17 November 2026

By Electronic Lodgement

Market Announcements Office
ASX Ltd
39 Martin Place
SYDNEY NSW 2000

Dear Sir/Madam

Longwave Australian Small Companies Fund – Active ETF (ASX: WAVE) – Monthly Investment Update

Please find attached a copy of the investment update for the month ending 31 October 2026.

For further information, please contact 1300 010 311.

Authorised by:

Terence Kwong
Company Secretary

Pinnacle Fund Services Limited as responsible entity of the Longwave Australian Small Companies Fund – Active ETF (ASX: WAVE)

Pinnacle Fund Services Limited
ABN 29 082 494 362
AFSL 238371

PO Box R1313
Royal Exchange NSW 1225
1300 360 306

LONGWAVE AUSTRALIAN SMALL COMPANIES FUND – ACTIVE ETF

ARSN 630 979 449

LONGWAVE CAPITAL

MONTHLY REPORT OCTOBER 2026

FUND PERFORMANCE (AFTER FEES) TO 31 OCT 2026

	1M	3M	6M	1yr	3yr p.a.	5yr p.a.	SI[3] p.a.
Net Fund Performance[1]	-3.7%	1.3%	4.4%	-6.3%	12.2%	5.3%	7.4%
Benchmark Performance[2]	-6.4%	-3.9%	-6.9%	-14.4%	10.0%	0.6%	4.0%
Excess Return	2.7%	5.2%	11.3%	8.1%	2.2%	4.7%	3.4%

1. Return net of 0.89% p.a. management fee. The management fee for this Class is variable based on the NAV of the Class. Refer to the PDS for more information. The Performance of the Fund includes the period prior to quotation on 14 October 2026. **2.** S&P/ASX Small Ordinaries Total Return Index. **3.** Inception date: 31 Oct, 2019. Past performance is not a reliable indicator of future performance, p.a. performance is annualised.

Investors who apply for units directly with the Responsible Entity may pay a different price per unit to an investor who purchases those units on the ASX at the same time, and such differences may have a material impact on the performance of that investment. The above performance reflects the performance of the Fund where units are purchased and redeemed directly with the Responsible Entity only.

The Longwave Australian Small Companies Fund – Active ETF decreased by 3.7% during October 2026, outperforming the 6.4% decrease in the S&P/ASX Small Ordinaries Total Return Index benchmark by 2.7% over the month (after fees).

BACK TO THE FUTURE

Equity analysts often focus on the downside risk from a stock being over-valued. In our experience, credit analysts focus far more on the downside risk coming from fundamental issues in the business and the balance sheet. This is because equity analysts can be right or wrong on a change in price independent of fundamentals (although normally getting the fundamentals right helps), but credit analysts most often lose money when the market gets the fundamentals – including the liability side of the balance sheet equity investors often gloss over – wrong.

For most of the time since 2014, as the China driven mining boom waned and the rise of global intangible driven technology took over, we have been living in a capital light, zero inflation, falling cost of credit world. The leading growth companies generated far more cashflow than they needed to fund their growth, and borrowing costs – both reference rates and credit spreads – did nothing but get cheaper. This abundance of excess cashflow and cheap financing created an unusual world where global growth leaders like The Magnificent 7 and domestic champions with similar business models were able to deliver fundamental and investment outcomes rarely seen in history. 20% per annum growth, plenty of excess free cash flow, and if they needed to borrow to buy back shares, they could finance this in some cases more cheaply than sovereign nations. Analysts could basically treat EBITDA as cash flow given the depreciation was small enough to ignore. In fact, both the asset and liability sides of the balance sheet were largely ignored for a decade.

This all ended in 2022, and how different the world looks now. AI as the main global growth engine is incredibly capital intensive and is now pushing not just the physical limits of available power, but also social limits and those in global credit markets.

DATA CENTRE ECONOMICS

In Australia, NextDC is a great example for this economic regime change. Reviewing how the company presented itself to the market over the last decade we saw several narratives emerge:

2016 to 20: Focus was on the IRR of early data centres (B1, S1, M1)

2021 to 24: Focus moved to EBITDA and Gross (pre-CAPEX) Cashflow

2024: Focus moved to Forward Order Book and Megawatts

2025: Focus moved to the share price via the A$150m Growth Incentive Plan for executives which was 100% linked to ASX:NXT share price performance

2026: Focus now on the debt covenants, selling surplus assets and survival!

TOP 10 HOLDINGS

Name (Alphabetical)
Auckland International Airport Ltd
Capstone Copper Corp
Imdex Ltd
New Hope Corp Ltd
News Corp
Reece Ltd
Reliance Worldwide Corp Ltd
Sims Ltd
TPG Telecom Ltd
Ventia Services Group Pty Ltd

FUND AND BENCHMARK SECTOR WEIGHT (%)

	Fund	BM[2]
Communication Services	7.4	5.1
Consumer Discretionary	12.3	9.5
Consumer Staples	1.8	4.5
Energy	4.6	5.6
Financials	10.3	12.3
Health Care	4.3	4.8
Industrials	25.4	16.7
Information Technology	7.1	5.6
Materials	19.9	25.7
Real Estate	2.3	10.2
Utilities	0.0	0.0
Cash	4.6	0.0

STOCK ATTRIBUTION (ALPHABETICAL)

Top 5 - Contributors
4DMedical Ltd
Maas Group Holdings Ltd
PDI Gold Ltd
PYC Therapeutics Ltd
Sunrise Energy Metals Ltd

Bottom 5 - Detractors
Capstone Copper Corp
Catalyst Metals Ltd
Codan Ltd
DPM Metals Inc
Pinnacle Investment Management Group Ltd

CONTINUED

We would argue the early framing (2016-20) was the correct one – spending millions, then billions, then tens of billions of capital in long term projects should be framed in terms of the cash backed IRR the equity investor should expect to earn, and over time management should transparently track the components of that return in regular reporting and in support of committing new capital (equity or debt). This seems quaint in the AI age of capital markets but still has merit.

Between late 2025 and pre-October 2026 was the peak of the disconnect between the economics of the NextDC data centre business and the way management was being incentivised. Following the FY26 result, the underlying business was being forecast by the market (consensus) to deliver an at-maturity (FY29) return on invested capital (EBIT / IC) of less than 3%. This is once all the contracted MW had been built, come online and billing, and were delivering the "greater than A$1bn" of EBITDA these contracts represented. Financial math tends to suggest that if you leverage a business at a cost of debt higher than the return on assets, all that leverage won't improve the return. Hence the ROE in FY29 was negative using consensus forecasts as the EBIT was estimated at less than the interest bill. These types of projects worked in the prior era of zero interest rates and an assumption that EBITDA = cash flow. They no longer work in a world of double-digit project financing, credit stress across the market, and a slow dawning that Depreciation is a real cost for asset intensive businesses – at least for equity holders with an "in perpetuity" view. Data centres are not made of software and rapid growth at a 3% incremental ROIC can't generate superior long-term returns.

This is not just an "obvious in hindsight after a big profit warning" view – the 10 year annual total returns for NXT to the day before that event were lower than the ASX300 and less than half that of the NASDAQ (in AUD) despite both cloud tailwinds post COVID and AI tailwinds post ChatGPT (Nov 2022).

The nature of the contracts NextDC signs is to Tier-One Hyper-scalers on 10-15 year take-or-pay terms with full power price passthrough and CPI or fixed annual escalators. This sounds great – and for debt holders these contracts and counterparties give them comfort their loans will be serviced – but it locks those low returns in for equity holders and potentially cash constrains the business, as servicing the debt leaves very little cashflow for maintenance capex, dividends, or reinvestment in other growth opportunities which may have higher returns.

So where is the upside? It seems based on the bid for 9.9% of NXT shares by Goodman Group and Digital Realty at A$9.50 (a 45% premium to last), two similar businesses trading at 2 to 2.5x book value, NXT at less than 1x was too tempting.

TECH BUBBLE MEETS GLOBAL FINANCIAL CRISIS

Investors are grappling with many many variables related to the AI boom (bubble?), but as we have noted previously just knowing what business model you are investing in remains an important consideration.

We have previously discussed business model misclassification risk and this remains true in the AI era. High growth capital intensive businesses, with volatile ROIC in the mid-single digits are not wealth creators – regardless of their end markets growing quickly and thematically popular or easy to pitch like "AI picks and shovels" or "real estate backed technology growth". Investors in mining equipment between 2006 and 2012 learned this lesson the hard way – and in many ways the China boom and the investment lessons learned is a useful analogy to the current environment.

Similar to the dot com bubble, the technology is real but the future is uncertain. The speed of adoption. The unknown shifts in underlying technology and the impact that could have on demand, supply or price. And similar to the GFC, and particularly the financing of the US housing market, the reliance on credit markets, "innovation" (was CDO's in 2008, is private credit in 2026) and ever more complicated financing structures are once again a feature today. And to add more good news, at home we finally have the deflation of the Australian housing market.

There are lots of things to worry about, and lots of worry now discounted in small cap share prices. As always, we remain focused on our philosophy of buying high-quality companies with strong financial positions at reasonable prices. We think that will continue to work over the medium term.

Fund characteristics	As at 31 Oct 2026
NAV	A$11.4101
Redemption unit price	A$11.3759
Inception Date	31 Oct, 2019
Available on ASX	14 Oct, 2026
Management Fee	0.89% p.a.
Performance Fee	-
Risk/Return profile	High
Buy / Sell Spread	0.30% / 0.30%
Benchmark	S&P/ASX Small Ordinaries Total Return Index
Distribution frequency	Half-yearly
Portfolio FUM (A$m)	51.3
No. of Holdings:	121
Portfolio Managers	David Wanis, Jai Beathe & Melinda White
Strategy FUM (A$m):	1,322.1

*The management fee for this Class is variable based on the NAV attributed to the Class. Please refer to the PDS for more information.

INVESTMENT OBJECTIVE

The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over the long term (after fees). The Fund aims to provide long-term capital growth through investment in a diversified portfolio of high-quality Australasian small companies (outside S&P/ASX 100 Index at time of investment or expected to be within six months).

INVESTMENT STYLE

Longwave's investment philosophy is underpinned by the belief that the stocks of high-quality small companies outperform the benchmark over time, and as such, an active approach to investing in high-quality stocks provides value to investors who might otherwise have invested passively. Longwave believes in the value of a deep and fundamental understanding of the securities in which we invest.

Recommended Lonsec Research

Zenith RECOMMENDED

Signatory of:

PRI Principles for Responsible Investment

Supporter of:

TCFD TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

As we wrote about last month in relation to the GFC, and in June about the credit market and Australian property (fishing with dynamite), the intersection of a high growth bubble, asset intensive business models, and credit dynamics are becoming front and centre for all investors. Longwave founders were fortunate enough to spend many years working directly with credit investors and have incorporated many of their analytical frameworks into our own process. We believe this gives us new eyes – and our goal is to use them.

"The real voyage of discovery consists not in seeking new landscapes, but in having new eyes."

Marcel Proust

PORTFOLIO POSITIONING AND PERFORMANCE

October was a difficult month for small caps (down 6.4%), on top of what has been a difficult year (down 14.3%). Small Resources were particularly hard hit during the month (down 13.9%) across gold, copper, base metals and steel. Industrials fared better (down 2.8%) although some industrial sectors like Healthcare and Technology were harder hit.

Despite the narrative of cost-of-living pressure and a weak trading update from Nick Scali, the consumer discretionary sector overall did better. Temple & Webster was probably one of the more interesting as their trading update was probably "not worse" rather than necessarily "good", and the stock increased 17.6% over the month. Is there enough bad news already priced in here? We have often found good discretionary stocks are best bought when current trading is poor and stocks are cheaper – with the caveat you don't want to buy a failing format (eg: David Jones) or a stretched balance sheet.

Our portfolio positioning remains consistent with our comments over the past six months: Small caps are cheap relative to large caps (circa 15% forward p/e ratio discount), however in the face of rising interest rates we believe many discounted names could be value traps if they fall short on quality or balance sheet robustness. Our portfolio ROE (20.5%) remains well above the benchmark (15.5%) and debt (1.3x EBITDA) well below the benchmark (3.1x). Our diversified quality portfolio trades even better value than the benchmark (P/E of 14.8 vs 15, EV/EBITDA of 7.8 vs 8.2).

All companies mentioned are for illustrative purposes only and are not a recommendation to buy or sell any particular security.
Past performance is not a reliable indicator of future performance. Performance is quoted in AUD net of portfolio related fees, costs, and taxes.

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Link to the Product Disclosure Statement: WHT9368AU
Link to the Target Market Determination: WHT9368AU
For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email service@pinnacleinvestment.com.

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