Airlie Funds Management

AIRLIE SMALL COMPANIES FUND

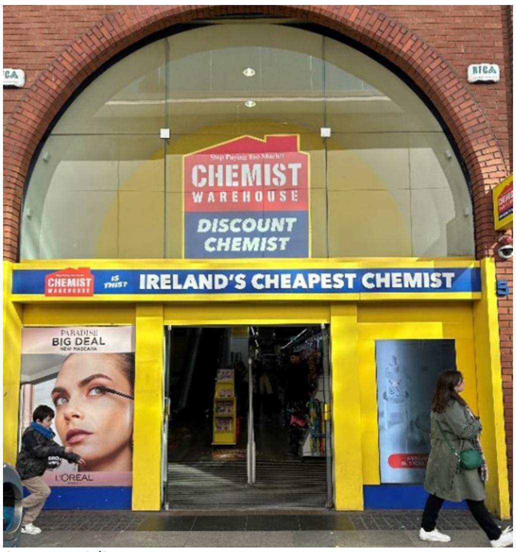
Dear Investor,

This letter provides a brief overview of the 2025 financial year and outlines some of the core tenets of the Fund's investment philosophy. A more detailed commentary, including individual stock and attribution analysis, will be included in our June 2025 Quarterly Commentary, to be released later this month.

The Fund enjoyed a solid year of performance in FY25, in what has been a noisy backdrop in global equity markets. While the year was certainly eventful, macroeconomic and geopolitical uncertainty is nothing new. In fact, we find that most years present transitory reasons to feel either euphoric or anxious about equity markets. This year's most striking example was the 'Liberation Day' tariff announcement in April, which triggered one of the sharpest declines in global equity markets on record. The S&P 500 fell 12% in just four trading days, while the S&P/ASX 200 declined 7%. Yet, despite the initial shock and lingering threat of tariffs, markets have quickly recovered to above pre-tariff levels. The lesson, time and time again, is that attempting to predict and time markets is a fool's errand. We instead focus our efforts on what we believe we can predict – namely, the long-term economics of high-quality, durable businesses.

Among the Fund's strongest contributors during FY25 were Sigma Healthcare, Nick Scali, Gentrack, and News Corp. We have extolled the virtues of each of these businesses in various quarterly commentaries over the past two years, which can be found on the Airlie website. On the other side of the ledger, Tabcorp and Smartpay were two material detractors during FY25, which we have also written about extensively in past commentaries. While our position in Tabcorp has been reduced substantially, we remain confident in our Smartpay holding, with multiple bidders emerging for the company over the past few months.

It is worth noting that many of the top-performing holdings in FY25 were also among last year's leaders. This is a feature, not a bug, of our investment philosophy. We believe the most reliable path to wealth creation in equities is to buy quality businesses at attractive prices, hold them for the long term and allow them to compound over time. We do our best to avoid interrupting that process unnecessarily, which is why our top holdings are unlikely to change too materially from one year to another. Of course, defining what constitutes a 'quality' business can be subjective. For us, it refers to companies with durable competitive advantages that are protected from competition and can grow at attractive rates on incremental capital. The durability of a business model is particularly important, as long-dated cash flows underwrite a substantial portion of intrinsic value. We therefore concentrate on businesses where we can reasonably predict their economics several years into the future, often avoiding sectors prone to frequent disruption.



Source: Airlie

Our goal each year is to enhance the portfolio by selectively adding high-quality compounders at attractive valuations. This is an inherently difficult task – the market is usually very efficient at identifying these businesses and pricing them accordingly. Nevertheless, in FY25 we did make some progress in a few names. Most notably, we materially upweighted our position in Sigma Healthcare, which has recently merged with Chemist Warehouse. Chemist Warehouse exemplifies everything we look for in a business – an impregnable economic moat, fantastic founder-led management team, fortress balance sheet, and decades of runway to deploy capital within the business's core competency. Fortuitously for us, the nature of the merger gave us the opportunity to purchase this remarkable business at a price we deemed very attractive. Hopefully FY26 throws up further opportunities to add great businesses like Chemist Warehouse to the Fund.

Looking ahead, we remain optimistic about the Fund's prospects. We own a concentrated portfolio of competitively advantaged businesses with long runways to deploy capital – many of which we believe are materially undervalued. The small cap universe is rich with mispriced securities: with over 700 stocks within our remit, we are focused on identifying just 20 - 40 compelling opportunities. I have a substantial personal investment in the Fund, and my commitment to preserving and growing your wealth, alongside my own, remains steadfast.

Thank you for your continued support.

Will Granger

Portfolio Manager

To find out more about the Airlie Small Companies Fund, please contact us on:

E: adviserservices@airliefm.com.au
P: +61 2 9235 4760
W: airliefundsmanagement.com.au