# Airlie Australian Share Fund

*A concentrated, active portfolio of Australian equities.*
*Accessing the Airlie investment team and Magellan fund capacity.*

Airlie Funds Management

Fund Update: 31 December 2019 | ARSN: 623 378 487

## FUND FACTS

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

| | |
|---|---|
| AIPR | MGE9705AU |
| Inception Date | 1 June 2018 |
| Benchmark | S&P/ASX 200 Accum. Index |
| Minimum Initial Investment | AUD$10,000 |
| Portfolio Size | AUD $23.4 million |
| Distribution Frequency | Bi-annual |
| Buy/Sell Spread | 0.14%/0.14% |
| Management Fee | ▪ 0.78% p.a. (inclusive of net effect of GST)<br>▪ No performance fee |
| Investment Strategy | ▪ Long only, bottom up specialised and focused Australian equities fund<br>▪ Concentrated portfolio of 15-35 stocks (target 25)<br>▪ Active, high conviction approach - Airlie's 'best ideas' |

## WHY CHOOSE THE AIRLIE AUSTRALIAN SHARE FUND?

- 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
- The strategy is now available to retail investors for the first time through the partnership with Magellan

## PORTFOLIO MANAGERS

**Matt Williams**
Over 25 years investment experience.
Formerly Head of Equities and portfolio manager at Perpetual Investments.

**Emma Fisher**
Over 8 years investment experience.
Formerly an investment analyst within the Australian equities team at Fidelity International and prior to that Nomura Securities.

**Visit www.airlieaustraliansharefund.com.au for more information on:**

- Fund performance
- Unit prices
- Investment Insights

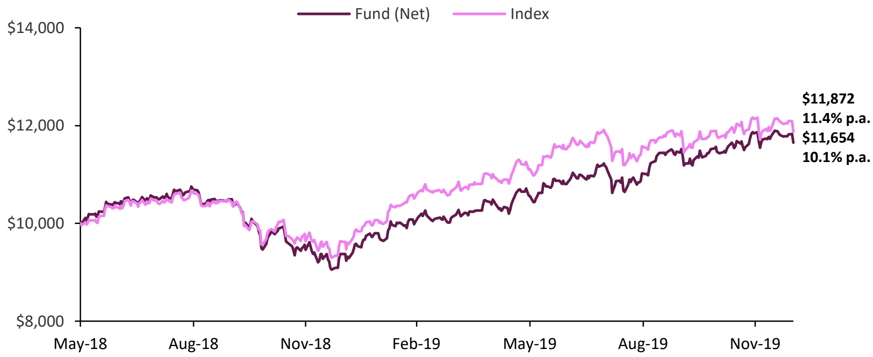
## PERFORMANCE*

| | Fund (%) | Index (%) | Excess (%) |
|---|---|---|---|
| **1 Month** | -1.5 | -2.2 | 0.7 |
| **3 Months** | 1.8 | 0.7 | 1.1 |
| **6 Months** | 7.9 | 3.1 | 4.8 |
| **1 Year** | 24.4 | 23.4 | 1.0 |
| **Since Inception (% p.a.)** | 10.1 | 11.4 | -1.3 |

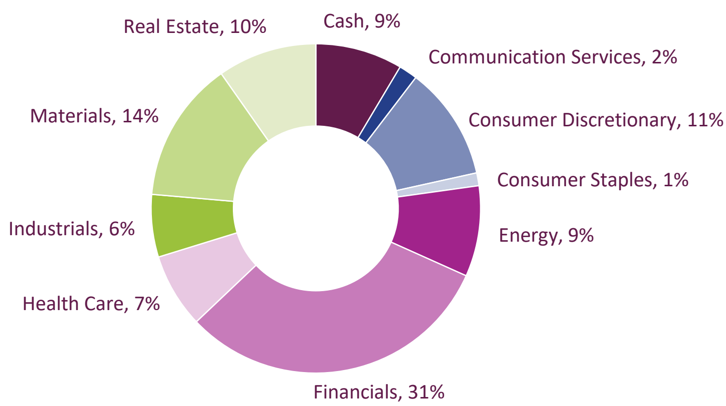
## TOP 10 POSITIONS (BY WEIGHT)

| Company | Sector** |
|---|---|
| **BHP Billiton Ltd** | Materials |
| **CSL Ltd** | Health Care |
| **Commonwealth Bank of Australia** | Financials |
| **Westpac Bank** | Financials |
| **Suncorp Group Ltd** | Financials |
| **Origin Energy Ltd** | Energy |
| **Macquarie Group Ltd** | Financials |
| **Aristocrat Leisure Ltd** | Consumer Discretionary |
| **Mineral Resources Ltd** | Materials |
| **Caltex Australia Ltd** | Energy |

## PERFORMANCE CHART GROWTH OF AUD $10,000*




## 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.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## MARKET COMMENTARY

The total return of the Australian share market over the quarter was 0.68%, underperforming the US S&P 500 (+8.5%), the MSCI World ex Australia Index (+8.3%) and the MSCI Asia Pacific ex Japan Index (+10.1%). Despite lagging global benchmarks, this marked the fourth straight quarter of increases. The worries of the December 2018 quarter, which saw the Australian market decline 8.3% over concerns about the end of quantitative easing in the US and increases in global interest rates, now seem a distant memory, with the S&P/ASX 200 Accumulation index returning 23.4% for the calendar year to December 31. This was despite a backdrop in 2019 of global trade wars, federal and state elections, concerns over the housing market, and now drought and bushfires.

The best-returning sector for the quarter was healthcare, +14%. Investors were attracted to the stability of the sector and strong company fundamentals, including CSL (+18%). Energy was the second-best performing sector, returning 6% for the quarter. Consumer discretionary stocks returned 2.8% for the December quarter, with the consumer proving reasonably resilient. We note retail sales as published by the ABS rose 3.2% in November, with strong trading across the board reflecting the increasing importance of "Black Friday" as a sales event. With the bushfires and drought weighing on the Christmas period, we anticipate some of this strength is likely a pull-forward in sales.

The worst-performing sector was financials, -8% for the quarter, with fund-holding Westpac being the major culprit. The AUSTRAC scandal was the 'last straw' for investors. Where to from here? We are assessing our position, but our current view remains that there is value on offer. The business is not broken but needs a new CEO and chairman, a culture and compliance reset, investment in technology and potentially more capital, all that whilst navigating a tough, competitive operating environment.

Our base assumption is that the economy continues to "muddle through" and hence a bad debt cycle is not imminent, so justifying our view that there is value on offer. Ultimately, we are attracted to the big scale players, Westpac and the Commonwealth Bank of Australia, as they have further capacity to leverage their large retail deposit bases into market-leading lending offers and invest for the long term.

As we look to 2020, after a strong return for the ASX 200 over 2019, we note the combination of low interest rates and an accommodative Reserve Bank of Australia, an improving housing sector, and solid balance sheets across most of corporate Australia as key positives.

## FUND COMMENTARY

The fund returned 1.78% over the December quarter, outperforming the index by 1.10%. The best-performing stocks in the fund during the quarter included CSL (+18% over the quarter), with continued strong fundamentals in the blood plasma market driving profit and valuation upgrades, as well as Caltex (+29%). We have owned Caltex since inception in the fund, and it has not always been smooth sailing, with a downgrade in June seeing the stock fall 20% in one day. However, we added to positions given our assessment of the strength of the balance sheet and privileged nature of the fuels and infrastructure assets. The recent takeover offer for $34.50 per share from Canadian industry player Alimentation Couche-Tard affirms this view. Mineral Resources also contributed over the quarter, with its share price rising 25% as it closed the sale of a 60% stake in lithium asset Wodgina to Albemarle, receiving $1.2 billion in cash (which puts the balance sheet in a net cash position).

The biggest detractor was Smartgroup, falling 43% over the quarter as its long-standing and well-regarded CEO resigned, followed up by a large downgrade on the back of a change in pricing on add-on insurance, which will see about 10% of group profits wiped out. While the optics of the two events are disappointing, we remain attracted to the solid balance sheet (0.4 times net debt/EBITDA), strong cash generation and (now particularly) cheap valuation. On rebased earnings and assuming no growth in the underlying business, the current share price implies a 5.5% dividend yield and nearly 9% free-cash-flow yield.