2026 Half-year investor letter

Canopy Global Small & Mid Cap Fund

Dear Investor,

We're pleased to share our letter for the fiscal half-year ending 31 December 2025 (H1 FY26) for the Canopy Global Small & Mid Cap Fund (the 'Fund').

Long term goal

Recall that our goal at Canopy Investors is to deliver double-digit annual returns over rolling five-year periods, while minimising the risk of permanent capital loss. We aim to achieve this by investing in a diverse portfolio of 20-40 high-quality global small- and mid-cap ('SMID') companies that we believe are trading at attractive prices. We expect that, over time, the underlying earnings growth of our portfolio companies will drive those returns.

In the short term, however, performance is often shaped by sentiment and prevailing investment narratives. Price movements themselves often determine which narratives gain credence, creating feedback loops as investors attribute market fluctuations to structural business changes that then drive further price movements. This explains why potential secular threats often receive disproportionate attention during periods of cyclical weakness.

How do we achieve our goal? We focus on high-quality companies – with sustainable competitive advantages, aligned management, and strong ESG characteristics – because we believe they are more likely to consistently grow earnings and surprise to the upside. We also focus on valuation, because even a great business can be a terrible investment if acquired at too high a price.

Over the past year, we've published all ten chapters of our Investor Handbook which aims to provide our existing and prospective investors with a deeper understanding of our investment philosophy and approach.

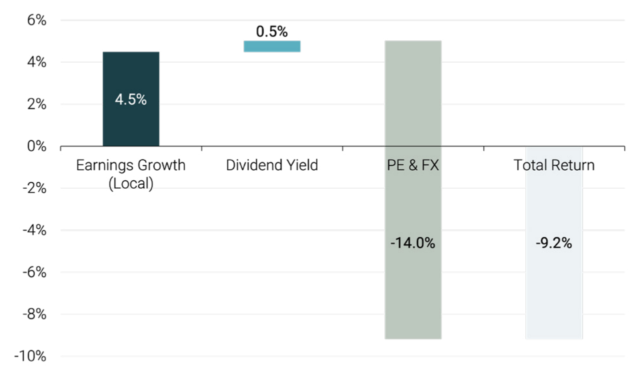
With that context, the discussion below first addresses the recent period of weaker Fund performance and places it in the context of a broader pullback in quality stocks. **The key takeaway is that, while uncomfortable, short-term underperformance that is not accompanied by a deterioration in earnings or business quality actually improves forward-looking returns. In our view, that is the situation today.** Our forward return expectations remain comfortably ahead of our double-digit target, even without assuming any recovery in valuation multiples from what are currently depressed levels relative to history. Against that backdrop, we believe the current setup for our portfolio of high-quality global SMID stocks is particularly attractive.

H1 FY26 performance

The Fund delivered a return of -9.2%, net of fees in H1 FY26, 15.8% below the benchmark[1] return of 6.7%. This has been a disappointing period of both absolute and relative performance, and one that we believe has been characterised by the market's rotation away from the quality stocks the Fund focuses on, which we elaborate on below.

We believe the most critical short-term indicator for monitoring the health of our portfolio is the fundamental performance of our portfolio companies. As shown in the chart below, the Fund's weighted average annualised local-currency EPS growth was 9% in the first half (4.5% semi-annual), including a meaningful currency headwind for many of our European investments with foreign earnings (e.g. Sonova, -6% FX impact in H1 FY26). While some companies surprised to the upside, and some to the downside, in aggregate our portfolio companies performed broadly in line with expectations. In addition, the Fund received over 1% in annualised dividends (0.5% semi-annual). However, a de-rating in the portfolio's aggregate price-earnings ('PE') multiple, from approximately 26x at 30 June to 23x at 31 December 2025, including a 2% headwind from a stronger AUD, impacted Fund returns by 14%. For context, we believe the benchmark PE multiple, similarly calculated, increased modestly over this period to approximately 20x.

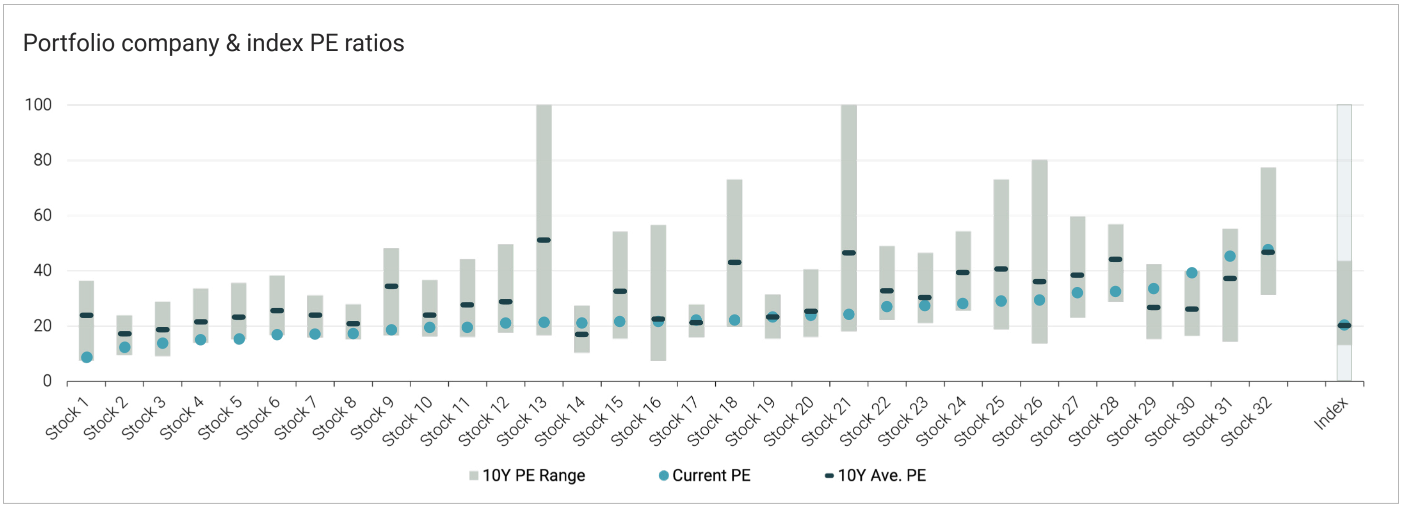
H1 FY26 portfolio return decomposition (AUD)



Source: Canopy Investors. Earnings growth reflects the portfolio-weighted, time-adjusted growth in portfolio company annual earnings, in local currencies, expressed on a semi-annual basis.

A Bennelong boutique

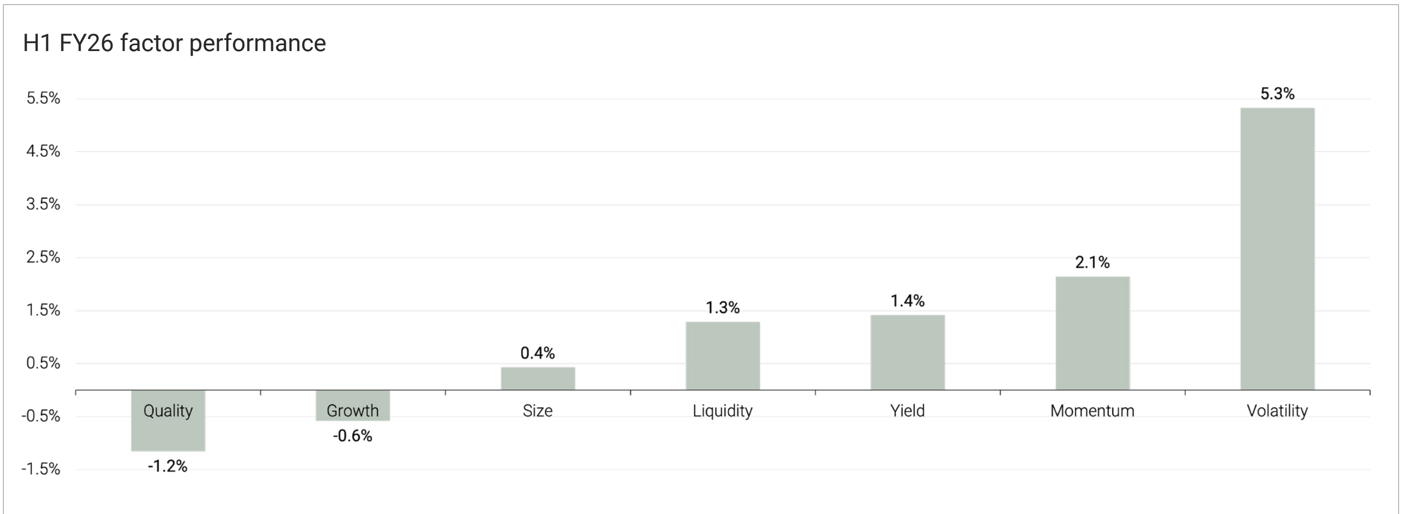
What is most notable about this period is just how broad the PE multiple de-rating was, with 25 of the 32 stocks in the portfolio as at 31 December 2025 (that had a calculable PE) experiencing a de-rating. As shown in the chart below, the majority of the portfolio is now trading at a PE multiple near the bottom end of its 10-year trading range, while the index is trading more in line with its longer-term average level.



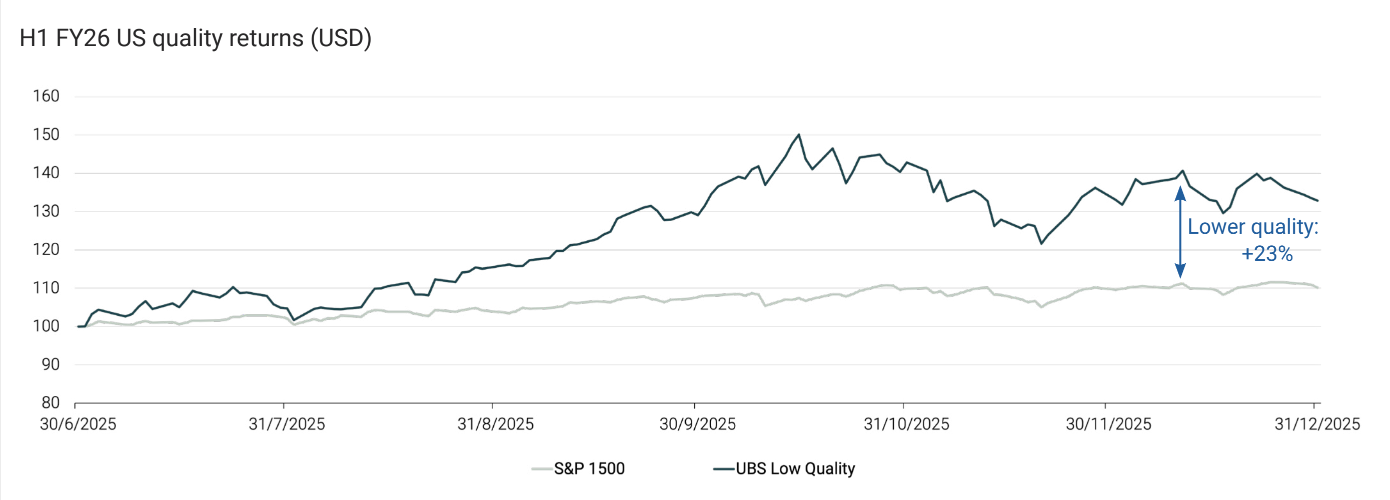
Source: FactSet, Canopy Investors. PE is calculated using 12-month forward adjusted consensus earnings estimates. In this case, 'Index' refers to the MSCI Global SMID Index. Note that one portfolio company that recently IPO'd is excluded from this analysis.

Quality lags

While the Fund's returns are always influenced by idiosyncratic factors, we believe a major driver of the de-rating during the period was a market-wide shift away from quality stocks. As shown in the chart below, quality was the worst-performing investment 'factor' in H1 FY26, while 'volatility' – that is, stocks with more volatile share prices – was by far the best-performing factor. This dynamic was particularly pronounced in the US, where lower-quality stocks outperformed the broader market by more than 20% over the period. This observation is consistent with our own analysis, which indicates that the least profitable global SMID companies outperformed the most profitable by approximately 10-15% during the period, with more highly levered stocks also outperforming.



Source: MSCI, Canopy Investors. The factor model shown is global, and all-cap.



Source: S&P, UBS, Bloomberg, Canopy Investors. The UBS 'Low Quality' Index is an equal-weighted basket of 100 US-listed stocks with the lowest composite quality scores across profitability, financial health, efficiency, management signalling, and risk.

Quality as an AI loser

This period represents a continuation of the recent underperformance of quality companies, which has been among the most pronounced in recent decades, with the last comparable episode occurring in the late 1990s in the lead-up to the dot-com crash. In both our half and full-year FY25 investor letters, we discussed rising risk appetites and increasingly speculative investor behaviour following President Trump's election victory in November 2024. We believe this behaviour has been enabled, in part, by thematic and often leveraged ETFs that are popular among retail investors, with surges in crypto, quantum, aerospace and defence companies – and, of course, the AI complex. In the most recent period, companies positively exposed to speculation in precious metals such as gold and silver also surged (e.g. Newmont Corporation, +72% in H1 FY26). Indeed, while we estimate that metals and mining account for only a low-single-digit percentage of the benchmark, these firms accounted for almost a fifth of benchmark gains in the period.

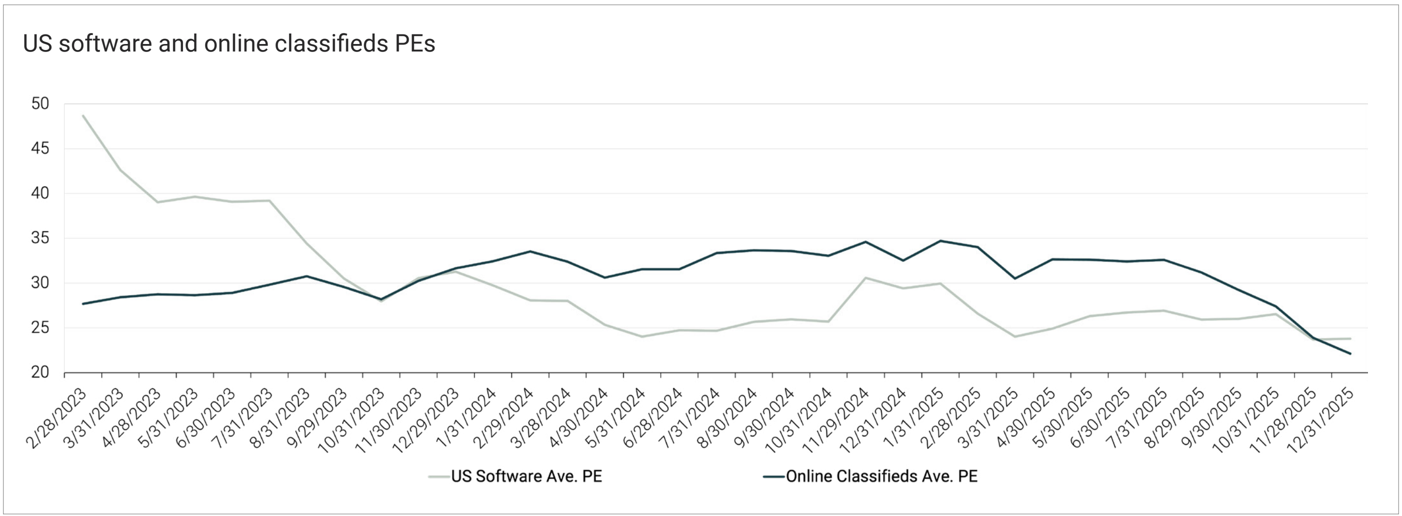
Until recently, however, quality stocks could more reasonably have been described as 'overlooked,' rather than actively sold down. That has since changed, which we believe has been driven in part by excitement around the potential of generative AI and AI agents, impacting capital flows and leading to fears of potential secular disruption.

- Capital flows: As investor attention has become increasingly concentrated on AI, equity capital has followed, benefiting both the direct enablers of the AI build-out, such as semiconductor, data centre equipment, and power infrastructure companies, as well as more speculative and tangential themes, including nuclear power. In contrast, we believe companies not directly involved, including many high-quality businesses, have seen their share prices pressured as capital has been reallocated.
- Disruption fears: Concerns around AI-driven disruption appear also to have weighed disproportionately on quality companies and the Fund. To some extent, this is understandable. Quality companies typically trade at valuations that reflect an expectation of superior revenue growth, margins, and returns, consistent with their historical performance. The emergence of a potentially disruptive technology such as AI can challenge these assumptions.

We believe this has been particularly the case in sectors such as enterprise software and online classifieds.

- Enterprise software: As recently as a few years ago, enterprise software companies – particularly those with cloud-based delivery models – were considered by many investors to be largely immune to disruption. Today, they are a source of heightened investor debate. Concerns have focused on the potential for AI agents to displace traditional software interfaces, reduce barriers to entry through low-cost AI-driven development, and pressure seat-based pricing models amid AI-driven job displacement.
- Online classifieds: Leading online classifieds platforms have similarly historically been perceived as high-quality businesses, benefiting from structural barriers to entry and pricing power derived from networks of engaged buyers and sellers. However, more recently, investor concerns have focused on the potential for AI platforms to capture a greater share of top-of-funnel search, forcing classifieds companies to pay more for traffic, or in a more extreme scenario, to be partially disintermediated. Even under a best case scenario, the prevailing narrative suggests margins may compress as classifieds companies are required to invest in their own AI capabilities.

While in both cases AI has had little discernible operational impact to date, those concerns have driven a significant de-rating in valuation multiples, as shown in the chart below.



Source: FactSet, Canopy Investors. The US software average PE is calculated as the equal-weighted average 12-month forward PE of 71 US-listed software companies in the benchmark with non-zero monthly values between December 2022 and December 2025. The online classifieds average PE is calculated similarly and includes Auto Trader, Rightmove, Scout24, REA Group, Car Group, Hemnet, and Baltic Classifieds.

In the case of both entrenched enterprise software providers and online classifieds, we believe these concerns are overdone, and that the Fund's investments in these areas have become even more compelling following the recent sell-off.

- Enterprise software providers often digitise processes that are inherently structured and deterministic, rather than the unstructured and probabilistic logic that underpins AI models. Consider the Fund's investment in PTC, a US-based software provider whose products are used by large industrial companies to design and manufacture complex products, including in the aerospace and defence industries. Designs must conform to precise engineering specifications and physical constraints – think of the components that go into an aircraft – with no scope for ambiguity or hallucination. AI is not a substitute for this business logic. Instead, we believe entrenched software providers like PTC will continue to benefit from their incumbency, data gravity, and deep business process knowledge, and are likely to be AI beneficiaries, acting as gateways for customers to supplement existing software with AI functionality. Any productivity gains are likely to be shared, even if this ultimately results in job losses.
- We similarly believe that many online classifieds companies are likely to be net beneficiaries of AI. Leading classifieds platforms benefit from strong brands, high levels of direct traffic, and unique proprietary data - advantages that have limited the impact of Google Search over the past two decades and should similarly mitigate the impact of emerging AI discovery tools. Our portfolio companies are already investing in and integrating AI to further improve their user experiences, which should support continued pricing power over time.

By maintaining a meaningful proportion of the portfolio in what we consider to be high-quality enterprise software and online classifieds companies, we have effectively taken the opposite side of the prevailing AI trade that dominated markets in 2025.

Key contributors and detractors

Contributors	H1 FY26
Medpace	1.6%
Moncler	0.6%
Assa Abloy	0.6%

Detractors	H1 FY26
Auto Trader	-1.7%
Trex	-1.5%
Tradeweb	-1.4%

Medpace was the Fund's largest contributor in H1 FY26, having been among its largest detractors over the prior 12 months. Medpace is a US-listed clinical research organisation focused on small biotechnology companies. The pharmaceutical sector has been in a period of cyclical weakness since mid-2024, driven by the impending loss of exclusivity on several major drugs, pricing pressure from the Inflation Reduction Act, heightened political scrutiny, and a weak biotech funding environment following the COVID-era boom amid higher interest rates. After four consecutive quarters of elevated project cancellations, Medpace delivered a strong inflection in fundamentals, reporting very robust net bookings growth in Q2 and Q3 FY25, alongside stronger-than-expected guidance for FY26.

Over the same period, Auto Trader, a UK-listed automotive classifieds platform, was the Fund's largest detractor. This reflected a combination of short-term factors unrelated to its half-year earnings release in November, which was a positive surprise. These included the rollout of its new Deal Builder product in late 2025, which triggered backlash from a small but vocal portion of its UK dealer base and threats of coordinated cancellations. While actual cancellations were well under 1% of its customer base, and management undertook rapid and extensive outreach efforts with dealers, this episode likely weighed on investor sentiment. We believe broader investor concern around the AI-related disruption risk outlined above was also a significant contributing factor.

While we do not consider short-term share price declines alone to constitute an investment mistake, when they are accompanied by material revisions to our medium-term earnings estimates they warrant closer scrutiny. This was the case with our second-largest detractor for the period, Trex. Trex is a US-listed supplier of outdoor composite decking and is currently experiencing an extended downturn in repair-and-remodel demand. In addition to a weaker-than-expected sales trajectory, in November the company unexpectedly announced incremental investment in sales and marketing for FY26 which will meaningfully impact profit margins. Notably, this followed the acquisition of its closest peer, AZEK, by James Hardie, suggesting the incremental investment may be defensive in nature. Taken together, these factors suggested a sufficiently significant change in industry dynamics for us to re-evaluate our investment, and we consequently opted to exit our position during the period, redeploying the proceeds into another US housing-related stock with less idiosyncratic risk.

Looking forward

As at the time of writing, virtually every Wall St strategist is predicting that major US indices will see a fourth year of strong positive returns in 2026. And why not? The Trump administration appears focused on economic stimulus ahead of the mid-term elections, including tax relief and accelerated depreciation from the One Big Beautiful Bill ('OBBB'), and proposed stimulus checks funded through tariff receipts, alongside public advocacy for lower interest rates and the naming of a new Fed Chairman. AI is a transformational technology, and strong current demand for compute is driving growth across the AI complex. The Mag-7 are more profitable than ever and, facing a potential existential threat from AI, are likely to continue to recycle their prodigious cash flow into the build-out of data centres to support AI workloads. US unemployment remains low and inflation remains in check.

Of course, there is always another side to the story. Cost-of-living pressures have increased materially in recent years, driving affordability issues across consumer goods, restaurants, and housing. Most surveys show US consumer confidence near all-time lows and indicate a K-shaped economy, with inequality widening. In terms of fiscal relief, while the OBBB will reduce tax rates, these changes will mostly benefit upper-middle- and high-income households. Meanwhile, reductions in Medicaid and food stamp benefits, as well as changes to student debt programs, will be headwinds for lower- and middle-income households. Trump's overt attempts to influence Fed policy may indeed result in lower short-term interest rates, only to see long-term rates increase due to a higher risk of inflation and a higher risk premium applied to US assets. And it is long-term interest rates that matter when determining stock valuations. There is also some risk that, rather than remaining contained, tariff-induced inflation has merely been deferred, both through inventory front-loading and temporary absorption by corporates. As for AI, which has been instrumental to recent stock market gains, there are clear signs of "irrational exuberance", including ambitious financial commitments that may prove difficult to meet, circular financial arrangements, surging AI-related venture capital investments, and growth in speculative areas only tangentially connected to AI.

Outside the US, each country faces its own political and economic dynamics, creating both opportunities and risks for investors. For example, relevant to the Visional investment case outlined at the end of this letter, Japan has a new pro-business Prime Minister, an increasingly dynamic workforce, and a depreciating yen, which enhances the competitiveness of its export-heavy economy. However, it is also facing severe labour shortages, inflationary pressures, rising long-term interest rates, and elevated geopolitical risks, particularly relating to China.

We don't claim to know how these competing forces will play out, nor do we think it is necessary to precisely predict them. Our focus remains on the underlying performance of the high-quality businesses in our portfolio, where our forward-looking return expectations continue to be very attractive and comfortably ahead of our double-digit return target, even without assuming any PE re-rating from the currently depressed valuation levels detailed above.

While the Fund's recent results have been difficult, we are encouraged by both the underlying performance and enduring quality of our portfolio companies and the valuations at which they currently trade, which we believe have created a collection of the most attractive investment opportunities we have seen.

Thank you from the Canopy team for your ongoing trust and investment.

Stock in focus: Visional

VISIONAL

Below we outline our investment case for portfolio stock, Visional (4194 JP).

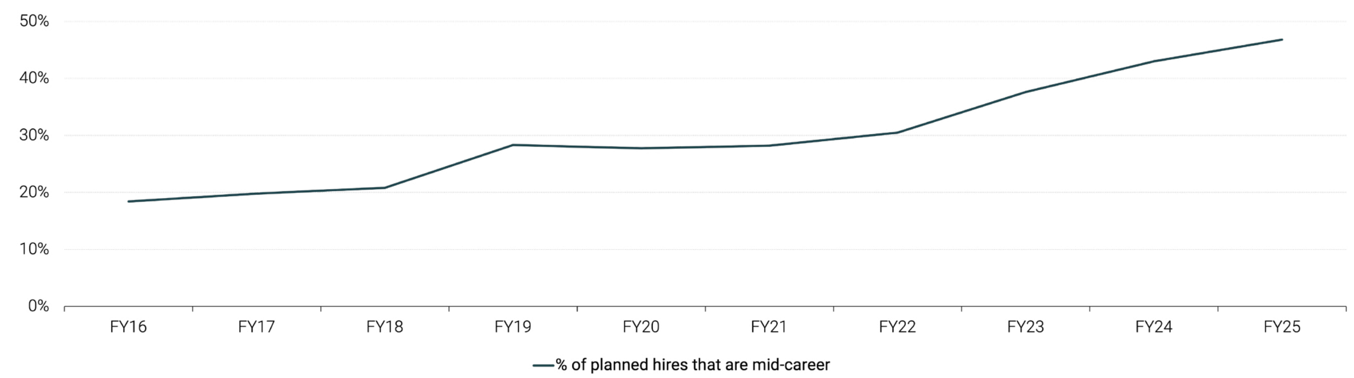
Japan has a structural need for greater mid-career labour mobility

For nearly 80 years, Japan's corporate world operated on a promise of lifetime employment. University graduates would join a company and stay until retirement, climbing the ranks internally rather than switching employers. This system, known as Shushin Koyo, rested on two foundations: 1) a steady supply of young workers entering the workforce each year; and 2) a pace of business change slow enough that companies could develop talent internally. Both assumptions are now being challenged.

Japan's working-age population peaked in 1995 and has been shrinking ever since. By 2040, the country will have 11 million fewer workers than today. The labour shortage is already acute. There are currently 1.2 job openings for every applicant, with the gap even wider for specialized technical roles. A recent Bank of Japan survey found that companies struggling to find workers outnumber those with a surplus by the widest margin in 30 years. At the same time, digitalization and AI are accelerating the pace of business change. Corporations can no longer wait ten years to develop the managers and specialists they need. They must hire experienced talent in the market.

The response has been dramatic. Ten years ago, less than 20% of professional positions at Japanese companies were planned to be filled by mid-career hires. Today, that figure is approaching 50%.

High demand for mid-career hiring



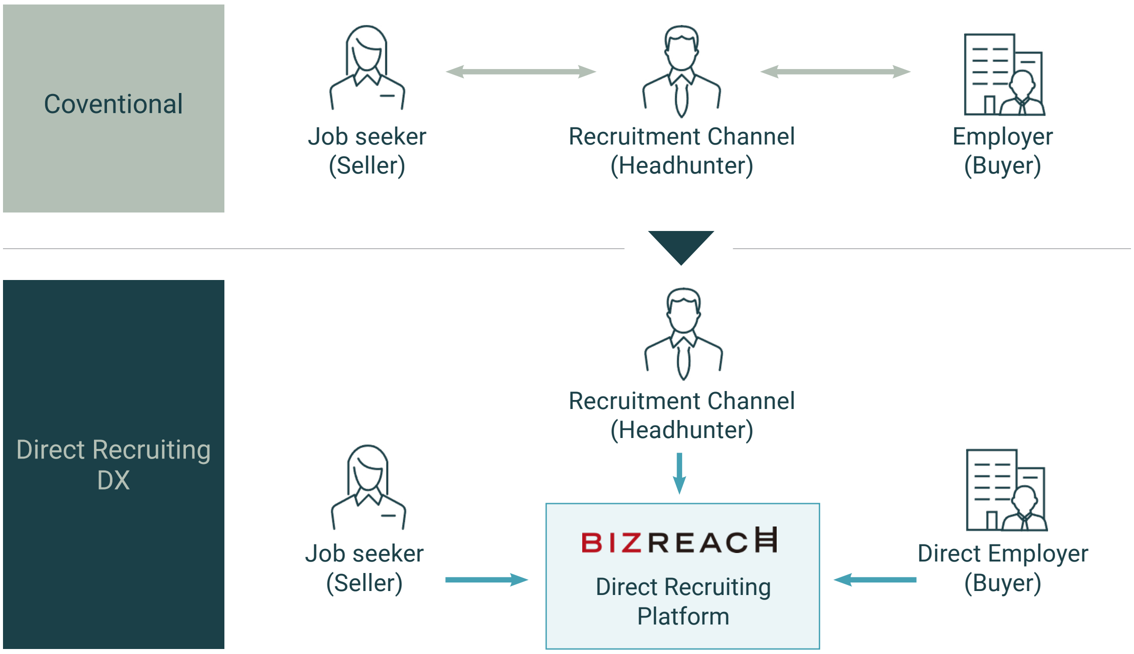
Source: Visional.

Mid-career professionals are responding in kind. Among workers earning over ¥6 million (approximately A$60,000 at 11 January 2026), job change rates have roughly doubled in recent years, though job mobility remains far below Western levels. The Japanese government is adapting too. Recognizing the severity of the labour shortage, policymakers have shifted from simply protecting existing jobs to actively promoting worker mobility. New pension policies now allow employees to transfer their retirement benefits when changing employers, removing a major barrier to job switching. Skilled immigration remains another option, though Japan has been more reluctant to embrace it than countries like Australia or Canada.

Visional is the leading platform matching companies with mid-career professionals

Visional's core business is BizReach, Japan's leading platform for matching mid-career professionals with employers both directly and via recruiters. The company was founded in 2009 by CEO Soichiro Minami, who still owns approximately 35% of the company. BizReach pioneered a new approach to recruitment in Japan, where candidates anonymously upload their resumes to the platform, and companies are able to contact them directly, without going through traditional recruitment agencies. Unlike traditional job boards where candidates apply to posted positions, BizReach flips the model, with employers approaching candidates. For prospective employers, BizReach offers compelling economics, with a success fee of 15% of employee salary, compared with the 30-50% typically charged by traditional recruiters.

DX of professional recruitment market



Source: Visional.

BizReach continues to gain share, and now serves 3.2 million job seekers (out of an addressable market exceeding 12 million), 9,300 recruiters, and 40,000 registered employers. Each of these groups has been growing at more than 20% annually over the last five years, reflecting the network effect at work. After 16 years of mass market advertising, BizReach has built a brand synonymous with professional mid-career recruiting, which helps maintain its dominance among job seekers. Last year's marketing campaign featured CEOs from several of Japan's largest conglomerates, including Asahi, JFE Steel, and NEC, appearing in TV commercials to endorse the platform.

Competing platforms do exist, owned by Japan's largest traditional recruiters. However, they face an innovator's dilemma. The success of their direct recruitment platforms would cannibalize their more profitable traditional recruitment businesses. BizReach has no such conflict. With no traditional recruiting segment to protect, it can fully commit to growing the direct recruitment market.

This competitive advantage is reflected in BizReach's financial performance. Revenue and operating profit have both grown by over 25% annually over the last five years. The business maintains a 40% operating profit margin, with most expenses directed toward advertising that maintains and expands its job seeker base. The platform's strength is evident in its pricing power. In December 2025, BizReach announced it would increase its take rate on recruiters.

BizReach's business model is also more resilient than that of typical employment platforms. Around a third of BizReach's revenue comes from fixed subscription fees that recruiters and employers continue to pay even when hiring slows. Meanwhile, in weak market conditions, the company can reduce its largest expense: advertising to attract job seekers. This was evident during COVID-19, when margins expanded sharply as marketing spend fell while subscription revenues held steady. BizReach also captures wage inflation through its performance fees, an increasingly valuable feature as Japan experiences inflation for the first time in decades.

Beyond BizReach, Visional's largest other segment is HRMOS, a growing HR software business that represents roughly 10% of sales and is currently unprofitable. HRMOS offers a suite of HR applications including attendance management, expense management, and talent management. Enterprise software remains underpenetrated in Japan but is advancing rapidly, driven by labour shortages and supported by government incentives. It recently launched 'Internal BizReach by HRMOS,' which applies BizReach's matching technology to help Japanese companies retain employees by moving them to internal opportunities rather than losing them to competitors.

Visional is a high-quality business at a bargain price

Our investment thesis is that Visional represents an inexpensive bet on the continued modernisation of Japan's labour market. It has four primary components: 1) the structural shift in Japan's labour market will continue to drive growth in mid-career job changes; 2) BizReach's competitive advantages position it to continue to gain market share; 3) the company is likely to benefit from disciplined, founder-led management with significant skin in the game; and 4) Visional's valuation is highly compelling.

On the last point, at 31 December 2025, Visional traded at 20x estimated forward earnings. However, this understates BizReach's true value. The company holds cash equal to ~15% of its market value and is currently investing in unprofitable businesses (HRMOS and an early-stage venture portfolio) that have depressed its consolidated earnings. Adjusting for these factors, BizReach itself trades at approximately 15x earnings, which we believe is compelling value for a business expected to grow in the mid-teens for years to come. We further see its unprofitable segments as call options rather than permanent drags on profitability. HRMOS has been growing over 30% annually for years, demonstrating strong customer demand. Its integration with BizReach provides a differentiation that competitors cannot easily replicate. Meanwhile, management has shown discipline with its venture investments, closing or divesting businesses that fail to meet expectations.

The rise of AI poses an obvious question: what happens to a platform for hiring white-collar professionals if AI eliminates those jobs? Fortunately, we believe that Japan's acute labour shortage provides meaningful insulation. The country simply does not have enough workers, so productivity gains from AI are more likely to be absorbed through economic growth rather than mass layoffs. While displacement risk is likely higher for entry-level roles involving routine tasks, BizReach focuses on experienced mid-career professionals, precisely the workers whose judgment and expertise are hardest to automate. For its part, Visional has invested heavily in AI, which is already incorporated into its platform to improve its user experience and matching. As at July 2025, Visional held 55 generative AI-related patents, the most of any Japanese company.

For more information visit canopyinvestors.com or call 1800 895 388 (AU) or 0800 442 304 (NZ).

1 Benchmark is the S&P Developed markets MidSmallCap (AUD) Net Total Return