

Canavan Capital Partners

Monthly Investor Report

Canavan Capital Partners Australian Share Fund | Month ended 30 September 2026

FUND RETURN, NET (EST.)	S&P/ASX 300 TR (REFERENCE)	PERFORMANCE HURDLE	INVESTED / CASH
-0.28%	-2.43%	0.78%	33% / 67%

September Performance

Well, that's the first month done and dusted. It goes without saying that monthly performance is little more than noise...and is therefore meaningless. It's what happens after many, many months that is important.

For what it's worth, though, the Fund return for September was -0.28% (net of fees) while its closest comparable index, the S&P/ASX 300 total return index, declined 2.43%.

To be clear, this is not the Fund's performance benchmark. Rather, it's just a reference point to give you a sense of how 'the market' performed.

The Fund's performance benchmark is the RBA cash rate plus 5%. For September, that was 4.35% plus 5%, or 9.35%, which translates to a monthly performance hurdle of 0.78%.*

Fund / index / benchmark	September	Basis
Canavan Capital Partners Australian Share Fund	-0.28%	Fund return, net of fees
S&P/ASX 300 Total Return Index	-2.43%	Reference only; not the performance benchmark
RBA cash rate + 5% p.a. (performance hurdle)	0.78%	Fund performance benchmark, as a monthly hurdle

It is my view that an absolute-return benchmark incentivises me to make longer-term investment decisions. A market-linked benchmark incentivises a focus on short-term performance chasing.

More on that below...

Commentary – Starting Points Matter

In this inaugural monthly report, it's worth reminding you that the Canavan Capital Partners Australian Share Fund is an all-cap fund. It doesn't restrict itself to large-caps, small-caps, resources or industrials, traditional value or growth. It will invest in any ASX-listed company of any size that fits the investment process.

In my view, too many funds are marketing vehicles that aim to capture short-term capital flows based on what's hot (just look at the ETF industry) or to satisfy asset allocation committees.

Capital is always moving around. Returns accrue to different businesses and different sectors at variable times. Having flexibility to take advantage of this is another way for us to try to maximise long-term returns.

The Fund is not constrained by arbitrary rules preventing us from taking advantage of opportunities when they arise.

Your Fund seeks to maximise returns, not funds under management (FUM). FUM is a product of good returns, not the primary objective.

Currently, I'm seeing more opportunities at the mid-cap to smaller end of the market. Having an 'all-cap' mandate allows us to go where the opportunities are, without constraint.

Starting points matter

1 September 2026 was certainly an interesting time to start the Fund.

Many of my target companies rallied strongly in the lead-up to the launch.

For example...

- A number of energy stocks performed strongly in August on the back of increasing tensions in the ongoing US/Iran war.
- CSL rallied massively from its lows in June.
- BHP hit an all-time high in late August.
- Reliance Worldwide was the subject of a takeover offer.
- Australian Clinical Labs surged on a good half-yearly result.

So when the Fund kicked off on 1 September, with many potential positions having already run hard, I wasn't in a rush to invest your capital.

Even though I continue to like these companies, starting points matter.

There's no point buying a good company at a not-so-good price.

CSL in the low \$100 range was a good company at a good price.

CSL at over \$170 is still a good company, but the risk-reward equation has changed. Risk has increased and the potential reward is not as great.

Buying at the right price

When building the portfolio, I want to buy at the right price.

What does that mean?

I want to buy at a price below a conservative estimate of intrinsic value, one that gives us a margin of safety.

That way, if I get the analysis wrong, the damage hopefully won't be too bad.

And if I get it right, the upside can potentially be significant.

While some of the companies I planned to buy weren't trading at the right price in September, a number of candidates were. So I added initial positions in those.

And as the month progressed, panic selling unfolded in a few areas, which I took advantage of. While it's early days, I think we picked up some good companies at some very good prices.

Portfolio positioning

At the end of the month, the portfolio held 11 companies, with a mix of large, mid and small caps.

I'm not going to disclose the names of the companies this month, given I am still building positions in them. But I can say that all are significant cashflow generators and are trading at discounts to a conservative estimate of intrinsic value. We're seeking to 'buy at the right price'.

And all (bar one) have attractive returns on tangible capital. I define tangible capital as net working capital plus non-current assets, minus goodwill and deferred tax assets.

Return on tangible capital gives us a good idea of how profitable the actual assets of the business are. Businesses with a high return on tangible capital tend to generate strong cashflows, which opens up opportunities for earning-per-share growth, healthy dividends, and/or share buybacks.

Share buybacks are especially attractive when prices are low, and there are a couple of companies in the portfolio doing buybacks currently.

A number of companies entered the portfolio after suffering sharp sell-offs over the past 12 months. Some are down 50% or more from recent highs.

While the attractive valuation in these instances should provide share price support, downtrends can continue for longer than you think, pushing prices further below intrinsic value.

In these cases, I've kept the initial portfolio allocation reasonably small. The idea is to build on these positions over time.

Cash and the performance hurdle

As I mentioned, as the sell-off in September picked up, I deployed more capital, and by the end of the month we were about 33% invested, with around 67% in cash.

While I'd much rather have this cash invested, I will only do so when there is a favourable risk-reward set-up.

This is the advantage of having an absolute-return performance benchmark rather than a market-linked one.

When your benchmark is the market, you are under more pressure to 'put the money to work' quickly so you're not left behind.

But my performance benchmark (the RBA cash rate plus 5%) incentivises me to generate absolute returns, regardless of the market's random day-to-day moves.

The performance benchmark also just got higher. Thanks to the RBA's rate hike to 4.6% at the end of the month, the Fund's performance hurdle increased to 9.6%.

For context, the S&P/ASX 300 total return index was up just 2.39% in the 12 months to 30 September. That's a small hurdle to step over and claim a performance fee on.

While that's looking backwards, I suspect the ASX300 will continue to struggle. That's why I chose an absolute-return performance hurdle. With a market-linked benchmark, a manager could earn a performance fee for generating relatively low, cash-like returns, which I don't think is fair.

Anything can happen in markets, and maybe stocks will turn out to have a strong year. But at 9.6% (net of fees), which is around the market's average long-term return, I think the Fund's performance hurdle is a fair one.

Performance fees should be the result of excellent returns, not beating a poorly performing index.

And in my opinion the best way to generate excellent long-term returns is to make sure you buy right.

Starting points matter...

*The benchmark is the RBA cash rate plus 5% p.a., calculated monthly as one-twelfth of the applicable annual rate and compounded over longer reporting periods. Changes in the RBA cash rate apply from the first day of the following month.

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