CHESTER HIGH CONVICTION FUND

Quarterly Overview

As of 31 March 2025	1 mth (%)	3 mths (%)	6 mths (%)	1 yr (%)	3 yrs (% pa)	5 yrs (% pa)	Inception (% pa)*
Chester High Conviction Fund (after fees)	-0.8	1.5	1.1	6.3	5.9	18.0	11.9
S&P/ASX 300 Accumulation Index	-3.3	-2.8	-3.6	2.6	5.3	13.2	7.8
Outperformance (after all fees)	+2.6	+4.4	+4.7	+3.7	+0.6	+4.8	+4.1

*27 April 2017.

> *"Boy, that escalated quickly. I mean, that really got out of hand fast..."*
>
> RON BURGUNDY, ANCHORMAN

In 2006 Hong Kong had a highly successful game show on TV whereby a guest would wear headphones, listen to a popular Cantonese song and then sing karaoke (without backing music) of that song to a panel of contestants that scored points for naming the song title correctly. Simple. At the HSBC Chinese New Year celebration dinner that year, a version of this game show was embarked on after dinner to entertain the staff members. Unwittingly, one of the guests was an Australian gweilo (foreigner) who had no understanding of the cultural influence of this game show. Being encouraged to get up on stage in front of 200 staff members was challenging enough, but things took a turn for the worse when the Australian had to get the headphones on and start singing the Cantonese song for the audience to guess correctly. We were subsequently told this song was the Cantonese version of Celine Dion's "My heart will go on". Two obstacles were faced immediately. The Australian could not speak Cantonese, and has suffered the intergenerational trauma of an inability to sing. At all. This left the Australian guest on stage with headphones on trying to sing in front of 200 HSBC staff members crying with laughter. Eyewitnesses suggested it sounded a lot like a drowning cat. It lasted for 3-4 very long minutes before the MC took pity on us and moved to the next round. Sometimes, life can throw you obstacles that you just have to deal with the best you can.

And so it is in early April 2025. It feels like the market is in the middle of a game show, with Trump as the host. The Trump administration has embarked on a tariff program that has not been seen since the Smoot-Hawley Tariff Act of 1930. The Smoot-Hawley Tariff Act was widely accepted as exacerbating the great depression in the 1930s. Many smarter commentators than this author will have various theories as to why this administration is hell bent on trying to deglobalise by removing trading relationships that have been in place since the Second World War. It is, in its purest form, a tax on consumption that if all else is equal, would raise over USD600bn in incremental revenue for the US government. We expect this to be the starting point for negotiations, whereby the ending revenue collection will be far lower than this. But clearly we are in a state of flux where new announcements can shift the landscape quickly.

We have long been of the opinion that the most pressing issue in global finance is the relentless deficit spending of the US government. A combination of lower interest rates, higher revenue collection (tariffs) and lower government spending (DOGE) should theoretically lead to a smaller budget deficit, with Treasury Secretary Scott Bessent focused on a deficit of 3% of GDP as sustainable. Interest rate cuts look inevitable in our view given the economic slowdown that is bound to occur as these tariffs are priced into capital investment decisions and consumption decisions. Uncertainty leads to inertia and a reduction in the velocity of money. The second order impacts of these tariffs are still to play out with a wide range of potential outcomes. It wasn't unsurprising that Trump postponed many of these retaliatory tariffs for 90 days against countries other than China. The US 10 year bond yield above 4.5% becomes extremely problematic for a country trying to refinance over USD7.0Tn of bonds in 2025 with an interest bill of USD1.2Tn currently (on an annualised basis). The easiest way to cut the deficit spending is to lower interest rates.

What are the catalysts for market stability?

The Trump administration has been clear from the outset they would embark on a significant global economic reordering. We do broadly agree with the notion that what has been in place since the GFC (excessive government spending and lower rates) has not worked for the bulk of US citizens amid rising inequality. So yes, we believe something had to change. We are less sure that aggressive tariffs are the best way to recalibrate the imbalance between manufacturing and consumption in either the US economy or the Chinese economy. US Treasury Secretary Scott Bessent has been clear that during COVID, the US economy was too reliant on external countries for protective wear, pharmaceuticals and goods related to domestic security. He is focusing on these industries of national security to start manufacturing onshore again, specifically calling out medicines, semi conductors and shipbuilding as critical infrastructure domestically. For peace to break out we would need to see a deal being struck with China to bring some of the manufacturing supply chains back onshore for Trump to have "a win". Given the current state of flux, it is impossible to predict if this eventuates in the short term. In our view, this period heralds in a new era that diminishes the notion of US exceptionalism, with the likelihood of a significant amount of foreign capital leaving the US to shore up domestic industries elsewhere.

Quarterly Overview

In December the US stock market represented around 70% of all global equities. This appears to have peaked for two reasons. As just mentioned, the uncertainty (and undoubtedly animosity) that the US tariff position has created will lead to foreign capital leaving the US, whether that be the US equity market or bond market. It is highly likely Japanese, Swiss, Scandinavian or European capital will seek alternate investment opportunities domestically. In fact Donald Trump may just have galvanised the EU to a degree they haven't seen since the European Union was formed in 1999. The release of Chinese AI large language model (LLM) Deepseek in January highlighted that AI learning is an arms race, and potentially one that is commoditised, and not the monopolistic industry that US tech investors may have presumed 4-5 months ago. Both of these trends will leave the US market vulnerable to capital flows, that is then exacerbated by passive index funds, that effectively act as momentum strategies. Buying more stock when index weights go up, but then being forced to sell stock as index weights go down. The US market is still overvalued.

So our initial reaction to "Liberation Day" suggests that the world is now on a more isolationist path (led by the US), which will see more focus on domestic policy in the EU and China over the course of 2025, to cushion the fallout of uncertain trading conditions. Hence, a larger fiscal response globally is at odds with US tariff uncertainty and the cost cutting focus of the US administration over the next 3-6 months, which suggests an economic slowdown is inevitable. As a result, all else being equal, the USD will remain under pressure as capital leaves the US, while international markets have far more valuation support in a global slowdown. We are quick to admit that Trump is an unpredictable dealmaker, so the wild card would be a swift resolution of US China trading relationships, which would create an amazing about face. We will be very focused on the US bond market and credit spreads for any material worsening of systemic risk, given volatility tends to create second order impacts that are less obvious to observe. The fact that the US bond market has been selling off in the early weeks of April creates further uncertainty around US funding. Gold has obviously been the safe haven asset of choice, perhaps signaling that the USD reserve currency status is at risk if the US bond market is not supported during a period (2025) of extreme supply. The US Fed may end up being the buyer of last resort, embarking on a version of yield curve control (YCC) to manage the US fiscal position. What we do know, is nothing is off the table, and geopolitics, which often takes a backseat in equity markets, is now the main game.

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. We are happy to allocate capital to cyclical stocks, but with lower weightings given the cycle of cash flows, 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. This focus on fundamental investment drivers we believe will benefit our fund over the next 2-3 years as we believe the style bias will favour value-oriented investing, which has very rarely been the case over the last 15 years.

Portfolio changes this quarter

The portfolio was relatively inactive during the first quarter with only minor changes to the composition of the portfolio at an aggregate level, while some position sizing occurred due to share price volatility. One of our favourite sayings during the GFC was the Taoist philosophy of Wu Wei. Mastering the art of active inactivity, or consciously working hard to do nothing. Sometimes in portfolio management, less is more, particularly in times of heightened uncertainty.

In our stock notes for the quarter, we are highlighting 5 stocks that we have either bought or increased our conviction level on during the March quarter. Often we take a small initial position in a stock while we look to build a higher degree of confidence once we hold the position. We added a small position in Neuren (NEU), a pharmaceutical company that generates royalties from the sale of Daybue in the US, which received orphan drug status in 2023 for the treatment of Rett Syndrome, a debilitating neurodevelopmental disorder. Given the circa AUD350m in cash on the balance sheet to fund further trials of other similar disorders, we believe there is a significant asymmetry to the risk reward profile of a position in NEU at these levels. There is more on page 8. We increased our position in Challenger (CGF) during the month of March when after a period of underperformance, APRA disclosed they are looking to change the capital requirements for annuity income products in Australia, to bring them into line with international peers. Given CGF accounts for over 90% of retirement income products in Australia, we believe these capital requirements will materially transform the CGF business and potentially release over 25% of its market cap back to shareholders (in excess of AUD800m). In no way do we think these changes have been reflected in the CGF share price, outside Dai-Ichi buying a 15% stake in CGF off fellow Japanese investor MS&AD at AUD8.58, a 58% premium to the prior share price close. We also initiated a position in small cap gold developer Antipa (AZY), where we see a significant risk reward profile. The stock profile is on page 9. The only significant stock exit during the quarter was South 32 (S32). S32 was trading very close to our valuation above AUD3.60, when the disconnect between the stock price and the underlying weakness in the alumina and aluminium price became evident. With no valuation support and earnings weakness, we exited the stock during March.

Quarterly Overview

How is the portfolio positioned?

We remain in the camp that the global monetary debasement issue (printing more fiat currencies because of unrelenting fiscal deficits) will shape the portfolio construction framework over the coming years. Because of this issue, our investment thesis has been focused on structurally higher inflation during this decade, as opposed to the past 2 decades of deflationary forces. We separate near term disinflationary pressures from an economic slowdown from this structural thesis around monetary debasement. 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 sentiment towards gold as a store of value has significantly improved during the tariff uncertainty, we believe sentiment towards gold miners is only just improving while the cash flow ramp-up suggests very strong earnings momentum is about to start. Gold equities are still trading significantly below the 2011 peak (as per the GDX gold ETF) and as such, we believe as economies slow, and interest rate cuts start being factored in, gold miners will have a very strong period ahead of them. Gold equities currently comprise over 9% of the portfolio.

Real assets. Artificial Intelligence will find it hard to disrupt real assets. 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 ASB, QUB, EGH, RHC, ASK and AZJ in this category. We think REITs are interesting when interest rates start falling, illustrated by the recent bid for Abacus Storage King (ASK) by the major shareholder after watching it trade materially below NTA for almost 2 years.

Valuation margin of safety. An asymmetric risk profile. We would place CGF, LLC, NUF and XYZ 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. We are mindful that several of these positions simply haven't worked as yet, with the catalysts for any re-rating being pushed to the right.

Pricing power, or at a minimum pricing pass through. With cost inflation evident, how likely is a company to be able to at a minimum hold margins, that is, pass through higher costs to their customers without impacting customer engagement? We would place CSL, RMD, TLC and LNW in this category. We think margin resilience becomes an important driver of equity returns in the post free money era.

The Portfolio

The CHCF posted a 1.5% gain in the quarter, relative to the -2.9% fall in the ASX300 Accumulation Index. Austal (ASB) led the outperformers after South Korean conglomerate Hanwha Ocean bought 9.9% of the company in a share market raid in March. It also has a swap agreement in place with investment bank Jarden Group to buy another 9.9% should they receive FIRB approval to do so. Given the strategic nature of the ASB shipbuilding assets and the Trump administrations publicly stated intent to increase shipbuilding in country, we would be surprised if ASB remained a listed entity in Australia. Genesis (GMD) was the gold company that provided the highest attribution during a strong quarter for gold companies, while Develop Global (DVP) is an emerging copper producer with first ore expected imminently.

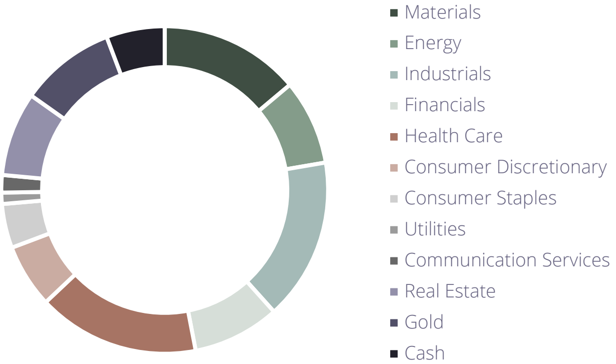
The underperformers were led by Block (XYZ) which in our view was oversold on concerns around the US economy in 2025, as much as any anything stock specific. In February XYZ reiterated operating income guidance for the full year, while slightly revising down 1Q earnings by 2-3%. For this the stock fell 40% to appear fundamentally strong value over the medium term if expectations are met.

Top 3 holdings
CSL
Austal
Develop Global

Portfolio breakdown	
Health Care	15.8%
Industrials	15.8%
Materials ex Gold	13.7%

Top 3 portfolio attribution	Bottom 3 portfolio attribution
Austal	Block Inc
Genesis Minerals	Maas Group
Develop Global	Orora

Fund weights - diverse sector exposure



Key Themes

THEME	EQUITY CONSIDERATIONS
GEOPOLITICS TAKING CENTRE STAGE?	In our lifetime, there has not been a seismic shift in the way the world operates until 2025. Not since WWII has the world faced such geopolitical upheaval. All equity investors try to focus on the idiosyncratic nature of stock returns, but we are faced with a new shifting paradigm that may challenge the way we have thought about investing over the past 25 years. Our answer has been to ensure we have different factors that can insulate the portfolio at any one time. This new paradigm may be signaling the culmination of the build up of debt across the Western world that has been our biggest concern as an investor. If something can not go on forever, it will stop.
IS THE US ENGINEERING A SLOWDOWN?	New Treasury Secretary Scott Bessent has been very clear in his messaging that the Trump administration wants to reprivatize the US economy, at the expense of government spending. With DOGE, deportations and tariffs, there appears to be a significant slowdown underway, driven by trade uncertainty, making us cautious on US cyclicals. One goal of this uncertainty is potentially to force the Federal Reserves hand and lower interest rates. In our view it is the easiest way to lower the US deficits given the interest bill for Federal Debt is now USD1.2Tn p.a out of the USD2.0Tn in deficit spending.
US DOLLAR	Along with the direction of the US 10yr bond yield, the USD is the most influential asset price globally. There is a growing argument that suggests the USD may be headed for a period of weakness, if the structural challenges around funding the US deficit can not be addressed. This thinking ties into the notion of capital flows reversing out of US assets and historically leads to outperformance of emerging markets and hard assets (commodities). We have a strong alignment with this thinking.
ARE TARIFFS INFLATIONARY?	Theoretically they will create short term cost impacts that suggests a period of stagflation, however, history suggests that in actual fact the demand destruction created by tariffs (including boycotting certain products) ends up as a disinflationary force. While Trump views tariffs as a zero-sum game (someone wins and someone loses), the actual global impact is far more nuanced than this.
VALUATIONS VS EARNINGS EXPECTATIONS	Growth and momentum saw a sharp reversal in February from the persistent trend through 2024, where it appeared valuations didn't matter. While earnings expectations (beats and misses) are important, with interest rate settings expected to be higher in 2025, valuations actually do matter.
ARTIFICIAL INTELLIGENCE	We have been concerned about AI since it was launched and the disruptive influence on software businesses over the next 5-7 years. Deepseek and Grok launches illustrate how quickly the pace of change is occurring. The structural pressure on SaaS businesses is not discounted in current valuations. We explore what this means on page 11 inside.
AUSTRALIAN BANKS THE NEW SAFE HAVEN?	While the Banks saw slight margin compression (ex CBA) during the February reporting season, the ongoing benign impairment charges for the sector has augured well for the upgrades over the past 12 months. Historic lows in impairments are unlikely to be sustained in our view. Rate cuts happen for a reason, which given the global uncertainty, appear to be looming on the horizon in Australia, now inflation is far more contained. Rate cuts will not help bank earnings, nor will the historically high starting point. CBA looks incredibly vulnerable to us.
HEALTH AND WELLNESS AN EMERGING MEGATREND?	Since COVID, there has been a far greater awareness across the younger generation (and 52 year olds) of living a far healthier lifestyle with a focus on longevity. We are witnessing this in the consumption trends of alcohol and the rise of vitamins and supplements. This trend doesn't augur well for alcohol companies or their supply chain. We are pondering whether this is cyclical or structural.
CHINA TO REIGNITE DOMESTIC CONSUMPTION?	We have always believed that in China you should invest alongside government policy. For the first time in his tenure, President Xi is opening his arms to the tech entrepreneurs to assist in stabilizing the Chinese economy. It has to shift towards domestic consumption, with policy support coming. Stimulus measures thus far in 2025 have exceeded expectations, while we are of the view that more fiscal stimulus will be announced to combat the ongoing industrial challenges posed by the US trade tensions.

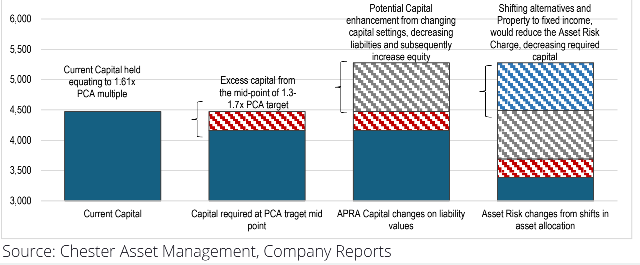
Stock Selection

Challenger Limited (CGF)

DESCRIPTION	**Challenger Limited (ASX: CGF)** is an Australian investment management firm specializing in providing retirement income solutions and fund management services. Challenger operates through 2 segments: • Challenger Life: Australia's largest provider of annuity products which appeal to retirees as they provide security and certainty of guaranteed income. • Funds Management: CGF provides back of house and distribution services to investment managers which CGF are partnered. AUM across the equities, fixed income, and alternatives total >A$100bn.
VALUATION	Our DCF valuation of CGF is **AUD8.50/share.** • Despite regulatory and product demand tailwinds, the stock trades on a PER of <10x
QUALITY	CGF's life business which accounts for 90% of group earnings is a near-monopoly in Australian annuities market. Previous participants exited the market due to the capital intensity required to write new business and the onerous liability and asset mismatch under stress events. CGF is well placed should APRA change the regulatory capital standards which are currently under consultation. A dynamic discount rate on liabilities will provide reduced risk and see Challenger become a lower capital intensive, higher quality business with positive product demand trends.

INSIGHT	A positive outcome from the APRA consultation would see a less onerous and more dynamic discount rate on liabilities. This will reduce mismatch between asset and liability valuations under changing credit spread scenarios. This has the potential to be transforming to CGF and the industry due to:
	• Reducing the capital intensity of new business for annuity products
	• Allow the business to invest in higher yielding fixed income products
	• Reduce the risk of capital events from changing spreads
	
	Following a positive change, we believe Challenger would have significant amounts of capital which could be released from:
	• Higher discount rate on liabilities, increasing the amount of capital by up to AUD800mn
	  ◦ This could see the Prescribed capital ratio increase as high as 1.9x from 1.6x (current range 1.3-1.7x)
	• Optimizing Asset mix, selling alternatives and property for Fixed income products
	  ◦ Fixed income has a lower risk asset charge
	  ◦ CGF has AUD5.9bn of alternatives and property, for every 1% reduction of risk asset charge, results in AUD59mn reduction to prescribed capital
	
	Given a PER < 10x and a P/NTA of 1.25x, we do not believe CGF is appropriately priced for the risk/reward for an industry transforming change. If the share price continues to lag this could entice corporate activity.

Capital settings changes can provide optionality with excess capital
Chart 2



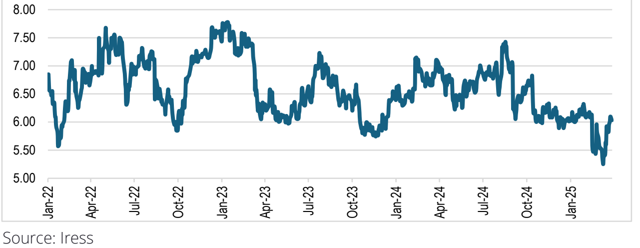
Source: Chester Asset Management, Company Reports

Asset allocation could transform CGF into genuine spread business
Chart 3

Current Asset Allocation	Mix %	1H25	ARC %	$ ARC
Fixed income and cash	74%	18,242		
Investment Grade (75%)	*56%*	*13,682*	*3.0%*	*410*
Non-Investment grade (25%)	*19%*	*4,561*	*10.0%*	*456*
Alternatives	13%	3,185	30.0%	956
Property	11%	2,717	25.0%	679
Equity/Infrastructure	2%	477	30.0%	143
Total average investments		**24,621**		
Asset Risk Charge + CSSA				**2,644**
Optimal Asset Allocation	**Mix %**	**Optimal**	**ARC %**	**$ ARC**
Fixed income and cash	95%	23,390		
Investment Grade	*56%*	*13,682*	*3.0%*	*410*
Non-Investment grade	*39%*	*9,708*	*10.0%*	*971*
Alternatives	0%	0	30.0%	0
Property	3%	754	25.0%	189
Equity/Infrastructure	2%	477	30.0%	143
Total average investments		**24,621**		
Asset Risk Charge (including CSSA)				**1,713**
Est. loss of diversification benefits				150
Potential PCA reduction from asset allocation shift				**781**

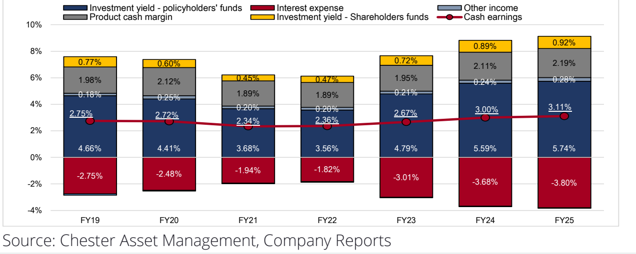
Source: Chester Asset Management, Company Reports

Share price not appropriately reflecting industry tailwinds
Chart 4



Source: Iress

Life cash earnings improving on Shareholder fund yields
Chart 5



Source: Chester Asset Management, Company Reports

Stock Selection

The Lottery Corporation (TLC)

DESCRIPTION

The Lottery Corporation (ASX: TLC) is Australia's largest lottery operator which manages the brands The Lott & Keno. TLC was established on the ASX following the demerger in Tabcorp in 2022.

The Lott encompasses a variety of lottery games, including Powerball, Oz Lotto, TattsLotto, Gold Lotto, X Lotto, Instant Scratch-Its, Set for Life, and Lucky Lotteries. These games are offered through extensive retail and digital networks across multiple Australian states and territories.

Lottery licenses are issued by each of the state or territory governments which grant exclusive rights to operate public lotteries. These licenses generally last 10-40 years with terms negotiated and review periodically.

VALUATION

AUD5.50/share derived on a DCF basis using an 8.5% WACC and 3% TGR

QUALITY

TLC operates as a near-monopoly in the Australian lottery and Keno market. This dominant position is secured through long-term licenses granted by various state and territory governments, allowing TLC to be the exclusive or primary provider of lottery and Keno services in regions excluding Western Australia.

We consider TLC to have infrastructure like earnings with the licenses from the states comparable to a capital-light toll road concession.

INSIGHT

FY2025 is bound to see lower turnover on the back of a more subdued jackpot period versus the prior period which saw record draws from Oz Lotto & Powerball. However, we see several tailwinds beyond FY2025 for turnover growth including:

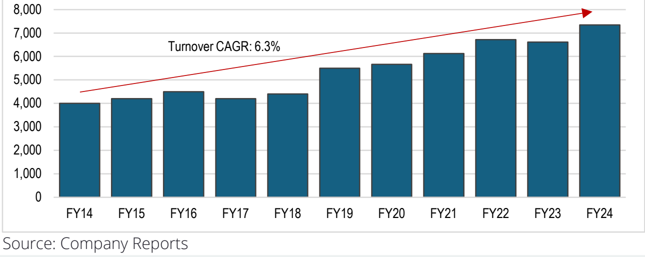
- 13% pricing increases to Saturday Lotto prices
- Powerball game change in 2026

While jackpot cycles can create minor volatility in earnings year on year, throughout the cycle we continue to see strong turnover growth and healthy consumer participation in the category.

We would compare TLC to Transurban (ASX:TCL) which trades on 23x EBITDA. The lottery licenses can be compared to toll road concessions, with TLC having varying license ending dates to spread risk. Near-term TLC has the Victorian license due to expire in 2028 with NSW and QLD secured longer-term until 2050 and 2072 respectively. The potential for TLC to secure an early extension to the VIC license on favorable terms in the next 12 months can not be dismissed.

Mid-single digit turnover growth underpin earnings growth

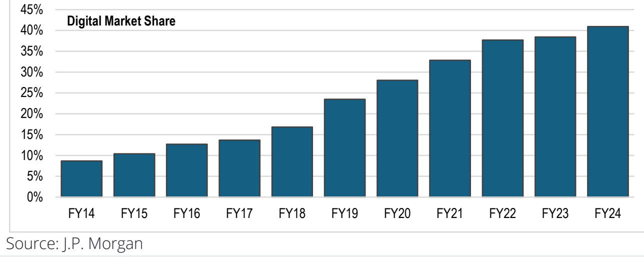
Chart 6



Source: Company Reports

Incremental 1% Digital share equates to $5mn additional EBITDA

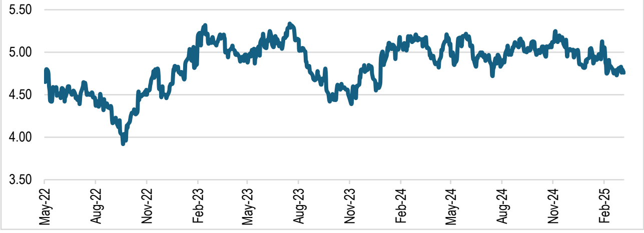
Chart 7



Source: J.P. Morgan

Subdued jackpot cycle in FY25, potential to be a SP catalyst in FY26

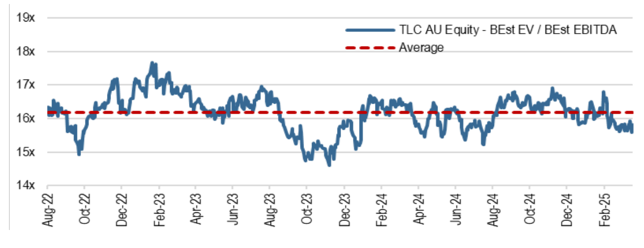
Chart 8



Source: Iress

EV/EBITDA below trading below historical average

Chart 9



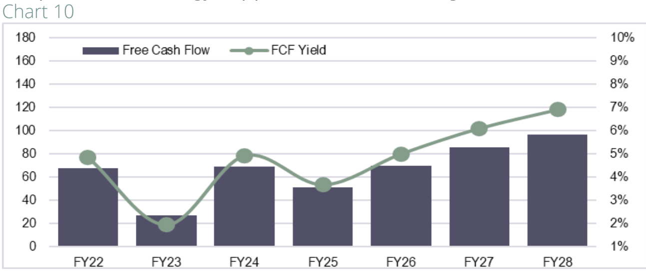
Source: J.P. Morgan

Stock Selection

Iress Limited (IRE)

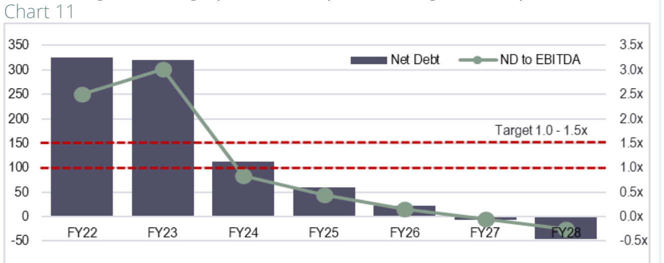
DESCRIPTION	Iress (ASX: IRE) develops and designs software for the financial services industry. IRE's core offerings include: 1. Global Trading and Market Data: Provides market data to institutional Sell-side brokers and investment managers & facilitates over 3.2 billion trade orders annually . 2. Financial Planning and Wealth Management software: this segment encompasses IRE's flagship wealth management software Xplan which has over 38,000 active users domestically The company is implementing a significant simplification strategy, focusing on the core activities of the business. The key components of the strategy is to restructure the business, divest non-core assets and reset the cost base. The overarching financial goal of the business is to consistently reach the 'Rule of 40' returns for shareholders defined by achieving combined revenue growth and profit margin of 40% or more.
VALUATION	Our DCF valuation of IRE is AUD9.60/share. • Current price implies 15.5x PER in FY2027, the first year of clean earnings following the divestments and transition agreements
QUALITY	IRE is a mature financial technology company, the flagship wealth management product Xplan has 60% market share in Australia. The overall churn of the core products is relatively low and essential for clients' operations. This provides Iress with strong pricing power to pass on CPI + increases to customers which should provide sustainable earnings growth. Following the simplification strategy and divestments of noncore businesses, IRE will be net cash (assuming the Quanthouse sale which is yet to conclude, somewhat reflects the purchase price of the asset) and highly cash generative.
INSIGHT	The full benefits from the simplification process are not yet apparent. Following the divestments in the near-term Iress is left with stranded costs and transitional agreements with purchasers. These will take time to be removed from the business and be reflected in earnings. We believe the market has not fully factored in these costs being removed from the business come CY2027, which will be the first year of clean earnings. Consensus has NPAT growing +AUD20 million in from 2024 to 2027. This does not appear to reflect the benefits of the simplification strategy and top line growth of the retained business. We highlight the following benefits which we would expect Iress to realise in CY2027 (versus 2024): • The roll off of the transitional agreements (up to AUD10mn); • Exiting loss making businesses (Superannuation, -AUD3.5mn in 2024); • Reduction to interest expenses from being net cash (AUD16.8 million in 2024); and • further CPI+ price rises to come across the core products.

Simplification strategy supports free cash flow generation
Chart 10



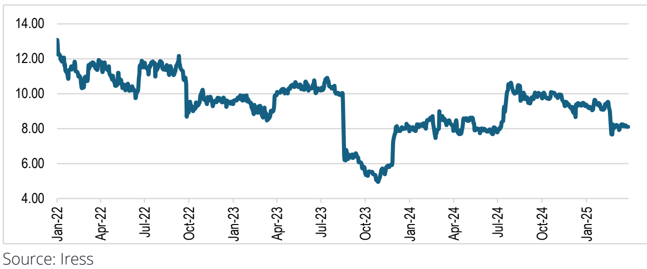
Source: Chester Asset Management, Company reports

Below target leverage provides capital management options
Chart 11



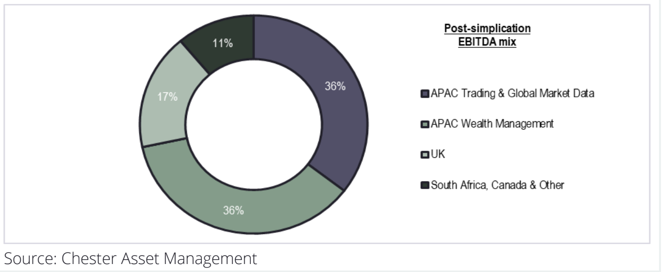
Source: Chester Asset Management, Company reports

Share price not reflecting post-simplification earnings accretion
Chart 12



Source: Iress

Post-simplification earnings mix skewed to core APAC market
Chart 13



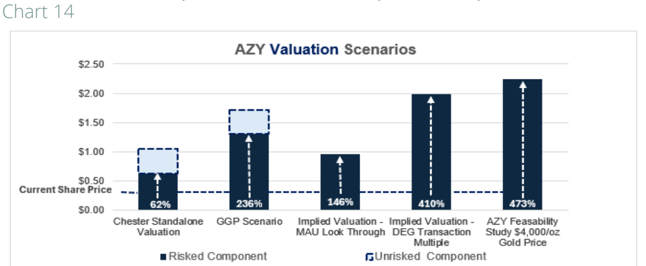
Source: Chester Asset Management

Stock Selection

Antipa Minerals (AZY)

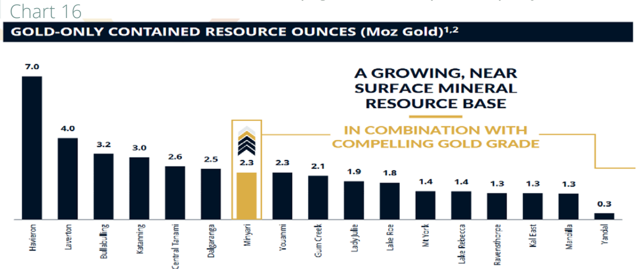
DESCRIPTION	**Antipa Minerals (ASX: AZY)** is a leading mineral exploration company focused on the Paterson Province in Western Australia. The company's flagship asset is the 100%-owned Minyari Dome Gold-Copper Project, which hosts a 2.3 Moz gold resource at 1.6g/t (2.9Moz Gold equivalent) with significant upside potential. The resource is also notably 35km from the Telfer Mill now owned by Greatland Gold (GGP.LSE). AZY's strategic tenement holdings cover over 3,900km2 in a region home to world-class deposits like Telfer and Winu. The company has a strong cash position of approximately AUD37m, bolstered by the recent AUD17m sale of an interest in the Citadel JV to Rio Tinto, as well as a AUD16m capital raise in December 2024. Recently AZY has also retained 100% ownership of the Wilki project which hosts 100koz gold and the potentially large-scale Parklands prospect.
QUALITY	The Minyari Dome project is unique in that it is predominantly open-pittable with high grade (1.6g/t) and of meaningful scale with copper credits providing optionality particularly if in GGP's hands. Parklands and Jezabeel also present as large-scale near-term prospects, both ~3km x 1.5km gold anomalies located close to Telfer. AZY are blessed with cash of AUD40m which is also extremely important for junior resource companies in the current market.
VALUATION	We model AZY as a standalone entity and what the asset could be worth to the owner of the nearby Telfer mill (Greatland Gold): • Stand Alone **AUD0.63**/share NAV, Minyari Project risked at 50% WACC10% • GGP Scenario **AUD1.30**/share NAV, Minyari Project risked 70%, WACC7% Both use USD2,500/oz gold price at AUDUSD0.70 (AUD3,570/oz LT) At spot ~AUD5,000/oz these valuations increase to ~AUD1.10/share and AUD2.40/share respectively
INSIGHT	There are a number of upcoming catalysts we believe could be material for AZY for a company we believe is trading at a meaningful discount to other listed development plays. Key points: 1) AZY's multiple is at a meaningful discount to peers. We calculate AZY is currently trading at ~AUD80/oz for just their share of gold resources (not including copper), this compares to ASX peers like Magnetic Resources trading on AUD190/oz and DeGrey, under takeover from Northern Star Resources at >AUD350/oz 2) GGP is looking to list on the ASX, a move we believe could be the catalyst for consolidation in the sector, at the very least we believe AZY could strike a toll treating agreement with GGP 3) We expect the current resource to expand further from drilling at the Minyari project, Minyari South for example has the following commentary in recent material "Material Mineral Resource growth expected H1 CY2025" 4) Wilki JV Drilling. Is in the advanced stages of planning. We expect Parklands to be drilled imminently with assays due ~ 2 months after being drilling. Parklands, is 10km NE of Telfer processing and represents a very large-scale surface geochemical gold anomaly (3km long by up to 1.5km wide) 5) IGO JV acreage, which has multiple targets surrounding Minyari has the potential to be relinquished. Two co-incident magnetic-gravity high Havieron analogue targets 11 to 25km from Minyari

AZY has material upside to NPV and to peer multiples
Chart 14



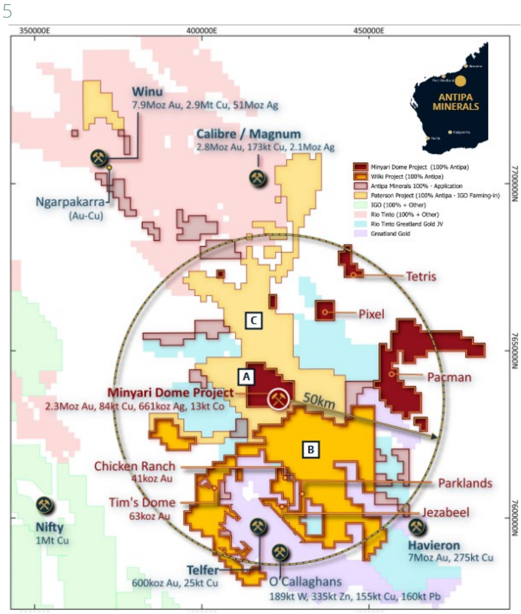
Source: Chester Asset Management

AZY holds one of Australia's top gold development projects
Chart 16



Source: Antipa, March Corporate Presentation

Proximity to Telfer provides a logical pathway to commercialisation
Chart 15



Source: Antipa, March 2025 Corporate Presentation

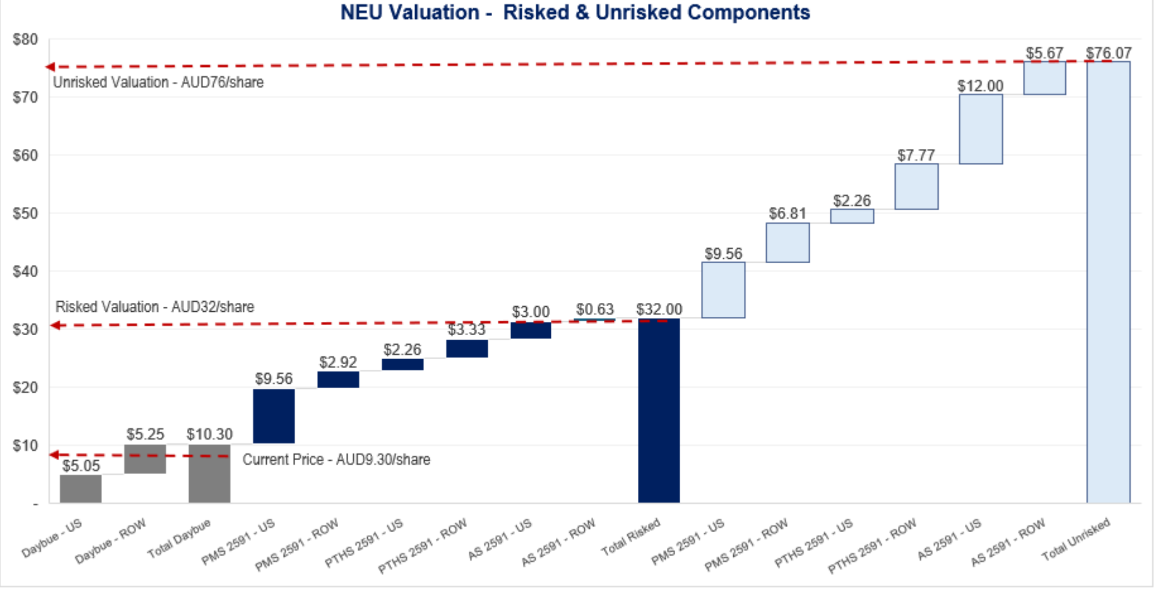
Stock Selection

Neuren (NEU)

DESCRIPTION	Neuren Pharmaceuticals (NEU ASX) is a leading biopharmaceutical company, run by MD John Pilcher, focused on developing therapies for debilitating neurodevelopmental disorders. Its flagship product, DAYBUE™ (trofinetide), is the first FDA-approved treatment for Rett syndrome, targeting both adult and pediatric patients aged two years and older. DAYBUE achieved impressive 2024 net sales of USD348m in its first full year of sales after launching in April 2023. NEU also holds a promising pipeline with NNZ-2591, currently progressing to Phase III trials for multiple conditions including Phelan-McDermid syndrome (PMS), Pitt Hopkins syndrome (PTHS) and Angelman syndrome (AS) addressing significant unmet medical needs. Additionally, its drug candidates benefit from orphan drug designations in the U.S. and Europe, granting market exclusivity and regulatory incentives. NEU's strategic collaborations include a worldwide exclusive licensing agreement with Acadia Pharmaceuticals for trofinetide. There are currently no agreements in place for any potential commercialisation of NNZ-2591, likely to come post Phase III trials. NEU boasts a robust financial position, with AUD359m in pro-forma cash and zero debt, ensuring it can fund future growth initiatives
QUALITY	NEU is an extremely unique investment proposition in that it is a biotechnology company with its valuation underpinned by an existing (commercialised product), meaning as an investor we believe you are getting any upside associated with Phase III trials for NNZ-2591 for PMS, PTHS and AHS for free. Despite these orphan drugs having limited patient applications i.e. Rett syndrome only has ~5,500 patients diagnosed in the US NEU enjoys a first mover advantage being the only commercial product in the market. They are also the most advanced drug targeting PMS and PHS, the exception being AS where they are the third drug in line to come to market. Being first to market can guarantee a level of incumbency with proven efficacy.
VALUATION	We value NEU using a Sum of the parts NAV and derive a risked valuation of **AUD32.00**/share and an unrisked valuation of AUD76.00/share • WACC10%, TGR 3%, 10 year model • We risk Daybue at 100% • We risk PMS and PTHS at 50% for US commercialization and 30% for Rest of World (ROW) commercialization • We risk AS at 20% for US commercialization and 10% for ROW commercialization • We don't value any of the additional potential indications; Fragile X, HIE, etc
INSIGHT	We don't claim to have any unique insights into the potential outcome of phase III trials for NNZ-2591 across PMS, PTHS and AS but note that our analysis of historical phase III trials suggests an ~60% chance of Phase III success and then a 90% chance of commercial success, i.e. a 50% chance of Commercial success once a potential product enters Phase III trials. With NEU having at least 3 shots on goal with Phase III trials, plus further optionality around Fragile X and Hypoxic Ischemic encephalopathy (HIE) NEU has a lot of optionality that is being mispriced. I.e. our analysis suggests that NNZ-2591 is being priced at close to zero within the NEU share price. We have to ask ourselves if NNZ-2591 was sitting as the sole drug within a company would it be valued at nothing? Asymmetric?!

NEU has at least 3 shots on goal

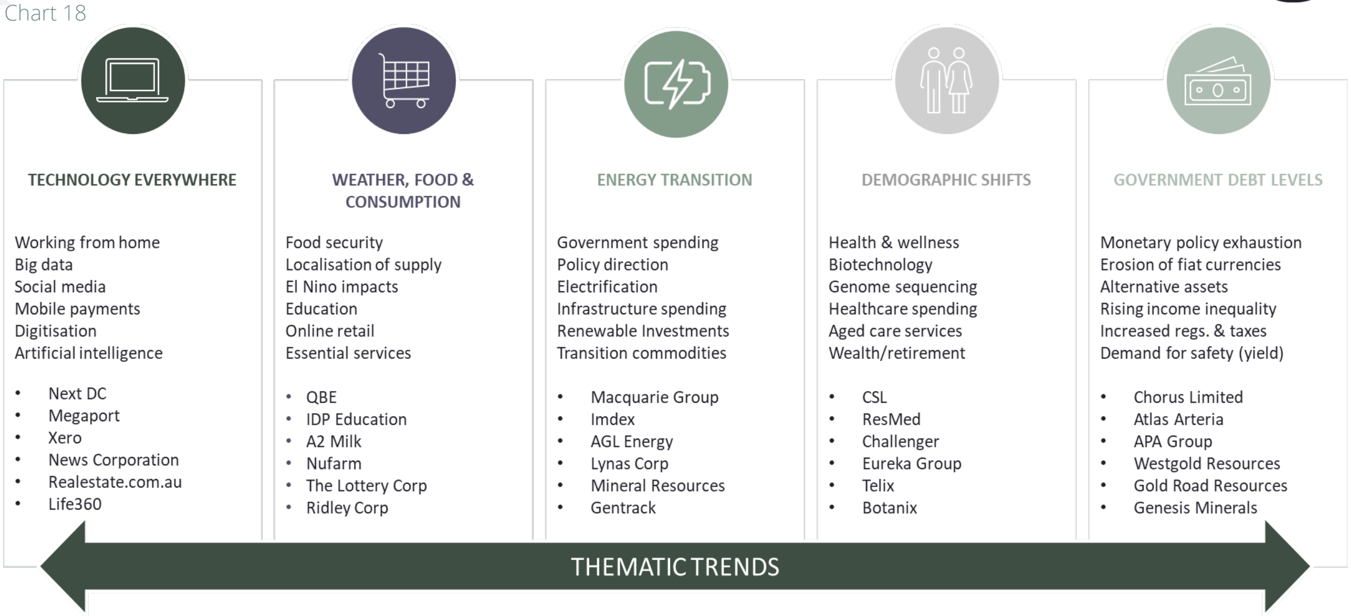
Chart 17



Source: Chester Asset Management

Chester Megatrend framework

Chart 18



IDEA GENERATION FROM LONG TERM TRENDS

The above chart is an extract from our presentation pack that is an illustration as to how we focus our research effort. These trends tend to be far longer duration than a simple economic cycle and hopefully help us identify where we spend our time doing detailed bottom-up research. We have often spoken of our concern around government debt levels as the biggest driver of financial market impacts over the next decade. Our consistent portfolio holding in gold equities is born from this thinking. The other major significant influence over the next 10 years will be the onset of AI in everyday life. Our base case is that AI is moving slowly in the real world (corporate change) but extraordinarily quicky from a development perspective. Deepseek and Grok (amongst other LLMs) illustrate how quickly the pace of change is occurring. Our fundamental view of AI disruption is that Software as a Service (SaaS) businesses are not appropriately discounting the structural pressure that AI will bring to their business models over the next 3-5 years. In our view these platform businesses are still priced as though they have a significant economic moat, which to our way of thinking, is a flawed assessment of the AI threat. Let's use realestate.com.au (REA) as an example. Using ChatGPT 4.0 or Grok, we can ask a simple question such as "find me a 4 bedroom home in Toorak with a swimming pool". These LLM's will scour the internet and find several listings that match the search criteria. It maybe from REA or Domain, or it actually maybe simply directly from the real estate agent (Marshall White etc) who owns the listing. The implication being, we believe the aggregator model may be at risk from these LLM search tools, which will shift far more power back to the individual estate agent as opposed to the content aggregator. If this is the case, does REA have the embedded pricing power that the market currently assumes it does? On our modelling below, REA is pricing in 12.7% CAGR revenue growth for the next 10 years, to arrive at the current share price. If real estate agents start questioning the value of the aggregator model, this is the wrong assumption. Do we need to pay REA AUD10,000 per listing if we can find the house listing by other means?

Reverse engineering the implied growth rate to solve for the current REA share price

Recreated financials												
	FY24	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e	FY31e	FY32e	FY33e	FY34e	FY35e
Revenue	**1,453**	1,682	**1,896**	**2,138**	**2,411**	**2,718**	**3,064**	**3,455**	**3,895**	**4,391**	**4,951**	**5,582**
Growth		15.8%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%	12.7%
EBITDA	**799**	**960**	**1,120**	**1,312**	**1,482**	**1,685**	**1,915**	**2,176**	**2,473**	**2,810**	**3,193**	**3,628**
Margin	55.0%	57.1%	59.0%	61.3%	61.5%	62.0%	62.5%	63.0%	63.5%	64.0%	64.5%	65.0%
D&A	-114	-134	-147	-157	-193	-217	-245	-276	-312	-351	-396	-447
D&A as % revenue	7.8%	8.0%	7.8%	7.3%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
EBIT	**685**	**826**	**973**	**1,155**	**1,290**	**1,468**	**1,670**	**1,900**	**2,162**	**2,459**	**2,797**	**3,182**
Tax Rate	32.1%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Tax	-220	-248	-292	-346	-387	-440	-501	-570	-649	-738	-839	-955
NPAT	**461**	**578**	**681**	**808**	**903**	**1,027**	**1,169**	**1,330**	**1,513**	**1,721**	**1,958**	**2,227**
Gross operating cash flow	**789**	**950**	**1,109**	**1,298**	**1,468**	**1,668**	**1,896**	**2,155**	**2,449**	**2,782**	**3,162**	**3,592**
FCF Conversion	98.7%	99.0%	99.0%	99.0%	99.0%	99.0%	99.0%	99.0%	99.0%	99.0%	99.0%	99.0%
Working Capital	-10	-10	-11	-13	-15	-17	-19	-22	-25	-28	-32	-36
Net Investing CF	**-205**	**-152**	**-152**	**-171**	**-193**	**-217**	**-245**	**-276**	**-312**	**-351**	**-396**	**-447**
% Revenue	14.1%	9.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
DCF & Valuation												
		Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
DCF												
EBITDA		960	1,120	1,312	1,482	1,685	1,915	2,176	2,473	2,810	3,193	3,628
Tax		-248	-292	-346	-387	-440	-501	-570	-649	-738	-839	-955
WC		-10	-11	-13	-15	-17	-19	-22	-25	-28	-32	-36
Investing CF		-152	-152	-171	-193	-217	-245	-276	-312	-351	-396	-447
FCF		**551**	**665**	**781**	**888**	**1,010**	**1,150**	**1,308**	**1,488**	**1,693**	**1,926**	**2,191**
Discount factor		0.926	0.857	0.794	0.735	0.681	0.630	0.583	0.540	0.500	0.463	0.429
PV FCF		**510**	**570**	**620**	**653**	**688**	**725**	**763**	**804**	**847**	**892**	**940**

Key Macro Themes

US TARIFFS

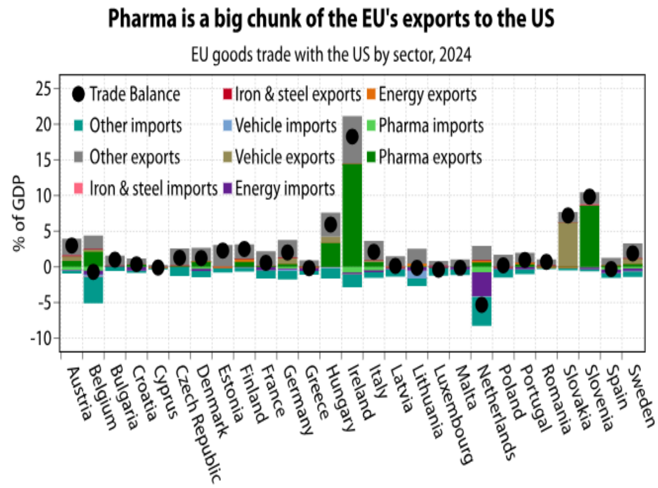
Like every investor, we are grappling with the way the world will look post the tariff negotiations. There are two thoughts around what the US is currently undertaking. The first is simply an impost on selling foreign goods into the US which is akin to a consumption tax (effectively paid for by US consumers), which at its core is just a revenue collection exercise to offset the extension of the US income tax cuts which are expected to be in front of congress by the middle of the year. These tax cuts are very much part of the plan to reaccelerate the US economy in the second half of 2025. The current assumption is that the US could raise US600bn in extra revenue from these tariffs, but this is highly likely to be negotiated down.

The second theory is around economic warfare that suggests the US is trying to drive the Chinese economy to the wall, given they are so reliant on the US consumer. This second theory would create significant dislocation of the way the world has functioned for the past 25 years (since China entered the WTO).

We lean towards the first thesis, as evidenced by the Trump pause on retaliatory tariffs for 90 days, which came hot on the heels of the US 10 year bond breaching a 4.5% yield. Clearly the US administration has a pain threshold as to how much they can tolerate. We have long been of the view that the US deficit spending is the biggest challenge we face, given it will determine the ultimate price of the US 10 yr yield, which is how all assets are priced.

Does the US care about the relationship with Europe?

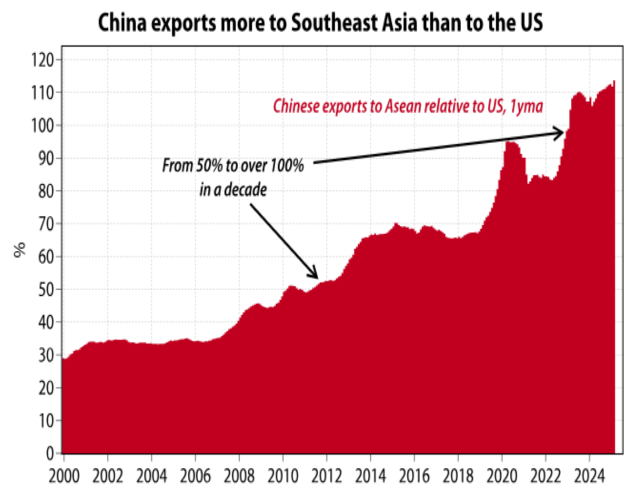
Chart 19



Source: Gavekal Research/Macrobond

But it does care about Vietnam exports as a China proxy

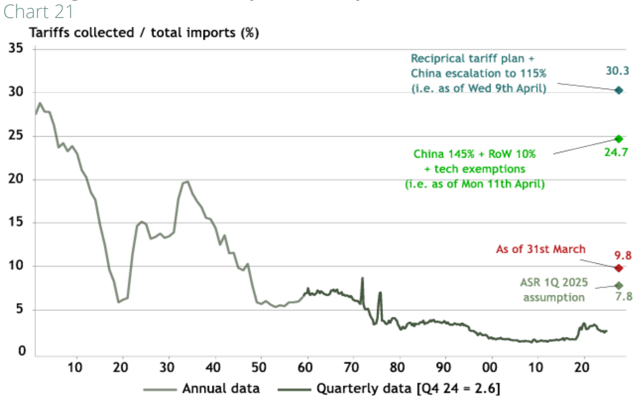
Chart 20



Source: Gavekal Research/Macrobond

The largest tariffs for 115 years if they were to be enacted

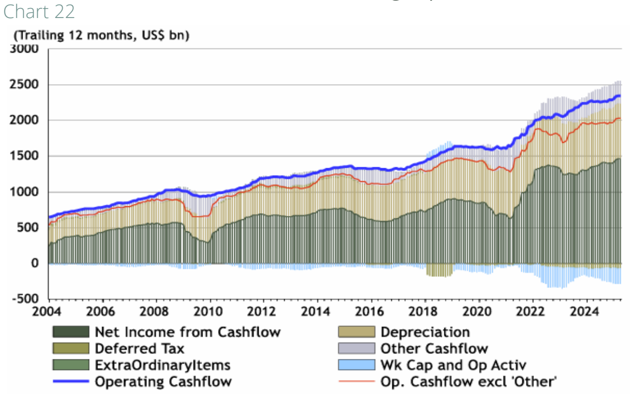
Chart 21



Source: ASR Research

US S&P500 co's need to increase working capital to fund tariffs

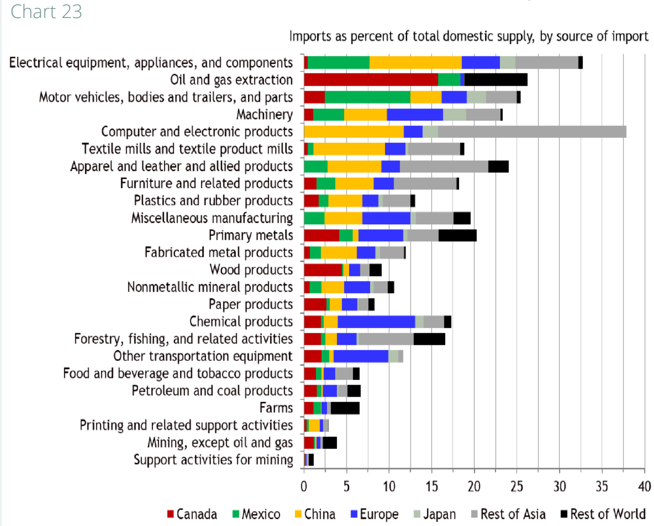
Chart 22



Source: ASR Research

China is the focus of the trade imbalance, but sector specific

Chart 23



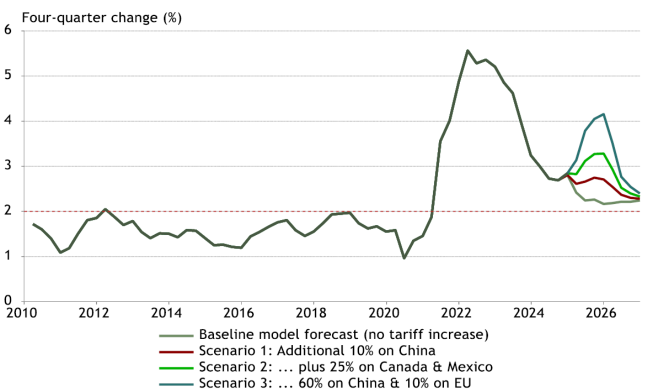
Source: ASR Research

Key Macro Themes

US THOUGHTS

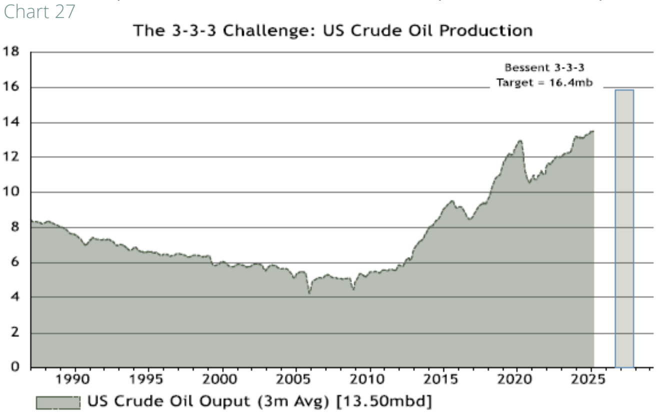
We do contemplate these issues given how much we believe they feed through to other asset pricing, namely gold, which is a direct beneficiary of this ongoing fiat currency debasement. Clearly macro uncertainty provides a tailwind for gold as a store of wealth. But chart 24 shows just how important it is for the US government to be successful in cutting government largesse, as the total outlays are still up 55% since 2019, having not changed materially since the large handouts given through the pandemic. We wonder how Scott Bessent (Treasury Secretary) achieves his aim of getting the deficit down to 3% of GDP (from 7% currently) without a significant boost from lower interest rates. Chart 25 highlights how much net interest will grow over the coming decade and is currently annualizing at US1.2Tn out of the US2.0Tn deficit. Hence our view that this is the easiest way to tackle the deficit. Chart 26 highlights the current inflation shock that (all else being equal) will see inflation spike back above 4%, with a 60% tariff on China. Of course, this number is a moving feast currently. With this backdrop it may be difficult to see how aggressive the Fed will be in cutting rates, unless we see a significant demand destruction occurring in the current quarter. Anecdotally, we hear signs of orders coming to a complete stop and many firms ordering excess inventory in the first quarter to try to beat the uncertainty. Given the Oil price has dropped so sharply over the past 3 weeks, it may be presumptuous to believe that US oil companies will accelerate production drilling to meet Scott Bessent's hope of an extra 3mbbl of oil. It may be one reason why inflation doesn't spike as expected.

Current tariff scenario will create an initial inflation shock
Chart 26



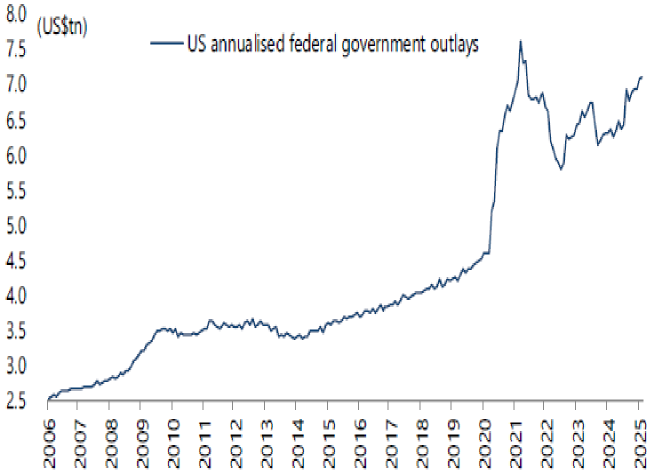
Source: ASR Research

Can the US produce another 3mbbl of oil. Depends on the oil price
Chart 27



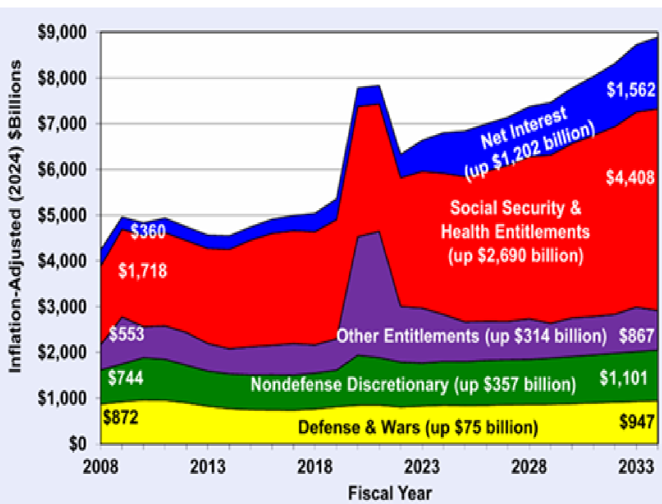
Source: ASR Research

How much can DOGE actually reduce spending?
Chart 24



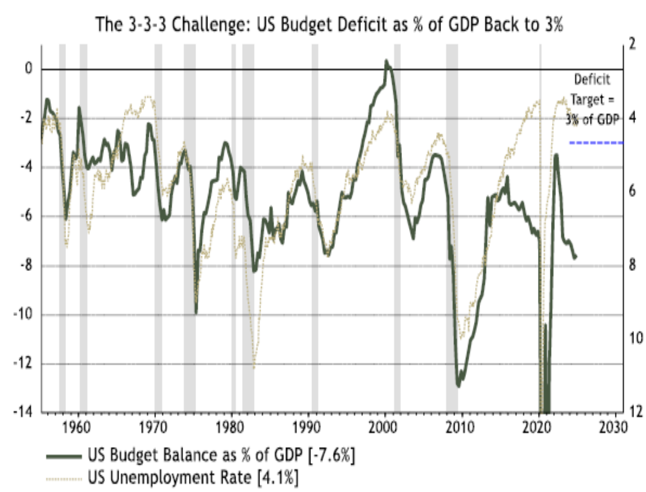
Source: UBS Research

The net interest expense line is a key variable to deficit reduction
Chart 25



Source: Manhattan Institute

Deficit spending is still around 7% of GDP which is unsustainable
Chart 28



Source: ASR Research

Key Macro Themes

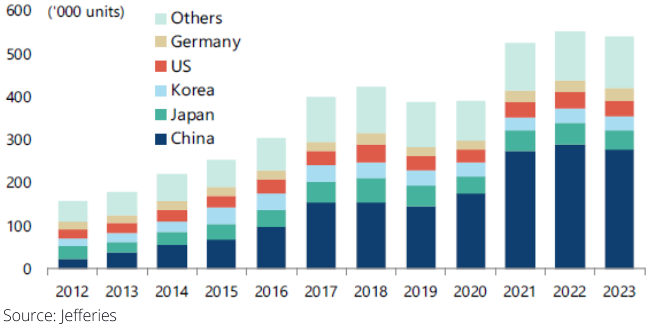
CHINA

Much of our thinking around China ties back to how aggressive they will be with fiscal stimulus. Chart 29 highlights they are already providing more fiscal firepower this year than in 2020. They may need to do more given how reliant China remains on the export driven model, and how poor domestic consumption remains (chart 31). As a reminder Australian households save around 3.8% of disposable income. Any prospect China has to grow its way out of the current model must be driven by changing the economic model with which they operate. Starting with chart 30. The manufacturing sector has been the biggest beneficiary of China trying to divert growth away from housing (where loan growth has been basically flat for 4 years), while manufacturing has tripled. We suspect this is one of the reasons the US is going so hard at Chinese exports, as they have taken advantage of a far cheaper currency, cheaper labour and subsidies from the central government to build this manufacturing base. The EV auto industry is the clearest example of where capital has been deployed, with current capacity to manufacture 20m EVs per year, while currently producing 12m. This does provide a deflationary backdrop as the EV market is frightfully competitive in market share gains. The one reason we suspect the US will never be able to compete with China is chart 33 below. China leads the world in cutting edge robotics, which will keep driving down the manufacturing costs of many goods. We note that China also produces 3.7m STEM (Science, Technology, Engineering and Maths) graduates per year, relative to the 820k STEM graduates that the US produces. Much of the comparative advantage of the Chinese model will be impossible to compete away, which is, in essence, the reasons for the tariffs in the first place. Who wins the AI race over the next 10 years?

Chinese households save too much and consume too little
Chart 31

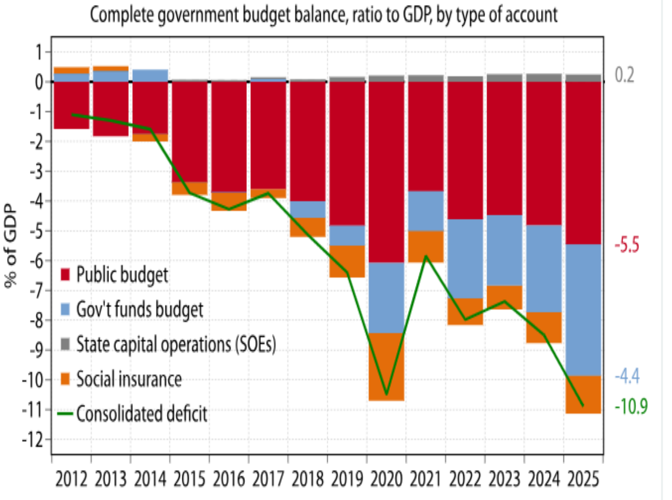
Source: Jefferies

Annual installations of industrial robots by country
Chart 33



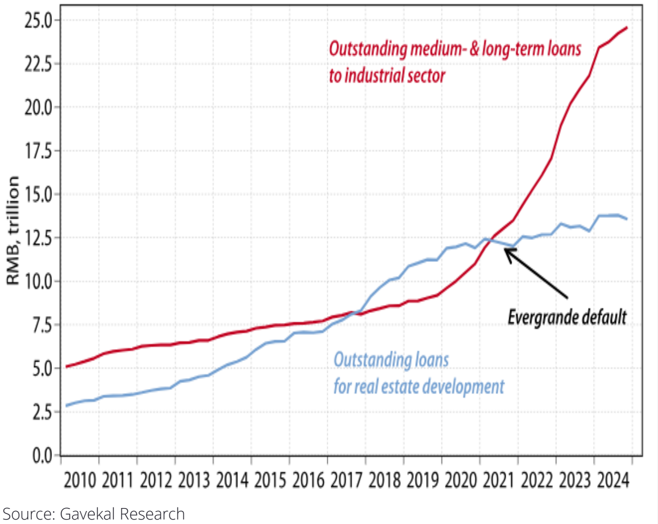
Source: Jefferies

Chinese fiscal stimulus in 2025 the largest since the GFC
Chart 29



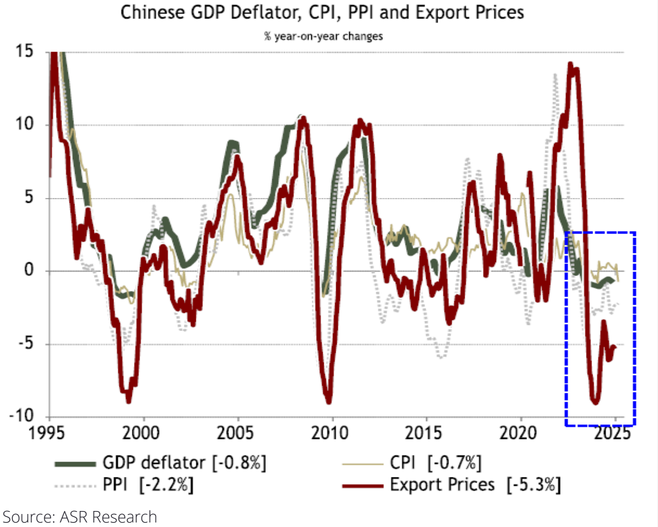
Source: Gavekal/Macrobond

China has been focused on allocating resources to manufacturing
Chart 30



Source: Gavekal Research

China is still exporting deflation to the world
Chart 32



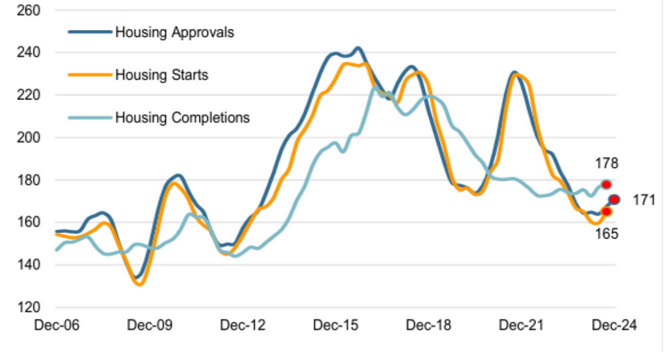
Source: ASR Research

Key Macro Themes

AUSTRALIA

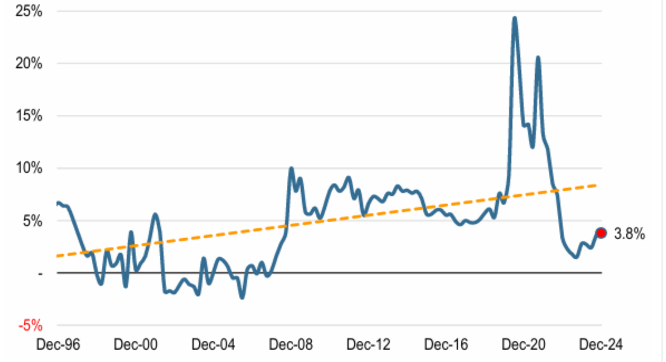
One of our least favorite charts is chart 38 below. The ever-encroaching public sector on the Australian job market we firmly believe is the main reason why productivity gains in Australia are so hard to obtain. The unemployment rate is also artificially lower than it should be given 83% of the jobs created in Australia over the past 18 months have been public sector jobs. It smooths over what we believe to be very real structural challenges of the Australian economy. Complacency has absolutely crept into our workforce as everyone still has a job and house prices keep going up. The RBA is caught in a difficult position given inflation has drifted back to the middle of the RBAs target range, and given the escalating tariff uncertainty, it appears inevitable that further rate cuts will occur, but only on confirmation of demand destruction, which might be 3-4 months away still. The workforce data is the challenge in this scenario, given the unemployment rate is so low still, which historically is an unusual cycle to be cutting rates, albeit the Seek application data per job suggests the labour force is weakening. The savings ratio is ticking higher, suggesting consumers are becoming less confident in the outlook, and given this is a lagging indicator, we suspect this looks worse in May/June given the heightened uncertainty currently. The housing cycle may get a small boost from either major political party's election promises, where the focus on affordable housing or incentivizing first home buyers is an election issue. We lean towards a defensive stance in Australia based on these data points.

The housing cycle remains stuck with a cost of supply issue
Chart 36



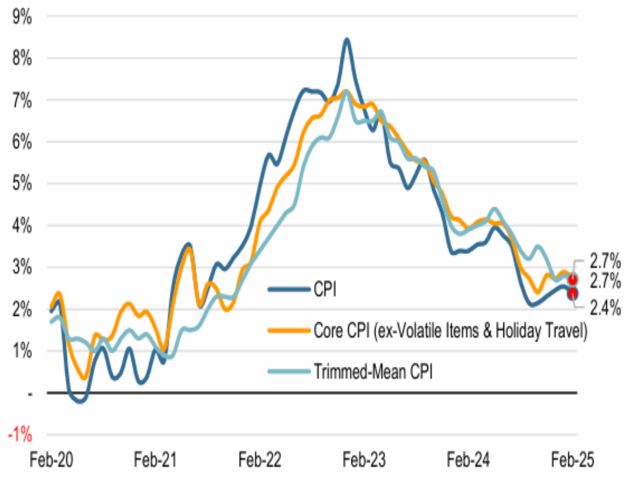
Source: JPMorgan

The uptick in savings suggests consumers becoming less confident
Chart 37



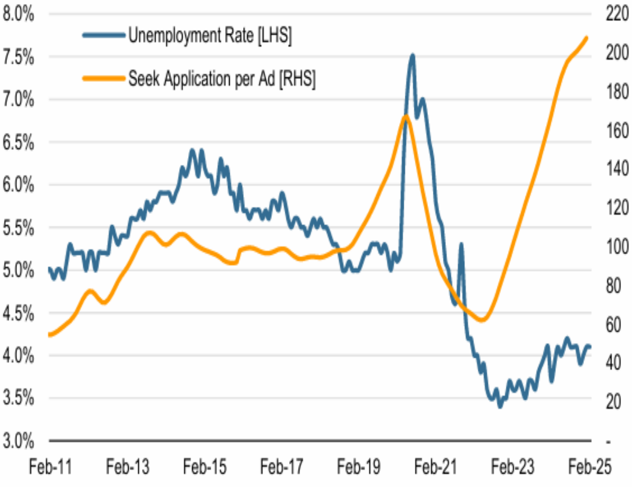
Source: JPMorgan

Current CPI readings give rise to renewed rate cut expectations
Chart 34



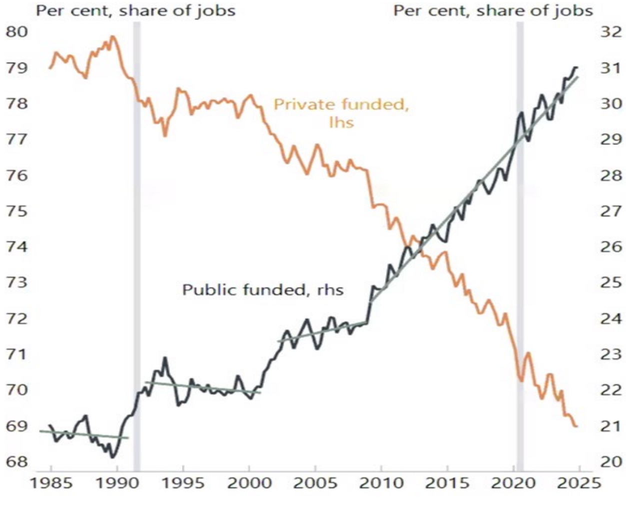
Source: JP Morgan

Seek job ads lead the unemployment rate higher
Chart 35



Source: JPMorgan

Growth in public sector jobs since the GFC in Australia
Chart 38



Source: Barrenjoey Research

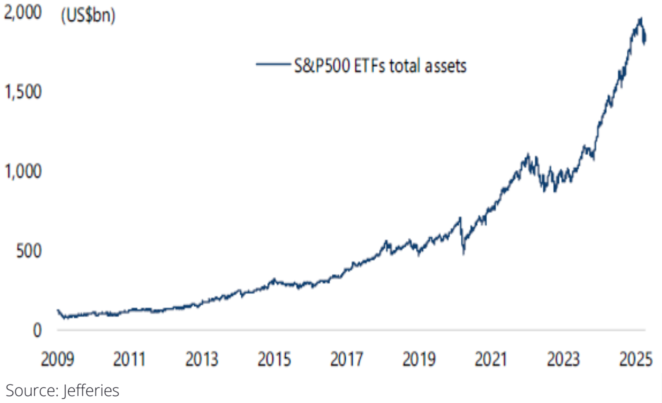
Key Macro Themes

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. Chart 39 highlights the recent outperformance of value as a style (the past 3-4 months). We are of the view that as money leaves the US and IF (an uncertain IF) the USD continues to weaken, then historically this suggests an ongoing period of value outperforming growth as a style. The strongest period of this style bias was 2001-2004 as the USD lost 30% against other major currencies. This trend could be exacerbated by two forces, chart 41 highlights the near doubling of ETF flows into the US equity market over the past 2 years. Passive flows are momentum driven outcomes as they continue to buy stocks as the index weight goes up, regardless of fundamentals, CBA in Australia is the easiest example to point to in a stock that has been priced well beyond any rational valuation framework. It works until it doesn't. Chart 42 highlights that foreigners currently own a record amount of US equities. Or at least they did until "Liberation Day". An exodus of foreign capital will lead to demand drying up for USD (including US Treasuries), which in turn, would theoretically lead to index funds rebalancing their holdings of index weight lower. Technically, we could see the whole momentum trade of the past 18 months revert over the next 6-12 months should tariff uncertainty remain.

Total assets in S&P500 ETFs – a bubble?

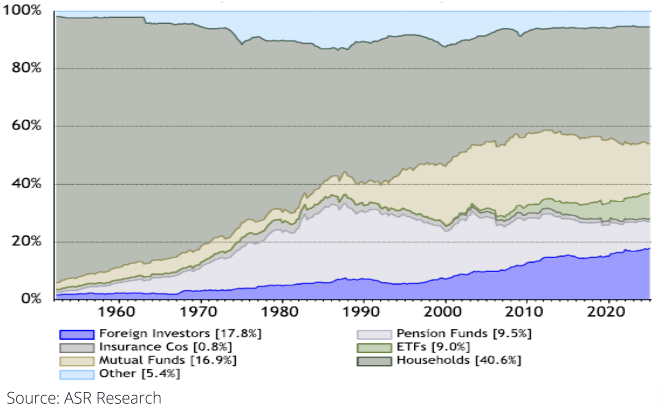
Chart 41



Source: Jefferies

Foreigners currently own 17% of US equities – does that hold?

Chart 42



Source: ASR Research

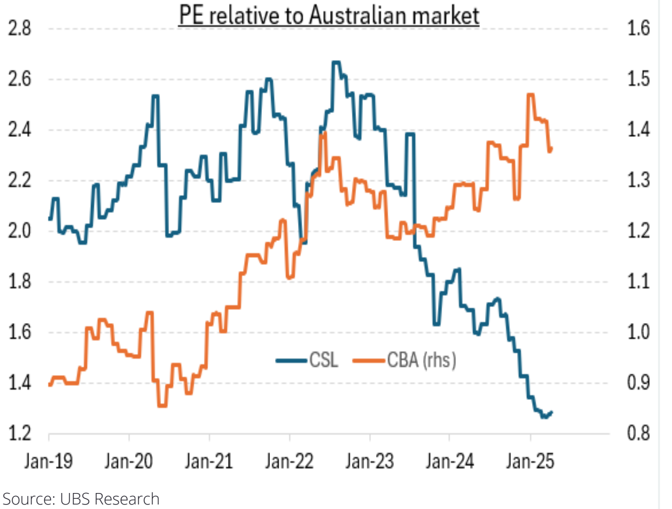
Are we at the start of a style rotation?

Chart 39

Source: Chester Asset Management, Bloomberg

Markets can remain irrational for a significant period

Chart 40



Source: UBS Research

US Dollar over 30 years – is a weak USD period ahead?

Chart 43

Source: Chester Asset Management, Bloomberg

Executive Summary

Equities

We really try to summarise our thoughts for our own benefit, as much as trying to articulate them to a wider audience. This last 2 weeks is a significant shift in the way global trade has worked since the second world war, with the US administration trying to break the old rules of engagement. Much of this thinking is fluid and subject to change, given Donald Trump is hosting this game show. For simplicity we are trying to form these thoughts in bullet point format.

- If tariffs do come to pass as currently outlined, we believe Australia is well placed given the comparative advantage of only 10% tariffs vs China at around 145% (at the time of writing).
- Tariffs will initially be inflationary making interest rate cuts difficult initially, while history suggests tariffs end up being deflationary given the demand destruction that occurs and a lack of both business and consumer confidence.
- It does not augur well for global growth and as such a defensive bias (including gold) makes sense.
- We believe it will galvanise a domestic policy response from China and Europe (and perhaps new trade deals) that will focus these regions on things they can control as opposed to a trade relationship that doesn't work.
- This would see capital flows out of the US (both equities and bonds) back to a home bias, which suggests downward pressure on the USD.
- Given the reversal of momentum strategies (passive flows), we see a period of significant underperformance of US equities under this scenario.
- This thesis also ties into the notion that while AI is an incredibly transformative technology, the arms race to build data centres amid a proliferation of LLMs (Deepseek, Grok etc.) suggests AI is at risk of being commoditised.
- All else being equal, this thesis would see a period of value outperforming growth, international markets outperforming the US, and hard assets (property, commodities etc.) providing a store of wealth.

Our view remains that real assets (property, infrastructure, agriculture, commodities, gold etc.) will outperform capital light or long duration assets over the coming period. We believe inflation falls over the next 12 months given the demand shock of tariffs but remains somewhat embedded due to localisation of supply chains, decarbonisation, capital investment and a reversal of cheap labour arbitrage from emerging markets over the past 20 years.

We believe Australia is well placed to benefit from this trend over the coming decade, with an enviable lifestyle and strong (if not somewhat flawed) democracy. As a primary producer of agriculture and commodities, we are 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.

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 look fascinating from a sentiment perspective. Bull markets historically follow bear markets and, in that context, small caps tend to perform better as risk appetite increases. From a strategic perspective, as more dovish interest rate policies come into view (Australia appears at least 6 months behind the US), we may start to see some rotation from growth into value as a style, given many value driven stocks provide cyclical exposure to domestic economies. For the same reason, it would be a reason why small caps finally start outperforming large caps with higher domestic exposure. The Australian banks are priced as though there will never be another bad debt cycle. We remain very cautious towards the banking sector should we see unemployment pick up. We are also of the view that PE re-ratings are a thing of the past, hence earnings will be the only driver of stock prices going forward, meaning we believe a far more fundamental investment process will provide superior returns over the next 2-3 years.

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

Real assets - ASB, AZJ, QUB, AGL, ASK
Valuation margin of safety - CGF, LLC, NUF, EGH
Pricing power - CSL, RMD, TLC, IRE
Gold - WGX, GMD, AZY

As we have demonstrated over the past 11 years with this strategy, the returns we generate do deviate significantly from the benchmark, where we are proud of the track record of the strategy, delivered with lower volatility than the ASX300.

Government spending and bond yields

Interest rates are under enormous strain with the amount of debt issuance by central banks, and we still wonder how the ongoing US deficit spending is financed outside the Fed Reserve embarking on QE eventually, which is potentially what the US bond market is pricing in. With this backdrop, the only way the debt burden to society gets repaid, is through asset reflation, or in some cases, debt forgiveness. Fed governors have always issued a "put" on the stock market with new easing policies, which in the next sharp downturn, eventually becomes yield curve control, and ultimately direct equity purchases, if needed. We may change our thinking if DOGE can implement significant spending cuts, or for some reason, the tariff revenue holds.

Fund Philosophy

TOP 10 HOLDINGS

COMPANY	QUALITY	VALUATION	INSIGHT	REAL ASSETS	THEMATIC TAILWIND
CSL Limited (CSL)	✓	✓	✓		Aging population
Light & Wonder (LNW)	✓	✓	✓		Consumption / market penetration
Abacus Storage King (ASK)	✓	✓		✓	Housing shortages / rental crisis
Westgold (WGX)		✓	✓	✓	Gold
Austal (ASB)		✓	✓	✓	Defence spending
Develop Global (DVP)		✓	✓	✓	Energy transition / copper
Challenger (CGF)	✓	✓		✓	Retirement income / regulatory change
Genesis Minerals (GMD)		✓	✓	✓	Gold
ResMed (RMD)	✓	✓	✓		Aging population / OSA growth rates
Aurizon (AZJ)	✓	✓		✓	Essential service / infrastructure assets

Source: Chester Asset Management, in no particular order

Above are our top ten holdings as at the 1st of April, 2025. 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 combinations of three factors:

1. The appropriate valuation of the stock, with;
2. Our assessment of the quality of the assets and management team, overlayed 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 2 from our presentation material. Most of the current top ten holdings are classified as "predictables" (industrials, REITs or healthcare, etc). Develop Global (DVP) falls under the "cyclicals" category, while our gold exposure, including Westgold (WGX) and Genesis Minerals (GMD) 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 competitive advantage (e.g. pricing power, barriers to entry, threat of disruption, etc), as well as assessing the managements teams track record and invectives.

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 45

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, defence, 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.

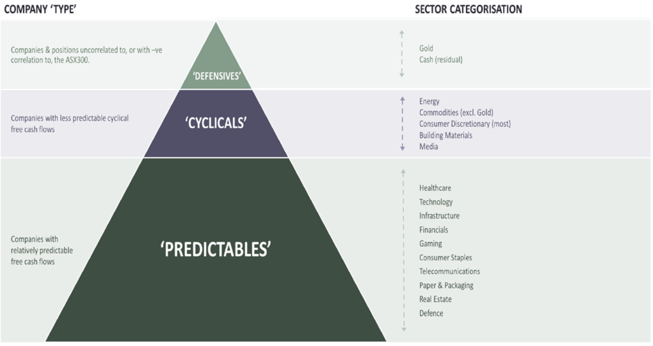
Cyclicals such as energy, commodities, and select industrials, have less predictable earnings. We use the word "relatively" predictable, as there is always less certainty over the longevity of a cash flow cycle and sustainability of margins, hence given the uncertainty, we tend to desire much greater 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 44



Source: Chester Asset Management

Fund Philosophy

Chart 4 illustrates how our portfolio allocations across the three buckers – Predictables, Cyclicals, and Defensives – have evolved over the past nine years, On average, Predictables have made up 60-70% of the portfolio, Cyclicals around 18% (within a 10-25% range), and Defensives between from 10-25% averaging approximately 15%.

Over the past 3 months, we have reduced our cyclical exposure, largely winding back some energy exposure. 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 5 compares the portfolio characteristics 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.

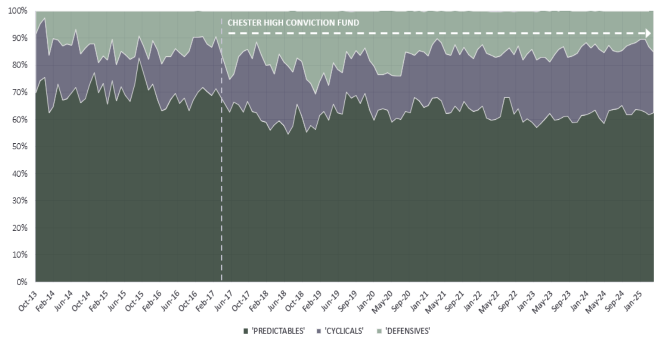
The data does highlight a clear value bias, influenced by positions such as Westgold (WGX), which trades at 6.4x PER and is forecast to deliver 121% EPS growth in FY25. These types of idiosyncratic holdings can meaningfully shape the portfolio.

The fund's yield is lower than that of the ASX300, largely due to lack of exposure to BHP, RIO 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 10-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 46



Source: Chester Asset Management

Chester High Conviction Fund portfolio characteristics

Chart 47

	CHCF	ASX300 Index
PER FY1	14.5	17.9
PER FY2	13.0	16.8
FY1 EPS growth	19.1%	-2.8%
FY2 EPS growth	10.2%	6.7%
ROE	16.3	13.9
Beta	0.86	1.00
FY26 Yield	2.3	3.4
FY1 DPS growth	14.2%	4.3%

Note: Chester data excludes non revenue generating companies. To end March 2025
Source: Chester Asset Management, Bloomberg, Macquarie research

HIGH ACTIVE SHARE

For active managers to outperform over the long term, the fund has to be truly different than 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 gaing higher conviction views. Too much diversification becomes counter productive.

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 is 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.

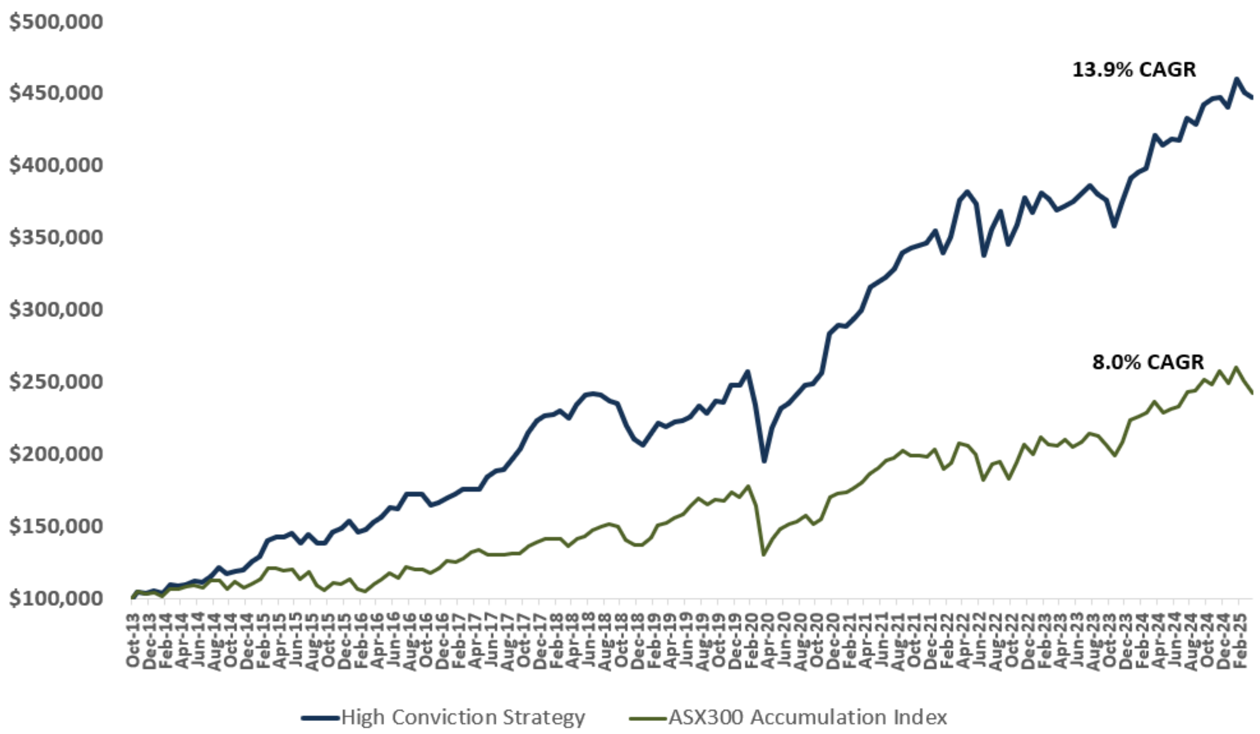
Performance

ACCUMULATED PERFORMANCE BY FINANCIAL YEAR | Same Strategy

(%)	FY14#	FY15	FY16	FY17*	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	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	+7.2	+13.9
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	+3.9	+8.0
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	+3.2	+5.9

Per Annum. The inception date of SGH Australia Plus was the 8th of October, 2013, where Rob Tucker was the sole Portfolio Manager, until his departure on February 28th, 2017.
* The inception date of the Chester High Conviction Fund was April 26th, 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.

CONTACT COPIA:

1800 442 129 clientservices@copiapartners.com.au copiapartners.com.au