Airlie Australian Share Fund
(Managed Fund)

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

Airlie Funds Management

Ticker:AASF

Fund Update: 30 September 2020 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 $30.7 million	
Distribution Frequency	Bi-annual	
Management Fee	0.78% p.a. (inclusive of net effect of GST)	
Ticker	AASF	
Tickers	**Security**	**iNAV**
Bloomberg	AASF AU Equity	AASFIV Index
Thompson Reuters	AASF.AX	AASFAUiv.P
IRESS	AASF.AXW	AASFINAV.ETF
APIR	MGE9705AU	
Minimum Initial Investment#	AUD$10,000	
Buy/Sell Spread	0.14%/0.14%	

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

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 9 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

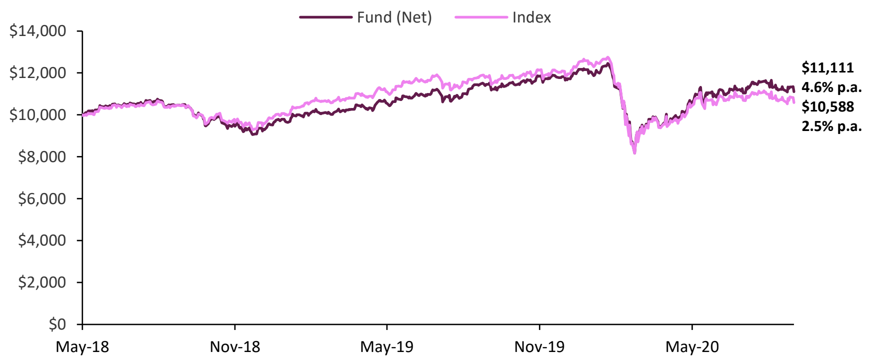
PERFORMANCE*

	Fund (%)	Benchmark (%)	Excess (%)
1 Month	-3.4	-3.7	0.3
3 Months	1.2	-0.4	1.6
6 Months	21.0	16.0	5.0
1 Year	-3.0	-10.2	7.2
2 Years (% p.a.)	2.9	0.5	2.4
Since Inception (% p.a.)	4.6	2.5	2.1

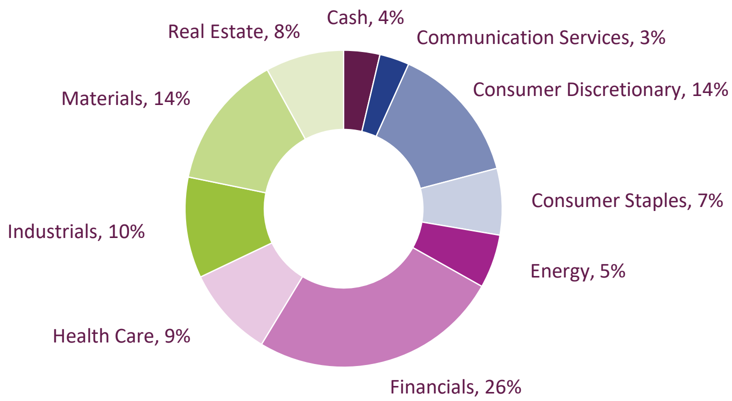
TOP 10 POSITIONS (BY WEIGHT)

Company	Sector**
CSL Ltd	Health Care
BHP Group Ltd	Materials
Commonwealth Bank of Australia	Financials
Wesfarmers Ltd	Consumer Discretionary
Macquarie Group Ltd	Financials
Pacific Current Group Ltd	Financials
Mineral Resources Ltd	Materials
Aurizon Holdings Ltd	Industrials
Westpac Banking Corporation	Financials
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.

MARKET COMMENTARY

The Australian equity market eased back in September, after a strong August, rounding out an overall flat quarter (-1%). The relative underperformance of The Australian market vs the S&P 500 (+9%) and the MSCI (+8%) was possibly due to a spike in COVID-19 cases in Victoria. This led to renewed lockdowns, and continued border closures. The profit reporting season during the quarter was one for the ages as the COVID-19 crisis wreaked havoc on global economies. Overall earnings per share, for the average ASX 200 company, fell 38% in 2H20. Financials, REITS, and energy stocks bore the brunt of the COVID collapse. However, some sectors; retail, iron ore, and technology absolutely thrived and produced some phenomenal sales and profit numbers. Government stimulus has continued to have a strong impact in the September quarter. Company management teams are obviously nervous about the winding down of government programs, loan deferrals being brought to account, and increasing unemployment. However, the reporting season showed that the dire forecasts made in March were too pessimistic. Analysts raised profit estimates overall during the reporting season. Forecasting is difficult but perhaps the miracle Australian economy can once again 'muddle through'. Opening-up of state borders before Christmas (most likely) and the hint of a vaccine by mid-21, could see sentiment and confidence improve. Coupled with the lack of spending alternatives (Australians usually spend ~$40bn p.a. on overseas travel = ~12% of retail sales) and some pent-up demand, particularly from Victoria, could perhaps significantly soften the blow of the staged stimulus withdrawal.

FUND COMMENTARY

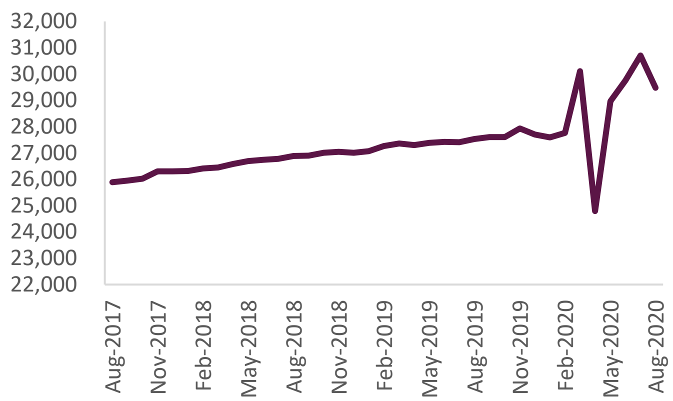
The AASF rose +1.21% over the September quarter whilst the benchmark (the S&P ASX200 Accumulation Index) fell -0.44%. Portfolio companies exposed to the US and Australian building markets, Reece and James Hardie, performed strongly (up 40% and 20% respectively). Another US exposed holding Aristocrat (+18%), benefitted from the progressive reopening of casino properties throughout the country. The unprecedented stimulus enacted by the Australian Federal government benefited retail fund holdings; Nick Scali (+31%), Premier Investments (+19%), and ARB Corp (+54%), whilst Origin (-26%) and Ampol (-18%) were the fund's biggest detractors due to weak energy markets. Financials, CBA (-8%) and Medibank Private (-16%) were also soft. Qantas continued to grind higher (+7%) on vaccine optimism and expected border re-openings. Domestic tourism is set for strong growth as pent-up demand for travel is progressively unleashed. New additions to the fund include; imaging and radiology group - Healius, insurance broking service provider – PSC Insurance, and 4-wheel drive accessory retailer – ARB Corp.

Stock Story: Premier Investments

The COVID-19 pandemic was expected to hit consumer spending and trigger a recession not seen in Australia since 1991. As retailers shut their doors and households bunkered in, it was almost a given that high unemployment would cripple consumer confidence as we entered a period of frugal, recession-like behaviour.

Fast forward six months and this scenario couldn't be further from the truth. Following a sharp decline in April, consumer spending bounced back in May and June as consumers sighed a relief that the worst of the health outcomes had been avoided. Government stimulus and pent-up demand has since left the retailers themselves surprised at just how strong the demand has been. While some of these retailers have no doubt benefited from a 'COVID-bump' (there is only so many times can you buy a new tv), one retailer we are optimistic about over the long term is Premier Investments ('Premier'). Premier is home to a number of household retail brands, many of which you may have shopped at including Just Jeans, Dotti, Peter Alexander and Smiggle. Of these brands, we are most excited about Peter Alexander and Smiggle as both are market leaders in their respective niches (sleepwear and school gear) and we believe, still have a long runway for growth.

Figure 1 – Total Retail Turnover (Seasonally Adjusted) ($ Millions)



Source: ABS 8501 Retail Trade, Australia (Table 1 Retail Turnover by Industry Group) August 2020

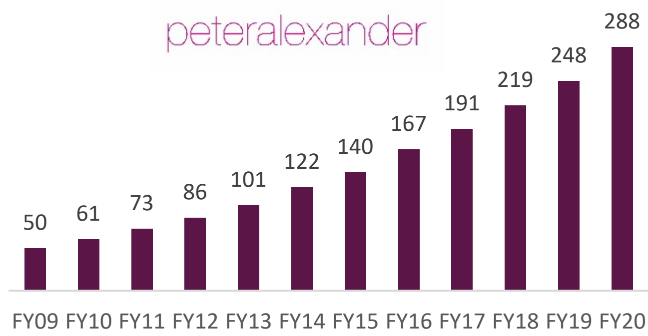
The importance of owner-managed businesses

Premier Investments is in many ways a publicly listed investment vehicle for Solomon Lew who owns 42% of the company and has been its Executive Chairman since 2008. In our opinion, Solomon Lew is one of the most successful retail investors and operators in the country with a track record of creating value for himself and shareholders. We enjoy investing in businesses that are owner-managed as it ensures a long-term mindset and a conservative approach to running the business.

When the pandemic hit, Premier Investments moved swiftly and prudently to protect the long-term interests of the company. This included the difficult decision to stand down its 9,000 employees, while its executive team continued to work through April on zero pay. By instituting a hard pause on all capital expenditure and running the business on a conservative balance sheet with net cash, Premier was able to effectively navigate the COVID-19 crisis and avoided harming shareholders with a dilutive capital raise.

This long term mindset is also evident in the growth of the Peter Alexander brand, which Premier has nurtured from 27 stores and $50m in sales in 2009 to 140 stores and $288m in sales today. Today, Peter Alexander is regarded as a leading gift destination for many Australian consumers with sales in the week leading up to Mother's Day (2-9 May 2020) up 18% year on year despite all of its Australian stores being closed. As consumers continue to 'work from home' we expect sales of Peter Alexander's popular sleepwear to grow and indeed management have already indicated sales growth of 40% in the first 6 weeks of this financial year!

Figure 2 - Peter Alexander Long Term Sales



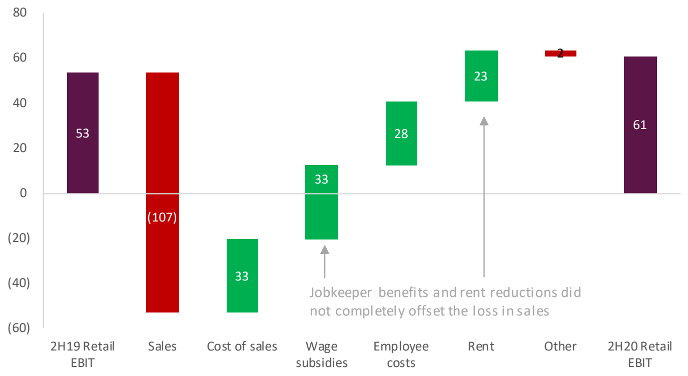
Source: Premier Investments FY20 Investor Presentation

Playing a dangerous game with landlords?

Premier Investments has made headlines during the pandemic for refusing to pay rent at its stores, infuriating andlords across the country. Landlords have in turn publicly criticised the company for increasing profits, while not paying rent and claiming government subsidies such as JobKeeper.

While it's true that Premier (and many other retailers) has benefitted from wage and rental subsidies, it is worth noting that the impact to earnings from its shutting stores between March and May was much larger at almost $74m. Premier expensed all of its contractual rent except for the month of April (a $23m benefit) and retained JobKeeper benefits of $33m, which still leaves an $18m earnings hole. Accordingly, we feel management deserves just as much credit for delivering profit growth during the half.

Figure 3 – Premier Retail 2H20 EBIT bridge ($ millions)



Source: Company disclosures

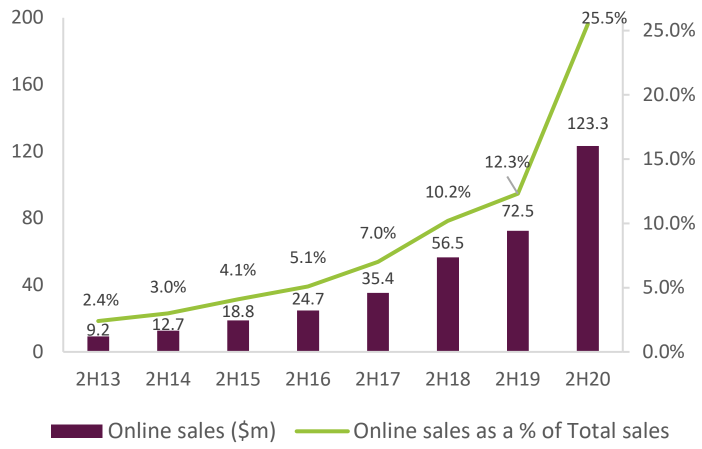
Nevertheless, many investors remain concerned that Premier's actions against landlords may cause irrevocable damage to their relationship with a key stakeholder.

While this is certainly a risk, we think there is merit to Premier's claim for lower rents. For decades, shopping malls have been celebrated as entertainment destinations, but as shopping dollars move online, these once popular meeting hubs are suffering from declining foot traffic and relevance. Premier's efforts to cap rents are simply a reflection of this decline and a recognition that online shopping offers more convenience to consumers. Although Premier has publicly threatened to shutter up to 350 stores, we believe the final number will be far lower than this and that in most cases an appropriate rental agreement will be reached which balances both parties' interests.

Online retailing makes for happier customers and better margins

One of the negotiating tools in Premier Investments' armoury against landlords has been its success in growing online sales. In 2H20 online sales accounted for a remarkable 25.5% of total sales and Premier has noted that the online channel delivers higher margins than the group average. Premier was an early adopter in online, investing in a centralised distribution centre in 2013 which fulfils orders for all Premier Retail products across Australia. We believe the shift to online retailing will be a permanent feature post pandemic and we expect e-commerce penetration to rise over the coming years. Premier Investments is well placed to capture it's fair share of this growth, and so far the numbers agree, with online sales up 92% in the first six weeks of the 2021 financial year.

Figure 4 – Premier Investments 2H online sales



Source: Premier Investments FY20 Investor Presentation

Smiggle growth opportunity

Smiggle has been a key reason to own Premier with the brand resonating internationally and a long runway for growth. The business had been performing well prior to the pandemic with sales growing 14% in the first half. However, the onset of COVID-19 has been extremely disruptive. As kids were pulled out of schools, the sales of Premier's largest categories backpacks, lunchboxes and bottles naturally declined. Nevertheless, we remain optimistic of the business' long term prospects. Smiggle is a powerful global brand and in markets where children have returned to school sales have rebounded sharply. In the past, management have commented on a $450m sales target (versus $256m this year) and we remain confident they will get there over the medium term.

Breville an important piece of the valuation puzzle

Premier Investments also holds a 26.7% stake in listed household appliance maker Breville. At the current share price, this stake is worth over $1bn and accounts for 28% of Premier's market capitalisation. If we exclude Premier's investments in Breville, Myer and property assets, the market value of Premier's retail assets is $2.2bn trading on 11.8x FY20 retail EBIT. We think this an attractive price given the growth opportunities at Smiggle and the potential for margin expansion as online penetration continues to grow.