FAIRLIGHT

Global Small and Mid Cap Fund - Hedged

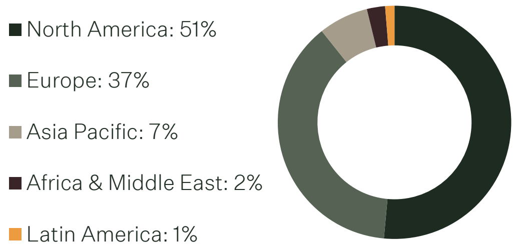
Investment Update | August 2025

Performance at 31 August 2025

	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.	Since Inception p.a.
Fairlight Global Small & Mid Cap Fund - Hedged	-1.0%	-1.1%	1.2%	1.8%	10.5%	7.2%	10.1%
MSCI World Small & Mid Cap Index - Hedged	3.1%	9.0%	9.8%	12.9%	11.7%	10.3%	12.5%
Outperformance	**-4.0%**	**-10.1%**	**-8.6%**	**-11.1%**	**-1.2%**	**-3.0%**	**-2.3%**

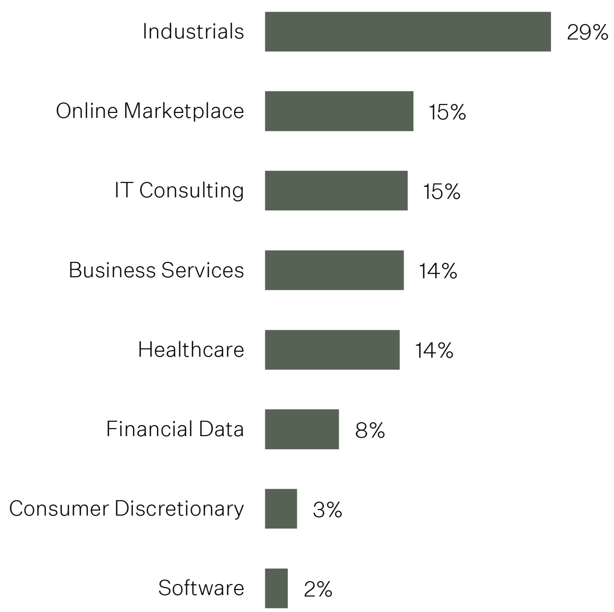
Performance is in AUD and net of all fees. Inception 29th April 2020. Since inception returns are on a per annum basis. Past performance is not an indicator of future performance.

Portfolio Revenue Exposure



Performance Since Inception

Portfolio Sector Exposure



About Fairlight

Fairlight Asset Management is a boutique firm investing exclusively in global equity markets. The investment approach is grounded in fundamental research, long term in nature and has a strong focus on quality. The team believe a portfolio of the highest quality businesses, purchased with valuation discipline will outperform over the long term whilst protecting and preserving client capital.

Investment Philosophy

Fairlight's investment process is designed to find businesses that have a demonstrable track record of earning outsized returns on capital with characteristics that will allow these returns to persist into the future, available at attractive valuations. Where possible, the strategy mitigates potential risk by looking for stable and aligned management teams, conservative balance sheets and avoiding single points of failure.

The portfolio is segmented into three types of investment opportunities:

- High quality growth companies
- Stable compounders
- Special situations

Fairlight does not invest in sectors of the market that do not meet its quality criteria including cyclical business (commodities and mining) and interest rate sensitive businesses (banks and utilities).

Top 5 Holdings in Alphabetical Order

Company	Region	Sector
Auto Trader Group	GB	Online Marketplace
Diploma	GB	Industrials
Halma	GB	Industrials
Reply	IT	IT Consulting
Scout24	DE	Online Marketplace

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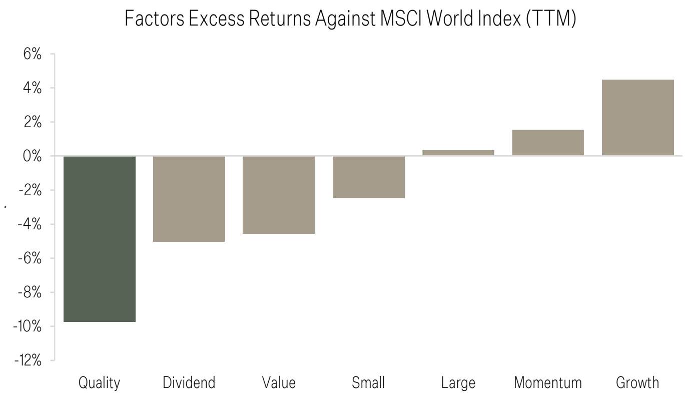
Performance Update and Outlook

Over the trailing 12 months, the Fund has delivered investors a positive return of 8% net of fees, underperforming the MSCI World Small & Mid Cap Index by 10 percentage points. While this relative performance is disappointing for investors, it is not uncommon for Fairlight's conservative strategy to underperform its benchmark in times of market enthusiasm. In these times, quality tends to take a back seat, and attention shifts towards less established, more cyclical, and faster-growing companies (Figure 1).

In this report, we reiterate that nothing has changed for the Fairlight strategy. The investment team remains focused on owning a concentrated portfolio of competitively advantaged small and mid-cap businesses, purchased with valuation discipline and a long-term investment horizon. We will also explain the main investments that have driven the recent relative underperformance (Table 1) and provide an update on the outlook for the portfolio.

Figure 1.



Source: MSCI, FactSet

Table 1. Contribution to Stock Selection Effect (TTM)

Top 3 Contributors		Top 3 Detractors	
Scout24	2.7%	Gartner	-2.9%
IDEXX Labs	1.4%	CDW	-1.7%
VeriSign	0.8%	IMCD	-1.2%

Source: Fairlight, FactSet Portfolio Analytics

Fairlight vs MSCI Global SMID

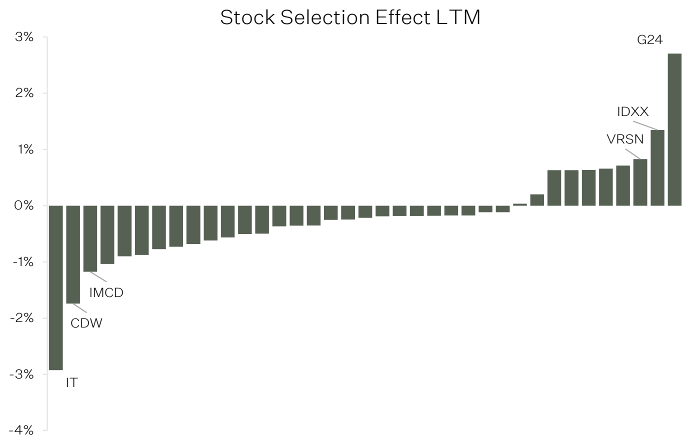
Throughout its history, the Fairlight strategy has held 35 investments on average, while the MSCI Global SMID Index aggregates the performance of circa 5,000 stocks. Periods of diverging performance between the two are thus normal.

The current number of Fund holdings is 33, and we continue to believe that this level of concentration strikes the right balance, allowing our best investments to drive the returns whilst managing downside risk and not compromising on quality.

Over the past 12 months, 75% of the Fund's investments underperformed the benchmark return, while 25% outperformed (Figure 2). Looking at the distribution, no single investment had more than a 3% negative impact on the overall relative performance, with the average underperformer impacting returns by less than 0.5%.

Amongst the underperformers, we sold out of 6 investments over the period, 3 because of thesis drift and 3 to fund more attractive opportunities. Breaking down the relative underperformance, about one third can be explained by companies which experienced a multiple contraction due to perceived negative impacts from artificial intelligence (e.g. Gartner). Another third can be explained by companies with higher exposure to global GDP growth and thus the recent geopolitical tensions (e.g. CDW and IMCD). The remaining balance can then be broadly attributed to stock-specific news.

Figure 2.



Source: Fairlight, FactSet

Focusing then on the benchmark, its 18% total return has been driven by a relatively small number of companies within a few sectors. The 20 top-performing stocks out of the circa 5,000 constituents, or about 3% by weight, delivered 20% of the overall return for the benchmark. These companies cluster around armaments, B2C products and services, nascent tech and energy and commodities. These are areas of the market Fairlight avoids, given these sectors are often populated by companies with weak competitive advantages, low returns on capital and are often highly cyclical.

Top 3 Detractors

Gartner provides research mainly to the IT executives of large corporations globally. This research helps them to understand the latest industry trends, craft companywide strategies, and steer investment decisions towards particular products and services. The Fairlight Fund has held shares in Gartner since 2020 and has benefited from the company's ability to consistently grow its subscription base, expand margins, and return all free cash flow to shareholders in the form of buybacks.

Gartner's research business is growing this year at a mid-single digit rate. While this is impressive given the tough macro environment, growth has been decelerating to a point where investors are becoming increasingly worried about Gartner's value proposition becoming less relevant in a world where AI can deliver research at a fraction of the cost. Gartner tracks the reasons for clients cancelling their subscriptions, and the impact of AI substitutes has not been noticeable so far.

Whilst it is hard to quantify the negative impact that this newer form of competition could have on the company's future growth, our view is that the balance of probabilities is favourable for Gartner's value proposition continuing to be strong. Gartner produces research that stems from countless daily conversations and engagements with key vendors and users, including research on how to best implement AI technology and techniques. All this data is proprietary and so not freely available across the internet. In other words, this research does not easily lend itself to disruption by publicly available large language models (LLMs).

Whilst the quality of research produced by LLMs is improving, research by itself is not useful if it doesn't lead to actionable outcomes. Some of Gartner's key features offered to subscribers include the ability to speak with the authors of the research and participation in industry-specific conferences. Both of these elements are invaluable to fully understand the research, uncover potential blind spots and justify multimillion-dollar IT investments. We think the current valuation is attractive and have recently purchased more shares.

CDW is the largest reseller of IT hardware and software in the USA. Fairlight has been invested in CDW since 2017, and over the long term, it has been a substantial contributor to investor returns. In 2024, the business faced several challenges with a soft macroeconomic environment combined with a cyclical slowdown in IT spending, ultimately resulting in a 2% decline in EPS for the year. Recent results have been strong, including 10% revenue growth in the most recent quarter, and we have recently added to the position.

IMCD is a leading global distributor of chemicals that are generally mission-critical for manufacturing processes, are available from only a limited number of suppliers, are ordered in small volumes, and require technical expertise and specific market knowledge. The industry is growing structurally as chemical suppliers are increasingly outsourcing distribution and IMCD has historically grown sales and earnings faster than its peers thanks to scale advantages. After a few years of booming demand and expanding margins during the pandemic, growth has slowed down in recent quarters on the back of weak industrial activity. We expect IMCD to continue to win market share and the unusually strong cyclical headwinds to abate at some point, allowing the business to return to high single-digit EPS growth over the coming years.

Top 3 Contributors

Scout24 is the dominant online portal in the German real-estate classifieds market, having approximately a 65% market share. Scout's goal is to create a complete digital marketplace that connects all three stakeholders in the value chain: (1) users (property buyers/tenants), (2) agents, and (3) homeowners (property sellers/lessors). Scout's core customers are the real estate agents who can upload basic listings for free or upgrade the listings/access ancillary products for a membership fee. As the dominant player in a fast-digitalising market, Scout is continuing to add value and monetise new parts of the value chain.

IDEXX Labs provides services mainly for the companion animal veterinary, livestock and poultry, and dairy industries. The business has all the attributes we look for in an investment: a clear market leadership (65% share at point of care and 50% for reference labs), a long history of innovation, high customer retention, aligned middlemen, a conservative balance sheet and impressive earnings growth and ROIC. During the most recent quarter, the business delivered a rebound in capital sales despite a soft environment for vet visits. The pleasing outcome was largely driven by innovations in companion animal testing that both improve accuracy (better health outcomes for the pet) and reduce technician hours (improved profitability for the vet).

VeriSign holds the rights and responsibilities associated with operating the .com domain registry worldwide. It operates about 46% of global domain registrations. While growth in new domains is relatively low, the US Department of Commerce allows VeriSign to raise prices by 7% in four out of every 6 years. The business model is highly scalable with incremental revenues flowing straight to profits. VeriSign's operating margin has risen from 52% in 2012 to 68% in 2024, and annual EPS growth has been approximately 13% over this period.

All three companies reported better than expected operating results in recent months, and their share prices have reacted positively. We have slowly been reducing these investments to fund more attractive opportunities.

Outlook

The Fairlight portfolio continues to display superior quality characteristics compared to the average benchmark constituent (Table 2), and it is currently trading at 22x forward earnings, slightly lower than it was twelve months ago. The portfolio is on track to deliver 9% EPS growth in 2025 (and forecast to accelerate to 13% in FY26[1]), which we view as resilient in the face of tariff threats, weak end-markets and geopolitical risk.

Table 2. Quality metrics

	Fairlight Strategy	MSCI Global SMID Index
EBIT margin	27%	11%
ROIC	31%	8%
Net Debt/ EBITDA	0.4x	1.2x

Source: Fairlight, FactSet Portfolio Analytics. Benchmark figure was calculated using median figures.

The Fairlight View

During periods like this, it's natural to question whether investment strategies should shift in response to changing conditions. The philosophy with which Fairlight manages the portfolio, however, is well established, and the team continues to believe that a sufficiently diversified collection of high-quality, growing businesses, which are likely to benefit from technological change, purchased at reasonable prices, will outperform over the long term.

1 Based on internally generated forecasts. While due care has been used in the preparation of forecast information, actual outcomes may vary in a materially positive or negative manner.