Airlie Small Companies Fund

ARSN: 665 882 673

A concentrated, active portfolio of Australian listed small companies.

Fund Update: 31 March 2026 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 aims to provide long-term capital growth, after fees, and income through investment in Australian 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, 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: www.airliefundsmanagement.com.au

Inception Date	4 April 2023
Benchmark	S&P/ASX Small Ordinaries Accum. Index
Portfolio Size	AUD $28.6 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$25,000
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*

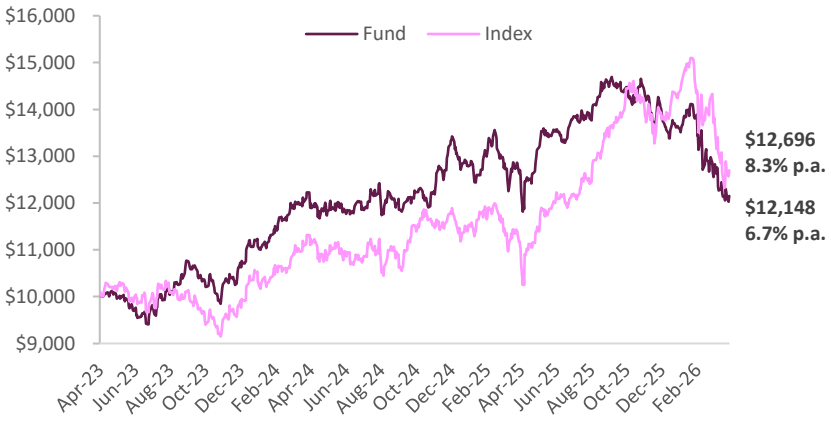
	Fund (%)	Benchmark (%)	Excess (%)
1 Month	-6.4	-11.0	4.6
3 Months	-10.9	-10.9	0.0
6 Months	-15.6	-9.3	-6.3
1 Year	-4.0	13.7	-17.7
2 Years (p.a.)	-0.3	5.9	-6.2
Since Inception (p.a.)	6.7	8.3	-1.6

Past performance is not a reliable indicator of future performance.

TOP 5 POSITIONS (BY WEIGHT)

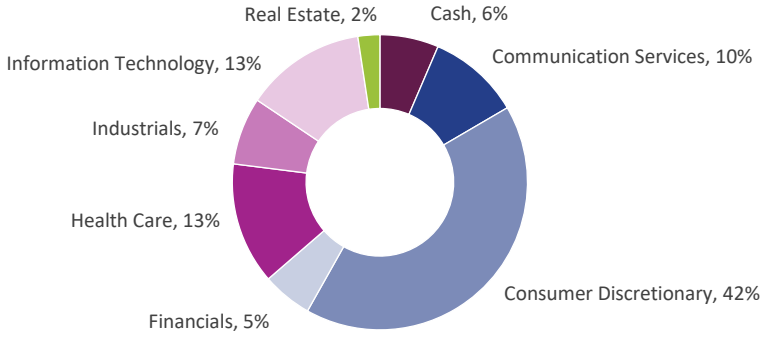
Company	Sector**
Joyce	Consumer Discretionary
News Corp	Communication Services
Sigma Healthcare	Health Care
Guzman Y Gomez	Consumer Discretionary
Nick Scali	Consumer Discretionary

PERFORMANCE CHART



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 March 2026 quarter, the Fund returned -10.9% in line with the Small Ordinaries Accumulation Index return also -10.9%.

The top three contributors to gross performance during the quarter were Joyce Corporation (+1.1%), PWR Holdings (+0.4%) and SDI Limited (+0.3%). The top three detractors from gross performance were Nick Scali (-2.1%), Guzman y Gomez (-1.9%) and Data #3 (-0.9%).

It was a turbulent quarter for Aussie small caps, with the escalation of the US-Israel conflict with Iran creating uncertainty around global and domestic energy supply and increasing fears of a recession. Since the beginning of the conflict, the S&P/ASX Small Ordinaries Index has declined by about 11%, led by a sharp contraction in the resources sector, which declined 15% over the same period. Gold companies were particularly weak, driven by a decline in the gold price of 19% over March. Our lack of exposure to resources benefited us during the month, resulting in outperformance of +4.6% in March. While we don't usually focus on individual monthly performance, we believe the March results highlight just how leveraged the Fund's relative performance can be to capricious moves in resources, both positive and negative. Despite the March decline, the S&P/ASX Small Resources index outperformed the S&P/ASX Small Industrials index over the quarter, returning -4% and -14% respectively. We discuss our thoughts on the resources sector in more detail below.

The March quarter also featured the 1H26 reporting season. We were pleased with the results across our key holdings, although this was not always reflected in the share price response. We explore a few key highlights below.

Joyce Corporation (+11%) posted a particularly strong 1H26 results, with its key division KWB delivering EBIT growth of 15% over the half. This is set to continue into 2H26, with the KWB order book increasing 33% at period end and written sales orders for January increasing 25%. Management guided to 2H26 KWB profit being above 1H26, implying 2H26 profit growth of at least 25%. The company hosted a KWB investor day presentation in March where we met with incoming CEO Cameron Crowell, who has spent the past nine months working across all facets of the business, familiarising himself with business processes and working closely with founder John Bourke. Joyce is trading on just 10x our estimate of FY26 look-through earnings before interest and tax, despite growing earnings at 24% with a long-term store rollout opportunity and a return on invested capital well north of 100%. We wrote up our thesis for Joyce Corporation in our recent December 2025 quarterly commentary.

On the other side of the ledger, one of our worst performers over reporting season was Guzman y Gomez (-26%), or GYG. We thought the result was solid, with network sales in the Australia segment increasing 17% and EBITDA growing 30%. Despite these strong headline figures, GYG's share price declined 14% on the day of the result. Much of the analyst attention post result has focused on the slowdown in like-for-like sales in the core Australia segment as well as the increasing losses associated with the US expansion. We don't believe either of these 'issues' reflect a material risk to the long-term valuation. While there has been a slowdown in like-for-likes in the core segment, this has followed several years of tremendous above-market like-for-like growth, so a slowdown in growth for two quarters is no cause for concern in our opinion. Likewise, the US losses are currently, and likely to remain, immaterial relative to the intrinsic value of the core business even if the venture proves a failure. Ultimately, the two key drivers of value creation are increasing network sales and margins, both of which will be a function of the store rollout which is just in its nascency. With this in mind, we took the opportunity to add to our GYG position as the share price declined. Pleasingly, GYG released its 3Q26 sales update post quarter-end, showing a sequential improvement in like-for-like sales to 6.6%, offering some validation for our thesis and recovering some of the lost performance during this quarter. For more detail on the GYG thesis, see our September 2025 quarterly commentary.

Nick Scali (-33%) was also a poor performer during reporting season, declining 22% on result day. While the result itself was solid – written sales orders in the core ANZ market increased 10% in 1H26 and profit before tax increased 31% – the market was concerned with a soft January trading update. Written sales orders in January increased just 3% against a soft comparable period. In relation to the UK expansion, it's very early days and there was little in the result to suggest success is imminent. We will have a clearer picture of UK performance in 2H26 now that all of the stores have been refurbished and rebranded with new stock. Nick Scali currently trades on around 16x net profit after tax excluding the UK losses – we believe this is a fair price for the ANZ business, meaning you are getting a free option on the UK expansion.

FUND PERFORMANCE

As the Fund passes its three-year anniversary in early April, now seems a prudent time to reflect on the performance so far. As of 31 March 2026, the Fund has returned 6.7% p.a., slightly underperforming the S&P/ASX Small Ordinaries Index (Small Ords) return of 8.3% p.a. over that same period. While this underperformance is disappointing, in the context of the Fund's investment philosophy – which largely avoids resources exposure – this is a reasonable outcome.

The Small Ords can be split into two constituent components: the S&P/ASX Small Resources Index (Small Resources), which accounts for roughly one third of the index, and the S&P/ASX Small Industrials Index (Small Industrials), which includes everything else outside of resources. Since inception, the resources sector has provided a significant headwind for relative performance: the Small Resources has returned 16.4% p.a., materially outperforming the Small Industrials return of just 4.4% p.a. Pleasingly, the Fund's performance relative to the Industrials Index has been strong, outperforming that index since inception.

	CY23*	CY24	CY25	CY26**	Since Inception p.a.
Airlie Small Companies Fund	**12.1%**	**14.2%**	**6.6%**	**-10.9%**	**6.7%**
Small Industrials Acc. Index	*8.8%*	*12.1%*	*8.8%*	*-14.3%*	*4.4%*
Small Resources Acc. Index	*-3.6%*	*-2.0%*	*73.0%*	*-3.6%*	*16.4%*
S&P/ASX Small Ordinaries Acc. Index	**5.2%**	**8.4%**	**25.0%**	**-10.9%**	**8.3%**

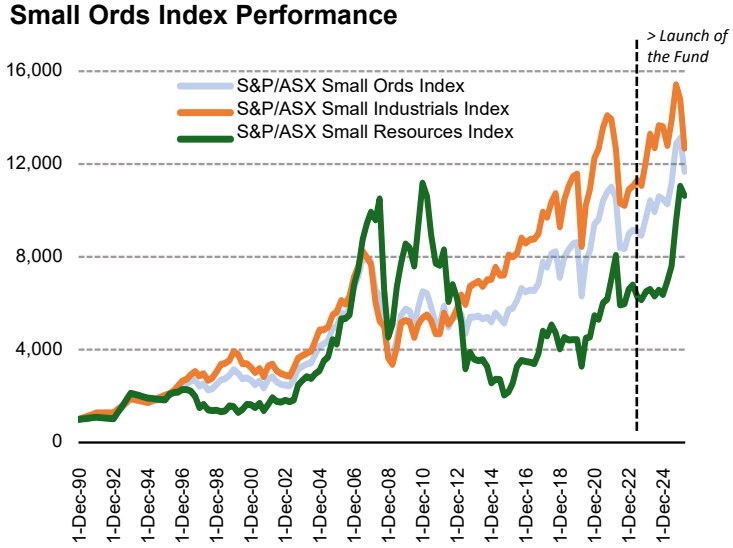
*since inception 04/04/2023

**YTD performance to 31/03/2026

The significant resources underweight reflects the Fund's investment philosophy; we seek to identify quality companies with advantaged competitive positions that can grow at attractive rates on incremental capital deployed, and then only purchase those businesses at a steep discount to our assessment of intrinsic value. We believe owning a selection of these quality businesses is the key to long-term compounding in equity markets. These structurally advantaged businesses do exist in the resources sector: BHP has a stellar long-term track record of generating attractive returns on invested capital through the cycle. However, they are far less common in the small-cap market. Commodities are a game of cost advantage, and cost advantage is very often a function of scale, which means that by their very nature small resource companies are unlikely to possess structurally advantaged positions. There are some caveats to this: in commodities like gold, grade can be a more important indicator of cost advantage than scale. However, these types of commodities come with their own sets of issues, which we will discuss below.

In periods of strong commodity markets, as we have experienced over the past year, the Fund's underweight to the resources sector is going to hurt our relative performance. However, if history is any guide, we would expect the long-term performance of the two constituents of the index to be broadly similar. As can be seen in the chart below, despite some periods of very strong resources outperformance, over the past 35 years the Small Industrials has outperformed the Small Resources, returning 7.5% p.a. and 6.9% p.a. respectively. It's important to note that we are comparing these long-term returns after the Small Resources has just posted its strongest period of yearly relative performance in history, outperforming the Small Industrials by 64% in CY25.

Small Ords Index Performance

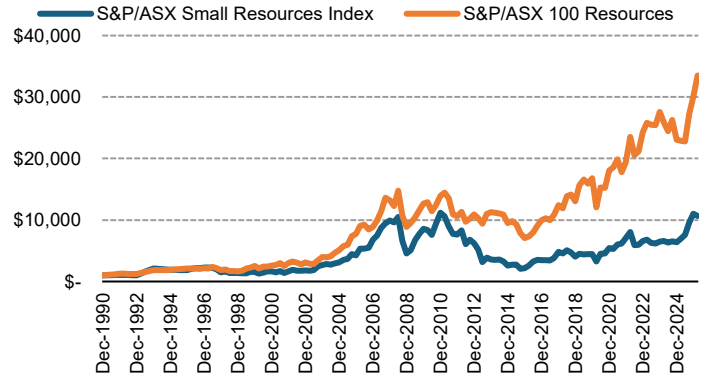


Source: IRESS, Airlie Funds Management. Accumulation indices (dividends reinvested).

While the long-term performance of both indices is relatively similar, there is a clear boom-and-bust nature to the Small Resources. Indeed, only within the last two months has the Small Resources ascended to new highs above its prior peak set more than fifteen years prior. Intuitively, this makes sense: commodity prices are cyclical – demand increases result in higher prices, which attracts capital, resulting in increased supply that eventually lowers prices – and miners are a leveraged play on this cyclicality. This cyclicality is particularly exaggerated in Small Resources, as high-cost miners see an outsized benefit to profitability from higher commodity prices versus low-cost miners. In times of supportive commodity prices, the performance of these smaller, high-cost miners can be stunning and, inversely, when commodity prices are declining, this leverage works in reverse.

We can see this dynamic play out when comparing the long-term performance of the Small Resources to its large cap sibling, the ASX 100 Resources index. The difference in performance has been dramatic: over the last 35 years, the ASX 100 Resources index has delivered a 10.5% p.a. return, generating more than three times the return of the Small Resources over that same period. While the scale of the chart below can make it difficult to see, the pro-cyclicality of small cap miners is evident here, with the Small Resources typically outperforming during periods of strong commodity prices and underperforming when commodity prices are weak.

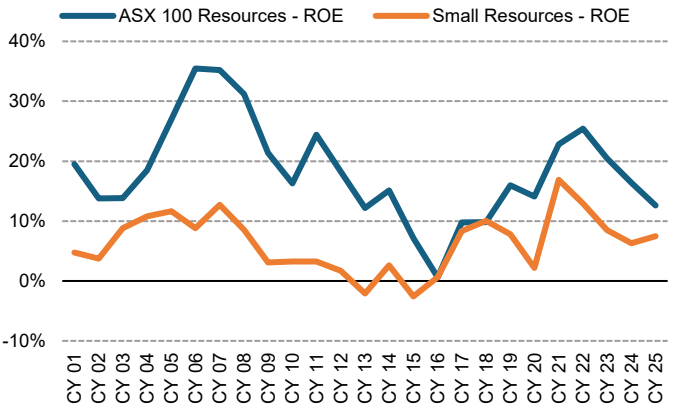
Resources - Index Performance



Source: IRESS, Airlie Funds Management.

This stark difference in performance reflects a stark difference in cost advantage, best illustrated by the differing return on equity profiles of the two indices. As can be seen in the chart below, while there is clearly cyclicality in the return profile of both indices, the constituents of the Small Resources have historically generated a much lower return on equity through the cycle. Over the past 25 years, the Small Resources constituents have averaged a return on equity of just 6%, materially lower than the ASX 100 Resources average return on equity of 18%.

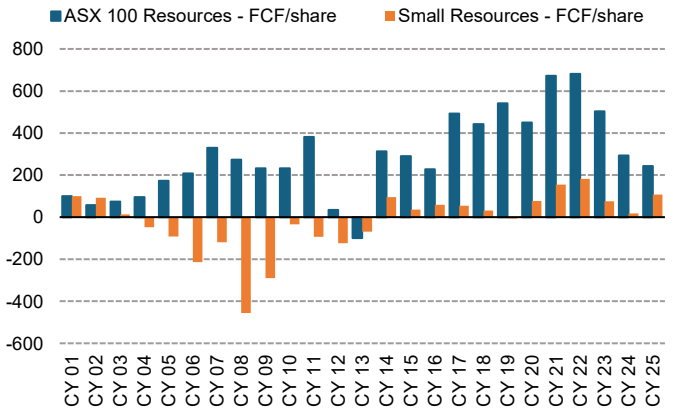
Resources - Index ROE



Source: FactSet, Airlie Funds Management.

A comparison of the free cash per share of both index constituents also paints a compelling picture. On a per-share basis, the Small Resources has struggled to show any growth in free cash flow over the last 25 years. In fact, the constituents of the small resources index have cumulatively produced negative free cash per share since its inception in 2001. In other words, any excess capital generated by these small cap miners has been reinvested into the business, which is why it is no surprise that the long-term return of the Small Resources basically matches its long-term return on equity of 6%. While index constituents can change over time, the economic forces that govern returns for high-cost miners do not, and as such we would expect the index to continue generating poor through-the-cycle performance.

Resources - Index FCF/share



Source: FactSet, Airlie Funds Management.

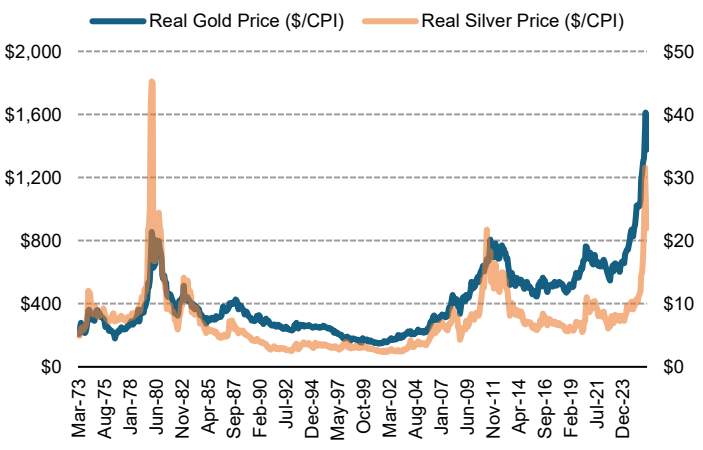
ALL THAT'S GOLD DOES NOT GLITTER

One of the primary drivers of the strong performance in Small Resources has been gold. Gold miners have enjoyed a spectacular rally since the Fund's inception, driven by a 142% increase in the gold price in just three years. As we mentioned above, gold is a commodity that doesn't follow typical supply/demand dynamics. On the supply side, most of the gold stock mined remains in circulation, with annual mine production adding only around 2% per annum to the global gold stock. On the demand side, around half of all gold mined is used commercially, mostly for jewellery. The remaining gold demand reflects investment purposes, including central banks accumulating reserve assets and investors speculating on price appreciation. We use the word 'speculation' intentionally: gold does not produce any income, meaning investors hoping to profit from gold purchases are relying entirely on someone else paying a higher price for the commodity in the future. For most commodities, the supply side is often the best indication of future pricing, but this does not hold true for gold. Rather, gold behaves more like a financial asset than a commodity, making predicting future prices extremely difficult, if not impossible.

As with any sharp asset price appreciation, there are always narratives to justify why this time it's sustainable. There are many narratives in the market attempting to explain the recent gold rally: imprudent fiscal and monetary policies, desire for central banks to reduce their US dollar exposure, inflation hedging, and the freezing of Russian reserve assets to name a few. Notably, many of these narratives have historically been used to justify the rally in bitcoin.

As there is no fundamental basis behind speculation, we have no insight into whether the rally in gold will continue. One point of interest we would note, however, is the performance of silver. Few of these narratives can be readily applied to the silver price – silver is not a reserve asset used by central banks – and yet it has enjoyed an even sharper rally than gold, increasing around 225% over the past three years. The chart below shows the real price of gold and silver since 1973. We will let investors draw their own conclusions about the boom-and-bust nature of these two commodities.

Gold and Silver - Real Price



Source: FactSet, Airlie Funds Management.

CONCLUSION

To reiterate, our investment philosophy focuses on identifying competitively advantaged businesses trading at a steep discount to intrinsic value. As we have explored, the Small Resources index is not a fertile hunting ground for these types of businesses, and we lose little sleep being underweight the sector. While we can't predict commodity prices, we can say that if history is any guide, the headwind we have experienced from resources over the last three years is, at the very least, likely to be less severe in the future. It's hard to argue you are getting much valuation compensation for the lower quality nature of Small Resources: the total market capitalisation of the Small Resources currently sits at around $96 billion. In the last 12 months, those constituents generated around $1.1 billion in free cash flow, implying a free cash flow multiple of 85 times. A decent proportion of this index reflects assets not yet in production; however, even if we adjust for those companies not currently producing positive operating cash flow ($31 billion in market capitalisation), the remaining constituents are trading on 22 times free cash flow – hardly bargain pricing for a sector with a very poor history of generating attractive returns through the cycle. While we hope to occasionally identify miners that pass the filters of our investment process – and our mandate does afford us the flexibility to invest in those opportunities when they arise – we would expect the resources sector underweight to be an ongoing feature of the Fund.

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