Distributed by Magellan Investment Partners

Airlie FUNDS MANAGEMENT

Airlie Australian Share Fund - Active ETF

Ticker: AASF | ARSN: 623 378 487

A concentrated, active portfolio of Australian equities

Fund Update: 30 June 2026

Fund Features

- Access to an experienced, proven investment team specialising in Australian Equities, with a long track record of prudent common-sense investing
- A conservative and robust investment process that focuses the team's energies on their 'best ideas'.

Fund Facts

Investment Objective

The Fund aims to provide long-term capital growth, after fees, and income through investment in Australian equities.

Investment Strategy

- Long only, bottom up specialised and focused Australian equities fund
- Concentrated portfolio of 15-35 stocks (target 25)
- Active, high conviction approach - Airlie's 'best ideas'

Investment Risks

All investments carry risk, returns are not guaranteed and there is a risk that investors may lose money on any investment they make. The Fund's Product Disclosure Statement (PDS) sets out the significant risks relevant to the Fund. You can view the PDS at: **airliefundsmanagement.com.au**.

Inception Date	1 June 2018
Benchmark	S&P/ASX 200 Accum. Index
Portfolio Size	AUD $879.0 million
Distribution Frequency	Semi-annually
Management Fee^	0.78% p.a. (inclusive of net effect of GST)
Ticker	AASF
APIR	MGE9705AU
Minimum Initial Investment#	AUD$25,000
Buy/Sell Spread#	0.18%/0.18%

^ Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST.

only applicable to investors who apply for units directly with the fund.

Portfolio Managers

Emma Fisher

Over 15 years investment experience. Formerly an investment analyst within the Australian equities team at Fidelity International and prior to that Nomura Securities.

Matt Williams

Matt has over 25 years industry experience. Matt joined Airlie in July 2016 managing Australian share strategies for institutional clients and is co-portfolio manager for the Airlie Australian Share Fund for retail clients.

Deputy Portfolio Manager

Joe Wright

Joe has over 10 years experience in the investment industry. Joe joined Airlie in 2021 as an equities analyst and became Deputy Portfolio Manager for the Airlie Australian Share Fund in 2024.

Visit www.airlieaustraliansharefund.com.au for more information, including: fund performance, unit prices and iNAV, investment insights, PDS & forms.

Performance*

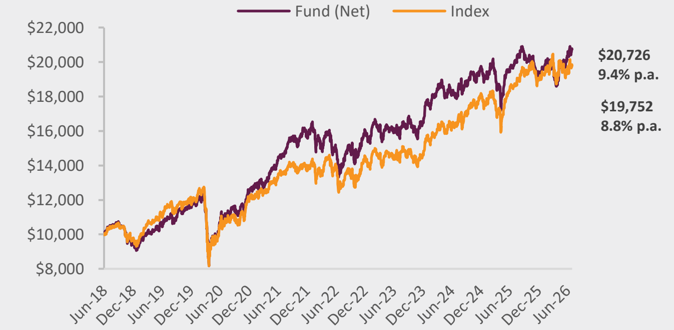
	Fund (%)	Benchmark (%)	Excess (%)
1 Month	1.8	0.7	1.1
3 Months	10.6	4.0	6.6
6 Months	5.5	2.4	3.1
1 Year	4.1	6.1	-2.0
3 Years (p.a.)	8.9	10.6	-1.7
5 Years (p.a.)	7.1	7.8	-0.7
7 Years (p.a.)	9.8	8.0	1.8
Since Inception (p.a.)	9.4	8.8	0.6

Past performance is not a reliable indicator of future performance.

Top 10 Positions (By Weight)

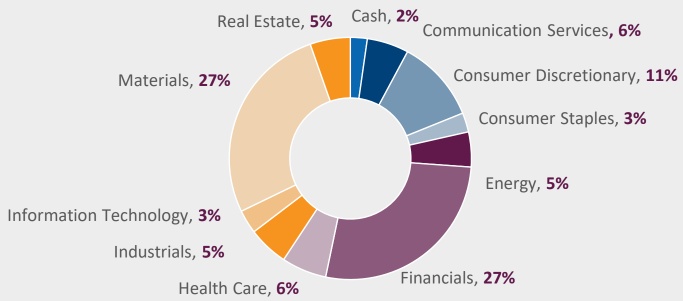
Company	Sector**
BHP	Materials
Commonwealth Bank of Australia	Financials
National Australia Bank	Financials
Aristocrat Leisure	Consumer Discretionary
Rio Tinto	Materials
SGH	Industrials
Macquarie	Financials
Orica	Materials
BlueScope Steel	Materials
Medibank Pvt	Financials

Performance Chart Growth of Aud $10,000*



Past performance is not a reliable indicator of future performance.

Portfolio Positioning**



* Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding individual tax, member fees and entry fees (if applicable). Returns denoted in AUD.

** Based on GICS Sector classification, may not sum to 100% due to rounding.

Fund Commentary

The Airlie Australian Share Fund returned 10.6% for the quarter net of fees, exceeding the S&P/ASX 200 return of 4.0% by 6.5% after fees.

The top three relative contributors to gross performance during the quarter were Aristocrat (+37%), BlueScope Steel (+24%) and BHP (+18%). The top three relative detractors from gross performance were Wesfarmers (+24%-not held), Resmed (-10%) and Santos (-10%).

This brings our total return for the year to 4.1% net of fees, 2.0% behind the index return of 6.1% for FY26.

While it was disappointing to underperform the S&P/ASX 200 for the financial year, we note a number of significant headwinds that had weighed on performance over the preceding 12 months reversed sharply in the quarter, and are now turning to performance tailwinds, such that FY27 looks like a fantastic setup for active stock pickers.

Market Commentary

Changing market structure-be aware but not wary!

Much has been made of the changing market structure of equity markets; between passive, quantitative, and earnings-revisions-related investment strategies, there are simply more shares trading hands today without a person making an active, valuation-based decision behind them. As active investors, we have felt this keenly over the course of our own careers: value gaps close much faster today, index inclusions and deletions are hotly anticipated and drive serious price moves, and the dreaded earnings downgrade can regularly lead to >40% daily price moves. Something that used to be considered a real event when I first started investing is now just a Tuesday in reporting season! We have often been asked whether we should just "buy the banks", for example, the implication being passive/superannuation flows are just a structural bid now, and they will never go down. We fundamentally disagree with this logic and believe the changing market structure enhances the opportunity set for active managers. One of the first concepts I learned studying finance at university is the idea that capital markets (including equity markets) are merely secondary markets, set up to provide access to capital for companies. Primary markets are the real world of industry, the world that determines what a company is truly worth. Changing market structures in secondary markets do not change the fact that a share in a company is a share in the future cash flows that business will generate between now and the hour of its death, and changes in those cash flows are determined by changing dynamics in the primary market; that is, changes in pricing power, competition, demand, regulation and customer dynamics. These are ever the focus for us in our research, and the reality is that these forces change slowly, certainly more slowly than 40% in a day! As such, we welcome the volatility. It enhances the raison d'être for fundamental active investors such as Airlie: we exist to exploit the tension between the slow pace of change in primary markets and the increasingly fast pace of change in valuations in equity markets. As an example, in November 2025, BlueScope and James Hardie were announced as (surprise) MSCI Australia index deletions. BlueScope fell 8% to $21 and James Hardie fell 30% to $25 over the course of two days. We added to our position in BlueScope and re-entered James Hardie. Today, BlueScope trades at >$31, and James Hardie at >$37, both stocks up an incredible 48% since the index deletion event. The deletion of a company from an index leads to a reduction in the number and type of shareholders who can own the stock, however it does not change the future cashflows of a company. Ironically, James Hardie is now being touted as a potential MSCI index inclusion candidate!

Several of the headwinds that have weighed on the relative performance of the Fund over CY25 reversed in the last quarter. Stepping through a few in turn, we believe the changing structure of equity markets is something to be aware of rather than wary of, and we think these forces now pose significant tailwinds for performance from here.

Expensive banks finally crack; more to come in FY27?

We have talked ad nauseam about our view that the Big Four Australian Banks were overvalued vis-à-vis both the cyclical outlook (rising rates to slow credit growth) and the structural outlook (aggressive newish entrant Macquarie looking to become the Big Fifth bank via sharp deposit pricing). The Federal Budget announced in May adds an additional negative catalyst to the thesis – a true "record-scratch" moment for the outlook for investing in property as an asset class. Investor loans comprise 40% of mortgage flow in Australia, and this is the higher-margin part of the market for banks. Interest rates charged on investor loans are higher due to the tax-deductibility of interest payments under the soon-to-be banned negative gearing. As such, in our view the budget changes pose a headwind to credit growth and NIM. It is difficult to assess the implications for bad debts; however, the starting point of record-low bad debts has been a tailwind for EPS that will likely evaporate.

Sailing into this perfect storm on record high P/E multiples, the banks' de-rate has begun and looks set to accelerate, in our view. Indeed, it is somewhat unbelievable that CBA remains over $160 a share, on 24x earnings and >3x P/B, despite this remarkable deterioration in the outlook. We can only conclude that the market is now so earnings-driven that seeing will be believing; when the earnings downgrades start, we believe the stocks will underperform in earnest.

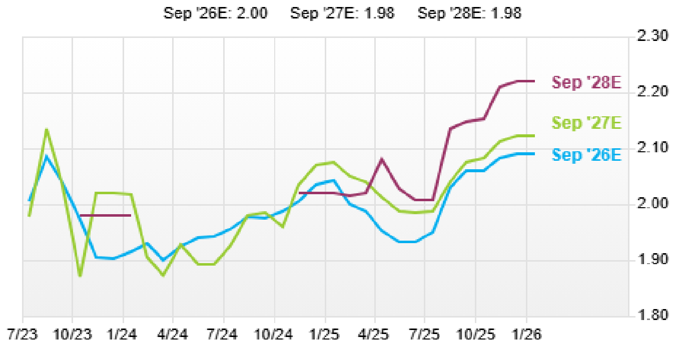
Chart 1: S&P/ASX 200 banks 12m fwd P/E ratio

Source: MST Marquee

Westpac is a great illustration of the changing market forces driving share prices. In FY23 it generated $1.99 cash EPS. By FY25, this had grown a paltry 2%, to $2.04 – for a CAGR of 1% earnings growth p.a. Given the S&P/ASX 200 long-run earnings growth of c. 4% p.a., you might expect Westpac to have underperformed. However, the share price rallied 80% over this period. What was it that the market responded to? We believe it was the earnings revisions: in November 2023, sell-side consensus expectations were for Westpac to earn $1.80 EPS in FY25. So while Westpac delivered very little **actual** earnings growth over the two years from November 2023 to November 2025, the $2.04 it delivered was 14% ahead of what was expected.

We believe this will now work the other way: EPS estimates remain unchanged over the calendar year, despite the rapid deterioration in the outlook for banks. Credit growth will slow from here, which we believe will drive earnings downgrades. In our view, this will trigger a P/E multiple de-rate.

Chart 2: Westpac consensus EPS, last 3 years



Source: FactSet

Consensus expects the Big Four to compound EPS at 3-10% p.a. for the next three years. We believe this looks too high. We note the 10-year EPS CAGRs for the banks are well below this rate. We question why the next three years would trounce the last decade of earnings growth, when the last decade was underpinned by favourable tax regimes that are now ending, plus strong population growth, incredible house price growth and record low bad debts.

Bank	10-yr EPS CAGR to FY25	3-yr forecast EPS CAGR to FY28
CBA	1%	3.5%
WBC	-2%	3.3%
NAB	-1%	3.0%
ANZ	-1.5%	10.0%

Source: Factset, Airlie Research

Our banks' underweight at c. 10% remains very large. In our view, the poor outlook for banks' returns poses a headwind for the S&P/ASX 200 index return over FY27, given the banks' weighting of c. 25% of the index. If the banks were to de-rate just 2 P/E points, from 18x to the previous cycle highs of 16x, this would wipe 3% off the index, and this is before any EPS revisions. The chart below considers the impact of various de-ratings and EPS revisions for the banks on the returns of the S&P/ASX 200 index as a whole.

Figure 1: S&P/ASX 200 Index Change given potential change in Bank PE and EPS

EPS Chg	Banks PE 13.0	14.0	15.0	16.0	17.0	18.3
-4%	-7.5%	-6.2%	-5.0%	-3.8%	-2.5%	-0.9%
-3%	-7.3%	-6.1%	-4.8%	-3.6%	-2.3%	-0.7%
-2%	-7.2%	-5.9%	-4.6%	-3.4%	-2.1%	-0.5%
-1%	-7.0%	-5.7%	-4.4%	-3.2%	-1.9%	-0.2%
0%	-6.8%	-5.5%	-4.2%	-3.0%	-1.7%	0.0%
1%	-6.7%	-5.4%	-4.1%	-2.8%	-1.4%	0.2%
2%	-6.5%	-5.2%	-3.9%	-2.5%	-1.2%	0.5%
3%	-6.3%	-5.0%	-3.7%	-2.3%	-1.0%	0.7%

Source: MST Marquee

Materials outperformance: "real assets" shine

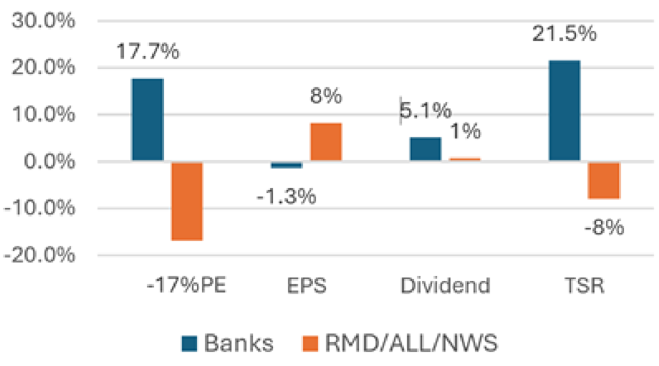
The number one driver of the Fund's performance over the quarter came from our positioning in the materials sector. As outlined in our December quarterly, we were underweight gold, which we felt was prone to a (potentially violent) pullback. That occurred during the quarter; the gold price of >US$5,500/oz in January proved the peak, with the price crashing to US$4,000/oz, and the equities falling 20-40% over the quarter. With the reset in valuations, the sector looks as if it has more potential for us and we are assessing opportunities.

We wrote extensively in our December quarterly about Airlie's view on stock-picking in the resources sector, with a preference for diversified miners (BHP, RIO) and miners with tier-1 assets like IGO. We also wrote in our March quarterly about Airlie's overweight positioning in 'HALO' assets (hard asset, low obsolescence). We use that term somewhat tongue-in-cheek, as this year's hot narrative (HALO assets like Ampol's Lytton refinery and BlueScope's North Star) had sat unloved and undervalued within these businesses for years. As ever with cyclical businesses, the privileged nature of these assets was not priced into the shares until the commodity prices turned, whether it be refiner margins ripping on the closure of the Strait of Hormuz, US steel spreads rising 50% or copper rallying 30-40% over the year. Positive earnings revisions and the emergence of market narratives like the 'HALO' moniker have left many market participants chasing the shares higher; we like to say we liked Ampol, BlueScope and BHP before they were cool. With portfolio holdings BHP, RIO, BlueScope, Ampol and IGO up >50% this year as the market scrambles for Real Assets, we have pulled back our positions. While we maintain an overweight holding in all names, valuation upside has diminished and we have used the gains as a funding source for new ideas.

USD earners: headwinds turn to tailwinds

We had included the table below in our December quarterly, lamenting the headwind that USD earners in the portfolio (exemplified by our large positions in Resmed, Aristocrat and News Corp) were performing well operationally, yet share prices were falling over CY25. We couldn't really make sense of it, yet suspected earnings revisions were once again the culprit. As discussed, the banks' earnings weren't growing, yet share prices were rising as P/E multiples expanded on the back of earnings revisions while the USD-earners were growing c. 8% as a pack, yet share prices were falling as AUD-denominated earnings were revised down with the currency headwind.

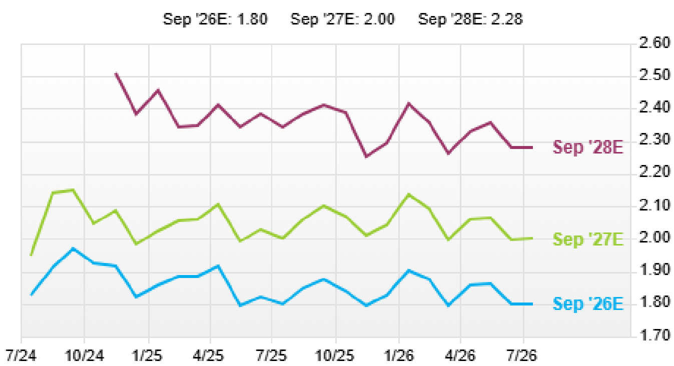
Chart 3: 1-yr TSR drivers to year end CY25, banks vs USD earners



Source: FactSet, MST Marquee, Airlie.

Taking Aristocrat as an example, consensus expectations for USD-denominated earnings were flattish over the last two years, as per the following chart. In July 2025, brokers expected Aristocrat to deliver US$1.80 of EPS in September 2026, and as at July 2026 they still expect US$1.80 EPS.

Chart: Aristocrat consensus EPS forecasts, USD



Source: FactSet, Airlie Research

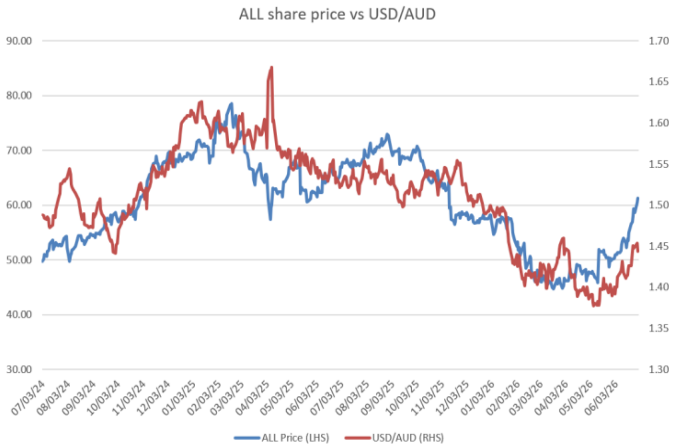
However, when we look at AUD-denominated earnings expectations, we can see that earnings expectations declined 7% as the AUD rallied against the USD.

Chart: Aristocrat consensus EPS expectations, AUD

Source: Factset, Airlie Research

Over this period, the Aristocrat share price fell 30%. It has since rebounded 30% from its lows since May, as the AUD peaked with the release of the Federal Budget.

When we track the Aristocrat share price over the last two years against the USD/AUD, we can see the relationship starkly.



Source: FactSet, Airlie Research

Now, we are not suggesting that the appreciation of the local currency alone caused Aristocrat's underperformance during the year; that would be an error of correlation vs causation. We could think of the AUD/USD currency relationship as a shorthand expression of the perceived relative strength of the Aussie vs US economies. To the extent that the USD began to rally in May, it likely reflects improving economic fundamentals and outlook for the USD (certainly vs the Australian outlook) and hence it makes sense that investors should suddenly seek USD-related exposure via Aristocrat. However, we believe the volatility is increasingly exacerbated by the rise in non-fundamental active equities strategies that sell earnings downgrades and buy earnings upgrades.

This enhances what we love about active investing: nothing has fundamentally changed for Aristocrat's long-term earnings power within 12 months, yet the share price within the last 12 months ranged from $44 to $78 – a 44% swing! While we maintained a holding in Aristocrat over the full period, we halved our position in the $70s, and added back to our position in the $40s and $50s.

Outlook for FY27

I hate the phrase "a stock-pickers market" but if ever it applied, then this is the setup! With a quarter of the index in expensive banks facing a slowdown, and a quarter of the index in cyclical miners that have come off a ripper year, we believe the best opportunities lie in quality industrials that have de-rated sharply over the last 12 months. Portfolio holdings such as Car Group, Pinnacle, Orica, News Corp and Resmed have begun to re-rate but remain attractively priced and offer strong EPS growth.

Stock Story – Ridley

A company with a strong return on capital is one of the clearest signs of a quality business, and finding it is a good place for any investor to start. But it is only half the story.

David Meehan - Equities Analyst

A company with a strong return tells you how well it has done with the capital already invested in it, but what matters just as much is the return it earns on the next dollar. This is referred to as the incremental return on capital, and over time it is what separates a business that keeps compounding value from one that destroys value. This factor is, in our view, one of the least appreciated figures in the market and can lead to tremendous shareholder returns.

Identifying these businesses is not as simple as screening for high returns, because a screen looks backwards and the shift we are looking for shows up in the return on new capital well before it moves the blended return the market fixates on. How we look for these businesses often revolves around finding a key catalyst that has played out and which the market is yet to fully appreciate. It might be a change in industry regulation that reshapes the competitive landscape, a reduction in competition as an irrational player exits the market or industry consolidation occurs or a change in management or the board that finally brings discipline to how capital is allocated.

In each case, the effect is the same: the next dollar invested starts earning more than the last, whether that lifts an already strong business higher or drags a weaker one back towards respectability. Underpinning all of it, though, must be a sound balance sheet, the one thing we are not prepared to compromise on. Too much debt removes a company's flexibility, forcing it to cut investment or sell assets at the worst possible moment, whereas financial strength buys management the time to reinvest patiently and ensures the rewards ultimately accrue to shareholders.

The difficulty in identifying these businesses is what creates the opportunity. The market anchors to a company's history; it is slow to pay for returns that are only beginning to shift. That can leave a genuinely good business at an undemanding price. The appeal of buying these businesses is that value can accrue from two directions at once, with both the improving incremental returns lifting earnings, and the market gradually recognising the shift and affording the business a higher multiple. It is this combination, a reasonable starting valuation paired with returns that are quietly compounding higher, that we find most compelling, and it is rarely on offer in businesses whose quality is already obvious to everyone.

A recent addition to our portfolio that we feel illustrates these high incremental returns is Ridley Corporation (RIC.AX). Ridley is the country's largest supplier of animal nutrition, providing feed for everything from livestock to poultry to aquaculture. It is an essential, unglamorous operation with entrenched customer relationships and a national footprint that would be difficult and expensive to replicate.

Yet for years its returns did not reflect the quality of the assets, weighed down by capital that had been committed in the wrong areas. Looking only at its history, an investor could be forgiven for concluding this was a mediocre business. We would argue it was simply a good business that had been run without enough attention to where its incremental capital was going.

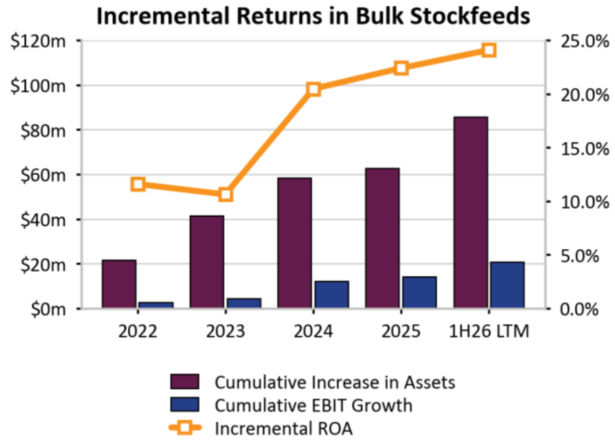
The catalyst, as it so often is, was a change at the top. The appointment of Quinton Hildebrand as Chief Executive Officer in 2019, followed by Mick McMahon as Chairman in 2020, brought a sharper focus on returns and a willingness to question the capital the business had inherited. Crucially, the new team members had no attachment to the decisions of the past and were therefore free to judge each asset on the return it actually earned rather than on the reason it had been built.

They went to work on the capital base from both ends, removing what was destroying value and reshaping what could create it. The clearest example of the former was the Westbury extrusion facility in Tasmania, constructed under prior management at considerable cost and in a competitive market. Quinton, who had not built it, felt no obligation to keep it, and the business sold the facility shortly after it was constructed. This allowed the capital to be reallocated into higher-returning ventures and repaired the balance sheet.

This reallocation of capital into higher-returning ventures is clearest in the bulk stockfeed segment. Feedmills are a business of fixed costs and utilisation: a mill running below capacity earns poor returns, while one running full is highly profitable, because each extra tonne of feed adds very little incremental cost. Rather than protect margins by holding prices high and accepting under-utilised mills, management did the counter-intuitive thing and lowered prices. The lower prices won volume, that volume filled the mills, and the improvement in utilisation more than paid for the price given up, while also providing a stronger moat, as it was difficult for competitors with lower market share to match these prices.

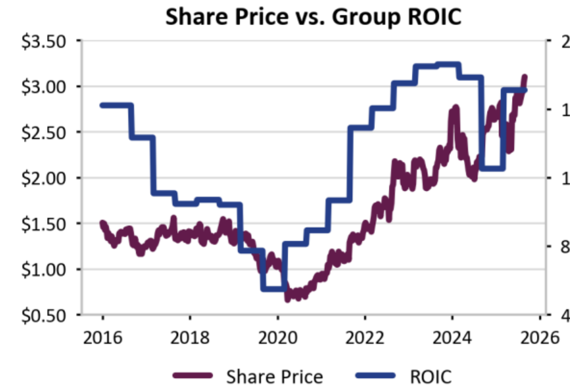
Only once the mills were full did they add capacity, with capacity expansion underwritten by customers. Because that new capacity was spoken for before it was built, it ran at high utilisation from day one and earned an attractive return on the incremental dollar almost immediately. Better still, they passed the benefits of greater scale back to the customers through lower prices, deepening those relationships and reinforcing the loyalty that underwrites the next round of expansion. One of our favourite books on investing, William Green's Richer, Wiser, Happier, attributed this concept of "scale economies shared" to global investor Nicholas Sleep. We usually expect to see this in successful category-killer retailers (indeed, it is the dynamic underpinning the success of portfolio holding Sigma Healthcare via Chemist Warehouse).

We do not usually expect to see the “scale economies shared” dynamic in animal feed! It is a virtuous circle, and it shows up directly in the incremental returns the division now earns. From 2022 to 1H 2026, management added c. $80 million in incremental assets to the division. This asset investment saw a cumulative $20 million in incremental earnings added to the division, representing a cumulative ROIC of around 25% – well above both the segment and group returns.



Source: Company Accounts

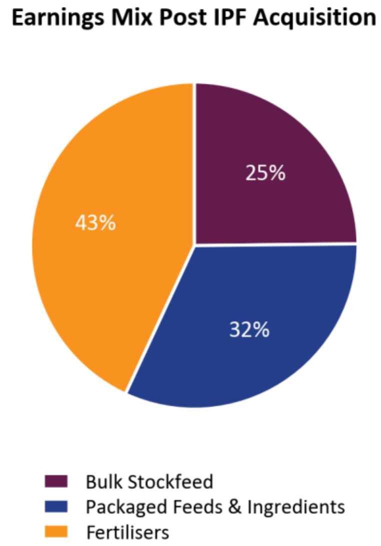
This is precisely what investors should be looking for, and yet it is rarely obvious in the headline numbers while it is happening. A business that grows its returns is a business earning more on every new dollar it invests, and over time that is what drives the value of the company. The market eventually recognises this, but it tends to do so with a lag, which is why the share price so often ends up tracking the group returns rather than anticipating its improvement.



Source: Refinitiv; Company Accounts

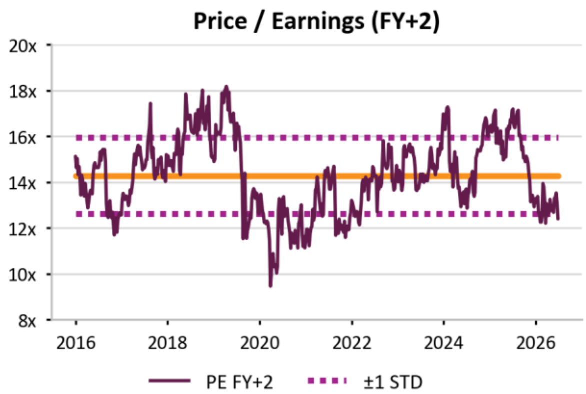
We see scope for this improvement to continue following the acquisition of Incitec Pivot Fertilisers (IPF) in 2025. IPF is Australia's largest fertiliser distribution business, and one that had been unloved and underinvested in by its previous owner. This is the same playbook running in reverse: rather than selling a poor asset, the team is buying one cheaply and setting about lifting its returns. Indeed, Ridley bought IPF so cheaply that it had to recognise an accounting gain on acquisition in its P&L – a sign that the business was acquired for less than the value of its working capital. Having already shown, in both aquafeed and stockfeed, that they know how to allocate capital well, we think they can do the same with IPF.

The early signs are encouraging. Ridley has appointed a new Chief Financial Officer, Chris Opperman, previously the CFO of IPF, who understands the business intimately and knows where capital can be invested to improve returns. The acquisition is also meaningful in scale, with the fertiliser division making up around 40 per cent of group earnings, so even a modest lift in its returns would move the needle for the group as a whole.



Source: Company Accounts

It is exactly the combination we look for with Ridley having an extremely hard-to-replicate network of assets, a management team that has earned our trust on capital allocation, and a valuation that still reflects the returns of the past rather than the returns to come. As the chart below shows, Ridley trades on a two-year forward price-to-earnings multiple of around one standard deviation below its ten-year average, despite a stronger management team, materially better returns, and a sizeable opportunity still ahead of it in lifting the returns of IPF. In our view the market is anchoring to the business Ridley used to be, rather than the one it is becoming, and that gap is where we believe the opportunity lies.



Source: Refinitiv

Airlie
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