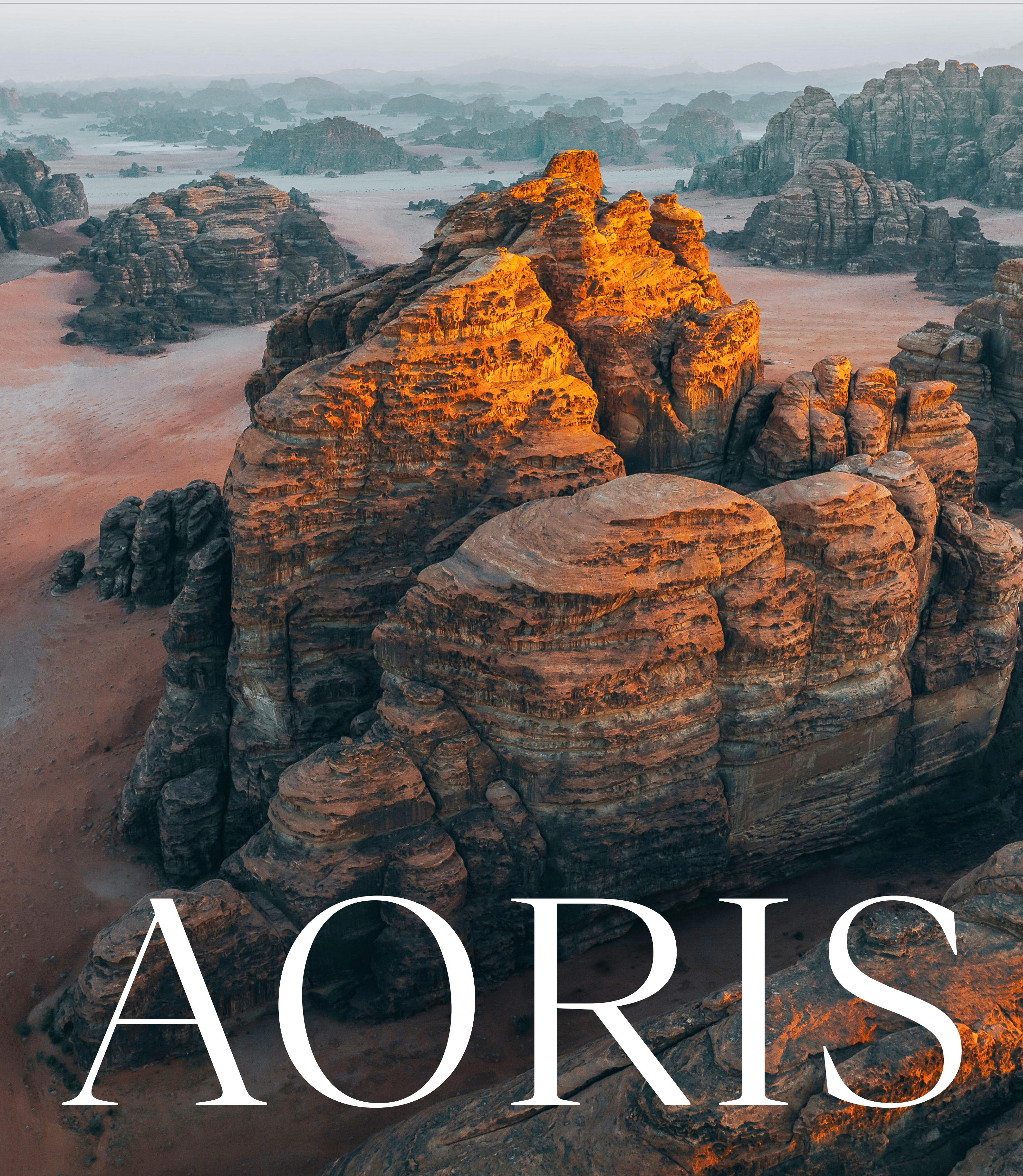
2023 Annual
Letter to Investors



AORIS

Dear fellow investor,

I'm pleased to report that the investment performance after fees in 2023 for our Class A (Unhedged) fund (the Fund) was 30.8%, which compares to 21.6% for its benchmark. Our Class C (Hedged) fund returned 27.0%, which compares to 20.0% for its benchmark.

Performance

	Aoris	Benchmark	Difference
2023	30.8%	21.6%	9.2%
2022	–12.2%	–12.7%	0.6%
2021	41.3%	26.0%	15.3%
2020	0.4%	6.0%	–5.6%
2019	36.5%	26.9%	9.6%
2018 – nine months to December	3.2%	0.1%	3.1%
Since inception* - annualised	**15.6%**	**10.8%**	**4.8%**

* Inception 26 March 2018

As well as measuring our performance against our benchmark, it's also appropriate to compare our results to those of our peers. We operate in a highly competitive market that offers investors many choices. The Fund ranked in the top 2% over the last five years and 3% since its inception against a broad peer group of international equity funds available in Australia.

The major contributors to our Fund performance in 2023 were not tech-centric

The financial press might have you believe that to perform well in 2023 required a portfolio loaded with exciting IT businesses, such as Nvidia, Apple, Alphabet and Amazon, and perhaps an EV manufacturer like Tesla, or a weight-loss drug company like Novo Nordisk – but that was not our reality. Our five best performing holdings last year were varied (all returns are in A$):

Copart +60.0%
Copart is the dominant auction service through which US auto insurance companies sell vehicles that they have deemed a total write-off. In 2023, Copart continued its long history of profitable growth by increasing its market share and providing additional valuable services to insurers.

Microsoft +57.0%
Microsoft's share price last year was certainly positively impacted by the excitement around AI. It's worth noting that when we made our initial investment in Microsoft in mid-2022, we'd never heard the words ChatGPT or generative AI. What attracted us to the business was its long history of creating new, relevant solutions, such as Teams and Azure cloud computing, and of making its existing products more valuable.

Costco +47.8%
Costco had another successful year in 2023 by continuing to deliver great value to its paying members, a particularly resonant proposition in a year of high inflation. In 2023, Costco grew its global membership base by 9 million – or 7.5% – and the renewal rate of its members has never been higher.

L'Oréal +40.8%
L'Oréal continues to operate at a very high level. In 2023 it gained market share in most countries, most beauty categories, and most distribution channels around the world. Its broad-based success in 2023 draws from its long history of product innovation, effective advertising and brand building, and periodic acquisitions of brands that can benefit from L'Oréal's global scale, a recent example being Aesop.

Fastenal +39.8%
Fastenal is a US distributor of basic products that are used in manufactured goods, manufacturing processes, and building maintenance, such as screws, nuts and bolts, personal protective equipment, and tools. It has achieved a leading position in these markets through developing innovative ways to serve its customers, such as vending machines on a customer's work site to dispense products. The year 2023 was a slower but still successful one for Fastenal as it pushed hard to grow and take share.

The primary detractor from our performance in 2023 was **Tractor Supply**, which declined by 3.2%. Tractor Supply is a leading retailer of products relevant to households in rural communities, such as animal and pet food, and outdoor work wear. After two very strong years of growth driven by migration from urban to rural areas, inflation and market share gains, Tractor Supply's earnings in 2023 were flat, which was reflected in its share price performance.

We've tried with some success over the last couple of years to identify and avoid, or value conservatively, businesses where earnings were overheated due to exceptional demand during COVID, or in the subsequent reopening period. In hindsight we were slow to recognise that Tractor Supply's 2022 earnings were elevated and its valuation at the beginning of last year was therefore not as attractive as it had looked to us. We reduced its position size in the portfolio late in 2023.

A second detractor from our investment return was **Nike**, which declined by 5.0% from the beginning of the year until we sold it in June. We grappled with our judgement on Nike for a year or so, balancing the company's fine track record of growth, innovation, and commercial success with a recognition that competition is increasing, particularly in running shoes. We always want to balance being long-term owners of successful businesses with vigilance in recognising lasting shifts in the competitive landscape. We came to the view that the risks for Nike have risen, a judgement that in hindsight we could have reached sooner.

We replaced two stocks in the portfolio in 2023

We sold **Nike** in June due to our concerns in several areas. These included intensifying competition in China from local brands; the potential for improved performance from Adidas, which has been a share loser in recent years; rising competition in running shoes from brands such as Hoka and OnRunning; and elevated management turnover.

We sold **Graco** in November, as we considered it fairly valued following a period of strong share price performance. Graco is a leading manufacturer of fluid-handling and dispensing products, which are used in applications from spray painting, to food and beverage manufacturing.

We bought **RELX** in June. RELX is a leading professional data and decision-tools business, with particular strength in academic, legal, auto insurance and financial services markets. RELX's solutions are deeply embedded in the workflow of its users. The company has a long history of progressively improving its existing solutions to make them more valuable, and creating new ones.

We purchased **Atlas Copco** in November. Atlas Copco is a Swedish-based industrial company founded in 1873, whose products make manufacturing processes more efficient. These products include air compressors, vacuum pumps and pneumatic tools which are used in a wide variety of industrial applications.

RELX and Atlas Copco are both businesses that we've previously owned in the portfolio and have a longstanding familiarity with. In cases such as these, our prior ownership experience can improve the quality of our judgement about the business.

We expect our investment returns to come from growth in intrinsic value and valuation

At Aoris we invest in 15 high-quality, wealth-creating businesses. As owners, we participate in the growth in the intrinsic value of those businesses over time. This is the bedrock of our expected investment return. By owning them at prices below what we consider to be their true worth, we expect valuation to make an additional contribution to our investment returns. This comes as the share price of these businesses appreciate over time to more fairly reflect their intrinsic value.

After the Fund's strong return in 2023, can we reasonably expect to achieve our 8–12% return target over the coming 5–7 years?

We believe the 15 businesses owned in the portfolio today will continue to grow in intrinsic value at a rate of around 10% p.a. The average discount to intrinsic value across the portfolio is around 20% as of early 2024. As this discount narrows and share prices over time converge on fair value, we expect valuation will contribute around 4% p.a.

We anticipate an additional positive contribution from selling fairly valued stocks and replacing them with more attractively priced ones. We also make an allowance for the negative impact of those that fall short of our expectations. Putting this together leaves us confident we can achieve our 8–12% p.a. after-fee return objective over the next 5–7 years.

Investing well through the challenges of the last half-decade

Aoris celebrated our five-year anniversary in March last year. I'm very proud of the investment outcome we've achieved over our first half-decade, and thought it instructive to reflect on the environment in which we've operated.

Each year since the Fund's inception in March 2018 has brought its share of challenges for investors. The list below is far from complete:

- 2018 – US imposed significant tariffs on goods imported from China
- 2019 – deepening US China trade tensions; Brexit; pro-democracy protests in Hong Kong
- 2020 – COVID-19 pandemic; shut-downs of many parts of the world economy; a sharp drop in economic activity and cuts in interest rates globally
- 2021 – global supply chain crisis
- 2022 – Russia's invasion of Ukraine; instability in British politics; significant increase in global inflation and interest rates
- 2023 – Hamas' attack on Israel.

While the global equity market in aggregate performed well over these six years, there were plenty of ups and downs along the way, including three falls of 10% or more. Many investors, had they been presented at the beginning of 2018 with a list of all the significant global challenges that lay ahead, would have chosen to minimise their investment in equities. But through all these events, leading, successful businesses have grown profitably and become more valuable. Participating in this is the essence of our investment approach.

A few things I believe helped our performance over this period were:

- Investing for the long term, and not trying to optimise outcomes over single-year periods.
- Staying fully invested and not attempting to profit from the inevitable zigs and zags in the market through increasing and decreasing our portfolio cash level.
- Seeking to own all-weather businesses; those resilient to a wide range of operating conditions, rather than those suited to the current or anticipated environment.
- Being sensitive to valuations in our investment decisions. Price matters.
- Attaching a high weight to management and corporate culture, which in our view is particularly important when companies are confronted with challenging conditions.
- Keeping it simple.

Two key investment lessons I've taken from the last five or so years are:

- Balancing our approach of being long-term owners of wealth-creating businesses with a responsiveness to recognise early when a business is facing an increasingly competitive market. Our investments in Nike and Automatic Data Processing are two instances where we could have done this better.
- Being more responsive to share price weakness of businesses on our bench. There have been a few missed opportunities, or errors of omission, through not acting more quickly.

As we look ahead, no doubt there will be more economic and geopolitical instability. I believe we have a portfolio of exceptionally high-quality, all-weather businesses that will become more valuable at an attractive rate. The table below shows how the 15 businesses we own compare to the average on measures of growth, profitability, economic resilience and balance sheet strength.

	Aoris Portfolio	**MSCI ACWI**
10-year EPS growth	11%	4%
10-year average ROIC	18%	6%
Current Net Debt to EBITDA (ex-Financials)	0.9x	1.8x
Made a loss in at least 1 of the last 10 years	None	29%

Source: Factset

If we invest well, we can expect two outcomes. Firstly, a high percentage of our portfolio holdings will outperform our benchmark over the period we own them. We term this our success rate. Secondly, the number of portfolio companies whose share price performance is dramatically worse than that of our benchmark will be very low. We measure this by the percentage of stocks we've owned whose performance places them in the bottom 20% of the market over our ownership period.

Since the Fund's inception we've owned 37 businesses. Of these, 26 have outperformed our benchmark, giving us a success rate of 70%. Just one of them has performed in the bottom 20% of the market over the period we owned it. We're pleased with these outcomes and aspire for similar levels in the coming five years.

There is a presumption in the investment community that greater information creates better investment outcomes. The longer the research report, the larger your investment team, the more sell-side research reports you read, the more company meetings you have and the more data services you subscribe to, the better your investment returns. I've not seen any evidence that supports this.

A number of papers have measured the relationship between data and accuracy of judgement in fields from clinical psychology, to radiology, to horse handicapping. These studies show that increasing the amount of relevant data beyond a basic level by 2x, 4x and as much as 8x leads to no improvement in the accuracy of judgement. What more data does do, interestingly, is increase confidence in one's judgement. Being a lot more confident than one is accurate can lead to poor judgements.

Furthermore, it appears to me the investment profession in aggregate is no more effective at accurately valuing businesses than it was when I entered the industry over 30 years ago. This is despite the significant increase in the number of people devoted to that task, the volume of data at their disposal, the quantum of investment funds looking to take advantage of mispriced securities, and the computing resources that are applied to the investing function. How can I evidence this? The number of businesses whose share prices rise or fall each year by 30% or more, which in most cases will greatly exceed the change in value of those businesses, hasn't noticeably changed over time.

Lastly, there is no evidence that large, well-known companies are any more accurately priced than small ones. Microsoft is an extremely well-known business but in our view it was grossly mispriced at the time of our investment in mid-2022. IBM, Citigroup, AT&T, Ford, and Hewlett-Packard were among America's largest companies a decade ago and all were heavily researched by the financial community. However, their share price underperformance since then indicates they were materially overvalued.

More data, powered by greater computing resources, hasn't been the answer in the past. As we look forward, I don't believe AI will help investors in their decision making, or lead to individual businesses being more accurately priced.

I frequently liken businesses to people, which makes more sense when you remember that businesses are made up of and run by people. In the same way you can know a lot about a person but not really understand their character, knowledge of businesses does not constitute real understanding and does not predetermine good investment judgements.

Investing is about judgements, not the quantity of information. I find it intriguing how two people can read an annual report or listen to a company presentation and come away with quite different assessments of what they have read or heard.

At Aoris, we periodically make misjudgements, as we did last year with Nike and Tractor Supply. We work hard to improve our judgements through self-reflection, process improvement and a better understanding of our own human frailties, not by the application of more advanced technology.

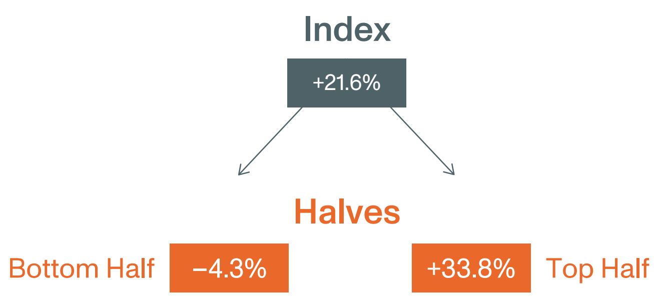
I believe we'll make better judgements if we make relatively few of them. Hence our approach to own only 15 businesses and replace just a few each year. I also believe complexity can be the enemy of good judgements, so we work to keep our business and our investing as simple as possible.

The dispersion in returns within equity markets is greatly underappreciated and also a source of opportunity

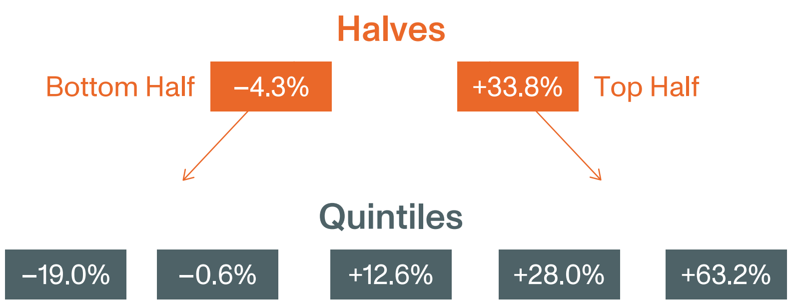
Many market participants invest in equities as if share markets are a single, uniform entity, and ignore the wide dispersion in performance among the many individual businesses that make up an index. Comments such as 'I'm nervous about equity markets', or 'I think equities will do well in 2024', or 'equities are expensive' all reflect an index mindset.

This approach, conventional though it may be, is both limiting and unhelpful to effective investing, and proved to be the case in 2023. At the beginning of the year, many investors were fearful of equities based on economic worries; others considered the equity market to be unattractively valued. Both groups formed a negative view on equities in aggregate and projected that view onto every individual business that makes up the market. In doing so they denied themselves the opportunities that come from the wide dispersion of returns across individual businesses.

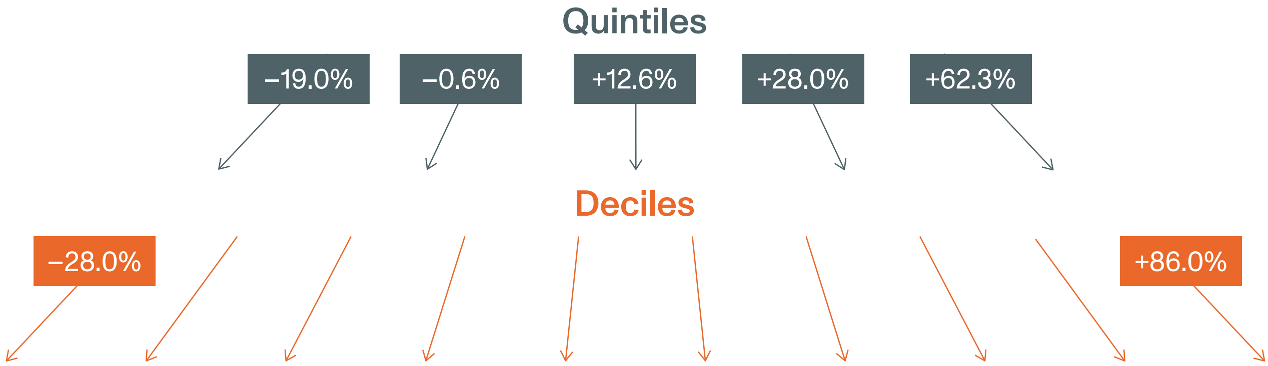
To illustrate the notion of dispersion, we can take a universe of the 3000 largest global companies and divide them into two halves based on share price performance. We find that in 2023 the performance of the median stock in the top half was 33.8% in A$, while the median of the bottom returned –4.3%.



Now, let's divide the market further, this time into five equal groupings, again based on performance. The median stock in the worst quintile returned –19.0% in 2023, with the next –0.6%, then 12.6%, 28.0%, with the best performing quintile returning 63.2%.



If we take it one final step and divide the market into 10 groups, we find a range of –28.0% for the worst decile in 2023, to 86.0% for the best.



While over very short time periods, such as one day, it may feel that all stocks in an index move as one, over a year or more the dispersion of returns between businesses is vast. Over time, the performance of an equity market index is unrepresentative of the return from a randomly chosen stock from within that market.

The dispersion of returns creates the opportunity for individual investment managers to generate performance outcomes significantly different from that of the market. To make that outcome different in a positive direction over time comes down to sound process and good investment judgement.

For Aoris 2023 was an encouraging year of growth and progress. The value of funds we manage increased from $718 million to $1,057 million over the 12 months. I'd like to thank everyone who became a client of Aoris for the first time in 2023, as well as those who've been invested with us for longer.

In 2023 we made Classes B and D of our unit trust available via the ASX (codes BAOR and DAOR, respectively), an initiative that has been met with strong investor support.

As a team, we celebrated our five-year milestone in March with a twilight Sydney Harbour Bridge Climb and dinner, which was a memorable event. During the year we welcomed Baron Pearce, to strengthen the operations side of our business; Rohan Brotherson, to grow our distribution efforts; and Alasdair Kingham and Matt Berry joined our investment team. I'm proud of Aoris' ability to attract people of the calibre of Baron, Rohan, Alasdair, and Matt.

Growth in our staff numbers necessitated an office move and we're now located at 25 Martin Place. We put considerable effort into creating a great workspace that feels truly 'us', and I can envision this being Aoris' home for many years to come.

As a founding non-executive director, James Carnegie played an instrumental role in helping me establish and successfully grow Aoris. James left our Board this year to focus on other endeavours, and he did so with my enormous gratitude for the guidance and encouragement he provided over the past six years.

Lastly, in the second half of the year, we were pleased to spend a day helping the wonderful people at Oz Harvest in Sydney to distribute food that would otherwise go to waste, to those who need it.

The year ahead

At this time of year, you may be reading the many investment predictions from market commentators. It's human nature to:

- seek comfort from feeling like we know what lies ahead, and
- try to optimise financial outcomes over short time periods.

I have no views on inflation, interest rates, property prices, commodity markets, economic activity, or geopolitical tensions for 2024 or beyond. I believe that durable, resilient, market-leading, competitively winning, highly profitable businesses with conservative balance sheets and strong corporate cultures will grow and become more valuable over time. If we do a good job of identifying them and owning them at attractive prices, and focus on long-term rather than short- term results, I'm confident we'll deliver on our 8–12% p.a. after-fee return objective over the next 5–7 years.

I thank you for your interest in Aoris, and wish you and your loved ones a happy and successful 2024.

Sincerely,

Stephen

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Chief Investment Officer

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