Airlie Small Companies Fund

A concentrated, active portfolio of Australian listed small companies.

Airlie Funds Management

Fund Update: 31 December 2023 ARSN: 665 882 673

FUND FEATURES

- Leverages the experienced, proven Airlie investment team to provide a focused exposure to Australian small companies.
- A conservative and robust investment process that focuses the team's energies on their 'best ideas'.
- Strong team alignment through co-investment in the fund.

FUND FACTS

Investment Objective

The Fund's primary investment objective is to provide long-term capital growth and income through investment in Australian listed small companies.

Investment Strategy

- Active, long-only Australian small companies fund with a focus on bottom-up, fundamental research.
- High-conviction, concentrated portfolio of 20-40 quality Australian listed small companies which when first acquired do not rank in the S&P/ASX 100.
- Typical cash and cash equivalents exposure between 0% - 10%.

Investment Risks

All investments carry risk. While it is not possible to identify every risk relevant to an investment in a fund, we have provided details of risks in the relevant Product Disclosure Statement. You can view the PDS for the Fund on Airlie's website: www.airliefundsmanagement.com.au

Inception Date	4 April 2023
Benchmark	S&P/ASX Small Ordinaries Accum. Index
Portfolio Size	AUD $3.4 million
Distribution Frequency	Semi-annually
Management Fee[1]	0.98% p.a.
APIR	MGE1188AU
Performance Fee	Performance fees are 20% of the excess return of the units of the Fund above the S&P/ASX Small Ordinaries Accumulation Index over each Calculation Period[2].
Minimum Initial Investment	AUD$10,000
Buy/Sell Spread	0.25%/0.25%

[1] Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST.
[2] As defined in the Fund's PDS.

PORTFOLIO MANAGER

Will Granger

Will Granger joined Airlie in 2020 as an Equities Analyst. Will is now the Portfolio Manager for the Airlie Small Companies Fund which launched in March 2023. Prior to Airlie, Will worked as an analyst at KIS Capital Partners (February 2016 to June 2019). KIS Capital Partners was a market neutral hedge fund with about $270 million of funds under management.

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

PERFORMANCE*

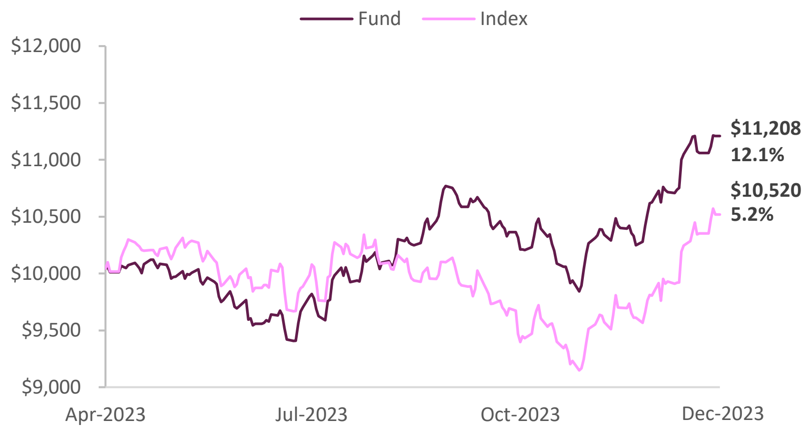
	Fund (%)	Benchmark (%)	Excess (%)
1 Month	5.6	7.2	-1.6
3 Months	8.2	8.5	-0.3
6 Months	15.5	6.4	9.1
Since Inception	12.1	5.2	6.9

Past performance is not a reliable indicator of future performance.

TOP 5 POSITIONS (BY WEIGHT)

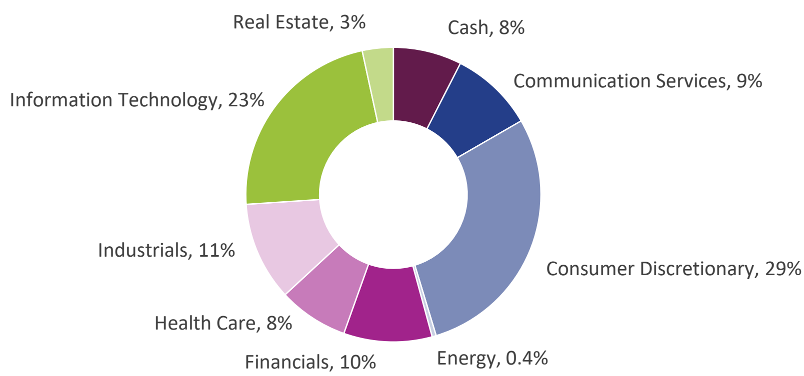
Company	Sector**
News Corp	Communication Services
Data#3 Ltd	Information Technology
Premier Investments Ltd	Consumer Discretionary
Gentrack Group Ltd	Information Technology
Tabcorp Holdings Ltd	Consumer Discretionary

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

For the December quarter, the Fund returned 8.2% compared to the S&P/ASX Small Ordinaries Accumulation Index return of 8.5%, reflecting underperformance over the period of 0.3%.

The top three contributors to performance during the quarter were Gentrack (+2.2%), News Corp (+1.4%) and Data#3 (+1.3%). The top three detractors from performance were Tabcorp (-0.9%), IPH Group (-0.3%) and PWR Holdings (-0.2%).

There were a couple of noteworthy events during the quarter for our holdings. Tabcorp announced it has retained the exclusive retail wagering licence for Victoria, paying $864m (present value) for a potential EBITDA uplift of $140m. While the initial response in share price to this announcement has been favourable, Tabcorp remains the Fund's weakest performer during the quarter and since inception. We explore the Tabcorp thesis in greater detail in the stock story below.

Gentrack, a provider of customer billing software for utilities and customer management software for airports, released its FY23 result. The result was strong, featuring revenue and profit growth of 35% and 185% respectively, as well as very strong free cash flow generation. The result also included an upgrade to FY24 revenue guidance that implies very strong underlying growth for the company. We continue to like Gentrack for its 'mission critical' software which is typically very sticky, meaning that customers are unlikely to switch from one provider to another, creating resilient annuity-style revenues. While Gentrack trades on an ostensibly expensive multiple of earnings, we believe the company is currently underearning with profit margins sitting well below historical levels. Further expansion in these profit margins would drive strong earnings growth, which we believe more than justifies the current valuation.

STOCK STORY - TABCORP

(Will Granger – Portfolio Manager)

Tabcorp

In light of the recent announcement that Tabcorp has secured the exclusive Victorian retail wagering licence, we thought now would be a prudent time to re-examine our thesis for the fund's weakest performer since inception.

Our thesis for Tabcorp was relatively simple – the company's wagering operations were severely underearning due to legacy licence terms that required Tabcorp to pay higher tax rates and fees than digital-only competitors. Our view was that, now that the company was trading as a separate entity, management were heavily incentivised to 'level the playing field' and return Tabcorp to industry levels of profitability. Furthermore, as Tabcorp's retail operations continue to represent a smaller proportion of the business, so too does the historical drag on revenues from those operations, better positioning the company for future growth.

In regard to 'levelling the playing field', management have achieved much of their stated goal; in Queensland the company paid a small fee to reduce their wagering tax rate from 44.5% of revenue to 35% of revenue, likely more than doubling profit margins in the State. With the recent Victorian licence win, Tabcorp will now pay the same tax rates as its peers, albeit paying a reasonably hefty price for the privilege. New South Wales is the final major domino to fall, with the NSW State Government announcing their intention to review the wagering tax regime over the coming years while increasing the Point of Consumption Tax (POCT) for Tabcorp's digital competitors (Tabcorp are receiving transition payments over an 18-month period to ensure they are 'no worse off' under the POCT increase).

And yet despite the material positive progress that has been made, Tabcorp has been a poor performer. We believe this largely reflects softness in the broader wagering market, where Tabcorp and peers are reporting sharp declines in revenue as the covid bump in wagering spend unwinds. While this may continue to create short-term pressure on the stock, we do not see this as a long-term issue; the wagering market has a long history of strong structural growth, which we believe is set to continue once the unwind has fully played out.

Tabcorp have an entrenched competitive position as the clear number two player in a market where scale matters and barriers to entry are increasing. The scaled digital players, of which Sportsbet is the best example, enjoy defensive competitive positions with consistent earnings growth, strong margins and capital-light models. Over time, as its digital business continues to become a larger proportion of the overall operations, Tabcorp's financials should begin to more closely reflect these digital peers. With the shares currently trading on 10x our estimate of FY25 free cash flow, we do not believe Tabcorp's current share price reflects any possibility of this occurring, which provides strong upside if our thesis is proven correct.