

Australian Equities

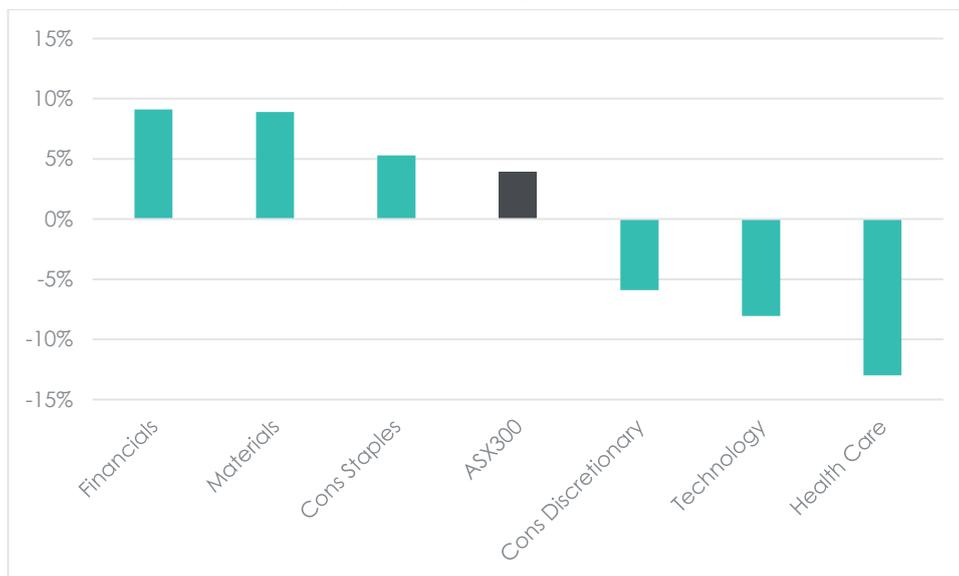
Reporting Season Review

This report aims to give readers an overview of the recent Australian reporting season, where strong market gains masked significant opportunities for active investors amid pronounced sector divergence and solid underlying earnings growth. Sector headwinds, particularly the evolving impact of AI on valuations, are reinforcing the value of Northcape's disciplined, quality-focused investment approach.

What happened in February

The Australian market (ASX300) rose 3.9% during the month to reach new record highs, but the strength of the headline index masked an extraordinary concentration of returns. The five largest companies in the ASX (the major banks and BHP) rose by an average of 14% during the month, while the remainder of the ASX300 was roughly flat. In fact, the median stock in the ASX300 fell by 1.5%, underperforming the index by 5.4%. Sector performance diverged sharply. Financials (+9.1%), Materials (+8.9%) and Consumer Staples (+5.3%) led the market, while Healthcare (-13%) and Technology (-8.1%) underperformed significantly.

Exhibit 1: ASX300 Total Return for February 2026 (Source: FactSet)



Company profit results were generally favourable. Our portfolio companies in aggregate reported revenue growth of 7% and EPS growth of 10% on the same period last year. If we exclude resources companies, which have more volatile results, total revenue growth would have been 6% and EPS growth 7%. These metrics form the basis for sustainable long term value creation.

Banks printing money

The banks were the clear winners of the February reporting season. Results were broadly positive and drove consensus EPS upgrades of 2–5% across the majors. Credit growth is accelerating in both retail and business segments. Investor housing credit grew at an annualised rate of approximately 8% in the December quarter,

while business lending expanded at around 11% annualised. Despite recent RBA rate hikes, housing demand has shown little sign of slowing, supported by low unemployment. Deposit mix trends have also been favourable, particularly growth in non-interest-bearing deposits, helping net interest margins remain resilient even as competitive pressures increase. Asset quality remains exceptionally strong, with impairment charges near record lows.

Cost control featured prominently for ANZ, which announced approximately 4,500 staff reductions and saw its share price rise 9%. We are sceptical that ANZ can restore its shrinking market share while also taking cost out aggressively. Commonwealth Bank stood out with above-system lending and deposit growth, disciplined pricing and better-than-feared impairments. However, much of the banks' share price performance came from further expansion to their record multiples. CBA finished the month on 27x forward EPS, and the other majors on 16-21x, about 60% above their ten-year average.

Healthcare feeling under the weather

Healthcare was the weakest sector during reporting season as Cochlear (-26%) and CSL (-19%) both disappointed investors and dragged the sector lower. Cochlear launched its new Nexa cochlear implant, a significant technological advance, and surgeon feedback has been favourable. However, delays in certain markets, competitive discounting ahead of launch, pricing challenges in China, and share losses in adjacent acoustic implants weighed on performance. Recent inconsistency in meeting profit guidance has eroded investor confidence. The stock has derated to 27x forward earnings and is still expected to generate double-digit growth over the long term.

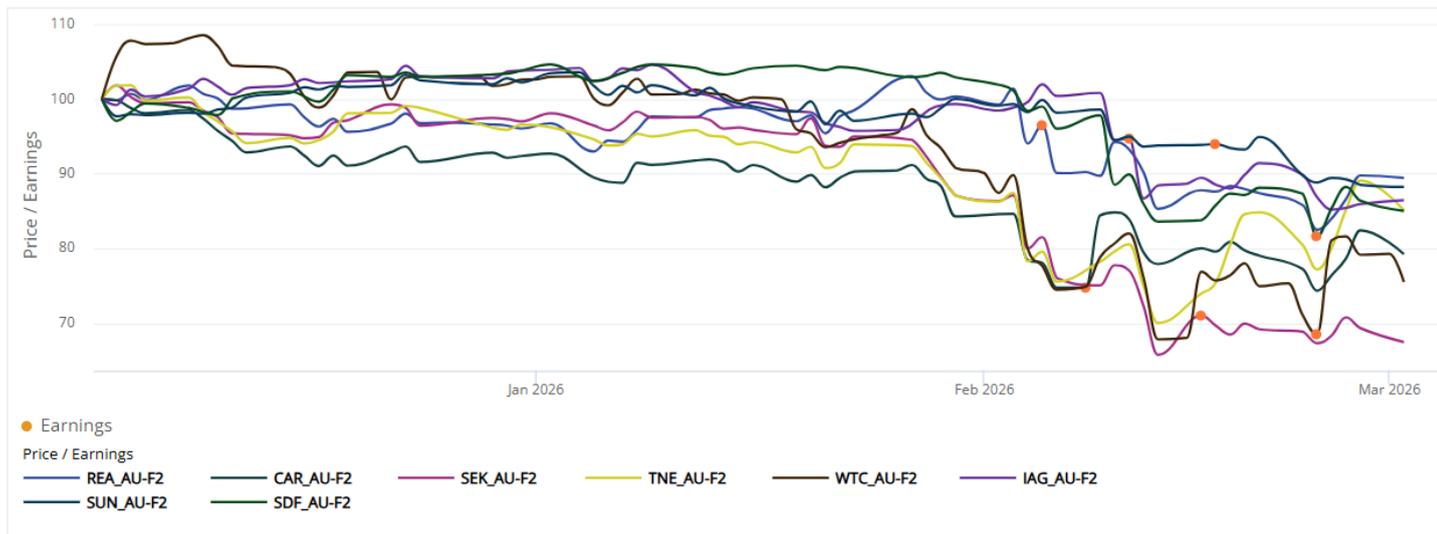
CSL's result was also weak and coincided with the departure of its CEO. While full-year guidance was maintained, a stronger second half is required to meet targets. A restructuring program aimed at simplifying the business and lowering costs is underway, and cost savings are expected to build into FY27. Nevertheless, near-term uncertainty around demand and execution led to sustained selling pressure.

In contrast, Fisher & Paykel Healthcare (+2.4%) announced a small upgrade to its FY26 guidance, despite more onerous FX assumptions. Importantly, the upgrade was attributed to increasing clinical acceptance of its respiratory humidification products in hospitals. This is the key value driver for FPH and is supportive of the long-term investment case for the company.

AI is here to stay

The February reporting season confirmed that artificial intelligence is no longer just a thematic discussion point, it is now influencing valuation outcomes. Across the Australian market, particularly in technology and insurance, we have seen meaningful de-rating in businesses perceived to face AI disruption risk. In many cases, operating performance was sound, yet share prices weakened as investors reassessed duration, competitive intensity and terminal value assumptions under greater uncertainty.

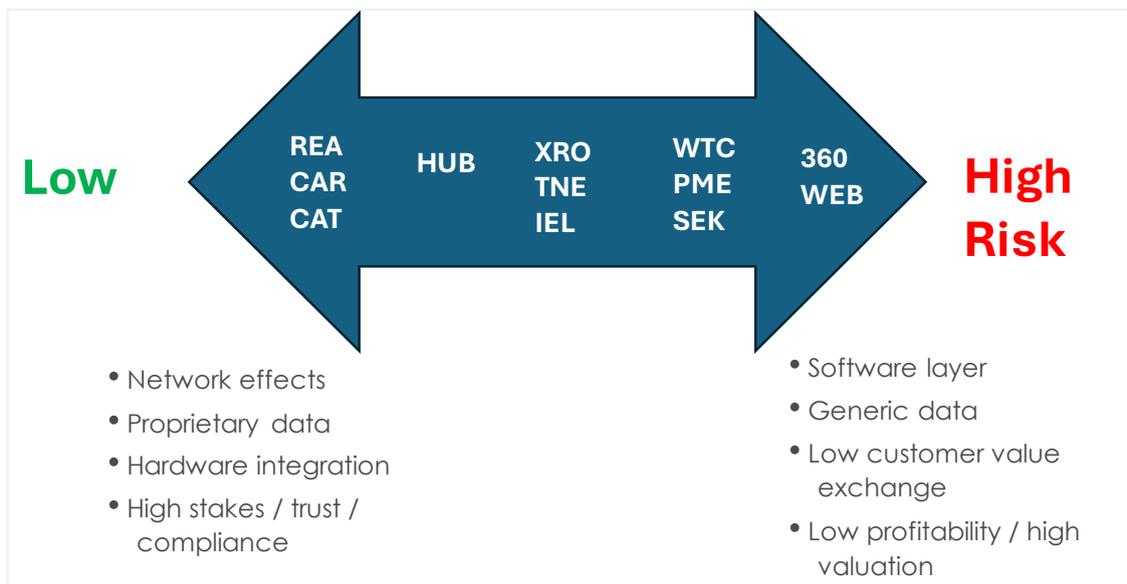
Exhibit 2: Tech companies forward P/E changes over the last 3 months (Indexed to 100) (Source: Visible Alpha)



The de-rating in technology reflects lower perceived barriers to entry. AI is reducing the cost and time required to build software and launch new business models, eroding the scarcity value that historically supported SaaS pricing power. Investors are therefore less willing to capitalise long-duration earnings at elevated multiples.

However, the impact is unlikely to be uniform. Businesses with network effects, proprietary data, physical-world integration or those operating in high-trust or compliance-heavy environments should prove more resilient. By contrast, companies reliant on historical development effort as a moat, extracting disproportionate economic rents, or combining low profitability with high valuations face greater structural risk. We have put together our own assessment of the range of risks software businesses face from AI.

Exhibit 3: Northcape Illustrative AI risk framework



Corporate responses have also diverged. Some companies have moved aggressively to cut costs (e.g. Block cutting ~50% of their workforce this year; WiseTech and Praemium ~30%), while others continue to reinvest (e.g. HUB24, Netwealth, CBA). While markets have rewarded short-term margin improvement, we believe stronger franchises are using AI to extend their advantage, whereas weaker models are reacting defensively.

AI ultimately exposes fragile business models but can reinforce genuine structural advantages through productivity gains. Valuation discipline has returned, with investors increasingly questioning the durability of cash flows. In insurance, much of the de-rating reflects concern around AI-driven commoditisation, though many risks remain conceptual and are mitigated by industry moats such as scale, product differentiation and supply chain dependencies. With strong free cash flow yields, selective value is emerging, and we retain a modest exposure (~3%).

Our portfolio remains largely insulated from direct AI disruption. Most holdings derive earnings from physical or financial assets, with limited software exposure (~5%), concentrated in resilient businesses such as REA Group, HUB24 and Catapult Sports.

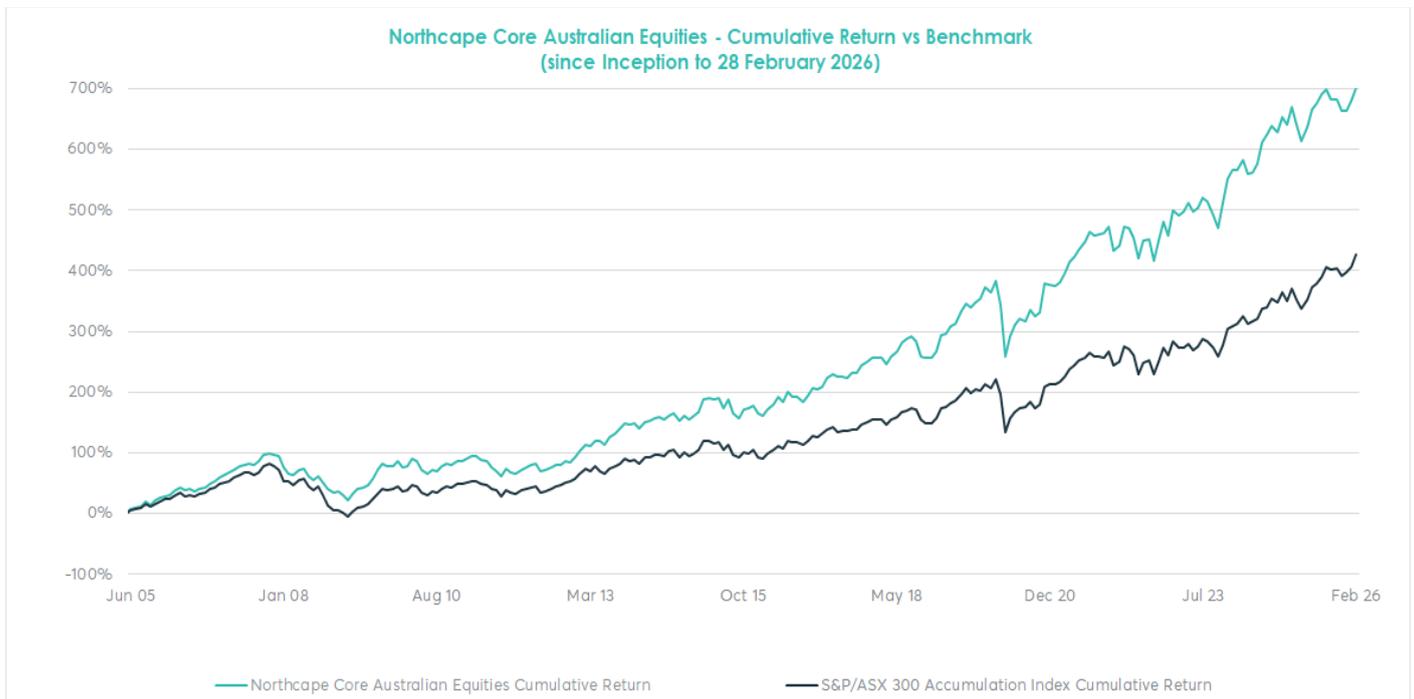
Overall, we believe the next phase of the AI cycle will be defined less by indiscriminate fear and more by fundamental differentiation. In that environment, disciplined, quality-focused and valuation-aware stock selection should be increasingly rewarded.

Northcape overview:

Northcape is a boutique investment manager wholly owned by staff. We specialise in managing concentrated equity portfolios with a quality bias across Australian and Emerging Markets equities. Northcape manages over A\$19 billion of investment capital on behalf of a range of global investors. We have a proud track record of achieving strong outperformance since our inception in 2004.

Australian Equity Fund:

The Core Australian Equity Fund is a high-conviction portfolio of quality Australian companies with a 20-year track record of outperformance. Fundamental investment research is focused on identifying businesses with sound balance sheets, strong management, above average growth prospects, high returns on equity and a meaningful competitive advantage. We are patient investors with a long-term investment horizon. The outcome is a low-turnover portfolio of carefully selected businesses that delivers resilient and sustained performance for clients.



Northcape Capital Australian Equity Team

Rob Inglis

Director | Portfolio Manager | Analyst
Chemicals, Healthcare, Gaming, REITs, Steel

Paul Parsons

Portfolio Manager | Analyst
Resources, Diversified Financials, Infrastructure, Transport

Kevin Soo

Senior Analyst
Insurance, Technology

Peiting Liang, CFA

Senior Analyst
Banks, Gaming, Healthcare, Mining

Craig McCourtie

Director | Portfolio Manager | Analyst
Building Materials, Packaging, Retail

Richard Maynier

Portfolio Manager | Analyst
Telecommunications, Resources, Industrials

Fleur Wright, CFA

Senior Analyst
Internet, Media & Services

Northcape Capital

Sydney

Level 24, 45 Clarence
Street Sydney NSW 2000
Australia

P: +61 2 8234 3600

Melbourne

Level 18, 90 Collins Street
Melbourne VIC 3000
Australia

P: +61 3 8626 8000

ABN: 53 106 390 247

AFSL: 281767

www.northcape.com.au

For further enquiries:

Katie Orsini

Client Director

p: +61 2 8234 3629

e: katie.orsini@northcape.com.au

Wendy Hammond

Client Manager

p: +61 2 2 8234 3638

e: wendy.hammond@northcape.com.au

Eliza Clarke

Client Manager

p: +61 2 2 8234 3606

e: eliza.clarke@northcape.com.au

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