

AIRLIE SMALL COMPANIES FUND UPDATE - Q4 2024

Will Granger shares his insights on how the Airlie Small Companies Fund, now approaching its two-year anniversary has performed and the key drivers behind this strong performance. Will also discusses the outlook for the fund and the opportunities investors should be on the lookout for and that he is closely monitoring in 2025.

The Airlie Small Companies fund saw strong performance in 2024, can you provide insight into some of the drivers behind this performance?

We had several strong contributions from multiple stocks. Notably, Sigma saw significant gains after its merger with Chemist Warehouse was approved by the ACCC. We initially acquired Sigma in December 2023, shortly after the merger announcement, taking on some risk that the deal might be blocked. However, the merger was approved, leading to a substantial revaluation of Sigma's share price. Despite its high valuation, we believe Sigma's dominant market position and strong store economics make it a valuable long-term investment, with significant growth potential both in Australia and internationally.

Another strong performer was GenTrack, which released a robust FY24 result. GenTrack provides enterprise software to utilities and airport operations, offering mission-critical solutions with low customer churn and predictable revenues. The key highlight was the profit margin expansion, reinforcing our confidence in management's ability to return margins to historical levels.

Lastly, News Corp, a core holding since the fund's inception. News Corp recently announced the sale of its business, Foxtel. This deal is favourable as it places Foxtel with a more suitable owner and allows News Corp to simplify its business, enabling the management team to focus on its core high-quality assets.

The fund is nearing its two-year anniversary and has had an impressive start, delivering a 15.2% p.a. return since inception, which is double the Small Ords index return of 7.8%. While it's been a strong period for both the fund and equity markets overall, what is the outlook for 2025, and is now a good time to invest?

We often get asked whether the market rally will continue and if now is a good time to invest. The truth is, predicting short-term market movements is challenging and doesn't influence our investment decisions. We focus on analysing individual companies based on their merits and value. While there is some market exuberance, particularly in bank valuations and large caps, there are also pockets of value in more unloved sectors like consumer discretionary and microcaps. Investing in small caps offers a broad universe of opportunities, allowing us to find high-quality, lesser-known businesses trading at bargain prices. Our concentrated portfolio approach helps us capitalise on these opportunities regardless of overall market conditions.

What's a stock that you're excited about for 2025?

One of the investments we're particularly excited about is Nick Scali, despite furniture retailing not being the most glamorous sector. Nick Scali has an impressive track record, delivering over 30 times the initial investment since its listing in 2004. This performance is more than ten times the return of the index over the same period. The recent acquisition of Fabb Furniture marks its entry into the UK market, which we view optimistically for several reasons.

Firstly, the acquisition cost is relatively low, at around \$50 million, or 5% of Nick Scali's market cap, limiting downside risk. Management has a proven ability to create value through acquisitions, as seen with the successful integration of Plush Furniture in 2021. The strategy for Fabb Furniture involves leveraging Nick Scali's supply chain and establishing a strong store network, a playbook that has worked before.

Additionally, Nick Scali's balance sheet is robust, with significant cash reserves and property assets, providing ample funding for UK expansion. The UK furniture market is twice the size of Australia's, offering substantial growth potential. Despite these promising factors, the market has not fully priced in the UK expansion, presenting an attractive opportunity. While it may take a few years for the UK venture to show results, we remain optimistic and patient holders, confident in the long-term prospects of the business.

Watch the video [here](#).

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