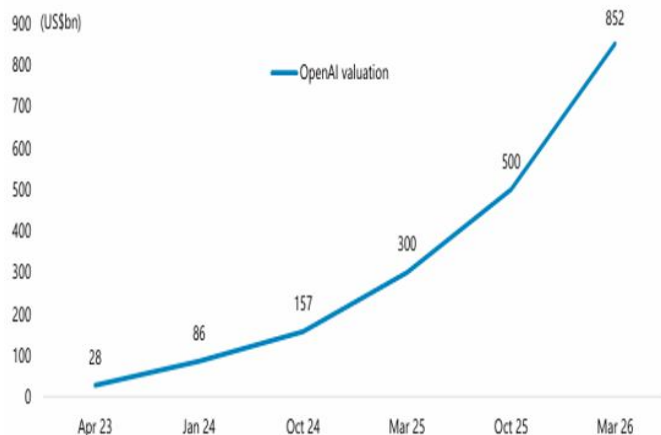
# Key themes – AI profitability

## AI CAPEX IS INCREASINGLY DEBT FUNDED

This is, in our minds, a pretty compelling visual for the premise that the AI wave that has propped up global markets for the past 2 years is starting to get long in the tooth. Chart 21 is illustrative of the circularity around eps momentum, given that in the past quarter (2Q26) the major hyperscalers' eps momentum was solely driven by revaluing their investments (other non-operating income). Chart 19 highlights that as of March Open AI was valued in the private market at USD852bn (up almost 200% in 12 months), despite seeing annualised recurring revenue (ARR) starting to slow down (recent sales not yet publicly available, but we suspect is the reason Open AI is now talking to an IPO in 2027 not 2026). Chart 20 highlights the most recent ARR of Anthropic, which has slowed appreciably in the past 3 months. We can't help but associate the decline in token costs (chart 23 below) with the slowdown in ARR of Anthropic. Chart 22 highlights the acceleration of bond issuance across the major hyperscalers to fund this capex program. That is not yet cause for alarm given the cash flows being produced by the companies (having only recently turned free cash flow negative), but points to more stress in the system to maintain the same pace of capex rollout. Which is the whole thematic driving equity market returns in 2026.

## Open AI valuation crossing USD1.0Tn in 2026?

Chart 19

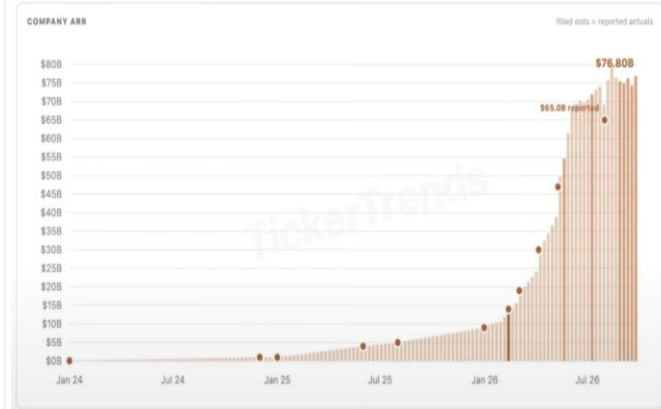


Source: OpenAI

Source: Jefferies Research

## While Anthropic revenues appear to be plateauing

Chart 20

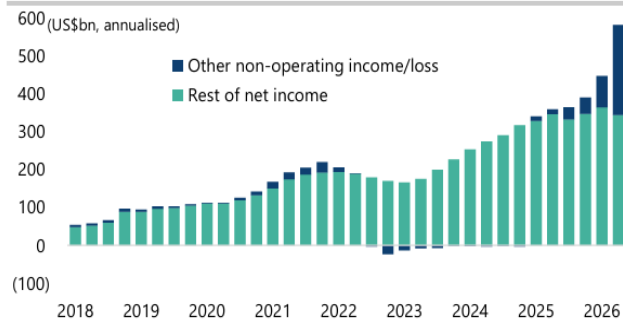


Source: Anthropic

## US eps growth is driven by revaluations more than fundamentals

Chart 21

### Four hyperscalers' annualised net income breakdown

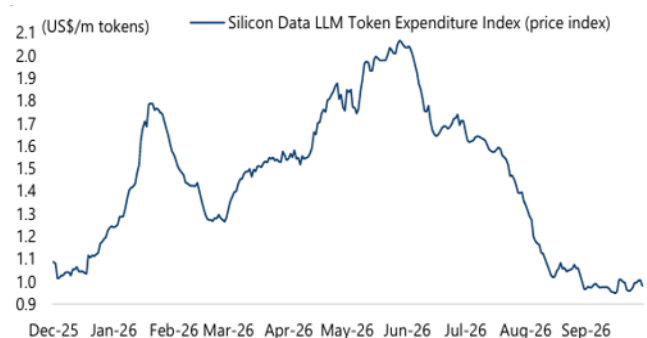


Note: Data up to 2Q26. Source: Bloomberg, Companies

Source: Jefferies Research

## Token costs have fallen 52% in the past 4 months

Chart 23



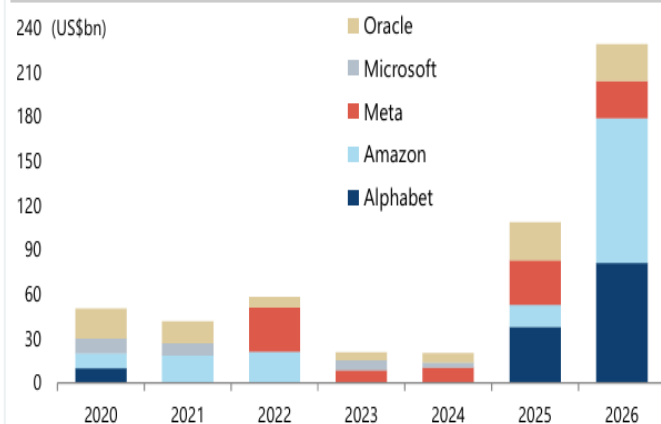
Source: Silicon Data, Bloomberg

Source: Jefferies Research

## With more and more credit being used for the capex roll out

Chart 22

### US hyperscalers' bond issuance



Note: Data up to 30 September 2026. Source: Bloomberg

Source: Jefferies Research

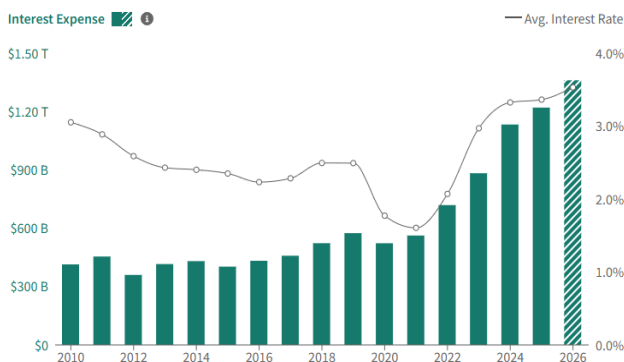


# US Funding Issues

## BOND MARKET MOVES

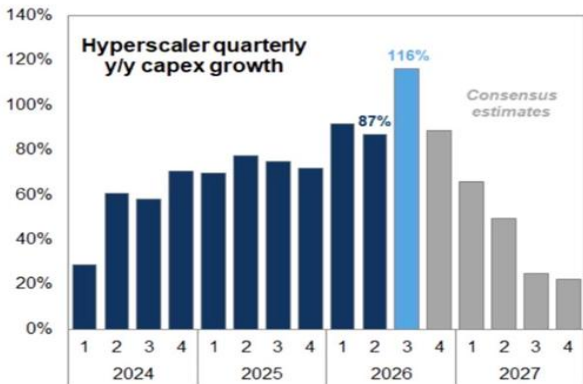
We are all aware of the back up in bond yields over the past 8 weeks. We contemplate the reasons why bonds may start rising (bond yields falling) in the next 3-6 months. The first reason is the most glaring. Chart 24 highlights the biggest risk to us, which is relentless US deficit spending at over 6% of GDP (over USD2Tn p.a.) into perpetuity. So, US Public Debt which is currently USD40Tn will be (all else being equal) USD50Tn in five years time. The sheer unsustainability of this is what drives our portfolio construction framework. Chart 26 illustrates US interest expense is forecast to be USD1.3Tn by the end of 2026 using a 3.7% interest rate. The current US 10-year bond is 5.3%. If we were teenagers, we would say, “the math ain’t mathing”. This leads us to our conclusion (at some point) of Fed intervention is ultimately inevitable. We do note the broad money supply (M2) is accelerating again in 2026, which augurs well for asset prices, while the two most obvious reasons for the bond market support is the deceleration of AI capex spend (3Q26 is the peak) which would see the economy slow down, and thus interest rate expectations fall. The Iran conflict keeping the energy complex too high (and inflation expectations) is the other variable we consider.

US interest expense at 3.7% average rate – what about 5.3% rates?  
Chart 26



Source: fiscaldata.treasury.gov

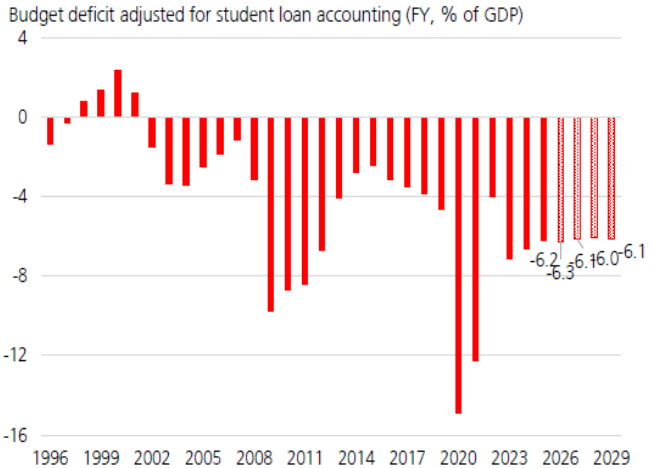
US economy has been driven by capex – is 3Q26 the peak?  
Chart 28



Source: FactSet, Goldman Sachs Global Investment Research

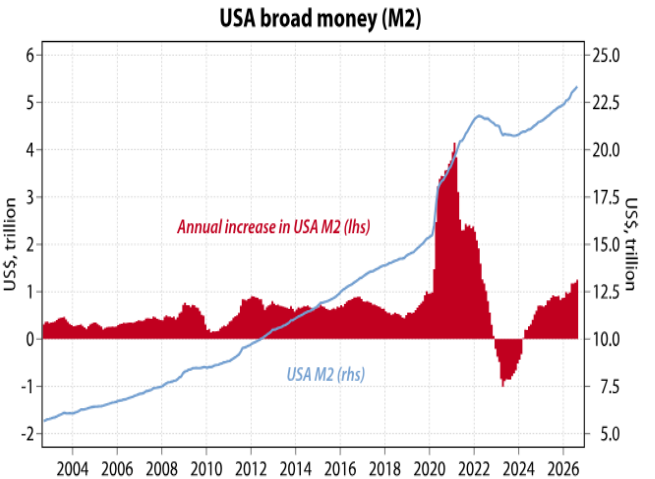
Source: Goldman Sachs Research

US deficit spending ongoing with no recession. What happens then?  
Chart 24



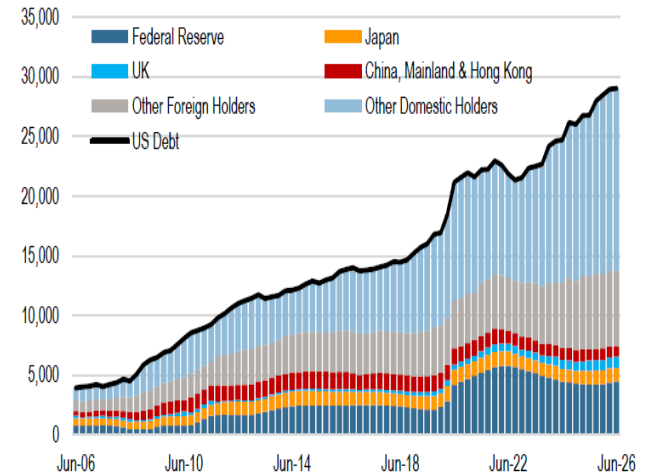
Source: UBS Research

Money supply is clearly supportive of US equity markets  
Chart 25



Source: Gavekal Research

US domestic banks are the major buyers of US treasuries  
Chart 27



Source: JP Morgan Research

# Key Macro Themes

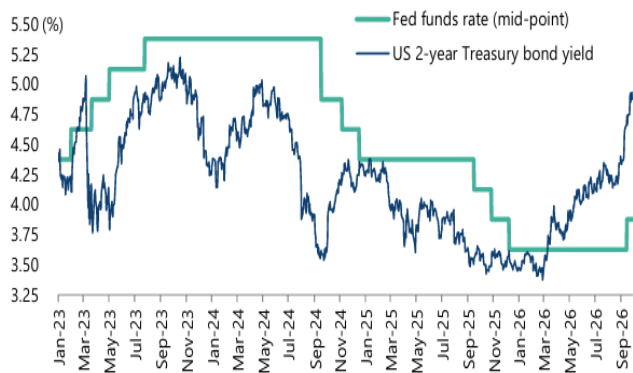


## US THOUGHTS

This ties into the thoughts on the previous page, given the key dilemma for equity markets currently is the shape and speed of the bond market sell-off (chart 31). Clearly interest rate expectations have changed considerably in 6 weeks. Whether this is due to the new Fed chair being optically more focused on inflation, the strength of the current US economy (although on page 10 we highlighted the risk to this current AI momentum) or fiscal concerns over deficit spending is a topic worthy of debate. Chart 32 is from UBS research that illustrates that the bulk of US GDP growth is driven by the AI capex wave and associated consumption benefits, which really suggests the rest of the economy is only just going. We would make the same case in Australia. In both cases (and in fact China), housing needs to be on a sustainable footing for broad based consumption patterns to re-emerge as opposed to the very narrow K-shaped economy we are currently dealing with. Chart 30 highlights that US housing supply (new builds) is running below trend at around 900k new homes. In the run up to the GFC, new home builds in the US were running at double this. Having a US 30-year mortgage rate at 7.4% is not helping the NAHB survey of builders' confidence, which is running at a 16-year low, while the US house price to income ratio is not yet at a level that suggests value is on offer across the national housing market. In our view, given the narrowness of the US economic strength, it won't take much of a fall in those pockets to see a material change to growth expectations.

### The US market is pricing in higher rates

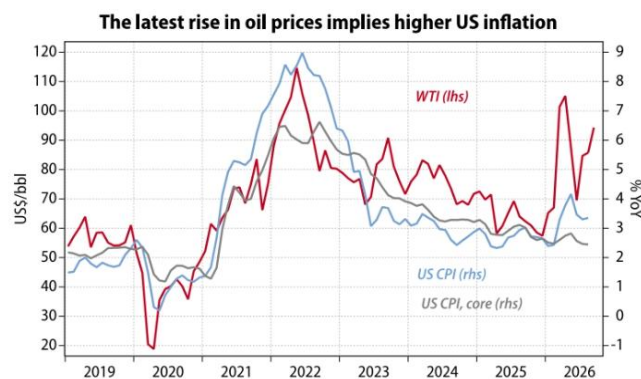
Chart 31



Source: Jefferies Research

### Cost-push inflation remains the biggest policy challenge

Chart 33

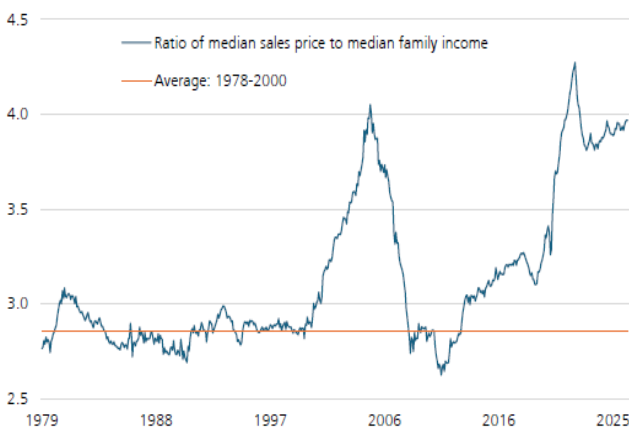


Source: Gavekal Research

### US housing remains elevated on a price-to-income basis

Chart 29

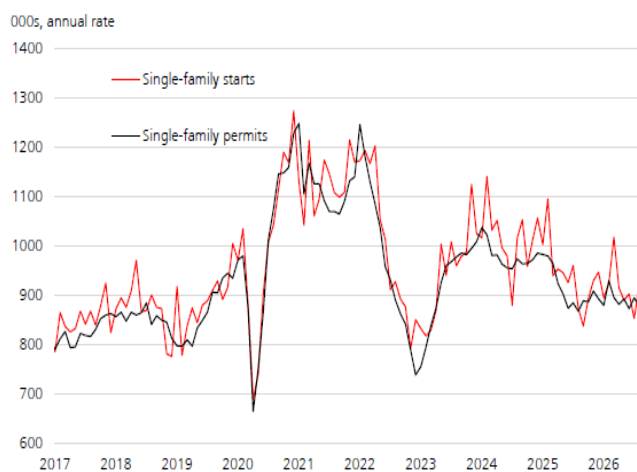
#### House price to income ratio



Source: UBS Research

### Housing supply is not being encouraged where interest rates are

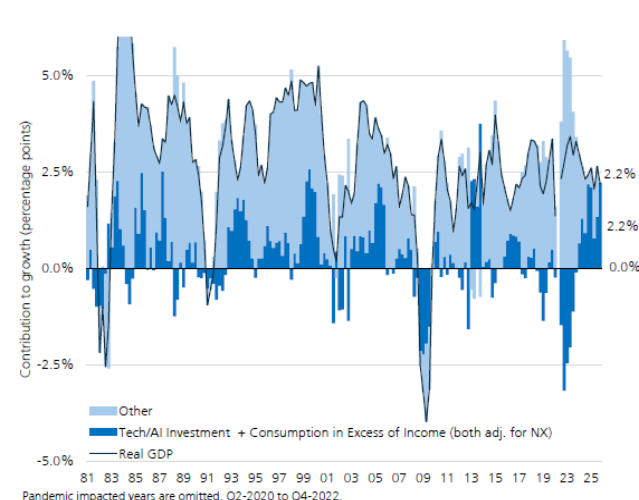
Chart 30



Source: UBS Research

### Tech/AI spend accounts for almost all US GDP growth

Chart 32

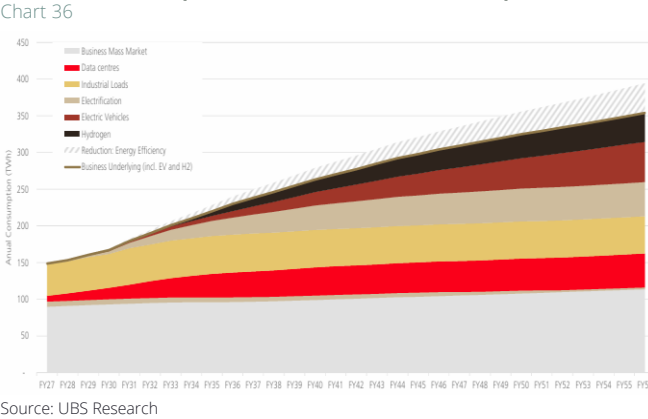


Source: UBS Research

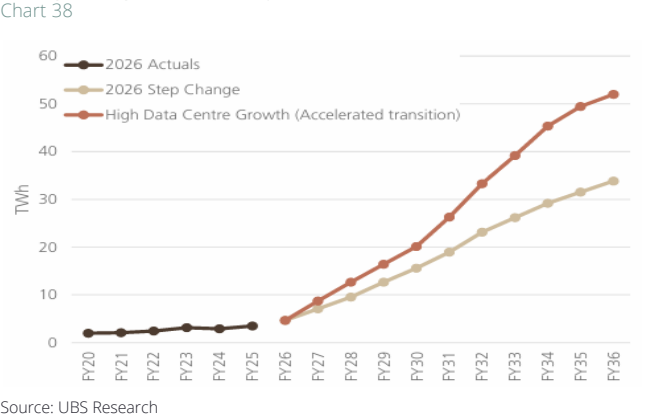
AUSTRALIA

The biggest change to the Australian economic landscape in the past 3 months has been interest rate expectations (chart 34), which are currently pricing in another two rate hikes in the next 12 months. Our own (uninformed) view is that this now appears too hawkish. Anecdotally, we are seeing signs of stress in many pockets of the economy, predominantly in the private sector where cash flow problems are real, which was evidenced by the collapse of the Bathla Group. We suspect with rates at current levels, there will be other private credit casualties and property collapses in the next 12 months. Chart 35 highlights what everyone knows, which is the housing market is in the middle of a sharp correction, where we haven't witnessed a correction of more than 10% in the past 20 years. The collapse in consumption from the negative wealth effect becomes real at this point, which is where we expect demand destruction to occur. Hence our view remains that if auction clearance rates stay around 50% and house prices continue to fall, then it is possible the RBA starts becoming far more dovish in their language over the next 6 months. We point out on chart 37 that bank impairment charges are still below long-term trends, which is largely a function of unemployment remaining relatively low. Any change to employment rates will be the key to watching this trend. We have included chart 36 given it may be the best chance for Australia to avoid a material downturn. The electricity demand from data centres sees forecast demand double in the next 20 years, although this is highly dependent on the pace of the data centre rollout.

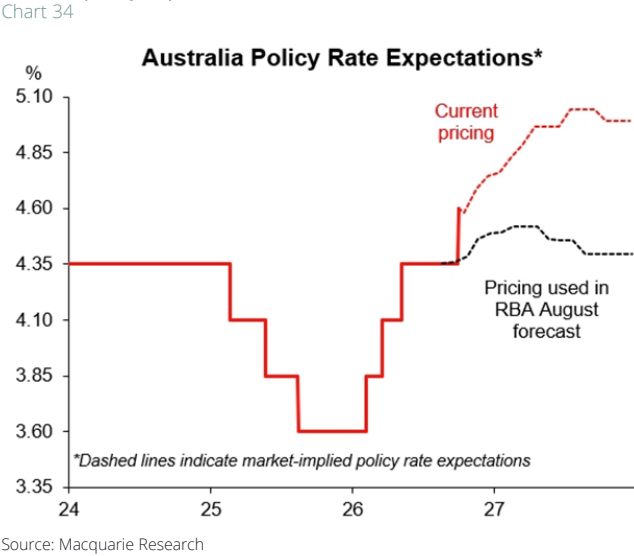
Australian electricity demand doubles in the next 20 years



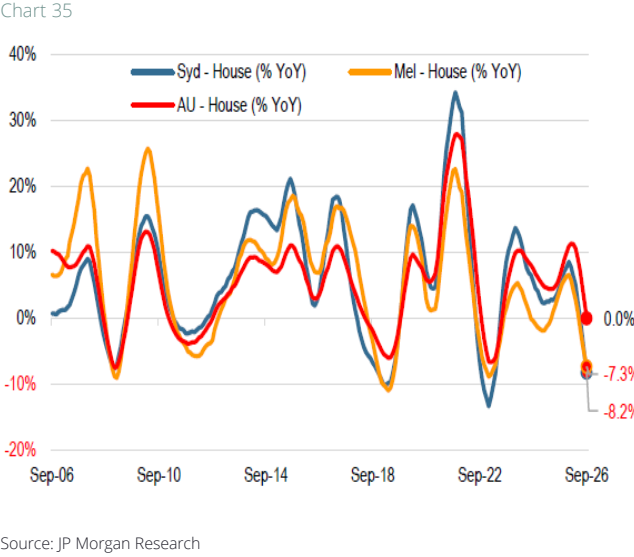
If the power grid can actually match the needs of data centres



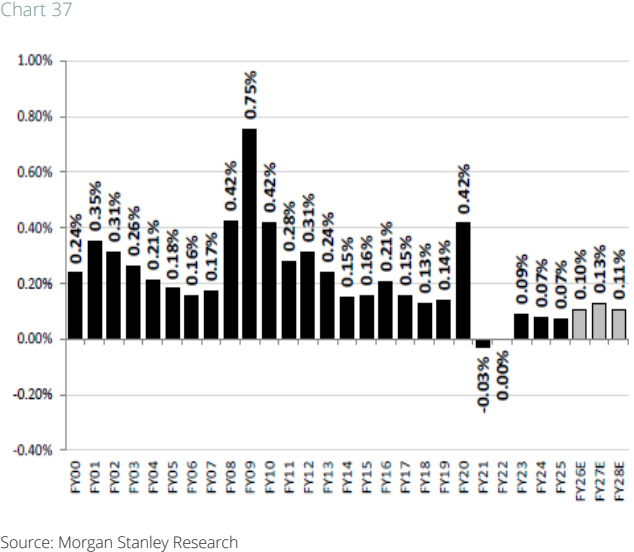
Are RBA policy expectations now too hawkish?



Sydney and Melbourne are leading the housing market lower



The market still sees Aust bank impairments running below trend



# Key Macro Themes



## CHINA

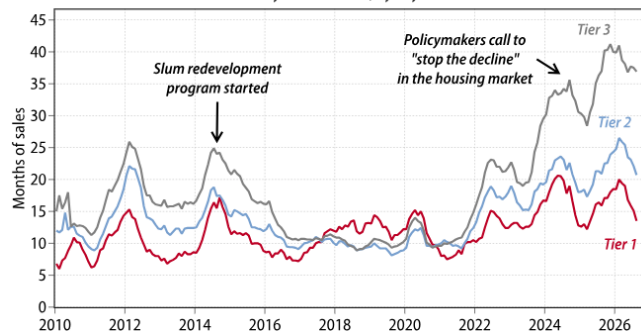
We still find it difficult to be enthusiastic about the direction of the Chinese economy. Chart 39 highlights China is still heavily dependent on the export market to drive the economy, with memory chips the accelerant in 2026, while other goods are predominantly EVs. We have been cautious on iron ore for 5-6 years given the downturn in Chinese housing starts (chart 42), which still sees no signs of life. Chart 41 highlights that housing inventory is still far too high in tier 2 and tier 3 cities. Demographic challenges suggest this inventory challenge may persist forever given that mathematically, China's population looks to have peaked and will shrink considerably in the next 25 years with a declining fertility rate. We note Chinese steel production is annualising at -4% yoy and looks persistently weak with steelmaking margins under pressure from input costs (coking coal, iron ore and freight rates). The housing market for a period was being offset by fixed asset investment, but chart 40 highlights the ongoing weakness in infrastructure and manufacturing investment. It may be that China has reached the end of the stimulus game of ongoing construction in the name of social cohesion. Outside high-end manufacturing and robotics (undoubtedly interesting), the clear message from China over the past 4 years has been to continue to buy gold with the ambition of diversifying away from the US dollar. Gold now represents 9% of total foreign reserves and the recent acceleration of gold buying looks to us as though China is preparing for a changing world order.

### Chinese housing inventory still too high

Chart 41

#### Supply still exceeds demand in Tier 2 and Tier 3 cities

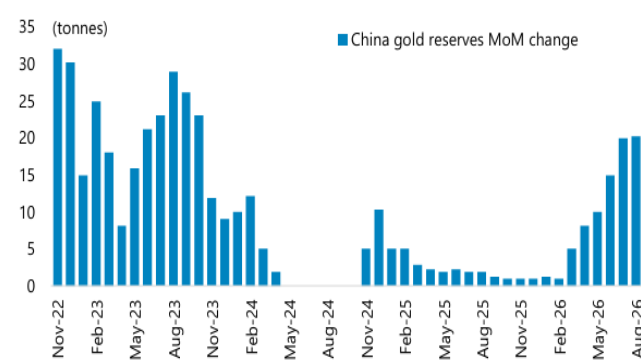
Inventory-to-sales ratio, by city tier



Source: Gavekal Research

### Chinese monthly increase in gold reserves

Chart 43



Source: PBOC

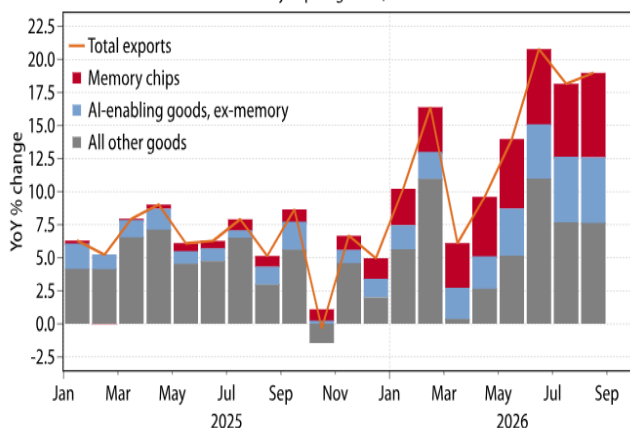
Source: Jefferies Research

### Chinese exports continue to drive the economy

Chart 39

#### Memory and other AI-related products are driving export growth

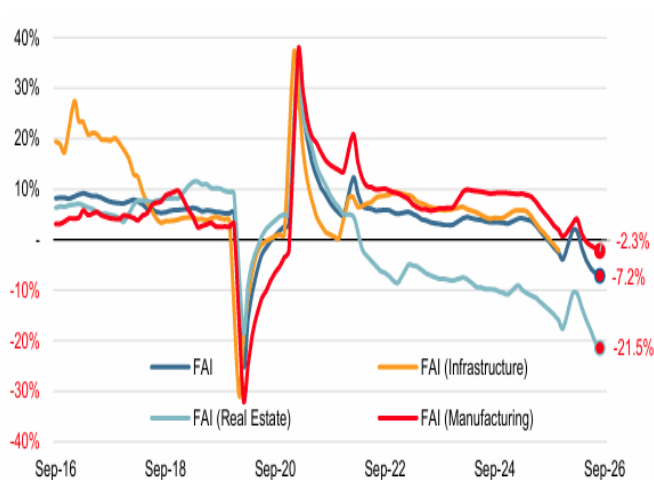
Contribution to monthly export growth, in sa renminbi terms



Source: Gavekal Research

### China is giving up the fixed asset investment story

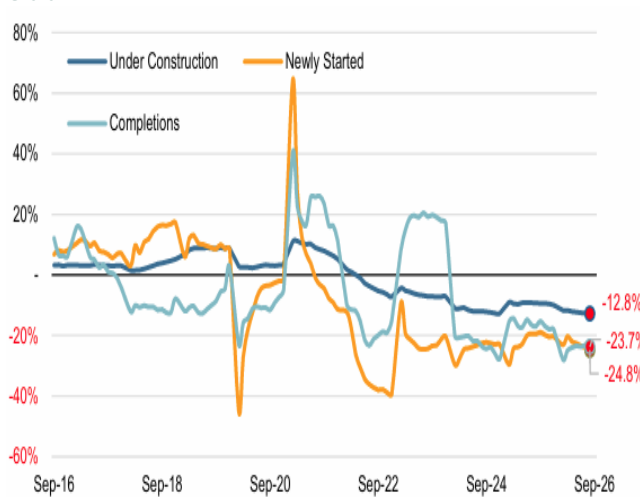
Chart 40



Source: JP Morgan Research

### Chinese housing continues its decade-long decline

Chart 42



Source: JP Morgan Research

# Key Macro Themes



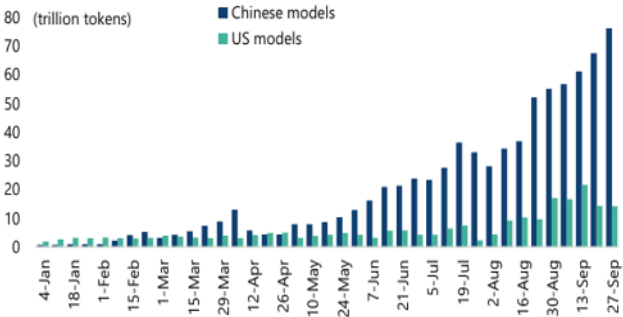
## CHARTS THAT MAKE YOU GO HMMM...

We often simply post some charts in the quarterly as we tend to think that sometimes, a picture is worth 1000 words. This is a collection of charts that help us make sense of what is happening. We see chart 44 as creating opportunities over the next 2-3 years. Clearly Australian small caps have had a challenging period relative to large caps, but the combination of valuation support, peaking RBA hawkishness and M&A activity suggests to us that the next 2-3 years will be far more favourable for mid and small caps relative to the top 20 names. Chart 45 is just amazing in reality. The worst 10-year performance for US bonds since 1793. That's a long time. Pessimism is reaching extreme levels (and short positioning is extremely high). It won't take much (in our view) to see some mean reversion in this series (that is bonds start rallying and yields start falling). We are concerned with chart 46 given the capex intensity (as discussed earlier) of US AI models, where clearly, they are losing share relative to the significantly cheaper Chinese models. As discussed in the July issue, cheaper energy wins, and China has a competitive advantage in this space. It doesn't augur well for token costs or the ability of Open AI or Anthropic to deliver free cash flow any time soon, meaning US AI spend is going to be more and more driven by the access to credit funding, which carries significantly more risk. We show wheat prices up 45% in 2026, where we could have shown almost any soft commodity pricing this year, which historically follows the energy complex.

### Chinese models are dominating market share of LLM queries

Chart 46

Weekly usage of top nine AI models across OpenRouter



Note: Data up to the week ended 27 September 2026. Source: OpenRouter

Source: Jefferies Research

### Wheat (and other soft commodities) are materially higher in 2026

Chart 48



Source: Gavekal Research

### ASX Small caps PE relative to Large caps – look undervalued

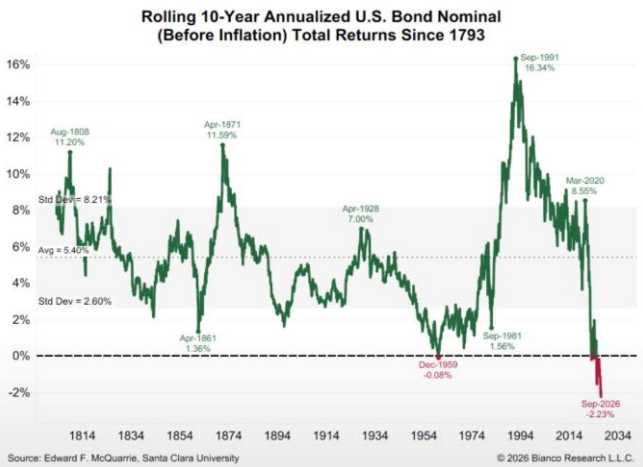
Chart 44



Source: UBS Research

### The worst rolling 10-year performance in bonds since 1793

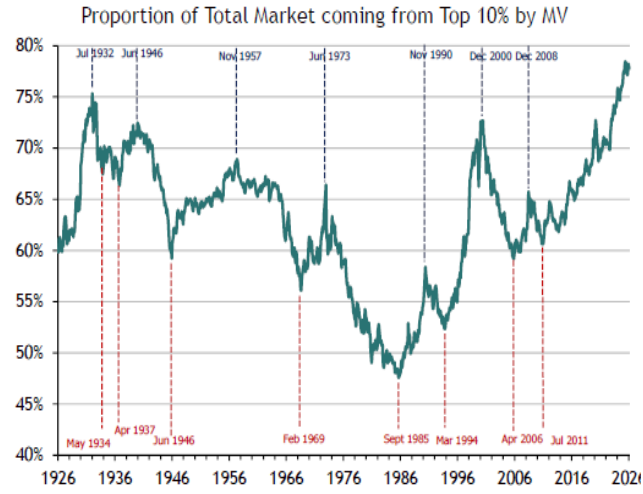
Chart 45



Source: Bianco Research

### The concentration of US equities in top 10% has NEVER been higher

Chart 47



Source: ASR Research

# Executive Summary



## Equities

We wrote much of this in July, but given the outlook remains unchanged, these are our thoughts around medium to longer term portfolio implications, which also remain unchanged. Whilst the AI trade has captured the market's attention in 2026, we feel the geopolitical risks are being underpriced by equity markets that have by and large been too sanguine over the longer-term implications to a prolonged conflict with Iran. There is (in our mind) undoubtedly an AI Capex bubble which can continue as long as investors believe the economic returns from LLM companies will justify the capital investment. This capex spend has led to strong earnings revisions across global markets in 2026, which has seen extreme concentration in the US hyperscalers. We are increasingly concerned that the AI investment will end up producing poor returns given the uncertainty of future cash flow, and the ability of Chinese LLMs to produce similar results at a fraction of the cost. Broadly, China has an energy supply advantage.

We see the changes to the Australian tax system announced in May as extremely unhelpful in supporting capital flows into Australia. It will inevitably lead to a housing slowdown. Housing has been the bedrock of the Australian economy for the past 40 years. It does not augur well for the Australian banking system, which is effectively 25% of the ASX300. We see valuations across a range of sectors as full and while this never means anything in isolation, it (to us) means we should be far more focused on the asymmetry of risk we are currently taking. Despite this backdrop, our long-term portfolio construction effort focuses on the below philosophy.

- We are still of the belief we are entering a period of fiscal dominance (on a 5-7 year view), whereby fiscal policy drives the outcome of monetary policy, or in other words, the central bank loses its independence and only acts to support government policy (in the case of the US, this would result in lowering interest rates and financing the deficits to relieve some pressure from the debt burden). We believe intervention from the US Federal Reserve into the bond market is inevitable.
- As a by-product of fiscal dominance, financial repression means inflation rates are higher than interest rates for a significant period. It is the only logical way of inflating the debt burden away. This does have ramifications for portfolio construction over the next 2-3 years. The term HALO (Hard Assets Low Obsolescence) has gained prominence in 2026. We suspect the outlook for hard assets (including commodities) remains favourable for the foreseeable future.
- We have been in a period of a disinflationary boom over the past 2 years, with inflation falling while the global economy has been on a stable footing (outside tariff uncertainty). A disinflationary boom tends to leave long duration and high growth stocks as the ultimate beneficiaries. The Trump Administration via Scott Bessent, acknowledges the US needs to have the economy growing faster than the debt burden. This suggests to us we are (or were) entering a period of an inflationary boom. Simplistically, inflation erodes the value of future profits, which makes expensive growth stocks less attractive. The risk to this view is the rising probability of an inflationary bust (recessionary conditions), whereby a defensive bias is needed. This view is entirely driven by the Iran war resolution, or not, or the direction of US interest rates.
- Whilst the Iran war has dampened the direction of this trade (a stronger USD has emerged), we still believe over the medium term, this is still the most likely direction of travel (USD weaker). An AI bubble bursting would accelerate capital flight from the US equity market.
- We do spend a meaningful amount of time considering the threats and opportunities arising from the accelerating trend of AI, autonomous vehicles and humanoid robots. These future-facing trends are impossible to ignore. For now, though, outside select opportunities, we see far better comparative advantage in owning real assets (physical property or commodities or supply chains) that can't be disrupted by the digital world. We live in fascinating times.

Our view remains that real assets (property, infrastructure, agriculture, commodities, gold, etc.) will outperform capital light or long duration assets over the coming period for reasons listed above. We believe Australia is well placed to benefit from this trend over the coming decade, with an enviable lifestyle and strong (if not flawed) democracy. As a primary producer of agriculture and commodities, we are theoretically well set-up to continue to prosper as a nation, which should all else being equal, attract global capital and labour via both skilled and unskilled migration. The tax changes announced in May are an unwelcome setback to this structural view. The risk to this view remains an economic downturn, that sees a prolonged housing market downturn. Housing remains the foundation on which the Australian economy relies so heavily. A downturn can not be ruled out. Clearly, there will be sectors that benefit from a prolonged conflict, while many more will be impacted.

At a sector level, we see merit in the idea that select industrials look attractive from a valuation perspective, while healthcare should see earnings resilience in this environment. Gold equities to us remain an important hedge to the portfolio despite the current challenge with US real rates. We remain very cautious towards the banking sector should we see unemployment pick up and are watching the developments with stablecoins very closely. There is no disruption risk priced into banks at this juncture, while they (in aggregate) remain overvalued.

By and large, our stock selection framework continues to focus on:

Real assets - ALD, AZJ, EGH, SKG, MIN, AAI  
Valuation margin of safety - LNW, LLC, NUF, AUB  
Pricing power - CSL, RMD, NWS, TLC  
Gold - WGX, RMS, AZY, GMD.

## TOP 10 HOLDINGS

| COMPANY                 | QUALITY | VALUATION | INSIGHT | REAL ASSETS | THEMATIC TAILWIND                         |
|-------------------------|---------|-----------|---------|-------------|-------------------------------------------|
| Ampol (ALD)             |         | ✓         | ✓       | ✓           | Geopolitics / Security of supply          |
| AUB Group (AUB)         | ✓       | ✓         |         |             | Geopolitics / Insurance                   |
| Develop Global (DVP)    |         | ✓         | ✓       | ✓           | Energy transition                         |
| Eureka Group (EGH)      | ✓       | ✓         | ✓       | ✓           | Retirement living / social infrastructure |
| Light & Wonder (LNW)    | ✓       | ✓         | ✓       |             | Consumption                               |
| Lend Lease (LLC)        |         | ✓         | ✓       | ✓           | Housing shortages/ Urban development      |
| Mineral Resources (MIN) | ✓       | ✓         |         | ✓           | Energy transition                         |
| Nufarm (NUF)            |         | ✓         | ✓       | ✓           | Agriculture / Biofuels                    |
| Santos (STO)            |         | ✓         | ✓       | ✓           | Energy security                           |
| The Lottery Corp (TLC)  | ✓       | ✓         | ✓       |             | Infrastructure/Consumption                |

Source: Chester Asset Management, in no particular order

Above are our top 10 holdings as at 1 October 2026. Our fund is actively managed and has no positions held simply to reduce tracking error against the index. It is truly benchmark-unaware investing. Position sizes typically range between 1% and 6%, determined by our conviction level and the company's market cap.

Our conviction in a stock is based on a combination of three factors:

1. The appropriate valuation of the stock, with;
2. Our assessment of the quality of the assets and management team, overlaid by;
3. Our expectations vs the market (or insight/edge) of the earnings projection. I.e. do we think the market is mispricing earnings?

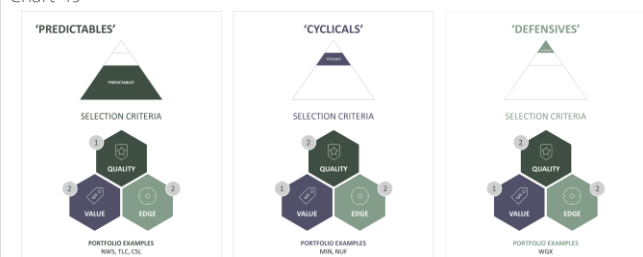
We require at least two of these three factors to be validated to support any investment thesis.

To illustrate this, we refer to Chart 49. Most of the current top 10 holdings are classified as “predictables” (industrials, REITs or healthcare, etc). Nufarm (NUF) falls under the “cyclicals” category, as does Develop Global (DVP), while our gold exposures are considered defensive.

When allocating capital to more predictable sectors, our primary focus is the quality of the industry position they hold and relative cash flow certainty. We use a structured framework, asking seven key questions about competitive advantage (e.g. pricing power, barriers to entry, threat of disruption, etc), as well as assessing the management teams track record and incentives.

Once we decide that a company is well positioned, we then look for at least one other “thesis” to hold true. For predictable companies, we prioritise quality first, then valuation or edge. For cyclical or defensive (gold) companies, the starting point is valuation, given the inherent uncertainty in cash flows. From there, we look to build conviction in the management team and whether we have a unique insight (“edge”) into the assets.

Chart 49



Source: Chester Asset Management

## CHCF portfolio construction framework

We categorise holdings into three buckets as outlined in Chart 3.

**Predictables** include sectors like healthcare, consumer staples, real estate, infrastructure, etc. as, in general, able to offer relatively predictable cash flow profiles from the industry structure they operate in. We are the first to admit this is a relatively primitive exercise given that many stocks have very different cash flow characteristics that may be categorised in several ways. For example, gaming or more specifically casinos have historically been relatively predictable cash flow generators, but COVID derailed many of these formerly “predictable” sectors. We focus heavily on the industry structure and competitive advantages of each company when assessing the investment thesis for “predictable” stocks.

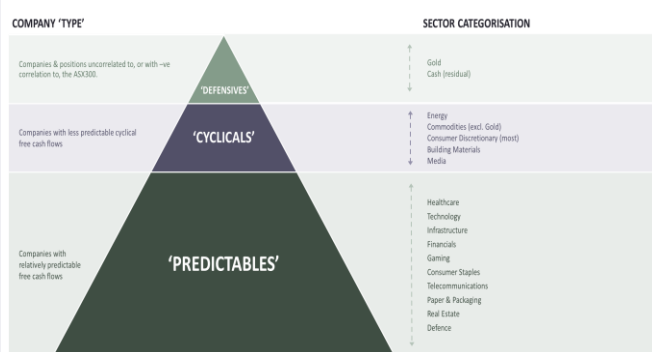
**Cyclicals** such as energy, commodities, and select industrials, have less predictable earnings. We use the word “relatively” predictable, as there is always less certainty over the longevity of a cash flow cycle and sustainability of margins, hence given the uncertainty, we tend to desire much greater valuation support in cyclical sectors.

**Defensives** include gold, which we view as uncorrelated to the ASX300. We classify gold equities with this lens, as a historical study of large equity market drawdowns highlights how well gold holds up in extremely volatile markets.

Cash is often a residual position that we simply state as the option to buy something cheaper in the future.

## How do we allocate capital?

Chart 50



Source: Chester Asset Management

Fund Philosophy



Chart 51 illustrates how our portfolio allocation across the three buckets – Predictables, Cyclicals, and Defensives – has evolved over the past 12 years. On average, Predictables have made up 60-70% of the portfolio, Cyclicals around 20% (within a 10-25% range), and Defensives between 10-25% averaging approximately 15%.

Over the past 3 months, we have increased our cyclical exposure marginally. While this strategy has delivered strong alpha over time, FY19 was an exception: the portfolio was too heavily weighted to cyclicals in late 2018, and then overly defensive through early 2019. We remain mindful that cyclicals are higher beta and can be either standout performers or detractors. As such, our exposure is managed with discipline and selectivity.

Chart 52 compares the portfolio characteristics of CHCF with the ASX300. While these metrics offer a snapshot at a point in time, they tend to be fluid, shifting with portfolio changes and position sizing. As such, we view them as descriptive rather than deeply insightful.

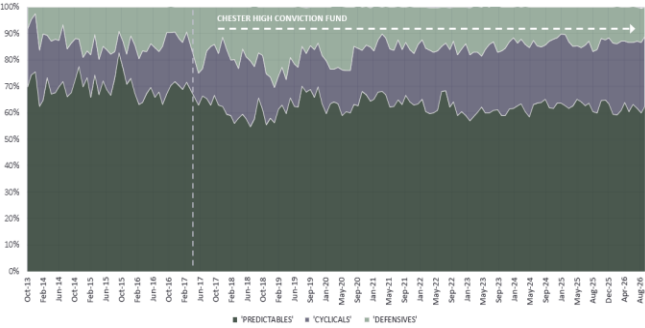
The data does highlight a clear value bias, influenced by positions such as Alcoa (AAI) which trades at 5.2x PER or Ampol (ALD) which has eps growth of 212% in FY1. These types of idiosyncratic holdings can meaningfully shape the portfolio.

The fund's yield is lower than that of the ASX300, largely due to lack of exposure to BHP, large REITs and major banks, the key contributors to the index yield. The fund also shows superior eps growth and stronger valuation support relative to the ASX300.

This reflects the deliberate construction of a benchmark-unaware fund, designed to deliver something fundamentally different. Without the differentiated approach, we would not have achieved our 12-year track record, one built with lower volatility than the broader market. It is truly index-unaware investing.

Which has been done consistently over time

Chart 51



Source: Chester Asset Management

Chester High Conviction Fund portfolio characteristics

Chart 52

|                | CHCF  | ASX300 Index |
|----------------|-------|--------------|
| PER FY1        | 13.9  | 17.3         |
| PER FY2        | 13.2  | 16.2         |
| FY1 EPS growth | 44.7% | 7.2%         |
| FY2 EPS growth | 21.2% | 7.1%         |
| ROE            | 22.8  | 13.5         |
| Beta           | 0.86  | 1.00         |
| FY27 Yield     | 2.5   | 3.5          |
| FY1 DPS growth | 14.0% | 7.3%         |

Note: Chester data excludes non-revenue-generating companies. To end September 2026  
Source: Chester Asset Management, Bloomberg, Morgan Stanley Research



HIGH ACTIVE SHARE

For active managers to outperform over the long term, the fund has to be truly different from the benchmark. This strategy has had an active share above 80% since inception. Don't follow the crowd.



MID CAP BIAS

Broadly speaking, we find more interesting opportunities outside the large cap universe. Exposure to mid and small caps is essential for long term outperformance.



CASH FLOW GROWTH

We seek to invest alongside companies that either generate predictable cash flows in high quality industries, or determine an appropriate margin of safety where valuation support is paramount, which is in more cyclical sectors of the economy.



BACK OWNERS OF CAPITAL

Allocating capital to management teams that think like owners alleviates the principal-agent problem. "Show me the incentive and I'll show you the outcome" Charlie Munger.



CONCENTRATION IN FEW IDEAS

We keep a tight watchlist of stocks that are deemed suitable for investment. Focusing the research effort into fewer ideas provides more opportunity to develop higher conviction views. Too much diversification becomes counterproductive.



FOCUS ON INSIGHTS

Do we have a different view than the prevailing wisdom of the market? High conviction often comes from a granular understanding of where the market expectations are wrong.



A CONTRARIAN VIEW?

Backing ourselves in unloved, underappreciated or undiscovered stories has been the most consistent source of alpha generation of this strategy.



KEEP IT SIMPLE

Ultimately, we allocate capital to sectors and companies we understand. The investment thesis needs to be easily articulated for a high conviction idea.



INVEST WITH HUMILITY

All fund managers make mistakes, it's part of the profession. Our tightly knit culture accepts these, tries to learn from them, and keeps making decisions. It is a profession where humility is absolutely essential.



STAY CURIOUS

Fresh ideas or unique insights are critical to ensure the portfolio stays invested with conviction. To consistently generate outperformance we seek to test the investment thesis behind each decision. This requires discipline and a repeatable process in company visitation schedules.

## ACCUMULATED PERFORMANCE BY FINANCIAL YEAR | Same Strategy

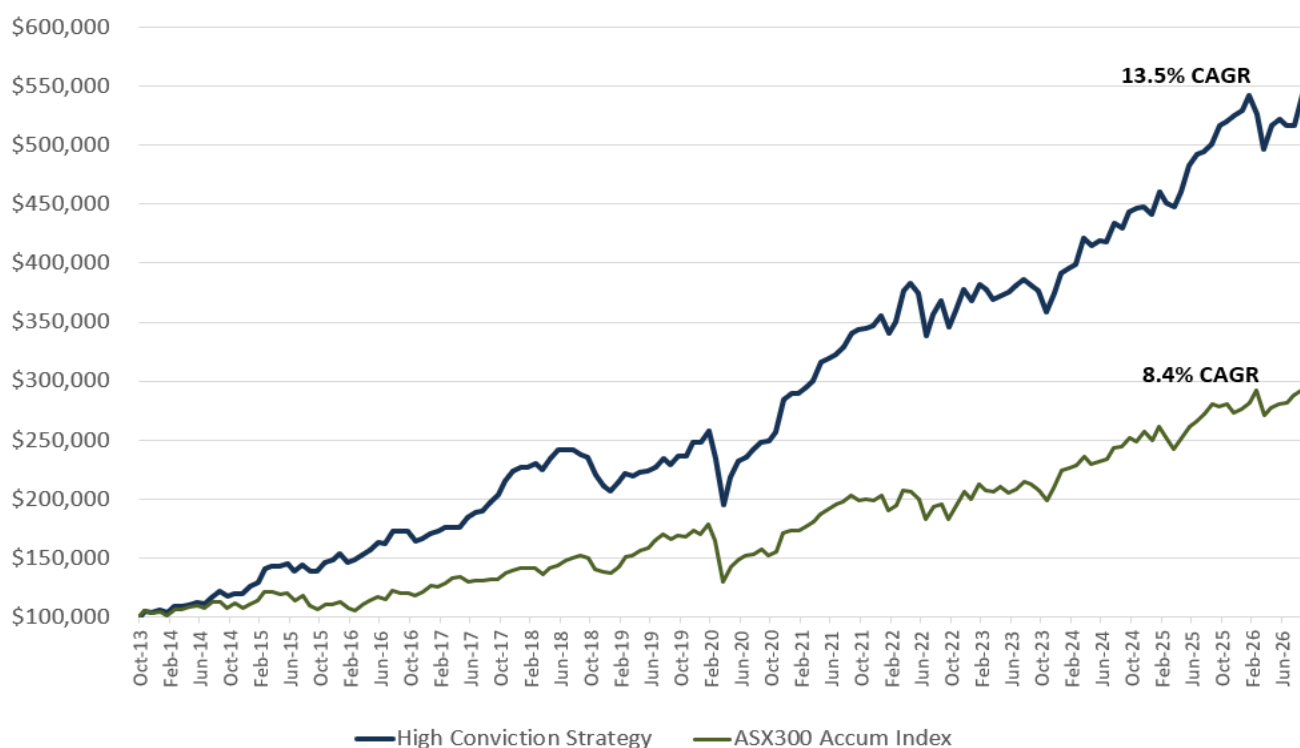
| (%)                       | FY14* | FY15  | FY16  | FY17* | FY18  | FY19  | FY20  | FY21  | FY22  | FY23  | FY24  | FY25  | FY26 | FY27 | Since Incep |
|---------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|------|------|-------------|
| Same Strategy (after MER) | +11.2 | +24.5 | +17.4 | +11.2 | +28.3 | -6.4  | +3.9  | +37.2 | +4.8  | +12.5 | +9.7  | +17.9 | +5.0 | +1.0 | +13.5       |
| S&P/ASX 300 Accum Index   | +7.8  | +5.6  | +0.9  | +9.1  | +13.2 | +11.4 | -7.7  | +28.5 | -6.8  | +14.4 | +11.9 | +13.7 | +6.2 | +1.3 | +8.4        |
| Value added (after MER)   | +3.5  | +18.9 | +16.4 | +2.1  | +15.1 | -17.8 | +11.6 | +8.7  | +11.6 | -1.9  | -2.2  | +4.2  | -1.2 | -0.3 | +5.1        |

# Per Annum. The inception date of SGH Australia Plus was the 8 October 2013, where Rob Tucker was the sole Portfolio Manager, until his departure on 28 February 2017.

\* The inception date of the Chester High Conviction Fund was 26 April 2017, hence FY17 reflects 8 months of SGH Australia Plus and 2 months of the CHCF.

We note this is a statement of fact of the performance achieved by the fund during the time which Rob Tucker was the sole Portfolio Manager making active decisions on the SGH Australia Plus portfolio. We note performance is the record of the firm not the individual. However past performance has been constructed from publicly available unit price data. Past performance is not necessarily indicative of future performance and should not be relied upon in making investment decisions.

## HIGH CONVICTION STRATEGY | Accumulated performance



Note this graph is representative only of the combination of the same Portfolio Manager running the same strategy and would only represent actual returns for unit holders that invested money at inception of SGH Australia Plus, withdrew those funds at the end of February 2017 and then invested all those initial funds again at inception of the Chester High Conviction Fund in April 2017. Note, this depicts returns after fees.

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