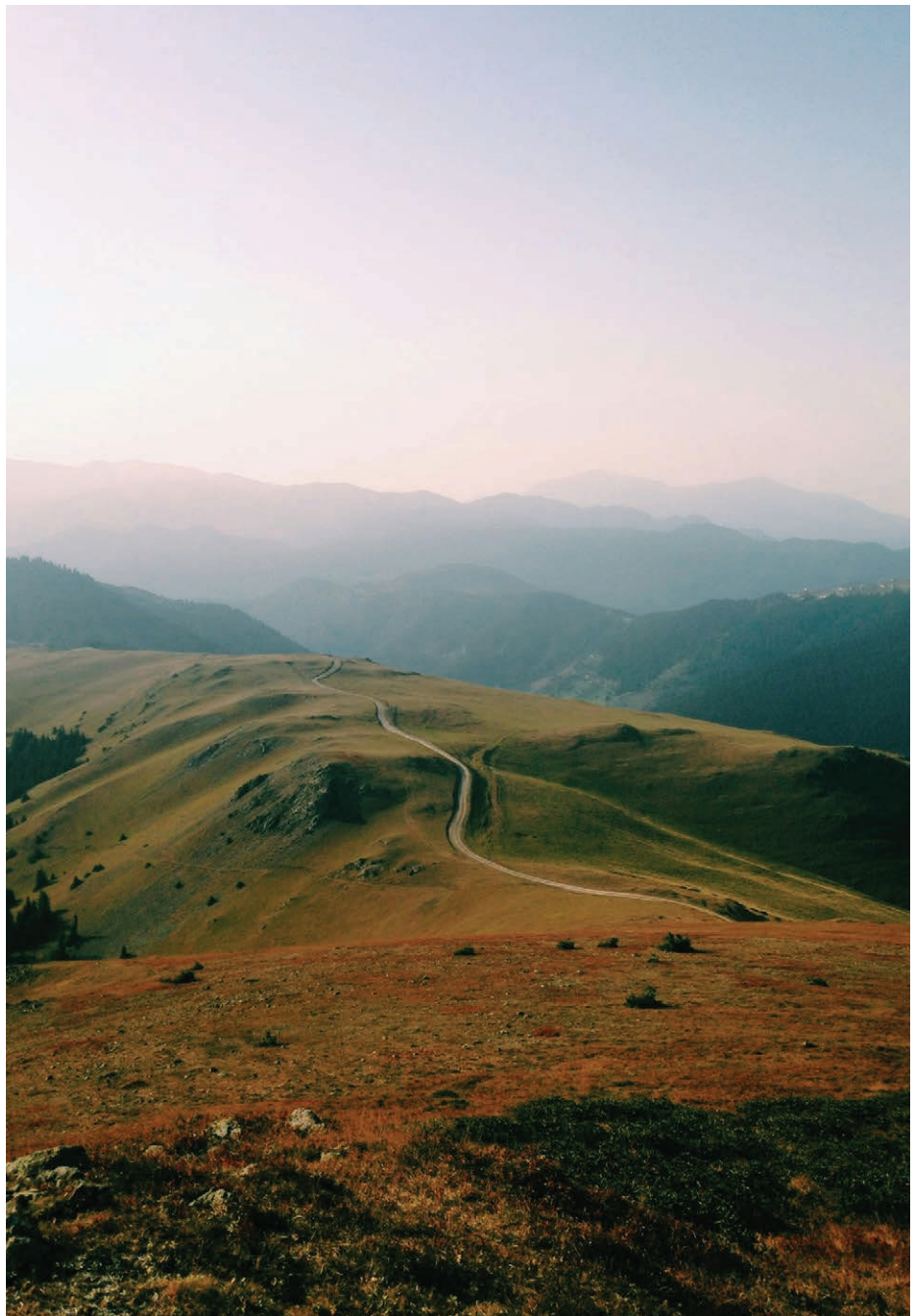


AORIS

Quarterly Report



Aoris Investment Management

Aoris is a specialist international equity manager founded in 2017. We are a focused business and manage a single international equity portfolio. Our investment approach is conservative, fundamental and evidence-based.

The Aoris International Fund

We own a concentrated portfolio of high-quality, wealth-creating businesses run by prudent and capable management. Owning a maximum of 15 companies allows our quality criteria to be unusually demanding and permits us to be discerning on the price we pay. We aim to deliver a return of 8–12% p.a. after fees over a 5–7-year market cycle.

Aoris International Fund

Performance to 31 March 2025

Class A (Unhedged – base fee option) Inception 26 March 2018	March Quarter	1 Year	5 Years	Since Inception p.a.*
Portfolio return (AUD) net of all fees	–0.8%	7.5%	18.0%	15.8%
MSCI AC World Accum Index ex-Australia (AUD)	–1.9%	12.3%	14.8%	12.6%
Excess return	1.2%	–4.9%	3.2%	3.3%
Class C (Hedged – base fee option) Inception 28 September 2018	March Quarter	1 Year	5 Years	Since Inception p.a.*
Portfolio return (AUD) – net of all fees	–2.1%	0.6%	16.7%	11.7%
MSCI AC World Accum Index ex-Australia 100% Hedged (AUD)	–2.1%	7.1%	14.3%	8.5%
Excess return	0.0%	–6.5%	2.4%	3.3%

*Past performance should not be taken as an indication of future performance.

Market and portfolio performance

International equity markets, as measured by the MSCI AC World Accumulation Index ex-Australia, declined by 1.9% for the March quarter (all returns are in AUD unless stated otherwise). Equity markets fell by 2.1% in local currency terms, while changes in currency values added 0.2% to the AUD return.

As shown in the table on the previous page, the Aoris International Fund (Class A – Unhedged) returned –0.8% for the quarter, outperforming its benchmark by 1.2%. The Aoris International Fund (Class C – Hedged) declined by 2.1% for the quarter, in line with its benchmark.

Notable positive contributors to returns for the quarter were Visa, which appreciated by 10.4%, and RELX Plc, which rose by 9.3%.

- **Visa** held an investor day in February, its first in five years, at which it outlined its medium-term ambition to grow revenue at about 10% p.a., and earnings per share (EPS) somewhat faster. This was an encouraging outlook, particularly for investors that may have feared Visa's business is maturing. About half of consumer payments globally are still made with cash, cheques, or legacy domestic payment networks, presenting a significant opportunity for Visa to continue to grow. On top of this, Visa is expanding its reach in payments for businesses and government agencies, and is rapidly growing in value-added services like fraud mitigation tools.
- **RELX Plc** is a provider of data, analytics and decision tools to professional users, including legal practitioners, academic researchers, banks, and auto insurers. RELX reported a strong result for its December quarter of 2024, which showed an acceleration in revenue growth, particularly in its legal and academic markets, and further improvement in its profit margin. RELX also reported an encouraging uptake of its AI tool for the legal market, LexisNexis+. This is one of many ways RELX can use AI technology to create valuable productivity tools for its customers.

The two major detractors from returns in the quarter were Accenture and Microsoft, which declined by 11.5% and 11.3% respectively.

- In its reported results for its three months ended February, **Accenture** referred to pressure in its business with the US federal government, which accounts for 8% of its revenue, as well as increased caution from its large corporate customers. We believe that Accenture's diversification across many customers, countries and industries provides a degree of resilience to pressure from any one of these groups. Customers turn to Accenture to help them evolve their IT infrastructure, take advantage of new technologies such as AI, simplify their business, and improve process efficiency. We believe Accenture will effectively manage the challenges of the current environment, as it has done in prior cycles, and will continue to grow its earnings at an attractive rate in the coming years.
- Some investors are concerned at the prospect of poor returns from **Microsoft's** spending on data centres, which is expected to amount to around US\$65 billion in the year to June, 50% more than was spent in the prior year. We believe there is strong long-term demand for the computing services these data centres will support. Today, most enterprise software, such as Oracle databases and SAP business applications, is still stored and run in the customer's own data centres. Software such as this is moving to cloud computing environments like Microsoft Azure, with the benefits of cost savings and greater flexibility, but this transition is still in its early stages. Microsoft has also reported very encouraging demand for its AI services, which are all hosted in the cloud. Between September and December last year, for instance, the number of organisations using Microsoft Copilot doubled, and the average minutes of use per individual user rose by 60%.

Tariffs and trade have been the predominant global issue for businesses, governments and investors since the start of the year, particularly during April. The magnitude of the proposed tariffs and the frequent changes in proposed tariff rates, dates of implementation and exemptions, has created a highly uncertain environment.

As *Quality First, Value Investors*, our highly selective investment approach starts with minimising the risk of disappointment. To that end, we avoid many industries and types of businesses, including those that are likely to experience materially negative impacts from changes in the rules of international trade.

- **Government policy** – we avoid businesses for which government policy matters in a material way. This includes export/import businesses like manufacturers of cars, consumer electronics and semiconductors, where changes in currencies, tariffs or export controls could impact their competitiveness. Other industries where government policy plays a major role include energy and commodity businesses, financials, and healthcare companies such as pharmaceuticals and medical device makers.
- **Cyclicals** – we avoid companies that are inherently economically sensitive, such as those that make and sell discretionary consumer products, and those involved in homebuilding or renovation.
- **Financial leverage** – we avoid businesses with a large amount of debt relative to earnings. Small swings in revenue can have a much larger impact on the cash flow and earnings of a highly indebted business.

We believe our portfolio today is made up of 14 resilient businesses that will manage well through whatever challenges lie ahead, both this year and beyond. Most of our portfolio companies provide essential products and services to other businesses. As is the case with Accenture, their solutions help their customers improve efficiency, remove costs and reduce complexity. For those that manufacture products, they largely do so in the same country where their products are sold.



Company profiles

Copart

Copart is the leading platform for insurance companies to auction vehicles deemed a total write off.

Copart is the world's leading online auction marketplace for selling used and damaged vehicles. Over 5 million vehicles a year are sold through Copart.com, and there are around 500,000 vehicles available for sale at any one time.

Most of the vehicles on Copart come from insurance companies. If a vehicle is damaged in an accident or natural disaster, the insurer must decide whether it's more economical to repair it and return it to its owner, or to write it off and pay the owner the insured value. If the insurer chooses to write off the vehicle, Copart clears the title and any outstanding loans on the car, and then auctions it via its website. Copart earns a commission on each sale.

The percentage of damaged vehicles that are written off – which is known as the 'total loss frequency' – has been steadily rising, from just 4% in 1980 to around 24% today. The main reason is vehicles have become costlier to repair, as they contain many more expensive electronics and are made with more complex composite materials.

We expect rising total loss frequency to continue to be an important long-term driver of Copart's growth, and one that's independent of the general economic environment.

About half the vehicles on Copart are sold to repairers, who are generally based in countries with a lower cost of labour and return the vehicle to roadworthy condition; the other half are sold to dismantlers, who scrap the vehicle for its most valuable parts and metals.

The percentage of accidents that result in a total write off has increased significantly over time.

Copart is around 50% larger than its only global competitor and has a long history of market share gains. There are four main features of the way the business has been run that have contributed to its competitive success:

1. **Scale** – As with any marketplace business, buyers want to go where they have the most choice, and sellers want to be where there are the most buyers. Copart reinforces this network effect with every year that it outgrows its competitor.
2. **Land ownership** – Copart needs a lot of land on which to store the vehicles before they're sold. It's difficult to receive permission for a new salvage yard as nobody wants to live next to one. Throughout its history Copart has chosen to own its land while its competitor has chosen to lease most of its land and is at the whim of landlords.
3. **Technology** – Salvage auctions used to be conducted in-person, which restricted the potential buyer base to those living nearby. In 2003, Copart made the bold choice to move to solely online auctions, meaning anyone in the world could attend. This pre-dated eBay! Meanwhile, its main competitor only switched to online in 2020.
4. **Culture** – Copart has consistently made choices for the benefit of its customers, and long-term growth in value rather than short-term profits. It's had just three CEOs since its founding in 1982.

Copart has grown its revenue and earnings by more than 10% p.a. over the last decade. We believe the business has many years of attractive growth ahead of it, regardless of how the macroeconomic environment evolves.

Experian

Experian has detailed credit and payment data on over 1.5 billion people. It helps its customers manage credit risk and grow their businesses.

Experian supplies data, analytics and decisioning tools to providers of credit, as well as to individuals. While banks are an important customer group, they account for just 40% of revenue, with the rest coming from consumers, hospitals, retailers, auto dealerships, insurance companies, technology and professional service firms, and the public sector.

At the heart of Experian are its credit bureaus, which account for around 30% of revenue and provide the foundation for much more. Experian holds detailed credit data on more than 1.5 billion individuals and 200 million businesses.

Banks supply credit bureaus like Experian with data on every loan made, and every principal and interest payment. The bureaus complement this bank-sourced data with other sources, such as an individual's record in paying their utility bills and rent, and their income and employment status.

Completeness of a bureau's data is important, so it can capture loans on individuals who borrow from multiple banks. For this reason, credit bureaus are natural oligopolies – most countries have just two or three leading bureaus – and the barriers to entry are extremely high in the form of trust, reputation and data-handling capabilities.

Credit bureaus are paid each time their database is accessed. A basic credit report costs just a few cents and contains the borrower's name, address, social security number and loan payment status. For a higher value loan such as a mortgage or large-balance credit card, a bank may choose to pay more for a more detailed credit report.

Over time, Experian has become a considerably broader business that provides data, analytics and decisioning tools to a wide range of customer types. Experian can help a bank, a retailer or telco carrier target prospective customers who meet certain eligibility criteria. It also helps hospitals understand the insurance coverage of patients and who will be paying for their treatments.

Another strongly growing part of the business is a powerful set of services that help consumers improve their financial health. Experian allows individuals to monitor their credit score, add payment data that may improve their score, receive pre-approved credit and insurance offers, and protect themselves against identity and financial fraud. It can save its members money by notifying them if there's a more attractive offer than the service they're currently using. Experian today has more than 190 million subscribers to these services.

We believe Experian is an economically resilient business that can grow its revenue and earnings at an attractive rate for many years to come.

Portfolio Changes

During the quarter we sold two positions and bought one. We used some of the proceeds from the sales to add to several of our most attractively valued existing positions.

Purchases

W.W. Grainger

Grainger is one of the largest distributors of products used in maintenance, repair and operations (MRO) in the United States. It has a diverse base of customers, with its largest end market being manufacturing, at 30% of revenue, and the remainder coming from government, healthcare, retail, warehouse and wholesale facilities. It supplies these customers with over a million different MRO products that are essential to running their facilities, including lightbulbs, safety supplies, cleaning equipment, air compressors and HVAC equipment. In what is a fragmented market, Grainger has gained market share in most years over the last decade and EPS has grown at a rate of 12% p.a. over that period. The company has also increased its dividend for 54 consecutive years.

Sales

MSCI Inc.

We sold MSCI during the quarter as it was trading slightly above our intrinsic value, having appreciated by about 25% since our purchase last May. Furthermore, the company's strategic initiatives to expand its indices and benchmarks into real estate and private equity markets, which they have done through several acquisitions, do not appear to be garnering the client support that management had expected. Additionally, in MSCI's Analytics division, which provides various risk and analytical tools to portfolio managers and accounts for around 20% of group revenue, growth continues to fall short of management's expectations.

Fastenal

We sold Fastenal during the quarter as it was trading moderately above our estimate of fair value.



Insights Over Information: How We Approach Company Meetings



Written by Vic Guha,
Analyst

Introduction

Our investment approach is centred around making relatively few, but sound decisions. The quality of these decisions hinges directly upon how well we understand the businesses we invest in. Company meetings play a key role in sharpening that understanding. They may offer a layer of insight that rarely appears in financial reports or investor presentations. Like peering under the bonnet of a car to assess the engine, directly engaging with companies helps us assess risk more effectively and uncovers the nuances of what makes a business truly special.

This feature article outlines our approach to company meetings and how it ties into our investment process. More broadly, it serves as a window into how we think about investing – where our research efforts are focused on gaining insights rather than simply gathering information.

Why do we conduct company meetings?

As a broad rule, we aim to speak with companies at least twice a year in addition to in-person meetings. In 2024, we conducted 103 calls and had 73 in-person meetings with companies. We're not suggesting the quantum of company meetings has any bearing on the quality of our judgements, but it does speak to a regular cadence of communication that we hope to maintain.

Company meetings give us insight into management's thinking and company culture as well as helping us calibrate risk.

We emphasise developing independent views and don't use sell-side research. Therefore, company meetings are an important tool to help us make informed judgements about businesses.

Company meetings serve two important functions for us:

1. They give us insight into management's thinking and company culture.
2. They help us calibrate risks within a business.

How company meetings give us insight into management mindset and culture

To appraise the trajectory of a business, we need to understand how management think. Management are the hands at the wheel of a company, their choices setting its course. Company meetings illuminate these choices and the thought process behind them. This informs our view on future decisions management are likely to make and where the company is going.

Equally telling in these conversations is what isn't said. People tend to speak about what matters most to them, or at least what's top of mind. Not only does this reflect where management's focus is, but also how aligned they are with our investment philosophy. In our view, the strongest management teams deliver a clear, repeated message. Their strategic priorities are unmistakable.

Moreover, company meetings help us gain a deeper appreciation of a business's culture. This tends to be what distinguishes the best companies in the world from the rest. What makes a business special isn't necessarily what it does, but the way it does it. You won't often find this in the pages of annual reports

or investor presentations. Direct conversations reveal the unique cultural attributes that truly set an exceptional organisation apart.

For instance, last year we met with Amphenol, one of our portfolio holdings. Even though it's a US\$80 billion market cap company, its spartan offices in suburban Connecticut immediately signalled a culture of humility and cost discipline. Our meeting didn't revolve around next quarter's numbers, but rather on Amphenol's decentralised culture and operating structure. Through the course of the meeting, what became apparent was just how deeply this culture runs and how committed the company is to preserving it. Over time, most firms drift towards centralisation. Amphenol's CEO actively resists this, defending the independence of its 140 business leaders. That entrepreneurial spirit is Amphenol's edge. It underpins the firm's leading margins and ability to take market share. Our meeting with the company gave us a deeper appreciation of its unique culture, and confidence in the business's long-term success.

How company meetings help us calibrate risk

We focus on mitigating risk at the individual company level. What we seek are businesses that operate within a narrow range of outcomes.

Company meetings allow us to validate, or challenge, our prior beliefs about the risks of a business. With each interaction we're assessing the likelihood a business will be stronger a decade from now. We examine their business models, competitive advantages and strategic priorities. We're also probing the ways in which its growth in earnings and intrinsic value could be undermined.

In a recent conversation with portfolio company L'Oréal, we set out to examine how weaker beauty spending in China might affect the business's long-term earnings. While consumer demand in the region has softened, L'Oréal continues to invest in innovation and is gaining market share profitably. Crucially, the company's growth story isn't dependent on China alone. Its European and US operations have strengthened significantly over the past decade, and L'Oréal is capturing growth in emerging economies such as India and Brazil. Through our direct interactions we have gained an appreciation of the deliberate choices it has made to build a balanced business, unlike its rival Estée Lauder. This meeting proved valuable not only in sizing up key risks, but also in reaffirming our investment thesis.

Repeated meetings with companies also let us test consistency of message over a period. Sudden changes in management's messaging might hint at wavering priorities or weak strategic direction. On the other hand, when a company consistently matches its actions to its promises, it strengthens our conviction in its ability to achieve lasting success.

Change can signal risk, so we pay close attention even to subtle shifts over time. On their own, minor changes might seem trivial, perhaps even unnoticed in quarterly earnings updates. Yet, just as small movements beneath the earth's surface eventually trigger earthquakes, several incremental changes in business can build up to major consequences. By regularly hearing a company's message firsthand, we stay alert to such shifts and refine our judgement about the growing risks in a business.

What are some pitfalls of company meetings?

Psychological biases can undermine the effectiveness of company meetings. Being aware of them is important in not making incorrect judgements.

Despite their importance, we're aware that the effectiveness of company meetings can be undermined by our psychological biases.

Narrative bias

One of the most significant is narrative bias. Management teams and investor relations professionals are naturally inclined to present their companies in the best possible light. This can create the illusion of greater insight while subtly influencing perception. We stay alert to this and focus on critically evaluating what we hear. Often, simply asking "Does it make sense?" is a powerful check against being swayed by a polished story.

Being influenced by personalities

Another risk is the psychological influence of engaging directly with management. A charismatic leader can easily inspire false confidence. Authority and seniority may convey a sense of additional believability that could undermine our natural scepticism. It's vital to process what's said with clear-headed reasoning and not let a polished message cloud judgement. Equally, we recognise that not all management teams are polished speakers – an unrefined delivery doesn't necessarily mean weak execution.

Last year, we met with the recently appointed CEO of Graco, a former portfolio company. He was articulate and assured, stressing continuity and a focus on organic growth – something we initially welcomed. But when we compared his message with his actions and our existing knowledge, it became clear the company's strategic direction had shifted meaningfully. Incentive compensation was tweaked to prioritise margin expansion over organic growth, and there

was an unwillingness to invest more dollars to drive growth. That disconnect unsettled us, and we exited the position. Like anyone, we're human: susceptible to influence and capable of making mistakes.

Confirmation bias

Confirmation bias is another risk we actively consider. It's easy to enter meetings with firm views and hear only what supports them. To counter this, we make a conscious effort to question our assumptions and seek disconfirming evidence that challenges them. Staying sceptical and open to changing our minds when new facts emerge is essential to sound judgement.

Constraints to disclosure

Regulatory constraints present another challenge. Public companies are bound by strict disclosure rules, meaning they cannot provide material non-public information in private discussions. So, what's the value of these conversations? The answer lies in asking the right questions: ones that elicit insights into how management think, rather than simply gathering information.

How do we structure and conduct company meetings?

Meetings are conversations, not interrogations. We work as a team to have meaningful conversations with companies which deepen our understanding of the business.

A well-executed meeting starts long before the conversation takes place. We do not schedule meetings for the sake of it; there must be a clear purpose. Borrowing an analogy from science, we like to think about having a specific hypothesis we are looking to prosecute, with the meeting serving as the experiment.

In preparation for the meeting, we focus on a few key topics – usually fewer than five – that tie directly to our investment thesis and aim to deepen our understanding. We steer clear of compiling a long list of questions, instead trying to anticipate likely responses by asking more meaningful queries.

Meetings serve as conversations, not interrogations. While our preparation provides structure, we remain flexible and adapt to the natural flow of the conversation.

Our preference is to ask open-ended questions, which allows the responder to reveal their true perspectives. While we're mindful of the conversation veering into tangents, exploring adjacent areas can unearth insights that help us view the company in a new light.

Crucially, we avoid leading questions that might elicit rehearsed responses. We also rarely open our conversation with highly critical questions that may result in responders becoming defensive.

Earlier, we touched on the psychological biases we're all susceptible to during company meetings. To counteract this, we try to include multiple analysts in each discussion. It might sound like an inefficient use of resources, but differing perspectives help check individual biases and lead to more balanced conclusions.

To ensure our most valuable resource – analyst time – is being used effectively, we avoid having passive participants. Each analyst comes to the meeting prepared, listens intently, and asks questions. Following the meeting, each analyst records their independent learnings, and these are catalogued to create a repository of insights on a business.

How do company meetings influence our decisions?

While company meetings play a key role in how we assess risk and quality, they're just one part of our broader research process. They serve to deepen our understanding and spark discussion within the team.

As we noted earlier, we often have several analysts join a meeting. We're all generalists, we only work on one strategy, and we all adhere to a singular investment approach. Yet one of the most fascinating things we notice is the dispersion of views and learnings that emerge afterwards. Our varied perspectives form the basis of rich internal discussion. We don't work in siloes, so the opportunity to learn from each other helps us make better judgements on a business.

We're also keenly aware of the pitfalls that come with company meetings. It's rare that insights from a single meeting prompts a decision. Our decision-making process is reflective and deliberate. We weigh new insights against what we already believe.

A recent example is the sale of our position in MSCI. This was partly driven by valuation, as well as rising discomfort with management's pricing approach and strategic direction. Before selling, we had several meetings with different company representatives. Each of those was a valuable input into our appraisal of risk. But it was the combination of what we learned from direct engagement, earnings calls, investor presentations and our internal discussions that led to our decision.

Our decisions result from the judgements we make on businesses, and those judgements are informed by our broader research and the discussions we have as a team. Think of our understanding of a business being like a jigsaw puzzle. Company meetings represent some of the internal pieces – they help fill in detail but don't complete the picture.

Conclusion

Company meetings are an important tool in our investment process, not just as an information-gathering exercise, but as a means to develop better judgement. They provide critical insights into how management thinks and the culture of the business, while also helping us calibrate risk.

They are not without their shortcomings, and we remain cognisant of the various biases we will inevitably be prone to. By focusing on gaining insights over simply gathering information and working cohesively as a team, we seek to make company meetings more effective, and ultimately more valuable to our investment decisions.

Portfolio companies

accenture

Amphenol

Atlas Copco

COMPASS GROUP

Copart

DIPLOMA PLC

experian

GRAINGER

Halma

L'ORÉAL PARIS

Microsoft

RELX

SHERWIN-WILLIAMS

VISA

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Important Information This report has been prepared by Aoris Investment Management Pty Ltd ABN 11 621 586 552, AFSL No 507281 (Aoris), the investment manager of Aoris International Fund (Fund). The issuer of units in Aoris International Fund is the Fund's responsible entity The Trust Company (RE Services) Limited ABN 45 003 278 831, AFSL Licence No 235150. The Product Disclosure Statement (PDS) contains all of the details of the offer. Copies of the PDS and target market determination are available at auris.com.au or can be obtained by contacting Aoris directly. Before making any decision to make or hold any investment in the Fund, you should consider the PDS in full. The information provided does not take into account your investment objectives, financial situation or particular needs. You should consider your own investment objectives, financial situation and particular needs before acting upon any information provided and consider seeking advice from a financial adviser if necessary. You should not base an investment decision simply on past performance. Past performance is not an indicator of future performance. Returns are not guaranteed and so the value of an investment may rise or fall.