Airlie Australian Share Fund
(Managed Fund)

A concentrated, active portfolio of Australian equities.
Accessing the Airlie investment team and Magellan's operational and client services capabilities.

Ticker: AASF

Fund Update: 30 September 2022 ARSN: 623 378 487

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'

Inception Date	1 June 2018	
Benchmark	S&P/ASX 200 Accum. Index	
Portfolio Size	AUD $344.2 million	
Distribution Frequency	Semi-annually	
Management Fee	0.78% p.a. (inclusive of net effect of GST)	
Ticker	AASF	
Tickers	**Solactive**	**ICE**
Bloomberg (AASF AU Equity)	AASFAUIV	AASFIV Index
Thompson Reuters (AASF.AX)	AASFAUDINAV=SOLA	AASFAUiv.P
IRESS (AASF.AXW)	AASFAUDINAV	AASF-AUINAV.NGIF
APIR	MGE9705AU	
Minimum Initial Investment#	AUD$10,000	
Buy/Sell Spread	0.14%/0.14%	

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 11 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, including: fund performance, unit prices and iNAV, investment insights, PDS & forms

only applicable to investors who apply for units directly with the fund.

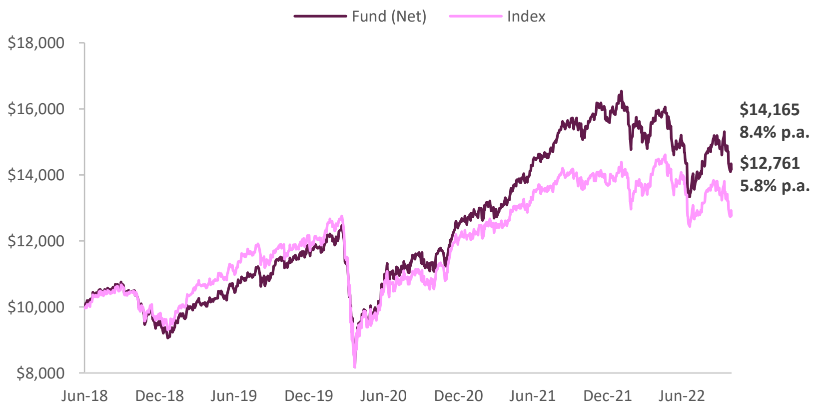
PERFORMANCE*

	Fund (%)	Benchmark (%)	Excess (%)
1 Month	-5.8	-6.2	0.4
3 Months	4.2	0.4	3.8
6 Months	-10.9	-11.6	0.7
1 Year	-7.8	-7.7	-0.1
3 Years (p.a.)	7.4	2.7	4.7
4 Years (p.a.)	7.8	5.0	2.8
Since Inception (p.a.)	8.4	5.8	2.6

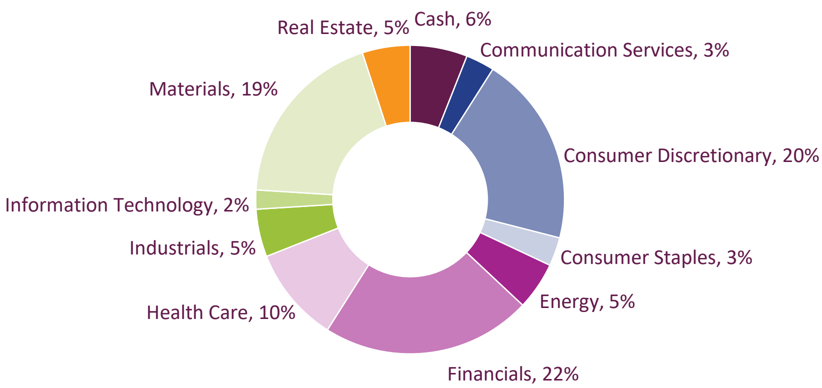
TOP 10 POSITIONS (BY WEIGHT)

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

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.

FUND COMMENTARY

The Airlie Australian Share Fund rose 4.15% in the September quarter, an excess return of 3.76% after fees vs the S&P ASX200 index, which returned 0.39%. The flat performance of the benchmark belies another extraordinarily volatile quarter for equity and debt markets- the ASX200 traded a 20% high/low range, whilst the Australian 10-year government bond traded in a 106bp range. Overall, the portfolio saw a sizeable rebound for most holdings from the very weak June quarter. Key portfolio moves include:

- A big quarter for lithium as the market re-rated all names due to prolonged strong pricing for spodumene and lithium hydroxide. Portfolio holding Mineral Resources (+36%) also benefited from a mooted potential spin-out of its lithium assets into a separate vehicle.
- PWR Holdings rose 35% in the quarter, with a cracking FY22 result highlighting incredible growth in the emerging technologies division.
- Consumer discretionary stocks in the portfolio rebounded strongly led by Premier Investments (+17%) – as it reported a strong 2H22 profit result. Nick Scali (+12%) and Wesfarmers (+2%) also produced very solid profit results. Consumer spending has been remarkably resilient despite the rapid increase in mortgage rates. Obviously, this is not expected to last, however the rebound over the quarter shows what can happen when results are 'less bad' than expected.

REITS (-7%) continued to suffer as 10-yr Bond yields spiked 30bps over the quarter. Our REIT exposures mostly outperformed with Charter Hall (+6%), Waypoint (+2%), however SCA Property declined 15% after outperforming in prior periods. The REIT sector is now down 31% CYTD.

Toddler thinking and the value of asking useful questions

"Why?" is becoming a common refrain in our household, as our toddler begins to question the world around her. Some questions are easy to answer, some are more difficult (why can't she wear her baby shark costume to daycare again? Cheers, book week!) My new role of Chief Explainer has got me thinking about the value of asking good questions. In September, Airlie completed a national roadshow, meeting investors and presenting our views on markets. Travelling to a different Australian state each day, I found myself really looking forward to the "Q&A session" at the end of each presentation, I got a lot out of hearing what was on people's minds. We had a lot of great questions, and in my view the best questions were ones that took us to task over something we'd said. For example, after presenting an optimistic case for Reece's store rollout opportunity in the US, one astute investor asked how Reece would compete against Home Depot and Lowes, given they were much more established competitors than Bunnings was at the time of Reece's ascendency in the 90s/early 2000s in Australia. While we have an answer for how we think it plays out, that is a Good Question!

As we head towards the end of a year that has been dominated by macro events, we are reminded of how much financial markets hate uncertainty. So much of financial commentary and analysis therefore aims to provide answers, to cut through uncertainty and offer a prediction on where we are going. In this bucket I would throw all of the following topical questions: where are interest rates headed? Has inflation peaked? Will the Fed pivot? Is Australia headed for a recession? I am not saying that any of these questions are unimportant. The answers will certainty dictate the shape of future equity markets. However, I think all of these questions can be boiled down to an underlying, "where are we headed?", the answer to which none of us ever know! So to me, they are not useful questions.

What is a useful question? A podcast with journalist Warren Berger defines a useful question as a "tool to enable us to organise our thinking around what we don't know". This definition reminded me of a time we had to "organise our thinking" by honing in on a specific question, during the March 2020 pandemic market fall. Given the market panic only lasted about 3 weeks before the market bottomed (and raced away for the next 18 months), it's easy to forget just how dislocated markets were during those 3 weeks. We were seeing intra-day moves that most investors (myself included) had never seen before- in fact, on March 15, 2020, the ASX200 recorded its biggest one-day fall since 1987, falling 9.5%. A few of the stocks we owned saw over 30% share price declines in a day. We were also navigating co-ordinating team analysis via group calls and Microsoft Teams for the first time, rather than discussing things in person. I am sure some of baby-boomer colleagues won't mind me revealing this was…painful for a while.

Equity market financial crises seem to always have their seeds sown in credit crises, which makes sense given equity investors rank below debtholders. While the GFC was a liquidity crisis, the March 2020 drawdown was a solvency issue. The key question we had to ask ourselves (and answer-quickly!) was which of our portfolio holdings would remain solvent, and for how long, assuming a protracted hit to demand and therefore revenue across the board. Our analysts dropped everything they were working on to go through the portfolio holdings and answer this question. Of course, this broader question was answered by tackling a heap of smaller questions: does the company have debt? If so, when is it due? What are the covenants? How much cash does the company have to fund operations? Can the company delay capex? How much cash would the company save if it didn't pay out a dividend? Working through these allowed us to come up with a list of companies that had been sold off dramatically, yet we believed would be able to fund operations for much longer than others, which allowed us to add to these positions despite the environment of heightened fear, uncertainty and doom. The point of this anecdote isn't to paint us as investing geniuses- as we now know, you could have bought almost any stock in March 2020 and made great money over the next 2 years. The point is to highlight how a particular question can be a useful tool to organise our thinking and give us the confidence to invest during a period of extreme volatility.

Similarly, with the benefit of hindsight, the wrong question to ask ourselves would have been anything to do with the progression of the virus. How many people will this kill? How quickly will it spread? Will we be forced to lockdown? How long will Australian borders be closed? These are all "where are we headed?" questions. Imagine if we'd somehow managed to accurately predict the answer to any of these questions. If our analysis pointed to a scenario where over 6 million people would die globally, the virus would spread quickly, with subsequent mutations even faster, most of Australia will be forced into lockdown for months, unable to leave their houses, and Australian borders would be closed until November 2021. How would we have invested in March 2020 on the basis of this prediction? We'd probably have stuffed our cash under the mattress and joined the hoards squabbling over toilet paper, missing out on the fastest equity market rally in history as markets rebounded in April.

So, what are some useful questions to ask right now? In the face of an economy that undoubtably gets tougher, we think there are two useful questions to centre our analysis around. Firstly, how are company balance sheets positioned to weather any potential downturn? Again, this question leads to many smaller questions: does the company have debt? Is it floating or fixed? What are debt levels like for the industry? Would a credit crisis impact their competitors more?

The other important question is what is priced in? Assessing this is an imperfect art. If we know the current share price, and we know what rate of return we require as equity investors in the company (which depends on the nature of the business, typically somewhere between 8-10% p.a.), then we can roughly figure out what the share price is discounting in terms of future cash flows.

In focusing on these two questions, we are looking for situations where a company has the financial strength to comfortably navigate a downturn, and the share price is discounting a future cash flow profile that seems excessively pessimistic. One recent example in the fund is Premier Investments, which owns several retail brands such as Smiggle and Peter Alexander. At its June lows, Premier's share price had fallen 35%, as investors sold off consumer-facing businesses indiscriminately. We don't hold a more bullish outlook than consensus for the Australian consumer, agreeing with the consensus view that interest rate rises will lead to falling consumer spending. However, with a net cash balance sheet and very little capex, we are confident in Premier's ability to survive a consumer downturn. In focusing on the question of what is priced in, our analyst Vinay Ranjan estimated that a protracted downturn lasting 2 years and knocking 40% off Premier's earnings by its second year would only impact the long-term value of the company by 5%. Setting this against a 35% decline in the company's share price gave us confidence that a bearish consumer outlook was (largely) being priced in. Adding to positions was the right call in June, as Premier has been one of the fund's best performing companies in the last quarter, rallying over 20% off June lows and announcing a sizeable special dividend.