

Fund Monthly February 2026

Class A - Return Summary (To 28 February 2026)

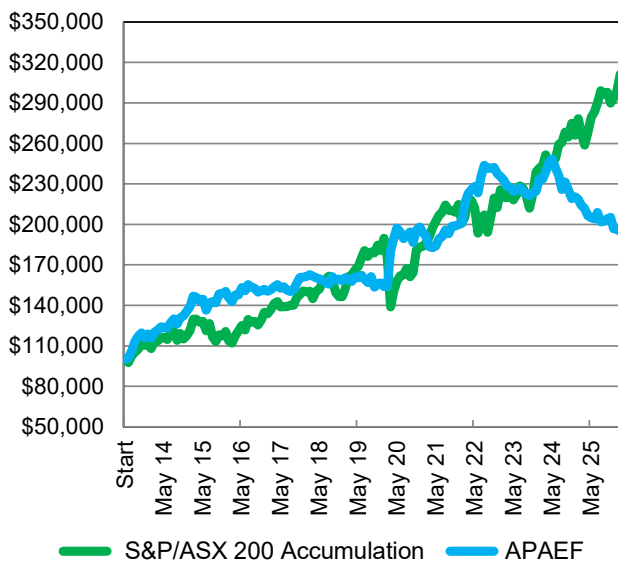
Period	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	5 yr (pa)	Cumulative	Per Annum
Fund Return	-0.83%	-5.0%	-3.5%	-9.0%	-5.8%	0.4%	94.8%	5.4%
S&P/ASX 200Acc.	4.11%	7.3%	4.1%	16.2%	12.2%	10.8%	211.2%	9.4%
Excess Return	-4.94%	-12.4%	-7.6%	-25.2%	-18.0%	-10.4%	-116.4%	-4.0%

Class B - Return Summary (To 28 February 2026)

Period	1 mth	3 mth	6 mth	1 yr	3 yr (pa)	5 yr (pa)	Cumulative	Per Annum
Fund Return	-0.73%	-3.7%	-3.7%	-7.8%	n/a	n/a	-16.9%	-5.5%
S&P/ASX 200Acc.	4.11%	7.3%	4.1%	16.2%	n/a	n/a	40.9%	11.2%
Excess Return	-4.85%	-11.1%	-7.8%	-24.0%	n/a	n/a	-57.8%	-16.7%

Past performance is not indicative of future performance. Fund returns presented in this document are for both Class A Units and Class B Units. Fund Returns are prepared on a redemption unit price basis after management and performance fees inclusive of GST. Distributions are assumed to be re-invested at the mid unit price. Individual tax is not taken into account in deriving Fund Returns. In calculating the NTA, the Atlantic Pacific Australian Equity Fund ("Fund") asset values have been calculated using unaudited price and income estimates for the month being reported. Returns greater than one year are annualised.

Cumulative Returns of \$100k



Recent Highlights

- Return to normal monthly reporting on the Fund.
- Current dislocation in markets has been relatively easy to manage.
- High conviction names should perform over the rest of the year.

Current Portfolio Positioning

The escalation of geopolitical tensions in the Middle East, specifically the emergence of an active Iran conflict, has materially shifted the macro risk landscape. In response, we moved decisively early on the first day following the initial developments to increase our exposure to energy-linked equities, adding to positions in Woodside Energy Group (WDS:ASX), Karoon Energy Ltd (KAR:ASX), adding new exposure to Santos Limited (STO:ASX) and allowing our exposure to TerraCom Limited (TER:ASX) to persist.

This reallocation has been additive to performance, reflecting both direct commodity price leverage and the market's rapid repricing of energy security risk. More broadly, we see this as the early stages of a supply-driven energy shock, with second-order impacts likely to feed through to inflation expectations, corporate margins, and ultimately global growth.

Importantly, this exposure remains actively managed rather than structural. Should conditions stabilise — specifically through a reopening of the Strait of Hormuz or a broader de-escalation — we will adapt positioning quickly, recognising that energy markets can reprice just as rapidly on resolution as they do on escalation.

In parallel, we initiated a short position in the SPI futures contract, providing an efficient macro hedge and, in combination, downside convexity to the portfolio. The SPI position has contributed meaningfully as volatility has increased and equity market internals have begun to deteriorate beneath the surface.

From a sector perspective, we maintain a structurally negative stance on economically sensitive areas, most notably Banks and Discretionary Retail. Our bank shorts are expressed across ANZ Group Holdings (ANZ:ASX), Commonwealth Bank of Australia (CBA:ASX), National Australia Bank (NAB:ASX) and Westpac Banking Corporation (WBC:ASX), alongside Retail exposure in JB Hi-Fi Limited (JBH:ASX).

While bank valuations have remained resilient, we attribute this strength primarily to persistent passive inflows and their dominant index representation, combined with a widely held — but increasingly questionable — perception of the sector as a defensive allocation.

In our view, this positioning reflects a crowded and price-insensitive bid, rather than a reassessment of underlying fundamentals. Banks remain exposed to the economic cycle through credit growth, asset quality and funding costs. As financial conditions tighten and growth slows, these exposures are likely to re-emerge in earnings expectations.

Passive capital has acted as a stabilising force during the past cycle, compressing volatility and supporting index heavyweights irrespective of valuation. However, this dynamic introduces structural fragility: should flows moderate or reverse, liquidity can become one-sided, leading to sharper repricing. We believe current valuations do not adequately compensate for this risk.

The broader implication is that what has been perceived as defensive positioning may, in fact, represent latent cyclical risk embedded within index construction itself. As the market transitions toward a more pronounced risk-off regime — driven by higher energy costs and rising recession probability — we expect this mispricing to correct.

A key geopolitical variable remains the security of the Strait of Hormuz. Any escalation that disrupts transit through this critical chokepoint would represent a step-change in supply shock dynamics. In our assessment, this tail risk is not fully reflected in current equity market pricing.

Within the portfolio, we continue to hold our core high-conviction positions in Norwood Systems Limited (NOR:ASX) and Mesoblast Limited (MSB:ASX). These positions are intentionally differentiated from macro exposures and are expected to behave idiosyncratically, driven by company-specific catalysts rather than broader market direction.

Historical Performance and Attribution

Performance over the 2025 calendar year has been predominantly influenced by our core equity positions, with Norwood Systems Limited (NOR:ASX) accounting for the majority of the relative underperformance. While clearly disappointing in the near term, our conviction remains grounded in the longer-term opportunity set and we view the current valuation dislocation as cyclical in nature.

Conversely, Mesoblast Limited (MSB:ASX) has delivered positive contribution, reflecting ongoing progress in its clinical and regulatory pathway, particularly in relation to its graft-versus-host disease (GVHD) treatment and the broader future development of its product suite.

On the short side, positions that have been in place for an extended period are now contributing more meaningfully to performance. This includes our short exposure across ANZ:ASX, CBA:ASX, WBC:ASX, NAB:ASX and JBH:ASX, where valuations supported by passive flows and perceived defensiveness are beginning to face pressure as macro conditions tighten.

It is important to contextualise this within the broader market structure. Over recent years, compressed risk premia — driven by abundant liquidity, passive flow dominance and narrow market leadership — have limited dispersion and created a challenging backdrop for relative value strategies.

We are now observing a meaningful shift. Compressed risk premia have started to unwind globally across many sectors since the advent of agentic AI systems dominating the future view of software. This has introduced a new layer of uncertainty around long-duration earnings assumptions, sector leadership and capital allocation, contributing to a repricing of risk across markets.

As macro volatility increases and liquidity conditions tighten, dispersion across sectors and securities is re-emerging. This is a critical precondition for our strategy, allowing fundamentals to reassert themselves over flow-driven pricing.

It is also worth noting that the Fund has historically performed very well through periods of macro dislocation. That has again been reflected in recent returns: as at 20 February 2026, the Fund is up over 1%, while the Australian equity market on an accumulation basis is down over 8%. We believe this relative performance underscores the effectiveness of our approach, combining macro awareness, disciplined short positioning and selective high-conviction exposures in environments where traditional market structures begin to break down.

Forward Outlook

Looking ahead, portfolio construction remains anchored in three core themes. First, we maintain energy and supply shock exposure where pricing is being driven by structural supply constraints rather than demand elasticity. This positioning is tactical and adaptive. Should the Strait of Hormuz be opened up or there be a credible resolution to the current crisis, we will move quickly to adjust exposures and lock in gains where appropriate.

Second, we remain positioned against sectors where valuations have been supported by passive flows and perceived defensiveness — most notably Banks and Retail. Our view is that this support is fundamentally unstable. As macro conditions deteriorate, we expect both earnings pressure and a reassessment of defensive characteristics to weigh on these sectors.

Third, core holdings such as Norwood Systems Limited (NOR:ASX) and Mesoblast Limited (MSB:ASX) provide exposure to company-specific outcomes that are less correlated with broader market movements. This helps diversify the portfolio's macro dependency while preserving the opportunity for idiosyncratic alpha.

At a market level, we believe the prior regime of compressed risk premia is now reversing, driven by tighter liquidity, geopolitical instability and structural shifts in forward expectations. The emergence of agentic AI has materially altered how markets are discounting future winners and losers, particularly within software and adjacent growth sectors. In our view, this is accelerating a broader repricing process that will not remain confined to one part of the market.

The transition away from liquidity-dominated markets toward fundamentally driven price discovery is unlikely to be linear. It will likely involve periods of elevated volatility, sharp factor rotations and intermittent rallies in crowded exposures. However, it is precisely this environment — where flows weaken and fundamentals reassert — that creates the most compelling opportunity set for active, valuation-driven strategies.

Key Risks to Our View

1. Rapid Geopolitical De-escalation

A swift resolution to the current Middle East conflict — particularly one that ensures the continued or expanded flow of energy through the Strait of Hormuz — would likely result in a sharp retracement in oil and gas prices.

Given the reflexivity of commodity markets, such a move could trigger a reversal of recent gains in energy-linked equities, a broader risk-on response across global equity markets and compression in volatility, reducing the effectiveness of macro hedges.

While our energy exposure is actively managed and can be adjusted quickly, the speed of repricing in such scenarios can create short-term dislocations and make harvesting gains more difficult than a linear market would suggest.

2. Persistence or Re-acceleration of Passive Flows

A core component of our thesis is that passive flows have artificially supported valuations in index-heavy sectors, particularly Banks (ANZ:ASX, CBA:ASX, WBC:ASX, NAB:ASX).

However, there remains a risk that passive inflows continue at elevated levels due to superannuation contributions, ETF allocations and market participants maintaining or increasing exposure to perceived defensive index constituents. Index concentration may therefore continue to override fundamental deterioration for longer than expected.

This would delay the anticipated repricing and extend the period of valuation support disconnected from fundamentals.

3. Policy Response and Liquidity Re-Expansion

In the event of a material slowdown in global growth, central banks and governments may respond with monetary or fiscal easing.

Such a response could temporarily re-expand liquidity conditions, recompress risk premia across equity markets and generate a counter-trend rally in cyclical and index-heavy sectors. This would be particularly relevant to sectors we are positioned against, even if the underlying economic backdrop continues to weaken.

The practical implication is that correct medium-term positioning can still experience short-term pressure if policy support arrives ahead of earnings reality.

4. Delayed Transmission of Macro Pressures to Earnings

There is a risk that the impact of tighter financial conditions and elevated energy prices takes longer than expected to be reflected in corporate earnings.

This lag can occur through fixed-rate borrowing structures, consumer resilience supported by accumulated savings and temporary corporate cost pass-through mechanisms sustaining margins. In such a scenario, equity markets may remain supported in the near term despite weakening forward indicators.

This creates timing risk for short positions and can prolong valuation dispersion between flow-supported sectors and fundamentally challenged sectors.

5. Structural Rotation Driven by Agentic AI Narratives

While we believe the emergence of agentic AI is contributing to the unwinding of compressed risk premia — particularly in long-duration growth assets — there remains a risk that capital is reallocated aggressively into perceived AI winners.

If that occurs, market leadership may become increasingly narrow and momentum-driven, and valuation discipline may once again be subordinated to thematic positioning. This could renew dispersion suppression in specific sectors, delay broader market normalisation and create periods where headline indices obscure underlying weakness elsewhere.

In other words, AI may be both a catalyst for repricing and a source of fresh crowding at the same time.

6. Crowding in Alternative Defensive Exposures

As the market transitions toward a risk-off posture, capital may rotate into alternative defensive assets beyond traditional sectors such as Banks.

This includes commodities, yield-sensitive equities, infrastructure and select defensive growth names. Such crowding can produce short-term overvaluation in defensive segments, increase cross-asset correlation and amplify volatility during repositioning phases.

This matters because defensive crowding can distort relative value signals even as the broader macro thesis remains intact.

7. Market Structure and Liquidity Fragility

A defining feature of the current market is the dominance of price-insensitive capital and increasingly concentrated index exposures.

This introduces structural risks including reduced underlying market depth outside index constituents, non-linear price movements during periods of flow reversal and increased gap risk in both directions. While this supports our broader thesis regarding fragility beneath the surface, it also increases execution risk and short-term volatility, particularly around inflection points.

Across all scenarios, the portfolio is constructed with adaptability as a core principle. That includes dynamic management of energy exposure based on geopolitical developments, active sizing of short positions relative to flow conditions and maintenance of idiosyncratic positions such as NOR:ASX and MSB:ASX to diversify macro dependency. We view risk not as a static list of outcomes, but as a set of evolving probabilities that require continuous reassessment as conditions change.

Fund Strategy

The Fund is a long-bias equity market product which typically buys or short sells Australian listed securities and derivatives. Net and Gross market exposure is maintained within a range of 0-100% and 0-200%, respectively. The Investment manager employs its Quadruple Alpha Investment Strategy which focuses on outperforming overall market cycles by capturing upside returns while minimising downside risk. The objective of the Fund is to outperform the benchmark after fees and expenses over a 5-7 year time frame.

Risk Statistics

As at February 2026

	Fund		S&P/ASX 200 AI	
	5 Year	Inception	5 Year	Inception
Alpha (%pa)	-10.4%	-4.0%		
Downside Capture	19%	26%		
Standard Deviation	7.8%	9.3%	11.8%	13.1%
Sharpe ratio	-0.3	0.4	0.7	0.6
Sortino		0.6		1.4
Largest Drawdown	-21.6%	-21.6%	0.7%	-26.7%
Correlation	19%	10%	100%	100%

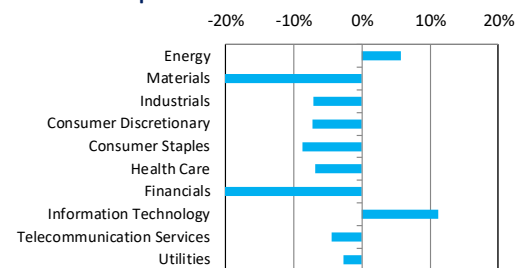
Exposure

	Long	Short	Net	Gross
Equity	39.2%	-1.4%	37.8%	40.6%
Index Futures	0.0%	0.0%	0.0%	0.0%
Net	39.2%	-1.4%	37.8%	40.6%
Implied Cash			62.3%	

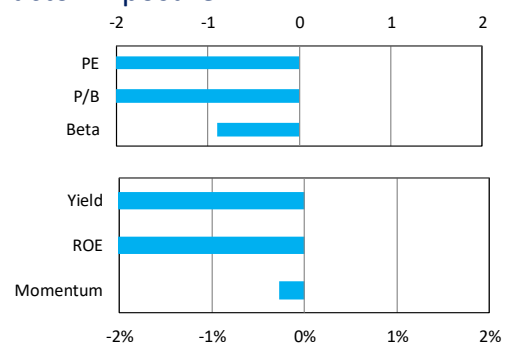
Largest Positions

Long	Short
Mesoblast	JB HiFi
Norwood Systems	QBE Insurance Group
Qube Holdings	
Vinyl Group	

Sector Exposure



Factor Exposure



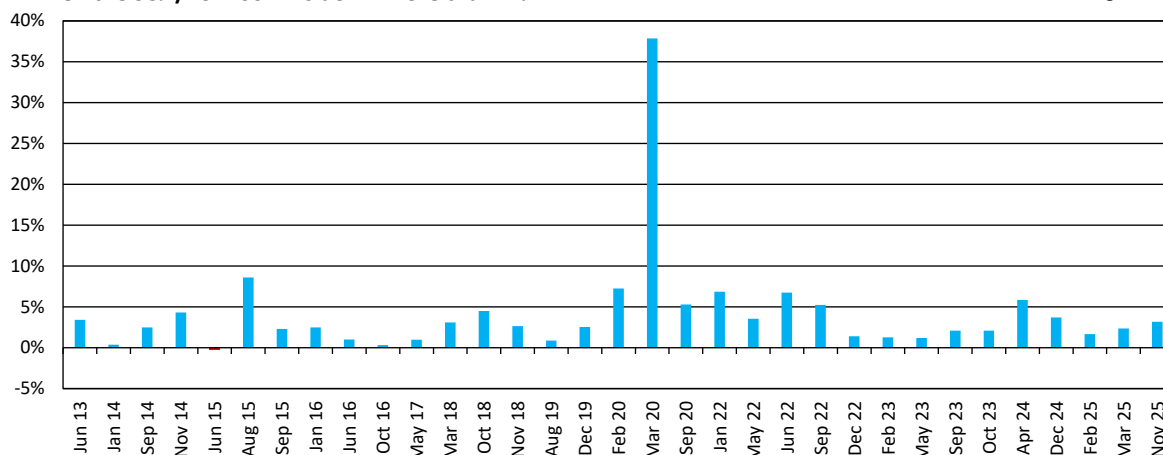
Source: APSEC Funds Management

Downside Performance

APAEF Relative Returns (From Inception)

When the S&P/ASX200 AI is down more than -2%

Source: APSEC Funds Management



Please note: Past performance is not indicative of future performance.

General Information

Class A - Fund Information (As at 30 February 2026)

APIR Code	OMF0003AU	Responsible Entity	Equity Trustees Ltd
Inception	1 June 2013	Investment Manager	APSEC Funds Management
Minimum Investment	\$20,000	Administrator	Apex Group Ltd
Application/Redemption	Daily	Custodian	Apex Group Ltd
Management Fee	2.2% pa	Prime Broker	Interactive Brokers LLC
Benchmark	S&P/ASX200 Accumulation	Auditor	PriceWaterhouseCoopers
Performance Fee	15% above S&P/ASX 200 Accumulation + 3%pa subject to a high water mark		
Mid Unit Price (Class A)	0.9925	Application Price (Class A)	0.9935
		Redemption Price (Class A)	0.9915

Class B - Fund Information (As at 30 February 2026)

APIR Code	ETL1038AU	Responsible Entity	Equity Trustees Ltd
Inception	5 December 2022	Investment Manager	APSEC Funds Management
Minimum Investment	\$250,000	Administrator	Apex Group Ltd
Application/Redemption	Daily	Custodian	Apex Group Ltd
Management Fee	0.95% pa	Prime Broker	Interactive Brokers LLC
Benchmark	S&P/ASX200 Accumulation	Auditor	PriceWaterhouseCoopers
Performance Fee	Subject to a high water mark		
Mid Unit Price (Class B)	0.7326	Application Price (Class B)	0.7333
Distribution (Class B) (30 Jun 25)	0.02165613	Redemption Price (Class B)	0.7319

Contact Information

Account Enquiries	n.bryon@apsec.com.au	Investment Manager	1300 379 307
Website	www.apsec.com.au	Responsible Entity	1300 555 378
		Unit Registry	1300 133 451

Important Information

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