CHESTER HIGH CONVICTION FUND

Quarterly Overview

As of 30 June 2026	1 mth (%)	3 mths (%)	6 mths (%)	1 yr (%)	3 yrs (% pa)	5 yrs (% pa)	7ys (% pa)	Inception (% pa)*
Chester High Conviction Fund (after fees)	-1.0	4.1	-2.4	5.0	10.7	9.9	12.5	11.9
S&P/ASX 300 Accumulation Index	0.6	4.1	2.0	6.2	10.5	7.6	8.0	8.5
Outperformance (after all fees)	-1.6	0.0	-4.4	-1.2	+0.2	+2.3	+4.5	+3.4

*27 April 2017.

"You should have a strategic asset allocation mix that assumes that you don't know what the future is going to hold" Ray Dalio

Hong Kong residents are all to familiar with the weather warning system. There are seasonal cyclones through late June – October that bring all manner of wind warnings. These range from a T1 (a cyclone is around 800kms away and brings with it strong wind and rain). A T3 indicates the cyclone is moving closer and you should cease some outdoor activity, with winds over 60km/h. A T8 warning means a cyclone is in the immediate vicinity and to stay indoors. Hong Kong offices shut during a T8 given the hazardous conditions. A T10 is a large cyclone with direct impact.

In 2007 with a pregnant wife and parents visiting from Australia, we decided to head out for a trek along the Dragon's Back. A well-known walking trail out the back of Hong Kong Island. It takes around 3 hours, particularly with elderly parents. We were not perturbed about the potential for a T3 signal being raised in the morning we decided to set off. As the wind grew stronger, our pregnant wife showed some concern, but her fears were allayed by our extreme (unfounded) confidence things would work out. She was less impressed at the top of Shek-O peak (the half-way point), when the T3 warning came into effect, with rain coming at us horizontally. This wind, rain and the silent treatment stayed with us for the next 2 hours until we reached the safety of Stanley. Dripping wet. Unbeknown to us, we were actually trekking through the start of Tropical Cyclone Francisco. We are still married.

Is there an AI bubble?

We have always conceptually viewed the market through the same lens as the Hong Kong weather warning system. Rising volatility is akin to rising wind strength. We view the current warning as a T3. Wind strength (volatility) is increasing, but not yet a fully fledged cyclone. Given the starting point of the US market and the exceptional outperformance of Korea (up 100% CYTD) and Taiwan (up 62% CYTD) in 2026, our view is categorically we are in an AI driven capex bubble. That is not to say it can't continue. We are in a global EPS upgrade cycle. History suggests that most bubbles pop with credit conditions deteriorating, which is normally predicated on continuing hawkish monetary policy (interest rates rising). The sheer speed of the rise in the US markets (and North Asia) suggests to us a retracement is overdue. Unfortunately, Australia hasn't been invited to the AI party. This is both a reflection of our market structure (largely old-world economy heavy) and global capital market displeasure at the tax changes introduced by the Labor government in the May budget. There is no appetite from a regional perspective to allocate new funds to Australia given the lack of confidence instilled by our tax changes. Capital flows to where it is treated best and it is hard to mount a case for Australia currently. The paradox of this lack of interest in Australia may well stand us in good stead when the AI bubble inevitably bursts. That depends (in our view) on two things. The monetary policy undertaken by new Fed Chair Kevin Warsh and a clearer understanding of tokenomics. That is, how economically viable (what return on investment) this data centre and memory capex spend ultimately is.

The direction of interest rates?

We must confess to have been wrong footed with the US conflict with Iran and the damage done to supply chains as the Strait of Hormuz (SoH) stayed closed for such a significant period of time. We were surprised that oil unwound all of the first quarter war risk premium so quickly after the flimsy MOU was signed on the 17th of June. We are far from out of the woods in terms of the damage done to supply chains, and yet (in our view), the market has been far too sanguine over the conflict tenure and longer-term implications. The drawdown in gold in 2026 has also been somewhat of a surprise given the inherent uncertainty that conflict brings. This gold retracement has come on the back of overheated sentiment in January and a reconnection of the inverse relationship with rising US real rates. Whilst Kevin Warsh appeared to be more hawkish than market expectations with his first press briefing, our first impression was a new Chair that is trying to change the course of communication. Removing forward guidance (the dot plot) appears to be his main ambition in a new pivot towards opacity. This looks to usher in an era of higher policy uncertainty with less transparency. We note the most recent core CPI print was 2.6% y-o-y, well within the range of price stability, suggesting to us that extrapolating further rate hikes at this point may not be warranted. As always, the rate direction is data dependent, with renewed conflict in the Middle East being extremely unhelpful for an easing bias. We do see strength in the US economy, driven by the sheer scale of AI capex spending, as opposed to the sputtering economy in Australia. Given the softening housing cycle in Australia, further rate hikes may not be needed.

Quarterly Overview

We have been surprised at the ongoing outperformance of the ASX20 Leaders during the first 6 months of 2026. While the case can be made for commodities (BHP and RIO) given the association with copper and data centre demand, the relative disconnect between Australian economically linked stocks in the ASX20 (CBA, TLS, WOW, WES and TCL) at the price required to own them in the face of dire Australian consumer confidence is hard to reconcile (in our view). As we think about the next 12 months, it does appear the risk of a recession in Australia has increased, which means, at some point, the market starts discounting the economic weakness, while the interest rate outlook can shift dramatically as near-term rate hikes give way to longer term rate cuts. We do believe that this cycle will emerge as a stronger opportunity to own far more compelling mid and small cap ideas than default to the ASX20 leaders. The sheer scale of AI investment is creating the backdrop for a stronger US economy. The stock market strength in the US has broadened out somewhat from just the tech sector with the Russell 2000 (small cap index) up 22% over the past 6 months. The support of a conservative government, whatever its failings, has fed into capital market appreciation. 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 and EPS momentum continues, this in isolation doesn't mean that much, but if earnings falter due to AI uncertainty and interest rates keep rising, the asymmetry of risk here (in the US) feels uneven.

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. Given the backdrop of fiscal dominance and 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. 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 hasn't really been the case over the last 15 years.

Portfolio changes this quarter

The portfolio wasn't as active in the second quarter. The on again/off again nature of the Iran peace talks created significant uncertainty as to how to proceed during the quarter. The net result being we reduced our position in Santos (STO) on the apparent resolution (or MOU) of the conflict, which has seen oil prices retrace all their gains. This has been reversed to a degree in early July. We exited our small holding in WHC which we had assumed would be a beneficiary of far stronger coal prices, which are historically linked to LNG prices. The decision to exit was made on the realisation that the increase in diesel costs in the operating outlook would more than offset higher selling prices. Hence our energy position was reduced during the quarter, albeit maintaining our large position in Ampol (ALD). Refining margins are yet to materially retrace, while ALD is sitting on an incremental AUD500m in cash from the past 4 months of elevated refining margins. Structurally, ALD (and VEA) remain well placed to benefit from the upcoming changes to the Fuel Security Service Payment (FSSP). The government needs to ensure Australian refiners are compensated accordingly for supplying the critical infrastructure of refining onshore. Our view remains that these assets are treated more like infrastructure assets going forward as opposed to cyclical, volatile businesses. The fact that Australian refineries have underperformed US refineries by 30-100% over the past 12 months suggests to us the Australian refineries have a period of relative outperformance to come from the cash flow certainty during August.

We trimmed our gold positions during the quarter by exiting Greatland Gold (GGP). GGP has been a material outperformer over the past 12 months driven by reserve upgrades and positive drilling results at Telfer. The bulk of the value in GGP is still held in the Havieron deposit which should be producing by FY28/29. GGP (like all gold producers) is incredibly well funded for its next leg of growth. We simply prefer other names on valuation grounds. Whilst gold has had a challenging 6 months (after an exceptionally strong 2025) the thesis for holding gold (in our view) hasn't changed. We accept there may be a period of consolidation ahead before the bull market continues, which is mostly likely predicated on the outlook for US rates at this point. Western interest in gold is currently nonexistent, while China continues to buy as much as they can. We showed some indecision during the month by starting a small position in Xero (XRO) after a significant period of weakness (along with all SaaS companies). While we still believe XRO has a significant cost out opportunity, we questioned whether the integration of AI tools into the workflow of XRO was an acknowledgement that software providers (such as Salesforce and Intuit) actually have to adopt LLMs (like Claude) into the software offering as an acceptance of vulnerability to their business models. The uncertainty with which that leaves the XRO pricing model on a 5-year view, along with the significant premium XRO trades on relative to Intuit, saw us unwind that XRO position to remain on the sidelines for the time being. We will continue to work on understanding these workflows in more detail.

Quarterly Overview

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. Because of that, there remains a structural desire from governments to keep interest rates as low as possible. The US being the case in point. This leads 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. We separate near term disinflationary pressures from the end of the Iran conflict from the structural thesis around monetary debasement and supply chain security (onshoring). 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 1H for a variety of reasons (liquidity, inflation expectations 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. 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 and STO in this category.

Valuation margin of safety. An asymmetric risk profile. We would place CGF, 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.

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 readily admit that healthcare (CSL) has been a very poor performing sector over the past 18 months. We are hopeful the worst is behind it given the sheer valuation disconnect CSL now finds itself in.

The Portfolio

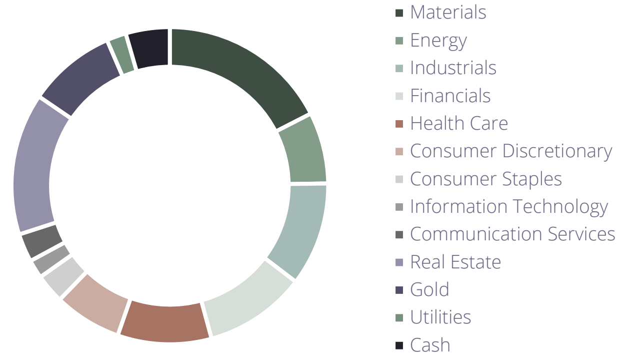
The CHCF posted a 4.1% gain in the quarter, relative to the 4.1% gain in the ASX300 Accumulation Index. We do note the extreme divergence of the ASX20 Leaders (up 7.9% for the first 6 months of 2026) relative to the ASX Small Cap Index (down 7.8% over the same period). Clearly the ASX20 saw a flight to safety relative to small caps, which tend to be more economically sensitive and prone to underperformance on interest rate expectations. We are of the view that given the current economic conditions in Australia, the RBA will be tilting more dovishly in the next 3-6 months, which should augur well for a style rotation. Develop Global (DVP) lead the outperformers as a leveraged copper/zinc producer that is ramping up throughput at their first project at Woodlawn in NSW. Woodlawn will show material cash flow growth over the coming 12 months. DVP also has an asset at Pioneer Dome (lithium) that is progressing towards a DSO operation that will deliver an exceptional project return. A third project, Sulphur Springs recently announced FID (final investment decision). Nufarm (NUF) also had a strong quarter after a pleasing half year result demonstrating better discipline around working capital and inventory management. We believe NUF is well on the way to achieving better returns with lower leverage, that is yet to be rewarded by the market. The underperformers were led by the poor performance of Light & Wonder (LNW). LNW has revised earnings down slightly over the past 5 months and is a clear number two to the dominant Aristocrat (ALL) in gaming software development. We believe the >100% premium the market is paying for ALL (21x FY27 PER vs 8.9x FY27 PER) is excessive and retain a high conviction view cash flow growth will lead to strong share price performance, eventually. Ramelius (RMS) led the gold holding lower on the back of a weaker gold price. Operationally RMS is performing better than expectations.

Top 3 holdings
Nufarm
AUB Group
Develop Global

Portfolio breakdown	
Materials ex Gold	17.4%
Real Estate	14.5%
Industrials	10.6%

Top 3 portfolio attribution	Bottom 3 portfolio attribution
Develop Global	Light & Wonder
Nufarm	Ramelius Resources
Neuren Pharmaceuticals	Iress Ltd

Fund weights - diverse sector exposure



What are we thinking about?

THEME	EQUITY CONSIDERATIONS
GEOPOLITICS	We must confess to have given more thought to the conflict in Iran than the broader equity markets. While there was a tentative MoU with Iran, there is little focus on the long-term ramifications of this (effectively) 150-day war. While Trump was very keen to move on from this conflict, the fact that he has been dragged into more strikes will only create more uncertainty from a supply chain perspective. Clearly the ongoing tension in Russia and Ukraine is irrelevant to the broader equity market as well. Given it increasingly looks like Russia is fighting NATO, the risk of escalation in this 4-year conflict looks mispriced to us. This all leads us to believe that holding some energy exposure as a hedge is entirely logical. Our suspicion is that geopolitics will be front and centre of the investment landscape again, imminently.
US ECONOMY AND THE AI RACE	The economic strength in the US is a function of the circa USD700bn in capex being spent on data centres and associated infrastructure, which is over 2% of GDP, leading to real GDP growth in the mid 2% range. In a relative world, this has seen capital flows into the US given a more resilient economy and the hype around the Space X IPO. Our challenge on being too positive on the US economy remains our own caution as to the longer-term winners in the AI race, given China has released another LLM model (GLM 5.2 by Z.ai) that is (allegedly) almost equal to Claude in terms of functionality at one quarter of the cost. The potential for malinvestment across the major US hyperscalers appears real in our view.
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 tech stocks 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 annualizing over US1.2Tn per year which is roughly 15% of all US outlays. The US continues to run a budget deficit of around USD2Tn in 2026 or 6.5% of GDP which will see US Public Debt at USD40Tn 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 (with extreme volatility) suppressing long term rates.
AUSTRALIAN BUDGET CHANGES	We, like the rest of the business community, are simply aghast at the new budget measures introduced by the Labor Government. The impact has been immediate, in the downturn in investor lending since the May budget given negative gearing changes, which suggests to us a significant slowdown in property transactions (already seeing clearance rates below 50% consistently). This can lead to a broader economic downturn given the dire consumer confidence we are currently witnessing (back to COVID lows). While this may take another 3-6 months to be reflected in hard data, the anecdotal feedback suggests that the RBA should be on hold and is more likely to change its language in the coming months. An easier monetary policy stance would augur well for the underperformance of small caps in 2026.
MARKET STRUCTURE	Increasing volatility in daily trading is something all market participants are grappling with. JP Morgan recently articulated various reasons for this change in market structure. They highlighted 8 structural reasons why this trend has developed. We list all of them on page 8 given it's a good way to illustrate how and why stock prices can move beyond rational logic. Shrinking active funds under management, increasing passive investing, along with more computer algo driven or quant strategies are some of these 8 factors.
VALUATION DISPERSION	We also look at (for many of the above reasons), just why the valuation dispersion remains between the top 20 leaders on the ASX and the rest of the ASX300. It has only increased this year with rate hikes and ongoing internalisation of funds management from industry super funds. We understand the drivers behind these moves, we cannot reconcile the fundamental logic behind owning CBA on 25x or Wesfarmers on 32x to provide 3-5% eps growth. While patience is required, using July 1, 2026, as a starting point, the ability for active managers to outperform over the next 3 years is significantly different than the last 3 years. Simply put, valuations will matter again. Patience is a virtue.
THE AUSTRALIAN DOMESTIC GAS RESERVATION SCHEME	The debate around the domestic gas reservation scheme (Labor is wanting to reserve 20% of all gas produced for domestic purposes, irrespective of whether that gas is contracted or not), 2 years after they intervened in trying to cap domestic gas prices, illustrates (in our view) yet again, that market forces should be allowed to determine demand and supply outcomes. Commodities are the purest form of economic supply and demand. The only outcome of this policy is to delay much needed supply into the East Coast market because of the uncertainty of the policy outcomes. Any artificial suppression of domestic prices in the near term is going to significantly damage the long-term supply of gas into Australia. This uncertainty is entirely unhelpful in building trust in long-term contracts with Australia.
TOKENOMICS	We take a look inside at the mechanics behind how LLMs will ultimately be paid and generate a return on their investment into data centres and the infrastructure needed to scale AI. We still view the landscape as being largely commoditised and hence while one LLM (Anthropic or Open AI or Deepseek) may appear to have a market leading proposition, this edge can be eroded very quickly. The likelihood of seeing the cost of tokens deflate is real, particularly when Chinese LLMs are operating at significantly lower costs. It remains the very real risk in the great capex build out and ultimately how the AI bubble bursts.

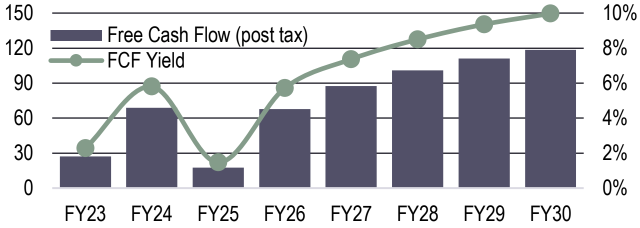
Stock Selection

Iress Limited (IRE)

DESCRIPTION	Iress (ASX: IRE) develops and designs software for the financial services industry. Iress 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 Iress' flagship wealth management software Xplan which has over 38,000 active users domestically Iress has recently completed a significant simplification strategy, divesting non-core assets refocusing on the core activities of the business. With the program concluding, Iress is now resetting the cost base through CY26, with the goal of cash EBITDA margins exiting the year above 25% with growth to continue as transition agreement cease.
VALUATION	Our DCF valuation of IRE is AUD10.90/share. • The current price implies 12.0x PER in CY2027, the first year of clean earnings following the divestments and transition agreements
QUALITY	Iress is a mature financial technology company whose flagship wealth management product, Xplan, holds around 60% market share in Australia. Its core products are deeply embedded in clients' daily operations, and churn is low. This entrenchment gives Iress pricing power, allowing it to pass through above CPI price increases with little client resistance and support sustainable earnings growth. Following the completion of its simplification strategy, Iress is approaching net cash and is highly cash generative - an attractive combination for a business with a sticky, recurring revenue base.
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 2025 to 2027 which appears light due to: Rolling off the transitional agreements (up to AUD10mn alone); exiting loss making businesses; Reduction to interest expenses from being close to net cash; and further CPI+ price rises to come across the core products. The business is expected to exit CY26 with a cash EBITDA margin of 25%+ which we would expect to improve over time. Additionally, with the gearing significantly below the target range, strong cash generation and an underwhelming share price, we believe Iress is in a position to provide substantial capital returns. We estimate a 10% buy back would be 6% accretive to CY27 EPS.

Simplification strategy supports free cash flow generation

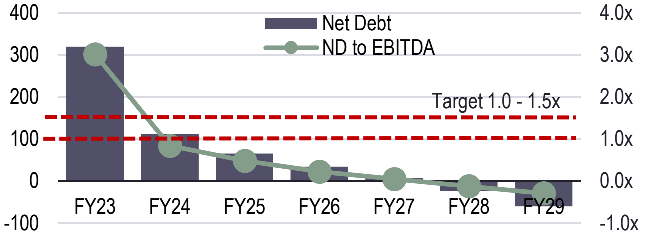
Chart 3



Source: Chester Asset Management, Company reports

Below target leverage provides capital management options

Chart 5



Source: Iress, Chester Asset management

Capital management would support instant EPS accretion

Chart 4

	CY27 Base Estimates	Post Buy-back Estimates	Change %
EBITDA	173	173	0%
EBIT	146	146	0%
Interest Costs	-4	-11	Large
PBT	142	135	-5%
Tax	-41	-39	-5%
NPAT	102	97	-5%
Current Share price	6.35	6.35	
Share Count	187	168	10%
Net Debt	8	126	Large
Net Debt to EBITDA	0.0x	0.7x	
CY27 EPS	**0.54**	**0.57**	**6%**

Source: Chester Asset Management,

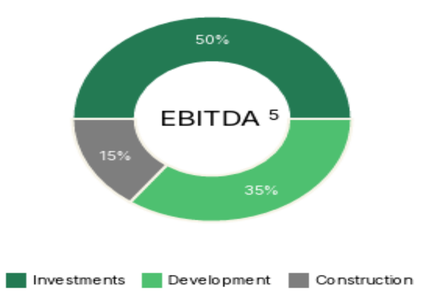
Stock Selection

Lendlease Corporation Ltd (LLC)

DESCRIPTION	**Lendlease (LLC ASX),** operates as an integrated property and investment company with operations across Australia, Asia, Europe, and the Americas. The company is implementing a significant restructuring strategy, focusing on its core Australian market. A key component is the establishment of a Capital Release Unit (CRU), which aims to divest >AUD4 billion in non-core assets. This strategic shift involves exiting overseas construction businesses, to concentrate on Australian operations. The restructure aims to simplify the business, reduce debt, and improve shareholder returns, addressing recent poor performance and a declining share price. Once complete the focus of the business will be on (International) Investments, Australian developments and an Australian construction business.
VALUATION	**AUD8.00/share** DCF derived valuation with a comparable valuation on a sum of the parts cross-check Refer below for multiple based valuation scenarios
QUALITY	LLC is implementing a significant restructuring strategy to focus on its core Australian market where they have a strong brand and are highly rated builders for their work in sustainability and developing urban regeneration assets. The company's strategic initiatives, including the establishment of a Capital Release Unit to divest non-core assets, aim to simplify the business, reduce debt, and improve shareholder returns.
INSIGHT	The market has penalised LLC for the slower-than-expected exit of its Capital Recycling Unit (CRU), resulting in temporarily elevated gearing and a higher cost base that some investors are capitalising into their valuations. We believe this short-term focus is obscuring the earnings power of the business once capital has been redeployed, earnings have normalised, and the portfolio reaches a more stable operating profile. From our calculations, with reference to the charts below, we believe that with the proceeds to come from announced divestments and assuming LLC are able to divest the remaining CRU assets at book value, or a slight discount to there will be: - AUD1.8bn used to repay debt and obtain the midpoint of targeted gearing levels - AUD900m extra allocated to Australian developments - Over AUD1bn invested into their Global Investments business - ~AUD900m in surplus capital that could be distributed to shareholders, We believe this capital could potentially generate LLC ~AUD1bn in EBITDA p.a. (~AUD600m in NPAT) The first of the more steady years will be FY28 or FY29 but we see it unlikely earnings ramp up to this level until FY2028. While it has been a longer process than most in the market are willing to wait we believe patient capital will be rewarded over the next 12-18 months. This is a true turnaround story.

LLC Post restructure should skew to Investments & Development

Chart 6



Source: Lend Lease 1H FY26 results presentation

This requires a restructure of capital

Chart 7

Capital restructure, assuming no Profit	Capital 30/06/25	Capital LT Target	Movement
Developments (AUS)	1,100	2,000	-900
Construction (AUS)	0	0	0
Investments (Global)	3,300	4,300	-1,000
CRU	4,600	0	4,600
Net Debt	-3,400	-1,600	-1,800
Capital Return			900
Shares			690
AUD/share			1.30

Source: Chester Asset Management

LLC could see this level of earnings once restructured

Chart 8

Segment	ROIC/ Margin Target	Midpoint/ Target	Capital / Revenue	NPAT	PBT	Interest, D&A, etc	EBITDA	EBITDA % at this level
Developments (AUS)	12-18%	14.0%	2,000	**280**	373	-5	378	37%
Construction (AUS)	3-4%	3.5%	5,000	109	155	-20	**175**	17%
Investments (Global)	7%-9%	8.0%	4,300	**344**	459	-5	464	46%
Corporate				-126	-180	-120	-60	
Total				**607**	**807**	**-150**	**957**	

Source: Chester Asset Management

LLC has historically traded on a 12x multiple, upside is material

Chart 9

Item	10x	11x	12x	13x	14x	15x
Profit	607	607	607	607	607	607
Shares	690	690	690	690	690	690
EPS	0.88	0.88	0.88	0.88	0.88	0.88
Val at PE	9.67	9.67	10.55	11.43	12.31	13.18
Capital Return	0.00	1.30	1.30	1.30	1.30	1.30
Total (A)	**9.67**	**10.97**	**11.85**	**12.73**	**13.61**	**14.49**
Discounted 2yrs (B)	**7.99**	**9.07**	**9.80**	**10.52**	**11.25**	**11.97**
Upside from $6 (A)	**61%**	**83%**	**98%**	**112%**	**127%**	**141%**
Upside from $6 (B)	**33%**	**51%**	**63%**	**75%**	**87%**	**100%**

Source: Chester Asset Management

Stock Selection

FDC Consolidated Holdings Limited (FDC)

DESCRIPTION

FDC Consolidated holdings Limited (FDC.ASX): is an Australian construction and building services contractor founded in 1990, operating as a head contractor across two segments:

- Construction: new-build/major projects (industrial, logistics, commercial, data centres, education, government); ~AUD10m–AUD350m in value.
- Fitout and Refurbishment: interior fitout, refurbishment and heritage projects (commercial, health, education); ~AUD1m–AUD100m in value

VALUATION

Our DCF valuation of FDC is AUD4.50/share

QUALITY

FDC operates as the head contractor, holding the principal contract with the client and engaging subcontractors and suppliers to perform discrete trade work. As both the head contract and downstream subcontracts are generally fixed price, FDC takes on minimal cost risk in delivering client work.

FDC has a large and diverse customer base spanning blue-chip private clients and government, with a high level of repeat business and no material concentration risk to any single client. This diversified portfolio mix allows FDC to remain resilient across market cycles.

FDC also retains a conservative balance sheet, listing with more than one-third of its market cap held in cash, providing significant financial strength and flexibility to support continued growth. Additionally, FDC remains capital-light and cash generative given the minimal capex required for the business model and the payments terms of the business allowing for cash conversation to track >100% of EBITDA.

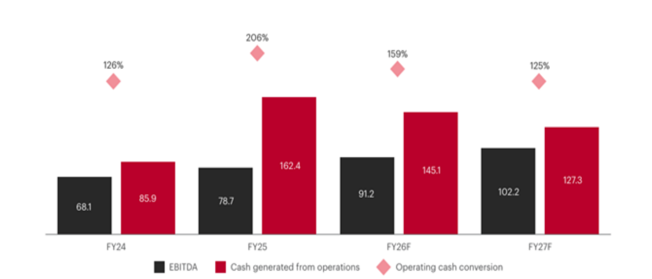
INSIGHT

We have a long-standing connection to FDC through our shared investment in Eureka Group (EGH) alongside founder Ben Cottle, with whom we have had numerous interactions with over the years, and we have been looking forward to FDC coming to market.

We see a large addressable market for FDC given the fragmentation of the construction and fitout sector, with further runway from expansion into Queensland and Victoria while retaining a strong core position in NSW. Importantly, we expect this growth to be delivered organically, without reliance on acquisitions. Over the past decade, FDC has grown topline at 8% p.a., and in the near term, with the added interstate growth optionality, we see high-single-digit growth continuing.

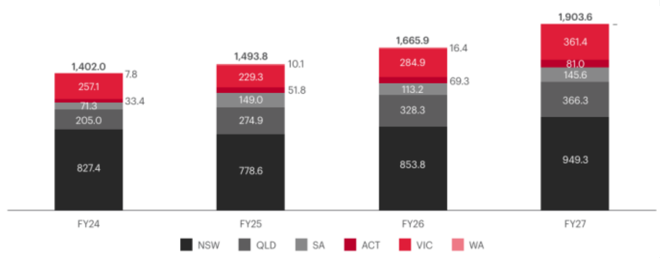
FDC listed at a multiple of ~12x forward estimates and a 6.5% dividend yield, which we see as attractive given the quality and visibility of the underlying business. Given FDC's closest listed competitor trades at a significant premium of 16x, we see material upside for FDC as the market becomes more familiar with the story.

FDC EBITDA, Cash generated from Operations & Cash conversion
Chart 10



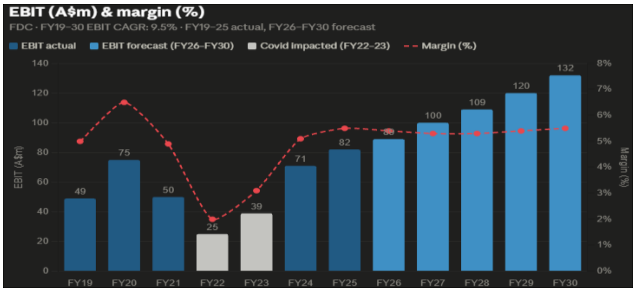
Source: FDC

FDC revenue by geography
Chart 11



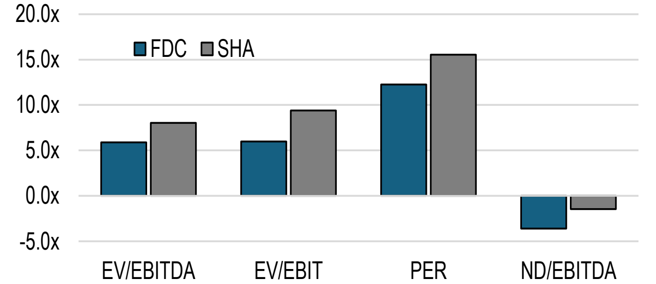
Source: FDC

FDC EBIT & Margin profile
Chart 12



Source: FDC & Chester Asset Management

FDC vs SHA trading multiples and balance sheet position at IPO
Chart 13



Source: Iress, Chester Asset Management

Stock Selection

The Lottery Corporation Limited (TLC)

DESCRIPTION

The Lottery Corporation Limited (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

AUD6.00/share, DCF derived, supported by a 17.5x EBITDA multiple, appropriate for a monopoly provider of long dated licenses.

QUALITY

The Lottery Corporation Limited 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 The Lottery Corporation to have infrastructure like earnings with the licenses from the states comparable to a capital-light toll road concession.

INSIGHT

FY26 turnover is expected to moderate following a period of below normal jackpot activity. We view this as a temporary cyclical headwind rather than a deterioration in the underlying business, with several structural drivers expected to support a reacceleration in turnover beyond FY26, including:

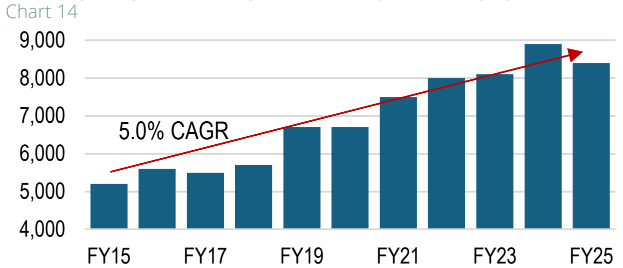
- A full-year benefit from recent Powerball price increases.
- Set for Life price increases and game enhancements scheduled for September 2026.
- A potential refresh of Oz Lotto following the successful Powerball repositioning in November 2025.

While jackpot cycles can introduce short-term volatility to earnings, the long-term trend in turnover remains firmly positive. Importantly, management has consistently demonstrated an ability to drive turnover growth above historical trends through pricing initiatives, product innovation, and game optimisation.

We believe TLC's earnings profile and license structure warrant comparison with Transurban, which trades on approximately 25x EBITDA. Lottery licenses' share many of the characteristics of toll road concessions, including long-duration, highly predictable cash flows under exclusive operating rights. In addition, TLC's license expiries are staggered across jurisdictions, reducing renewal risk. The recent 40-year renewal of the Victorian license at a single-digit EBITDA multiple further highlights the value of these assets and secures all major state licenses through to 2050.

Mid-single digit turnover growth underpin earnings growth

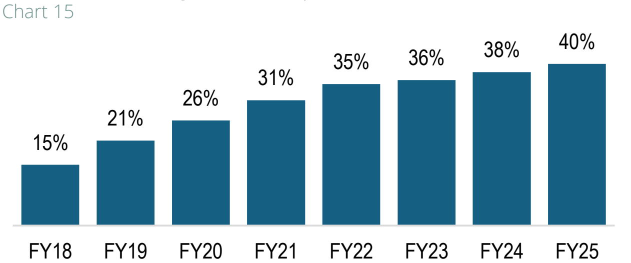
Chart 14



Source: Company Reports

Incremental 1% Digital share equates to $6mn additional EBITDA

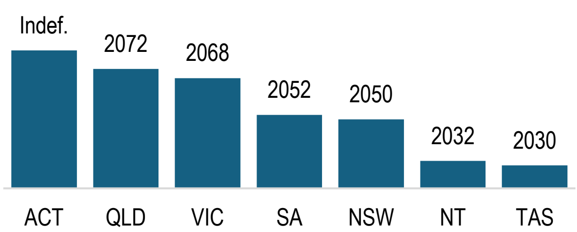
Chart 15



Source: Company Reports

Key lotteries state licenses secured for over 24 years

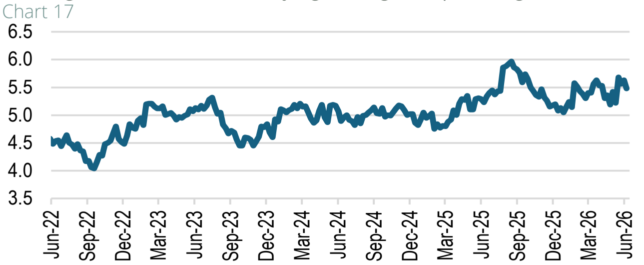
Chart 16



Source: Iress

Trading in-line with historically tight range despite longer licenses

Chart 17



Source: Iress

Stock Selection

Mineral Resources Ltd (MIN)

DESCRIPTION

Mineral Resources Limited (MIN.ASX): is one of Australia's largest diversified mining and mining services companies, with an integrated business model spanning mining, processing, crushing, transport, logistics, ports, and export infrastructure.

MIN began as a mining services company and built a market-leading position in contract crushing, mining, and infrastructure services. The cash flow and operational expertise generated from this business have underpinned the company's strategy of developing and owning its own mining assets, transforming MinRes into a diversified resources company. Today, MinRes operates across three core business segments:

- Mining Services: Contract crushing, mining, infrastructure, transport and logistics.
- Iron Ore: Primarily the Onslow Iron project, along with other WA iron ore interests.
- Lithium: Interests in the Wodgina, Mt Marion and Bald Hill operations.

VALUATION

AUD81.00/share Using a risked NAV.

QUALITY

Mineral Resources combines the resilience of a long-dated mining services business with the upside of owned iron ore and lithium assets. Recurring contract earnings from tier-one customers provide a stable cash flow base across commodity cycles, while the integrated operating model enhances cost competitiveness, operational control and capital allocation flexibility, supporting more efficient project development than many standalone miners.

INSIGHT

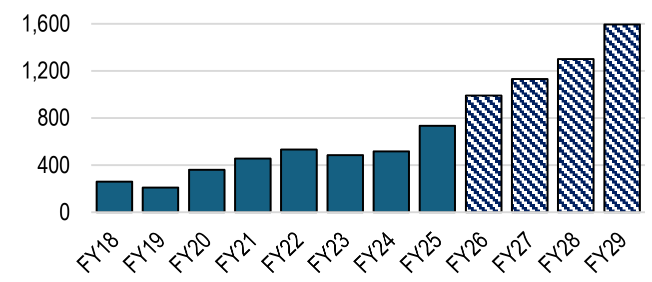
MIN is underpinned by the Mining Services segment, which we expect will generate AUD1.1bn of EBITDA in FY27. Applying peer multiples of 7-8x EBITDA implies a standalone valuation of around AUD8bn (AUD40/shr), providing a compelling valuation anchor before attributing value to the company's iron ore and lithium assets.

Operational execution has continued to improve, with Onslow now largely de-risked and annualised export capacity approaching 38Mtpa, supported by additional transshipping capacity that enhances operational flexibility and reliability. At the same time, Wodgina is entering the highest-grade sections of the orebody as lithium prices have recovered, with production capacity potentially reaching 900ktpa versus market expectations of around 700ktpa. Higher lithium prices are also improving the economics of previously marginal assets, including the underground development opportunity at Mt Marion and the Bald Hill restart. We expect news of a further mining service contract in the near future such has been the success of the Onslow project.

With leverage expected to fall below 2x net debt-to-EBITDA, balance sheet concerns have largely subsided, providing greater flexibility to fund future growth while also supporting the potential for increased shareholder returns through a more disciplined capital allocation framework. Collectively, these factors reinforce the quality of MIN's diversified earnings base and support further value creation beyond the recent share price recovery.

Mining services earnings underpins MinRes' business and valuation

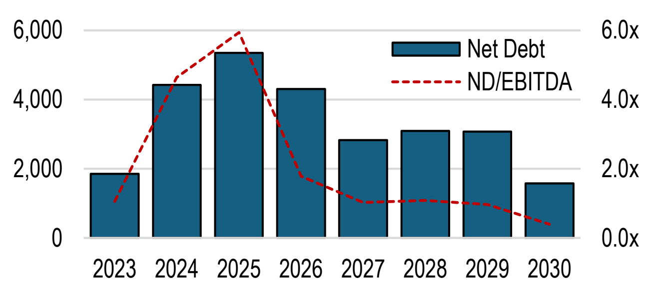
Chart 18



Source: Chester Asset Management

Net debt to EBITDA to fall below 2x EBITDA from FY25 peak

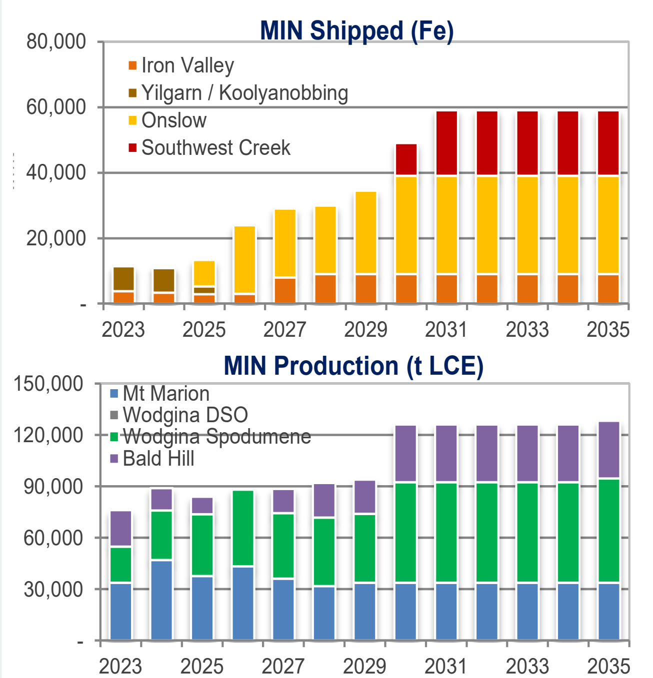
Chart 20



Source: Chester Asset Management

Onslow Ramp up & Lithium recovery supports strong growth

Chart 19



Source: Chester Asset Management

Stock market structure

Chart 21

Source: JP Morgan

THE ABOVE FACTORS ARE CONTRIBUTING TO INCREASED VOLATILITY

These factors are all well known, but it is a succinct way of conceptualising the different forces at play when considering share price movements. This information is a way of explanation for individuals outside the finance industry.

Shrinking Active AUM – The persistent challenges active managers have had over the past 5 years has been well documented. This also happens to coincide in Australia with the introduction of the annual superannuation performance test, which measures the 52 MySuper products of industry funds against each other. For fear of underperforming, the industry funds have to some extent, simply lowered their tracking error of their funds, which means they all by and large hug the respective benchmarks. Truly active managers in the large cap space have lost significant FUM for the reason of industry funds lowering their tracking error/moving to passive strategies.

Obviously, a strategy like the Chester High Conviction Fund exists as a differentiated offering that is truly benchmark unaware. Our view is that passive investing is akin to economic socialism, where every investor gets the same outcome (roughly 8%). We desperately hope that this current trajectory towards passive investing is cyclical and not structural.

We are acutely aware of the changing market dynamics of thinner liquidity driven by passive funds. It exacerbates the ability of quant and ETF flows to increase price volatility during a given trading day (less volume means stock prices can move up or down quickly).

Of course, the most successful strategy over the last 10 years in investing is just buying EPS momentum (are the brokers upgrading earnings?). Many quant strategies are geared around following the earnings cycle, regardless of the valuation starting point. It has driven examples such as CBA to 30x PER with small upgrades, while CSL fell to less than 10x PER on earnings downgrades. As a traditional fundamental investor, such extremes can be difficult to navigate. Although our mindset leans towards patience. Sometimes it can take 2-3 years for excessive valuation extremes to be worked off (both ways). Active managers need to be hyper vigilant around earnings trajectory as it tends to drive short term performance. Which is stating the obvious.

Visible Alpha Herding simply means that all sell-side brokers can see what other sell-side brokers are forecasting for a given stock. Combined with sell-side juniorisation (analysts are getting younger as there are less analysts now with deep industry experience) this herding mentality suggests analysts are too risk averse to display independent thinking, and hence a range of forecasts for a given company end up huddled together. This becomes a virtuous circle as companies are all too aware of missing analyst expectations, so more and more companies are guiding to an earnings range they believe is achievable.

There is game theory to how this plays out in equity markets, as each company is trying to manage analysts' expectations down to a level so the can "beat" expectations, see earnings revisions go up and therefore the positive share price reaction that goes with it.

With so much passive, quant, computer or algo trading going on, along with hedge funds that are paid on a quarterly basis (hence take a 8-12 week view of every decision) we think our competitive advantage is patience. Our best ideas have often been stocks that we have sat on patiently for 2-3 (and sometimes 4) years before the investment thesis plays out. Taking a fundamental view on a company's cash flows and valuation can often be lonely but rewarding when proven correct.

Select EPS revision charts

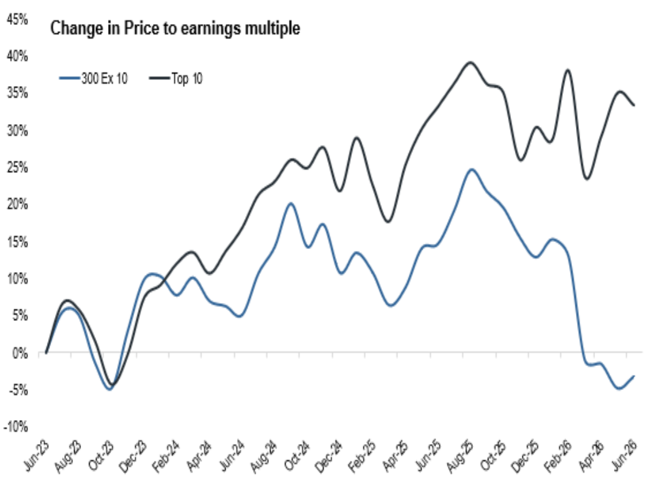
PASSIVE INVESTING TO EXTREMES

Markets have a way of making most people feel stupid, most of the time. Certainly, the past 6 months has felt like the wind is blowing in the wrong direction at times. We understand the market dynamics (page 10) are changing, yet we can often be bemused as to why certain stocks trade the way they do. This page has several illustrations, including chart 23 which highlights just how much the top 10 stocks have outperformed the other 290 stocks in index over the past 3.5 years. In our mind, watching (and talking to retailers and business leaders) the Australian economy over the past 8 weeks since the Federal Budget, it makes no sense to see WES put on 25% in that time period, or CBA bounce 15% off its lows. Both stocks are heavily tied to the Australian economy and are trading on multiples that make our eyes water. Fundamentally all investors want eps upgrades, yet Resmed (RMD) and Ampol (ALD) for different reasons are not reacting to the EPS momentum that we may have expected. We do think the starting point of July 2026 will be a far easier time for active managers to outperform, simply given the starting point.

Woolworths outperformed as a large cap safe haven with –ve eps
Chart 22

Source: Chester Asset Management, Bloomberg

ASX top 10 have materially re-rated relative to the rest of the market
Chart 23

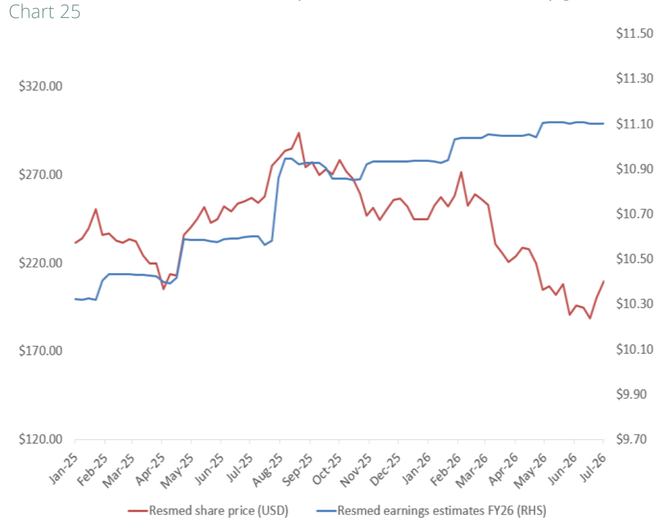


Source: Barrenjoey, Chester Asset Management

Wesfarmers is trading on 32x FY27 PER with –ve eps revisions
Chart 24

Source: Chester Asset Management, Bloomberg

Resmed has fallen 20% in the past 12 months with 8% upgrades
Chart 25



Source: Chester Asset Management, Bloomberg

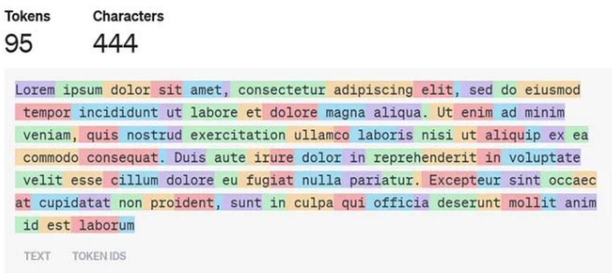
Ampol has risen 12% in CY26 with over 100% eps upgrades
Chart 26

Source: Chester Asset Management, Bloomberg

Key Themes – Tokenomics

The Emerging Token Economy: Pricing, Compute Costs, and AI Investment

Tokens are the currency of AI. They are the basic units that AI models use to read and generate text. A token is a small piece of text, usually about four characters, and every interaction with an AI system is measured in tokens, covering what the user inputs, the model processes internally, and the response it produces.



Tokens and AI revenue generation

AI economics are fundamentally driven by token consumption. AI providers typically charge customers on a per-million-token basis, with separate pricing for input tokens (the prompt) and output tokens (the response). Every query submitted and every response generated therefore directly contributes to revenue. As AI adoption broadens across consumers and enterprises, the volume of tokens processed is expected to increase significantly, driving higher inference revenue even as the cost per token declines. While most providers also offer subscription plans, free usage tiers and discounted enterprise pricing, the table below highlights the June 2026 standard pricing for leading frontier AI models.

Chart 27

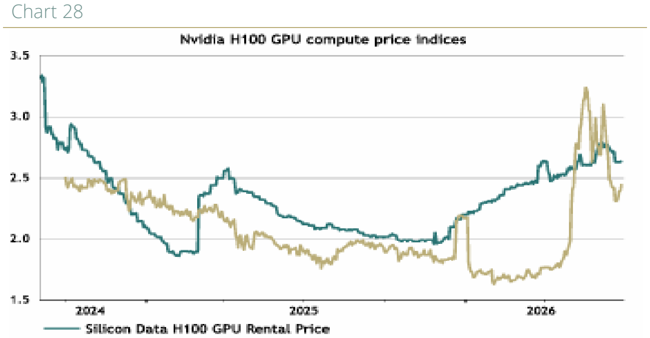
Provider	Model	Input (per 1M tokens)	Output (per 1M tokens)
OpenAI	GPT-5.5	$5.00	$30.00
OpenAI	GPT-5.4	$2.50	$15.00
Anthropic	Claude Opus 4.8	$5.00	$25.00
Anthropic	Claude Sonnet 4.6	$3.00	$15.00
Google	Gemini 3.1 Pro Preview	$2.00	$12.00
xAI	Grok 4.3	$1.25	$2.50
DeepSeek	V4 Pro	$0.44	$0.87

AI Compute costs and GPUs

Each token requires computing power to generate. In AI inference, throughput depends on the model, efficiency, and hardware configuration. On high-end GPUs such as NVIDIA H100s, real-world performance can reach ~0.5–1.0 million output tokens per GPU-hour under optimised conditions. At prevailing rental rates of ~ USD2–3 per GPU hour, this implies a compute cost of ~USD2–6 per million tokens generated.

Importantly, output tokens usually cost more because the AI has to create them step by step, one word at a time, doing more work each time. Input tokens are easier because the model can read them all at once and process them in parallel.

Chart 28



Practical Example of AI economics

A practical example is planning and booking a holiday using AI. Input tokens are generated when the user provides travel dates, budget, preferences, and destination ideas. Additional input tokens arise from processing web search results and other external context, along with conversation history and mid-session edits.

Output tokens are generated as the AI produces itineraries, recommendations, and refinements. In more advanced systems, additional costs come from tool use, where the AI interacts with external systems such as flight searches or hotel pricing. These tools increase total token consumption, cost and revenue.

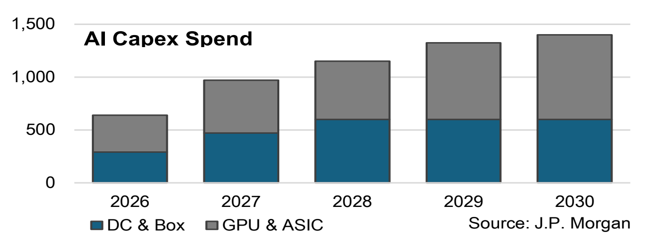
Chart 29

		AI Revenue		AI Cost		
Token Category	Volume (tokens)	Price ($/million)	Billed Amount ($)	Price ($/million)	Compute cost ($)	Gross Margin (%)
Input Token						
System prompt	1,500	$3.00	$0.00	$0.50	$0.00	83.33%
User intake (prefs, dates, budget)	2,500	$3.00	$0.01	$0.50	$0.00	83.33%
Web search results ingested as context	90,000	$3.00	$0.27	$0.50	$0.05	83.33%
Mid-session edit requests	2,500	$3.00	$0.01	$0.50	$0.00	83.33%
Cache Tokens						
Conversation history	150,000	$0.30	$0.05	$0.05	$0.01	83.33%
Output Tokens						
Extended thinking (routing / budget logic)	20,000	$15.00	$0.30	$2.50	$0.05	83.33%
Final itinerary text	13,000	$15.00	$0.20	$2.50	$0.03	83.33%
Revision responses (edit rounds)	7,500	$15.00	$0.11	$2.50	$0.02	83.33%
Tool usage tokens	Searches	$/Search		$/Search		
Web search (flights, hotels, transit)	75	$0.01	$0.75	$0.01	$0.38	50.00%
Total AI Cost			$1.69		$0.53	68.6%

Insatiable projected Investment in AI but sustainability depends on economics

The committed capex to AI has reached an unprecedented level of investments. Hyperscalers and frontier AI developers continue to commit spending towards GPUs, networking equipment and data Centre capacity with JPM forecasting cumulative capex of USD5.1tn by 2031.

Chart 30



The sustainability of this investment depends on whether AI can generate acceptable returns on the capital being deployed into compute and infrastructure. To date, investment has been driven more by competition for GPU capacity than by profitability. While the cost per token continues to decline as hardware improves and inference becomes more efficient, demand is rising materially faster as AI usage expands across consumer and enterprise applications, driving sustained growth in total compute requirements.

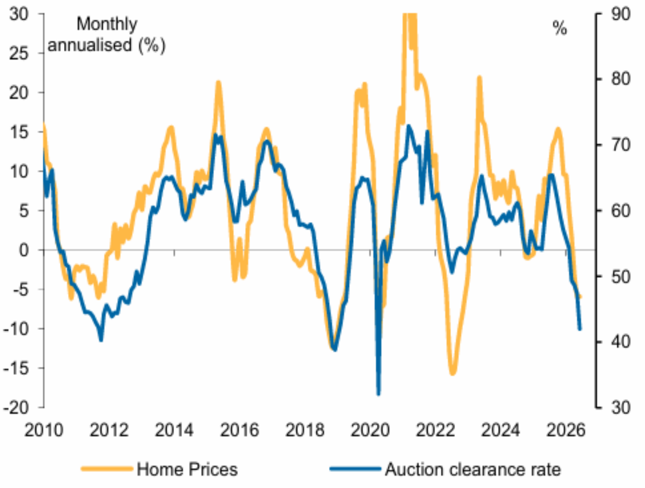
At the same time, monetisation remains uneven. A significant portion of usage is still delivered through free tiers or heavily discounted pricing, and AI inference is increasingly showing signs of commoditisation. This dynamic is being reinforced by global competition, including Chinese providers offering materially lower priced tokens, which places ongoing pressure on pricing power and long-term margin structure across the industry.

Key Macro Themes

AUSTRALIA

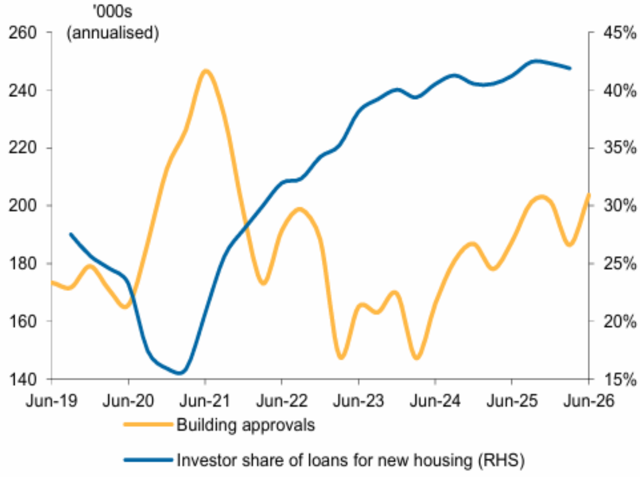
We find chart 31 the most instructive as to how Australians have interpreted the May budget. With the removal of negative gearing there has been a sharp decline in auction clearance rates and with that the annualised house price index across Australia has turned negative. And accelerating. As we know the housing market has been the engine room of the Australian economy for almost 30 years. It suggests a period of sluggish confidence and transaction volumes ahead. Of course, the negative feedback loop from lower house prices feeds through to a higher savings rate (less home equity to draw on). As shown on chart 34, when there is a correction in house prices, the savings rate does tend to rise, which then feeds into consumption patterns. Hence while many economists still forecast another rate hike in August (obviously data dependent), we are in the camp that the downturn in housing will have the desired impact on consumption patterns and therefore feed through to CPI, maybe not by August, but the direction of travel seems unavoidable. The wildcard in making an interest rate call is the tenure of the renewed strikes in Iran. Australia remains one of the more exposed countries to supply chain challenges, but any diesel impact again won't be helpful for taming inflation. We tend to think that the challenging backdrop in Australia has led to more basket buying of the top 20 companies as relative safehavens. This doesn't take into account the extreme valuation dispersion though between large caps and small caps. Any change to the RBA stance could help small caps.

Australian house prices are turning quickly with transactions
Chart 31



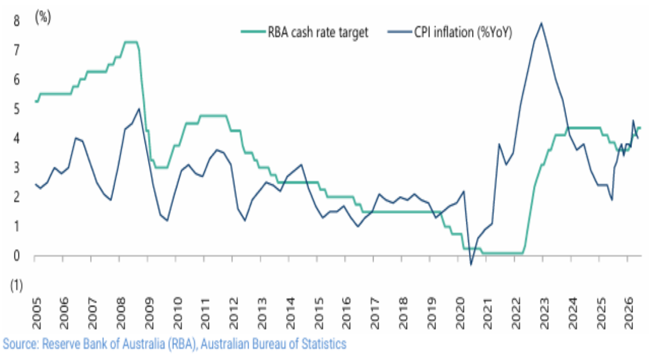
Source: Macquarie Research

We expect investor lending to slow sharply, while building stalls
Chart 32



Source: Macquarie Research

What if inflation pressure starts to ease?
Chart 33

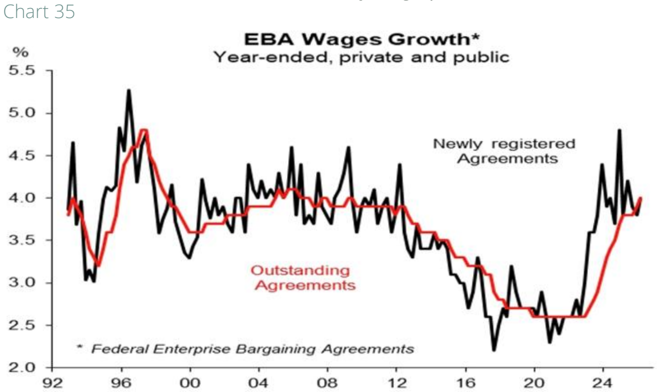


Source: Jefferies Research

Australian savings rate will rise with lower house prices
Chart 34

Source: Morgan Stanley Research

The risk to a more dovish RBA is sticky wage pressure
Chart 35



Source: Macquarie Research

Key Macro Themes

US THOUGHTS

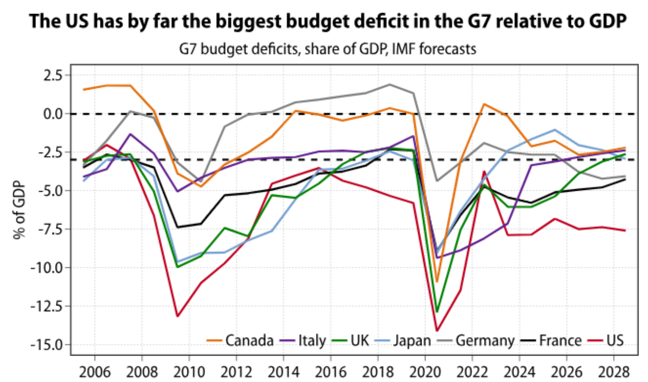
The sheer magnitude of AI related spending has received much attention, so much so that chart 39 illustrates the K shaped economy better than most charts. Maybe given how intertwined this spending has become to the broader economy, this investment simply becomes "industrial capex". It is absolutely the reason, along with the deregulation of lending standards by the Trump Administration (chart 37) why the US economy is running far better than any other Western economy. Oil self sufficiency helps as well. There is a reason why the Russell 2000 rose 22% in the first 6 months of 2026, the US economy (broadly) is doing well.

So, on one hand we see an economy running well with credit growth accelerating, while on the other hand the homebuilders confidence (NAHB survey) has just reached a 2026 low, still stuck with the challenge of the US 30-year bond yield persistently above 5%. Combine the persistently high 30 yr yield with the trimmed mean PCE (chart 36), which is one of the key metrics Kevin Warsh is going to be monitoring for inflation pressure. These two data points suggest to us that the Fed (for all the jawboning) are likely to err on the side of waiting (in our humble opinion). Whilst Trump may think he can exert some influence on the new Fed Chairman, Kevin Warsh (externally at least) appears to be independent, which is very relevant for the new Federal Reserve committee.

The one feature we find unavoidable, is chart 38, the fact that the US is still running the largest budget deficit (by some magnitude) of all the G7 countries. This is what gave rise to the US "dedollarisation" trade. We're not sure it has gone away.

The US continues to run a huge deficit whilst not in recession

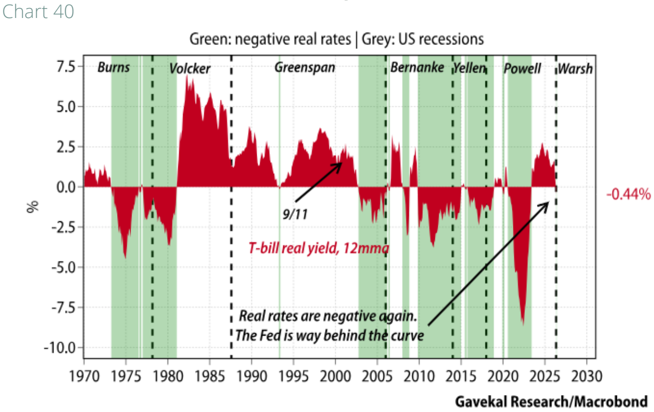
Chart 38



Source: Gavekal Research

Kevin Warsh starts his term with negative real rates on T-bills

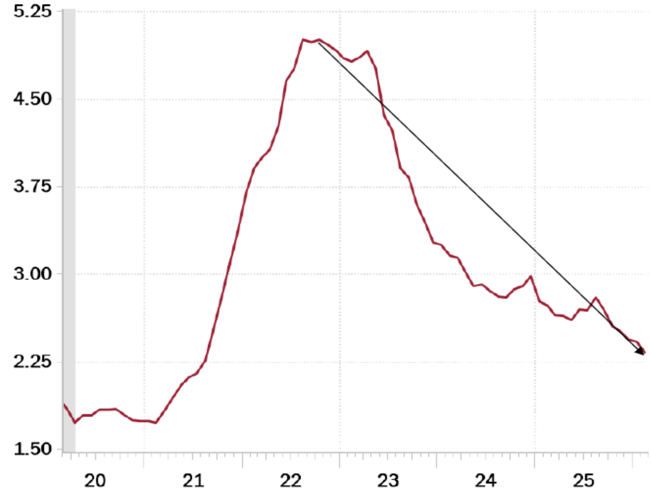
Chart 40



Source: Gavekal Research

Trimmed Mean 12-month PCE Inflation rate (Warsh's metric)

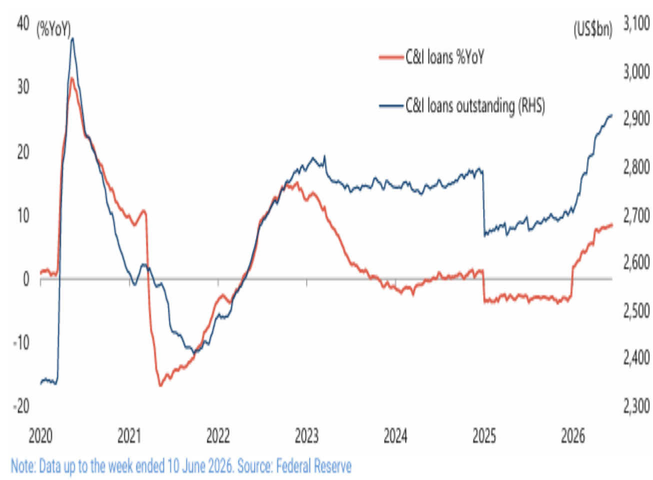
Chart 36



Source: Rosenberg Research

US credit growth is accelerating post OBBB deregulation

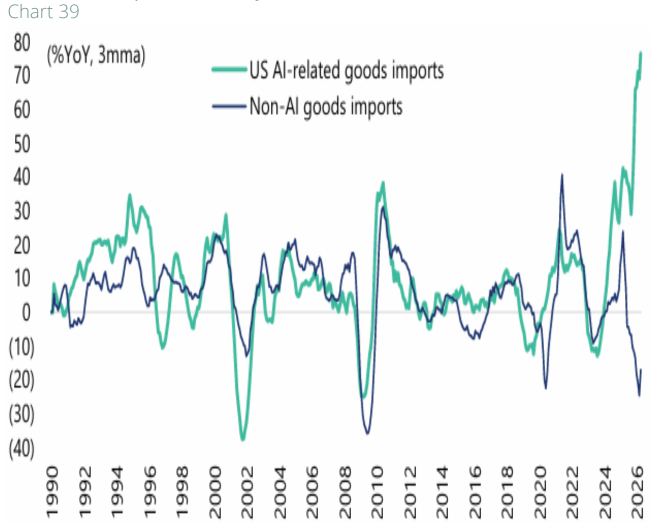
Chart 37



Source: ASR Research

The US K shaped economy

Chart 39



Source: Jefferies Research

Key Macro Themes

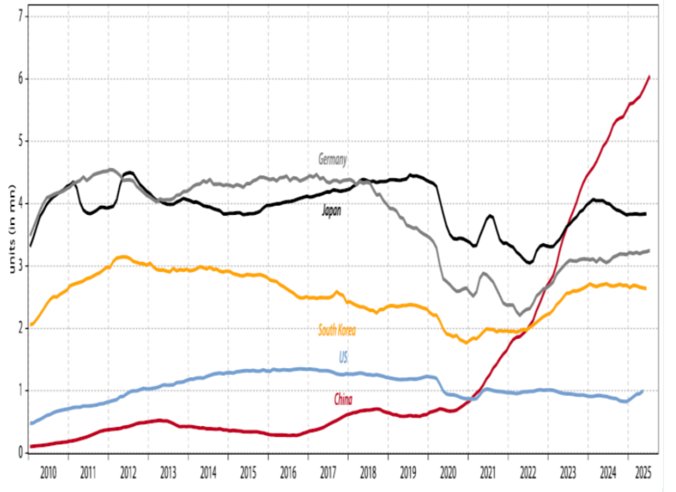
CHINA

We still find many paradoxes in China. It has become the dominant EV producer globally, by literally smashing the competition (European cars) with similar features at a 50-70% discount to well known brands. The European car industry is dying, while Japan and South Korea have their work cut out. Of course, China has had to go down this path because domestically housing prices have fallen for nearly 7 years and fixed asset investment (including housing) has been negative for the past 3 years. Thus manufacturing continues to prop up the economy.

Our thought process spends much time contemplating the undeniable fact that China produces electricity far cheaper (chart 42) than its Western world rivals (Australia is similar to Japan), while China is also very aggressively rolling out the energy required to compete in the AI race. Chart 44 illustrates just what the command economy can do when the directive is to dominate an industry.

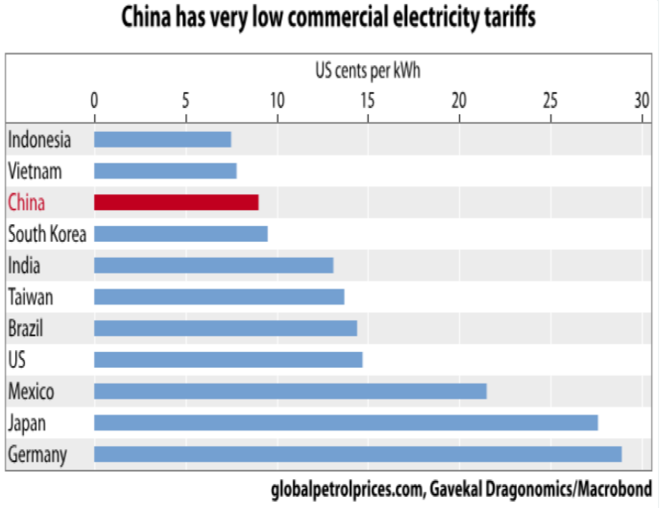
We see this energy production as a meaningful threat to the US LLM's in terms of providing AI agents at a reasonable price. China has released another LLM model (GLM 5.2 by Z.ai) that is (allegedly) almost equal to Claude in terms of functionality at one quarter of the cost. The potential for malinvestment across the major US hyperscalers appears real in our view. Those economies that have access to the cheapest form of energy historically end up winning. China is dominating the automated robotics space as well. Deflation remains very prevalent in China.

Chinese car exports rolling 12mth – only going up
Chart 41



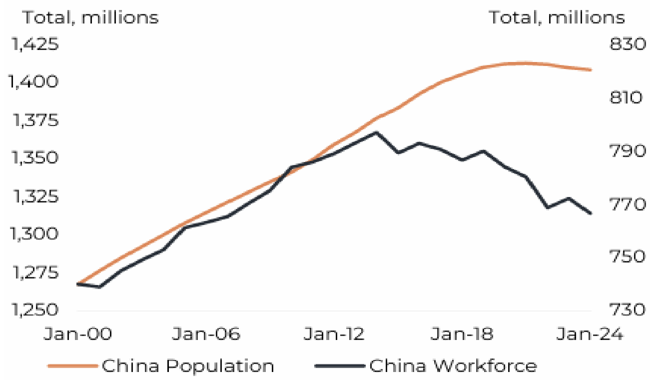
Source: Gavekal Research

The lowest cost of energy normally wins
Chart 42



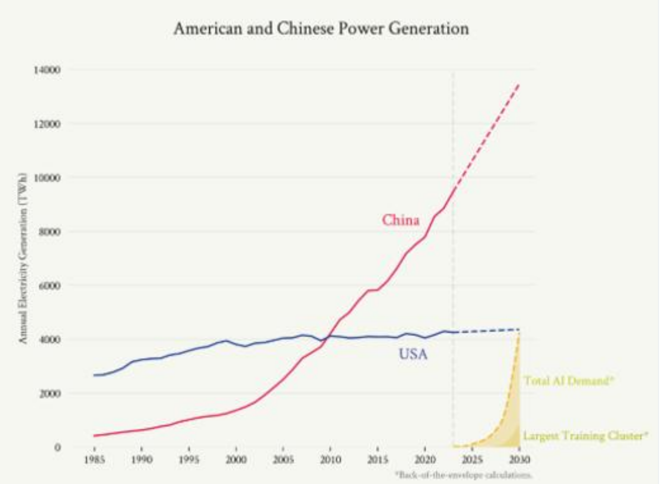
Source: Gavekal Research

Chinese working age population – the need for robots is growing
Chart 43



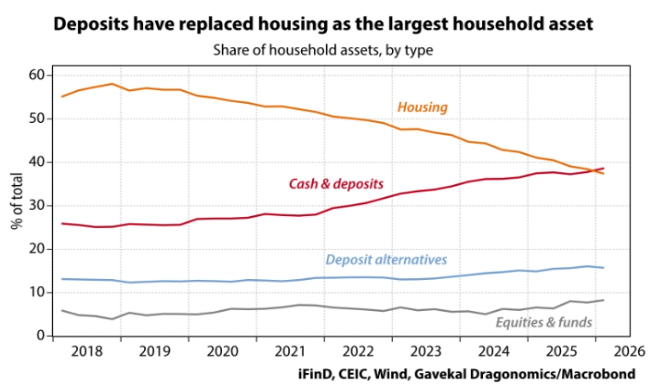
Source: Barrenjoey Research

China is delivering on the energy objective
Chart 44



Source: Situational Awareness, Leopold Aschenbrenner

China domestic confidence is reflected in their asset base
Chart 45



Source: Gavekal 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 46 illustrates to us why we need to be more vigilant going forward. The US stock market as a % of US GDP has never been higher. This is not to say it can't continue higher (it can), but we tend to view the asymmetry of risk as skewed. Valuation we believe becomes increasingly important over the next 2 years. Chart 47 is almost redundant given this reflected the view on oil 2 weeks ago before the Iran conflict started up again. We watch breakevens closely (and credit spreads) for signs of emerging volatility.

We see chart 49 as reflective of how successful Trump has been in removing illegal immigrants into the US. Clearly the Biden administration had an open border policy which has been rapidly unwound. If anything it puts upward pressure on unskilled wages and tightens the labour force, but we suspect the same trajectory would be viewed positively in Australia. Chart 48 illustrates just how strong the momentum has been in the semiconductor trade over the past 12 months. We find it curious that for all the geopolitical conflict and need for energy security, the energy trade has hardly made a dent in the active weight of energy as a % of the index. Truly remarkable (in our view) and a trade we have got wrong. Chart 50 highlights the LLM competition from China is real.

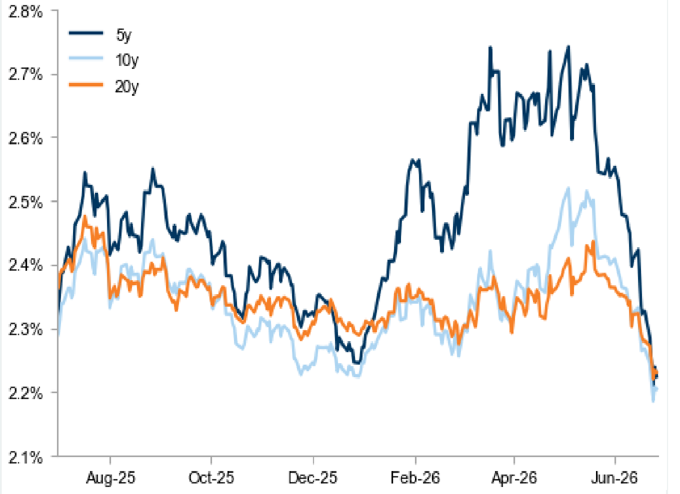
The Buffett Indicator (Market Cap of the S&P500 / US GDP)

Chart 46

Source: Rosenberg Research

US inflation breakevens are falling rapidly post Iran conflict

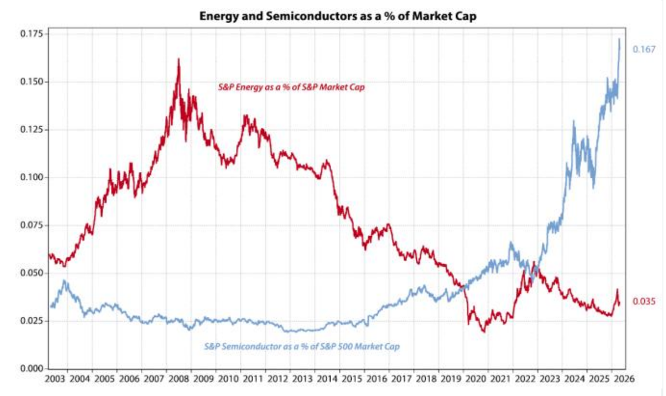
Chart 47



Source: Goldman Sachs Research

Nobody wants energy but semiconductors are indispensable

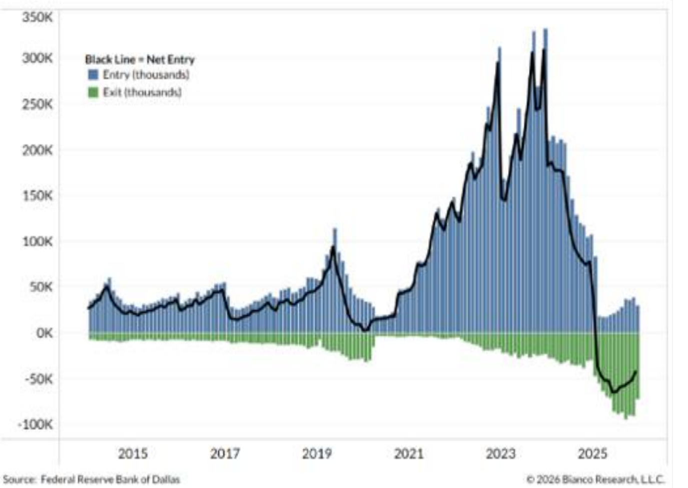
Chart 48



Source: Gavekal Research

Net flows of US unathorised immigration

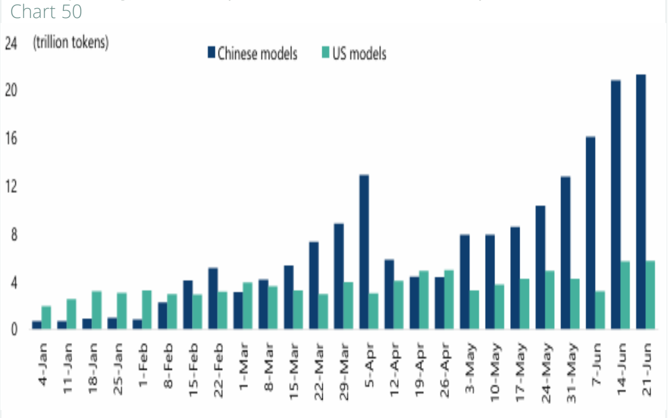
Chart 49



Source:

Weekly usage of the top nine AI models across OpenRouter

Chart 50



Source: Jefferies Research

Executive Summary

Equities.

The only certainty in 2026 is geopolitical uncertainty, which suggests to us diversifying the portfolio across sectors to mitigate unforeseen circumstances. 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 in isolation, suggests more room to run. 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 LLM's 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 of the debt burden).
- 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 cannot 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 look fascinating from a sentiment perspective. Judging by the flows into gold ETF funds, sentiment is currently extremely poor. 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 heavily overvalued.

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

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

As we have demonstrated over the past 12 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.

Fund Philosophy

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
Goodman Group (GMG)	✓		✓	✓	Data centre development
Challenger (CGF)	✓	✓		✓	Retirement income / Regulatory change
Nufarm (NUF)		✓	✓	✓	Agriculture / Biofuels
Maas Group (MGH)		✓	✓	✓	AI Enabler
Lend Lease (LLC)		✓	✓	✓	Housing shortages/ Urban development

Source: Chester Asset Management, in no particular order

Above are our top ten holdings as at the 1st of July 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 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 45 from our presentation material. Most of the current top ten 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 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.

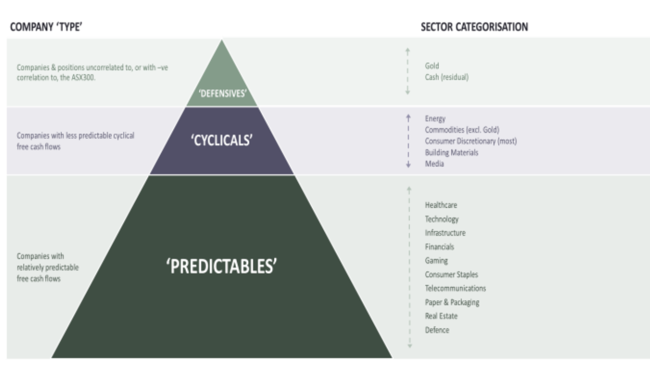
Predictables include sectors like healthcare, consumer staples, real estate, infrastructure, etc. as, in general, able to offer relatively predictable cash flow profiles from the industry structure they operate in. We are the first to admit this is a relatively primitive exercise given that many stocks 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 44



Source: Chester Asset Management

Fund Philosophy

Chart 46 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 18% (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 47 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.

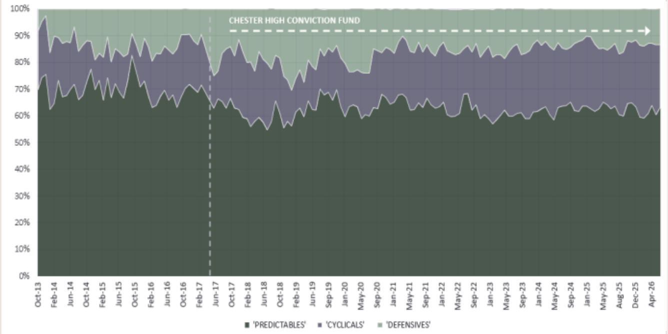
The data does highlight a clear value bias, influenced by positions such as Westgold (WGX), which trades at 5.9x PER and is forecast to deliver over 150% EPS growth in FY26. These types of idiosyncratic holdings can meaningfully shape the portfolio.

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 46



Source: Chester Asset Management

Chester High Conviction Fund portfolio characteristics

Chart 47

	CHCF	ASX300 Index
PER FY1	13.3	16.6
PER FY2	11.2	15.7
FY1 EPS growth	40.8%	12.9%
FY2 EPS growth	18.9%	6.0%
ROE	17.6	14.1
Beta	0.86	1.00
FY27 Yield	2.5	3.5
FY1 DPS growth	16.0%	7.3%

Note: Chester data excludes nonrevenue generating companies. To end June 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 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 gaining 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.

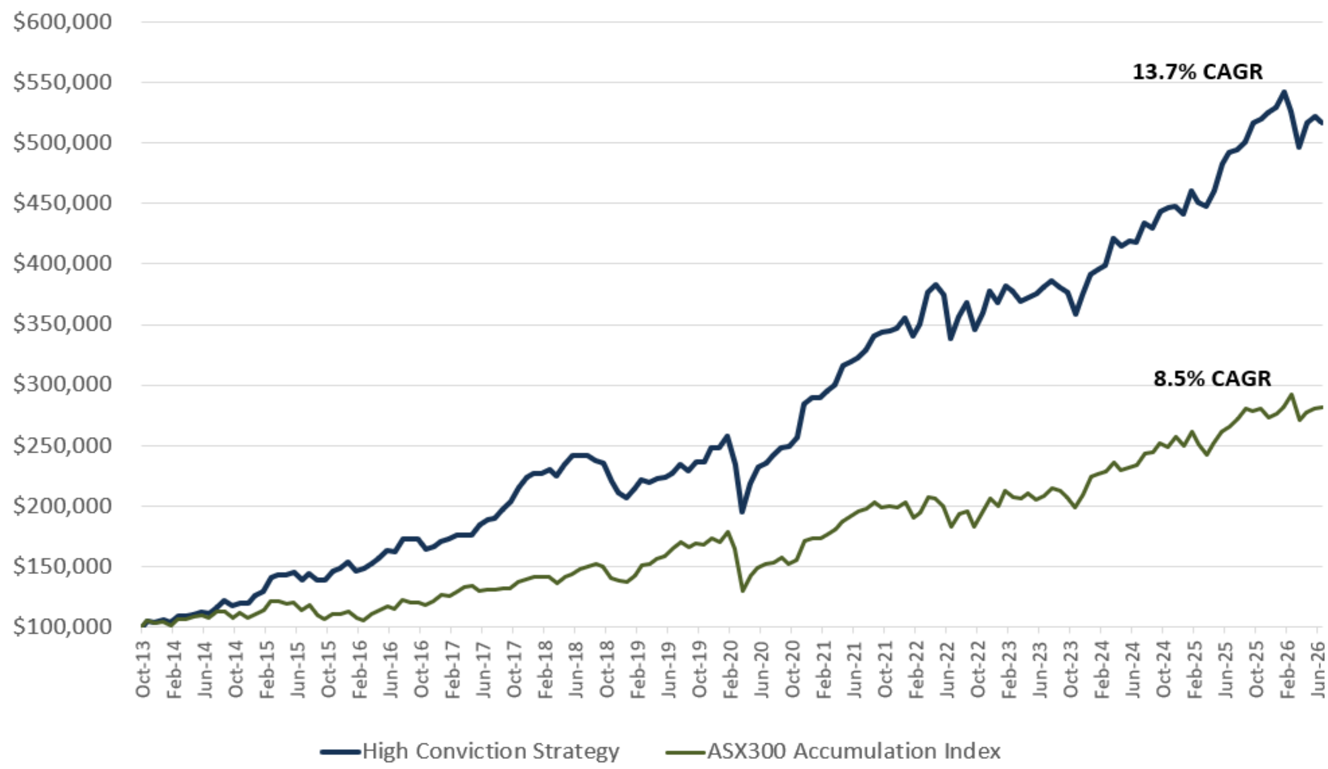
Performance

ACCUMULATED PERFORMANCE BY FINANCIAL YEAR | Same Strategy

(%)	FY14#	FY15	FY16	FY17*	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26	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	+13.7
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	+8.5
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	+5.2

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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