

Jencay Australia Investment Fund

Quarterly report – 31 December 2025

Performance Table

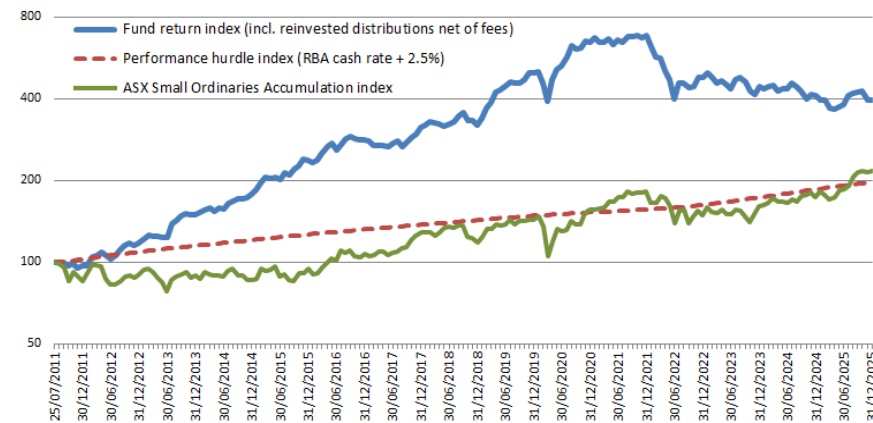
Returns are net of fees, exclude buy/sell spreads and assume reinvestment of distributions/income. Returns are annualised apart from the Latest Quarter figures.

	Fund total return %	ASX Small Ordinaries Accumulation index %	Performance hurdle % (RBA cash rate + 2.5%)
Since inception p.a.	10.0	5.5	4.8
Latest 5 years p.a.	(9.5)	6.8	5.3
Latest 3 years p.a.	(6.3)	13.4	6.8
Latest 12 months	(4.1)	25.0	6.6
Latest quarter	(6.5)	1.8	1.5

Unit Price

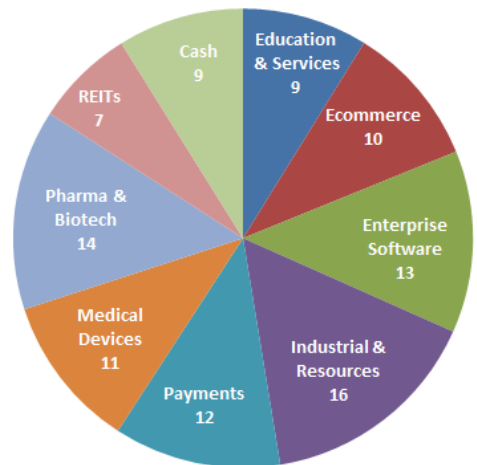
NAV per unit		AUD 2.065
Application price	(0.5% spread added)	AUD 2.0753
Redemption price	(0.5% spread deducted)	AUD 2.0547

Performance Chart



The chart tracks the movement in value of AUD100 invested in the Fund at inception, relative to the Reserve Bank of Australia cash rate plus 2.5% (performance hurdle) and relative to the ASX Small Ordinaries Accumulation index. Returns are net of fees, exclude buy/sell spreads and assume reinvestment of distributions/income. The chart utilises a log scale on the vertical axis to reflect relative returns more clearly.

Fund Composition



Fund size: AUD 101m

Top 10 stock positions as % of overall portfolio: 58%

Jencay gave back much of its gains from the prior quarter – although microcaps were flat on average, share price weakness for a few of our large positions was not compensated by strength elsewhere in the portfolio.

The biggest detractors in the quarter were: **Orion Properties**, **Medical Developments** and **Adheris Health** (renamed from **Medadvisor**). **Aroa** was the biggest positive contributor. **Smartpay** exited the portfolio after the bidder successfully secured shareholder approval, removing another good business from the ASX. **Articore** re-entered the top 10 in place of Smartpay, following a 15-month absence.

Many of the most speculative and overvalued pockets of the market suffered sharp price drops in November – hopefully the start of an adjustment that is needed to bring prices closer to fundamentals.

Top 10 Stock Positions

Weight %	Name	Summary (<i>recent developments in italics</i>)
9	Aroa Biosurgery	Fast-growing challenger in soft tissue wound care and surgical scaffold products, with a superior tissue source (sheep forestomach) and proprietary processing technology that confer Aroa a cost and quality advantage over peers. <i>A solid 1H would have been even better if Aroa's US distribution partner, Tela Bio, did not reduce inventory. Aroa should benefit from changes to "skin substitutes" reimbursement in the US which removes a perverse incentive to use the most expensive product rather than the most efficacious and cost effective.</i>
7	Cleanspace	Producer of innovative powered air purifying respirators for Industrial workplace safety. <i>Revenue growth for the 4 months prior to their AGM was a bit disappointing at 13% year-on-year however the company remains optimistic that growth will reaccelerate once two exciting products in their R&D pipeline receive regulatory clearance.</i>
7	Praemium	Praemium operates a market leading, modern wealth management platform in Australia that is taking share from the large, legacy institutional platforms. <i>1Q net flows were encouraging and Directors have been buying shares on market. Technology partner, Technotia labs, will be folded into the company for a modest consideration.</i>
6	Orion Properties	US REIT focused on single tenant net lease suburban office properties and specialised use real estate. <i>Refer overleaf for detailed commentary focused on Orion.</i>
6	Jumbo Interactive	Reseller of official Australian Lottery tickets via the www.ozlotteries.com website. Their platform is being leveraged as a SAAS and managed services offering for charity and state lotteries. <i>Jumbo announced two material acquisitions in the quarter – both companies operate online prize draw businesses – one in the US and the other in the UK. The prices paid seem attractive and both businesses should benefit from Jumbo's leading technology platform and digital marketing prowess. Debt assumed to fund the acquisitions is manageable. Directors have been buying shares on market and the company's share buyback program resumed.</i>
5	EML Payments	Provider of prepaid debit cards and payment solutions in Australia, North America and Europe. <i>1Q results fell short of expectations due to flat revenues and increased costs. Despite the slow start, FY guidance was reiterated, supported by encouraging new client wins that will contribute progressively through the year.</i>
5	Clinuvel	Clinuvel's orphan drug Scenesse is a unique hormone replacement implant used to treat patients with erythropoietic protoporphyria (EPP), a rare skin disease that causes intolerance to light. Their IP is being utilised to develop drugs in adjacent areas such as Vitiligo, DNA skin repair and cosmetics. <i>A breakthrough in sustained release liquid injectable peptides was announced - this could significantly expand their addressable market. The company will submit their data package for approval of generic ACTH in 2026 – likely their 2nd commercial product.</i>
5	AI Media	Leader in the provision of live caption services primarily to broadcasters, with a slate of language product additions in the pipeline. <i>The new Lexi Voice translation product continues to be piloted by large US broadcasters, but we are awaiting evidence of meaningful adoption.</i>
5	Tyro	Leading provider of merchant acquiring and payment services in Australia with significant share in the health, hospitality, and retail segments. <i>Respectable transaction volume growth was sustained in the first half. Well-credentialed payments executive appointed CEO. Small bolt-on acquisition of small business software for invoicing and tax reconciliation to enhance merchant experience and loyalty.</i>
4	Articore	Articore Group owns www.redbubble.com and www.teepublic.com , two leading global marketplaces linking independent artists with 3 rd party fulfillers for on-demand production and distribution of unique apparel and other items to end customers. <i>The Board and management team has overseen substantial change, and the share price has moved up on the improvement in performance following significant cost reductions. If profitable growth is resurrected, significant upside remains. A share buyback program underway demonstrates management confidence in the turnaround.</i>

Orion Properties

[Aroa Biosurgery](#) and [Praemium](#), which we covered in our last two quarterly reports, are good examples of attractively priced quality, growing businesses – Orion, in contrast, is an example of a cyclical asset that offers compelling value because it has experienced a very tough downturn from which it is about to emerge but the improvement is not yet priced in.

Orion is a US Office REIT (Real Estate Investment Trust) that focuses primarily on single tenant, net lease (tenant responsible for outgoings) buildings in secondary/suburban markets.

Our average purchase cost since initiating our position two years ago is about \$3 per share vs. the current share price close to \$2.25 (market cap \$126m).

US Office cycle and Orion's experience

US Office properties have been severely impacted by post-Covid working habits and changing space requirements - slumping renewals, increasing vacancy and interest rates have conspired to hammer earnings and share prices in the sector. Orion initially weathered the storm well, but a large amount of lease expiries over the last 18 months (that were not renewed or replaced) resulted in a steep drop in occupancy that has significantly reduced earnings.

Notwithstanding the current tough operating conditions, Orion's financial position remains healthy due to manageable debt levels and a focus on selling vacant buildings (US property taxes are high resulting in significant carrying costs for vacant buildings). Net debt of \$460m compares to property book cost of circa. \$1.25b (38% Net Debt/Property Cost) and current depressed EBITDA of \$65m (Net Debt/EBITDA of 7.1x), which is manageable.

Ignoring any cyclical improvement, Orion should be able to increase its earnings by \$20-30m over the next couple of years by selling vacant properties – the operating costs (primarily property taxes) for their vacant buildings alone exceeds \$20m p.a. Potential sale proceeds on their 2m SF of vacant properties is \$100m+ which can be applied to reduce debt, thereby saving \$5m+ in interest costs, improving earnings and the balance sheet.

Portfolio

The Orion portfolio of 63 buildings spans 28 States and is reasonably diversified. Their biggest tenants include the US Government (17.4%), Merrill Lynch (9.8%), Ingram Micro (6.8%) and Cigna (4.3%). Geographically their highest exposures are to: Texas (18%), New Jersey (13%), New York (10%), Kentucky (9%), California (7%) and Colorado (6%). By sector, Government and Healthcare are the biggest components, followed by Capital Goods, Financials, Software, Materials.

Orion's portfolio generates the following rental/free cashflow on a \$ per square foot of occupied space:

- Rent (average p.a.)	19.00
- Maintenance capex & leasing cost (average p.a.)	(6.00)
- Free cashflow per foot (ignoring vacant property opex)	13.00

Valuation

Summary valuation metrics

- Enterprise Value/SF (\$586m/7.3m SF)	\$80
- Implied Cap rate (NOI/Enterprise Value)	14%

Orion has been selling their vacant properties for an average of \$80/SF recently – equivalent to current Enterprise Value/SF so the share price is essentially ascribing vacant property value to the entire portfolio – harsh in the extreme, but an indicator that downside is likely low at the current price.

Replacement cost for similar low-rise office buildings is estimated at \$300/SF upwards vs. current EV/SF of \$80. To make the economics work, an economic rent of at least \$30/SF is required to justify building new, assuming the investor requires an initial yield on cost of 10%. Current high vacancy combined with economic rents being well above market rents has put a halt to new office development – which is typical at the bottom of the cycle and establishes the conditions for rent and occupancy to expand in future.

Valuation is most sensitive to Property value (typically calculated based on Cap rate) and Occupancy. The following table illustrates the sensitivity of value per share (net of debt) by varying occupancy and cap rate assumptions (ignoring any potential upside in rental rates):

		Occupancy				
		75%	80%	85%	90%	95%
Cap rate	14%	0.08	1.22	2.37	3.52	4.67
	12%	1.46	2.80	4.14	5.48	6.82
	10%	3.39	5.00	6.61	8.21	9.82
	8%	6.29	8.30	10.31	12.32	14.33
	6%	11.13	13.81	16.49	19.17	21.85

Assuming a fair cap rate of 8-10% and occupancy reaching 90%+ in the next couple of years, we believe fair value is somewhere between \$8 and \$14 per share i.e. 3.5-6.2x the current share price.

As reflected by the table below, Orion trades at a substantial discount to their REIT sector peers (total universe in 1st column and Office only in 2nd) notwithstanding similar leverage levels and greater occupancy upside:

	REIT sector median	Office REIT sector	Orion Properties
NOI/EV (implied cap rate)	7%	9%	14%
Price/FFO	12.2	8.9	4.2
EV/EBITDA	15.3	12.9	8.4
Net Debt/EBITDA (leverage)	5.9	6.2	7.1

Source: Factset and Jencay

The figures above reflect 2025 expectations. Assuming Orion sells all its vacant properties at \$50/SF (conservative relative to the \$80 average achieved recently), the elimination of vacant property expenses and resulting reduction in net debt and interest costs would result in a revised implied cap rate of **20%**; a Price/FFO of **2.4x** and Net Debt/EBITDA of **4.6x** for Orion.

Conclusion

Orion is trading at distressed levels following the most severe cyclical office downturn in recent history, notwithstanding manageable debt and public commentary that they are expecting occupancy and earnings to start improving in 2026. The stock market is giving no credit for the improved outlook, likely due to Orion's relatively low liquidity and size. We are not the only ones recognising value in Orion, as evidenced by recent takeover offers at \$2.50 and \$2.75 per share – that were sensibly knocked back by Orion's Board. At the current share price, Orion appears to be a gift – with significant upside potential and low downside.

Definitions:

SF: Square feet
NOI: Net Operating Income or Gross rent minus property operating costs
FFO: Funds from Operations – NOI minus interest and other expenses. Effectively net profit before capex
Cap rate: NOI/property value. Implied Cap rate is NOI/Enterprise Value (EV)
All amounts in USD

Fund Key Features

Investment strategy	The Fund seeks to generate attractive risk-adjusted returns over the long term and protect capital by buying securities trading significantly below fair value (bargains) and holding cash on deposit when bargains are not available in the market. The Fund has a small cap bias in accordance with the Manager's opinion that most bargains are found amongst small caps.
Investment universe	Securities publicly traded on a recognised securities exchange and cash to be held on deposit
Investment restrictions	<ul style="list-style-type: none"> ▪ Maximum of 40 individual securities ▪ Maximum exposure of 15% to a single security ▪ No direct short positions ▪ No leverage at Fund level
Base management fee	1% p.a. excluding GST. Management Expense Ratio 1.025% p.a. inclusive of non-recoverable GST.
Performance fee	20% of returns above the Hurdle rate subject to a high-water mark. The Hurdle rate is the Reserve Bank of Australia Cash Rate Target plus 2.5%.
Redemption notice	6 months' redemption notice required otherwise 5% early exit penalty to be applied
Custodian & Administrator	Apex Fund Services Pty Ltd (head custodian and Administrator) and JP Morgan Chase Bank N.A. (sub-custodian)

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