

The significant geopolitical conflict in Iran dominated the March quarter. At the same time, many stocks had their valuation multiples rapidly revised down.

Investors now face two important questions: Which businesses deservedly declined because they were overvalued? And which businesses were sold off too harshly and are on sale?

The good news is that based on our analysis, there are several competitively advantaged businesses on sale today.

While the March quarter was a tough one, Montaka's investment philosophy has not changed. We seek to exploit long-duration market inefficiencies and deliver our investors sustainable long-term excess returns.

The market routinely undervalues businesses that can grow earnings power reliably over extended time horizons. This is because many market participants simply focus on the short term, and they lack the patience – and investment structures – necessary to exploit market inefficiencies that may take many years to be realized.

We have the patience and the structures, and this is a clear point of differentiation for Montaka.

Even when others have lost faith, we can maintain our holdings in competitively advantaged companies benefiting from long-term transformations.

As we share below, during the March quarter many investors lost faith in software companies. Ignoring many exculpatory facts, they decided that substantially all software companies would be economically impaired by AI. While this may be true for some, we believe it won't be for all.

This swift loss of faith, and the sharp stock price declines that followed, forced many investors to sell. But we maintained Montaka's long-term perspective, and didn't allow ourselves to be derailed by increasingly viral market narratives.

In the letter that follows, we cover the following:

1. We deconstruct Montaka's investment performance in the March quarter – both absolute and relative to the broader market.
2. We outline our views on the economic and market outlook, including recent geopolitical conflict, the AI transformation, and the market's current valuation levels.
3. We take a look at Montaka's portfolio augmentations and positioning – including the addition of four new investments during the quarter.
4. And we share a case-study on one of Montaka's newer investments, leading UK defence contractor: BAE Systems.

For newer readers, we invite you to explore our latest insights and thematic analysis at [montaka.com/blogs](https://montaka.com/blogs), where you'll also find clear information on how to invest with us. Our most popular investment vehicle is quoted on the ASX under 'MOGL' – which can be purchased simply through your standard brokerage account, just as you would any other ASX listing.

## Deconstructing Montaka's Recent Investment Performance

Montaka's strategy is built around a high-conviction, long-duration portfolio. This will inevitably feature lumpy returns over time.

In the March quarter, with the exception of Albemarle, BAE Systems, and Moderna, all of Montaka's portfolio investments experienced a decline. When weighted by their portfolio size, the biggest detractors included Microsoft, KKR, ServiceNow, MongoDB, Meta Platforms, and Salesforce.

When stock prices decline, there are two causes: (i) changes in earnings power, and (ii) changes in the valuation multiple of said earnings power. Overwhelmingly, the stock declines in Montaka's portfolio during the March quarter were driven by the latter (valuation multiples), not the former (earnings power).

In the analysis shared [here](#), we show that the businesses owned by Montaka continue to perform very well fundamentally. It's just that in recent months their valuation multiples have significantly derated.

When we calculate an indicative measure of Montaka's portfolio-weighted look-through revenues (aggregate revenue adjusted for the size of each investment) over time, we see consistent double-digit annual growth, up to and including the most recent quarter of reported results. For the portfolio's weighted look-through earnings, the rate of growth was even higher.

Yet, of late, the valuation multiple of Montaka's portfolio-weighted look-through earnings fell by approximately 17%.

So earnings power remains strong, but the price at which the market is valuing these earnings has declined. We view this as an opportunity.

### The broader market: Software and the US underperform

It is also constructive to consider the drivers of change in broader market indices.

The software sub-sector, in general, was by far the largest negative contributor to the S&P 500 Index during the quarter (with energy the strongest sector). The substantial selloff in software stocks over the period reflects a new viral narrative that AI agents will impair the value of existing software platforms.

We elaborate on this here and conclude that, while AI agents may well hurt many existing software businesses, for a few advantaged platforms with large incumbent customer bases, their trusted distribution will likely see their value strengthened.

### High exposure to the US creates short-term pain, but long-term gain

Montaka's portfolio also suffered during the quarter from its relatively high exposure to the US.

Compared to the likes of Europe and Hong Kong, US equity markets were more negative.

This hurt Montaka's relative returns when measured against the MSCI World Total Return Index – an index that includes significant non-US exposure.

That said, we have clear and deliberate reasons for biasing Montaka's portfolio to US exposures relating to geopolitical, technological, and macroeconomic advantages. And we believe that, over the longer term, this positioning will prove superior.

Despite short-term returns being negative from time to time, as in the March quarter, we believe Montaka's philosophy of owning advantaged businesses positioned well in structural transformations will ultimately deliver attractive long-term returns for investors.

## Economic and Market Outlook: Examining the 3 vital themes

In today's complex world, we see three issues as most pertinent for investors positioning for the future:

1. Geopolitics
2. AI
3. Market valuations

We briefly share Montaka's current thinking on each.

### Geopolitics: Iran highlights the potential of chokepoints to limit aggression

The war in Iran has spotlighted that the Strait of Hormuz is a geopolitical chokepoint. Iran has demonstrated to the world how it can close this strait with relative ease, send oil prices sharply higher and limit supplies for many countries.

Interestingly, strategists suggest this approach is a template for a possible Chinese intervention in Taiwan<sup>1</sup>. If the economic disruption from Iran has been significant, the disruption from a major conflict in Taiwan would likely be catastrophic. Taiwan produces approximately 80% of the world's semiconductors, and any conflict in Taiwan would likely draw a response from numerous nations such as the US, UK, Japan and Australia<sup>2</sup>.

Yet recent observations suggest the probability of a potential China/Taiwan conflict has arguably reduced:

- China relies on imports for approximately 60-70% of its domestic oil consumption. And 45-50% of these imports transit the Strait of Hormuz<sup>3</sup>. This represents a major chokepoint for much-needed Chinese supplies, particularly oil.
- The Malacca Strait (located between Indonesia and Malaysia), through which approximately 80% of China's oil imports pass<sup>4</sup>, too, represents a major chokepoint for China.
- Recent detailed simulations of a potential China/Taiwan conflict by US military strategists have identified that the sustainable supply of fuel (and most importantly, oil) is what ultimately determines how long either side can sustain combat operations<sup>5</sup>.

1: FT: Shutting Hormuz is a template for China in Taiwan, April 2026

2: TSIA: Overview on Taiwan Semiconductor Industry, 2025 Edition

3: Columbia SIPA: Implications of the Conflict in the Middle East for China's Energy Security, March 2026

4: Atlas Institute for International Affairs: Navigating the 'Malacca Dilemma' in 2025, March 2025

5: The Heritage Foundation: Tidalwave – Strategic Exploitation & Sustainment in a US-China Conflict, January 2026

Iran has shone a light on how easily it has been to close the Strait of Hormuz. There is little doubt that China too has the power to disrupt global supplies by creating chokepoints, should it so choose. But the reverse must also be true: by closing the straits of either Hormuz or Malacca, others could disrupt sustainable fuel supply to China and thwart any potential intervention against Taiwan.

We believe recent events have strengthened deterrence and, with it, reduced the probability of conflict in Taiwan.

### AI: Great investment potential in the hyperscalers

Here's how we see the contours of the AI revolution today:

- Adoption is growing rapidly and demand for compute (hardware and computational power) is growing exponentially – particularly driven by compute-intensity of new agentic use cases.
- Interestingly, growing adoption of AI is accelerating enterprises and governments' transition of non-AI workloads, such as databases, to public clouds. This is because AI relies on the cloud for its resource-intensive workloads, and in turn, drives organisations to more rapidly migrate their existing non-AI workloads to the cloud to leverage AI's capabilities.
- The ability to expand electric power generation in the US – needed for more data center capacity – will likely remain relatively limited for years to come.
- China, by contrast, has significant excess electric power capacity, but has limited access to the latest AI chips – though progress is being made on domestically designed and fabricated chips.
- AI safety and security remain an underappreciated issue for enterprise and government deployments of AI agents, as we explore here, and will likely increase the need for more careful deliberations on agentic rollouts.

Against this backdrop, Montaka sees great investment opportunity in the three Western cloud-computing hyperscalers: Amazon, Microsoft, and Alphabet, for several reasons:

- Growth in demand for compute, a primary service of the hyperscalers, is far outstripping growth in capacity (which is significantly hindered by physical and political bottlenecks today) – and this is handing pricing power to the hyperscalers.
- Barriers to entry in cloud computing were already high and are going higher – driven by a powerful, self-reinforcing cycle of scale and investment that is almost impossible for new players to replicate. The capital required to build and maintain competing infrastructure runs into the many tens of billions each quarter, a price that few can afford.
- Said another way, competitive advantages are strong and strengthening. And yet, *all three hyperscalers became cheaper during the March quarter.*

Some believe that today's hyperscalers are on a path to being disrupted by the AI foundation model companies, including OpenAI and Anthropic. Yet this appears to us to be a misdiagnosis of where the true competitive advantages lie today. And at least one foundation model company agrees with us:

*"We see compute as a competitive advantage. If you do not have it, you do not have revenue. That is one thing I know for sure."*

- Sarah Friar, OpenAI CFO<sup>6</sup>.

## Market valuations

The strength of an investment opportunity depends on the price at which you can acquire current and future earnings power. We see many instances today of strong competitive advantages being offered by the market at highly-attractive prices.

Based on Montaka's internal assessments, here are several:

- **Meta Platforms** — Towards the end of March, Meta's stock price hit US\$526 per share, a level that implies an enterprise value (EV) multiple of less than 13x 2026 earnings before interest and tax (EBIT<sup>7</sup>). We assess this valuation multiple is far too low for a business growing revenues faster than 20% per annum and with competitive advantages as strong as Meta's.
- **KKR** — KKR closed the quarter at US\$92.50 per share, a level that implies an EV multiple of 17x 2026 fee-related earnings (FRE) – which itself is expected to grow by more than 20% p.a. this year.
- **Salesforce** — By quarter-end, Salesforce's EV multiple was down to 4.8x 2026 gross profits (GP). To put this ratio in perspective, at the height of the 2000 'dot com' bubble, Cisco's EV was 70x GP. It was only following the stock's 89% decline that Cisco bottomed at 5x EV/GP in October 2002.
- **S&P Global** — Another way Montaka routinely evaluates valuation levels is to consider what the stock is pricing in about the future. By quarter-end, we found S&P Global was pricing sustained revenue growth of (only) 3% per annum. This is for a business that has grown at more than double that rate in 13 out of the last 15 years. And S&P Global's guided revenue growth for this year is also 6-8% per annum (excluding the effect of exchange rate changes<sup>8</sup>).

Overall, while the broader market is focused on war, oil prices, inflation and interest rates, we see opportunity today in select businesses with strong competitive advantages and large and growing addressable markets.

And many of these opportunities reside in Montaka's portfolio today.

## Portfolio Augmentations & Positioning: BAE, TSMC, Uber, Intercontinental Exchange

With the market throwing up opportunities in both new businesses and businesses Montaka already owns, during the March quarter we were more active in making portfolio augmentations.

### 1. BAE Systems – Defence exposure and countercyclical value

As mentioned above, we acquired **BAE Systems**. This is a large-scale, best-in-class defence contractor with significant diversification across technologies and customers globally.

BAE Systems is not only well positioned to benefit from the structural acceleration in global defence spending, but it also provides Montaka's portfolio with some countercyclical value drivers during times of war, as we've experienced in recent weeks.

### 2. TSMC – Underappreciated pricing power

We also acquired **Taiwan Semiconductor Manufacturing Co** – more commonly known as TSMC – the world's effective monopolist in AI semiconductor fabrication.

Given Montaka's deep work in AI over many years, we've been following this company for some time. We had previously opted against investing in TSMC because of over geopolitical tail risk concerns, and we continue to handicap this investment for its concentrated exposure to Taiwan.

That said, the combination of accelerating demand for AI compute, combined with limited opportunities to expand US electric power generation capacity, means enhanced power efficiency will likely be a primary source of compute capacity expansion for the world's cloud computing hyperscalers. And this gives TSMC extreme pricing power that we believe continues to be underestimated.

### 3. Uber – Competitive advantages and expansion potential

We acquired **Uber** on its recent stock price pull-back. Uber's competitive advantages stem from its large-scale networks and flywheels – between users, drivers, merchants, and advertisers – particularly as they interface with the complex and messy real world. (Similar to the advantages of DoorDash, which we already own.)

And our analysis suggests these advantages will likely thrive in an agentic AI world. Furthermore, recent datapoints suggest the probability of potential disruption from autonomous vehicles is declining, while the probability of the mobility market expanding is increasing.

6: Interview: Cathie Wood (ARK CEO/CIO) and Sarah Friar (OpenAI CFO), March 31, 2026

7: Note: This earnings level deliberately excludes the costs associated with Reality Labs (RL), we make this adjustment on the basis that, over time, RL will either breakeven or its losses will be discontinued.

8: S&P Global: 4Q25 Earnings Filing

## 4. Intercontinental Exchange – Global market strengths

Finally, we also acquired **Intercontinental Exchange**, owner of the New York Stock Exchange, along with several other exchanges, clearing houses, and technology services. The company has particular strengths in global energy futures and options markets – with demand for risk management services in these markets only strengthening, in our view. And similar to BAE Systems, Intercontinental Exchange benefits from market volatility – which, of course, there is plenty of today.

To help fund these new acquisitions, Montaka exited lithium producer, **Albemarle**, after making a significant short-term gain, and a small position in **Reliance Industries**.

We enter April with the following key portfolio exposures. Shown on the left-hand side are the long-term themes we have invested behind, while on the right are those businesses we assess are strongly advantaged and likely to compound their earnings power over longer time horizons than the market expects.

\* \* \*

In closing, we thank you again for your ongoing trust, partnership and patience – especially against the very testing backdrop of volatile global equity markets and Montaka’s recent short-term performance.

We reiterate our philosophy of patiently investing in advantaged businesses positioned within large structural transformations and trading at acceptable (or better, as is the case in many instances today) prices.

Rest assured, the entire team continues to work diligently every day to follow our processes – and improve them whenever possible. We have, for example, recently started to deploy agentic AI tools to significantly expand Montaka’s research team coverage, without diluting focus. We will expand on these evolutions more over the coming months.

As always, we welcome any thoughts, ideas or feedback you might have.

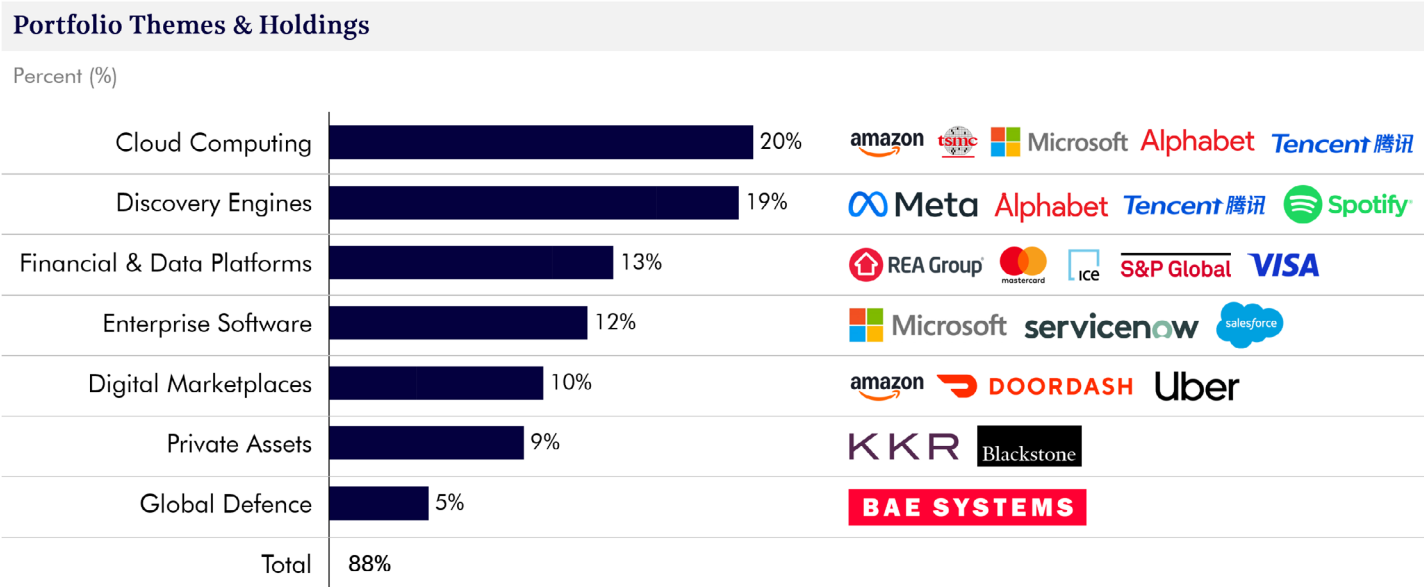
Sincerely,



Andrew Macken

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## Where we invest: top themes that shape the portfolio



Source: Apex, Montaka

Note: Based on Montaka Global Fund – Active ETF (ASX: MOGI). Exposures as on 31 March 2026 and shown as % of NAV. Based on internal classification system, with some holdings falling under more than one theme. Themes are non-exhaustive.

**The rearmament supercycle:  
Why Montaka added BAE Systems to its portfolio**

We believe a rearmament supercycle is underway, driven by a shift away from US-backed global security toward a more multipolar world. This structural trend should persist over the next decade, as nations reassess their long-standing security reliance on the US and commit to higher, sustained defence expenditures.

We view one of the leading global defence contractors BAE Systems (LSE:BA.) as a beneficiary of this structural transformation. With a diversified geographical footprint, exposure to spend on both sides of the Atlantic and strong backlog visibility, BAE is well positioned for durable earnings growth over the coming years.

**Cracks in the Alliance**

Since 1949, NATO has bonded the United States and Europe as a united military front. Anchored by the Treaty's Article 5<sup>i</sup> – the principle that an attack on one is an attack on all- the alliance has endured 14 US presidencies and underpinned the West's 'peace dividend' over much of the past seven decades.

However, President Trump's second term has fractured Transatlantic relations. Economic tariffs, threats to withdraw NATO funding, and provocations to annex Greenland reflect a significant US foreign policy shift towards an "American-first" doctrine over multilateralism. Recent rhetoric – including efforts to rename the Gulf of Mexico, threats to acquire Canada and the Panama Canal, and military intervention in Venezuela – all underscore Trump's nationalist agenda.

Amid this backdrop, Europe's decades-long security reliance on the US has emerged as a critical vulnerability. This belief was reinforced a year ago for us, following US Vice-President JD Vance's speech at the 2025 Munich Security Conference. Rather than offering reassurance to his European allies, Vance highlighted funding imbalances between NATO members, a US pivot towards Asia and warned that Europe should increasingly look to itself for security.

Our discussions with security think-tanks since then suggest that instead of waiting for a return to the status quo, European policymakers are now actively "war-gaming" for a more multipolar world – one where Europe must stand on its own military feet.

**Global Acceleration in Defence Spend**

This shift has triggered a major reallocation of capital across the Continent. For the first time in history, defence spending recently surpassed 2% of GDP for all 32 NATO members<sup>ii</sup> (versus only 3 members a decade ago<sup>iii</sup>); and the alliance has **further committed to doubling spend to 5% by 2035<sup>iv</sup>**. The EU has launched an €800 billion Fund to support financing<sup>v</sup>, while the UK is undertaking its largest sustained increase in defence investments since the end of the Cold War<sup>vi</sup>.

	Historical (2014 - 2021)	Current (2024 - 2026)	Long-Term Trajectory
<b>NATO Europe Avg. Spend</b>	1.5% - 1.6% of GDP <sup>vii</sup>	2.0% - 2.2% <sup>ii</sup>	3 - 5% <sup>iv</sup> (Frontline states > 4%)
<b>Strategic Posture</b>	US-backed deterrence	Urgent European re-armament	Multipolar, self-reliant defence

Similar trends are unfolding beyond Europe, as nations in both the Middle East and Asia calibrate towards a less reliable US hegemony:

- **Japan** is executing its largest military expansion since WWII, doubling defence spending to 2% of GDP by 2026<sup>viii</sup> as it funds its "Shield" drone system and advanced guided missiles program.
- **Taiwan** is undergoing a 23% year-on-year increase in defence spend, bringing their expenditure to 3.3% of GDP in 2026, with a target of 5% by 2030<sup>ix</sup>.
- **Saudia Arabia** is investing significantly to localise defence capabilities and expand naval and drone systems. The Kingdom's defence budget neared \$80B USD in 2025, representing 21% of total government spending and 7% of GDP<sup>x</sup>.

These increases sit alongside well-reported investments by both Israel and the US itself, which is currently considering an unprecedented \$1.5 Trillion Defense budget for FY27<sup>xi</sup>.

As geopolitical uncertainty increases, a rearmament supercycle is emerging; one which will be characterised by greater regionalisation of security supply chains and multi-decade investment into military-industrial bases.

**BAE Systems**

To express our thesis, we added BAE Systems to the Montaka portfolio at the start of the year. Formed in 1999, BAE is the preeminent European defence contractor and the fifth largest globally, supplying advanced aerospace, naval and armed military platforms to a broad set of Western-aligned nations.

i. **NATO (1949)**. The North Atlantic Treaty, Article 5. Washington D.C., April 4.  
 ii. **NATO (2026)**. Secretary General's Annual Report 2025. Brussels, March 26.  
 iii. Alozius, J. (2021). Defence and Peace Economics.  
 iv. **Council on Foreign Relations (2025)**. NATO Agrees to New Defense Spending Target. June 25.  
 v. **European Commission (2026)**. Commission approves first wave of defence funding for eight Member States under SAFE.  
 vi. **UK Government; 10 Downing Street (2025)**. Prime Minister sets out biggest sustained increase in defence spending since the Cold War. February 25.  
 vii. **NATO (2022)**. The Secretary General's Annual Report 2021: Annex – Defence Expenditure of NATO Countries (2014-2021). Brussels, March 31.  
 viii. **Japan Ministry of Defense (2026)**. Defense Programs and Budget of Japan: FY2026 Draft.  
 ix. **Washington Post / President Lai Ching-te (Nov 25, 2025)**. Opinion: An Unassailable Taiwan.  
 x. **GAMI / Breaking Defense (2025)**. Saudi Arabia increases defense spending to \$78B in 2025  
 xi. **Council on Foreign Relations (2026)**. Trump's \$1.5 Trillion Defense Budget Should Not Come as a Surprise. January 8

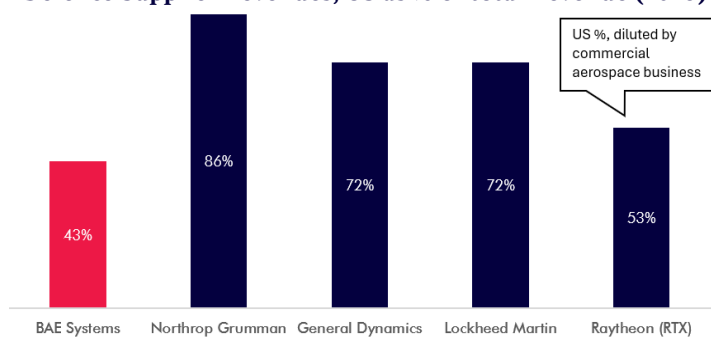
We see three characteristics that make BAE particularly attractive:

**1. Global diversification and exposure**

With extensive operations across the UK, USA, Saudi Arabia, Australia and Japan, BAE is among the most globally diversified defence suppliers in the world.

BAE derives ~20% of its revenue from its home market (UK) and ~40% from the US, whereas the major US “Primes” – such as Lockheed Martin, Northrop Grumman, General Dynamics – depend on the Pentagon for over 70% of their top line.

**Defence Supplier Revenues, US as % of total Revenue (2025)**



Source: FY25 full-year results, Montaka analysis

Unlike the major US defence contractors, BAE’s unique geographical footprint better insulates it from the fiscal risks of any single nation while positioning the company for higher military expenditures across both sides of the Atlantic and abroad.

**2. Strong backlog visibility**

BAE’s extensive R&D capabilities and long-standing relationships are reflected in its assignment to several marquee, sovereign defence programs including the AUKUS submarine project in Australia and the Global Combat Air Programme (GCAP) between Japan, Italy and the UK. These multi-decade initiatives have contributed to a record £84B order book for BAE (31 Dec 2025), providing strong visibility to utility-like cash flows.

**3. Asymmetric upside & portfolio diversification**

BAE has compounded earnings per share (EPS) at a high-single digit rate over the last 10 years and has delivered 22 consecutive years of dividend growth for shareholders.

There is asymmetry between the defensive nature of the company and the significant upside we see from potential future geopolitical escalations. Scenarios such as Russian incursions on Europe or Chinese aggression towards Taiwan could result in defence budgets surging well beyond already increased targets.

Finally, BAE also helps to diversify against the longer-duration, technology-oriented segments of our portfolio.

\* \* \*

Montaka’s investment philosophy centres on identifying and investing behind structural transformations. The geopolitical shift toward a more fragmented, multipolar world—and the resulting rearmament cycle should enable quality leaders like BAE to benefit from sustained defence spending increase over the coming decade.

We initiated the BAE position at the beginning of the year. Subsequent volatility including the conflict in Iran, has contributed positively to the stock’s performance to date.

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