

Airlie Australian Share Fund – Active ETF

Ticker: AASF | ARSN: 623 378 487

A concentrated, active portfolio of Australian equities

Fund Update: 30 September 2026

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

The Fund aims to provide long-term capital growth, after fees, and 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, returns are not guaranteed and there is a risk that investors may lose money on any investment they make. The Fund's Product Disclosure Statement (PDS) sets out the significant risks relevant to the Fund. You can view the PDS at: airlifundsmangement.com.au.

Inception Date	1 June 2018
Benchmark	S&P/ASX 200 Accum. Index
Portfolio Size	AUD \$789.5 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. Investors who buy or sell units on the Securities Exchange will instead be subject to a different, market-set price.

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*

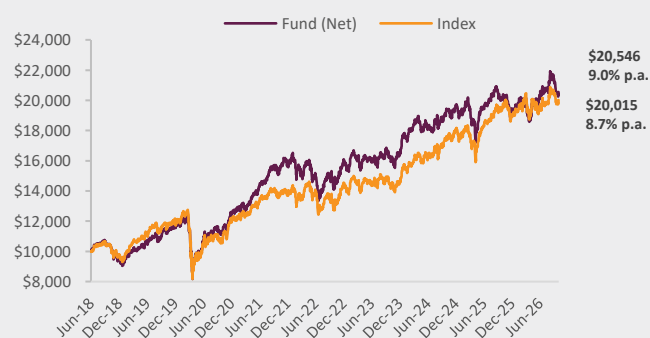
	Fund (%)	Benchmark (%)	Excess (%)
1 Month	-4.1	-2.4	-1.7
3 Months	-0.9	1.3	-2.2
6 Months	9.6	5.4	4.2
1 Year	1.7	2.7	-1.0
3 Years (p.a.)	8.0	11.4	-3.4
5 Years (p.a.)	6.0	7.7	-1.7
7 Years (p.a.)	8.7	7.9	0.8
Since Inception (p.a.)	9.0	8.7	0.3

Past performance is not a reliable indicator of future performance.

Top 10 Positions (By Weight)

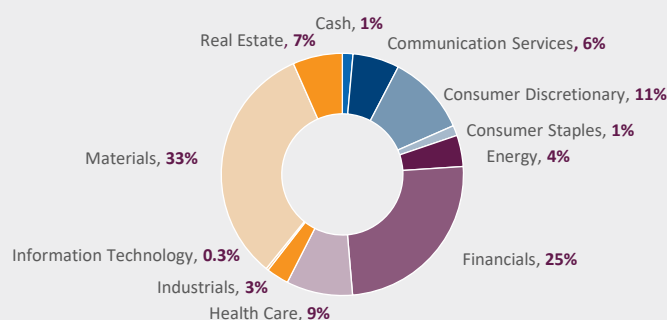
Company	Sector**
BHP	Materials
Commonwealth Bank of Australia	Financials
Goodman	Real Estate
Aristocrat Leisure	Consumer Discretionary
Rio Tinto	Materials
Macquarie	Financials
ANZ	Financials
Orica	Materials
CSL	Health Care
SGH	Industrials

Performance Chart Growth of AUD \$10,000*



Past performance is not a reliable indicator of future performance.

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.
 **May not sum to 100% due to rounding.

Fund Commentary

The Airlie Australian Share Fund returned -0.9% net of fees for the September quarter, underperforming the S&P/ ASX 200 benchmark return of 1.3%.

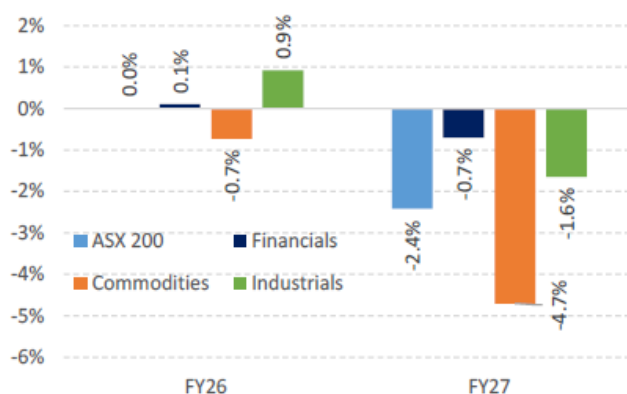
The top three active contributors to returns were Ampol (+41%) and Santos (+21%) as oil prices rose, refiner margins stepped up on physical damage to global refineries, and due to the ongoing escalation in the Strait of Hormuz, and Guzman y Gomez (+22%) delivered a strong FY26 result, its first since exiting the loss-making US business in May, with the core Australian business showing an acceleration in sales growth. The top three active detractors were SGH (-19%), which fell on a disappointing FY27 guide, particularly driven by Coates weakness, as well as Pinnacle (-21%), which fell on Metrics private credit concerns, and Aspen Group (-15%) on interest rate/housing concerns, despite delivering a strong FY26 result and upgrading FY27 guidance by 4%. CSL was also a detractor as it rallied off its May lows, albeit we added the company back into the portfolio ahead of the earnings result, as our channel checks turned decisively positive on the momentum CSL was regaining in its core IG franchise. The subsequent result was one of the highlights of reporting season. Interim CEO Gordon Naylor has clearly steadied the ship and is implementing sensible reforms to drive the business forward: restocking the pipeline via targeted in-licensing (rather than expensive internal R&D moonshots), restoring integrity to the inventory in the IG channel, and shifting to a higher-yield plasma collection system. Portfolio holding Northern Star received an opportunistic bid from Gold Fields; we were pleased to see the board unanimously reject the bid as materially undervaluing the company's long-life gold assets.

Market Commentary

The local August reporting season was almost a snooze-fest compared to the volatility of the last few reporting seasons. Australian companies delivered FY26 profits that broadly met expectations. However, we saw the typical cadence of FY27 earnings downgrades pushed through on the back of guidance commentary. FY27 EPS was revised down by 2.4% on average, driven largely by commodities downgrades of 4.7% on average, and industrials downgrades of 1.6%.

Figure 3: FY26 was fine, softer outlook for FY27

ASX 200 EPS revisions for June 26 & June 27 during Aug results



Source: Factset, LSEG, MST Marquee

The month of September saw a lot more volatility return to the market: the month was all about interest rates and the cost of capital. Official cash rate increases in Australia (to 4.60%) and the US (to 4%) saw 10-year government bond yields rise to >15-year highs in both countries, a further headwind for domestic-focused industrial businesses, and mortgage holders in Australia.

That AI-related technology stocks managed to power on in global indices despite this sharp move is unusual, to say the least. Bond yields reflect the market's expected path of future interest rates, and rising bond yields typically hit equity valuations via higher discount rates. Given the AI capex expansion has now moved into the riskier stage of being incrementally funded by debt capital markets, one would have expected AI-capex exposed stocks to be even more susceptible to rising funding costs. The only conclusion is that the market is pricing in more growth and higher earnings to compensate for the higher discount rates. The onus is shifting clearly to delivery; otherwise, we are entering a much more fragile part of the capital cycle. The proof points to watch include frontier lab revenue growth, hyperscaler revenue growth, and signposts of enterprise AI adoption.

The market is split between two extreme narratives: increasing capabilities of AI models, in particular agentic workflows, will drive an explosion in token demand, and we move eventually and inevitably towards AI as a tool to unlock abundance and transform economies and societies. The other narrative is the one of cold, hard capital markets. This is an incredibly capital-intensive general-purpose technology expansion that will eventually need to prove it can generate a return on that capital: operating losses are being funded with debt, not the collective free cash flow of the hyperscalers, and CDS spreads are blowing out on heavy borrowers like CoreWeave and Oracle. Many are expecting the AI "bubble" to burst imminently while uber-bears expect it to take a chunk of the financial system with it.

Like most things, I suspect the truth will end up lying in between. Artificial Intelligence is the revolutionary technology of our lifetimes, and it will touch and change every industry on earth. However, it is an incredibly capital-intensive expansion moving into a riskier part of the capital cycle as it remains reliant on the 'kindness of strangers' (providers of debt and equity capital) to fund the dream. At a minimum, we expect volatility to increase. Having a firm view on the fair value of a business over the long term should be an asset in this environment, as we anticipate ongoing wild gyrations in share prices as market narratives shift between uber-bullish and uber-bearish.

Portfolio Positioning

We believe the market volatility is throwing up excellent opportunities in quality businesses with solid management teams. Running through a few key ideas that we added to over the quarter:

1. **The Lottery Corp.** The stock has been weak (-14% in Sept quarter) after a 1-in-45-year run of bad luck (or good luck for lottery ticket purchases!) left the company with no \$100m+ Powerball for the first time since FY21, and no \$50m+ Oz Lotto for the first time since FY17. Large jackpots work as their own sort of advertising, bringing many lottery tourists into the pool and driving ticket sales. Failure to jackpot in this way is highly unusual, and many in the market are now questioning whether “the balls are broken”. The bottom of every cycle we’ve ever seen has been marked by people suggesting things will stay bad forever, and we remain confident that luck is just as likely to be bad as good, providing an attractive entry point for this business.
2. **Pinnacle Investment Management.** The sell-off in September was an overreaction to negative news flow on Metrics as it delayed audited accounts and gated some of its private credit funds. With Metrics comprising only 7% of NPAT, we view the 21% decline in Pinnacle’s share price as an extreme overreaction, and one that ignores the growing value of Pacific Asset Management within the Pinnacle stable. PAM is a UK-based business that can be best described as a mini-Pinnacle with adviser solutions/platform services as well. Our modelling suggests the PAM business could generate c\$75 million by FY29. Applying a 20x PE to this (noting Evidentia owner GDG trades on 21x PE, while the platforms trade on 30x) implies \$1.5 billion potential value for Pinnacle; that is, PAM could be worth half the current market cap. We have added to our position.
3. **Aspen Group.** Aspen was down 15% in the September quarter despite delivering solid FY26 earnings and upgrading FY27 EPS guidance by 4%. We attended a site tour in Adelaide of several Aspen assets, spending two days with management, and believe the business has a fantastic 10-year runway as it converts its existing development pipeline into rental assets, driving margins and returns. Aspen has been mindful of protecting its balance sheet in any downturn: its debt covenants are at a 2.0 interest coverage ratio. If development profits were to fall to zero, the interest coverage ratio would still be >3x based on the rental earnings. We have added to our position.

A new addition to the fund in September was Dyno Nobel. We invested in the business after following it closely in relation to our existing holding in Orica. Admittedly, our attendance at the New York investor day was initially driven by a desire to understand why it was trading at a 4 P/E point premium to Orica, a portfolio holding, despite Orica having the larger manufacturing footprint. It ended up being one of the most impressive investor days we have ever attended. We came away with an appreciation for:

1. The US AN market is the global highlight. AI capex, an industrial renaissance driven by tariffs/onshoring and electrification of the grid is driving a multi-year investment cycle that benefits both companies on the demand side: the core markets of quarry & construction, as well as mining, have strong demand outlooks. Supply is tight as CF Industries’ Yazoo City site remains offline. While both companies benefit, Orica’s supply issues in the US and Dyno’s larger footprint make it a larger beneficiary of the attractive US outlook.
2. Defence Energetics is a nascent opportunity for Dyno Nobel. We expect they will continue to win contracts, potentially next in Europe, and this could be a high-ROIC, low-capital opportunity for them.
3. Management have done a credible job turning the business around, exiting fertilisers and refocusing on explosives. They are a long way towards their FY28 target to double EBIT from \$300 million in FY23 to \$600 million by FY28, and the investor day revealed a new FY31 target of \$800 million EBIT. Importantly, this excludes any further defence contracts. Our work suggests Dyno could win up to \$120 million incremental EBIT in defence contracts on top of this \$800 million EBIT target. If the whole lot is achieved, it would imply a 14% EBIT CAGR p.a. to FY31 – an attractive proposition for a well-managed company in an attractive global duopoly on 20x PE.

Funding sources for these positions included Xero and Life360. We have concerns about the long-term pricing power of these businesses. We also exited ALQ and Coles for valuation reasons.

Insights from the US

Source: Adobe Stock

I attended the Goldman Sachs 'Communacopia' technology conference in San Francisco in September with panel sessions from, among others, OpenAI, Nvidia, SpaceX and Google Cloud.



Emma Fisher: Obligatory Jensen Huang fangirl photo

The key takeaways coming out of the 40 sessions I attended over three days were:

1. Token-cost economics

If 2025 was the year of "token-maxxing", with corporates aiming to drive LLM usage across companies and get employees using the tools for anything and everything, then 2026 has been about token-cost optimisation. There was much discussion of using the right model for the right task; not every task requires frontier intelligence, and there was a broad consensus that the rise of (significantly) cheaper open-source, open-weight models is a good thing for the AI ecosystem and broader adoption.

The Pinterest CEO was blunt: "Any CEO who is not heavily leveraging open-source models is almost certainly wasting shareholder money...we are able to get cost at less than 8% of the comparable frontier model by using open source."

2. Cybersecurity: the agents are here

Cybersecurity is clearly the next "killer app" for the frontier labs after coding: every company in the world will need the greatest defender tool set, and this will drive significant agentic workflow. While computing demand to date has been driven primarily by consumer queries, which are relatively low token intensity, agentic workflows such as cybersecurity run 24/7. Jensen Huang called this out: "Cybersecurity will be the next big market [with] agents running all the time." This links to a broader theme: agents are here. Meta released its personal agent 'Muse' while I was in the US, offering a consumer-facing agentic application that could further compound token demand, as agentic workflows run 24/7.

3. The models will likely keep improving as scaling laws work across multiple variables

"Moore's Law is coming to the end. Moving down the process node cannot drive double the performance. We are trying to substitute Moore's Law with something else. Moore's Law on one semi chip is limited by the radical law of physics on optics, so you can only cram so many transistors into one. Now you can put two die together into one chip, gets you double the performance. Current generation has four die, the next will have eight die...this will drive exponentially better LLMs...driving more and more value out of superintelligence. We do not see a limit at all yet." CFO of Broadcom.

Jevons paradox: what does it mean for our portfolio?

The question that is fascinating global markets right now is whether or not we're in an AI bubble. The case for a bubble is not hard to make. The scale of the AI build-out is historic- the largest US tech companies are spending c2% of US GDP on capex this year, a comparable level to the building of America's railroads in the 1850s and approaching the peak of the 1990s internet boom. More importantly, funding has changed. Until recently, the build out was paid for out of the hyperscalers' enormous free cash flow. It is now increasingly funded by debt, and the credit market has noticed: default protection on heavy borrowers such as Oracle and CoreWeave has widened sharply.

The case against is that the demand is real, and it far exceeds compute supply today. Wherever we look, compute is short: customers are committing, in some cases prepaying, to secure access to energised GPUs; capacity is being sold before it is built, and the revenue that can be earned from a megawatt of AI capacity is rising: SemiAnalysis reports that one-year rental contracts has risen sharply over the past year: SemiAnalysis reports that one-year rental contracts for Nvidia's H100 rose almost 65% between October 2025 and August 2026. This is a classic price signal that the market needs more supply. On the usage side, the cost of each token is falling fast- Epoch AI estimates the price to achieve GPT-4's performance on a set of PhD-level science questions fell by 40x per year. Meanwhile, total token demand, driven by more tasks and more users, is increasing- a classic "Jevons paradox"- a term used to describe what often happens with new technology: it gets cheaper and more efficient, so people end up using far more of it. The phenomenon is named for William Stanley Jevons, who predicted in 1865 that more efficient steam engines would increase rather than decrease coal consumption in British factories.

Overall, from a portfolio perspective, we watch the debate rage and are more interested in the question of what the diffusion of this extraordinary technology will mean for company moats across the world. Everything is changing, and at an accelerated pace. The two big themes of the conference; that is, token cost optimisation, and the rise of open-source, open-weight models, are related themes that in our view broaden the health of the AI ecosystem and will drive adoption. Knowledge is becoming a commodity, and change is coming for every company.

The models are getting better and cheaper

The first clear area of change will be in the operating costs of enterprises. While many companies are still struggling (or reluctant to) publicly outline clear ROI on AI spend, in our one-on-one reporting season catch ups with companies we noted a marked shift between February and August. While most companies in February pointed to the ability to accelerate product roadmaps with existing resources (i.e., use AI to "do more" with the same resources), by August more than half were conceding they could likely do more with fewer resources over the coming years. As the models get better and token costs fall, the cost to achieve an outcome falls dramatically, driving ROI on the spend.

Who banks the savings?

We believe it is reasonable to assume that AI will lead to greater productivity for most companies. Some companies will choose to bank the savings; others will reinvest proceeds into revenue-

generating activities. However, this does not logically lead to higher margins for all. The extent to which shareholders enjoy banked savings and hence higher margins will depend on the pricing power of the business, as it always has with any technological advancement.

Taking banking as an example: in the 1970s, banking meant visiting a branch during limited hours, queuing for a teller who wrote deposits into a passbook, and waiting days for cheques to be sorted by hand. Since then, ATMs, core banking systems, the internet and mobile banking have cut the cost of a transaction to a fraction of what it was. Yet banks' returns haven't structurally risen, because every bank adopted the same technology at roughly the same time, so savings were passed onto consumers via lower fees, as well as paying for the investment in technology. More companies now "clip the ticket" between a customer and the bank. A clip is paid to cloud service providers, payment rails (Visa and Mastercard), Apple Pay, core banking vendors like Oracle and Fiserv, SAP, per-seat SaaS fees to companies like Microsoft, cybersecurity vendors and credit data providers. The same dynamic is likely to be true in an AI world.

Companies with unique pricing power are likely to hold onto more of the gains of AI. Businesses like James Hardie, with its near 100% share of the fibre cement siding category, The Lottery Corporation, which has exclusive monopoly licences to run state lotteries in Australia, and Aristocrat, which can save on game design and development spend while charging casino floors the same clip of the ticket, have an attractive combination of unique pricing power and (likely) undisrupted business models that mean they should be able to hang onto any productivity gains from AI.

Rapid change in moats

If knowledge is a commodity, there is no longer any moat in how hard it is to produce that knowledge. Coding was the first advantage to get wiped out: the cost of producing code has collapsed and legacy companies that find themselves with messy data and legacy 'tech debt' can have a disadvantage vs AI-native companies in the new world. The question shifts to what becomes scarce in an AI world. From an intangible perspective, companies that own proprietary data and own the customer relationship should be able to use AI to produce better revenue-generating products. CAR Group (CAR) is an example of a business in the portfolio that is almost as much a critical B2B business in car dealer supply chains as it is a meeting place for buyers and sellers.

The biggest disruption risk for CAR isn't a competitor building a classified site, it's the consumer interface moving to AI agents. If agent search proliferates, the Carsales 'meeting place' will lose some of its pricing power. We believe the best hedge for this risk is for CAR to move deeper into dealers' systems, thereby ensuring it stays essential, and monetises its proprietary data, even if parts of search shift to agents (something we see no evidence of to date). We believe management recognise this: at the August result, the company announced the launch of Nexgate, an AI-powered dealer platform that connects inventory, leads and workflow.

The portals have the advantage of the fact that they are two-sided marketplaces, and they are free for buyers to use. This means that you cannot 'dislodge' a portal by offering a cheaper product.

On the seller side, you can't dislodge a portal by offering cheaper

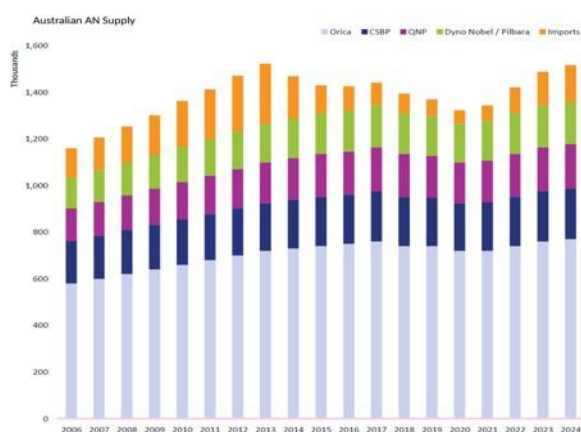
listings, as the sellers go where the buyers are. By contrast, we are concerned that Xero's pricing power may erode over the coming years. Xero users are paying customers who see the bill every month. The bear case for Xero is that increasingly capable AI agents could automate many of the bookkeeping, reconciliation and administrative tasks that have traditionally underpinned accounting software. A big chunk of Xero's current competitive advantage is the high switching costs of the user experience. Busy small business owners simply cannot be bothered learning a whole new accounting software interface. The more workflow that becomes agentic, the lower the switching costs of the product. While we continue to track how this space may evolve, we have exited Xero in the portfolio as we consider some of these long-term risks.

The return of the physical economy

Sometimes, when considering change, it's also worth inverting the question and considering what is unlikely to change. The physical world of mines, commodities, physical supply chains, energy, land and power remains unchanged by artificial intelligence, and in fact the AI expansion is highly dependent on pulling on stuff in the physical world.

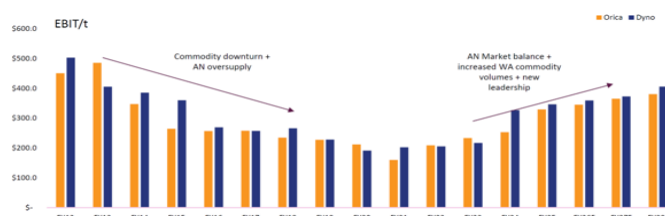
It takes around W15 years on average to bring a mine online, which means the commodities available today to meet demand are a function of the projections made about demand 15 years ago. It would have been difficult 15 years ago to accurately predict the electrification of the energy grid, the reshoring renaissance of industrial capacity in the US (incentivised by tariffs), and the mother of all AI-capex builds. Additionally, these demand drivers have arrived at a time when physical assets have languished under years of low commodity prices, and a long period where shareholders have demanded more disciplined capital allocation from management teams.

The mining explosives market in Australia is a perfect case in point. Ammonium nitrate (AN) is a controlled chemical made from gas-backed ammonia, and plants take years to gain permits and to build. The 2010s saw a wave of supply added by Wesfarmers, Dyno Nobel and Orica. Supply has been flat since 2017, yet the addition of new greenfield capacity led to declining industry returns from 2013 onwards and it took a decade for demand to grow into current supply.



Source: Company data, Airlie Research

We believe the market has now moved from balance into tightness, driving a pickup in EBIT/t that we expect to continue as no new supply is planned to come online, while elevated global pricing (due to higher global gas prices) plus shipping costs mean the economics of importing AN to Australia are unattractive unless pricing lifts.



Source: Company data, Airlie Research

This restricted supply dynamic has played out across many commodities in a similar fashion-portfolio beneficiaries of this dynamic include BHP, Rio, Orica, Dyno Nobel, Santos, and Ampol.

Emma Fisher

Deputy Head of Australian Equities

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