

Airlie Small Companies Fund

A concentrated, active portfolio of Australian listed small companies.



Fund Update: 30 June 2024

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.airlifundmanagement.com.au

Inception Date	4 April 2023
Benchmark	S&P/ASX Small Ordinaries Accum. Index
Portfolio Size	AUD \$4.0 million
Distribution Frequency	Semi-annually
Management Fee¹	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 the 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.airlifundmanagement.com.au for more information, including: fund performance, unit prices, investment insights, PDS & forms

PERFORMANCE*

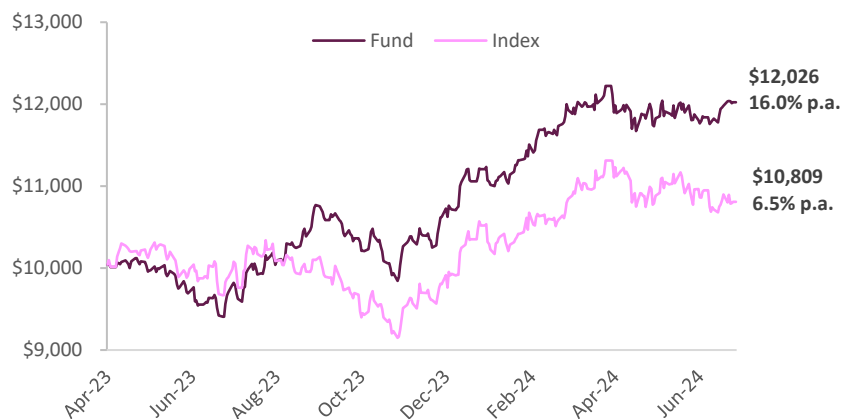
	Fund (%)	Benchmark (%)	Excess (%)
1 Month	1.3	-1.4	2.7
3 Months	-1.6	-4.5	2.9
6 Months	7.3	2.8	4.5
1 Year	24.0	9.3	14.7
Since Inception (p.a.)	16.0	6.5	9.5

Past performance is not a reliable indicator of future performance.

TOP 5 POSITIONS (BY WEIGHT)

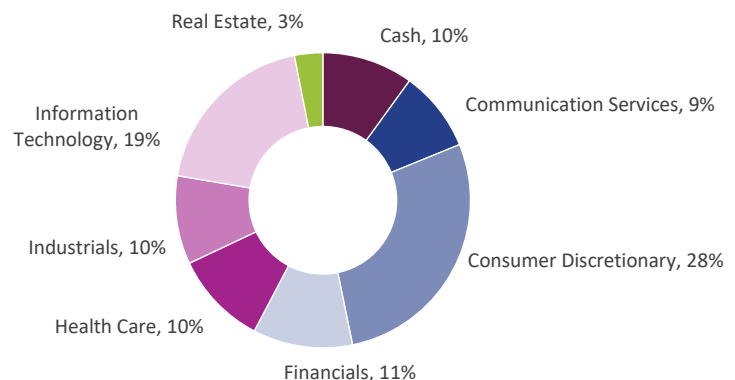
Company	Sector**
Gentrack Group Ltd	Information Technology
News Corp	Communication Services
Mader Group Ltd	Industrials
Premier Investments Ltd	Consumer Discretionary
Smartpay Holdings Ltd	Financials

PERFORMANCE CHART GROWTH OF AUD \$10,000*



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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.

QUARTERLY COMMENTARY

For the June quarter, the Fund returned -1.6% compared to the Small Ordinaries Accumulation Index return of -4.5%, reflecting outperformance over the period of 2.9%.

The top three contributors to gross performance during the quarter were Gentrack (+1.5%), Joyce (+0.7%) and News Corp (+0.3%). The top three detractors from gross performance were Nick Scali (-0.6%), Tabcorp (-0.5%) and Smartpay (-0.5%).

There were some notable events during the quarter for our portfolio positions. Nick Scali announced its entry into the UK market with the acquisition of Fabb Furniture. While we are usually sceptical of overseas expansions, there are a few reasons why we are more optimistic on the prospects for Nick Scali. We discuss this in more detail in our Nick Scali stock story as part of the Airlie Year in Review 2024.

Tabcorp announced the hiring of Gillon McLachlan to fill the company's vacant CEO role, bringing to the organisation valuable commercial and media expertise. The New South Wales Government also announced the establishment of a formal process to review the wagering tax regime. While Tabcorp will have to compensate the Government for any change in the terms of the licence, we welcome further steps towards a level playing field with online bookmakers.

Premier Investments announced a potential merger of its Apparel Brands with separately listed Myer. This announcement comes after a strategic review by management aimed at creating value for shareholders. We view the proposed merger positively as it would serve the dual purpose of creating a stable home for the Apparel Brands business while also allowing for a separate listing of the higher-quality Peter Alexander and Smiggle brands. This announcement serves as yet another reminder of the importance of partnering with aligned management.

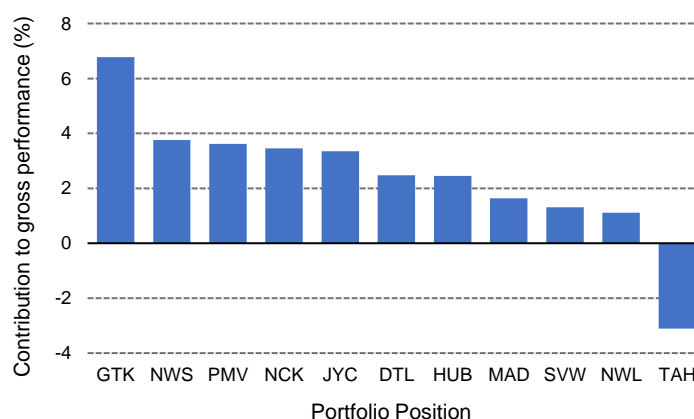
During the quarter, we materially upweighted our position in Smartpay, a provider of merchant services and payment terminals in Australia and New Zealand. We have held a small position in Smartpay in the Fund for more than a year. Our decision to upweight the position comes after the release of the company's FY24 result, which outlined their impending model transition in the New Zealand market. Our analysis indicates this change in model will unlock material hidden value in the company's New Zealand terminal base, which we believe is not currently reflected in the share price.

YEAR IN REVIEW

The Fund had a strong FY24, returning 24.0% compared to the Small Ordinaries Accumulation Index return of 9.3%, reflecting outperformance over the period of 14.7%.

The chart below provides the material contributors (>1%) to gross performance for the Fund in FY24.

FY24 Material Contributors



As can be seen in the chart, performance has pleasingly come from a number of 'winners' during the year, offset by only one material detractor.

There were a few noteworthy contributors worth individual mention. Gentrack was the Fund's strongest performer over the year, contributing +6.8% to gross Fund performance. For those new to the story, Gentrack provides customer billing software to the utility sector and customer management software to the airport sector. We like businesses that sell this type of 'mission-critical' enterprise software as typically the customer churn is very low due to how costly and disruptive it can be to switch providers. That low customer churn creates resilient, annuity-style revenues. Prior to our purchase, Gentrack had endured a tough few years navigating some customer closures related to regulatory issues in the UK that resulted in materially reduced profit margins. We viewed these issues as mostly temporary and added to our position on signs of improving revenue growth and a recovery in margins. While the stock has had a great run, Gentrack has a long runway for growth as utilities continue to upgrade their systems to meet the demands of the energy transition and profit margins return towards historical levels.

News Corp has been another strong performer for the Fund, contributing +3.8% to gross Fund performance. Our thesis here centred around the Dow Jones segment, which has vastly improved in quality over the past decade, transitioning from an advertising to a subscription-led model, which we believed the market had underappreciated. This thesis has largely played out, with Dow Jones posting some stellar results in recent periods. We wrote a more in-depth analysis of News Corp in our September Fund Update, which can be found on the Airlie website.

The Fund's retail positions have also been strong performers, collectively contributing +10.6% to gross performance in FY24. The largest contributors here were Premier Investments, Nick Scali and Joyce Corporation. Retail has been an interesting sector during the past year – who would have predicted that many retailers would still be making close to record profits and margins after such a rapid rise in interest rates and further cost of living pressures? That resilience has certainly exceeded our expectations, and we think there's an important lesson there in the fallibility of making macroeconomic predictions. While we've held large retail positions in the Fund since inception, our theses for these stocks were never predicated on any special insight into the macro, but rather individual analysis of the companies which highlighted resilient business models, stellar management and fortress balance sheets. We believed these qualities would allow them not only to weather a severe downturn in consumer spending but emerge out the other side in a stronger competitive position.

On the other side of the ledger, Tabcorp was the Fund's weakest performer during the year, contributing -3.1% to Fund performance. While operationally the company has achieved some milestones in terms of levelling the playing field with online bookmakers, the stock has struggled against the backdrop of a soft wagering market. We had probably underestimated how much the business was overearning due to covid, which has dampened our expectations for future returns. Nevertheless, we view the recent hiring of Gillon McLachlan as CEO and the NSW Government's decision to formally review the wagering tax regime as clear positives, and we believe the stock remains cheap here, trading on around 10x our estimate of free cash flow. For this reason, we remain patient holders. For a more in-depth discussion on Tabcorp, see our December Fund Update, which can be found on the Airlie website.

Looking ahead, we remain very excited about the Fund's future prospects. The small cap market offers the chance to invest in the leading companies of tomorrow with decades of growth ahead of them. There are over 700 securities within our investment universe from which we selectively construct a concentrated portfolio of high-grade opportunities. As a team, Airlie have been successfully investing in small companies for several years now and we have a robust process of identifying these opportunities. We believe the Fund remains well positioned to continue this into the future.

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