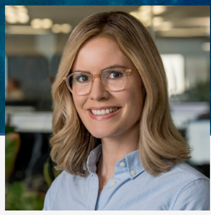
YEAR INREVIEW 2023

Airlie
Funds Management

AIRLIE AUSTRALIAN SHARE FUND (MANAGED FUND)

TICKER: AASF | ARSN: 623 378 487



Emma Fisher
Portfolio Manager

Matt Williams
Portfolio Manager

Delivers a concentrated portfolio of Airlie's best ideas, typically 15-35 Australian companies. Seeks to invest in well-run, quality businesses with strong financial positions, where current valuations do not fully capture this quality.

Dear Investor,

The Airlie Australian Share Fund returned 0.7% for the quarter, slightly below the ASX 200 return of 1%. For the fiscal year 2023, the AASF returned 18.1%, 3.3% ahead of the ASX 200 return of 14.8%. The market return for the year is quite extraordinary considering the RBA cash rate rose from 0.85% last June to 4.1% today. It's more a function of the starting point - the June quarter last year was the worst quarter for the market since the covid meltdown of 2020. Maximum inflation fears had fed a narrative of inevitable recession, which is (still) yet to arrive.

The top three contributors to the annual return for the fund were Mineral Resources (+55% over the year), PWR Holdings (+39%) and BHP (+20%). The largest detractors were Dicker Data (-23%) and Smartgroup (-20%).

Major portfolio changes include:

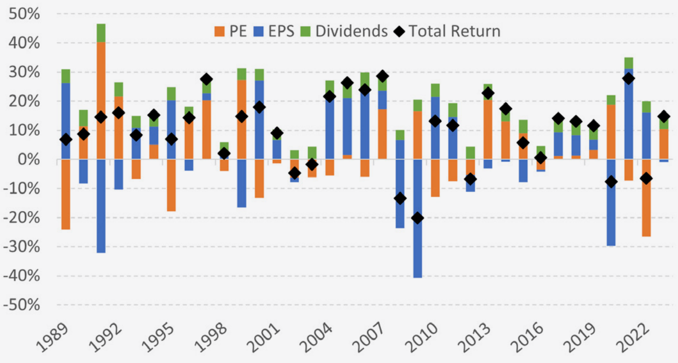
- We exited our position in EBOS Holdings. EBOS has been a strong performer for the fund, however we were increasingly worried about the impact of the Government's 60-day dispensing change on industry profits. Some participants estimate it could wipe 25% of the pharmacy profit pool. We believe EBOS as a wholesaler will be indirectly impacted. We had some luck in exiting the position ahead of the announcement of the loss of the Chemist Warehouse contract, which saw the share price fall 15%. By all accounts, EBOS did a fantastic job of servicing that contract, and it was not our base case that Chemist Warehouse would move to Sigma. We think EBOS is an excellently managed, high-quality business, and it remains on our radar if the valuation becomes compelling.
- We established a position in ResMed. We have not previously owned the company since the fund's inception; however, we believe the current setup looks compelling. Sleep apnea is a cracking market - with demand growing 7-8% p.a. Historically it has been virtually a two-player market, carved up between ResMed and Philips. In the last two years, we estimate ResMed has gained an additional 20% share of the market as Philips has suffered through a recall of some of its ventilators and sleep apnea-related devices. We believe a consent decree from the U.S. Food and Drug Administration for Philips' devices will make ResMed's market share gains stickier, and potentially compound ResMed's current innovation/technology gap as compared against Philips. We anticipate double-digit earnings growth for ResMed for the medium term, strong cash flow generation with little capex, and a balance sheet with very little gearing. The fly in the ointment (which holds us back from a larger position) is valuation: on 31x FY24 PE, the stock is hardly cheap, however, if our cash flow forecasts prove correct we believe the share price could exceed $40.
- We added to Premier Investments as it sold off with the retail sector. We believe that consumer discretionary companies are in for a tough time. However, picking the lows is difficult and at current levels we think Premier has a strong 3-year outlook driven by continued global rollout of the Smiggle brand and the launch of Peter Alexander on the world stage. With a strong net cash balance sheet, we consider Premier looks an attractive opportunity.

OUTLOOK AND POSITIONING

Since 1989, the ASX 200 has compounded at a remarkable 9.5% p.a. Just over half of this return has come from capital growth of 5% p.a. (i.e. share prices going up), with the remaining 4.5% p.a. coming from dividends.

We can break the capital growth down further into two drivers: earnings per share (EPS), and the price/earnings (PE) multiple. Growth in EPS can be thought of as growth in the cumulative profit pool of Australian listed businesses. The PE multiple can be thought of as a sentiment check: what multiple is the market willing to value those collective earnings at?

The chart below breaks the total annual ASX 200 return down into these 3 drivers: earnings, PE and dividends.



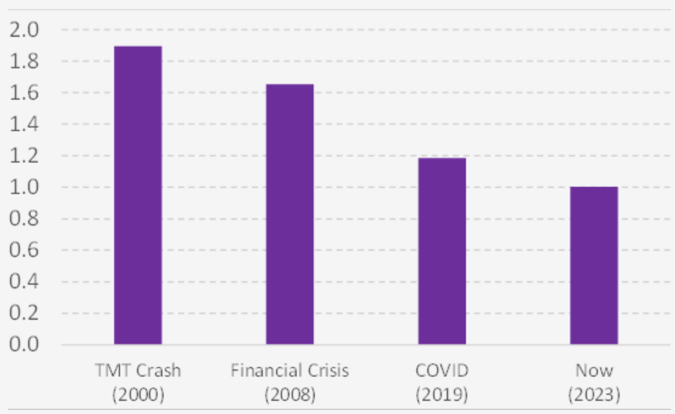
Source: MST Marquee, Airlie Research

In the last 35 years, we've seen 7 years where the total return of the ASX 200 was negative, and 28 where it was positive. This is why we think it doesn't pay to be a perma-bear. Constantly bearish people tend to come off as very smart, able to articulate risks that others are missing; however, markets have risen 4 out of 5 years. What is interesting is that earnings are much more volatile: earnings per share have fallen in 14 out of the last 35 years. Put another way, earnings per share have fallen 40% of the time, while the market has fallen only 20% of the time. What cushions the blow are dividends, which are much steadier, reliably delivering between 4% and 5% p.a., and the PE multiple, which tends to re-rate as earnings fall (as the market is unwilling to capitalise bottom of the cycle activity levels) and de-rate as earnings rise.

If we break down our outlook for the market into an outlook for these 3 key drivers:

1. **Earnings per share**: We think it is reasonable to expect earnings could decline over the year as mortgage rates bite and consumers rein in their spending. So much of the Australian share market is a first or second derivative play on consumer spending (e.g. banks, retailers, shopping centres, travel companies), and corporate profit margins look to have peaked. However, we note the earnings downturn has already begun, with EPS expectations falling 1% over FY23. In our view there is a risk of further earnings declines.
2. **Dividends**: Corporate balance sheets are a bright spot in the gloomy economic outlook. Gearing levels remain low across the board, and if we are heading into an economic downturn, we are heading into one with lower levels of corporate debt than any downturn in recent history. As such, we expect dividend returns to remain in line with their long run average of 4-5%.

Chart: ASX 200 ex financials net debt to EBITDA heading into a downturn



Source: MST Marquee

3. **PE multiple**: The market PE has re-rated in FY23, following two years of PE declines. This is shown in the chart below – the market went from very expensive in 2020 to very cheap in 2022, and the market multiple has now rebounded to its long-term average. We now see the market as neither particularly cheap nor expensive, although pockets of absolute value have emerged in consumer-facing sectors; most notably, discretionary retail.

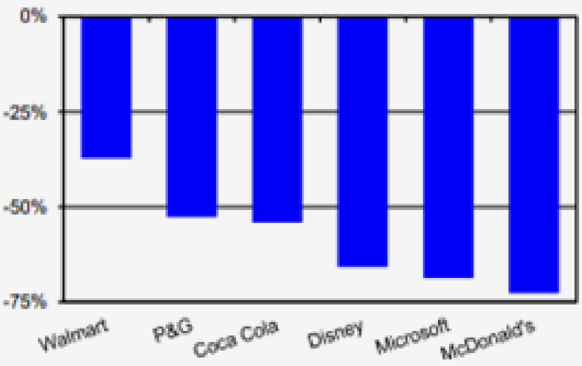
Source: Goldman Sachs

We are entering our second year of the economy deteriorating, we have worn 12 interest rate hikes and a de-rating of the market PE. Consumer confidence is at 1991 recession-type levels, and retailers are downgrading each week. The "vibe check" is bad, people are discussing the cost-of-living crisis everywhere. Even the mortgage-free boomers who should be cheering the return of >5% term deposit rates are grumbling about their super going sideways. Everyone has a job, but no-one is having a good time. In our view, these are not the conditions in which it is time to get max-bearish. There are pockets of value emerging in the market, for example retailers and some REITs. Strong immigration and resilient commodity prices are helpful counterweights to a sluggish consumer, and our base case is the economy continues to muddle through.

INVESTING IN CONSUMER-FACING BUSINESSES: LOWER SHARE PRICE, LOWER RISK

Investing is a complex, interesting and rewarding job. However, it is certainly not easy. The hardest part of investing is learning to separate the business from the share price. A great business can be a poor investment at the wrong time (if expectations and hence the share price are too high). One example that stands out is the "tech bubble" of the late '90s – we tend to think the craze swept up only those businesses with "dot-com" in their name, but it was a very broad-based rally that went beyond tech stocks. The market was actually pretty good at identifying a bunch of companies that would go on to have the best prospects of the next two decades, yet if you'd bought them at their share price peak in the late '90s, you would've experienced 30-75% share price falls from peak to trough. If you'd correctly identified Microsoft as a long-term winner and bought in December 1999, it would've taken you 17 years to get your money back! Never mind the poor Cisco investors who have still never recouped the share price peak. While we are as far from AI experts as could possibly be imagined, it is something to keep in mind when considering the stock market mania for anything AI-related at the moment.

US Stocks - TSR (t=0 at Peak trough Share Price)



Source: Diogenes

US Stocks - Peak Period

	Date at Peak Share Price	Date Share Price Return to Peak	Time (Yrs)
Microsoft	Dec 1999	Oct 2019	17
McDonald's	Nov 1999	Apr 2007	7
Coca-Cola	Jul 1998	Oct 2014	16
Walmart	Dec 1999	Jun 2012	13
Disney	Apr 2000	Feb 2011	11
P&G	Jan 2000	Sep 2005	6

Source: Bloomberg, Diogenes research

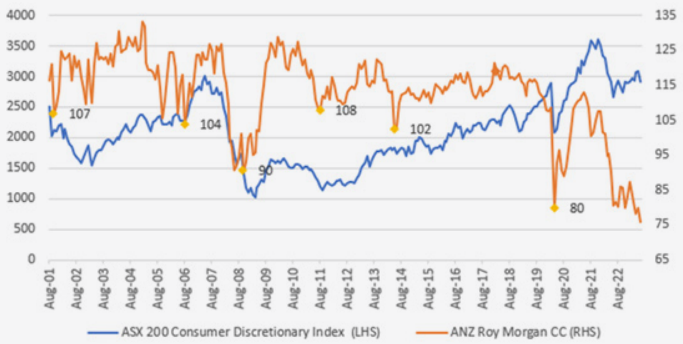
Similarly, a poorly performing business can be a great investment at the right time if certain conditions for future improvement are there. We look for a good balance sheet that can buy an underperforming business time to turn things around, and an agent for change – typically, new management, a new board, and a new operating structure in the case of a demerger. Portfolio holdings QBE and Tabcorp are current examples that we think fit this bill.

Building on this distinction that the business ≠ share price, the key lesson to get your head around in investing is that the share price doesn't tell you anything about the company's future prospects. For example, the share price of CBA tells you nothing about the likelihood of it remaining Australia's largest bank or the likelihood of a bad-debt cycle occurring in Australian property. All it tells you is valuable information about expectations. The good news for active investors is that expectations oscillate wildly – share prices imply expectations that swing from "things will be good forever!" to "things will never be good again!" One need look no further than the local 'buy now, pay later' sector to see how quickly expectations (and hence share prices) can change as optimism turns to despair.

We believe opportunities in investing arise when the expectations implied by the prevailing share price are too conservative as compared against what you believe is likely to play out. If a company has a strong balance sheet, then the logical extension of this lesson about expectations is that the lower the share price, the lower the risk. This is because a lower share price implies expectations for future cash flows have fallen. The reason we say the company needs a strong balance sheet for this to be true is because for a company with a weak balance sheet, the opposite holds: a lower share price leads to higher risk of permanent capital destruction. If deteriorating fundamentals cause a company to swing to a loss or breach debt covenants, they may need to raise equity, which can convert a temporary fall in earnings into a permanent value destruction for shareholders. This was the experience through the GFC, particularly for the local REIT sector. Local REITs were unable to roll their debt obligations as capital markets froze, forcing emergency capital raises at very dilutive prices and, in the case of Centro, the equity was wiped out completely.

So where does all this leave us today? We are starting to see bearish, even very bearish, expectations being priced into consumer-facing parts of the Aussie economy. At the very front line are the discretionary retailers. We're basically seeing a downgrade each week from retailers, with Adairs, Universal Holdings, Best & Less, Dusk, and Baby Bunting all noting a marked deterioration in sales in May/June.

To say that consumer confidence is in the doldrums is an understatement. The Roy Morgan Consumer Confidence survey has now spent 16 straight weeks at a reading below 80; the last time it spent so long below 80 was during the 1990-91 recession.



Source: Roy Morgan, Factset

In the real economy, it's fair to say the outlook for retailers looks extremely tough. However, the stock market is not the real economy, it's the sum of expectations. As the sector is repriced down and expectations are slashed, we think value is emerging.

Historically, buying discretionary retailers when the consumer confidence index hits a low has been a pretty good investing strategy. As per the below table, while the 6-month performance can be mixed (i.e. you can be early), we typically see a rebound on a 12-month view. The subsequent rebound is particularly strong when consumer confidence bottomed at a sub-100 reading, and we note the current index reading of 76 is below all prior low points.

Date	CC Index	6-mth consumer discretionary index	12-mth consumer discretionary index	12-mth change in cash rate (bps)
Oct 2001	107	(6.0%)	**(25.7%)**	**25**
Aug 2006	104	25.1%	**19.6%**	**50**
Oct 2008	90	(16.0%)	**16.2%**	**-275**
Aug 2011	108	3.0%	**5.2%**	**-125**
May 2014	102	1.4%	**8.4%**	**-50**
Apr 2020	80	35.8%	**57.1%**	**-15**

Source: Roy Morgan, Factset

Our consumer discretionary exposures in the fund were among our best-performing names over the second half of 2022, as sales remained more resilient than feared in the face of rising interest rates. In January, we significantly reduced our holding across the fund, exiting ARB and selling 80% of our position in Nick Scali (which had rallied from $7.50 June 2022 lows to over $12 a share). Now we find the sector appealing again – it has been quick to price in expectations of a consumer slowdown. Nick Scali has retraced to c$8.50, and Premier Investments has fallen from $27 to $20. We have been adding to both positions in recent weeks.

Taking Nick Scali as an example, it has traded on a forward PE multiple of 8-18x earnings, reflecting wildly different expectations of future earnings. It is currently on a forward PE of 10x.

Nick Scali NTM PE multiple

Source: Factset, Airlie Data

Buying Nick Scali when the PE has troughed has historically been a good strategy, with subsequent 6- to 12-month performance typically very strong. While we acknowledge the multiple could go lower yet, we believe value is emerging in a retailer with incredible economics and decent store rollout potential, and have been adding to our position again.

NCK-ASX	PE Trough	6-mth Return	1-year Return
2 Jun 2011	9.0x	9.0%	**(6.0%)**
11 Dec 2012	10.1x	52.5%	**107.1%**
27 Jun 2013	11.9x	30.5%	**45.5%**
6 Feb 2015	12.4x	24.4%	**54.2%**
27 Jun 2017	12.1x	17.5%	**25.2%**
4 Jan 2019	**8.8x**	**38.6%**	**47.4%**
30 Mar 2020	**7.9x**	**184.0%**	**245.2%**
17 Jun 2022	**7.8x**	**58.0%**	**31.5%**

Source: Factset

Roy Morgan Premier Investments is a similar story. The PE multiple has typically ranged from 11-25x, and it is currently trading on 12.9x.

Source: Factset, Airlie Data

Historically, buying Premier as the PE troughs has been a good strategy.

PMV-ASX	PE Trough	6-mth Return	1 year Return
28 Jun 2013	12.7x	24.7%	**35.2%**
19 Jun 2014	15.0x	12.2%	**58.1%**
7 Sep 2017	15.4x	5.6%	**53.6%**
6 Feb 2019	15.7x	7.1%	**48.6%**
24 Mar 2020	11.5x	105.2%	**158.6%**
3 Mar 2021	**17.1x**	**32.2%**	**32.2%**
22 Jun 2022	**13.0x**	**29.1%**	**8.7%**

Source: Factset

With Premier's $400m net cash and >$750m stake in listed entities (Breville and Myer), we consider Premier's fortress-like balance sheet will allow it to weather the retail storm much better than most. The falling share price reflects a revision in expectations that we believe now appear fair in the short term, and too conservative in the medium term.

Yours sincerely,

Emma Fisher and Matt Williams

July 2023

Airlie Australian Share Fund (Managed Fund)

TICKER: AASF | ARSN: 623 378 487

AS AT 30 JUNE 2023

FUND FEATURES

- Access to an experienced, proven investment team specialising in Australian Equities, with a long track record of prudent common-sense investing.
- A conservative and robust investment process that focuses the team's energies on their 'best ideas'.

FUND FACTS

Investment Objective

To provide long-term capital growth and regular income through investment in Australian equities.

Investment Strategy

- Long only, bottom up specialised and focused Australian equities fund
- Concentrated portfolio of 15-35 stocks (target 25)
- Active, high conviction approach - Airlie's 'best ideas'

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	1 June 2018
Benchmark	S&P/ASX 200 Accum. Index
Portfolio Size	AUD $381.3 million
Distribution Frequency	Semi-annually
Management Fee^	0.78% p.a. (inclusive of net effect of GST)
Ticker	AASF
APIR	MGE9705AU
Minimum Initial Investment#	AUD$10,000
Buy/Sell Spread#	0.14%/0.14%

^ Transaction costs may also apply – refer to the Product Disclosure Statement. All fees are inclusive of the net effect of GST.
# only applicable to investors who apply for units directly with the fund.

PERFORMANCE*

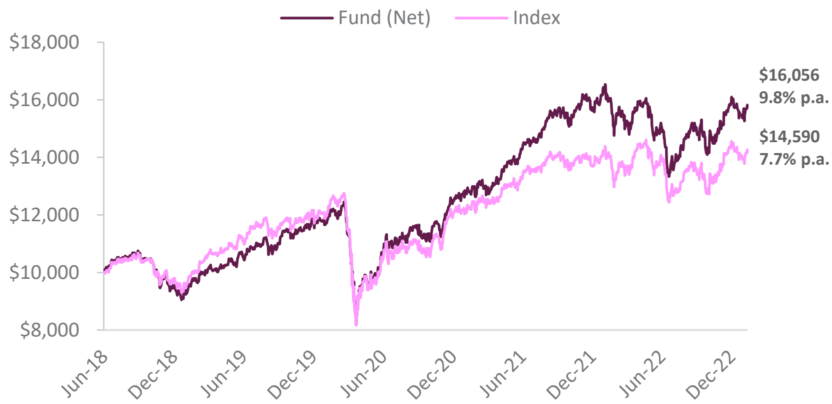
	Fund (%)	Benchmark (%)	Excess (%)
1 Month	1.0	1.8	-0.8
3 Months	0.7	1.0	-0.3
6 Months	4.3	4.5	-0.2
1 Year	18.1	14.8	3.3
3 Years (p.a.)	13.5	11.1	2.4
5 Years (p.a.)	9.0	7.2	1.8
Since Inception (p.a.)	9.8	7.7	2.1

Past performance is not a reliable indicator of future performance.

TOP 10 POSITIONS (BY WEIGHT)

Company	Sector**
BHP Group Ltd	Materials
CSL Ltd	Health Care
Commonwealth Bank of Australia	Financials
National Australia Bank Ltd	Financials
Mineral Resources Ltd	Materials
Macquarie Group Ltd	Financials
Wesfarmers Ltd	Consumer Discretionary
Aristocrat Leisure Ltd	Consumer Discretionary
James Hardie Industries Plc	Materials
Santos Ltd	Energy

PERFORMANCE CHART GROWTH OF AUD $10,000*



Past performance is not a reliable indicator of future performance.

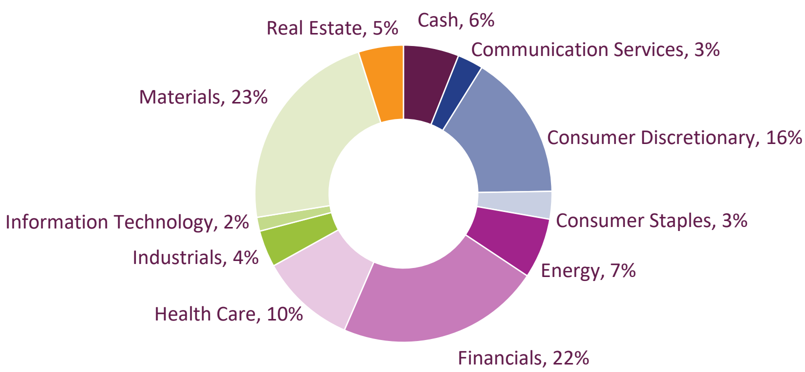
PORTFOLIO MANAGERS

Emma Fisher
Over 13 years investment experience. Formerly an investment analyst within the Australian equities team at Fidelity International and prior to that Nomura Securities.

Matt Williams
Matt has over 20 years industry experience. Matt joined Airlie in July 2016 managing Australian share strategies for institutional clients and is co-portfolio manager for the Airlie Australian Share Fund for retail clients.

Visit www.airlieaustraliansharefund.com.au for more information, including: fund performance, unit prices and iNAV, investment insights, PDS & forms.

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.

IMPORTANT INFORMATION