



**QUARTERLY INVESTMENT COMMENTARY**

**31 MARCH 2026**

**CONTRARIUS AUSTRALIA BALANCED FUND**

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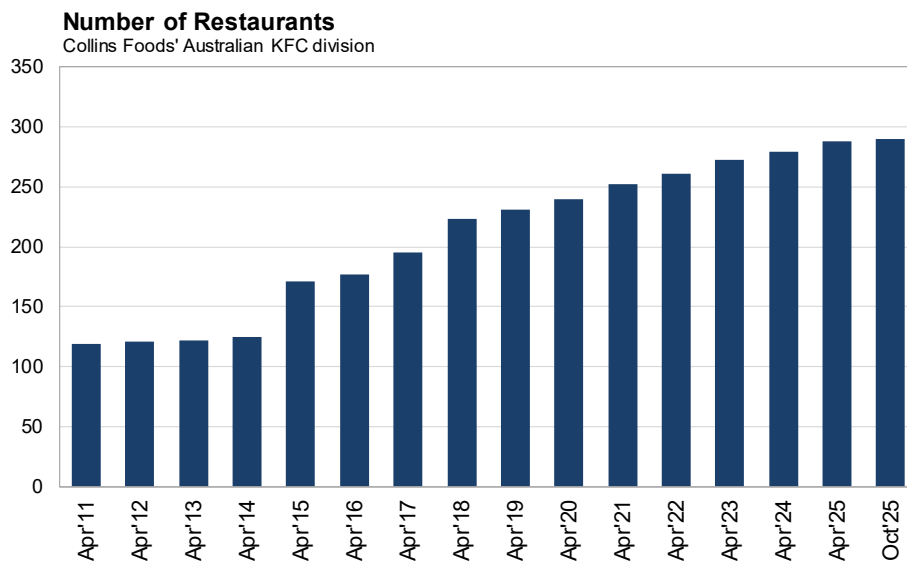
The Fund’s Class A units returned (8.1)% for the quarter versus (2.9)% for the Benchmark<sup>1</sup>. As we have highlighted previously, our investment philosophy is not benchmark cognisant and our portfolios would normally vary materially from the Benchmark. The Fund’s returns are therefore likely to deviate from those of the benchmark. Investors are reminded that given the long-term, contrarian, valuation-based investment philosophy, there will be times when the Fund will materially underperform its benchmark in the short-term in order to achieve its objective of long-term outperformance.

At quarter-end the Fund’s total net share exposure was 60%, comprising a 24% net exposure to domestic shares and a 36% net exposure to global shares. The Fund gains its exposure to global assets by way of investment in units of Contrarius Global Balanced Fund (Australia Registered) (“Global Fund”). The Fund’s allocation to shares reflects our assessment of the available opportunities and their relative attractiveness compared to assessed opportunities available in other assets. At quarter-end the Fund held 23% in fixed income instruments, 3% in commodity linked instruments, and 4% in cash and other net current assets<sup>2</sup>.

Each quarter, the Quarterly Investment Commentary provides us with the opportunity to share our latest thinking and to discuss the investment case for securities held by the Funds. While much of the market's attention is consumed by AI, we believe that some of the most compelling opportunities today lie in companies whose products and business models are likely to endure regardless of how the technological landscape evolves. These are businesses rooted in enduring human behaviours that are likely to be immune to AI disruption. In this quarter’s commentary we discuss Collins Foods—one of the Fund’s Top 10 share holdings at quarter-end.

COLLINS FOODS

While Collins Foods (“Collins”) may not be a household name, step inside a KFC restaurant somewhere in Australia and you have a one-in-three chance of being in a Collins-run establishment. The company opened its first Australian KFC location in 1969. After four decades of expansions, diversifications, restructurings, and a stint under private equity ownership, Collins listed on the ASX in mid-2011. Since listing, its Australian KFC business has grown substantially.



Sources: Collins Foods, Contrarius Research

**KFC Australia**

Collins doesn’t own the KFC brand. That privilege belongs to NYSE-listed Yum! Brands (“Yum”), a company about 60x larger. Collins is a KFC franchisee. So, while Yum controls the KFC brand, menu, marketing, and sets the operating standards, Collins is entirely focused on restaurant operations. It identifies suitable sites, develops and fits-out the physical restaurants, hires and

<sup>1</sup> The benchmark for the Fund is a custom benchmark comprising: 36% S&P/ASX 300 Accumulation Index; 24% S&P/ASX Australian Government Bond Index; 24% MSCI World Index (net dividends reinvested), expressed in AUD; and 16% J.P. Morgan Global Government Bond Index (net coupons reinvested), expressed in AUD (“Benchmark”).

<sup>2</sup> Underlying holdings of Contrarius Global Balanced Fund (Australia Registered) are included on a look-through basis.

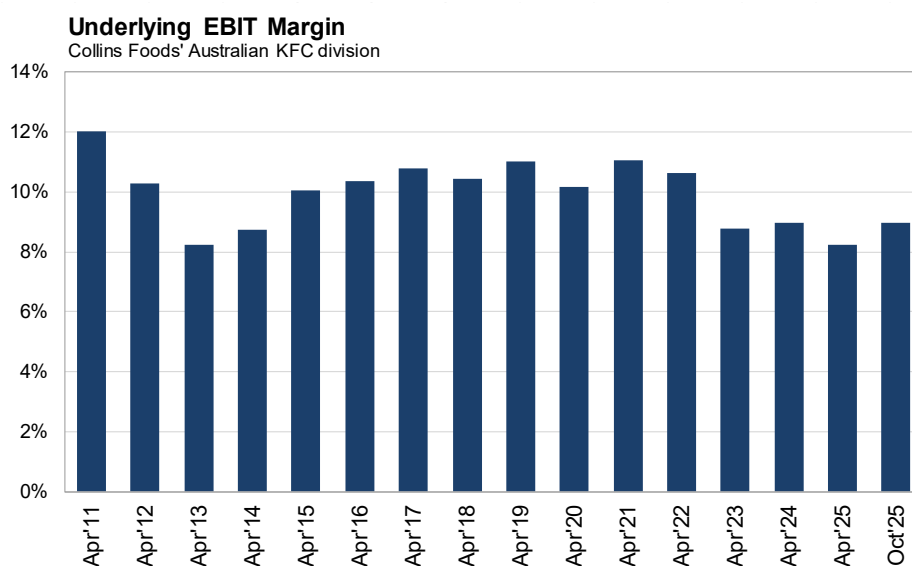
**Notices:** Past performance is not indicative of future performance. The Fund’s unit prices fluctuate and are not guaranteed. Returns may decrease or increase as a result of currency fluctuations. When making an investment in the Fund, an investors capital is at risk.

trains staff, and operates the restaurants—from managing suppliers to frying chicken, from serving customers to cleaning the floors. Yum receives royalties, while Collins retains the restaurant operating profits. For a franchisee like Collins, the name of the game is “operational excellence”.

How has Collins performed over the past 15 years? In short, it has been operationally excellent. Consider the following three metrics: growth, profitability, and return on investment.

**Growth:** As seen above, Collins has increased its Australian KFC restaurant numbers from 119 to 290, an increase of over 6% per annum. In addition, the average sales per restaurant rose by nearly 4% per annum. Revenue has thus lifted by 10% per annum since listing, climbing from \$300 million to \$1,150 million.

**Profitability:** Despite having a lot more locations, volatile food prices, rising wages, and the entrance of new competitors over the years, Collins has generated a fairly steady EBIT margin of between 8~11% over time, averaging about 10%.

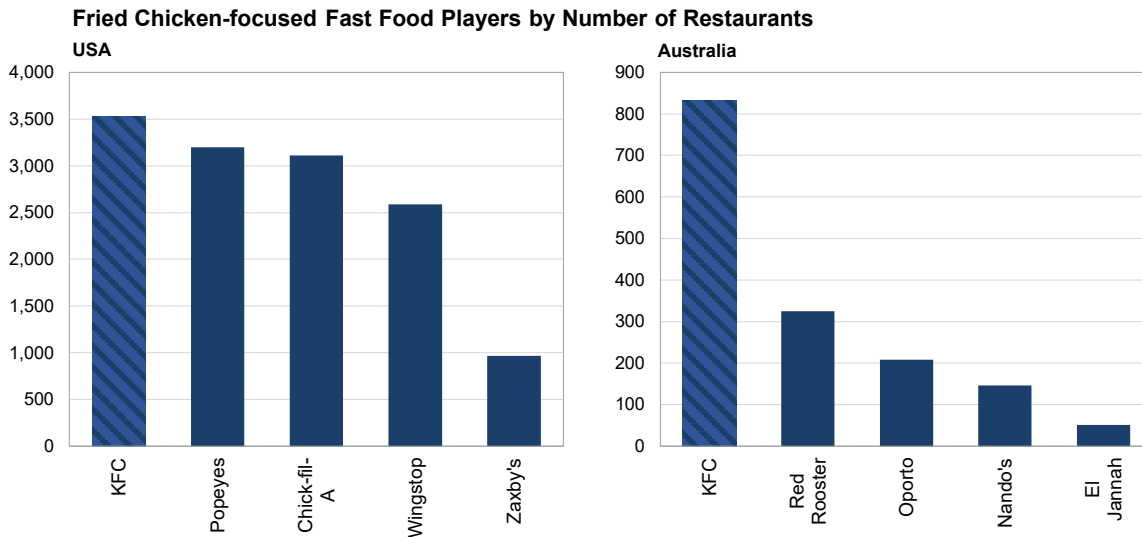


Sources: Collins Foods, Contrarius Research

**Return on Investment:** We estimate that Collins’ Australian KFC business generated an average underlying return on company-wide equity of 15% per annum over the past decade. This is a healthy rate of return, and may actually understate Collins’ performance given the other investments it was making during the period (more on this below).

Collins is clearly a highly competent KFC franchisee and knows how to run a quick service restaurant. It also likely benefits from the fact that Yum operates in the fiercely competitive US fast-food market, facing off with formidable peers like Chick-fil-A, Popeyes, Raising Cane’s, and Wingstop. The challenging environment forces Yum to keep its eye on the ball, ensuring its menu remains appealing and its marketing effective. Innovations and learnings in the US can be applied to the Australian market, giving Collins an edge over domestic peers.

It is natural to wonder about saturation. The roughly 830 KFC restaurants spread across the country places Australia near the top of the list in terms of locations per capita. KFC is the lucky country’s third-largest fast-food chain by number of locations, trailing only Subway and McDonald’s. But it is also a far less competitive fried chicken market. While Chick-fil-A’s revenues are multiples of KFC’s US revenues (even with fewer locations), KFC’s chief competitors in Australia like Red Rooster and Oporto are significantly smaller.

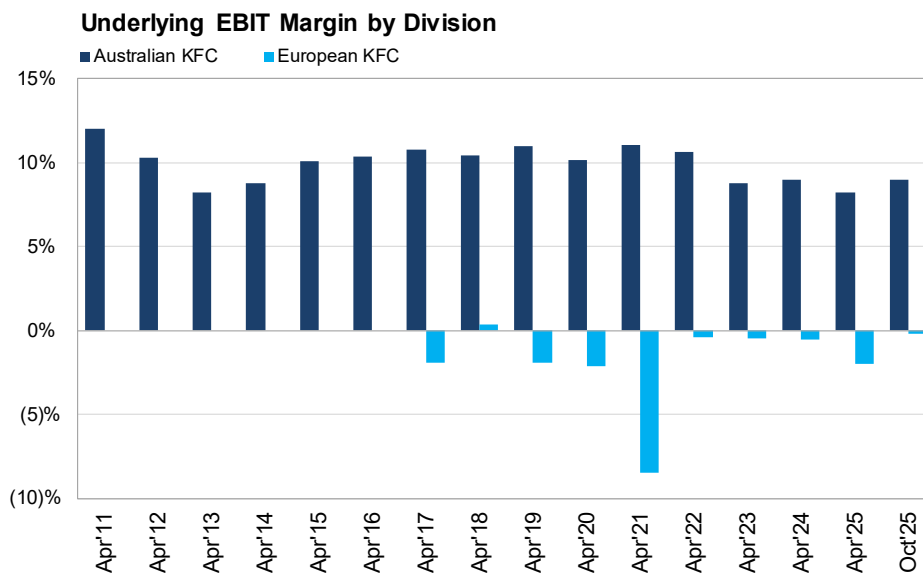


Sources: Company filings and disclosures, Contrarius Research

In recent years, Collins has demonstrated that it can continue to roll out profitable Australian restaurants with attractive economics. The company aims to open 7~10 new restaurants annually with over 50 locations in its development pipeline. With further room to grow, the virtuous cycle of investment, network expansion, and attractive financial returns may continue for some time. Applying a long-term average ASX company valuation multiple (a conservative approach, in our view), we value Collins' Australian KFC business (inclusive of debt) at roughly the same amount as the current market capitalisation of the entire company. If correct, this implies that by buying Collins' shares today, one is getting Collins' European KFC business for free.

**KFC Europe**

Collins first entered the European market by acquiring a handful of KFC restaurants in Germany and the Netherlands in 2016/2017. Further acquisitions have since followed and new restaurants have been rolled out, expanding its portfolio to about 80 restaurants across the two countries. Despite reaching this sort of scale, Collins has been unable to replicate its Australian division's profitability. In fact, it has consistently lost money in Europe (see chart below). This has weighed on company-wide returns and likely been a source of repeated disappointment for investors.



Sources: Collins Foods, Contrarius Research

After a phase of rapid (unprofitable) expansion in the Netherlands, Collins is shifting gears by moderating restaurant roll-out plans, closing underperforming locations, and emphasising profitability over growth. In addition, it will hand back the marketing

responsibilities in the region to Yum, allowing it to refocus on what it does best, i.e. operating restaurants efficiently. These are sensible and necessary strategic moves given the lengthy period of poor results.

Interestingly, weak results in the Netherlands have been masking very promising results in Collins' other European market, Germany. In the year ended April 2025, Collins revealed that restaurant-level profitability across its 16 German locations rivalled those of its Australian division. A recently announced acquisition is expected to add a handful of similarly-profitable restaurants and lift its German location count to 25. There are plenty of reasons for optimism in this market. Firstly, KFC is significantly under-penetrated in Germany with only 217 locations in a country of 80 million people, compared to 1,400 McDonald's and 750 Burger Kings. Secondly, Yum recently reacquired the German master franchise rights from an operator that severely dropped the ball in another region, suggesting weak leadership in the German market for the past two years. Yum appears best placed and highly incentivised to rectify this. Thirdly, the passing of a recent avian flu scare and the lowering of VAT for dine-in food purchases may benefit results in the near-term. Overall, Collins' prospects in Germany look bright.

### *Summary*

Collins is an excellent operator of KFC restaurants in Australia, but has struggled to replicate this success in the Netherlands or with other brands like Taco Bell. This has disappointed investors so much so that the market appears to be valuing its European division at zero (or perhaps less). We disagree with this appraisal, and instead believe there is significant optionality. Weakness in the Netherlands has hidden solid results in Germany, where Collins may have found its second high-returning avenue for capital investment, and one with an enormous runway. Continued profitable growth in Germany and improvement in the Netherlands both look probable to us, which could see earnings per share grow faster than the market expects. Choosing a bundled 'Family Feast' at your local KFC effectively means getting an extra side or two for free; we believe the same logic applies to Collins Foods today. In our view, investors are paying for the Australian operations and getting the entire European division—and its long-term growth potential—thrown in for free.

### **CONCLUSION**

At quarter-end the Fund is overweight foreign assets, by way of investment in units of the Global Fund. The Fund's direct and indirect exposure to shares of 60% (net of hedging) is similar to its benchmark, and is determined by an assessment of the attractiveness of selected shares relative to assessed opportunities available in other assets.

On a look-through basis, the Fund is overweight selected Consumer Staples, Communication Services, Consumer Discretionary, and Energy shares. The composition of the Fund's Australian and global share portfolios are extremely different to the current composition of the S&P/ASX 300 Accumulation Index and MSCI World Index, respectively. We believe that valuation disparity within the market creates meaningful opportunities for contrarian, value investors like ourselves.

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The Fund was registered with the Australian Securities and Investments Commission on 9 December 2022. The Australian Registered Scheme Number ("ARSN") is 664 224 604. The inception date of the Fund is 16 May 2023. The Fund is offered by Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298, AFSL 240975), as the Fund's Responsible Entity. Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT). Equity Trustees has appointed Contrarius Investment Advisory Pty Limited ("Contrarius Australia") (ABN 48 618 145 449, AFSL 506315), an Australian incorporated company, to invest and manage the assets of the Fund. Contrarius Australia is the sole distributor of the Fund in Australia.

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**Contact.** Correspondence in relation to Contrarius Australia's business or enquiries about the Fund can be addressed to: Tower One, International Towers Sydney, Level 40, 100 Barangaroo Avenue, Barangaroo, NSW, Australia 2000 or [investorservices@contrarius.com.au](mailto:investorservices@contrarius.com.au).