## Monthly Performance Commentary, February 2026

| Moreton Financial Model Portfolio | ASX 200 | ACWI index | MSCI World |
|---|---|---|---|
| 4.36% | 3.7% | -0.43% | -0.98% |

February 2026 was a month of divergence across global equity markets, and the Moreton Financial Model Portfolio was well positioned to benefit, finishing the month up 4.36% on a total return basis, against an ASX 200 that rose 3.7%.

Mining, resources and energy led the ASX higher as commodity prices surged, while financials eased on rate hike risk and consumer staples underperformed; with Coles falling 7.4% on weaker half-year profits (dragging down the sector). February coincided with the peak of Australia's half year reporting season, and results were broadly solid where the fund had exposure. In the US, the S&P 500 and NASDAQ underperformed global markets as AI-related fears around SaaS displacement and compressing software valuations weighed heavily on technology names. We have discussed these risks in detail in our recent report, *Active vs Passive - Are the Risks Understood?* Our broader concern remains that the continued debt funded CapEx expansion among large cap tech companies will prove difficult to justify on a ROIC basis, and that deteriorating balance sheets are not yet fully reflected in market prices.

Globally, the MSCI ACWI fell 80bps. The FTSE 100 broke through 10,000 for the first time, buoyed by its weighting in mining and defence. Japan continued to benefit from corporate governance reform and rising wages, while mainland Chinese equities rose ahead of the "Two Sessions" political meetings. Geopolitical tensions provided a structural tailwind for defence and resources throughout the month.

On monetary policy, the RBA unanimously (all 9 governors) raised the cash rate 25 basis points to 3.85% on the 3 February. The 2-3% target band not expected now until 2028. Markets are pricing an 80% probability of a further hike in May. The Fed and ECB both held steady.

The fund's 4.36% total return in February was reduced from a 4.93% absolute return by a -57bps FX drag, as the AUD continued to appreciate against the USD and GBP. This translation effect is a primary story of the month we feel this is unlikely to last.

We believe the AUD is at present, strong for the wrong reasons. The RBA's rate hike, a response to fiscally driven inflation rather than genuine economic growth, has attracted carry and pushed the currency higher. But Australia is running a $36.8 billion deficit, gross debt is near $1 trillion, government spending has expanded from 24.1% to 28.5% of GDP since 2019, and 82% of all net new jobs created since August 2022 have been in the public sector. The private sector will ultimately pay for this. It is not the profile of a structurally strong currency; it is emblematic of a government spending beyond its means and a central bank having to resolve the consequences.

Our opinion is that the rate cycle is near its peak. The implied terminal rate of 4.10% mirrors the post COVID high, the yield curve is flattening (a late cycle signal), and the RBA's own forecasts point to a slowdown in the economy. When cuts come, the carry unwinds. The USD and GBP positions currently absorbing a translation headwind become a tailwind, and rate-sensitive holdings; notably Infratil and Eagers Automotive should rerate meaningfully. The commodity complex provides a natural offset in the interim, with elevated copper and gold supporting both the terms of trade. The key risks to this view are a government that refuses to rein in spending; entrenching inflation and forcing the RBA to hold higher for longer, and commodity prices that remain structurally elevated, providing genuine fundamental support for the AUD beyond the cyclical carry trade. Both are worth monitoring closely. For now, the portfolio is positioned for the reversal, not the extension.

The portfolio carries no deliberate technology sector exposure, and that has served it well in February. We believe the AI disruption concerns are somewhat overblown in the long run, but the current selloff may have further to run and we are not prepared to hold in the Model Portfolio.

## Moreton Financial Model Portfolio Changes – March 2026

| Company | Exch. | Ticker | Sector | Industry Group | Sub-Industry |
|---|---|---|---|---|---|
| Cochlear Ltd | ASX | COH | Health Care | Health Care Equipment & Supplies | HC Equipment |
| Alibaba Group | NYSE | BABA | Consumer Disc. | Consumer Disc. Distribution & Retail | Broadline Retail |

The Moreton Financial Model Portfolio has initiated two new positions in March, funded through a reduction in the SPY, reduced from 8.96% to 5.98% of NAV. And a trimming of IPD Group, following its 18.37% February return. Although we remain committed to the long term and believe in the current fundamentals, we feel reallocating at current prices is the right decision and taking profit on a position that has run up in a short period is acceptable.

Cochlear has been added to the portfolio. The stock fell 17.5% in February following a softer half year result on the back of diluted revenue growth and compressed gross margins. The fund views this as a market overreaction to a shorter term issue. Cochlear is an exceptional business and holds a dominant global position with an exceptional competitive moat. The selloff has created an attractive entry point.

Alibaba Group has also been initiated. The position adds direct exposure to the Chinese consumer that is grossly discounted relative to Western peers. The addition also broadens the portfolio's geographic diversification beyond Australia.

## February & Reporting Season Review

**Portfolio Performance – February 2026**

| POSITION | | | FEBRUARY 2026 | | |
|---|---|---|---|---|---|
| Ticker | Sector | Ccy | Return % | G/L (AUD) | CTR % |
| **PWH** | Consumer Disc. | AUD | 7.73% | $129.60 | 0.42% |
| **NHC** | Energy | AUD | 3.99% | $176.40 | 0.57% |
| **IFT** | Financials | AUD | (1.57%) | ($54.00) | (0.17%) |
| **APE** | Consumer Disc. | AUD | (10.55%) | ($212.25) | (0.69%) |
| **IPG** | Industrials | AUD | 18.37% | $502.20 | 1.62% |
| **MIN** | Materials | AUD | 6.70% | $84.26 | 0.27% |
| **SPY** | ETF | USD | (1.63%) | ($48.07) | (0.16%) |
| **IWM** | ETF | USD | (0.10%) | ($3.38) | (0.01%) |
| **FCX** | Materials | USD | 12.16% | $374.09 | 1.21% |
| **NVS** | Health Care | USD | 12.53% | $211.54 | 0.68% |
| **AER** | Industrials | USD | 3.22% | $39.36 | 0.13% |
| **RR** | Industrials | GBP | 6.34% | $150.98 | 0.49% |
| **CASH** | | AUD | - | - | - |

**Novartis AG (NVS) +12.53%**

The Swiss pharmaceutical giant benefited from strong Q4 2025 earnings and an industry wide re-rating of large-cap defensive healthcare names. Novartis reported growth in its oncology and cardiology franchises, particularly Entresto (heart failure) and Kisqali (breast cancer), which have each been compounding market share gains. As AI-driven volatility effected technology names and P/E multiples compressed, capital rotated into business such as Novartis for their recurring revenue, pricing power and strong balance sheet.

### Freeport-McMoRan (FCX) +12.16%

Freeport benefited from a combination of powerful tailwinds. Copper prices surged through the month, reaching levels above USD 12,125/ton. By 2035, global copper output is projected to reach just 29 million tonnes against a requirement of 35 million. Driven by the simultaneous scaling of AI data centres, EV adoption, and grid expansion at a pace the mining industry is structurally ill-equipped to match. Freeport's high operating leverage to copper prices, with mostly fixed costs, means that even modest increases in copper prices flows hit the bottom line. They mine roughly 1.8 million tonnes of copper annually, which means every USD 22 per tonne move in the copper price translates to approximately USD 40 million in earnings.

Additionally, management provided updates on the phased restart of the Grasberg Block Cave mine in Indonesia, disrupted by a fatal mudslide in September 2025, with 85% production restoration targeted by the second half of 2026. BofA has raised its price target to USD 81.

### IPD Group (IPG) +18.37%

IPD Group was the strongest performer for the month across the model portfolio, delivering an 18.37% return. IPD group reported record H1 FY2026 results in late February, exceeding the top end of management guidance. Revenue grew strongly across all divisions, with data centre infrastructure sales rising 16% year on year. The acquisition of Platinum Cables adds specialist mining cable capability and is expected to contribute from the second half of 2026. Representing 10.01% of the NAV, the position was trimmed in the Model Portfolio in order to demonstrate discipline in position sizing.

### Rolls-Royce Holdings (RR.L) +6.34%

Rolls-Royce Holdings, not to be confused with the luxury car marque, is a British aerospace and defence engineering company specialising in the design and manufacture of jet engines for commercial and military aircraft. RR released its full year 2025 results on 26 February, confirming revenue approaching GBP 19.5 billion (up 9.5% YOY). Three drivers sustained the rally: first, European defence budgets have been raised materially in response to escalating geopolitical tensions; second, civil aviation flying hours for Rolls-Royce's widebody engines reached 109% of 2019 levels, generating strong aftermarket service revenue; and third, the Power Systems division has emerged as a key beneficiary of AI-linked data centre electricity demand.

## Detractors

### Eagers Automotive (APE) -10.55%

Eagers Automotive was the month's most significant detractor, falling 10.55% despite the company reporting record full year 2025 underlying profit of AUD 424 million a 14.3% YOY increase. Strong results but lower share price reflects several issues. The market is not wrong to be cautious, the RBA's rate hike hits directly on the consumer discretionary sector. But the market is pricing a deterioration that has not yet materialised in the earnings, and Eagers remains the dominant automotive retailer in Australia with genuine scale advantages. The pending settlement of the CanadaOne Auto Group acquisition (Canada's largest automotive retail group) also clouds uncertainty. But the position is held with conviction, and ultimately when the rate cycle turns, APE is among the holdings most directly and immediately exposed to the upside.

### Infratil Ltd (IFT) -1.57%

Infratil posted a modest decline of 1.57% during the month. Again, IFT has significant exposure to rate sensitive assets and Infratil's valuation is sensitive to changes in the discount rate used to mark its portfolio of long-duration assets. The underperformance and 25bps rate increase is not a reflection of the underlying businesses deteriorating. The stock's large NAV weighting of 10.10% meant the negative contribution was material in absolute terms even though the percentage move was small. The weighting reflects the conviction, and Moreton Financial believe there is material upside in its current valuation.