Montaka Global Investments

As you know, our primary goal at Montaka is to sustainably compound our portfolio over the long term.

We already have a well-established portfolio of advantaged businesses with a lot of runway for future compounding.

Additionally, we want to remain fully invested, or very close to it.

To continue to maximise the probability of sustained compounding of the Montaka portfolio, we see our key tasks going forward as including several things:

1. To continually re-analyse and test business cases – including the trajectories of competitive advantages and flywheel dynamics (which we will come back to in a moment). Deep, insightful analysis is Montaka's most important strength and the bedrock of future wealth generation for our investors.
2. To compare market prices for our portfolio holdings with our realistic assessments of fair value, and to
3. Continually evaluate opportunity costs – that is, to compare potential investment opportunities against our existing portfolio companies. These comparisons become particularly important during market moves and when key company value drivers change – both of which can impact prospects or probabilities (for both risks and opportunities).

Our goal is asymmetric portfolio payoffs (significant upside potential with limited downside potential). We achieve this by having high weightings in companies with strong prospects to materially increase their earnings power over the medium and longer term, while bearing only modest risk of permanent capital impairment.

In the June quarter, we extensively examined the business cases for our portfolio holdings. And despite a very noisy backdrop, in the vast majority of cases, they pleasingly continue to improve, which sets the portfolio up nicely for continued strong performance.

Volatility creates opportunity

The June quarter was certainly an interesting time for investors.

In the first week, thanks to Trump's 'Liberation Day' tariff policy announcement, the S&P500 experienced a double-digit percentage decline.

But then over the subsequent weeks, the index bounced back by nearly 25% notwithstanding an extraordinary Israeli and US attack on Iran along the way.

The good news is that, while uncomfortable, such market volatility can create (even more) attractive investment opportunities.

One recent example relevant to Montaka's investors has been KKR. This year alone, KKR's stock price declined by 44%, then bounced back 50%. Yet, in our assessment, KKR's long-term business prospects remain unchanged, and we used this period of volatility to successfully add to Montaka's position in KKR.

The recent whipsawing of markets, and the KKR example, remind us that investors are better off looking well beyond short-term headlines and remaining focused on long-term business earnings power.

This approach is certainly serving Montaka well. Our annualized 1-year, 2-year and 3-year performance metrics are all tracking at or above 20% p.a. net of fees.

The three powerful elements of competitive advantage

We would like to spend some time exploring a deeper dynamic of our strong performance: a focus on competitive advantage.

Overall, Montaka's portfolio companies remain highly profitable and cash generative. But, above all, they remain 'advantaged'.

Competitive advantages

When a company is competitively advantaged, they face less intense competition and are better protected from new competition. They have a greater chance of delivering higher returns on invested capital over time.

There are three broad categories of competitive advantage – each of which increase the probability of unusually high returns on invested capital:

- First, **economies of scale**. The larger a business, the better it can spread its fixed costs across greater sales volumes to reduce unit costs. This can even include R&D. Larger companies can spend a lot more than smaller companies on R&D, yet still maintain their average profit margins. Large companies also have greater bargaining power over their suppliers, which can further reduce costs and expand profit margins.
- Second, **customer captivity**, where businesses have a large, entrenched customer base that cannot easily switch to an alternative supplier. A locked-in customer base is highly valuable. It can increase pricing power, enable cross-selling opportunities, and often represent a significant barrier to entry for new competitors.
- And third, **irreplicable assets** which are monopoly-like assets that cannot be recreated by competitors. LVMH, for example, owns exquisite brands like Louis Vuitton, which has been carefully nurtured for 170 years. This brand cannot be recreated and enables LVMH to earn high, sustained economic returns. Other examples include owners of protected IP, owners of privileged datasets, and owners of protected mining tenements. By their very definition, potential new industry entrants find it very difficult to compete against these irreplaceable assets.

A self-reinforcing cycle that strengthens advantages — a flywheel

An important question for investors (as well as business executives) is: How can a business build and strengthen these advantages discussed above?

The answer is: flywheels.

A 'flywheel' is a dynamic where a company shares its economics with its customers. That sharing creates a powerful symbiotic relationship where both the company and customers benefit.

When the customer and company win together, we typically see several things:

- Greater customer adoption and retention,
- Increased market share,
- Greater scale, and
- Greater enhancement of the product or service offering.

Plus, importantly, the advantages grow in strength over time because the dynamic is self-reinforcing: i.e., the more a business shares with its customers, the faster its advantages grow.

Like a flywheel in the physical world, once it gathers steam, it's very difficult to stop.

How we employ our flywheels model to identify opportunities in disparate places

In a recent presentation to investors, I asked what the companies on the left (below) all have in common.

It's perhaps not immediately obvious what a payments company has in common with a retailer; or what an asset manager has in common with an audio streaming platform. (Of course, all of these companies are owned by Montaka at present.)

Source: Montaka (June 30, 2025)

It is only with the conceptual model of 'flywheels' that investors can connect these seemingly disparate businesses.

Let's look at three examples from the list above:

- Firstly, **Spotify**. With a free ad-supported tier and a low subscription price, customers get enormous value at minimal cost. As more people use the service, Spotify learns more about consumer preferences. This data informs the company about how it can further improve the value of the service for all users.
- Or consider the retailer, **Floor & Decor**. By specializing only in hard surface flooring, they can leverage greater scale when ordering directly from manufacturers. By sharing these reduced costs with customers through lower prices, and by offering the widest range of SKUs (stock keeping units) on the retail floor, more customers adopt and are retained ... which in turn further increases market share and scale. (See further below for Lachlan Mackay's case study on Floor & Decor).
- Even **Blackstone** and **KKR**, the world's leading alternative asset managers, exhibit flywheel dynamics. With the greatest scale around the world, and full-service offerings across the entire capital structure, they can source the most attractive deals. These attributes attract the world's largest clients, as well as the highest-caliber deal-making talent – all of whom mutually benefit from greater investment returns over time. Furthermore, with some of the largest investment portfolios in the world, Blackstone and KKR can leverage their proprietary data sources to identify new investment trends before they are recognized by the competition, further increasing expected investment returns.

From conceptual models to investment returns

Competitive advantages and flywheels have a direct effect on long-term investment returns.

When a company has competitive advantages, they can capture superior returns from business investments. That investment could be expanding their core businesses, or leveraging their core advantages to expand into new, adjacent markets. Superior returns in turn manifest as higher growth in earnings power (relative to the capital investments required to achieve said growth).

Flywheels build and strengthen competitive advantages of companies, making them more resilient to the ebbs and flows of economic and political cycles. And they increase the probability of more reliable growth over extended time horizons.

Yet markets routinely undervalue this dynamic. And many asset managers are not structured to exploit their potential.

If an asset manager is to capture the inefficiencies in long-duration opportunities, academic and empirical research[1] has found they need to adopt active management strategies characterised by two things:

(i) High active share (a large difference between the portfolio and benchmark) – the result of a highly concentrated portfolio, and

(ii) Long fund duration (positions held for extended periods) – the result of long-term patience in individual investments.

This is why Montaka believes that owning a long-term, high-conviction portfolio of high-quality global companies – companies with strong and strengthening competitive advantages – represents a persistent long-term alpha opportunity.

And we build and hold that portfolio by using models of competitive advantages – as well as the flywheel model – to help us understand the true 'reality' of powerful businesses.

1 (Montaka) Concentrated, Patient & Disciplined — The 3 Pillars of Active Management Outperformance, 2023

Montaka Global Investments

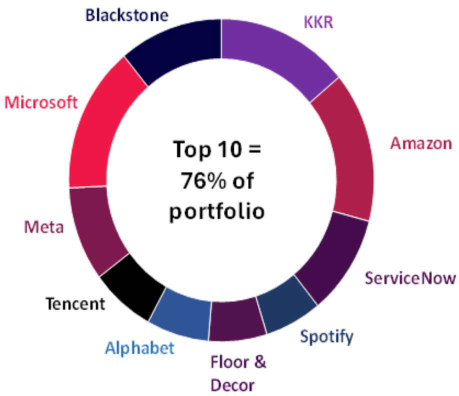
Portfolio augmentations & market outlook

As a result of the limited number of companies with these true competitive advantages, and our high active share, Montaka's portfolio remains highly concentrated, with our top-10 investments representing 76% of the portfolio. Our top holdings have not changed materially during the June quarter.

We also remain a long-duration fund. Annualized portfolio turnover remains quite low at approximately 18%, notwithstanding some small changes to the portfolio following our internal 'price to value' and opportunity-cost assessments, as described above. Our portfolio turnover implies an average holding period within Montaka's portfolio of greater than five years.

The following is a summary of Montaka's top 10 investee companies at quarter-end.

Montaka's Top 10 Investee Companies



Source: Montaka (June 30, 2025)

Looking to the medium term, investors face a wide range of possible outcomes, exacerbated by the unpredictable policymaking style of the Trump Administration.

From wars, to tariffs, to central bank interventions, there is plenty of fodder for those pondering disruptive economic and market scenarios.

This is all against a backdrop of remarkably rapid ongoing technological change, particularly around artificial intelligence (AI), change that always carries both positive and negative implications.

But there are also plenty of scenarios conducive to favorable investment returns. It's possible, for example, that armed conflicts are paused, disruptive trade wars are resolved, regulations become deregulation, and high interest rates are lowered over time.

The underlying US economy remains quite strong for the time being, so it is certainly possible, though far from guaranteed, that the investing environment could be quite positive going forward.

We don't predict. Instead, we rely on the business advantages (and flywheels) of the companies we invest in to increase our chances of durable success, irrespective of the economic and geopolitical backdrop that emerges.

* * *

This letter marks the 10-year anniversary of Montaka. We are so humbled by the ongoing support and patience of Montaka's investors, particularly those who have partnered with us since the early days.

Montaka has had its fair share of ups and downs over the years, but we take immense pride in our commitment to learning and evolution and to continually seek better outcomes for investors.

And we have evolved a great deal over the last decade, including amongst other things:

- Our 2020 repositioning as a fully invested, high-conviction, long-duration investment manager,
- Our 2025 merger with MFF Capital Investments, and our
- Recent integration of the latest AI tools into our investment processes.

We are always looking for opportunities – large and small – to improve, whilst at the same time retaining existing elements we know are critical for success, such as our deep fundamental research, our disciplined valuation processes, and our ongoing adherence to our risk controls.

At the heart of this letter is a deep exploration of competitive advantage and the 'flywheel' conceptual model.

This might strike some readers as a rather narrow topic for a 10-year anniversary letter. Yet our relentless focus today is not on the last 10 years, but rather the next 10 years, and the 10 after that.

Flywheels are the dynamic that enables a select few companies to generate unusually high and reliable growth over extended periods.

It is these companies that make us extremely confident that Montaka will continue to deliver outsized returns for our investors well into the future.

Sincerely,

Andrew Macken

Chris Demasi

* * *

Back in 2019, we pitched US big-box specialist hard-surface flooring retailer, Floor & Decor, as our stock pick at the Sohn Conference.

Since Sohn, Floor & Decor has grown its business through the pandemic, subsequent years of record low housing turnover and the recent tariff announcements. We believe these external challenges have been extrapolated by the market; meanwhile, Floor & Decor exhibits an even stronger business case than it did in 2019 and is poised to accelerate its growth over the coming years.

Floor & Decor - Stock Price

Below, we answer six key questions to demystify Floor & Decor's performance and potential.

1. Let's start with the housing market in the US. What's the backdrop there today? And what does this mean for Floor & Decor?

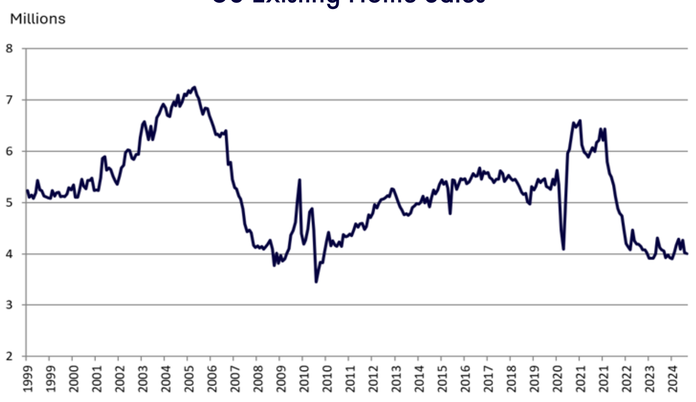
The US is experiencing a multi-year cyclical downturn in housing market activity, with the number of transactions falling despite a relatively solid broader economy.

Yet looking further out, the underlying structural growth drivers of the US housing market have never been stronger.

Existing home sales, which are a major driver of flooring demand, are down at levels we haven't seen since the 2008 Global Financial Crisis. The primary reason for this is persistently high US interest rates; the 30-year fixed mortgage rate has been hovering around 7% for the past three years, a noticeable jump from 3-4% during the last decade.

About 60% of existing mortgages are locked in at rates at or below 4%. Naturally, if you have one of those great rates, you're ideally not choosing to sell and refinance at 7%.

US Existing Home Sales



Source: National Association of Realtors

That's effectively frozen a large portion of the housing market. And with that, the associated flooring replacements.

New housing starts are also quite subdued, running at 1960s levels. That's shocking considering the US population is now growing at around 3.3 million people per year, much higher than the two million annually back in the '60s.

So new home construction hasn't kept up with population growth, meaning there's been an undersupply for the last two decades.

Moreover, the existing stock of US homes is getting older, with a median age of 44 years; many homes are even 70 or 80 years old. Older homes need to be renovated and improved more frequently, including new flooring.

A record $11.5 trillion exists in tappable home equity today – 50% higher than 2019 levels. So there's plenty of funding available for home improvement projects once homeowners are comfortable with interest rates.

These factors have combined to slow down Floor & Decor's business in the near-term. While the timing of a rebound is uncertain, we expect lower interest rates to unlock these large and durable drivers of pent-up demand.

2. Let's now consider the hard surface floor industry in the US. What does that market structure look like and who have been the winners and losers in terms of market share over time?

The US hard surface flooring industry is valued at about US$40 billion annually. The market has a mix of a few large, well-known retailers and thousands of smaller, independent stores.

Although the market has been flat for the last three years, it should return to its structural GDP-plus growth. Hard floors are increasingly replacing carpet, evidenced by hard surface flooring's market share expansion from 45% of the total flooring market a decade ago to around 60% today. We expect this trend to continue as older floors are replaced due to hard surface flooring's long-term durability, ease of cleaning and aesthetic appeal.

Breaking down the market share over time, it's clear who's winning and losing.

As the only player that's consistently gaining market share, Floor & Decor is the standout winner. They're the second largest player in the market. Home Depot, while still the biggest, has seen its share remain flat over the past five years. And Lowes has experienced a slight decline in its share.

It is the thousands of smaller independent retailers that have felt the real pain. Unlike Floor & Decor, who have the scale to source direct from manufacturers, the independents typically buy inventory from distributors, which drives up their costs.

They therefore can't match Floor & Decor's everyday low pricing strategy, and their product range is much smaller. Floor & Decor even offers the same design and installation services that helped independents compete with Home Depot and Lowes. As a result, the independents are steadily losing market share.

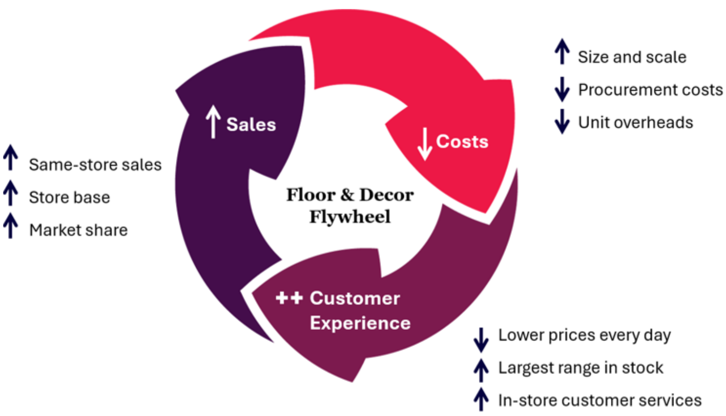
We expect this trend to continue, and frankly, the longer the current market downturn lasts, the tougher it will be for these independents, which will only accelerate Floor & Decor's market share gains.

We wouldn't be surprised to see Floor & Decor overtake Home Depot in market share by 2030.

3. Looking inside the business itself, what are Floor & Decor's competitive advantages and how are those evolving over time?

Floor & Decor's competitive advantages are deeply rooted in its 'flywheel' business model, which continually reinforces the strength of the business over time:

- First, **specialisation and economies of scale** are key. Unlike general big-box retailers, such as Home Depot and Lowe's, which dedicate a small fraction of their space to flooring, Floor & Decor specialises entirely in hard surface flooring. This gives them unmatched purchasing power with their over 240 global suppliers. As they grow and their market share increases, this scale advantage only gets stronger, and gives them even more bargaining power with manufacturers who rely on Floor and Decor as an increasingly important customer.
- Second, the **customer value proposition and experience** are central. Floor and Decor pass on those reduced costs to customers through consistently lower prices. When combined with an enormous selection (around 4,400 unique inventory pieces per store) and excellent in-store customer service, this drives adoption, trust and greater market share. Their ability to maintain and expand competitive price gaps is crucial.
- Finally, **their store rollout strategy and the maturation of their store base** are evolving advantages. With 254 stores and a long-term target of 500+ in the US, Floor and Decor have a substantial runway for growth.

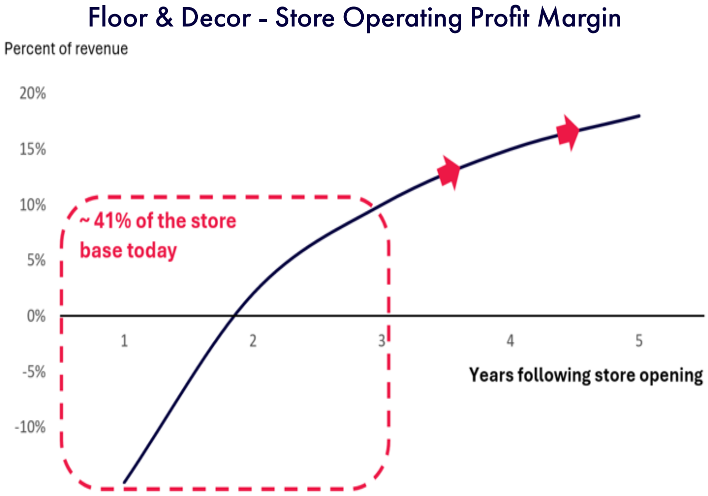


Source: Montaka

4. What do the economics of each Floor & Decor store look like? And how are these combining with the company's store roll out program to form the aggregated financial statements today?

The economics of an individual Floor & Decor store follow a predictable trajectory: they start unprofitable and become increasingly profitable with age.

In its first year, a new store typically operates at a negative profit margin because sales are low while fixed costs and initial setup expenditures are high. By year three, however, the store has typically ramped up and generates mid- to high-single-digit operating profit margins. By then, the store is generating 50% cash-on-cash returns from the initial outlay. Beyond that, as they fully mature, individual stores can achieve impressive operating profit margins in the mid- to high teens.



Source: Floor & Decor, Montaka estimates

Currently, almost half of their 254 stores are three years old or younger. This means a significant portion of their business is still marginally profitable at best, clouding the aggregate profitability.

Floor & Decor's 500+ store rollout program is a continuous growth engine. Despite this challenging market, they're still opening another 20 new stores this year. And these stores are truly enormous – the newly opened warehouse serving NYC spans 1.2 hectares.

Although the ongoing rollout masks the underlying profitability of the mature store base, it will shine through over the coming years as stores mature and the market rebounds.

5. How is the company managing the current tariff situation in the US?

The US import tariffs are affecting the entire industry; however, Floor & Decor's structural advantages allow them to manage the changing situation more effectively than smaller competitors. Their scale and direct purchasing relationships with over 240 suppliers across 26 countries gives them leverage and flexibility to mitigate increased costs.

Since the 2018 tariffs, Floor & Decor has shifted sourcing from China, dropping from 50% to under 5% of sales by the end of this year. The US is now their largest supplier and, remarkably, gross margins increased throughout this transition.

Smaller independents rely on distributors to source product, who hold the bargaining power to pass on tariff costs to retailers, adding to their already higher cost base.

Interestingly, as tariffs are forcing competitors to raise prices, Floor & Decor has flexibility to expand the price difference between their products and competitors', a key feature of their flywheel model. This builds trust with customers and could accelerate their market share gains.

So, while tariffs present a challenge for the industry, they actually reinforce Floor & Decor's competitive position.

6. Why do you think the company is undervalued – and therefore an attractive investment opportunity today?

Recent conditions have masked the strength of Floor and Decor's flywheel business model and underlying earnings power, creating a highly attractive investment opportunity.

Putting everything together, here's what it means for the company's financial future:

- **Revenue**: Currently US$4.5 billion, revenue is poised for significant growth from new store openings, the maturation of its large cohort of young locations, and an eventual market rebound.
- **Profit Margins**: The 6-7% operating margin is temporarily depressed by market weakness and the costs of the maturing store base. However, gross margins have risen throughout this period, proving strong cost management. As conditions improve, we expect operating margins could double.
- **Overall Earnings Power**: Current profitability is not indicative of the business' true potential. The underlying tailwinds discussed could drive Floor & Decor to US$1 billion in annual operating profit by 2030.

Given Floor & Decor's market cap is just US$8 billion today, we have a significant margin of safety in a high quality, growing business and expect to realise a home run investment over the long term.

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