Airlie FUNDS MANAGEMENT

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Dear Investors,

This letter provides a brief overview of the 2026 financial year and explores some of the core tenets of the Fund's investment philosophy. A more detailed commentary, including individual stock and attribution analysis, can be found in our June 2026 Quarterly Commentary.

FY26 was a difficult year for the Fund, predominantly due to the strong performance of the small cap resources sector. The Fund returned -6.0% (net of fees) over FY26 compared to the S&P/ASX Small Ordinaries Accumulation Index return of 8.1%. Resource companies accounted for all of the positive performance of the Small Ordinaries Index, with the S&P/ASX Small Resources Index increasing 31% over the year.

The decision to not own resources is a reflection of the Fund's investment philosophy; we seek to identify quality companies with advantaged competitive positions that can grow at attractive rates on incremental capital deployed, and then only purchase those businesses at a steep discount to our assessment of intrinsic value. We believe owning a selection of these quality businesses is the key to long-term compounding in equity markets. These structurally advantaged businesses do exist in the resources sector. BHP has a stellar long-term track record of generating attractive returns on invested capital through the cycle; however, they are far less common in small caps. Commodities are a game of cost advantage, and cost advantage is most commonly a function of scale, which means that by their very nature small resource companies are unlikely to possess structurally advantaged positions. This notion is supported by index-level fundamentals: over the past 25 years the Small Resources Index constituents have generated an average return on equity of just 6%, materially lower than their large cap equivalent, the ASX 100 Resources Index, whose constituents have averaged a return on equity of 18%. Unsurprisingly, this has resulted in poor returns for investors over the long term, with the Small Resources Index delivering just 6.6% p.a. to investors over 35 years. While index constituents can change over time, the economic forces that govern returns for high-cost miners do not, and as such we would expect the Small Resources Index to continue generating poor through-the-cycle performance. Given these fundamentals, we are comfortable with our underweight position in small cap resources.

The lack of resources exposure does not entirely explain our performance during the year. We also made some mistakes. On the negative side of the ledger, our weakest performers during the year were Gentrack and EBOS; we discuss both in our attribution analysis attached to the June 2026 Quarterly Commentary. For now, we have held onto our EBOS position; however, we have substantially cut our Gentrack holding following concerns over operational performance. While we often extol the virtues of buying great businesses and holding them for the long term, if the facts change, we change our mind.

On the positive side of the ledger, among the Fund's strongest contributors in FY26 were Joyce Corporation, Dicker Data, Data#3 and Mader Group. We have owned all bar one of these positions in the Fund since inception. The operational performance of Joyce Corporation during the year was particularly strong, posting stellar results in their key division, KWB. KWB has a fantastic long-term track record, having grown EBIT at a 24% compound annual growth rate over the past decade while averaging a return on invested capital greater than 100%. It is a business that many institutional investors would love to own, but given its small size, few can. That's one of the advantages of running a nascent fund. Our relatively small capital base affords us a wide opportunity set.

Each year we aim to enhance the portfolio by selectively adding high-quality compounders at attractive valuations. As we discussed in our last annual letter, this is an inherently difficult task: the market is usually very efficient at identifying these businesses and pricing them accordingly. Nevertheless, in FY26 we did make some progress in a few names. Most notably, we added a new position in Guzman y Gomez or GYG. GYG embodies all of the characteristics we look for in a business – best-in-class unit economics, a beloved brand, founder-led management team with a long-term mindset, a strong balance sheet, and decades of runway to deploy capital within the business's core market of Australia. We took advantage of the negative sentiment surrounding the company's US expansion to purchase a position in the business at a price we deemed very attractive. We look forward to FY27 presenting further opportunities to add great businesses like GYG to the Fund.

Looking to the future, we remain confident about the Fund's prospects. We own a concentrated portfolio of competitively advantaged businesses with long runways to deploy capital – many of which we believe are materially undervalued. The small cap universe is rich with mispriced securities, and we have an established process of identifying those opportunities. I have a substantial personal investment in the Fund, and my commitment to preserving and growing your wealth alongside my own remains steadfast.

Thank you for your continued support.

Regards,

Will Granger

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