

FUND PERFORMANCE (AFTER FEES) TO 31 MAR 2026

	1M	3M	6M	1yr	3yr p.a.	5yr p.a.	SI ³ p.a.
Net Fund Performance ¹	-10.4%	-11.0%	-11.0%	11.2%	8.0%	6.6%	7.0%
Benchmark Performance ²	-11.0%	-10.9%	-9.3%	13.7%	8.5%	4.0%	5.1%
Excess Return	0.6%	-0.1%	-1.7%	-2.5%	-0.4%	2.6%	1.9%

1. Return net of 0.89% p.a. management fee. 2. S&P/ASX Small Ordinaries Accumulation Index. 3. Inception date: 31 Oct, 2019. Past performance is not a reliable indicator of future performance, p.a performance is annualised.

The Longwave Small Companies Fund decreased by 10.4% during March 2026, outperforming the 11.0% decrease in the S&P/ASX Small Ordinaries Accumulation Index benchmark by 0.6% over the month (after fees).

MISERY

Since early this year we have been observing pressure on our Australian consumer thesis which underpins a few portfolio positions in high quality consumer facing companies. Following results in February and the rapid change in conditions following the events in the Middle East we now see risk of significant deterioration to the condition of the Australian consumer similar to what we saw three to four years ago.

Sticky inflation, not helped by public sector wage growth, declining productivity and rising commodity prices, had reversed the direction of interest rates by November 2025, but consumer confidence, asset prices and spending held up with average small cap retail like-for-like spending accelerating from +3.5% in the June half to +5.2% in the December half. Results in February however showed early signs this was slowing, and although we have not had any meaningful trading updates since then, all the leading indicators are now pointing to a sharp slowdown.

We have seen this movie before – only a few years ago in fact – and this time it maybe even worse. One thing history tells us about LFL sales growth is it can change fast.

The Misery Index is a data-based measure of how consumers are likely to feel about their financial condition. It combines inflation, unemployment and in our case interest rates and tracks this over time. The theory being that if inflation is low, interest rates are low and unemployment is low, consumers feel pretty good about things. Once these rise – and worse of all should they rise together (stagflation) – the consumer feels miserable. This feeling also shows up in survey-based measures.

Misery Index components are currently all going the wrong way. Inflation never got under control, now spiking again and not offset by GDP per capita growth. Interest rates are rising sharply, hitting the most levered consumers and homeowners hardest. Unemployment has only just ticked up and probably understates the anxiety in the employment market regarding the potential for AI job losses in the near future.

ANZ Roy Morgan and Westpac Melbourne Institute capture all of this in real time via surveys, and on the latest results, the misery is being felt, and consumer confidence has collapsed. Whatever our subjective feeling about how negative these effects are today vs 2022, objectively they are worse – with greater misery and much lower surveyed confidence.

MARKET IMPLICATIONS

With interest rates rising and GDP potentially slowing, categories of stocks which are most exposed to this deterioration include:

- > **Unprofitable or Cashflow negative businesses.** These companies are “default dead”, relying on the “kindness of strangers”, a.k.a equity capital markets to continue raising capital to fund the dream of future profitability,
- > **High multiple / thematic / crowded positions** are also more at risk as investors become more cautious on paying up for a less certain future. Witness the change of fortunes for SaaS technology stocks in the past few months for a recent example,
- > **Over leveraged companies** in a rapidly rising interest rate environment are back on the watch list, even more so should their profitability be at risk – even temporarily – due to macro events,

TOP 10 HOLDINGS

Name (Alphabetical)
Beach Energy Ltd
Breville Group Ltd
Capstone Copper Corp
Codan Ltd
Imdex Ltd
New Hope Corp Ltd
News Corp
Reece Ltd
Sims Ltd
Tuas Ltd

FUND AND BENCHMARK SECTOR WEIGHT (%)

	Fund	BM ²
Communication Services	7.8	5.4
Consumer Discretionary	14.0	9.7
Consumer Staples	1.4	3.1
Energy	7.5	8.3
Financials	9.0	12.2
Health Care	3.5	4.7
Industrials	17.3	13.1
Information Technology	8.0	5.5
Materials	23.1	26.2
Real Estate	4.1	11.8
Utilities	0.0	0
Cash	4.4	0.0

STOCK ATTRIBUTION (ALPHABETICAL)

Top 5 - Contributors
Deep Yellow Ltd
Greatland Resources Ltd
IperionX Ltd
New Hope Corp Ltd
Paladin Energy Ltd

Bottom 5 - Detractors
Breville Group Ltd
Capricorn Metals Ltd
Capstone Copper Corp
Yancoal Australia Ltd
Viva Energy Group Ltd

- > **And, of course, consumer discretionary exposed companies**, whose growth is intrinsically tied to the performance of the consumer. In most market environments, stronger businesses can grow regardless of the macro, however there are conditions by which even the best brands and the best management teams can be overwhelmed.

The daily headlines regarding the conflict in the Middle East could spin on a dime – and get better or possibly worse. Regardless, we think there are some domestic economic effects which are pretty well baked in: inflation, confidence, interest rate increases as discussed. There are also unknown second and third order effects from what we are seeing in the supply chain, and this year is likely not done with surprises. Left field events like major economic disruption from fuel rationing, expansion of hostilities, acceleration in AI driven job losses and major failures across the property development and credit funding complex are all possible.

Realistically, companies may wait until May (confession season) before giving trading updates on the 2H FY26 impacts of what we are seeing today.

PORTFOLIO POSITIONING AND PERFORMANCE

A few of our consumer discretionary theses were “at-risk” coming out of reporting season, as despite valuations looking attractive, they assumed sales and profit growth forecasts reliant on consumer sentiment defying sticky inflation and increased interest rates. Consumers were continuing to spend but this is under a lot of pressure now, as inflation gets worse, interest rates sharply increase and sentiment collapses. There were also many new opportunities with improved operating performance out of reporting season as well, and lower share prices in March gave us even better buying prices than in February.

As a result, we made several portfolio changes during the month. We observed that most stocks and sectors were falling together (other than conventional energy, REITs and consumer staples outperforming) – suggesting the market was yet to differentially price the four most negatively exposed categories we noted above. The net of our portfolio changes since January were a reduction in Consumer Discretionary, Materials (Gold) and Real Estate exposures and increased exposure to Technology, Communication Services and Industrials. Increases in energy weight are mostly market driven. We also slightly increased cash, which will allow us to take advantage of the increased volatility we expect to be with us for some time.

The good news is that:

- > **There remain plenty of opportunities in small caps.** Across industrials and resources and in all the small cap niches, headwinds for one sector (consumer discretionary) can be tailwinds for others (conventional energy, materials, industrials)
- > **We maintain a diversified, high-quality portfolio.** In this recent period, we were overweight conventional energy coming into March. Our underweight Energy overall is a reflection of holding no uranium stocks. Conversely our gold position was reduced materially between January and mid-March. We are very underweight low quality and high leverage small caps.
- > **Valuations are undemanding.** Unlike 2022 when the small cap index came into the interest rate and inflation shock carrying the largest forward P/E premium to the large cap index in 20 years, today the fear baked into small cap share prices already has a P/E discount surpassed only at the depths of the GFC in 2008.

Longwave advocate for active management in small caps for various reasons – the main one being the ability to generate better than index returns at lower volatility over the long run – however today one of the starkest differences between our portfolio and the index is the level of embedded risk. Our portfolio is on par (P/E multiple) to slightly cheaper (EV / EBITDA multiple) than the index, but the embedded leverage risk in the index now is very high. Debt to EBITDA of 3.1x for the index compares to 1.3x for our portfolio, with excessive leverage visible in many sectors of the market – not the best thing with a rising cost of debt.

Fund characteristics	As at 31 Mar 2026
NAV	A\$1.2466
Redemption unit price	A\$1.2429
Inception Date	31 Oct, 2019
Minimum Investment	A\$25,000
Management Fee	0.89% p.a.
Performance Fee	-
Risk/Return profile	High
Buy / Sell Spread	0.30% / 0.30%
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Distribution frequency	Half-yearly
Portfolio FUM (A\$m)	39.9
No. of Holdings:	115
Portfolio Managers	David Wanis, Jai Beathe & Melinda White
Strategy FUM (A\$m):	1,037.9

INVESTMENT OBJECTIVE

The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over the long term (after fees).

The Fund aims to provide long-term capital growth through investment in a diversified portfolio of high-quality Australasian small companies (outside S&P/ASX 100 Index at time of investment or expected to be within six months).

INVESTMENT STYLE

Longwave’s investment philosophy is underpinned by the belief that the stocks of high-quality small companies outperform the benchmark over time, and as such, an active approach to investing in high-quality stocks provides value to investors who might otherwise have invested passively. Longwave believes in the value of a deep and fundamental understanding of the securities in which we invest.



Signatory of:



Supporter of:





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Link to the Product Disclosure Statement: [WHT9368AU](#)

Link to the Target Market Determination: [WHT9368AU](#)

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