

LONGWAVE AUSTRALIAN
SMALL COMPANIES FUND

LONGWAVE
CAPITAL

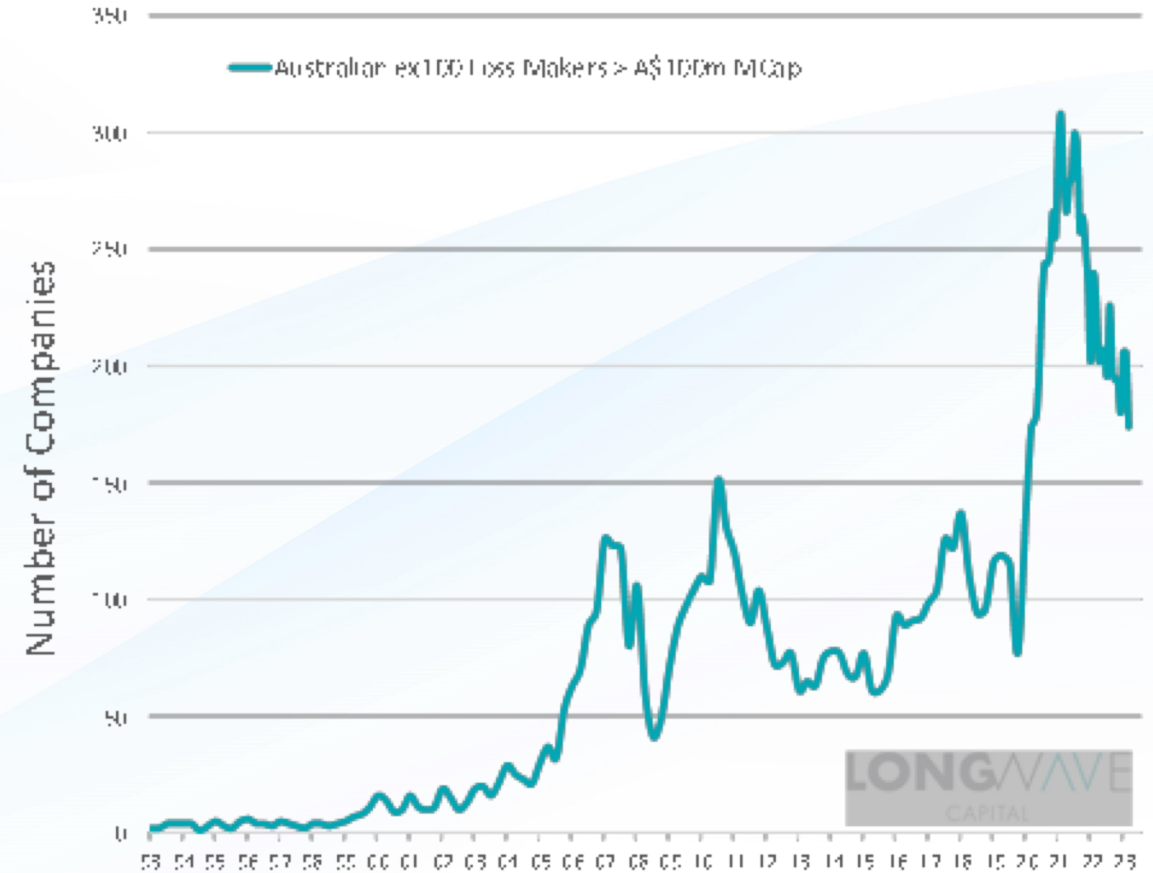
The Death of Magical Thinking

David Wanis: Chief Investment Officer
September 2023

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CAPITAL

The Death of Magical Thinking

Australia Investment Grade Corporate Debt Cost (%)



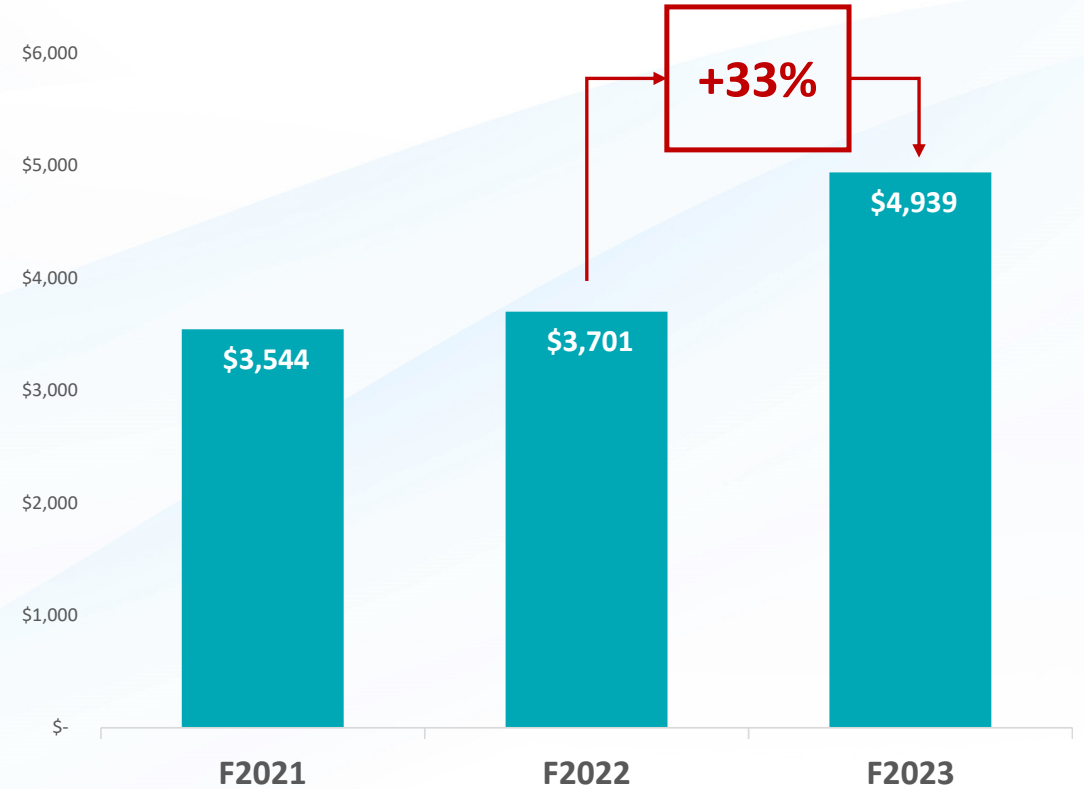
Source: Bloomberg, Longwave Capital

The Death of Magical Thinking

Australia Investment Grade Corporate Debt Cost (%)



Small Ords Index: Interest Expense (A\$m)



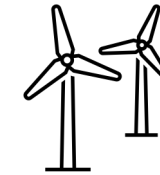
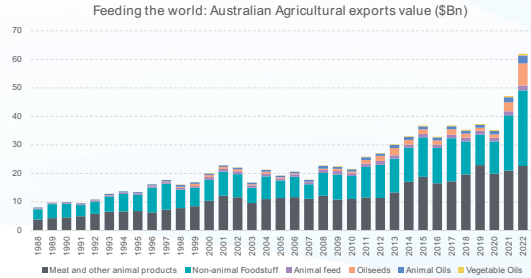
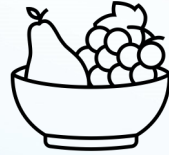
Average Corporate Borrowing Rate

F2021	F2022	F2023	Today
1.21%	2.33%	4.75%	5.00%

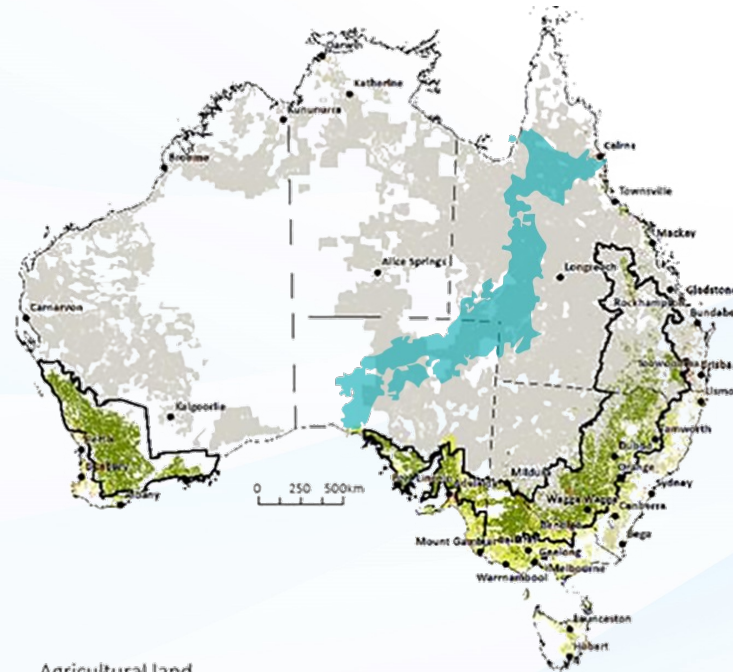
The Birth of Real Opportunity

Australia is endowed for future global growth

Arable land to feed 70m people²



2nd highest solar power potential¹



Large critical mineral endowment³

Critical minerals: Top supplier³



Share of World Production		
Commodity	Share of Production	Rank
Lithium	53%	1
Iron ore	36%	1
Bauxite	27%	1
Manganese	11%	3
Zinc	10%	3
Rare Earths	8%	1
Uranium	8%	1
Nickel	6%	2
Copper	4%	3
Cobalt	3%	2

Agricultural land

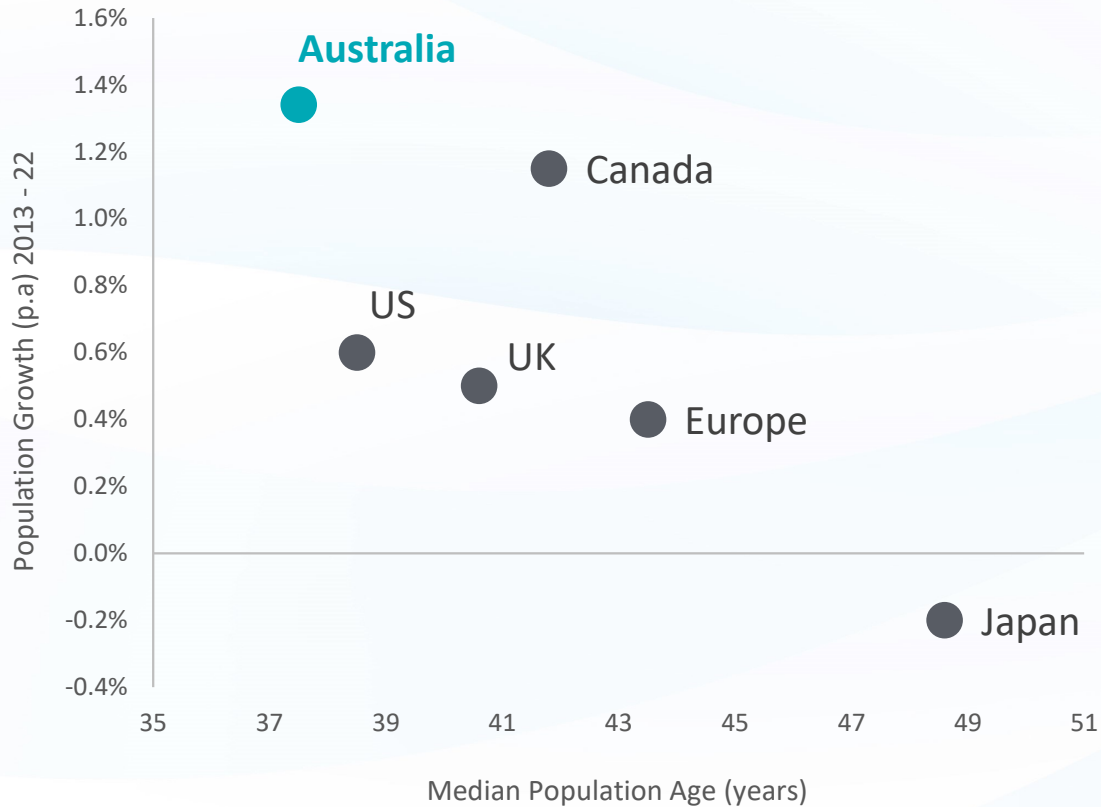
- Grazing native vegetation
- Cropping including crop/pasture rotation
- Grazing modified pastures
- Horticulture *

\$ Superannuation savings A\$3.5 trillion

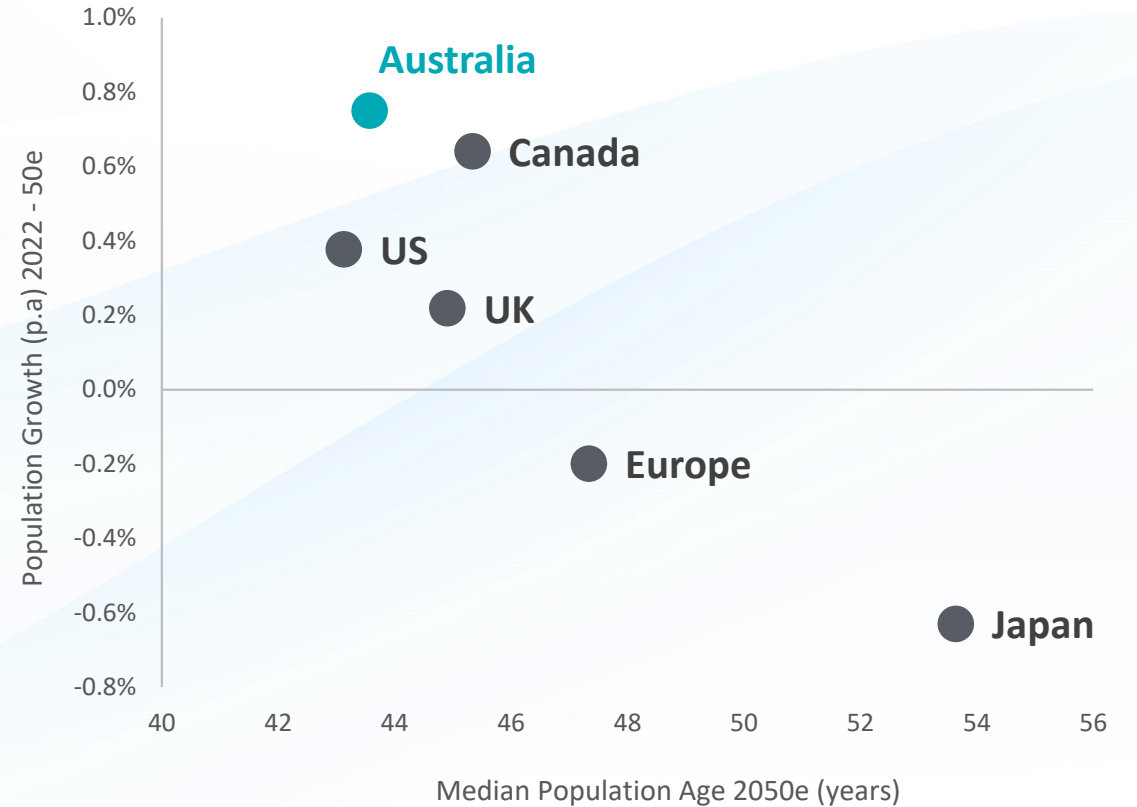
Endowment		
Commodity	Share of world resources	Rank
Uranium	32%	1
Iron ore	31%	1
Vanadium	31%	2
Lithium	29%	2
Zinc	27%	1
Nickel	23%	1
Cobalt	20%	2
Bauxite	12%	3
Copper	11%	2

Australia has superior long term growth

Growth Demographics

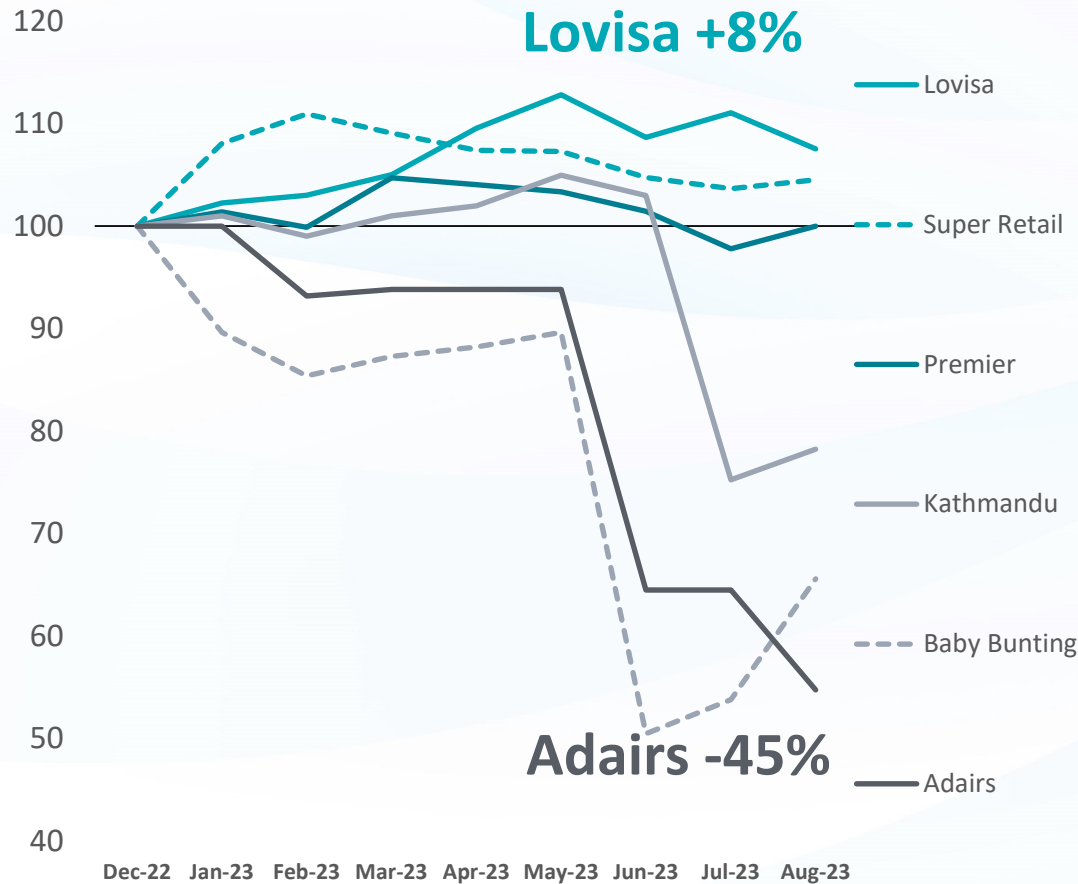


Future Growth Demographics (2022 - 50e)

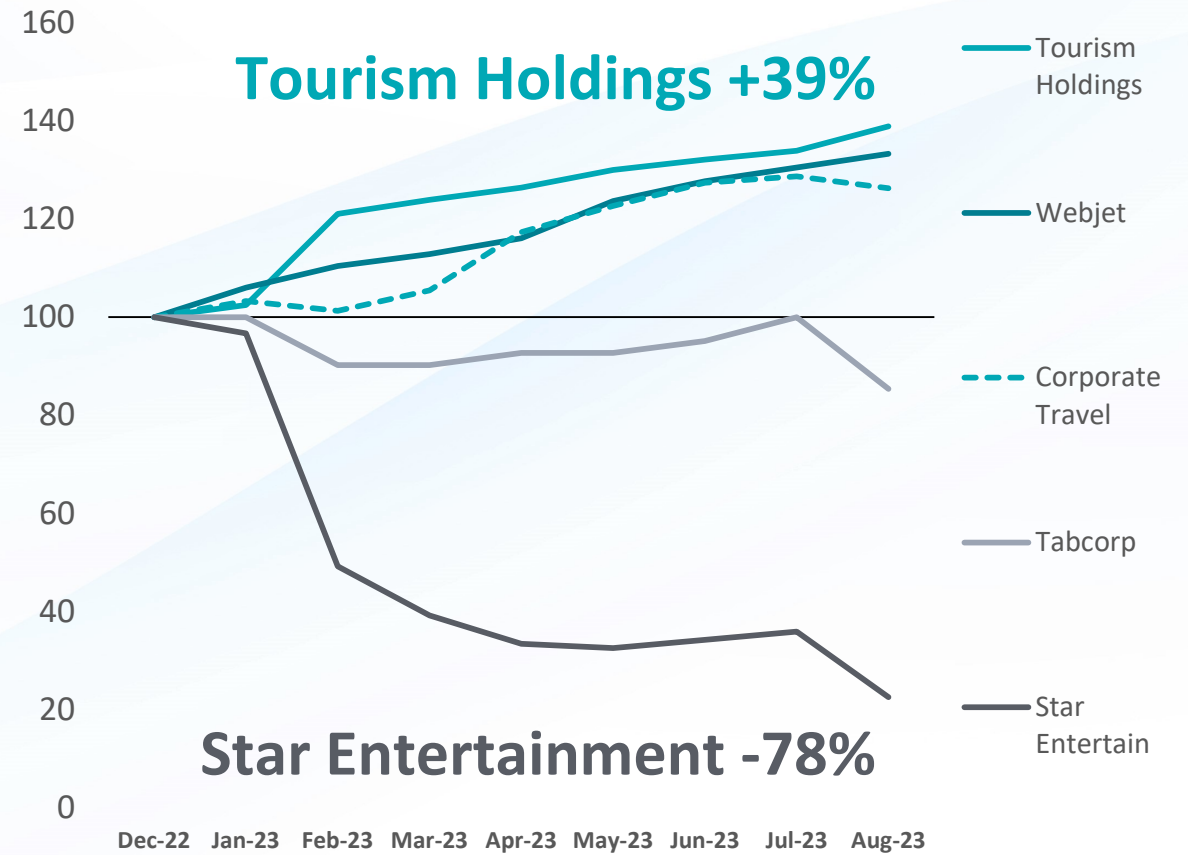


Focus on Companies not Macro

Small Retail 12M FWD EPS (100 = Dec 22)

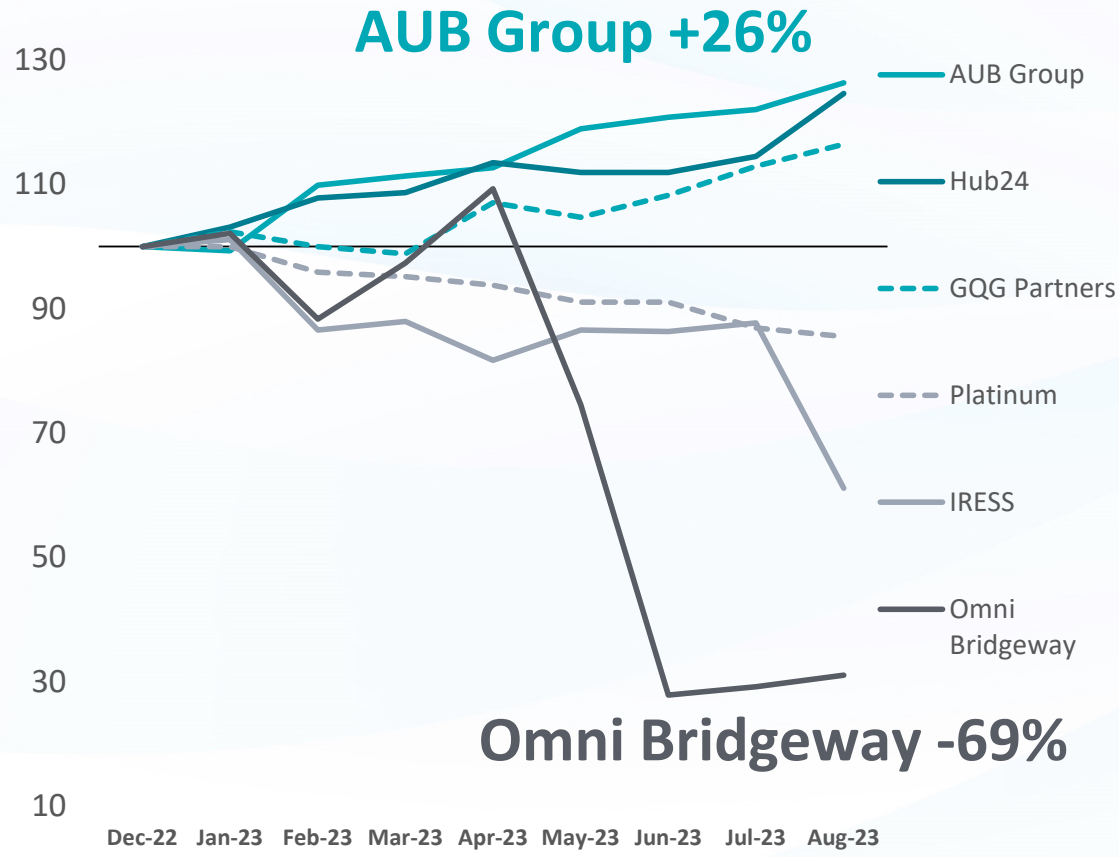


Small Tourism & Leisure 12M FWD EPS (100 = Dec 22)

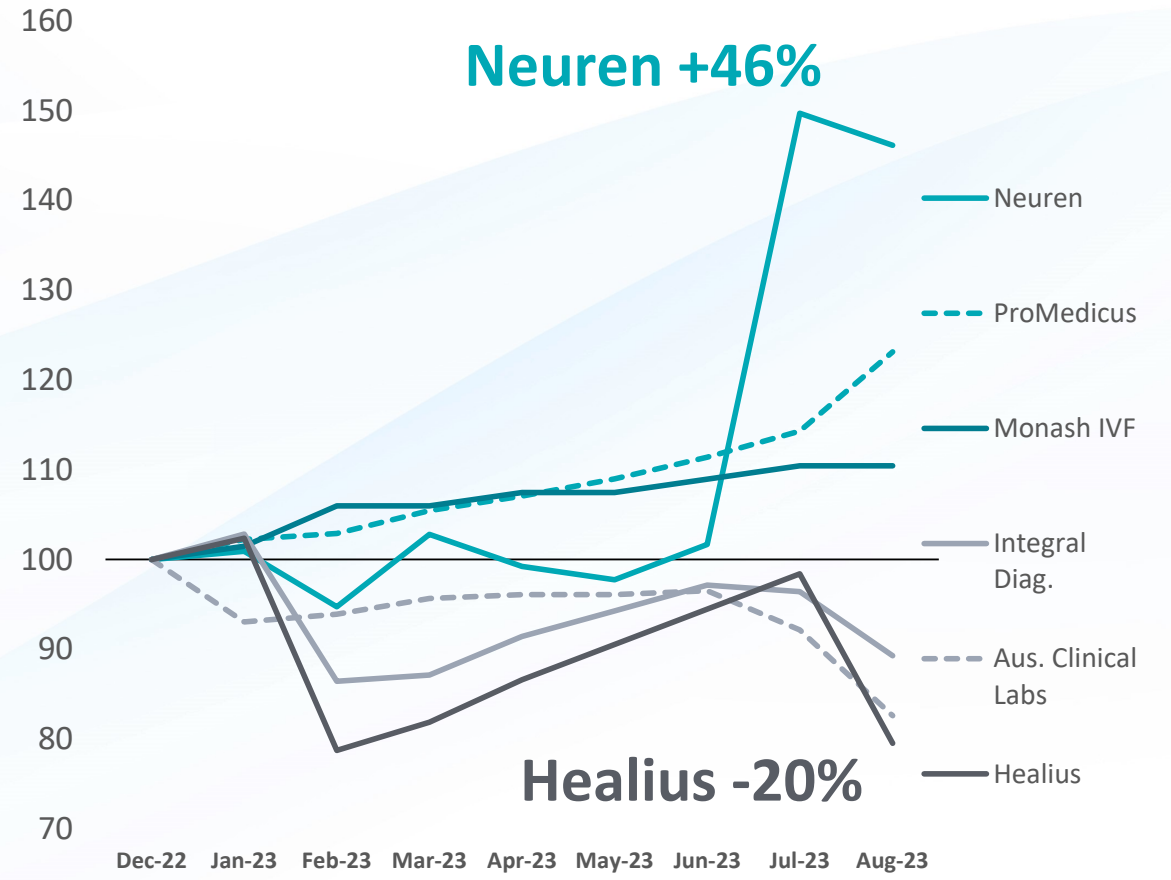


Focus on Companies not Macro

Small Financials 12M FWD EPS (100 = Dec 22)

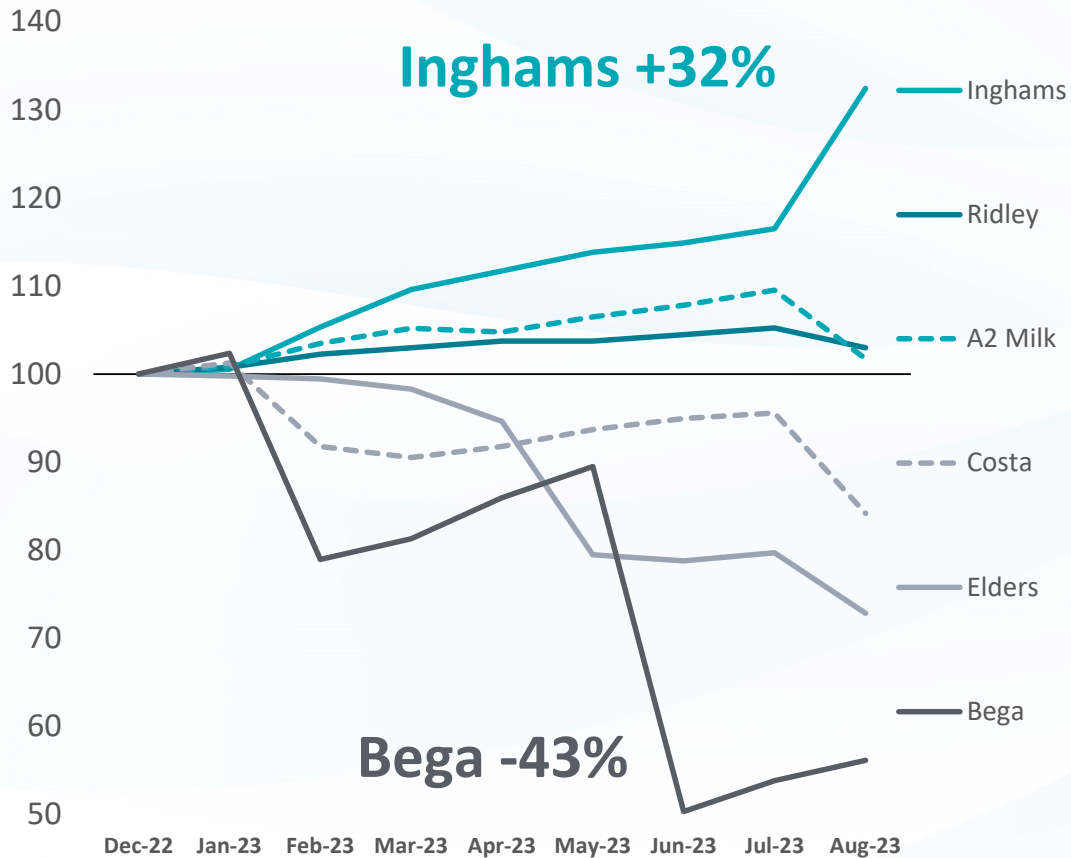


Small Healthcare 12M FWD EPS (100 = Dec 22)

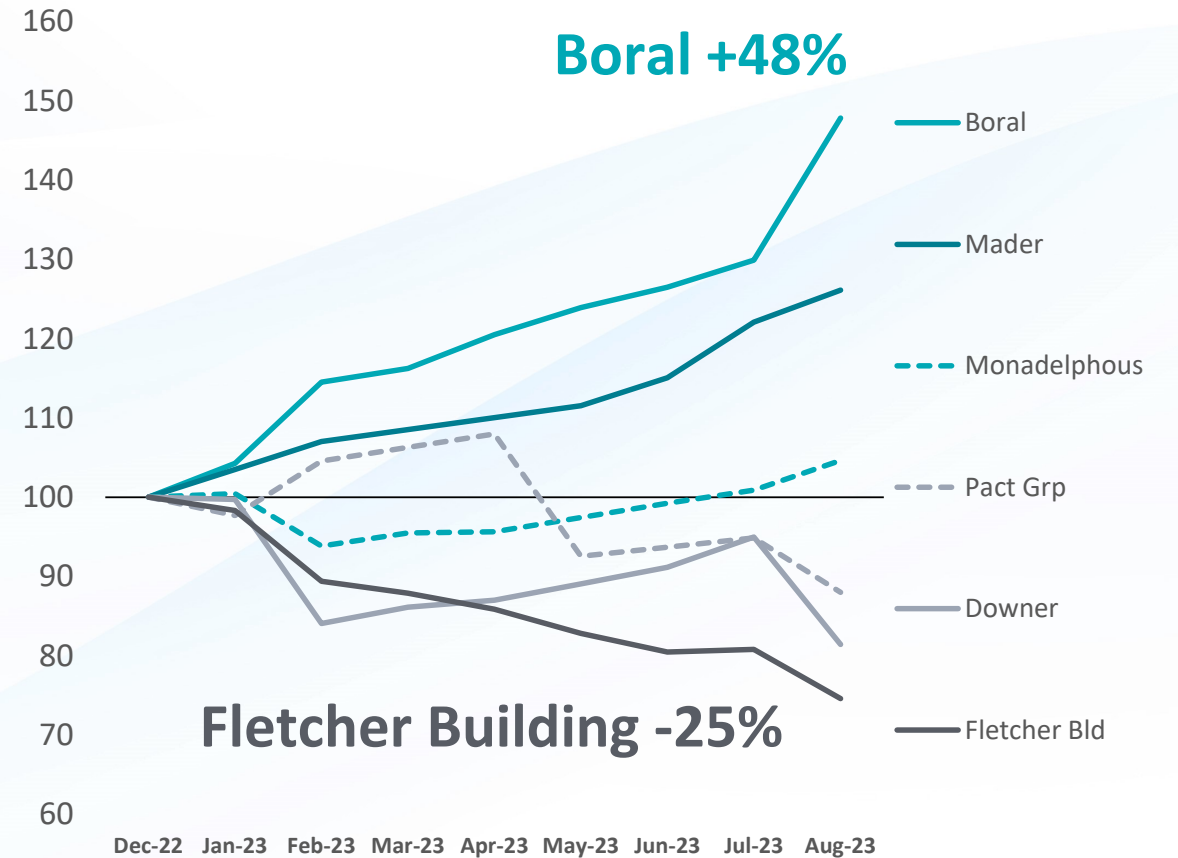


Focus on Companies not Macro

Small Staples 12M FWD EPS (100 = Dec 22)

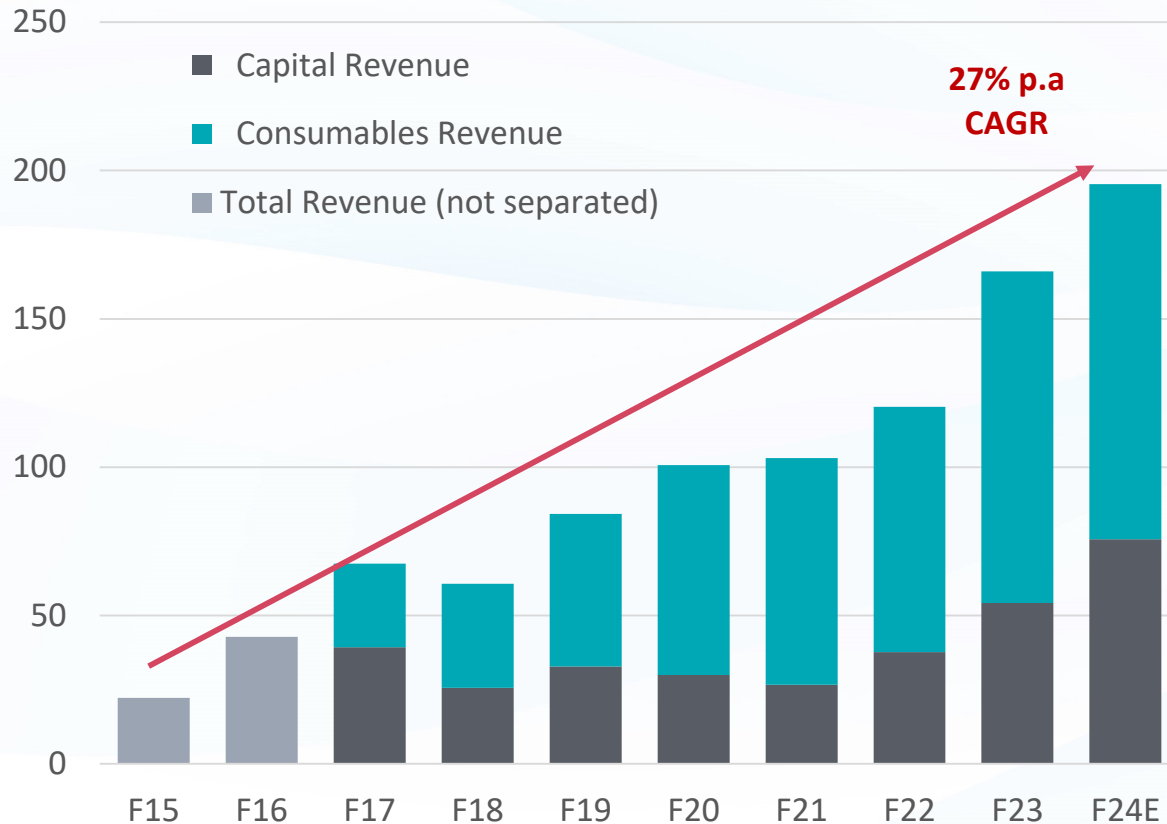


Small Industrials 12M FWD EPS (100 = Dec 22)



Nanosonics: Razors, Blades and Options

Trophon: Capital and Consumable Sales (A\$m)



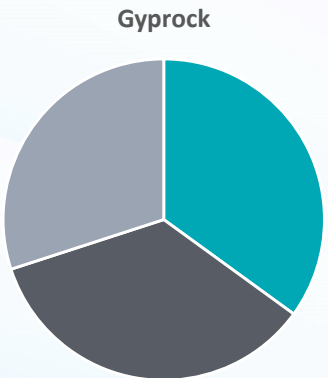
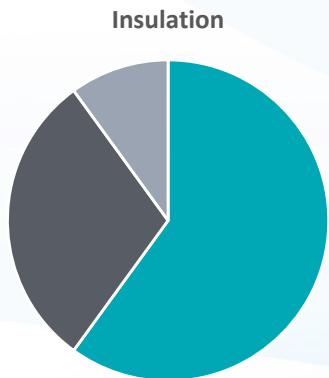
Nanosonics EV / Sales (12M FWD)



Market Cap (A\$m) 1,261
 Cash (A\$m) 112
Ent. Value (A\$m) 1,149

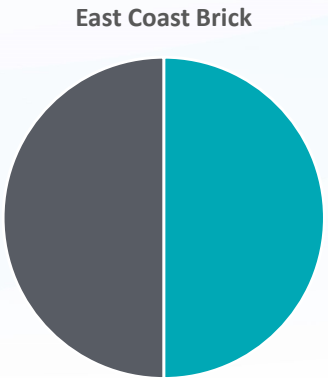
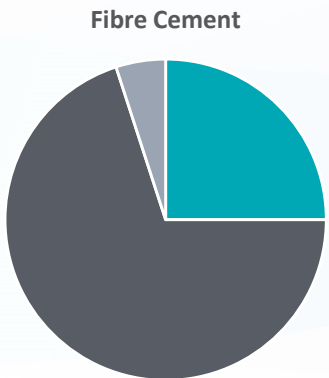
	F22	F23	F24E	F25E
Trophon EBIT (A\$m)	16	40	49	71
EV / EBIT (x)	70	29	24	16

CSR Ltd: # 1 or #2 in consolidated markets



■ CSR ■ Comp1 ■ Imports

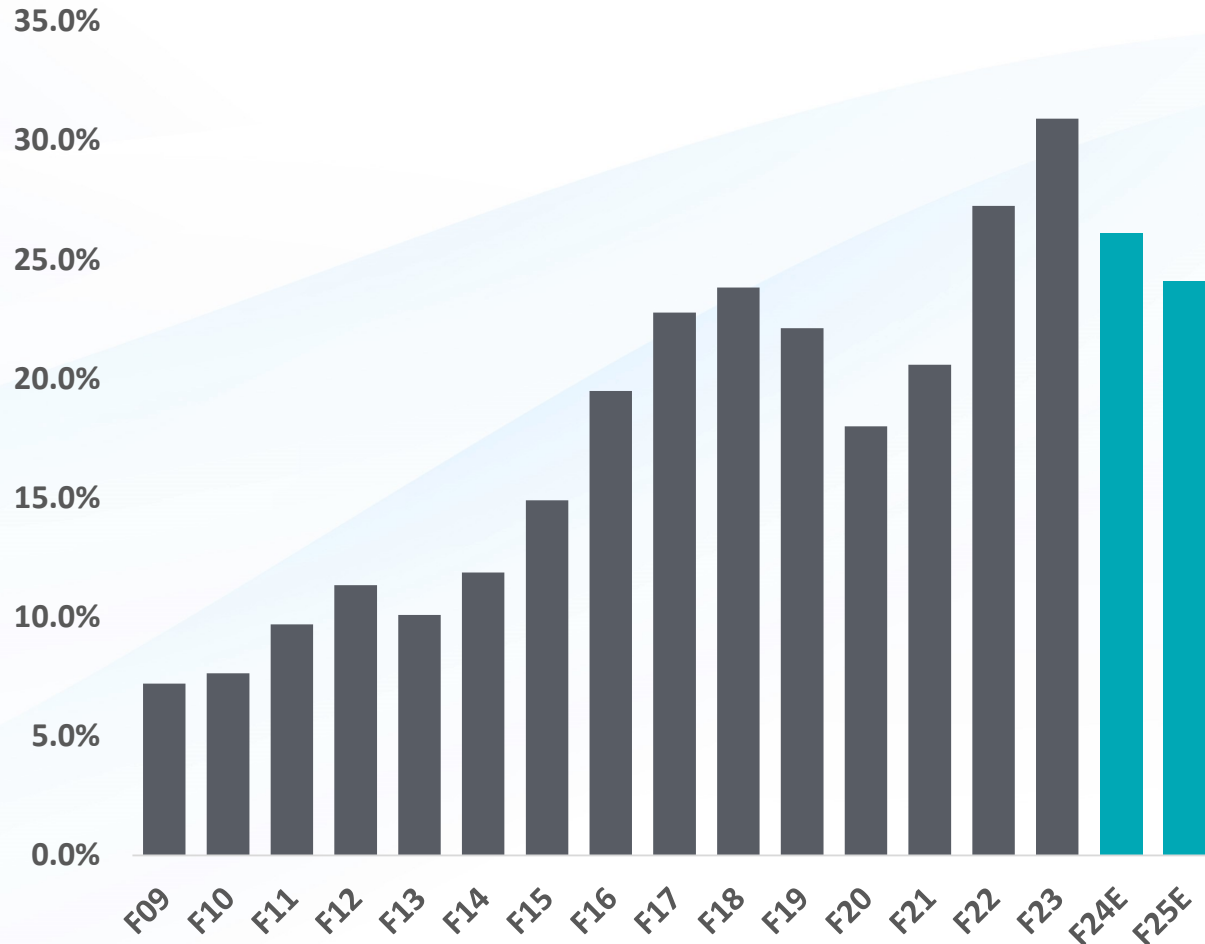
■ CSR ■ Comp1 ■ Comp2



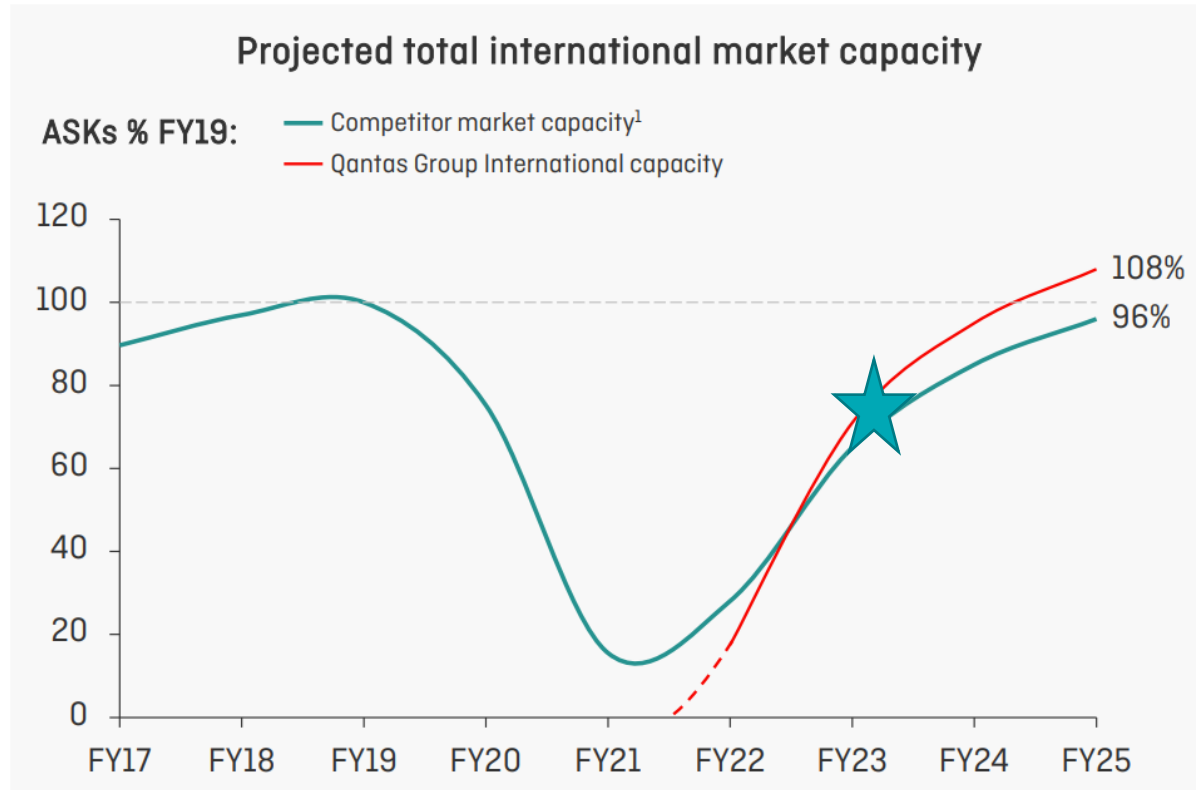
■ CSR ■ Comp1 ■ Other

■ CSR ■ Comp1

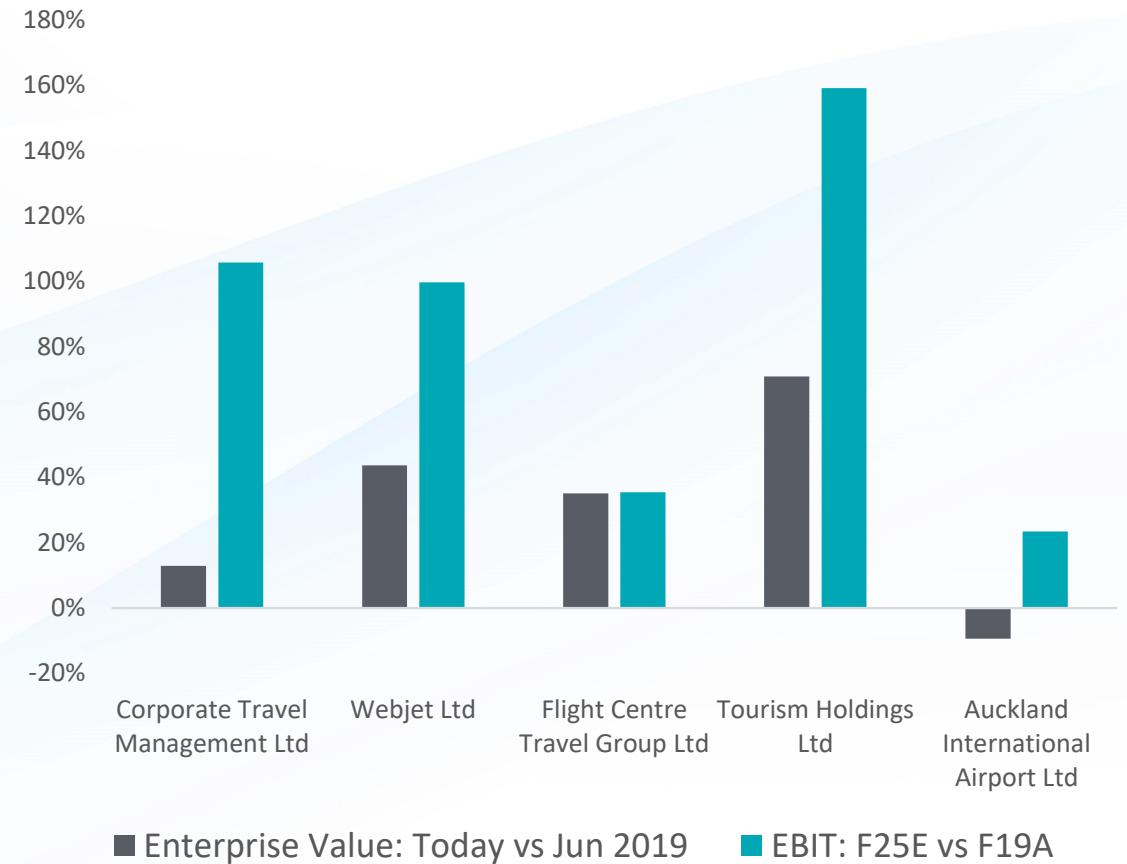
CSR Building Products ROFE (%)



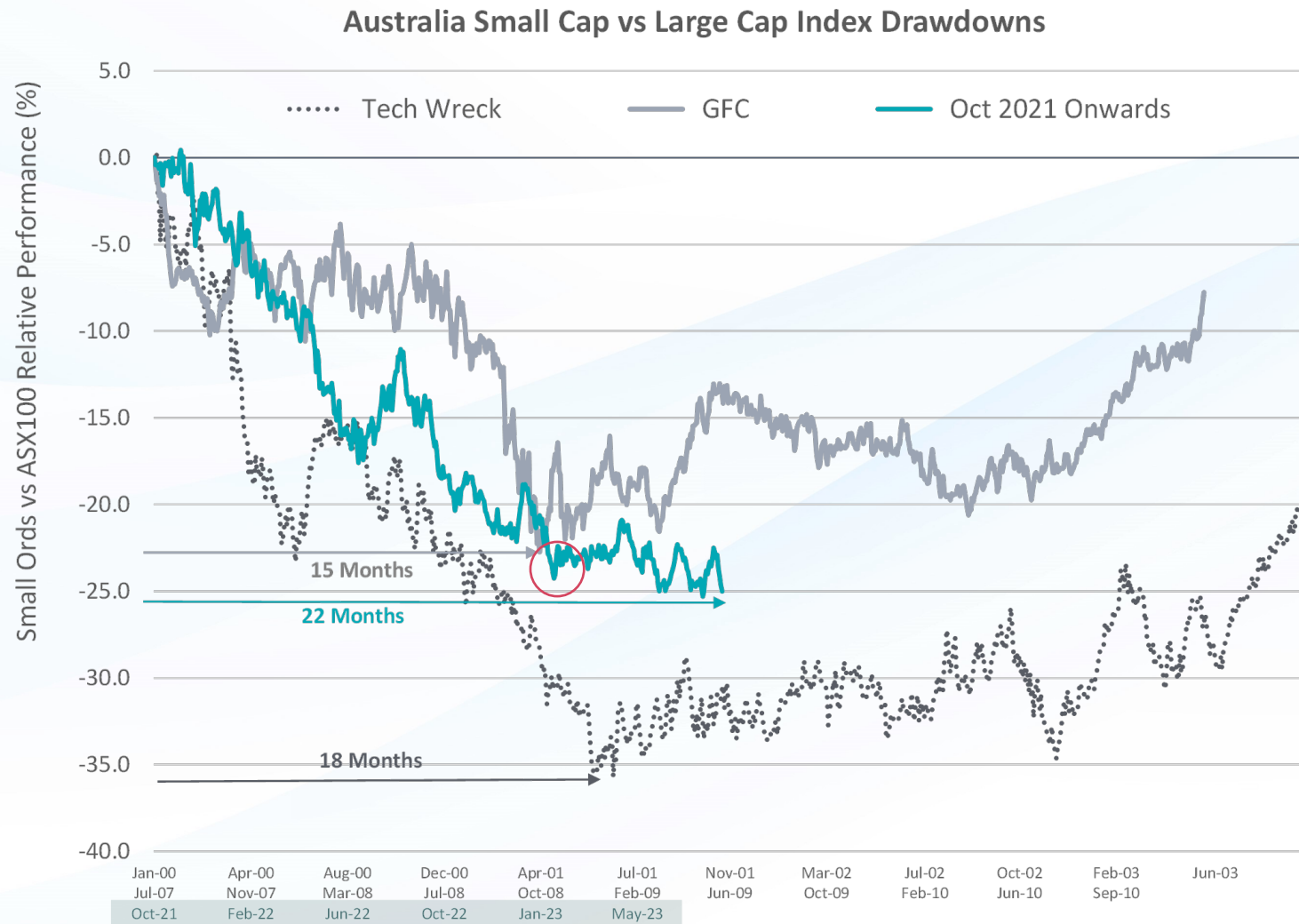
Travel Recovery on track



Travel Recovery - Stocks vs Earnings



Small Cap Index Drawdowns vs Large Caps



More Consistent Alpha at Lower Fees

31 Aug 2023 Net Fund / Bmark	1 Mth	3 Mth	6 Mth	1 Year	2Yrs p.a	3Yrs p.a	Fund Since Incep p.a ²	Strategy SI p.a ³
Fund Net	-0.4%	5.2%	3.3%	7.3%	-0.5%	8.1%	6.5%	11.1%
Benchmark ¹	-1.3%	2.2%	0.9%	-1.1%	-8.1%	3.0%	2.3%	6.6%
Net Alpha	0.9%	3.0%	2.4%	8.4%	7.7%	5.1%	4.1%	4.5%

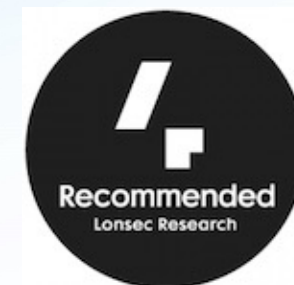
1 S&P / ASX Small Ordinaries Accumulation Index

2 31 Oct 2019 – A Class Units

3 31 Mar 2016 – Strategy net of A Class unit fee

Source: Longwave Capital Partners. 31 Aug 2023 prelim performance

A Class Fee: 0.89% per annum, no performance fee.



The Longwave Australia Small Companies Fund “the fund” has been operating since 01 February 2019. To give a longer-term view of our performance for this asset class, we have also shown returns for the small cap sub –portfolio of the Schroders real return fund which has been operating since March 2016. Strategy performance has been calculated using the monthly returns (before fees) since 31 March 2016 to current date. The Fund employs the same systematic process as was used by the same investment team that managed the Schroders portfolio. Longwave has records that document and support the performance achieved. As such, the annualised performance periods stated are inclusive of the combined composite monthly returns, and do not include any period when the team were not managing the Strategy (the period Oct 2018 to Jan 2019 index returns are used). Fund returns are in AUD terms. Past performance is for illustrative purposes only and is not indicative of future performance. Strategy performance data prior to the 31 October fund inception, has been calculated net of the same fee as the Longwave Class A units (89bps).

The Bottom Line for Australian Small Caps

- > Underperformance is likely behind us
- > Buy good businesses & don't pay too much
- > Avoid Magical Thinking

Portfolio / Index Characteristic	Longwave	Small Index	ASX 300 Index
Return on Equity (%)	18.7	14.5	18.2
Debt / EBITDA (x)	1.5	3.1	1.9
Debt / Assets (%)	21	28	25
Dividend Yield (%)	3.9	3.7	4.2
P/E Ratio (x)	14.3	18.8	16.0
EV / EBITDA (x)	8.1	10.0	8.9
Price / Book (x)	1.7	1.7	2.1

Disclaimer

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