Airlie Australian Share Fund
- Active ETF

A concentrated, active portfolio of Australian equities.

Ticker: AASF

Fund Update: 31 December 2024 **ARSN: 623 378 487**

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 $834.8 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$25,000
Buy/Sell Spread#	0.18%/0.18%

^ 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.

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 25 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.

DEPUTY PORTFOLIO MANAGER

Joe Wright
Joe has over 10 years experience in the investment industry. Joe joined Airlie in 2021 as an equities analyst and became Deputy Portfolio Manager for the Airlie Australian Share Fund in 2024.

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

PERFORMANCE*

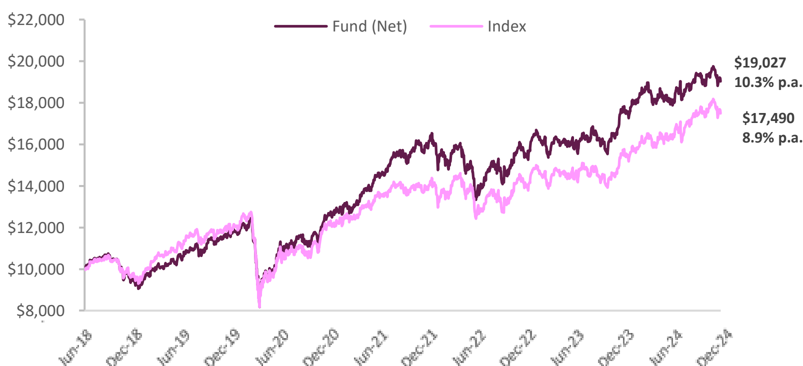
	Fund (%)	Benchmark (%)	Excess (%)
1 Month	-3.3	-3.2	-0.1
3 Months	-2.1	-0.8	-1.3
6 Months	5.4	6.9	-1.5
1 Year	7.1	11.4	-4.3
3 Years (p.a.)	5.4	7.4	-2.0
5 Years (p.a.)	10.3	8.1	2.2
Since Inception (p.a.)	10.3	8.9	1.4

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
Aristocrat Leisure Ltd	Consumer Discretionary
Macquarie Group Ltd	Financials
ResMed Inc	Health Care
News Corp	Communication Services
Ampol Ltd	Energy
SGH Limited	Industrials
Medibank Pvt Ltd	Financials

PERFORMANCE CHART GROWTH OF AUD $10,000*



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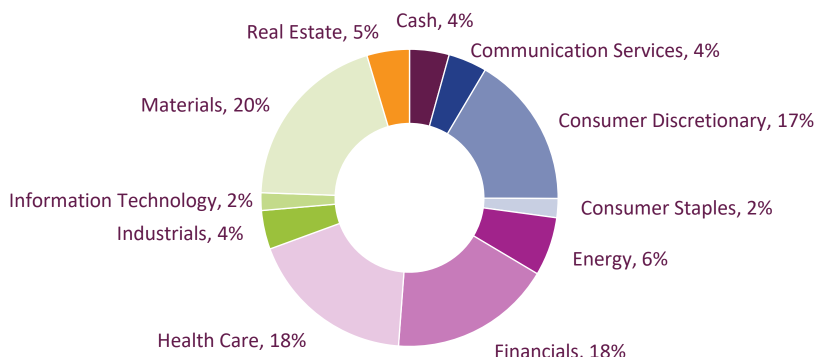
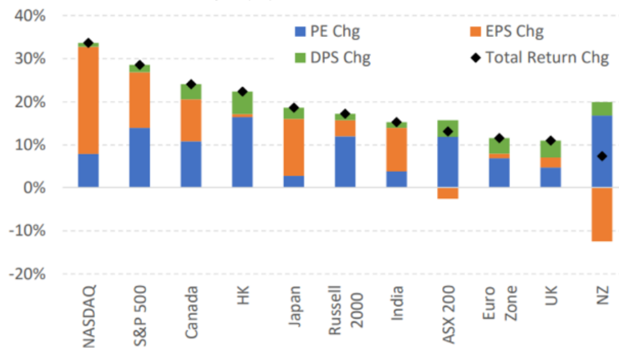
PORTFOLIO POSITIONING**



* 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.

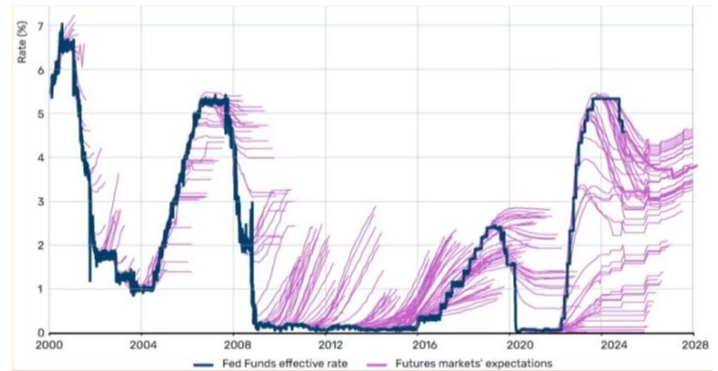
MARKET COMMENTARY

The December quarter was a microcosm of the full year 2024, with Financials (+5%) again performing strongly – mostly Commonwealth Bank (+13%) and the insurance stocks – while Materials (-12%) – resources and cyclicals – underperformed on concerns of persistent inflation and weak growth. The rally in the Materials sector that arrived late in the September quarter reversed as consensus decreed the Chinese stimulus measures inadequate. Nevertheless, in the context of history and given the cost base of the major iron ore producers, the current iron ore price is not a bad one. The chart below sums up the year for the Australian market. Unlike most major markets that enjoyed higher earnings and higher P/E multiples in 2024, earnings were under pressure for the S&P/ASX 200 index. As such, the double-digit return of the index was driven by P/E re-rating and dividends. It is interesting that most major economies had falling interest rates over 2024, which historically has driven P/E multiples higher. However, while the Australian cash rate remained unchanged over the year, the level of P/E re-rating in Australia was in line with the US (which enjoyed 100bp of rate cuts) – raising an eyebrow as to whether the re-rating was justified or can be sustained.



Source: MST Financial

Notably in December, the market gave up some of the strong gains seen in November post Trump's election victory. Inflation concerns and the change in the 'dot plots' from the Fed weighed on markets. I always find the knee-jerk market reaction to Fed commentary to be amusing, as it reminds me of one of my favourite charts from the FT, which implied rate forecasts over time vs what rates have actually done. As you can see below, no one has any idea where the future is headed for rates, and that includes the Fed and the RBA. (Remember Dr Philip Lowe's promise to keep rates at 0.1% until 2024?)



Source: FT

In Australia, the same concern regarding stubborn inflation, and poor Chinese sentiment weighing on resources stocks, led to a worse outcome (-3%) than the S&P 500 (-2.5%). Hence the new year starts with many questions about the profit outlook and starting valuations (high).

FUND COMMENTARY

The Airlie Australian Share Fund declined 2.1% in the December quarter while the benchmark (the S&P/ASX 200) declined 0.8%.

Overall it was a disappointing quarter for the portfolio, underperforming the index by c110bp. The bulk of that underperformance came from our underweight exposure to the major banks, particularly CBA this quarter, with the rest driven by Mineral Resources (discussed below). Disappointingly, this offset some strong performers amongst our larger positions: News Corp (+23%), Aristocrat (+17%) and Sigma (+82%) most notably. The volatility in some themes – for example, US housing – is remarkable. This calendar year has seen the following quarterly moves in share price for portfolio holding James Hardie: +9%, -23%, +21%, and -13%, producing a 12-month return of -11% (however, after the stock was +114% in CY2023).

Stock-specific contributors/detractors:

- Mineral Resources (-34%) experienced a shocking quarter after *The Australian Financial Review* exposed a series of governance issues that led to the resignation of the Chairman and a commitment that founder and CEO Chris Ellison would resign within 12-18 months. We substantially reduced our position early in the rolling governance crisis, as the combination of high gearing and management uncertainty made the stock look far less attractive under our process. One further concern that prompted our sale was the extent to which MinRes would now need perfect execution of the Onslow iron ore ramp. It is difficult to find examples of large new mines that have ramped to

schedule perfectly, on time and on budget. Normally, missing production targets for a short period and the associated flow-on impact for costs per tonne barely move the needle on the long-term value of a project. However, a management team and board in disarray, large debt, and a miss on production and costs could potentially have an outsized impact on the equity value of the business.

- IDP Education (-21%) continued to suffer from policy uncertainty in its main markets of Australia, Canada and the UK. This has been a poorly timed investment; however, we are reluctant to let go of a quality world-leading operation at what appears to be the bottom of the cycle. Our first thoughts that the immigration/student intake debate would be over quickly have been proven completely wrong.
- Our US-exposed cyclical stocks struggled in the face of a readjusted 'dot plot' graph with James Hardie (-13%), BlueScope (-16%) and Reece (-21%)under particular pressure. Longer term we think these companies are high-quality businesses with strong outlooks to further penetrate their markets and achieve above industry growth.
- Meanwhile, our other US exposed companies Aristocrat (+17%) and News Corp (+23%) rallied after reporting strong profit results indicating the strategic execution of both companies is working. Pleasingly News Corp delivered on their 'simplification' promise with the sale of Foxtel to the DAZN group late in the quarter.
- Sigma Healthcare (+82%) had a great quarter as the ACCC approved their merger with Chemist Warehouse. We still believe the Chemist Warehouse story is a positive one with further rollout in Australia and a genuine international opportunity. Into CY25 we think there will be plenty of noise and likely price volatility as a result of insider selling and index inclusions. However, we are conscious of not losing sight of the long-term attractiveness of the business.
- Local exposures were a mixed bag with Ampol down -8% (weak refining margin) and Nick Scali down -10% (profit downgrade on freight cost spike), while Seven Group rose +8% (Boral upgrade) and Premier Investments rose +4% (Myer deal announced).

Portfolio changes:

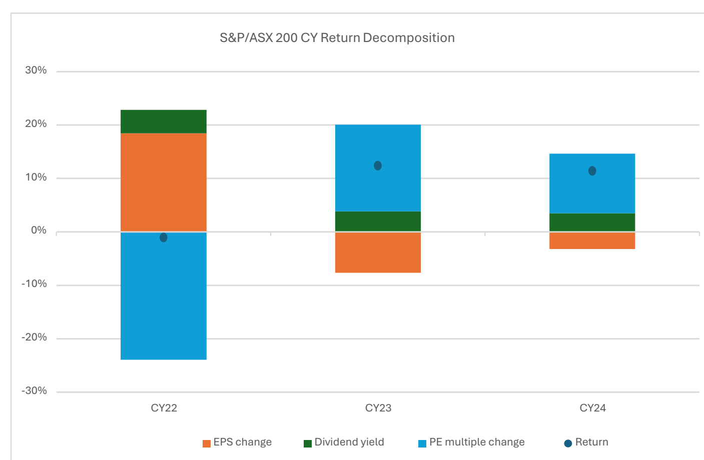
- We continue to slightly tilt the portfolio towards some defensive names, adding to The Lottery Corp (-4%) and EBOS Healthcare (+3%).
- We took some profits in ResMed, which had been our largest position. This reflects the strong share price performance for the year. We added to our position in CSL.
- We have added to our holding in News Corp on the back of the simplification of the business post the Foxtel sale, and an improved balance sheet.

STARTING POINTS MATTER

(Emma Fisher, Portfolio Manager)

I learned a valuable lesson in July 2022, the last year the S&P/ASX 200 index posted a negative return, that starting points matter. I had gone on leave to have my second child in December 2021 as markets were making all-time highs, the cash rate was on the floor (and the RBA was promising to keep it there for years) and a raft of IPOs were hitting the ASX. When I returned six months later, it was like returning to a different planet: the S&P/ASX 200 had fallen 12%, the Fed and the RBA were aggressively raising rates, and what was most notable to me was the absolute consensus bearishness that had taken hold. Things were bad, and they were only going to get worse. This bearish view had become so dominant that we actually chose the title 'Beware the Dominant Narrative' for our national roadshow that year, suggesting the fundamentals facing most Australian companies weren't actually that terrible.

If we take that starting point of July 2022, the S&P/ASX 200 has gone on to return 38% inclusive of dividends, an impressive return over two-and-a-half years. What is interesting about this strong return is that, in my view, it was a function of the starting point. In any year, your total shareholder return as an investor is driven by three components: earnings growth (how much did earnings per share change by?), dividends, and the change in the price/ earnings (P/E) multiple. It is this last component I find the most interesting: how much are investors willing to pay, on average, for a particular earnings stream?



Source: Macquarie data, Airlie Research

If we look at these three components at an index level, as in the chart above, the P/E multiple is the best guide we have to the 'psychology' of the market: when market participants feel bearish, as they did in CY22, the market P/E contracts. Despite delivering 18% earnings growth, the S&P/ASX 200 return was flat because of this sizeable de-rate. When market participants feel things are improving, the P/E expands. As you can see in the chart above, the bulk of the 38% index return generated in the last two-and-a-half years has come

from the P/E re-rating rather than earnings growth. In fact, over the last two years, earnings have declined 11%, while the P/E has re-rated by 27%.

Whether or not this is sustainable is anyone's guess, albeit I would speculate that actual earnings growth is going to be needed for further returns from here. If we do get a rate cut or two in 2025, such earnings growth should be achievable, although it is interesting that our market has re-rated over 2024 in line with the US, which enjoyed 100bp of rate cuts over the year, despite the lack of falling interest rates in our own economy.

So now we have a new starting point, 1 January 2025, and it's a very different one. The average P/E multiple of the S&P/ASX 200 has re-rated from 12.7x in July 2022 to 17.7x today. In particular, the re-rating in the Big Four banks, which collectively drove almost 40% of the return of the ASX over the last two years, has rendered the 24% of the S&P/ASX 200 index, which they represent as overvalued, in our view, considering their anaemic profit growth outlook. Does this mean it's a bad time to invest? Not necessarily. We are big believers in the age-old saying, "It's time in the market, not timing the market" that drives long-term wealth creation in investing in equities. That said, we are tilting the portfolio towards businesses where the starting point reflects depressed, rather than elevated, expectations.

A number of these investments are positions we established in 2024: BlueScope, IDP Education, IGO, The Lottery Corporation – all businesses where expectations are muted. Others are positions we've added to as share prices have fallen: Ampol on weak refining margins and production issues, BHP as Chinese stimulus disappoints, CSL as the Vifor acquisition has fallen short of expectations. What these businesses have in common are strong balance sheets and good management teams, as well as the ability to generate good returns through the cycle. In an expensive market, we believe positioning the portfolio towards businesses with strong financial characteristics and somewhat "beaten up" valuations should prove a good starting point for decent long-term returns.

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