



Royston Capital

Family Wealth Outlook

EDITION 1 · OCTOBER 2026 · REVIEWING THE SEPTEMBER QUARTER

Editorial Looking past the accepted numbers

Macro update The Signal

Markets and model portfolio review A resilient quarter, and the decisions behind it

Technical update Trusts, gains and gearing

Book review Moneyball, by Michael Lewis

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Looking past the accepted numbers

A new publication, a testing quarter, and why the most useful question is often “what is this number really telling us?”

Christopher Boag · Founder and Chief Executive Officer

Welcome to the first edition of *Family Wealth Outlook*, which replaces our economic update. That update had, if we're honest, become something to file rather than something to read.

We wanted a publication more like a conversation with your investment office. It should be broad enough to cover markets and the economy. It should go deep enough on the matters that shape family wealth across generations: how it is structured, governed, invested and handed on. Each edition will bring our view of the economy, a review of our model portfolios, a technical piece on the rules that affect you, and something a little lighter to finish.

This quarter, one idea kept coming up in our work. It happens to be the lesson of this edition's book review, Michael Lewis's *Moneyball*. The numbers everyone accepts are not always the numbers that matter. Good capital stewardship depends on looking past the headline figure to what sits underneath it.

The numbers everyone accepts are not always the numbers that matter.

A quarter that rewarded a second look

The headline story was simple: rates went up again. The RBA lifted the cash rate to 4.60%, its fourth rise this year. Australian ten-year bond yields reached their highest level since 2011.

Our Macro update looks underneath that headline. Much of today's inflation comes from fuel and electricity, which higher rates do little to fix. Households are as gloomy as at any time since the early-1990s recession. The long end of the bond market is now doing much of the tightening.

Our model portfolios held up well in those conditions. Three of the five outperformed their benchmarks. The International Direct portfolio returned 3.93%. Both interest-bearing portfolios finished ahead of benchmarks that fell as yields rose. The Core Australian Equities and International Fund of Funds portfolios trailed modestly. The Markets and Model Portfolio Review explains why, and why we believe the holdings that lagged are better placed than one quarter suggests.

Two events from the past month show the kind of judgement a family's investment office should exercise.

Private credit: why the structure matters as much as the yield

Private markets have a genuine place in a family's portfolio. But in private credit, how you invest matters as much as whether you invest.

Over many years we have chosen not to use the large pooled private credit funds marketed to private investors, including those run by Metrics and La Trobe. We have also stayed away from property

development lending more broadly. That has sometimes meant explaining why we were passing up yields that looked attractive next to term deposits.

The past few weeks have tested that sector. Property developer Bathla Group entered administration in August owing around \$3 billion to roughly 40 lenders, many of them private credit firms. Metrics, one of Australia's largest private credit managers, froze investor redemptions from some funds after its auditor, KPMG, disagreed with assumptions in its preliminary accounts, including how unlisted commercial property investments were valued. The freeze covers its \$6 billion MCP Wholesale Investment Trust and its \$3.3 billion wholesale real estate debt fund. The three related ASX-listed trusts had their asset backing cut by between 2% and 12%. ASIC has said the industry is now beyond warnings and should prepare for enforcement action.

None of this surprised us. Our experience of investing family capital goes back to before the global financial crisis, when many unlisted mortgage funds froze redemptions almost overnight and investors who believed they held something close to cash learned otherwise. The pattern then and now is similar: lending concentrated in property construction and development, large exposures to a small number of borrowers, and redemption terms that promise more liquidity than the underlying loans can provide. When conditions turn, those three things tend to arrive together.

That doesn't mean we avoid private credit. We don't, and we would be wary of anyone who described it as low risk. Our exposure is through two funds run by Alexander Funds Management, a Melbourne credit specialist we have known since co-founder Chris Black started the business in 2009. Rather than lending to property developers, its funds hold diversified pools of asset-backed securities, residential mortgage-backed securities and corporate loans, with a credit duration of around a year. Their terms are frank about liquidity, which is what we look for: redemption arrangements that match the assets.

Private credit pays a higher income because it carries real risk, and that includes the funds we use. A steady unit price can understate that risk, so private credit is one part of our interest-bearing portfolios, alongside listed securities and bonds that are priced every day. Whatever the investment, our questions are the same. Do we know the people? Do we understand what is owned? Do the redemption terms match the liquidity of the underlying assets?

Firmus: a compelling story is not a valuation

The other test came in the IPO market. Firmus, a Nvidia-backed AI data-centre developer, sought to list on the ASX. It offered shares at \$11 to raise several billion dollars at a market value of roughly \$44 billion, having been valued at \$1.85 billion in September last year. Bankers tested lower prices before the company withdrew the offer and said it would instead seek capital from private markets.

We chose not to participate, for two reasons.

The first was people. One of Firmus's co-founders was convicted in 2016 of conspiracy to commit insider trading and served a year of a two-year sentence. People rebuild careers, and we don't suggest otherwise. But when we are asked to entrust family capital to a management team, its record is the first thing we examine, not the last.

The second was price. UniSuper's chief investment officer described Firmus as a compelling story but not a compelling valuation, noting the company would likely need to return for more debt and equity. Our Macro update makes a related point from the US, where the bonds of CoreWeave, a heavily indebted AI cloud provider, sold off sharply in October: AI infrastructure built on borrowed money carries very different risks.

Firmus also highlighted something every investor should keep in mind. The banks and brokers running an IPO are paid by the company selling the shares, usually in proportion to the amount raised. Their enthusiasm and their research should be read in that light. This matters for every family offered a “hot” float. It matters just as much for business owners who may one day sit on the other side of the table. A sale or listing is often the largest liquidity event in a family’s history, and it deserves advice that has no stake in the size of the deal.

Policy: plan for what is known, prepare for what isn’t

Victorians go to the polls on 28 November. Whatever the result, the next government inherits the same arithmetic. Net debt is forecast at \$175.6 billion in 2026–27 and \$199.3 billion by 2029–30, with annual interest payments rising to \$11.8 billion. For property-owning families, land tax is the clearest lever. Labor, the Liberals and One Nation have all committed to lifting the land tax threshold back to \$300,000, while the Greens would target large investors instead. These are promises, not law, and a state carrying this much debt will keep looking for revenue. We plan on that basis.

Federally, the change is larger and more certain. The overhaul of capital gains tax and negative gearing is already law and begins on 1 July 2027. The proposed 30% minimum tax on discretionary trusts is now before Parliament and is set to begin a year later. Reasonable people differ on the policy aims. Our concern is practical. These rules add real complexity to the structures many families have relied on for decades to hold investments and plan for the next generation. Some of the choices they force cannot be reversed. And for trusts that distribute to a company beneficiary, the same income could be taxed at a combined rate of up to 55%, or 60% where the company pays the higher rate.

These are governance decisions as much as tax decisions. Trustees, family members and advisers will need to work through them together, well before the deadlines arrive. Our Technical Update sets out the options and the dates. Our advice is simple: model early, decide carefully, and do not let the deadlines make the decision for you.

In this edition

- **The Signal**, our Macro update, explains why both central banks are fighting inflation that higher rates cannot easily reach.
- **Markets and Model Portfolio Review** covers each portfolio and the decisions we made during the quarter.
- **Trusts, gains and gearing**, our Technical Update, works through the trust, CGT and negative gearing changes, with worked examples.
- **Book review: Moneyball** is a reminder that sound portfolio construction comes from building better measures, not from accepting the ones everyone else uses.

Our ambition is to be the investment office for Australia’s wealthy families: patient with capital, careful with structures, and honest about what the numbers are telling us. We hope this new format serves that ambition, and we would welcome your thoughts on it.

Christopher Boag

Founder and Chief Executive Officer, Royston Capital

02 · MACRO UPDATE

The Signal

Why both central banks are fighting inflation that higher rates cannot easily reach, and what markets are pricing next.

Krasni Shrivastava · 22 October 2026

In brief

Australia and the US are dealing with the same problem. In both, inflation is being pushed up by fuel and electricity more than by overheating demand, households are as gloomy as they have been in decades, and ten-year bond yields sit above 5%. What differs is how each central bank is responding.

In Australia, the RBA is still leaning in. After four rises this year, Deputy Governor Hauser called the inflation outlook “materially worse”, and markets went from a one-in-five to a coin-flip chance of a fifth rise on 3 November in a single day. Whether that is a genuine signal or jawboning will be settled by the September-quarter trimmed mean on 28 October. Headline inflation has jumped to 4.0% on fuel and electricity, and discretionary prices fell in August as spending flattened, but the trimmed mean has held at 3.6% for three months.

In the US, the Fed is being priced for a pause. Chair Warsh no longer gives forward guidance, and without that signal the range of plausible paths for short rates is wider. This increased risk has unsurprisingly caused the long end of the Treasury curve to do the tightening instead: the 10-year yields hit 5.00%, and almost all of that is real yield and term premium rather than expected inflation. If AI capital spending also lifts the real return on capital across the economy, the neutral real rate itself may be higher than the Fed’s models assume, in which case some of this is not premium at all but the new resting level.

Share markets reflect what they own more than how their economies are doing. Wall Street sits near records on AI-led profit growth of almost 30%; the ASX, built on banks and miners, is flat for the year. Beneath both, AI’s binding constraint is now power rather than chips, a theme that runs through memory valuations, energy prices and, as Hauser noted, Australia’s own data-centre construction boom.

Measure	Latest	Context
Australia		
RBA cash rate	4.60%	Four rises in 2026; highest since 2011
Market odds of a November rise	About 50–60%	Up from about 22% before Hauser’s 21 October remarks
10-year government bond	5.18% (23 Oct)	Highest since 2011; above the US 10-year
S&P/ASX 200	8,795 (23 Oct)	Record 9,296.7 in August; about 3.6% below a year ago
Australian dollar	US 70.4c (23 Oct)	Up about 8% over 12 months
Unemployment rate	4.7% (Sep)	Five-year high; employment fell 39,300
Consumer sentiment (Westpac-MI)	80.4 (Oct)	67.2 among those surveyed after the RBA rise
Inflation	4.0% CPI; 3.6% trimmed mean (Aug)	Above the 2–3% target band

Measure	Latest	Context
United States		
Federal funds target	3.75–4.00%	Raised 16 September, 12–0
Market odds of an October rise	About 9–10%	Down from 54% after the September CPI; December rise about 70–80% priced
10-year Treasury	5.00% (23 Oct)	Peak 5.31% on 5 Oct, highest since 2002; fell 19bp on 22 Oct, the largest one-day drop since March 2023
10-year real (TIPS) yield	About 2.66% (23 Oct)	Implied inflation about 2.34%
S&P 500	7,624 (23 Oct)	Record close 7,819 on 6 Oct; down 0.5% on the week
CPI, September	3.7%; core 2.6%	Core PCE revised to 3.0% (Aug)
Unemployment rate	4.2% (Sep)	Payrolls +29,000
Consumer sentiment (Michigan)	46.3 (Oct, preliminary)	Year-ahead inflation expectations 4.7%

Market levels as at 23 October 2026 unless shown. Sources listed at the end.

Australia: a central bank still leaning in

Markets: a sideways index with very different sectors underneath

The ASX 200 closed at 8,795 on 23 October, about 5% below its August record and close to where it began the year. That flat headline hides wide gaps. The index is mostly banks, miners and other rate-sensitive businesses, with little of the AI earnings engine lifting Wall Street, so weakness has reflected the global rise in long yields without the offset of US-style profit growth.

Technology has been the swing sector, moving with the Nasdaq and with global doubts about AI spending. **Energy** has been the steadiest winner on high oil and coal prices. **Banks** have tended to rise when yields ease and the RBA outlook softens. **Materials** are split by commodity: copper and diversified miners up, iron ore and lithium down.

Session	Best sector	Weakest sector
Week to 2 Oct	Technology +7.34%	Gold –1.27%
6 Oct	A-REITs +1.14%	Technology –2.90%
16 Oct	Technology +5.62% (materials +3.18%)	Financials and staples, small falls
19 Oct	Energy +2.21% (coal miners)	Technology –1.31%
21 Oct	Communication services +2.2%	Technology –3.3% (materials –1.0%)

ASX 200 sector moves, October 2026. Sources: Small Caps, Kalkine, ShareTrader.

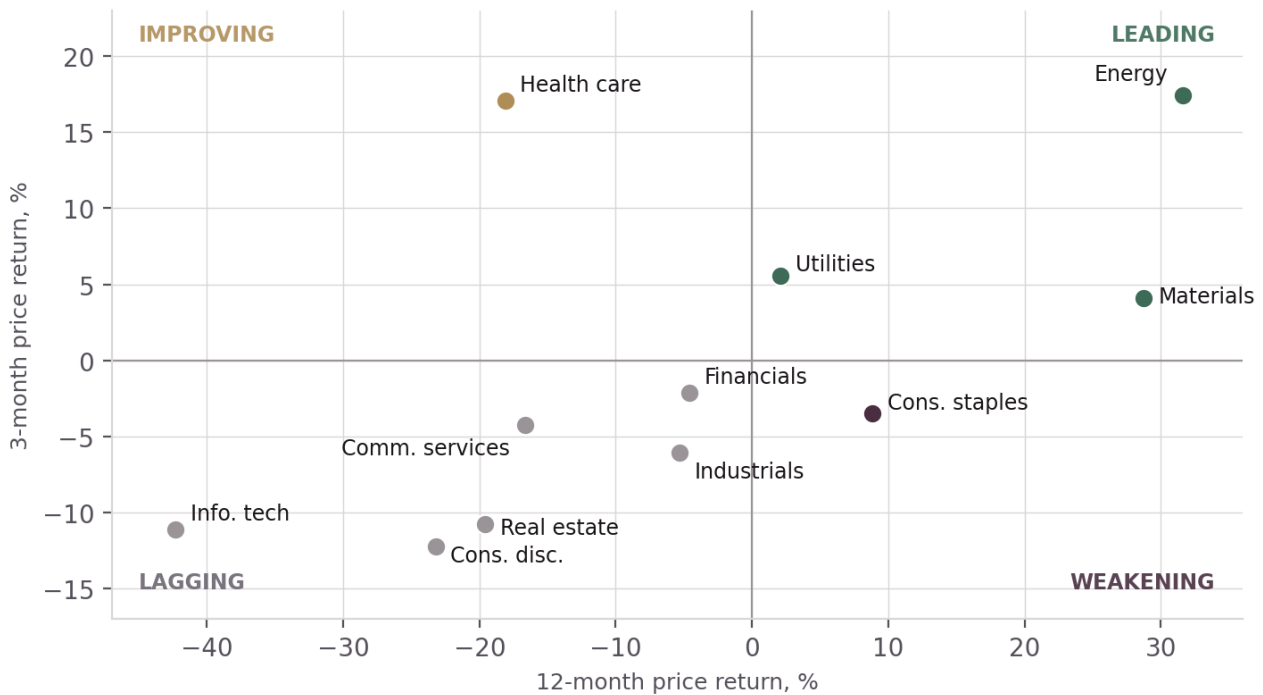
Sector momentum and valuation

Resources lead this year, but are rapidly retreating: energy and materials are up about 30% over 12 months and still rising. **Health care is turning:** down 18% over the year but up 17% over the latest three months.

Almost everything else lags, with technology down 42% over 12 months, consumer discretionary and real estate down about 20%, and financials slipping.

Resources lead; health care is turning; most of the index lags

ASX 300 sector price returns to 30 Sep 2026 (final month to 11 Sep). Royston ASX Sector Dashboard.

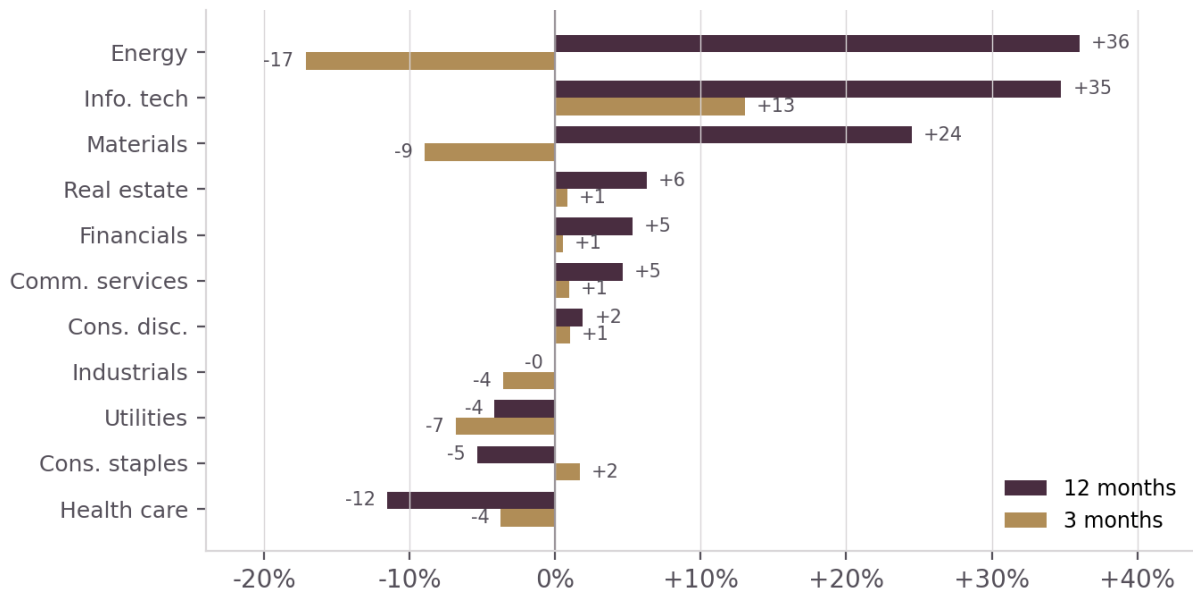


Source: Royston ASX Sector Dashboard (capital allocation workbook), ASX 300 GICS sector price indices to 30 Sep 2026. The final month is a part-month to 11 Sep.

Earnings revisions show the momentum in resources is no longer being confirmed. Forward earnings for energy and materials are still well up on a year ago, but over the past three months they have been cut 17% and 9% respectively. Technology is the reverse: forward earnings up 35% over the year while the share prices fell 42%, a de-rating rather than an earnings problem based largely on terminal value fears. Health care is the one turning sector without earnings support yet, with estimates down 12% over 12 months, although still cheap relative to historical multiples.

Earnings momentum is fading in resources

Change in consensus 12-month-forward EPS, by sector. Royston ASX Sector Dashboard, to 30 Sep 2026.

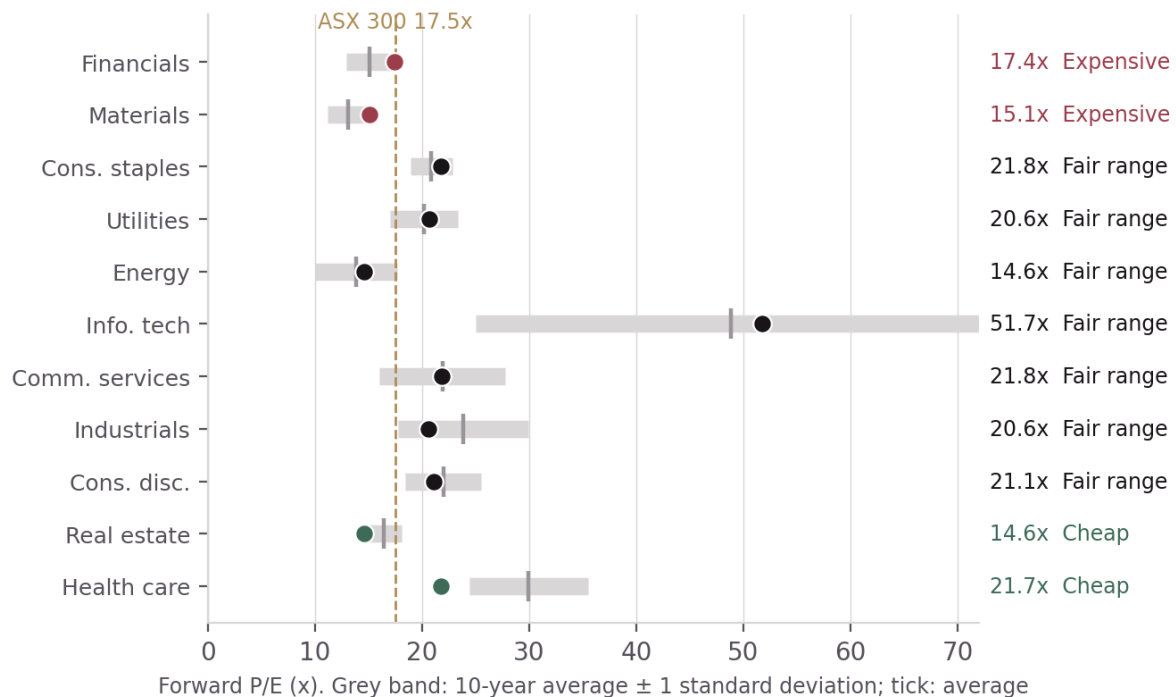


Source: Royston ASX Sector Dashboard, consensus 12-month-forward EPS revisions, to 30 Sep 2026.

On valuation, the ASX 300 trades at 17.5x forward earnings, inside its normal range against a 10-year average of 16.7x, although the aggregate hides a skew. The two sectors the house method rates **expensive**, financials (17.4x against a 10-year average of 15.0x) and materials (15.1x against 13.1x), are also the two largest, at roughly 32% and 26% of the index. Banks, a sub-sector of financials, sit at 17.8x. The sectors rated **cheap**, health care (21.7x against 29.9x) and real estate (14.6x against 16.4x), together make up only about 11% of the index.

The index's two biggest sectors are the expensive ones

ASX 300 sector forward P/E vs each sector's own 10-year history, 30 Sep 2026. Dearest (by z-score) at top.



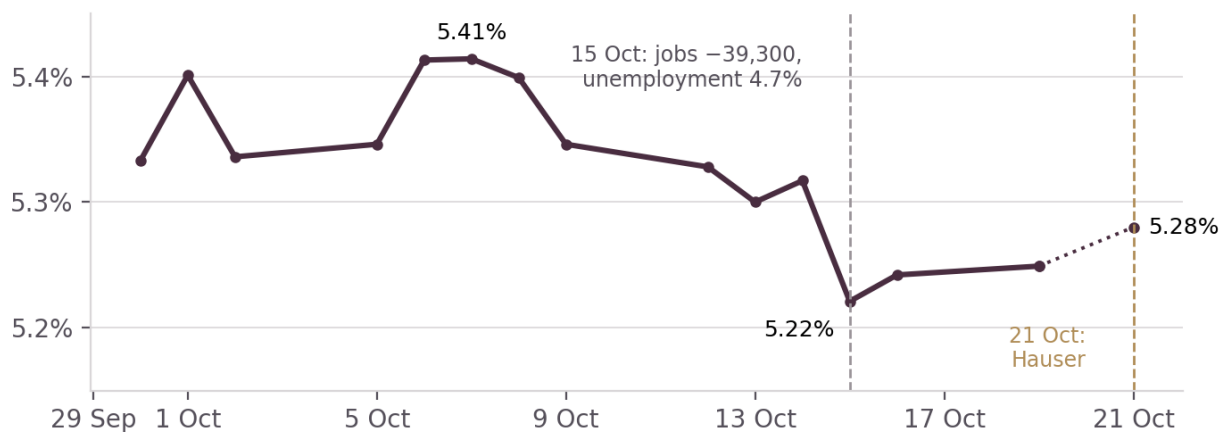
Source: Royston ASX Sector Dashboard. Ratings use the workbook method: z-score of the current forward P/E against the sector's own 10-year history (5-year where the two disagree in sign), Cheap or Expensive beyond ± 1 . Index weights: ASX 200, workbook sector-weights sheet.

The read-through. The market's leadership is in resources, where prices have run ahead of falling near-term earnings and valuations are stretched; the cheap sectors are small and, outside real estate, not yet supported by earnings. Higher bond yields hurt real estate and the long-duration growth sectors most, which is consistent with where the laggards sit. October to date has reversed some of this: utilities +8.1%, consumer discretionary +4.2%, staples +4.1% and health care +3.7%, against materials -4.0% and real estate -2.3%. Overall valuations look like a market leaning heavily defensive, a little too far, in our view.

The Australian 10-year has risen about a full point over the year to 5.18% (23 October), near its highest since 2011, and now yields more than the US 10-year. This month illustrated the two forces at work: the soft jobs report took it from 5.41% to 5.22%, and the RBA's hawkish turn pushed it back up to 5.28% before it eased late in the week as US yields fell. The Australian dollar, at around US 70 cents, is up about 8% over 12 months, helped by the wider rate gap with the US. That has trimmed the Australian-dollar value of unhedged US holdings.

Australian 10-year yield: down on jobs, back up on the RBA

Daily close, %, 30 Sep–21 Oct 2026. Dotted segment: 21 Oct from a second source.



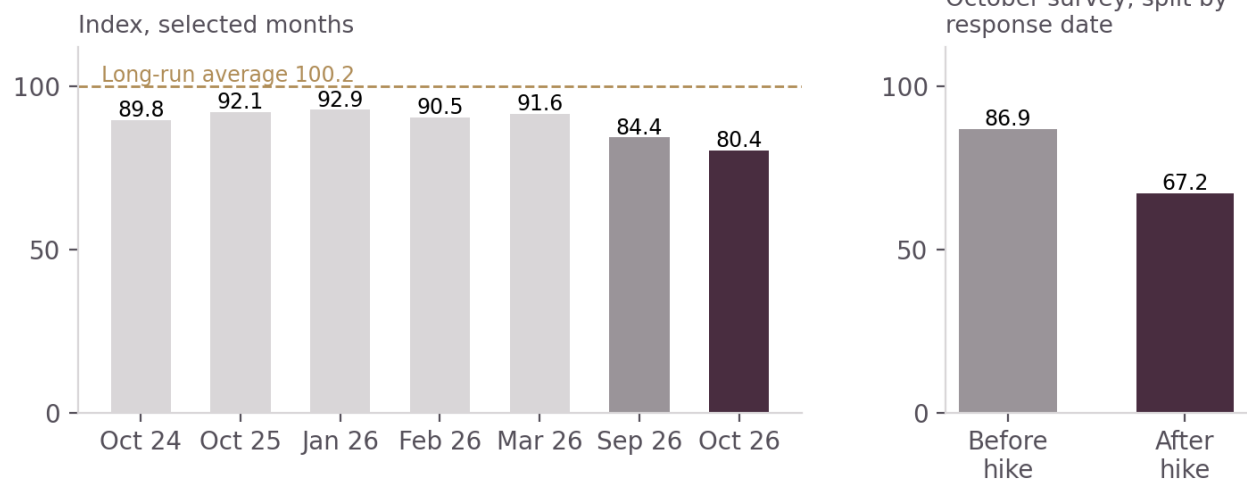
Source: Investing.com daily closes to 19 Oct; Trading Economics for 21 Oct.

Households: confidence at early-1990s lows

The Westpac–Melbourne Institute index fell 4.7% to 80.4 in October, among the forty worst readings since the survey began in the early 1970s. Westpac calls this the worst stretch of repeatedly weak sentiment since the early-1990s recession. The survey straddled the RBA decision, which makes it unusually revealing: respondents before the rise scored 86.9; those after scored just 67.2, a level previously seen only in the depths of that recession. More than 80% now expect mortgage rates to rise over the next year, with petrol back above \$2.30 a litre.

Australian households: sentiment at early-1990s lows after the hike

Westpac–Melbourne Institute Consumer Sentiment Index. 100 = optimists equal pessimists.



Source: Westpac–Melbourne Institute, October 2026 (survey 28 Sep–1 Oct); Trading Economics for earlier months.

The labour market has started to give way too. Employment fell 39,300 in September against expectations of a 19,600 rise, unemployment reached a five-year high of 4.7% and participation slipped to 66.8%. In trend terms employment still rose 15,700. Westpac describes consumers as “on edge” rather than alarmed: their worry is the cost of living and interest rates, not yet job loss. That combination, with households hurting but inflation still too high, is exactly what makes the RBA’s next decision hard.

The RBA: what it is saying, signalling and being priced for

What it is saying. The 29 September statement kept an explicit tightening bias: the bank will do what it considers necessary, including increasing the cash rate further if needed. On 21 October Deputy Governor Andrew Hauser went further, describing the inflation outlook as “materially worse” than forecast. His reasons:

- Trimmed mean inflation likely to exceed the RBA’s projections in the September quarter.
- Oil about one-third above the level assumed in the August forecasts.
- AI and technology prices passing into the CPI, and a boom in data-centre construction adding to capacity pressure.
- Some businesses starting to treat 3–3.5% inflation as the new normal: the risk of expectations coming unanchored.

He acknowledged that earlier rises are weighing on activity but argued that this does not remove the threat of persistent inflation. Assistant Governor Kent cautioned against over-reading one month of jobs data while conceding the labour market is easing faster than the Bank forecast.

What it is signalling. Central banks communicate through who speaks, when, and how they vote, as much as through words:

Signal	What happened	How to read it
The vote	September’s rise was unanimous, 9–0	No visible dissent yet. UBS flags that a November split is possible, with external members able to outvote the Governor and Deputy
Who spoke, and when	The Deputy Governor chose the week before the CPI to call the outlook “materially worse”	Deliberate pre-positioning. Hauser often plays the bank’s “bad cop”
Governor versus deputy	Bullock’s post-rise press conference read as softer than the statement and minutes	Mixed tones leave the board room to go either way
The written record	The minutes, released 14 October, revived November hike bets	The board’s own account leans hawkish
Timing of the next word	Bullock speaks on 28 October, the same day as the CPI	She can confirm or temper Hauser within hours of the data

Sources: ABC, Investing.com, XTB, Futu, Pound Sterling Live, October 2026.

What markets are pricing. Overnight index swaps moved from about 22% to about 51% odds of a November rise after Hauser spoke, though readings vary between sources from 43% to 56%. Before the speech, ASX futures implied a cash rate of about 4.65% for November and 4.78% a year later. Economists are split: Goldman Sachs, UBS and Westpac expect a rise to 4.85% on 3 November; MST Financial and CBA expect a hold.

Is the RBA jawboning?

Jawboning means using hawkish talk to tighten financial conditions, through a firmer dollar and higher yields, without actually moving rates. There is some circumstantial evidence for it, but on balance Hauser’s speech looks more like a genuine set-up for November than a bluff.

Points to jawboning	Points to a genuine signal
Timing: he spoke as markets were giving up on November, with hike odds below 20% after the five-year-high unemployment print	Specific reasons: he named the trimmed mean as likely to exceed the RBA's Q3 projection, a number that will be checked within a week
It worked without a move: odds rose from 22% to about 51% and the Australian dollar rose above US 70 cents, tightening conditions for free	He accepted the cost out loud, saying the board was weighing further rises even though they would hit the economy and jobs
CBA, which expects a hold, reads the remarks as consistent with the statement, the minutes and his "typically hawkish messaging"	He hedged where a bluff would not: staff forecasts are still being finalised and he does not know what the board will decide
Bullock's post-rise remarks were read as softer than the statement: when the deputy is hawkish and the governor softer, some of the hawkishness can be for effect	Forecasters moved: Goldman Sachs switched from a hold to a hike, joining UBS, ANZ and Westpac

Sources: ABC, Yahoo Finance/Investing.com, Pound Sterling Live, Futu, investingLive, Canberra Times, FXStreet, XTB, October 2026.

A middle reading is the most likely shape if data prints are mixed: we expect that even a November hold would be a "hawkish hold", keeping the tightening bias and setting up December. That would let the talk buy a month without the bank conceding anything.

Which CPI matters on 28 October

The RBA decides on the trimmed mean, judged against its own forecast. The monthly detail for July and August shows why the headline overstates the problem, but also why the bank is not yet comfortable.

Measure	July, m/m	August, m/m	Annual, Aug
Headline CPI (seasonally adjusted)	+0.6%	+0.7%	4.0% (from 3.5%)
Trimmed mean	+0.5%	+0.2%	3.6% (third month)
Discretionary	+1.5%	-0.2%	3.0% (from 3.1%)
Non-discretionary	+0.7%	+0.9%	4.7% (from 3.7%)

Source: ABS, Consumer Price Index, Australia, July and August 2026.

- **The headline rise is fuel and electricity.** Automotive fuel rose 14.8% in August after 7.5% in July; fuel and electricity were both excluded from the trimmed mean and explain the gap between headline and underlying inflation. Interest rates do little about either.
- **Discretionary prices did turn**, from +1.5% to -0.2% in the month, and household spending was flat in August. But monthly discretionary prices are noisy, part of August's fall may be payback for July, and the annual rate barely moved. One month is not yet a trend.
- **The trimmed mean has slowed but not fallen.** July's monthly rise of 0.5% was the largest in a year; August's 0.2% was a relief, but the annual rate has held at 3.6%, above the 2–3% band, for three months.

Three things to read on the day: the September-quarter trimmed mean against the RBA's August forecast (the decision variable); September discretionary inflation (a second fall makes August a trend, a bounce makes July and August average out to still firm); and market services, the stickiest domestic prices, which were relatively strong in the latest data.

Our read. On the evidence so far, the RBA's hawkish case rests on non-discretionary prices and on inflation expectations, Hauser's warning that businesses treat 3–3.5% as normal, while the demand-sensitive part of the basket is cooling. That is the same pattern as the US: tightening against a supply shock, where rate rises work mainly through expectations rather than by cooling demand that is already slowing. If September confirms the discretionary slowdown and the trimmed mean lands close to forecast, the case for a hold is strong and Hauser's speech will look, in hindsight, more like jawboning to keep expectations anchored. If the trimmed mean surprises upward despite softer discretionary prices, the RBA is at risk of raising anyway.

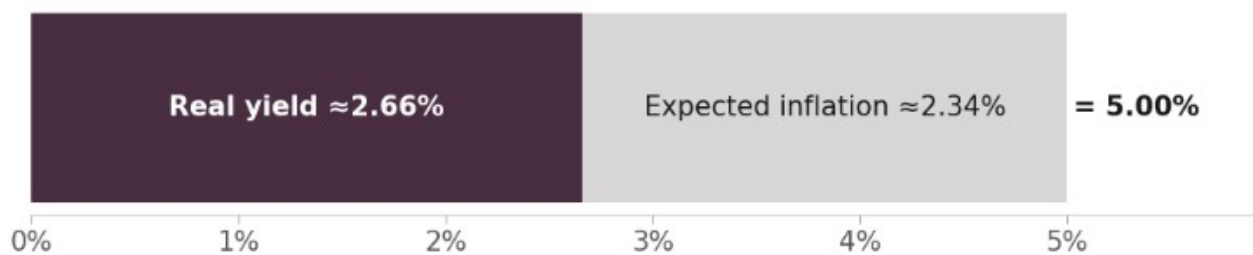
United States: the long end is doing the tightening

Rates: high for the right reasons, or the wrong ones

The 10-year Treasury yields 5.00%, about 1.0 point higher than a year ago, and almost none of that rise is about inflation. The inflation-protected 10-year yields about 2.66%, leaving the market expecting inflation of roughly 2.34% a year. Russell Investments estimates more than 70% of the rise since February has come from higher real rates and a higher real term premium, the extra return investors demand for lending long.

The US 10-year is high because of real yields, not inflation fear

US 10-year Treasury yield split into inflation-protected (TIPS) yield and implied inflation, 23 Oct 2026.



Source: US Treasury, FRED (DGS10, T10YIE), 23 October 2026.

Three forces are lifting that premium:

- **Government borrowing.** CBO projects a 2026 deficit of US\$1.9 trillion, 5.8% of GDP, with net interest above US\$1 trillion, more than the US now spends on defence. None of this is new, which is why it sets the floor for the term premium rather than explaining this year's jump: a slow, well-telegraphed deficit path cannot account for a yield that rose a full point in twelve months. The two forces below landed on top of that floor.
- **AI borrowing.** High-grade corporate bonds and Treasuries compete for the same pool of capital, so a flood of new corporate supply pushes yields up across the board: investors who can earn more lending to Microsoft or Meta demand more to lend to the government too, and because the market prices supply it can see coming, next year's borrowing lifts yields today. October showed the mechanism reversing. In mid-October the bonds of CoreWeave, a debt-funded AI cloud provider carrying about US\$52 billion of debt and leases against US\$2.6 billion of quarterly revenue, sold off until its 2031 notes yielded close to 16% and default insurance implied roughly even odds of failure within five years. Junk and investment-grade yields followed to their highest since 2025 and 2023. Then, on 21 October, Meta announced it would fund its AI expansion by issuing non-voting shares rather than more debt, and its stock fell 7%. The next day the 10-year Treasury yield dropped 19 basis points, its largest one-day fall since March 2023, on a day when jobless claims were strong, inflation was sticky and Fed pricing barely moved. Some of that was simple safe-haven buying as shares fell, but nothing in the macro data explains the

size of the move. What changed was the market's estimate of how much the AI complex will borrow. Part of today's term premium is, in effect, a bet that the AI build-out, and the borrowing behind it, continues.

- **A tightening Fed without a compass.** The Committee raised rates on 16 September and its chair has stopped guiding on what comes next.

The curve shows who is doing the work. The 2-year yielded 4.74% on the day of the September rise and 4.74% again on 16 October: the front end has barely moved while the long end has risen.

US rates snapshot	Yield	Note
2-year Treasury	4.69% (23 Oct)	4.74% on the day of the September rise
10-year Treasury	5.00% (23 Oct)	Peak 5.31% on 5 Oct, highest since 2002; fell 19bp on 22 Oct as money left tech stocks
30-year Treasury	5.33% (23 Oct)	Earlier at its highest since 2004
10-year implied inflation	About 2.34%	Close to the Fed's 2% target
Federal funds target	3.75–4.00%	Next decision 28 Oct US time

The Fed: what it is saying, signalling and being priced for

What it is saying. Very little. In Bangkok on 16 October Chair Warsh said: "I don't prejudge meetings," adding that the Fed is "not in that business anymore" of broadcasting decisions. He described September's rise as removing "a dose of accommodation", pointed to a synchronous tightening by central banks worldwide, and warned that AI investment may add to price pressures on a "very bumpy" path to faster productivity. At Jackson Hole he called the 2% target "firm, fixed". Governor Waller has said higher Treasury yields are already restraining activity.

What it is signalling.

Signal	What happened	How to read it
The vote	September's rise was unanimous, 12–0	A united committee: no one dissented for a cut despite weak payrolls
Silence as policy	Warsh has dropped forward guidance	The Fed no longer anchors expectations, so markets demand more compensation for uncertainty: plausibly part of the higher term premium
Chair versus lieutenants	Senior officials signalled comfort holding; Warsh would not	Markets follow the lieutenants. CNBC cautions Warsh could still surprise
Praise for global tightening	Warsh highlighted other central banks tightening	He sees world conditions doing some of the Fed's work
The balance sheet	Warsh has long called it "bloated"	As the Fed lets its mostly long-dated bonds roll off the balance sheet, private investors must absorb that supply, which lifts long yields even with the policy rate on hold.
Politics	The rise defied the President's calls for cuts	Independence asserted, with pressure likely to build into the midterms

Sources: CNBC, AP, US News, Briefs, CryptoTimes, October 2026.

What markets are pricing. CME FedWatch put October hike odds at about 13–15% after Warsh spoke, down from 54% after the September CPI. As at 9 October, futures priced an 84% chance of at least one more rise

by December, and Goldman Sachs expects a pause in October and a final rise in December. The data since the meeting support waiting: core PCE was revised down to 3.0% with a three-month pace of 2.0%, and September payrolls rose only 29,000.

Households: inflation expectations are the worry

US consumers are as gloomy as Australian ones. The University of Michigan index fell to 46.3 in the October preliminary reading, below expectations and close to May's record low of 44.8; its current-conditions index dropped to 44.7. Year-ahead inflation expectations rose to 4.7% and five-year expectations to 3.5%, which is why the Fed cannot ignore the mood. The Conference Board index fell to 81.9 in September, with its present-situation index down 7.9 points.

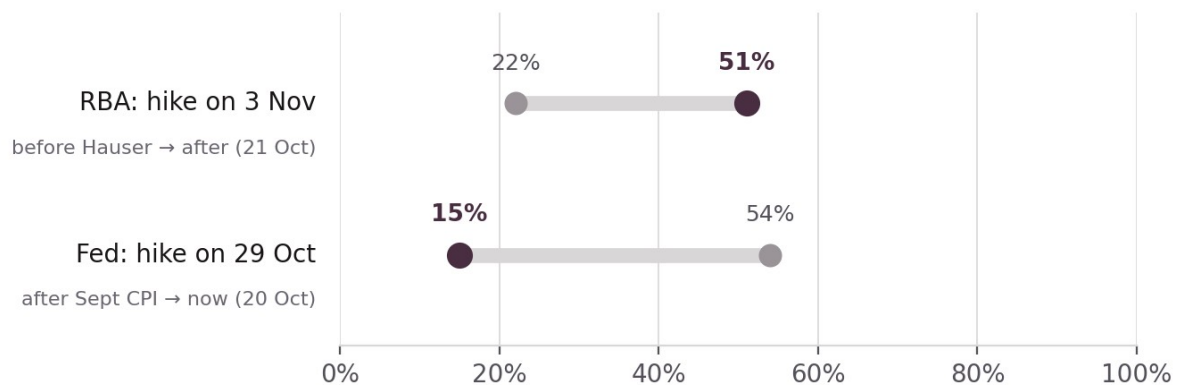
Equities: why Wall Street is up anyway

The S&P 500 closed at a record 7,819 on 6 October and sat at 7,624 on 23 October, because profits are growing fast enough to absorb a higher discount rate. FactSet projects third-quarter earnings growth of 29.5% on revenue growth of 12.3%. With prices rising faster than wages, nominal growth flows to margins: the US labour share is the lowest since 1947. The gains are narrow, though. The Magnificent 7 make up more than 34% of the index, and in early October the equal-weight S&P sat almost 5% below its August high while the headline index set records.

The RBA and the Fed, side by side

Markets moved in opposite directions on the two central banks

Market-implied probability of a 25bp rise at the next meeting. Grey: earlier reading; purple: latest.



Sources: Yahoo Finance/RateProbability and ABC/Bloomberg (RBA); Benzinga and Capp Notes/CME FedWatch (Fed).

	RBA	Fed
Policy rate	4.60%	3.75–4.00%
Rises in 2026	Four (+100bp)	One (+25bp)
Latest inflation	CPI 4.0% (Aug); trimmed mean 3.6%	CPI 3.7%, core 2.6% (Sep); core PCE 3.0% (Aug)
Unemployment	4.7%, a five-year high	4.2%
Key words	Hauser: outlook “materially worse”	Warsh: “I don’t prejudge meetings”
Forward guidance	Explicit tightening bias	Abandoned
Last vote	9–0	12–0
Next decision (AEDT)	Tue 3 Nov, 2:30pm	Thu 29 Oct, about 5am

	RBA	Fed
Market odds of a rise	About 50–60%	About 9–10%
10-year bond yield	5.18%	5.00%

What to watch

Date (AEDT)	Release	What it settles
Sat 24 Oct, 1am	US: Michigan sentiment, October final	Whether inflation expectations hold at 4.7%
Wed 28 Oct, 1am	US: Conference Board confidence, October	Whether current conditions keep falling
Wed 28 Oct, 11:30am	Australia: September CPI and quarterly figures	Q3 trimmed mean against the RBA forecast; whether discretionary prices fall again
Wed 28 Oct	RBA Governor Bullock speaks; SK hynix Q3 results	Whether Bullock endorses Hauser; whether HBM prices are still rising
Thu 29 Oct, about 5am	US: FOMC decision	Hold or a second rise; no new projections
Thu 29 Oct, 11:30pm	US: Q3 GDP (advance) and September PCE	Growth after the revised June quarter; core PCE
Tue 3 Nov, 2:30pm	RBA decision (Melbourne Cup day)	A fifth rise in 2026, or a pause
Wed 4 Nov	US midterm elections	Fiscal direction, and the deficit behind the term premium
Sat 7 Nov, 12:30am	US: October jobs report	Whether 29,000 was the trend or the trough
Tue 10 Nov, 11am	Westpac–MI consumer sentiment, November	Households' verdict on the RBA decision
Wed 11 Nov, 12:30am	US: October CPI	Whether core keeps rising from 2.6%
Thu 19 Nov	Australia: October labour force	Whether 4.7% unemployment was a blip

Sources and important information

Market levels are as at 23 October 2026 unless stated.

- Royston ASX Sector Dashboard, capital allocation workbook dated 6 October 2026: sector prices, forward P/E, ratings and earnings revisions to 30 September; FNArena, The Market In Numbers, 17 October 2026.
- Australia: ABS Labour Force, September 2026; Westpac IQ and Melbourne Institute, consumer sentiment October 2026; Investing.com and Trading Economics (bond yields, ASX 200, AUD); Market Index; Kalkine; Small Caps; ShareTrader; ABC News market coverage.
- ABS: Consumer Price Index, Australia, July and August 2026; Monthly Household Spending Indicator, August 2026.
- RBA: Admiral Markets (29 Sep decision); Canberra Times; FXStreet; ABC News, Yahoo Finance/Investing.com, XTB, Futu, investingLive and Pound Sterling Live (Hauser, 21 Oct); centralbank.watch (ASX rate tracker).
- Fed: CNBC, AP/PBS, US News and Briefs (Warsh, 16 Oct); Benzinga; Capp Notes; Goldstone Financial; CNN and Quartz (September CPI); investingLive (Michigan, October preliminary).
- US rates and equities: Your Best Savings; Advisor Perspectives; Forbes; Russell Investments; Commonfund; CNBC; CNN.

- CoreWeave: CNBC; Forbes; CNN, 14–20 October 2026.
- Memory: BigGo Finance; FourWeekMBA; KuCoin; Doroshenko; Invezz; Japan Semiconductor Signals; ComputingForGeeks; Tech Times.
- Power: GE Vernova Q1 and Q2 2026 results (SEC); Natural Gas Intelligence; Bain Technology Report 2026; Tech Investments; Spheron.
- US labour share, unit profits and core PCE revisions: Royston Capital US Macro Narrative, October 2026, drawing on BLS and BEA.

03 · MARKETS AND MODEL PORTFOLIO REVIEW

A resilient quarter, and the decisions behind it

How our five model portfolios navigated the September quarter, and what we changed along the way.

Krasni Shrivastava and Lisa Chu · As at 30 September 2026

Quarterly summary

The September quarter was defined by a return to central bank tightening. The Reserve Bank of Australia and the US Federal Reserve both raised rates, a renewed flare in Middle East tensions lifted oil back above US\$100 per barrel, and the US 30-year bond yield climbed to its highest level in more than two decades.

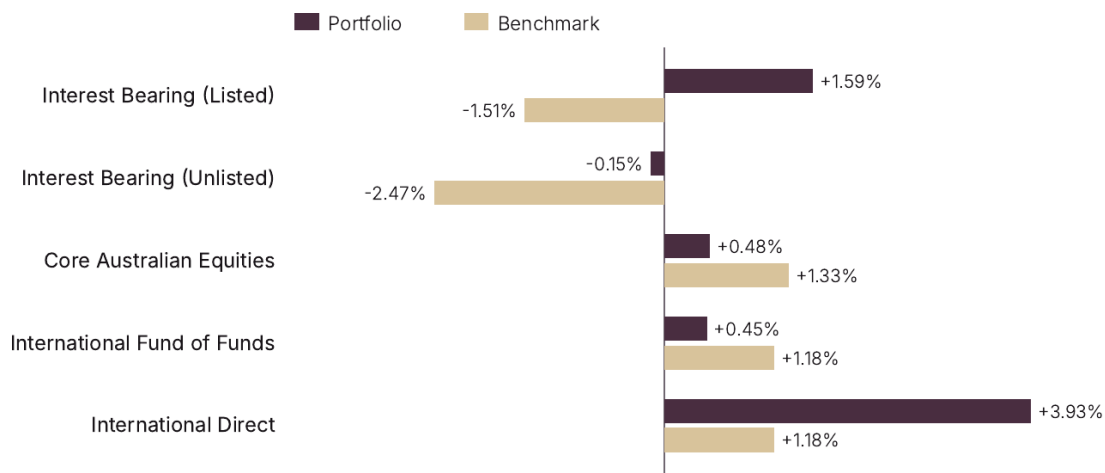
Against this backdrop, **portfolio outcomes were mixed but relatively resilient**. The **International Direct portfolio returned 3.93%**, well ahead of its benchmark, as a recovery in quality software and platform holdings outweighed weakness in semiconductors. **Both interest-bearing portfolios outperformed** in a quarter where rising yields pushed their benchmarks into negative territory. The **Core Australian Equities portfolio returned 0.48%**, trailing a modestly rising index, while the International Fund of Funds lagged as its growth-oriented managers were weighed down by higher bond yields.

Portfolio	3 months	1 year	3 years	5 years	Since inception	Inception
Core Australian Equities	0.48	-3.52	9.05	4.59	10.45	30/06/2013
International Equities (Fund of Funds)	0.45	0.82	10.38	5.46	9.34	31/12/2014
International Direct Equities	3.93	1.12	—	—	7.98	30/06/2024
Interest-Bearing Securities	1.59	6.36	7.09	6.62	6.09	31/12/2014
Interest-Bearing Securities (Unlisted)	-0.15	2.77	6.24	—	6.87	31/05/2023

Trailing returns to 30/09/2026 (%). Time-weighted, after expenses; periods over one year are annualised. Source: Royston Capital, Morningstar.

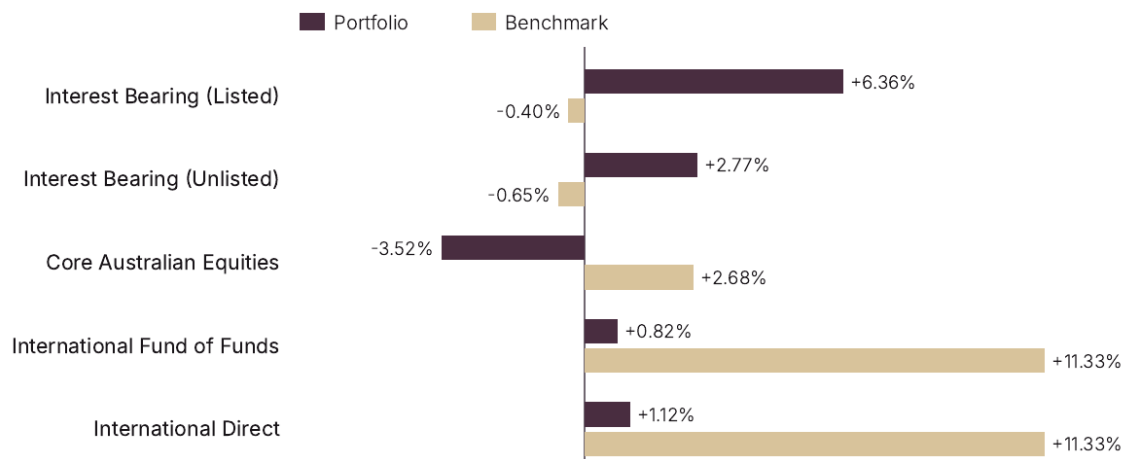
Portfolio returns against benchmark, September quarter 2026

3 of 5 portfolios outperformed their benchmark (1 July to 30 September 2026, time-weighted, after expenses)



Portfolio returns against benchmark, 12 months to 30 September 2026

2 of 5 portfolios outperformed their benchmark (1 October 2025 to 30 September 2026, time-weighted, after expenses)



Source: Royston Capital, Morningstar.

Positioning was adjusted in both equity books. In Australia, we added to Life360 and Temple & Webster at the end of August, where earnings forecasts have risen while share prices have fallen. Internationally, we exited Masco and IQVIA, trimmed Alphabet, added to Microsoft and established a position in Stryker. The Microsoft addition was the standout decision of the quarter, while the Australian additions and Stryker were made at lower prices and have time to play out.

What higher yields meant for our portfolios

Our Macro update covers the economy and the central banks in detail. Here we focus on what the rise in long-term bond yields meant for the assets we hold. For equity markets, it mattered in three ways:

- **Valuations compressed even as earnings estimates rose.** The S&P 500's forward multiple fell from 20.5x to 19.1x over the quarter while forward earnings estimates for the index rose. The premium the S&P 500's forward earnings yield offers over the 10-year bond has narrowed to around 0.3%, among the thinnest in two decades.
- **Long-duration and rate-sensitive sectors bore the brunt.** On our dashboards (refreshed 6 October), US utilities and industrials each fell around 7% over three months despite rising earnings forecasts; in

Australia, real estate (-13%), consumer discretionary (-11%) and technology (-8%) fell, all with earnings estimates edging higher.

- **Housing-linked businesses face the most direct pressure**, as long bond yields set US mortgage rates. This informed our decision to exit Masco and remains a watch point for James Hardie.

A note on the numbers: the sector moves above are S&P/ASX 200 sectors over the three months to 6 October 2026. Our Macro update draws on the Royston ASX Sector Dashboard (S&P/ASX 300 sector indices, with the latest reading in mid-September) and FNArena data to 17 October, so the two sets of figures differ slightly.

Across asset classes, three observations shaped our positioning:

- **Defensive assets are being well paid.** The Australian 10-year bond yielded 5.37% and the US 10-year 4.97% at quarter end. The ASX 200's forward earnings yield now exceeds the Australian 10-year yield by only around 0.3%, down from about 1.1% in June. Equities offer historically thin compensation over bonds, which supports our weight in income assets.
- **The Australian dollar held broadly steady despite the rate divergence.** The AUD moved from US\$0.69 to US\$0.70 over the quarter, so currency had little net effect on unhedged international returns. With the RBA now hiking alongside the Fed, our unhedged positioning is less a currency bet than in June.
- **Oil is back at the centre of the inflation debate.** Brent rose from around US\$73 at the end of June to around US\$108 at the end of September. The RBA's forecasts assumed US\$81, so the gap between policy assumptions and market reality has widened again.

Core Australian Equities

	3 months	1 year	3 years	5 years	Since inception
Core Australian Equities	0.48	-3.52	9.05	4.59	10.45
S&P/ASX 200 TR AUD	1.33	2.68	11.40	7.68	8.96

Returns to 30/09/2026 (%). Inception 30/06/2013. Returns include franking credits.

Performance overview

During the September quarter, the Core Australian Equities portfolio returned **0.48%**, **underperforming** the **S&P/ASX 200 Accumulation Index**, which rose **1.33%** over the same period. The portfolio's sector positioning added value, particularly the healthcare overweight, but this was more than offset by weakness in a group of smaller growth holdings.

Positioning and transactions

The portfolio maintains a diversified exposure to **high-quality Australian equities**, balancing structural growth companies with established cyclical and income-generating businesses. Cash was reduced from around 3.8% to 2.7%.

Two additions were made on 31 August, primarily directed at the technology sector:

- **Life360 (360)** was increased, purchasing at \$20.25
- **Temple & Webster (TPW)** was increased, purchasing at \$4.75

We bought into weakness in Temple & Webster, lowering the portfolio's average entry price. Management began an on-market buyback on 19 August that allows it to repurchase up to 10% of its shares by August 2027. It had bought back around 2.7 million shares by mid-September, at prices between \$4.12 and \$4.95, similar to our own entry, leaving the bulk of the program still to run. Our purchase came with consumer

confidence in its weakest stretch since the early 1990s recession, more than three decades ago (see our Macro update), and we think the bad news for discretionary retailers is largely priced in. The Life360 addition reflects our view that earnings forecasts have been rising while the share price fell, leaving the business cheaper on forward earnings. Turnover for the quarter was 2%.

How our purchases have performed: both additions were made well below where the shares began the quarter: Life360 at \$20.25 (against \$26.70 at 30 June) and Temple & Webster at \$4.75 (against \$6.20). Prices eased a little further through September as the sector de-rated with bond yields, with Life360 ending the quarter at \$18.93 and Temple & Webster at \$4.49. Both have since recovered. Life360 closed at \$21.71 on 23 October, about 7% above our entry price and 15% above the quarter-end level. Temple & Webster drifted to a low of \$4.07 on 22 October before jumping 33% to \$5.43 the next day on its AGM trading update, which showed the revenue decline narrowing to a 4% run-rate since August, contribution margin dollars up 16% and FY27 EBITDA guidance of \$33–40 million reaffirmed; that leaves it about 14% above our entry price and 21% above quarter-end. These are early days for both positions; with earnings forecasts continuing to rise, we remain comfortable holding them and will keep position sizes under review.

Contributors to performance

- **CSL (CSL)** (+62.5%), as a sharp re-rating led the healthcare sector higher
- **South32 (S32)** (+31.7%), which benefited from stronger commodity prices
- **ResMed (RMD)** (+11.0%), rewarding the addition made in late June
- **BHP Group (BHP)** (+4.7%)
- **Woodside Energy (WDS)** (+15.8%), which rose with the rebound in oil

The resources and energy gains were driven by commodity prices rather than earnings upgrades, and are the most exposed should commodity prices retreat.

Detractors from performance

- **Life360 (360)** (-29.1%), which de-rated with the broader technology sector, despite rising earnings forecasts
- **PEXA Group (PXA)** (-35.0%), as earnings forecasts were cut materially
- **Pro Medicus (PME)** (-19.2%), which fell despite earnings upgrades
- **ALS (ALQ)** (-8.7%)
- **Temple & Webster (TPW)** (-27.6%)

Rate-sensitive holdings, including Lifestyle Communities (-14.2%) and Flight Centre (-11.0%), also weakened as the RBA resumed tightening.

Other factors influencing performance

The quarter rewarded commodity and defensive exposures, often where earnings forecasts were falling, while penalising growth businesses whose forecasts were rising. Around two-fifths of the portfolio sits in holdings where earnings forecasts rose but share prices fell. Over time, rising earnings tend to be a more durable support for share prices than re-ratings, so we believe this part of the portfolio is better placed than its quarterly result suggests.

The portfolio remains aligned with its **long-term objective of delivering sustainable capital growth**. Our substantial underweight to the major banks, the most expensive sector on our dashboard, is unchanged.

International Equities (Fund of Funds)

	3 months	1 year	3 years	5 years	Since inception
International Equities (Fund of Funds)	0.45	0.82	10.38	5.46	9.34
MSCI ACWI ex Australia NR AUD	1.18	11.33	18.85	12.48	12.29

Returns to 30/09/2026 (%). Inception 31/12/2014.

Performance overview

During the September quarter, the International Equities (Fund of Funds) portfolio returned **0.45% (after expenses)**, underperforming the **MSCI ACWI ex-Australia Net Div AUD Index**, which rose **1.18%** over the same period. The shortfall reflected the portfolio's growth-oriented managers, which were most affected by the rise in long-term bond yields.

Positioning and transactions

The portfolio is diversified across **actively managed global equity strategies and ETFs**, with a bias toward high-conviction managers seeking to generate alpha over full market cycles. There were **no transactions during the quarter**, following the June repositioning. Cash rose to around 5.1% as distributions were received.

Contributors to performance

- **L1 Capital International Fund (+3.51%)**, the portfolio's largest holding and largest contributor in dollar terms
- **IFP Global Franchise Fund II (+2.65%)**
- **Antipodes Global Value ETF (AGX1) (+2.94%)**, as its value tilt held up well
- **Vanguard Ethically Conscious International Shares ETF (VESG) (+1.73%)** and **Plato Global Alpha ETF (+1.91%)**

Detractors from performance

- **Munro Concentrated Global Growth ETF (MCGG) (-11.7%)**
- **Munro Climate Change Leaders ETF (MCCL) (-13.8%)**

Both Munro strategies, added in the June quarter, gave back their initial gains. Their concentrated exposure to long-duration growth and energy-transition businesses was directly affected by the rise in real bond yields.

Other factors influencing performance

The quarter favoured value and quality strategies over growth. The portfolio's blend of value (Antipodes), quality (IFP, L1) and growth (Munro) managers kept the weakness contained, and the diversification introduced in June is working as intended. We continue to monitor the Munro positions given their sensitivity to bond yields.

International Direct Equities

	3 months	1 year	3 years	5 years	Since inception
International Direct Equities	3.93	1.12	—	—	7.98
MSCI ACWI ex Australia NR AUD	1.18	11.33	—	—	16.30

Returns to 30/09/2026 (%). Inception 30/06/2024. Holding returns converted to Australian dollars.

Performance overview

During the September quarter, the International Direct Equities portfolio returned **3.93% (after expenses)**, **outperforming the MSCI ACWI ex-Australia Net Div AUD Index**, which rose **1.18%** over the same period. Performance was driven by a strong recovery in software and platform holdings, partly offset by a pullback in semiconductors.

Positioning and transactions

The portfolio holds a **concentrated selection of high-quality global equities**, with a tilt toward US-listed technology, consumer and financial services businesses. Activity during the quarter included:

- a full exit from **Masco** on 31 July
- a partial reduction in **Alphabet** on 27 July
- a trim of **IQVIA** on 4 August, followed by a full exit on 25 September at around US\$275
- an addition to **Microsoft** on 31 July, funded by the Alphabet trim
- a new position in **Stryker** on 4 August.

The number of holdings reduced from 22 to 21, and cash rose to around 5.9%.

How our trades have performed

- **Microsoft: helped.** Added at \$642.86, the shares ended the quarter at \$734.18 (+14.2%). Microsoft rose 35.6% over the quarter and was the portfolio's largest contributor.
- **IQVIA: helped.** After an initial trim in early August, we held the remaining shares through a strong rally and exited at around US\$275, roughly 48% above the August trim price. The holding returned 37.8% from 30 June to our exit on 25 September.
- **Masco: reduced housing exposure.** We exited following the company's softer July result. The shares have since traded broadly flat at around US\$71–73, while US mortgage rates rose with the 30-year bond yield, supporting our decision to step back from the housing cycle.
- **Alphabet into Microsoft: helped.** We trimmed Alphabet in late July to fund the addition to Microsoft. Since the switch, Microsoft has risen 14.2% against 5.0% for Alphabet, so the rotation added value, and the portfolio retains a meaningful Alphabet holding.
- **Stryker: timing affected by revised management commentary.** We established the position on 4 August, shortly after Stryker's second-quarter result, when management indicated that supply disruption from the March cyberattack, mainly in its peripheral vascular business, was expected to be resolved by the third quarter. At the Wells Fargo Healthcare Conference on 8 September, management said the disruption may extend into the fourth quarter and noted softer-than-expected hip sales over the summer, and the shares fell almost 10% over the following day. Importantly, Stryker left its full-year guidance unchanged and reported strong backorders for its capital equipment. The shares have since recovered from their 11 September low of around US\$267 to US\$307.15 at the close on 23 October (US time), around 15% above that low and roughly 12% above the quarter-end price. We retain full confidence in Stryker's long-term growth, and will look to management's commentary at the third-quarter result on 29 October (US time) for confirmation that supply has returned to normal.

Contributors to performance

- **Microsoft (MSFT)** (+35.6%)
- **Meta Platforms (META)** (+26.8%)

- **Salesforce (CRM)** (+44.6%), rebounding sharply after last quarter's de-rating
- **IQVIA (IQV)** (+37.8% to exit on 25 September)
- **Intercontinental Exchange (ICE)** (+22.0%), recovering last quarter's decline

The recovery in **Salesforce**, **Adobe** (+15.2%) and **Autodesk** (+5.8%) suggests the market's concern over AI disruption to established software has begun to ease.

Detractors from performance

- **Applied Materials (AMAT)** (-30.3%), which gave back much of last quarter's gain, but has since rebounded strongly, up around 30% from its mid-September low to US\$542 at the close on 5 October
- **Taiwan Semiconductor (TSM)** (-5.7%), which has since rebounded to US\$486 at the close on 5 October, above where it began the quarter
- **Alphabet (GOOGL)** (-5.2%)
- **Booking Holdings (BKNG)** (-9.8%)
- **Stryker (SYK)** (-17.1% since purchase on 4 August)

Other factors influencing performance

The market leadership of the June quarter partly reversed: semiconductor holdings retreated while incumbent software recovered. With US technology forward earnings estimates up 15.5% over three months but prices up only around 3%, the portfolio's technology exposure is now more reasonably valued than at the start of the quarter.

The portfolio remains positioned in structurally advantaged global businesses, with the quarter's trades taking profits in IQVIA, reducing housing-cycle exposure and concentrating capital in Microsoft.

Interest-Bearing Securities

	3 months	1 year	3 years	5 years	Since inception
Interest-Bearing Securities	1.59	6.36	7.09	6.62	6.09
Bloomberg AusBond Composite 0+Y TR AUD	-1.51	-0.40	3.56	0.00	2.35

Returns to 30/09/2026 (%). Inception 31/12/2014. Holding returns include franking credits.

Performance overview

Over the September quarter, the Interest-Bearing Securities portfolio returned **1.59% (after expenses)**, outperforming the **Bloomberg AusBond Composite Bond Index**, which returned **-1.51%** over the same period. The portfolio's **floating-rate construction** protected capital in a quarter where rising yields delivered the fixed-rate benchmark a meaningful loss.

Positioning and transactions

The portfolio remains predominantly invested in **Australian floating-rate securities**, including major bank capital notes and diversified credit strategies, with cash of around 4.0%. There were **no transactions during the quarter**, following the active repositioning in the June quarter.

Contributors to performance

Every holding delivered a positive total return. Key contributors included:

- **Nufarm Finance (NZ) Convertible Bond (NFNG)** (+5.93%), the strongest contributor, driven by a recovery in its capital price
- **Alexander Credit Opportunities Fund** (+1.93%), continuing to benefit from strong income accrual
- **Macquarie Group Capital Note (MQGPG)** (+1.55%)
- **Bendigo and Adelaide Bank Capital Notes (BENPI)** (+1.44%)

Detractors from performance

There were **no holdings that detracted** on a total-return basis. Most hybrids recorded small capital price declines as credit markets softened with rising rates, comfortably offset by income. The smallest contributions came from **IAG Capital Notes (IAGPE)** (+0.71%) and **CBA Capital Notes (CBAPL)** (+0.69%).

Other factors influencing performance

The portfolio has now outperformed its benchmark through rising, falling and again rising yield environments over the past year. Its floating-rate income resets with each RBA increase, so the portfolio's running yield, currently 4.6% to 6.1% before franking across the bank hybrids, rises as rates rise.

Interest-Bearing Securities (Unlisted)

	3 months	1 year	3 years	5 years	Since inception
Interest-Bearing Securities (Unlisted)	-0.15	2.77	6.24	—	6.87
Bloomberg Global Aggregate TR Hdg AUD	-2.47	-0.65	3.55	—	2.49

Returns to 30/09/2026 (%). Inception 31/05/2023. Designed for wholesale and sophisticated investors.

Performance overview

During the September quarter, the Interest-Bearing Securities (Unlisted) portfolio returned **-0.15%**, **outperforming** its benchmark, the **Bloomberg Global Aggregate Hedged AUD Index**, which returned **-2.47%** over the same period. The rise in long-term bond yields reduced the market value of the portfolio's longer-dated fixed-rate notes, but coupon income across the portfolio offset almost all of that decline, leaving the portfolio close to flat for the quarter.

Positioning and transactions

The portfolio remains invested almost entirely in **unlisted domestic fixed-interest securities**, diversified across issuers, maturities and credit types, with around 9.1% held in cash for liquidity. These investments are designed to provide **stable income, capital preservation and reduced mark-to-market volatility** relative to listed fixed-income markets. There were **no changes to the portfolio during the quarter**. Turnover was nil.

Contributors to performance

The portfolio's **floating-rate notes** all delivered positive returns, as their coupons reset higher with rising short-term rates:

- **ANVAU 2055 note** (+1.60%)
- **PNHAU 2027 note** (+1.52%)
- **ALDAU 2081 note** (+1.43%)
- **SUNAU 2038 note** and **LBRFI 2028 note** (both around +1.3%)

Detractors from performance

The detractors were the **long-dated fixed-rate notes**, which reversed their June quarter recovery as Australian 10-year yields rose from 4.78% to 5.37%:

- **QBEAU (QBE 6.3025% 2039 note)** (-2.60%)
- **WSTP (Westpac 7.199% 2038 note)** (-2.37%)
- **ANZ 6.736% 2038 note** (-1.99%)
- **WORAU 2032 note** (-1.51%)

These movements are valuation-related rather than a reflection of credit quality, and will reverse as these securities approach maturity, provided they are held.

Other factors influencing performance

The quarter illustrated the value of the portfolio's mix of fixed and floating-rate securities: as long yields rose, floating-rate notes delivered positive returns and coupon income offset almost all of the fixed-rate price declines. With running yields now between 5.9% and 7.5% across the holdings, the portfolio is well positioned to continue delivering **attractive risk-adjusted income**.

Outlook

Looking ahead, we expect volatility to persist while central banks remain in tightening mode. In both countries, headline inflation should fall significantly from early 2027 as this year's energy price spikes drop out of the annual comparison. The more important question is whether underlying inflation follows: in Australia that depends on productivity; in the US it depends on whether energy costs spread into core prices.

Key risks on the horizon include:

- further escalation in the Middle East and sustained oil prices above US\$100
- a continued rise in long-term bond yields, compressing equity valuations further
- additional rate rises from the RBA (3 November) and the Fed (28 October), with labour markets already softening in both countries

That said, the quarter has created opportunity. Many quality businesses have seen earnings forecasts rise while their share prices fell, leaving them cheaper on next year's earnings than they were in June. Our approach remains a **barbell**: high-quality income assets that benefit from elevated yields, alongside selected growth businesses where earnings momentum is not yet reflected in price.

We continue to adopt a **measured and balanced investment approach**, focused on diversification, quality assets and disciplined portfolio management, positioning portfolios to navigate near-term uncertainty while maintaining exposure to long-term return drivers.

Returns are for theoretical model portfolios, time-weighted, after expenses and inclusive of franking credits; individual investors' returns may vary. Cash is given a 0% return. Past performance is not a reliable indicator of future performance. Source: Royston Capital; Morningstar; manager reports.

04 · TECHNICAL UPDATE

Trusts, gains and gearing

Navigating Australia's biggest investment tax shake-up in a generation: what the new minimum tax on family trusts, the overhaul of capital gains tax and the limits on negative gearing mean for you, and the dates that matter from 2027.

The Royston Capital team · October 2026

The 2026–27 Federal Budget set in motion the most significant changes to how Australians are taxed on their investments in a generation. From 1 July 2027, the 50% capital gains tax discount will be replaced with an inflation-based adjustment and a 30% minimum tax on gains, and negative gearing on established homes bought after Budget night will be restricted; both changes are already law. From 1 July 2028, a new 30% minimum tax on discretionary trusts is set to begin, with the legislation introduced into Parliament on 14 October 2026.

In this update we begin with family trusts, where the decisions are most complex and some cannot easily be reversed, before turning to capital gains tax and negative gearing and what they mean for your portfolio.

Part 1: The new minimum tax on family trusts

Discretionary trusts have long been a cornerstone of how Australian families hold investments, run businesses and plan for the next generation. On 14 October 2026 the Government introduced the Treasury Laws Amendment (Tax Reform No. 3) Bill 2026 into Parliament, giving effect to the 30% minimum tax on discretionary trusts announced in the May 2026 Budget.

The legislation is not yet law and may change, and the tax does not begin until 1 July 2028, so there is no need for immediate action. There is, however, real value in understanding the options early, because some have firm deadlines and cannot easily be reversed.

What is changing

From 1 July 2028, the trustee of a discretionary trust will pay tax of at least 30% on the trust's net income. If the trust already pays 30% or more, nothing changes. If it pays less, the trustee tops up the difference. The aim is to limit the tax advantage of directing trust income to family members on lower marginal tax rates.

Individual beneficiaries will then receive a non-refundable 30% tax offset for their share of the tax paid by the trustee. Company beneficiaries will receive no offset at all. How much a family is affected therefore depends largely on who receives the income.

A simple illustration

Take a discretionary trust with \$100,000 of taxable income, all subject to the new rules. The trustee pays \$30,000 of minimum tax, leaving \$70,000 (assuming no other trustee tax or franking credits). The outcome then depends on the beneficiary.

Example A: an individual beneficiary

Suppose the beneficiary's personal income tax on the \$100,000 would ordinarily be \$20,000.

Component	Amount
Tax paid by trustee	\$30,000
Individual's calculated tax	\$20,000
Offset used	– \$20,000
Additional individual tax	\$0
Total tax borne	\$30,000

The beneficiary is entitled to a \$30,000 offset, but because it is non-refundable, \$10,000 of it is effectively wasted, so directing income to a lower-income spouse or adult child may no longer produce the traditional tax savings. Beneficiaries already on a marginal rate of 30% or more should see little difference.

Example B: a company beneficiary ("bucket company")

Many families direct trust income to a private company to cap tax at the company rate, and this is likely to be the most significant change for established family wealth structures. Suppose the trust distributes the same \$100,000 to a company taxed at 25%.

Component	Amount
Trustee minimum tax	\$30,000
Company tax at 25%	\$25,000
Offset for company beneficiary	\$0
Combined tax	\$55,000 0

Simplified example excluding franking credits, other adjustments and later distributions to shareholders.

Because the company receives no credit for the tax already paid by the trustee, the same income is effectively taxed twice, at a combined cost of up to 55%, or 60% where the company is taxed at 30%.

What happens to franking credits

Franking credits attached to income subject to the minimum tax will be used by the trustee against its liability, with any eligible excess refunded to the trustee. They will no longer flow through to beneficiaries in the usual way, which could materially change the outcome for trusts holding large Australian share portfolios.

Which trusts are affected

The starting point is whether a trust is a "minimum tax trust" under the proposed rules. Most family, investment and business discretionary trusts will be, while several other structures sit outside the regime.

Trust structure	Proposed treatment
Family discretionary trust	Generally subject to minimum tax
Discretionary investment trust	Generally subject to minimum tax
Discretionary business trust	Generally subject to minimum tax
Fixed or unit trust	Excluded if the new fixed trust definition is met
SMSF or complying super fund	Excluded
Special disability trust	Excluded

Trust structure	Proposed treatment
Deceased estate	Excluded
Charitable trust	Generally outside the tax
Discretionary testamentary trust	Conditional exclusion for qualifying income

Some income can be excluded even where the trust itself is not, such as qualifying primary production income, certain income of vulnerable minors and qualifying distributions to charities. Simply calling a structure a unit trust does not guarantee an exemption; it must have genuinely fixed entitlements to income and capital.

Testamentary trusts are not automatically excluded as a whole. Instead, income is excluded where statutory conditions are met, broadly covering income from assets that came from the deceased estate or qualifying assets held before the May 2026 Budget, so families with testamentary trusts in their estate plans should have them reviewed.

Three paths forward

The legislation gives families three broad options. The right choice will depend on how your trust is used today and how you would like it to serve your family in the future.

1. Accept the new tax

For many families the additional cost may be modest, and keeping the current structure preserves flexibility, asset protection and simplicity while avoiding the costs of restructuring. The impact may be minimal for small businesses that pay working family members commercial salaries rather than trust distributions, leaving the trust with little taxable income. There is also little to gain where beneficiaries are already on a tax rate of 30% or more, or each receives at least \$229,320 a year: the trustee simply pays the first 30% and the beneficiaries pay the balance, with the offset preventing double taxation.

The exception is a trust that distributes to a bucket company, where distributions are effectively taxed twice; one alternative to restructuring may be to stop those distributions once the new tax begins. Accepting the tax may also be the right choice where asset protection or flexibility is the priority, or the family is still growing, particularly where restructuring would cost more than it saves.

Doing nothing is itself a decision. A trust that is discretionary at any time during an income year pays the minimum tax for that whole year, so a trust that converts after 1 July 2028 is still caught for the year of the restructure.

Doing nothing is itself a decision.

2. Lock in fixed shares: the excluded election trust

A trustee can make a one-off, permanent election during the 2028–29 income year to fix each beneficiary's share of income and capital, for example 60% to one spouse and 40% to the other. The trust stays in place and no assets move, so the minimum tax is avoided without a restructure. Only trusts in existence on 1 July 2028 can elect, and a trust that elects cannot later use the rollover.

The trade-off is significant: the trust gives up the annual flexibility that makes it appealing. Shares are fixed by reference to 1 July 2028 and can change only on a death or relationship breakdown, not a birth or

marriage, so children born later cannot be added. If the trustee departs from the nominated shares, the election is automatically revoked and:

- the trustee pays tax at the top marginal rate plus the Medicare levy on the trust's entire net income for that year
- the election cannot be reinstated
- the minimum tax applies in all future years.

The election may therefore suit a stable, settled family. It is likely to be most valuable where income goes to beneficiaries on tax rates below 30%, such as retirees or adult children early in their careers, who would otherwise lose the benefit of the tax-free threshold and lower brackets because the offset is non-refundable. It may also appeal where stamp duty makes restructuring too costly, where assets carry large unrealised gains, or where the trust wants to keep distributing to a company beneficiary. New South Wales and Western Australia have confirmed they would waive any stamp duty arising from the election.

Committing in advance to a fixed distribution pattern may also sit uneasily with a trustee's fiduciary duty to consider beneficiaries' circumstances each year, so legal advice is essential before choosing this path.

3. Restructure with rollover relief

Temporary relief will allow assets to move out of a discretionary trust into another structure, such as a company or fixed trust, between 1 July 2027 and 30 June 2030, at their existing cost base and without income tax or CGT on the transfer. Completing a restructure before 1 July 2028 means the minimum tax need never apply. Under the proposed rules:

- generally all relevant assets must move to a single qualifying recipient, although some assets are excluded
- both entities must make the required elections and meet continuity and Australian residency tests, with family group continuity a particular hurdle for trusts without an existing family trust election
- the new entity must not reintroduce material discretionary interests until the fourth income year after the final transfer
- failing to complete all required transfers by 30 June 2030 can invalidate the entire rollover.

The relief does not remove stamp duty, GST or other transaction costs, and the impact depends on what the trust owns and where. South Australia does not charge duty on transfers of commercial and industrial land; Victoria, New South Wales, Tasmania, the ACT and the Northern Territory generally charge duty only on real property; while Queensland and Western Australia also charge duty on business assets such as goodwill, plant and equipment, so a restructure there may only suit trusts with no dutiable assets.

Where duty is manageable, a company is likely to suit larger trading businesses that reinvest most of their profits, as after-tax profits can be retained after tax at the 25% or 30% company rate, compared with as little as 53 cents in the dollar in a trust. It may also suit a business preparing for external investment, employee equity or a sale. Against this, carry-forward losses and any deferred CGT discount would be lost, while small business CGT concession history carries across.

Choosing between the paths

The election and the rollover are alternatives; they cannot be combined.

	Fixed shares election	Rollover restructure
Existing trust remains	Yes	Assets generally move out
Assets transferred	No	Yes

	Fixed shares election	Rollover restructure
Distribution flexibility	Significantly restricted	Depends on the new structure
Main benefit	Avoids the minimum tax without restructuring	Moves out of a discretionary structure
Main risk	Automatic revocation	Failing eligibility or continuity tests
Timing	2028–29 income year	1 July 2027 to 30 June 2030

One trap is that a trustee could commit to the rollover, later find the restructure cannot be completed, and discover the fixed shares election is no longer available. The decision should therefore be made carefully, and before committing to either option.

Our approach

We believe the best outcome comes from planning early rather than reacting late.

- Working with your accountant to model the after-tax outcome of each path side by side for your family, including franking credits, capital gains, succession planning, legal costs and stamp duty.
- Work with your solicitor to review your trust deed, family trust election and corporate beneficiary arrangements, as asset protection, estate planning and family law matter as much as tax.
- Consider where future investments are best held, including superannuation.

Key dates

Date	Milestone
12 May 2026	Minimum tax announced in the Federal Budget
14 October 2026	Legislation introduced to Parliament
1 July 2027	Rollover relief window opens
1 July 2028	Minimum tax begins
2028–29 income year	Only window to elect fixed shares
30 June 2030	Rollover relief window closes

Looking ahead for trusts

Several of the detailed conditions above are drawn from the consultation draft and technical commentary, and may change as the legislation moves through Parliament. If you hold a family trust, particularly one with a company beneficiary, significant investment income or large unrealised gains, please speak with us or your accountant well ahead of the key deadlines.

Part 2: Capital gains tax and negative gearing

The CGT and negative gearing reforms passed Parliament in June 2026 and apply from 1 July 2027, a year before the trust minimum tax. Because CGT affects anyone who builds wealth through shares, managed funds, crypto assets or property, they are relevant to most of our clients.

CGT and negative gearing at a glance

Area	Until 30 June 2027	From 1 July 2027
CGT discount (assets held 12 months or more)	50% of the gain is taxed	Cost base adjusted for inflation; only the real gain is taxed

Area	Until 30 June 2027	From 1 July 2027
Minimum tax on capital gains	None	30%, with an exemption for certain income support recipients
New residential builds	50% discount	Choice of the 50% discount or the inflation adjustment
Negative gearing on established homes bought after Budget night (12 May 2026)	Losses can reduce wages and other income	Losses can only offset residential property income; any excess is carried forward
Investment properties held before Budget night	Unchanged	Unchanged (grandfathered)

What is capital gains tax?

CGT is the tax on the profit you make when you sell or otherwise dispose of an asset such as shares, managed funds, crypto assets or property. It is part of the income tax system: your net capital gain is added to your other income and taxed at your marginal rate. Your main residence is generally exempt.

From 1985 to 1999, CGT adjusted the cost base for inflation so that only the real gain was taxed. In 1999 this was replaced by a simple 50% discount, and the 2026–27 reforms now move the system back towards an inflation-based approach.

What is changing from 1 July 2027

For individuals, trusts and partnerships, the 50% CGT discount will be replaced with an adjustment based on the actual rate of inflation, and a minimum tax of 30% will apply to capital gains. Complying superannuation funds keep their existing one-third discount, which further strengthens the case for super as a long-term investment structure.

Does the 50% discount disappear overnight?

No. The new rules apply only to capital gains arising on or after 1 July 2027, so growth that has built up before that date keeps its existing treatment. Investors in newly built residential property will also be able to choose between the 50% discount and the new inflation-based arrangement when they sell.

How the inflation adjustment works

The inflation adjustment aims to tax only the real gain. For example, shares bought for \$10,000 and sold for \$18,000 after 20% inflation would have a taxable gain of \$6,000 (\$18,000 less an inflation-adjusted cost base of \$12,000), compared with \$4,000 under the 50% discount.

Where inflation is modest relative to an asset's growth, more of the gain will usually be taxable than under the 50% discount, and the 30% minimum tax means it will generally be taxed at no less than 30%, even for investors on lower marginal rates.

What the changes mean for share portfolios

For many of our clients the larger exposure sits in their share portfolios, where the new rules will shape day-to-day decisions, not just the outcome when an asset is eventually sold.

Assets you already own

Every asset held at the end of 30 June 2027 will be treated as if sold and bought back at market value on 1 July 2027, with no tax payable at that point. On eventual sale, growth up to that date keeps the 50% discount and later growth falls under the new rules, unless you choose a prescribed apportionment method at the time of sale.

There is generally no need to sell to beat the deadline, but cost base records, dividend reinvestment parcels and corporate actions should be in order well before 1 July 2027. Shares bought before 20 September 1985 will also become taxable on growth from that date. The example below assumes shares bought in 2020 and sold in 2030, with 10% inflation after 1 July 2027.

Step	Amount
Purchase price (2020)	\$50,000
Market value on 1 July 2027	\$80,000
Sale price (2030)	\$100,000
Gain to 1 July 2027 after the 50% discount ($\$30,000 \times 50\%$)	\$15,000
1 July 2027 value adjusted for 10% inflation	\$88,000
Gain after 1 July 2027 under the new rules	\$12,000
Total taxable gain	\$27,000
For comparison: taxable gain if the old rules had continued	\$25,000

Simplified illustration only. The \$12,000 post-reform gain is subject to the 30% minimum tax. Actual outcomes will depend on the asset, the timing of the sale and your personal circumstances.

Rebalancing and turnover

Each sale now carries a higher tax cost, so rebalancing through new contributions, reinvested income or selling holdings with small gains can help limit unnecessary realisations.

Holding period

Indexation removes only the inflation component, so high-growth shares lose the most from the change, while slower-growing assets held through periods of higher inflation may fare as well as before.

Low-income investors and retirees

Strategies built around realising gains in retirement or a career break should be revisited, as real gains will generally be taxed at no less than 30%, with an exemption for certain income support recipients.

Choosing what to sell

Selling parcels with a higher cost base may reduce the taxable amount, and capital losses become more valuable, provided decisions are driven by investment merit rather than tax alone.

Fund choice

Actively managed funds that trade frequently distribute realised gains each year, taxed whether or not you sell your units, while lower-turnover funds and many ETFs allow more of the return to compound. Franked dividends are not directly affected, so the appeal of income versus growth investments may shift.

Where to hold investments

Structure	Treatment of capital gains from 1 July 2027
Personal names	Inflation adjustment, with a 30% minimum tax on real gains
Superannuation	One-third discount retained; earnings taxed at up to 15% in accumulation and generally tax-free in retirement phase
Company	No CGT discount before or after the reforms; gains taxed at the company rate of 25% or 30%

Structure	Treatment of capital gains from 1 July 2027
Discretionary trust	New CGT rules apply, with the proposed trust minimum tax from 1 July 2028 (see Part 1)

Super's retained discount makes it an increasingly attractive home for long-term growth assets, subject to contribution caps and preservation rules. Moving an investment between structures can itself trigger CGT, so any change should be modelled carefully.

Changes to negative gearing

From 1 July 2027, investors in established residential property bought after 7:30pm AEST on 12 May 2026 (Budget night) can no longer deduct rental losses, where costs such as interest exceed rent, against salary and other income. Those losses can only offset residential property income, including residential capital gains, with any excess carried forward. In practice:

- **Properties held before Budget night:** existing arrangements are grandfathered and remain unchanged for as long as you own the property.
- **New builds:** investors can still deduct losses against other income.
- **Established homes bought after Budget night:** losses are quarantined against residential property income and carried forward.

Super funds (including SMSFs) and widely held trusts are excluded. Investors with high marginal tax rates, high borrowings and low rental yields will feel the cash flow impact most.

05 · BOOK REVIEW

Moneyball, by Michael Lewis

A film I already loved, a book that asked more of me, and a lesson about data that travels well beyond baseball.

Christopher Boag · 19 October 2026

I picked up Moneyball because I had enjoyed the 2011 film, along with the films of two other Lewis books, The Blind Side and The Big Short, his account of the global financial crisis. This was my first time reading Lewis, and I opened it expecting an easy read.

The story

Moneyball follows the Oakland Athletics and their general manager, Billy Beane, through the 2002 season. Oakland had one of the smallest budgets in Major League Baseball, roughly a third of what the richest clubs spent on players. They could not win by outbidding anyone, so they set out to think differently.

Beane and his assistant, Paul DePodesta, found that many of the statistics the game relied on were a poor guide to how players actually performed. Drawing on ideas first worked out by amateur analysts in self-published newsletters, they built their own measures. Players the market overlooked, such as those who simply got on base often, were cheap. Players with eye-catching traits were expensive, often without good reason.

The read

I'll be honest: the book is harder going than the film. I don't follow baseball, and long passages on player trades, statistics and the history of the analysts behind them tested my interest. The characters are vivid, but they are sometimes buried in the detail. The film keeps its focus on the people: contrarians short of money, looking for an edge, and finding one.

What stayed with me

The lesson is one investors know well: information is only as useful as the way it is built. Baseball's traditional numbers looked authoritative, but they measured the wrong things, so decisions built on them were flawed. It is the same idea behind systematic investing: replace habit and convention with measures tested against what actually happens.

Finding an edge also takes time, and it is never foolproof. Oakland did not start winning overnight; they built the team piece by piece and kept testing what worked. Once others copy an edge, it fades: the Boston Red Sox soon adopted the same approach and won their first World Series in 86 years.

For us, the parallel is direct. An investment philosophy matters, but it needs the right tools to put it into practice. Like Beane assembling a team, we build portfolios one decision at a time, and we invest in our own data and research so we can see what the information is really telling us, not just what it appears to say.

Who should read it

Anyone with an interest in baseball or statistics will enjoy it. For everyone else, the film tells the story well, and the book adds depth for those who want it. I found it a slow read but a worthwhile one, and its message has stayed with me: look past the accepted numbers, understand what the data is actually telling you, and be prepared to build better measures of your own.

Moneyball: The Art of Winning an Unfair Game, by Michael Lewis (W. W. Norton, 2003).

IMPORTANT INFORMATION

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The trust minimum tax described in the Technical Update is not yet law and may change.

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