FAIRLIGHT

Global Small and Mid Cap Fund

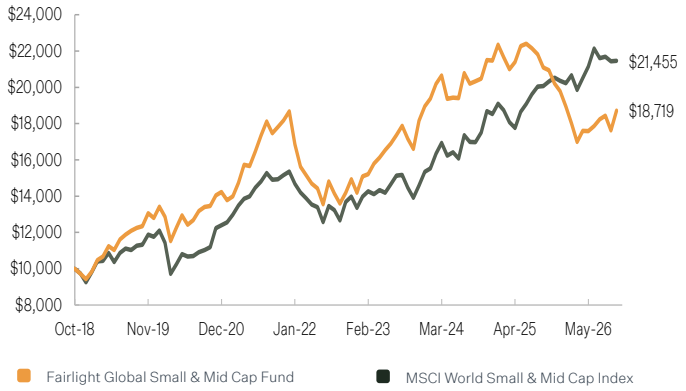
Investment Update | October 2026

Performance at 31 October 2026

	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.	Since Inception p.a.
Fairlight Global Small & Mid Cap Fund	6.2%	2.6%	6.3%	-10.6%	4.1%	1.0%	8.2%
MSCI World Small & Mid Cap Index	0.1%	-0.7%	4.6%	5.6%	15.5%	7.5%	10.0%
Outperformance	**6.1%**	**3.3%**	**1.7%**	**-16.2%**	**-11.5%**	**-6.5%**	**-1.9%**

Performance is in AUD and net of all fees. Inception 1 November 2018. Since inception returns are on a per annum basis. Past performance is not an indicator of future performance.

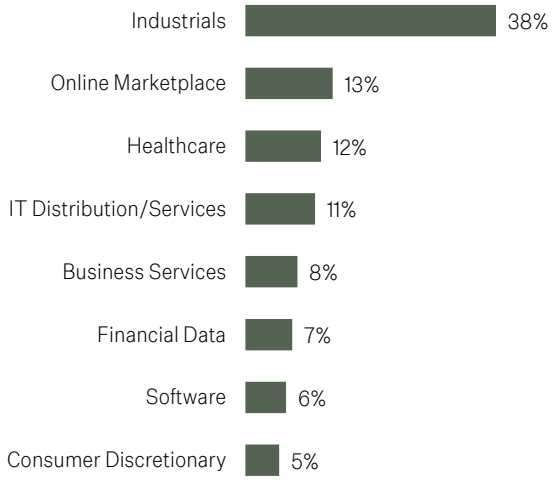
Performance Since Inception



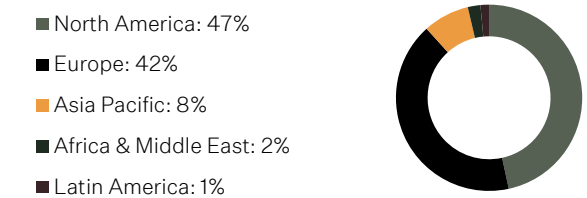
Top 5 Holdings in Alphabetical Order

Company	Region	Sector
Diploma	GB	Industrials
Halma	GB	Industrials
Reply	IT	IT Distribution/ Services
Scout24	DE	Online Marketplace
Ulta Beauty	US	Consumer Discretionary

Portfolio Sector Exposure



Portfolio Revenue Exposure



About Fairlight

Fairlight Asset Management is a boutique firm investing exclusively in global equity markets. The investment approach is grounded in fundamental research, long term in nature and has a strong focus on quality. The team believe a portfolio of the highest quality businesses, purchased with valuation discipline will outperform over the long term whilst protecting and preserving client capital.

Investment Philosophy

Fairlight's investment process is designed to find businesses that have a demonstrable track record of earning outsized returns on capital with characteristics that will allow these returns to persist into the future, available at attractive valuations. Where possible, the strategy mitigates potential risk by looking for stable and aligned management teams, conservative balance sheets and avoiding single points of failure.

The portfolio is segmented into three types of investment opportunities:

- High quality growth companies
- Stable compounders
- Special situations

Fairlight does not invest in sectors of the market that do not meet its quality criteria including cyclical business (commodities and mining) and interest rate sensitive businesses (banks and utilities).

Contact Us

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Invest Online

Figures and graphs sourced from Apex Fund Services and FactSet Portfolio Analytics. This report has been prepared and issued by Fairlight Asset Management Pty Ltd ACN 628 533 308 Corporate Authorised Representative No 001277649 of AFSL No 000247293, the investment manager of Fairlight Asset Management Global Small and Mid Cap Fund. The Product Disclosure Statement (PDS) contains all of the details of the offer. You can obtain a copy of the PDS and target market determination from fairlightam.com.au or by contacting Fairlight Asset Management directly. Before making any decision to make or hold any investment in the Fund you should consider the PDS and TMD in full. The information provided does not take into account your investment objectives, financial situation or particular needs and is not intended to constitute advice of any kind. Past performance is not an indicator of future performance. Returns are not guaranteed and so the value of an investment may rise or fall. The Trust Company (RE Services) Limited (ABN 45 003 278 831 AFS Licence 235150) is the Responsible Entity of Fairlight Global Small & Mid Cap Fund ARSN 629 066 913.

AI's capital bill comes due

The latest round of hyperscaler earnings marks, in our view, a turning point in how markets judge the AI build-out. The question is no longer whether demand exists, but whether the capital being deployed will earn an adequate return. In this update we examine the recent hyperscaler earnings results, Gartner's research on the economics of AI infrastructure, and what credit markets are signalling, before setting out what this means for the Fairlight portfolio.

Demand is real, and so is the bill

Cloud growth accelerated across all three major providers. AWS grew at its fastest rate in nearly five years, Google Cloud revenue more than doubled and Azure grew close to 50%.

The cash flow statements were less comfortable. Amazon and Alphabet both reported negative free cash flow for a second consecutive quarter, and signalled that spending will rise again in 2027. The market sent shares down sharply for Amazon and Alphabet, while rewarding Microsoft, the only one of the three still generating meaningful free cash flow. Investors, it seems, are no longer prepared to reward capital expenditure for its own sake. They want evidence that it will earn a return.

Will the capital earn its keep?

Recent Gartner research puts numbers on that question, forecasting AI infrastructure spending to exceed $1 trillion in 2026 and to reach $7.5 trillion cumulatively by 2030. To earn a 12% return on that capital, data centre owners would need more than $14 trillion of revenue through 2032. Gartner estimates however that no more than $8 trillion can realistically be attributed to the infrastructure (this in itself may prove a bullish assumption as current AI revenue run rate is ~$400bn). On that basis Gartner sees potential write-downs of more than $4 trillion, rising beyond $6 trillion if the hurdle matches the roughly 25% return on capital the hyperscalers earned before the build-out began.

Two features make the economics difficult. First, falling token prices via intense competition are subsidising rising usage rather than expanding margins. Second, AI chips depreciate over about five years, far faster than traditional infrastructure. Gartner expects the specialist "neocloud" providers to be most exposed, with the hyperscalers cushioned by cash flow from their existing businesses. This quarter showed that cushion being drawn down.

Credit markets are drawing distinctions

For now, debt markets are repricing the build-out rather than refusing to fund it. For the largest hyperscalers, the signal is caution rather than stress. Their credit spreads have widened relative to similarly rated companies, and Meta has turned to a large equity raising to reassure bondholders. Further down the credit spectrum the picture is starker. The cost of insuring Oracle's debt against default has reached record levels. Bonds issued by CoreWeave, the largest neocloud, now trade at distressed yields that imply a better than even chance of default within five years. Project level financing for new data centres has also become more expensive, even where the tenant is investment grade.

For weaker borrowers, low returns on capital have already become a refinancing problem. For the hyperscalers the cost is more gradual; wider spreads, more equity issuance and less balance sheet flexibility. Their true obligations are also larger than headline debt suggests, with more than $120 billion of data centre spending held off-balance sheet through leases and special-purpose vehicles.

The Fairlight View

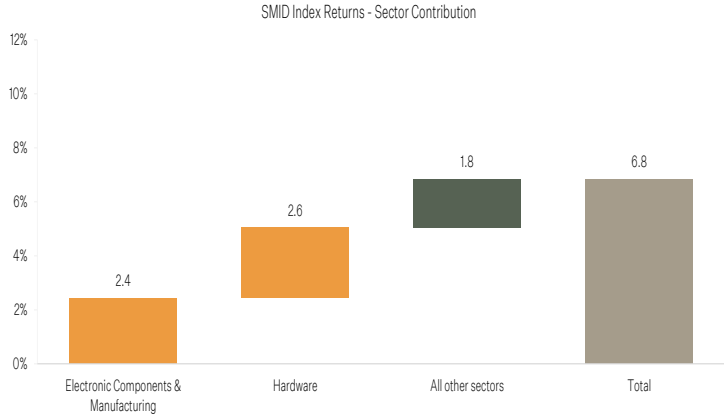
The contribution to index returns from the AI infrastructure trade have been extreme on a rolling 12-month basis, accounting for ~70% of index outcomes (orange bars, Figure 1).

At Fairlight, return on invested capital has long been central to how we assess businesses, and the AI build out is now being judged on that same measure.

Some of the world's highest returning companies are becoming more capital intensive, with spending profiles that increasingly resemble utilities. Whether that capital earns an adequate return will take years to resolve, and the evidence so far suggests the outcome will vary widely between providers. Over the past month equity prices have begun to reflect this reality.

Fairlight's portfolio is comprised of businesses which are largely capital light and are generally the market leader in their respective markets. For most of these companies, AI is an input to be used rather than infrastructure to be funded. We believe the advantage will lie with businesses that have the pricing power, proprietary data and customer relationships to absorb or pass on those costs, not with those competing to supply the compute. That is where we continue to focus.

Figure 1.



Source: FactSet RBICS Classification. As of September 30, 2026.

Figures and graphs sourced from Apex Fund Services and FactSet Portfolio Analytics. This report has been prepared and issued by Fairlight Asset Management Pty Ltd ACN 628 533 308 Corporate Authorised Representative No 001277649 of AFSL No 000247293, the investment manager of Fairlight Asset Management Global Small and Mid Cap Fund. The Product Disclosure Statement (PDS) contains all of the details of the offer. You can obtain a copy of the PDS and target market determination from fairlightam.com.au or by contacting Fairlight Asset Management directly. Before making any decision to make or hold any investment in the Fund you should consider the PDS and TMD in full. The information provided does not take into account your investment objectives, financial situation or particular needs and is not intended to constitute advice of any kind. Past performance is not an indicator of future performance. Returns are not guaranteed and so the value of an investment may rise or fall. The Trust Company (RE Services) Limited (ABN 45 003 278 831 AFS Licence 235150) is the Responsible Entity of Fairlight Global Small & Mid Cap Fund ARSN 629 066 913.