Auscap Newsletter

JULY 2026

AUSCAP ASSET MANAGEMENT LIMITED

Retail Experiences On The Ground In The United Kingdom

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At times, significant market volatility can create the impression that rapid change is taking place that is materially affecting the value of listed firms. The reality is, while share prices move around wildly in response to fluctuations in sentiment and investor psychology, the underlying value of these businesses is far more stable. Over the June quarter we visited the operations of a number of businesses within and outside of Australia. From being onsite at mining operations in remote parts of the country, to visiting defence sites for industrial contractors through to travelling across the United Kingdom (UK) to get first-hand experience of retail trends, our objective is to consistently spend as much time as possible in and around the operations of the companies we hold or would consider holding in the Auscap funds. In this newsletter we discuss a few takeaways from our recent travels to the UK that have increased our conviction in the international opportunity for two retailers, Nick Scali and Lovisa, that are held as investments in both of the Auscap funds.

Nick Scali

Auscap has had an investment in Nick Scali for many years. It is a high-quality furniture retailer with 110 stores in the Australian market and 19 stores in the UK. It is a high returning, capital light operation that has delivered strong earnings growth over the 20 plus years it has been listed on the ASX. Its value proposition is providing customers with quality, custom made furniture at affordable, great value prices. An internal obsession with cost discipline results in strong store and company economics.

In 2024 Nick Scali made its first foray beyond Australia and New Zealand, buying a network of UK stores that were not making money and trading as Fabb Furniture. Since then, the company has rebranded and refurbished the majority of the stores, introduced the Nick Scali range to the British consumer and commenced some limited advertising. While it will clearly take time to build the brand, the company is trying to focus on the long history of the business with customers, with each store highlighting in the signage "Quality Furniture Since 1962".

Nick Scali Farnborough (street view). Source: Auscap

The majority of stores now have a very similar feel to a typical Australian store, with the exception that most of the UK stores have a mezzanine level, which is not how stores are typically set-up in Australia, but is very common amongst furniture retailers in the UK market.

Nick Scali Northampton (entrance). Source: Auscap

Nick Scali Milton Keynes (photo taken on the mezzanine level). Source: Auscap

The key question is whether the product will resonate with British consumers. Nick Scali has a unique offering in the market, with its range of lounges, dining tables, case goods and beds clearly differentiated from peers, many of whom sell very similar product to one another. If the product resonates, we believe there is the potential for Nick Scali to have a network of at least 60 stores in the UK. Such a business could be very profitable given the UK's greater density of population, which is notable in that it leads to very high sales per store for key competitors compared with many retailers operating out of similar sized stores in Australia. Similar sales levels for Nick Scali would result in strong profitability given the company's high gross margins and cost discipline.

Nick Scali Thurrock (entrance). Source: Auscap

Early evidence from the most recent half year result was that the Nick Scali range was starting to resonate with British consumers. Like for like sales growth ran at 32% in January for stores that had been branded as Nick Scali for more than 12 months.

Nick Scali Croydon. Source: Auscap

Nick Scali Leicester. Source: Auscap

While the proof will be in the company's results in years to come, we were impressed with the UK stores we visited. Sales staff spoke of increasingly receiving referral customers and conversion appears to be improving in a tough macroeconomic environment. The quality of the product appears to be appealing to customers and the business has an experienced operator in charge in the UK. Management are investigating potential new stores, as discussed at the half year result. These are all positive indications that management are confident the product is resonating in the UK, and the opportunity for the business to become a meaningful contributor to company results is real. We remain enthused about our long-term investment in Nick Scali and continue to see opportunities for the company to grow revenues and earnings in Australia and the UK as the store networks grow, with further opportunities beyond these two markets.

Lovisa

Lovisa is a global, fast fashion, jewellery retailer that offers affordable, trend-based jewellery. It operates in over 45 countries and has more than 1,100 stores, delivering 150 new styles weekly. Lovisa is a strongly profitable business, generating $86m in earnings on revenue of just under $800m in FY25. In mid-2025 Lovisa announced that it was launching a second brand, Jewells. Jewells currently has only 7 stores, all of which are located in the UK. The market has been concerned about the positioning of the second brand and how it will be differentiated from the Lovisa brand. While we were in the UK we took the opportunity to visit a number of Lovisa and Jewells stores to compare the models and try to understand the driver behind launching another brand.

Jewells store, Bluewater Shopping Centre, UK. Source: Auscap

The Jewells concept has undergone a few iterations and seems to have landed as a reasonably close cousin of the Lovisa concept. We suspect this will give comfort to investors, who have previously been concerned about the positioning of a second brand. Within the shopping centres visited, Jewells was notable as being the only comparable competitor to Lovisa given the closure of its most significant competitor, Claire's.

The ranging appeared remarkably similar to Lovisa's typical offering, at a slightly higher price point but still very much at the low priced, fast-fashion end of the market.

Jewells display cabinets with very similar product to the traditional Lovisa offering. Source: Auscap

The most notable difference was the firm focus on piercing within the stores to drive sales and traffic. Piercing chairs were often placed in visible locations, undoubtedly to capture traffic that would have traditionally gone to Claire's and other competitors in the space. While the piercing was notionally free, the cost appeared embedded in the piercing jewellery that had to be purchased with any piercing performed. While the traditional Lovisa brand also offers piercing, it was a much more significant focus for the Jewells brand. The longevity of the trend towards multiple piercings is unclear, but Jewells seems to be trying to take full advantage at present.

Gavin analysing exactly how many locations one could have their ears pierced. Source: Auscap

While we are probably out of our depth in understanding the attraction of different piercing options, we feel right at home understanding the economics of the business. Despite the remarkably low price point, the jewellery is extremely high margin. In the first half of FY26, Lovisa recorded gross margins of 82.9%, leading to very profitable store metrics. With a key global competitor, Claire's, falling into bankruptcy in 2025, closing 290 stores in the United States and nearly 300 in the UK across 2025 and the first half of 2026, Lovisa should be in a position to increase its market share in these and many other underrepresented international geographies. While there is the regular emergence of new competitors in the space, such as Harli + Harpa and SkinKandy in recent years, the runway for continued earnings growth at a group level appears sound given the under penetration of the brand in North America and Europe. The recent insider buying of over $12m worth of shares on market by founder and major shareholder Brett Blundy we believe demonstrates confidence in the future of the business and the value on offer at current prices. We continue to hold Lovisa in both funds.

Market sentiment, positioning, the flow of capital and the trend towards passive investing continue to dominate short term share price movements. Consumer discretionary stocks, such as Nick Scali and Lovisa, have experienced significant volatility over the first half of 2026. There have been developments in artificial intelligence and worries over the impact on employment. The outbreak of hostilities in the Middle East has led to concerns around inflation and interest rates. The perceived impact of the budget on residential property prices and disposable income has also been negative. Such factors affect consumer confidence and the perception around the near-term economic outlook. From a markets perspective, this creates volatility and dislocations as participants respond to the news flow. Spending time in and around businesses we are invested in is a reminder that there is often far more that is in the control of management in terms of the business' future economic performance and earnings growth than there is outside their control. When everyone is fixated on the present, we believe it pays to focus on the future and what the business will look like in a few years from today. Time horizon arbitrage involves taking a longer term perspective to buy into high quality, growing businesses when they are priced attractively on a through the cycle basis due to short term, transient concerns. We are excited by the quality of the current portfolios, positive on the earnings growth we expect over time and enthused about the value on offer.

Auscap High Conviction Australian Equities Fund

Fund Performance*

Period	Auscap	All Ords
June 2026	7.8%	0.4%
Calendar Year To Date	(9.4%)	1.2%
Since Inception (Dec 2012)	460.9%	238.2%
Annualised Returns	13.5%	9.4%

Fund Exposures

June 2026 Average	% NAV	Index
Equities	98%	100%
Cash	2%	0%
Beta Adjusted Exposure+	107%	100%
Positions	42	496

Portfolio Commentary*

The Fund returned 7.8% net of fees during June 2026. This compares with the All Ordinaries Accumulation Index return of 0.4%.

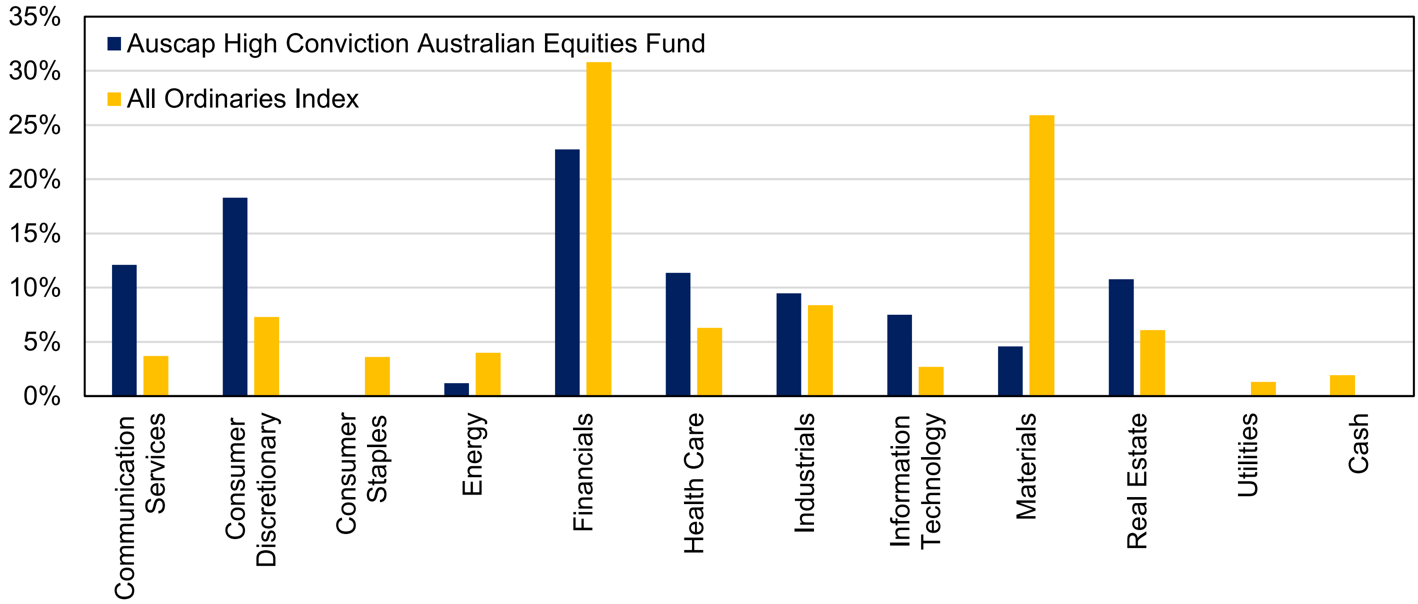
During June, the Fund's exposures to the Financials, Industrials, Information Technology, Consumer Discretionary, Real Estate and Healthcare sectors were the most significant contributors to returns. The Fund's exposure to the Materials sector was the most significant detractor.

Over the month, Reece, Life360, Nick Scali, Magellan Financial Group, Steadfast Group, Charter Hall Group, Macquarie Group and CAR Group were the largest contributors to returns. Wisetech Global was the largest detractor from performance.

Top 20 Investments^

AUB Group	Macquarie Group
BHP Group	Magellan Financial Group
CAR Group	Netwealth Group
Charter Hall Group	NIB Holdings
Charter Hall Retail REIT	Nick Scali
CSL	REA Group
HomeCo Daily Needs REIT	Reece
IDP Education	Resmed
Life360	Sonic Healthcare
Lovisa Holdings	WiseTech Global

Sector Exposure - June 2026#



** Performance figures are calculated for the Monthly Class net of all fees and expenses and assuming the reinvestment of all distributions. Note, as at 1 January 2021, the Series Class was consolidated into the Monthly Class. Prior to 1 December 2024, the fund was called the Auscap Long Short Australian Equities Fund and was able to short sell and use leverage as part of its investment strategy. Past performance is not a reliable indicator of future performance.*

+ Beta adjusted exposure adjusts the portfolio for the beta, or share price volatility, of the stocks relative to the All Ordinaries Accumulation Index.

^ Top 20 investments in alphabetical order as at 30 June 2026.

 # Average sector exposure during June 2026.

Auscap Ex-20 Australian Equities Fund

Fund Performance*

Period	Auscap	Index**
June 2026	3.9%	0.1%
Calendar Year To Date	(10.7%)	(6.1%)
Since Inception (Dec 2023)	28.5%	28.5%
Annualised Returns	10.2%	10.2%

Fund Exposures

June 2026 Average	% NAV	Index
Equities	98%	100%
Cash	2%	0%
Beta Adjusted Exposure+	104%	100%
Positions	64	278

Portfolio Commentary*

The Fund returned 3.9% net of fees during June 2026. This compares with the S&P/ASX 300 Ex S&P/ASX 20 Index return of 0.1%.

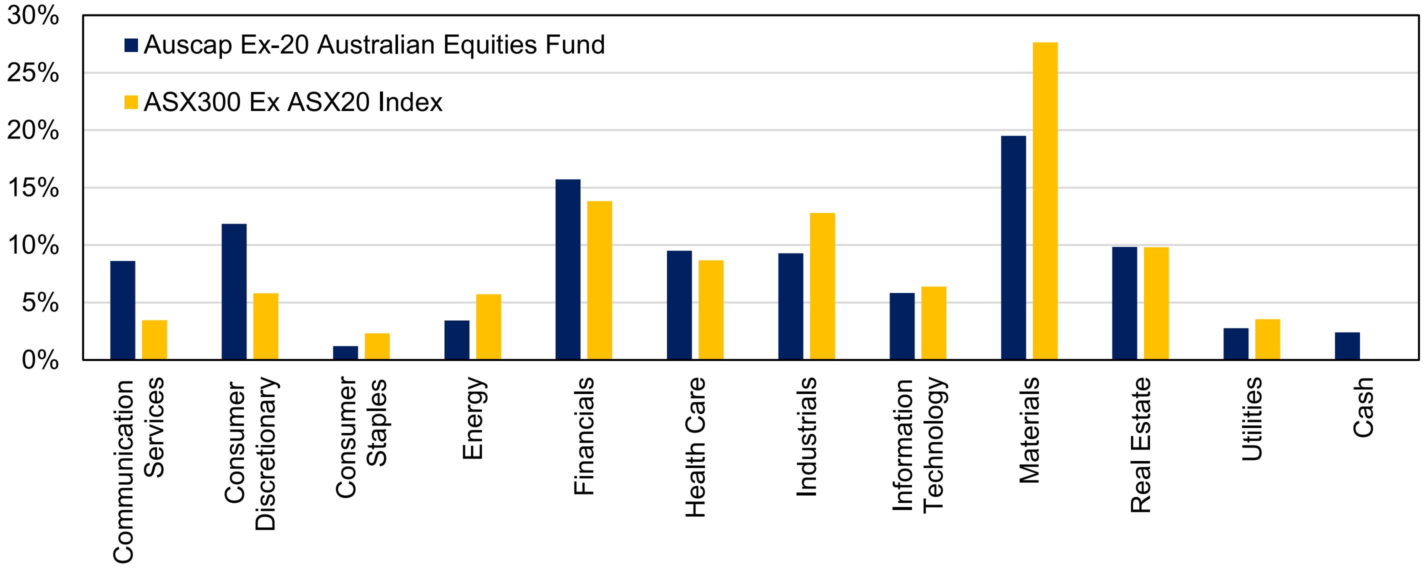
During June, the Fund's exposures to the Financials, Industrials, Information Technology, Real Estate and Consumer Discretionary sectors were the largest contributors to returns. The Fund's exposures to the Materials and Energy sectors were the largest detractors from returns.

The Fund's holdings in Life360, Reece, Magellan Financial Group, Nick Scali, Steadfast Group and Charter Hall Group were the largest contributors to returns. The Fund's holdings in Pilbara Minerals, South32 and Genesis Minerals were the largest detractors from returns.

Top 20 Investments^

AUB Group	Netwealth Group
CAR Group	NIB Group
Charter Hall Group	Nick Scali
Charter Hall Retail REIT	PLS Group
Genesis Minerals	Ramelius Resources
HomeCo Daily Needs REIT	REA Group
IDP Education	Reece
Life360	Resmed
Lovisa Holdings	Santos
Magellan Financial Group	Sonic Healthcare

Sector Exposure - June 2026#



** Performance figures are calculated for the General Class net of all fees and expenses and assuming the reinvestment of all distributions. Past performance is not a reliable indicator of future performance.*
*** Index used is the Benchmark for the Auscap Ex-20 Australian Equities Fund, being the S&P/ASX 300 Ex S&P/ASX 20 Index.*
+ Beta adjusted exposure adjusts the portfolio of the Fund and of the Benchmark (being the S&P/ASX 300 Ex S&P/ASX 20 Index) for the beta, or share price volatility, of the stocks relative to the All Ordinaries Accumulation Index.
^ Top 20 investments in alphabetical order as at 30 June 2026.
 # Average sector exposure during June 2026.

Newsletter – July 2026

Auscap Asset Management

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