Chester High Conviction Fund

Fund Update

August 2026

APIR OPS7755AU
ARSN OPS7755AU

At 31 August 2026	1 mth %	3 mths %	6 mths %	1 yr %	3 yr % p.a.	5 yr % p.a	7 yr % p.a.	Incep. % p.a. *
Chester High Conviction Fund (after fees)	4.9	3.9	3.0	8.2	12.5	9.8	13.1	12.3
S&P/ASX 300 Accumulation Index	1.6	4.4	0.2	4.3	11.2	7.6	8.5	8.8
Outperformance (after all fees)	+3.3	-0.5	+2.8	+3.9	+1.3	+2.2	+4.6	+3.5

* 27 Apr 2017

> *"I know you think you understand what you thought I said but I'm not sure you realize that what you heard is not what I meant"*
> Alan Greenspan

Month in review

While reporting season took centre stage during August, from a macro perspective the winds are blowing in one direction. Bond yields are rising across the world, with inflation expectations driven by the energy complex the main culprit. The Australian 10yr bond is now trading at its highest level since 2011, breaching 5.2% while the Japanese 10yr bond, so often a source of global funding given the low cost of funds is now touching 3%, the highest level since 1996. From a macro perspective, this complicates the story around how we value equities using risk free rates that are materially higher than they were 5 years ago.

The other macro observation that occurred during August was the US total public debt breaching USD40Tn, having risen USD1Tn in just 3 months. While we can fret about rising real rates and what that means for valuations, our long held view is that the US government can not afford interest rates at current levels, which is why President Trump continues to lobby for lower rates. Treasury Secretary Bessent and voting member Chris Waller are campaigning for lower rates, as new Fed Chair Kevin Warsh is doing his best impression of Alan Greenspan in talking a lot and hoping the market prices interest rates for him. The next CPI print probably decides the direction of US rates in the near term, but the longer US diesel prices stay at record highs, the more challenging it is to sit on the sidelines.

From an Australian perspective, reporting season saw negative revisions (ASX200-1.4% eps revisions) across most sectors ex resources and healthcare, which unsurprisingly, were the two best sectors over the month. Healthcare rebounded off a very depressed base where low expectations (CSL) were met with a PE relief rally (earnings actually didn't change materially). The negative sentiment across the Australian housing landscape continues, which makes it very difficult for housing related sectors (banks, residential property and consumer discretionary) to deliver ongoing PE reratings, which has driven these sectors (CBA and WES in particular) for the past 18 months. From a portfolio perspective, given the challenges across the Australian economy currently (housing confidence and interest rates), it is important to find idiosyncratic ideas that have either extremely strong valuation support, or identifiable catalysts to drive earnings higher over the next 12-18 months. We detail more reporting season insights on the next page.

Portfolio review

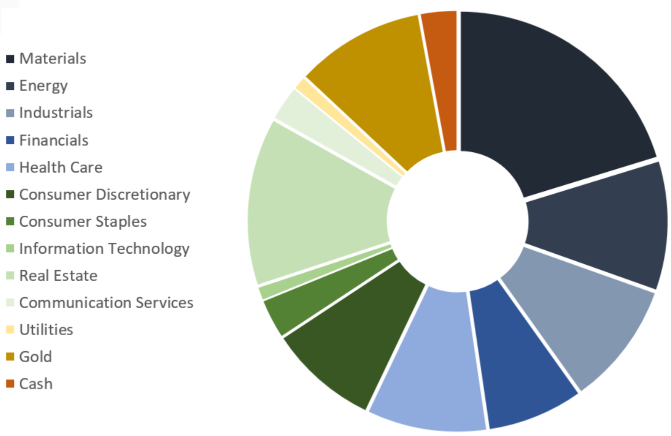
During the month the fund returned 4.9% relative to the 1.6% rise in the ASX300. Outperformers for the month were led by Light & Wonder (LNW). LNW delivered a result that illustrated strong cost control and margin expansion, which saw somewhat of a relief rally given the derating LNW has seen all year. For LNW to continue to outperform over the coming 12-18 months, we need to start seeing better revenue growth, while the company is confident around the game sales visibility in the second half of 2026 to deliver this outcome. The gold sector had a strong August after Treasury Secretary Bessent decided to increase the rate of US 10 yr purchases by the Fed, in a signal to the market that 10yr yields above 4.7% are becoming unruly. This saw gold rally 10% for the month and gold mining equities rally with it. Genesis (GMD) was the strongest performing gold stock in the portfolio after delivering a strong FY26 result and receiving approval to merge with Vault (VAU). The combined entity creating an AUD17bn large cap gold producer of over 800koz p.a. by FY28 and realising significant cost synergies by combining the two operations around the Leonora district in WA.

The underperformers for the month were led by Eureka Group (EGH), a long term holding which retraced after a strong July. The actual FY26 results delivered by EGH were exceptionally strong across all metrics. Post August, EGH has announced a material acquisition of 6 retirement villages from Ingenia Group (INA), which will be 10% eps accretive. EGH now forecasts 22% eps growth in FY27 while trading on 15x PER. The EGH NTA is published at AUD57c/share using an 8.1% cap rate. Our long held view is that given the certainty of cash flows (90% government backed revenue stream), the cap rate of EGH should be closer to 6%, which would see the adjusted NTA of EGH above AUD80c/share. The Lottery Corp (TLC) also underperformed in August after seeing small FY27 eps revisions on higher D&A and interest charges. We think the outlook for TLC has materially improved over the past 12 months, with a new CEO, a clamp down on alternate lottery operations across Australia and the renewal of the VIC license for 40 years. The only thing that is missing for TLC is a jackpot sequence driving ticket sales. We think of TLC as an infrastructure like asset given the cash flow certainty.

Top 3 holdings	Portfolio breakdown	
Nufarm	Materials ex Gold	20.3%
Light & Wonder	Real Estate	13.2%
AUB Group	Energy	10.2%

Top 3 portfolio attribution	Bottom 3 portfolio attribution
Light & Wonder	Eureka Group
Genesis Minerals	The Lottery Corp
Westgold Resources	Storage King Group

Fund weights - diverse sector exposure



BROAD THOUGHTS FROM AUGUST

THEME	IMPACT
BANK LENDING SLOWING	In news to no one, since the May budget, credit growth has slowed across the Australian property market, particularly in investor lending given the removal of negative gearing. The unintended (or perhaps intended) consequences of this is to see Australia enter an "emotional recession" if not an outright recession. Confidence across most sectors looks tepid at best, with house prices continuing to soften across all major cities.
ASX20 LEADERS OUTPERFORMANCE UNWINDING?	Finally, we saw a reversal of the passive bubble leading into August reporting season. It simply took some factual data points (bank credit cycle and JB Hi-Fi sales turning negative in July) to see some of the excessive outperformance (and valuation dispersion) to unwind.
INTEREST RATES STARTING TO BITE	Several companies saw eps downgrades on higher D&A and interest expense. Not necessarily operational downgrades, but persistently higher rates is starting to impact several companies from an eps perspective. Storage King Group (SKG) saw large downgrades from lower interest rate hedges rolling off, impacting their distribution. Although it is now trading at a 36% discount to NTA.
THE AI CAPEX CYCLE HAS COME TO AUSTRALIA	Outside resources, the brightest pocket of the economy remains with AI "enablers". The companies that are "AI adjacent". Electrical contractors have never seen such a huge order book with record visibility thanks to the data centre build out. Not all stocks leveraged to this thematic have fared so well, with NXT and GMG still struggling to convince investors that the cycle and returns can be sustained.
AI ISN'T DISRUPTING EVERY SECTOR AS FEARED	Two stocks that fared relatively well from an oversold level in the portfolio were Light & Wonder (LNW) and AUB Group (AUB). Both stocks which were sold aggressively in the first quarter due in part to the AI "threat". We treated both ideas as buying opportunities and with August results confirming that underlying trends are intact, with both names AI beneficiaries from productivity gains.
THE US ECONOMY IS OUTGROWING AUSTRALIA	The earnings momentum in the US (while largely driven by AI capex spend) far outstrips the rest of the world, whereby earnings are broadening out to manufacturing (BSL), housing (JHX) and consumer (ALL, LNW) as well as the hyperscalers and chip manufacturers. Australia has seen the resource sector do all the heavy lifting.
ENERGY MARKETS REMAIN A GREAT HEDGE FOR GEOPOLITICAL UNCERTAINTY	While both AGL and Origin reported better results than feared from their energy markets businesses, the broad energy complex is still seeing strong eps momentum across oil, coal, gas and refining margins. ALD and VEA remain compelling from the prospect of a long-term deal with the Australian government on the FSSP, while ongoing uncertainty in supply chains is creating a structurally higher energy complex.
THERE IS A SOFT COMMODITY CYCLE UNDERWAY	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.
AN M&A WAVE IS STARTING	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.
HEALTHCARE SEEING SIGNS OF LIFE	The most beaten down sector over the past 3 years was rewarded for what are (historically) reliable cash flows. While CSL didn't actually deliver upgrades, the pessimism in the market was so extreme that we saw a violent rally (+40%) in August. Perhaps the worst is finally behind us.

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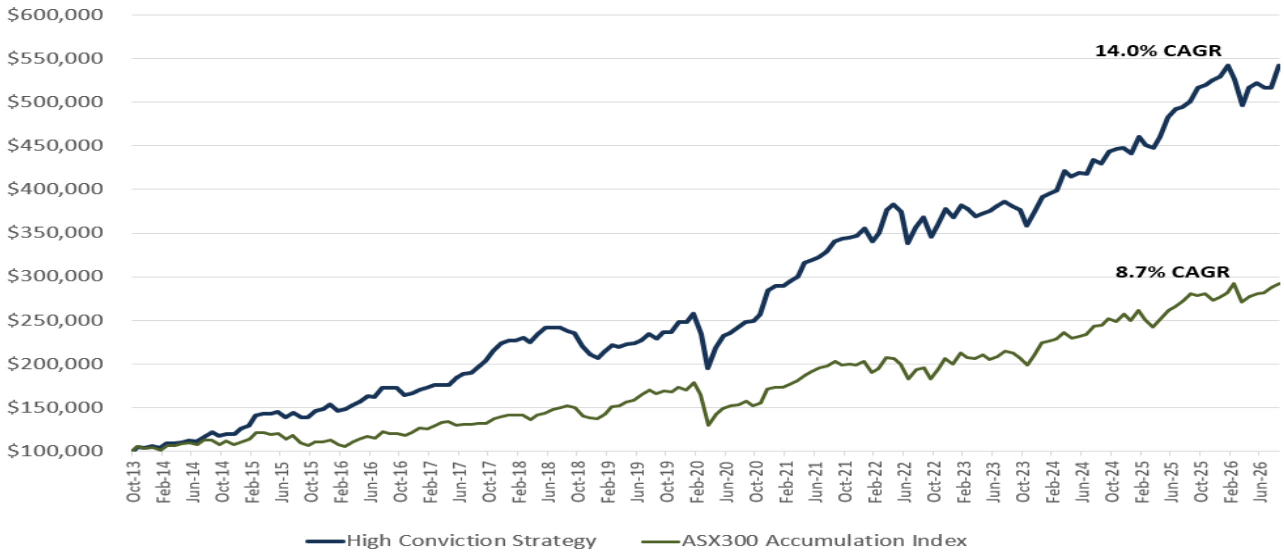
Accumulated Performance by Financial Year - Same Strategy

	FY14 (%)#	FY15 (%)	FY16 (%)	FY17 (%)*	FY18 (%)	FY19 (%)	FY20 (%)	FY21 (%)	FY22 (%)	FY23 (%)	FY24 (%)	FY25 (%)	FY26 (%)	FY27 (%)	Inc (%)
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	+4.9	+14.0
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	+3.7	+8.7
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	+1.3	+5.3

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.

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