Airlie Small Companies Fund

A concentrated, active portfolio of Australian listed small companies.

Airlie Funds Management

Fund Update: 30 June 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 Fund's 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 $2.7 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*

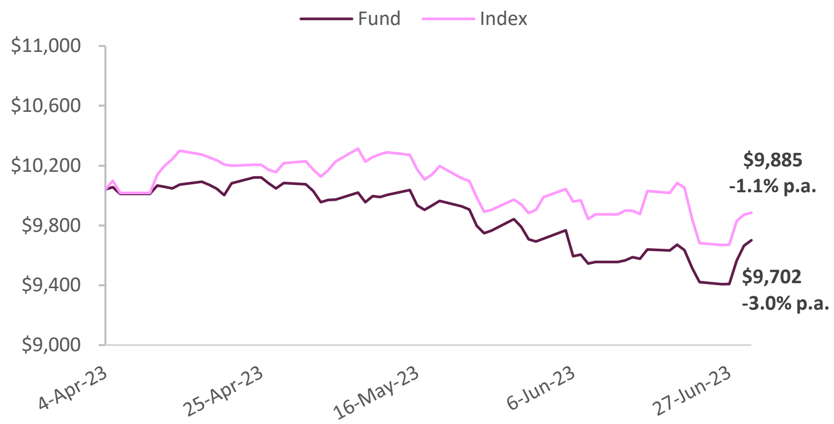
	Fund (%)	Benchmark (%)	Excess (%)
1 Month	-0.1	0.0	-0.1
Since Inception (p.a.)	-3.0	-1.1	-1.9

Past performance is not a reliable indicator of future performance.

TOP 5 POSITIONS (BY WEIGHT)

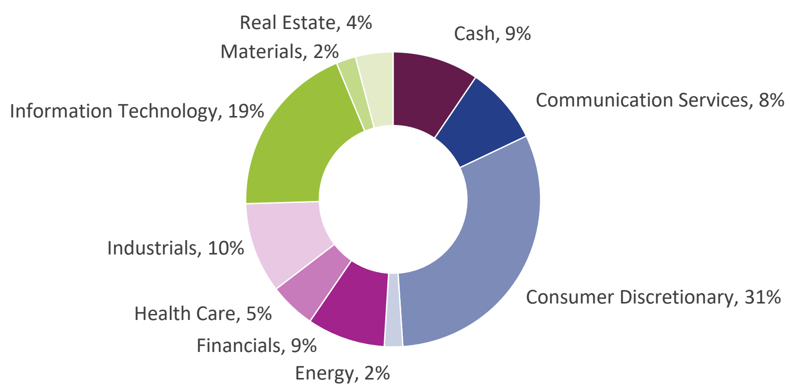
Company	Sector**
News Corp	Communication Services
Tabcorp Holdings Ltd	Consumer Discretionary
Mader Group Plc	Industrials
Data#3 Ltd	Information Technology
Premier Investments Ltd	Consumer Discretionary

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 three months since inception, the Fund has returned -3.0% compared to the Small Ords Accumulation Index return of -1.1%, reflecting underperformance over the period of -1.9%.

The top three contributors to performance were NWS (+1.1%), TAH (+0.5%) and MAD (+0.5%). The top three detractors from performance were PMV (-1.4%), JYC (-1.1%) and EBO (-0.9%).

On a sector basis, our retail holdings were a clear drag, contributing a combined -3.3% to Fund performance over the quarter. The record rise in interest rates resulted in a tightening of consumer wallets that drove several earnings downgrades and a broad-based selloff across the sector. While none of our retail holdings in the Fund have downgraded so far, we expect they are experiencing a similar deterioration in trading. Our investment theses for these stocks is not predicated on any insight into the severity or longevity of the downturn in consumer spending, but rather an insight into the resilience of their business models. Our retail exposure is concentrated in three stocks with extremely healthy balance sheets, advantaged competitive positions and owner-led management. These attributes should enable these retailers not only to survive the downturn, but emerge out the other side in a stronger competitive position. And importantly, we believe these retailers are all trading at significant discounts to our assessment of fair value based on normalised earnings. For these reasons, we expect these companies will be strong contributors to the Fund's performance over the coming years and we'll explore our top retail holding, Premier Investments, in a little more detail below. However, before we get into that, it's worth taking a moment to rehash the philosophy that guides portfolio construction for the Fund.

There are really two key pillars to the Fund's investment philosophy; we want to own quality businesses and we only want to invest in those businesses at a price well below our estimate of intrinsic value. We define quality as those businesses with durable competitive advantages that can sustain high returns on tangible capital employed through the cycle. These businesses often come with a number of attractive attributes, including strong cash generation, healthy balance sheets, owner-led management, clean accounting, and simple, understandable business models. This is in line with the philosophy of Airlie where the genesis of the investment process is over 30 years old.

Investing with this philosophy has a few natural implications for how the portfolio is constructed. For one, the Fund is concentrated. We think it's rare to find investments that meet our stringent criteria, so when we do find an idea we like, we want to own a meaningful position. As it stands, the Fund's top 15 holdings currently account for >70% of the portfolio. This concentration means that the Fund bears little resemblance to the index, so investors should expect Fund performance to vary greatly from the index for extended periods of time, both positively and negatively.

We're long-term investors. We aim to buy great businesses and hold them for the long term so that they can compound for us over time. This mindset also allows us to take on positions in companies where the short-term outlook might be unclear; however, we see compelling value on offer over the medium term. This is one of the reasons we don't believe short-term performance holds much informational value, and would assess the performance of the Fund over a minimum of five years. We're looking for investors in the Fund who share our long-term mindset for investing.

And finally, we believe in strong alignment through co-investment in the Fund. I have a substantial personal investment in the Fund, I'm invested on the same terms as every other investor, and I don't own any equities outside of my holdings in the Fund and securities issued by the group that employs me.

PREMIER INVESTMENTS LIMITED A.C.N. 006 727 966

STOCK STORY - PREMIER INVESTMENTS

To better illustrate our optimism for our retail holdings, let's take a deeper look at our largest retail position, Premier Investments. Premier is the owner-operator of a variety of well-established Australian retail brands including Peter Alexander, Smiggle, Just Jeans, Jay Jays and Portmans, to name a few. The company also owns material stakes in listed companies, Breville and Myer.

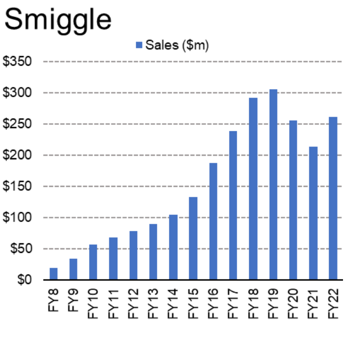
As previously discussed, retailers were sold off heavily during the quarter as the rapid rise in interest rates resulted in a contraction in consumer spending and several profit downgrades across the sector. Premier was no exception, with its share price down 20% over the period. As it stands, Premier has not provided an update to the market; however, we expect it has also experienced a deterioration in trading. How sharp and prolonged this downturn will be is anyone's guess, and we offer no special insight. Where we do offer insight is to say that short-term movements in profits have only a limited impact on intrinsic value. In fact, for any growing business the majority of its intrinsic value is likely to come from cash flows generated >10 years into the future. The implication here is that business durability matters, not short-term volatility in profits. The only caveat to this is that a business must have the requisite balance sheet strength to prevent dilutive equity raises during periods of weak earnings.

In Premier's case, it has perhaps the strongest balance sheet of its peer group. Including its 26% stake in Breville and 23% stake in Myer, Premier currently has $1.1bn in net cash and liquid investments on its balance sheet, amounting to $6.80 per share or 34% of the current share price.

This fortress-like balance sheet should allow Premier to endure even the worst downturn in consumer spending without the need for a dilutive equity raise.

This balance sheet can also be deployed to create value on the upside through buybacks and acquisitions, and Premier has one of Australia's most successful retail investors, Solomon Lew, serving as the steward of its capital. In many ways, Premier is the listed investment vehicle of Lew, who has served as on-and-off Chairman of Premier for the past 35 years. Lew owns ~37% of the business and has a fantastic track record of creating value for shareholders. To put some numbers around this, over the last decade Premier has created $10.73 of value per share for shareholders ($6.79 in dividends paid, $3.94 in additional cash and equity investments on the balance sheet), amounting to 80% of the current share price ex-cash and investments. It has achieved this stellar value creation all while growing profits at a 15% compound annual growth rate. As a result, Premier shareholders have enjoyed a 10-year compound annual total return of 14.6%, more than double the return of the Small Ords Accumulation Index of 5.9% over that same period.

Importantly, we think this value creation is set to continue. We are particularly excited about the long-term prospects of two of its brands, Peter Alexander and Smiggle. Both brands are market leaders in their respective niches with exceptional track records of sales growth, having grown sales at a 10-year compound annual growth rate of 17% and 13% respectively (NB: Smiggle's recent growth has been affected by covid-related school closures). Importantly, both these brands have long runways to continue growing supported by their international expansion plans.



And yet despite this fortress-like balance sheet, long runway for growth, and excellent track record of value creation, Premier trades on just 14x our estimate of normalised profit ex-cash, a 31% discount to the Small Ords Index multiple of ~20x. While the short-term outlook is uncertain, we expect Premier will be a strong contributor to Fund performance over the coming years.

Will Granger, Portfolio Manager