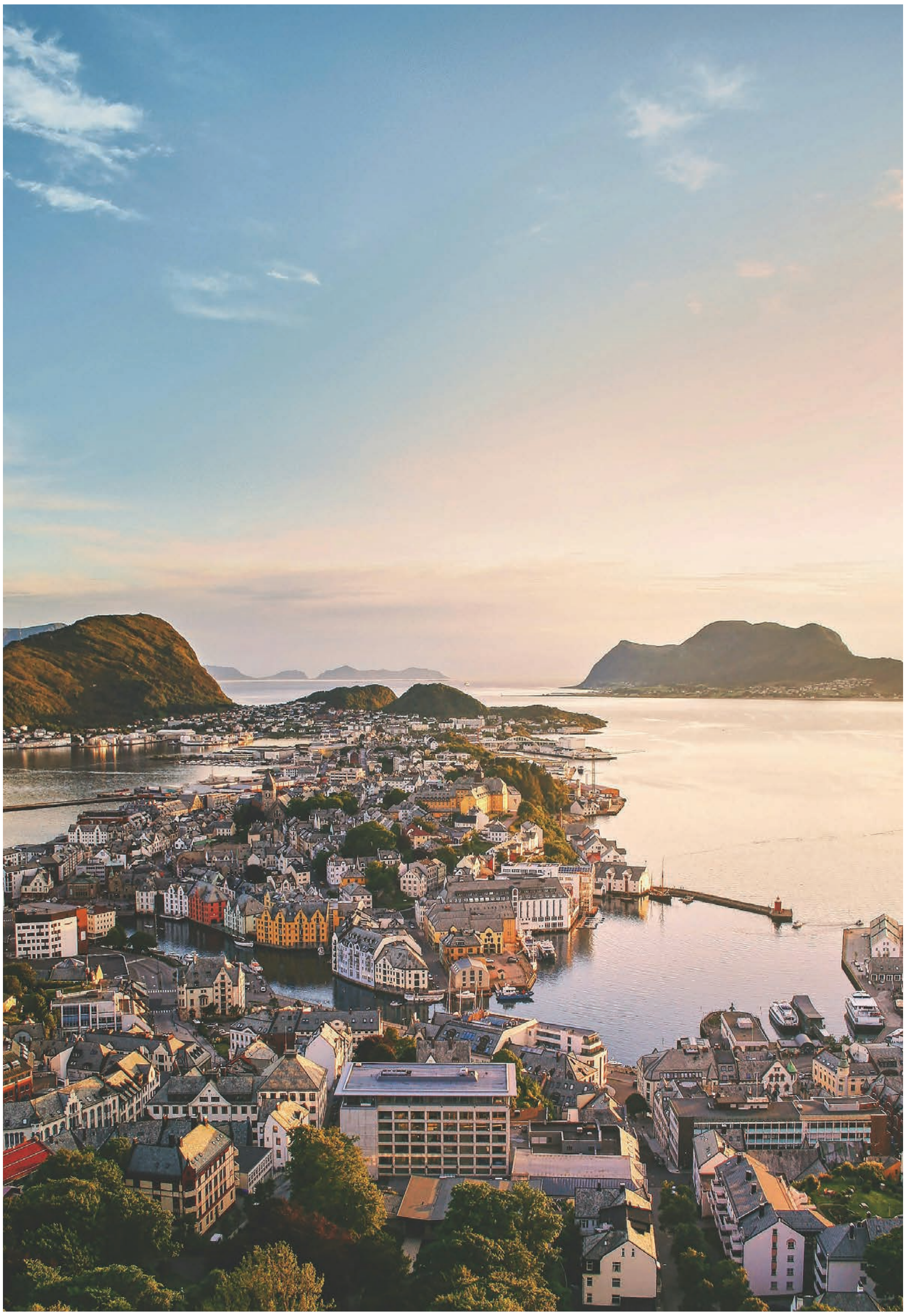
AORIS

Quarterly Report



June 2025

Aoris International Fund

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 30 June 2025

Class A (Unhedged – base fee option) Inception 26 March 2018	**June Quarter**	**1 Year**	**5 Years**	**Since Inception p.a.***
Portfolio return (AUD) net of all fees	8.2%	19.7%	18.0%	16.5%
MSCI AC World Accum Index ex-Australia (AUD)	6.0%	18.5%	14.8%	13.0%
Excess return	2.2%	1.2%	3.2%	3.5%

Class C (Hedged – base fee option) Inception 28 September 2018	**June Quarter**	**1 Year**	**5 Years**	**Since Inception p.a.***
Portfolio return (AUD) – net of all fees	10.1%	11.9%	14.7%	12.9%
MSCI AC World Accum Index ex-Australia 100% Hedged (AUD)	9.3%	13.3%	12.6%	9.6%
Excess return	0.8%	−1.4%	2.1%	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, appreciated by 6.0% for the June quarter (all returns are in AUD unless stated otherwise). Equity markets rose by 9.3% in local currency terms, while changes in currency values detracted 3.3% from the AUD return.

As shown in the table on the previous page, the Aoris International Fund (Class A – Unhedged) returned 8.2% for the quarter, outperforming its benchmark by 2.2%. The Aoris International Fund (Class C – Hedged) gained 10.1% for the quarter, exceeding its benchmark by 0.8%.

There were four notable positive contributors to returns for the quarter. Amphenol rose by 42.5% in the period, contributing 3.1% to the Fund's return. Microsoft, Diploma and Halma each rose by approximately 25%, each adding approximately 2% to returns in the quarter.

- **Amphenol** is a world-leading maker of electronic connectors and sensors. These devices are sold into a wide variety of end markets, including aerospace, automotive manufacturing, industrial equipment, mobile phones and data centres. Amphenol reported exceptionally strong growth in its March quarter, with revenue up on an underlying basis by 33%. Sales into the data centre market, which accounts for roughly one-third of its revenue, more than doubled in the quarter, as Amphenol gained share in a strongly growing market.
- There had been concerns from some investors for much of the last year that **Microsoft** had overcommitted to its data centre infrastructure build out, and reports of lease cancellations were seen as a sign of underwhelming demand for AI computing. Pleasingly, Microsoft's March quarter revenue rose by 15%, including 35% growth in its Azure cloud computing business. Its AI computing revenue rose rapidly, and demand for these services continues to exceed Microsoft's ability to add new capacity.
- **Diploma** is a UK-based, value-added distributor, serving a broad mix of industrial, manufacturing, commercial and life science markets. Diploma's revenue grew by 9% in the March quarter on an underlying basis, well ahead of the growth of its end markets, and EPS rose by 25%. In our interactions with Diploma's management over the past year, we've been impressed by the company's commercial ambition, efforts to improve every aspect of its operations, and its desire to find growth regardless of external conditions.
- Also based in the UK, **Halma** is a global supplier of specialised products for safety, environmental and medical markets. Underlying revenue growth of 9% in the March quarter may have surprised some investors, given tepid industrial and manufacturing end markets. However, like Diploma, Halma is an ambitious business with an expectation to find profitable growth regardless of economic conditions. This March marked the 46th consecutive year that Halma has raised its dividend by 5% or more.

The two major detractors from returns in the quarter were Copart and Accenture. Copart declined by 14.5% in the period, detracting 1.0% from returns, while Accenture declined by 5.6% and detracted 0.8% from returns.

- **Copart** operates an online auction site, primarily to serve US auto insurers disposing of damaged vehicles deemed too expensive to repair. Growth in the March quarter was disappointing, with the volume of cars auctioned on behalf of US insurers flat compared to a year earlier.

  It appears two factors are at work.

  1. The proportion of cars that are uninsured has risen rapidly in the last four years, from 11% to 15.5%, reflecting the sharp increase in the cost of insurance. At least for the time being, this has shrunk Copart's addressable market.
  2. Copart's only competitor, IAA Inc, appears to be improving its effectiveness under new ownership, regaining some of the market share it lost to Copart in recent years.

  Furthermore, Copart enjoyed a sharp rise in earnings in 2021 and 2022, helped by share gains as well as higher used car prices. Profit margins have since been under pressure as those favourable conditions unwind; something we had not made sufficient allowance for.

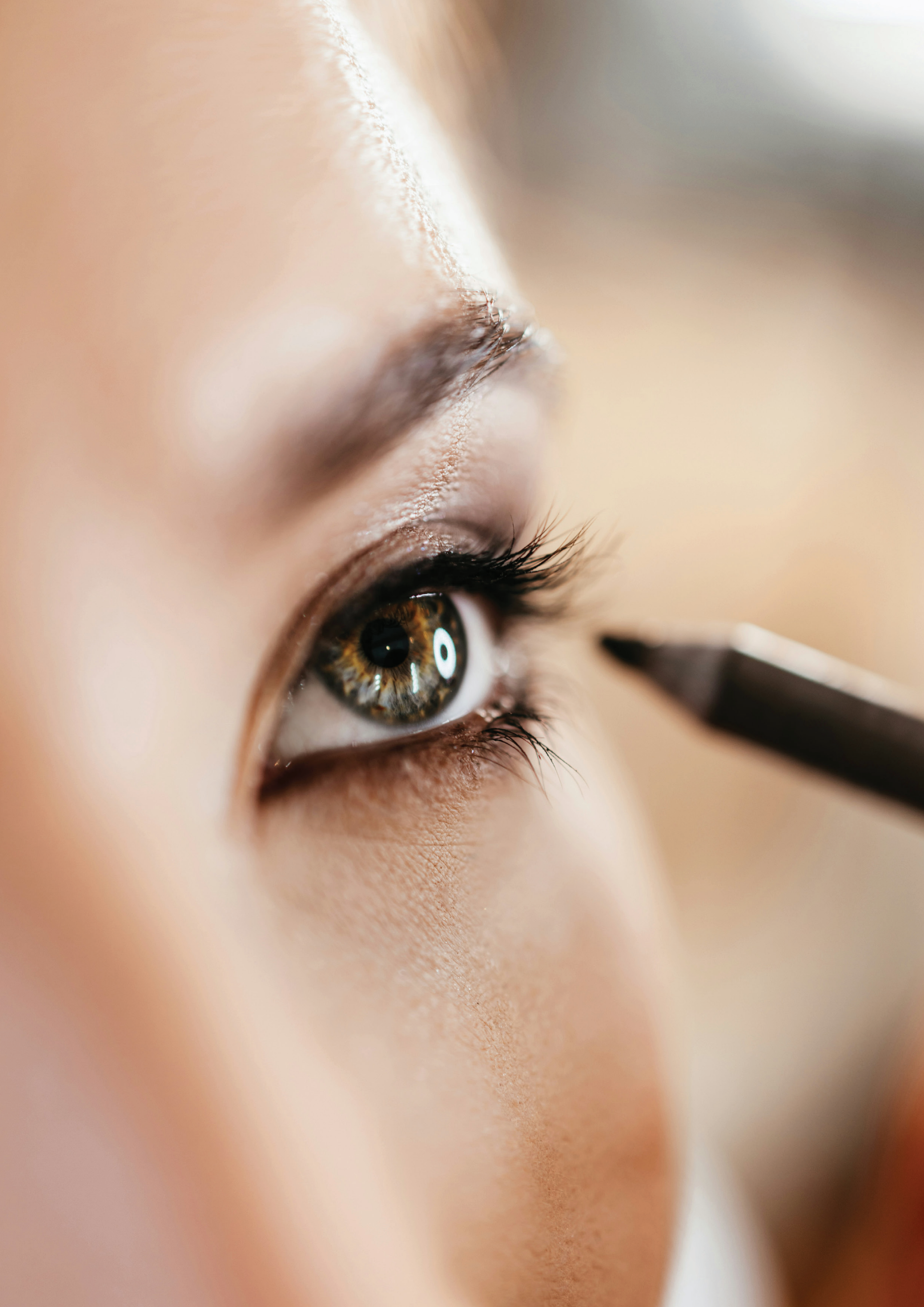
  Recent underperformance therefore reflects the headwind from a higher population of uninsured drivers, the reality of tougher competition, and a recognition by investors that Copart's earnings over the last few years were inflated by abnormally favourable conditions.

  We sold Copart from the portfolio in mid-July.

- **Accenture's** growth has slowed over the last two years following a strong post-pandemic period. The company reports there is robust client demand for large, complex IT projects of the size and scope that Accenture excels at. Clients are undertaking these large projects to migrate their computing infrastructure to the cloud, enhance data security, and benefit from applying AI tools to their data. As a measure of this, Accenture signed 30 contracts with a value of $100 million or more during its quarter ended May. Earlier this year, Telstra signed an A$700 million joint venture with Accenture, to accelerate its data and AI initiatives and significantly consolidate the number of vendors it deals with.

On the other hand, some clients are funding their increased investment in large projects by spending less on smaller, simpler ones. On top of this, the US federal government, which contributes 8% of Accenture's revenue, is pressuring its various departments to reduce the business they give to consultants and secure price concessions on existing contracts.

Accenture has an impressive, long-term track record of evolving to remain relevant to the changing needs of its customers. We believe the company will continue to gain market share and, over a cycle, grow revenue and earnings at an attractive rate.



Company profiles

L'Oréal

L'Oréal is the world's largest beauty company, with a market share larger than its two closest peers combined.

Founded in Paris 120 years ago, L'Oréal has only ever been in the business of beauty. Today, L'Oréal is the world's largest beauty company, with a 15% share of its market globally.

One of the attributes that has made L'Oréal so successful, and which it works hard to maintain, is its breadth and balance across:

- **Categories** – L'Oréal participates in the beauty market across skincare, haircare, make-up, fragrances, and dermatological beauty.
- **Brands** – L'Oréal has 37 major brands, 8 of which have revenue of €1 billion or more.
- **Distribution channels** – its products are sold through supermarkets, department stores, pharmacists, specialty beauty stores and travel retail stores.
- **Price points** – L'Oréal sells into the upper half of the mass market, at premium and luxury price points.
- **Geographies** – sales are well spread across major geographies, with China now just 17% of sales, other emerging markets accounting for about the same, and the rest well balanced across the developed markets.

L'Oréal's diversification allows it to participate in all parts of its market, and balance soft spots in one category, brand, channel or country, with its strengths elsewhere. It has created resilience in L'Oréal's earnings, allowing the company to invest with confidence for both the short and long term.

L'Oréal has outgrown its market in 18 of the last 20 years.

A second characteristic that has contributed to L'Oréal's success is its decentralised approach to management. The CEO often says 'battles are won on the battlefield', and country leaders at L'Oréal are given a high degree of autonomy to invest and respond to their local market conditions. This creates agility, which has helped the company respond quickly and effectively to disruptions in its market, such as during the COVID-19 pandemic and recent weakness in the Chinese market.

A third notable attribute of L'Oréal that has helped drive its success is its commercial ambition. While it has a market share greater than its two closest peers combined, it also sees vast opportunity. Its ambition is to outgrow its market every year, strengthening its leadership position, and it has achieved this in 18 of the last 20 years.

This ambition has been supported by investment. L'Oréal's brand investment in the form of advertising and promotion in 2024 was 50% more than it spent in 2019, and higher as a proportion of sales, while its investment in research and development was almost 40% greater than five years ago.

In recent years management has increased its investment in Europe, which has been met with a significant acceleration in growth there. It has also invested in three emerging geographies with significant long-term potential, namely India, the Middle East and Latin America.

We see many years of market share gains and earnings growth ahead for L'Oréal.

Microsoft

Microsoft is experiencing broad-based growth, from its Office suite to LinkedIn. It's not just about cloud computing and AI.

Microsoft is the world's largest software business by sales, and this year it celebrated its 50th anniversary.

Today, it's difficult to talk about Microsoft without focusing on the exciting markets of cloud computing and AI. However, it's notable how successful Microsoft has been across a wide range of activities. A few examples of this broad-based growth and success are:

- The number of subscribers to the Office suite, including the Word, Excel and PowerPoint that many of us use every day, increased from 250 million to 400 million in the four years to April last year, according to website UserHub. This is a remarkable rate of growth for products that could easily have been seen as mature half a decade ago.
- Teams, which is part of the Office suite, currently has about 320 million daily active users, up by around 40% in the last two years.
- LinkedIn, the professional community and networking site, has nearly 600 million users each month. Its revenue has increased more than 5x since it was acquired by Microsoft in 2016.
- The number of software developers using Microsoft's GitHub coding product has increased by more than 50% in the last two years, to over 150 million.
- The number of monthly users of Power Platform, which is a tool to help non-experts create apps or automate workflows, increased by 40% in the year to June 2024, to almost 50 million.

The consultant IDC estimates that Microsoft's Copilot AI product generates returns of 3.7x the investment dollars spent.

Microsoft's Azure cloud computing service accounts for almost one-third of group revenue. In the last eight years, Azure's share of this fast-growing market has almost doubled to around 25% – more than 3x that of Google Cloud – while Amazon's AWS has been flat at about 32%. Azure has been the clear and consistent share gainer.

Given the rapid growth in cloud computing in recent years, some may wonder if the market is close to maturity. How much computing is left to move from on-premises servers to cloud providers such as Microsoft Azure?

SAP, the world leader in enterprise resource application software for large corporations and government entities, tells us that only one-quarter of its customer base has moved any of their SAP applications to the cloud. Of those that have, about half of their SAP applications are still being run in on-premises data centres. This suggests the opportunity to move existing computing applications to cloud providers like Azure remains significant.

In AI, Microsoft's Copilot product is experiencing very rapid growth and is enhancing productivity for users in areas such as software coding, customer enquiries, accounts reconciliations, and sales rep meeting preparation. Vodafone Plc found the product saves its employees three hours' work per week, while IT consultant IDC has stated that $1 spent on Copilot generates an average of $3.70 in productivity benefits.

In our view, Microsoft is a stronger business than it was five years ago. It has enviable positions in the large, high-growth markets of cloud computing and AI. At the same time, its broad range of professional, personal and student software applications continue to grow in usage at an impressive rate. We believe Microsoft will grow its earnings and become a more valuable enterprise at an attractive rate for many years to come.

Portfolio Changes

During the quarter we purchased Jack Henry and sold Atlas Copco.

Purchases

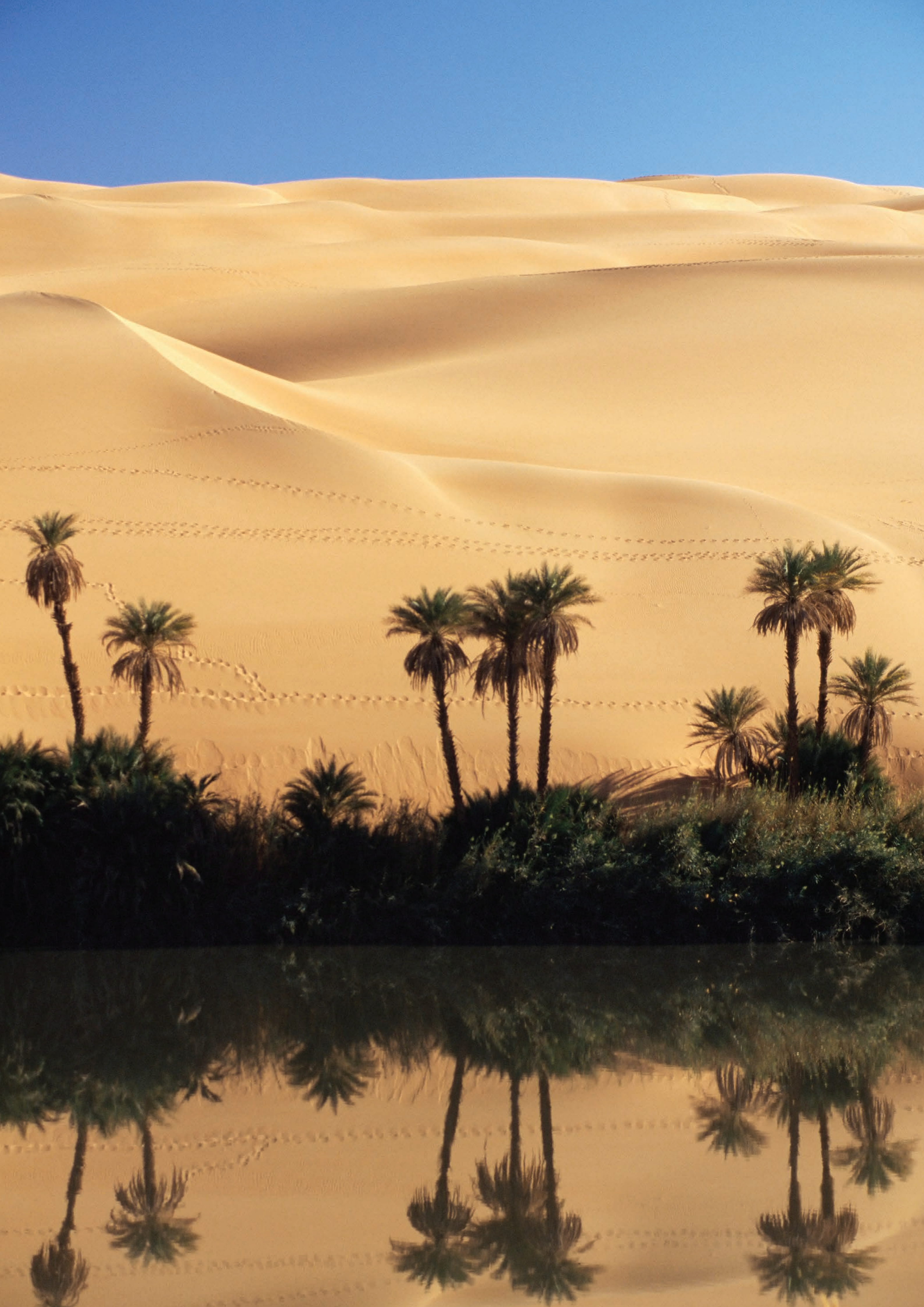
Jack Henry

Jack Henry is a leading provider of essential software to banks and credit unions in the US. Its offering includes the core account management software that maintains a financial institution's customer deposit and loan data, as well as software for transaction processing, digital banking, fraud detection and treasury management. Jack Henry has an established record of very high customer satisfaction, which has aided its long record of customer wins and market share gains. We had owned Jack Henry in the portfolio from mid-2019 to late 2022, and repurchased it at a significantly more attractive valuation multiple than we sold it for. We believe Jack Henry can continue its history of attractive earnings growth for many years to come.

Sales

Atlas Copco

Atlas Copco supplies industrial products and components, such as vacuum valves, air compressors, filters and pumps into a wide variety of end markets. Although many of these end markets are soft at present, after a meeting with Atlas Copco's senior management we were disappointed with the lack of observable self-help initiatives by the company to strengthen its individual business units and take market share in a way we see from other portfolio companies when faced with similarly challenged conditions. This has diminished our confidence in the long-term earnings growth prospects of the business.



The paradoxes of investing

Written by Delian Entchev,
Portfolio Manager

Introduction

The great American novelist F. Scott Fitzgerald, author of *The Great Gatsby*, wrote that **'The test of a first-rate intelligence is the ability to hold two opposed ideas in mind at the same time and still retain the ability to function.'** While Fitzgerald was writing about his own identity crisis, his insights are strikingly relevant to the field of investing.

Investment decisions are rarely clear cut. Investors often need to make decisions with imperfect information and while reconciling between multiple beliefs. Learning to navigate these tensions thoughtfully is what separates a good process from a lucky outcome.

At Aoris, we commonly need to make decisions in the face of five such investment paradoxes:

1. Confidence vs. humility
2. Patience vs. urgency
3. Trust vs. scepticism
4. Insights vs. information
5. Diversity of thought vs. decisiveness.

In this feature article, we share how we manage these tensions to make the best possible investment decisions.

1. Confidence vs. humility

While it's important to be confident in the companies we own, we also need to remain humble and willing to recognise when we're wrong.

Successful investing requires a delicate balance between confidence and humility. Veering too far in either direction can lead to poor investment outcomes. We don't want to be confident to the point of arrogance and blind belief, nor do we want to be humble to the point of self-doubt.

To be able to own our portfolio companies for a long time and stay the course through the inevitable periods of poorer fundamental or share price performance, we need to be clear and confident in our ownership hypothesis. What helps us develop this confidence is giving ourselves at least a year to understand a business and how well it's managed before considering it for the portfolio. With time this confidence can deepen as we continue to analyse the business, follow its financial performance, and interact with its representatives.

But no matter how confident we are in our investment views, we must always remain open to the possibility we're wrong. We need to be on the lookout for any disconfirming evidence to our existing belief set on a business, and to think about what we might be missing. We might be wrong about the quality of the business to begin with, or the assumptions underlying our valuation. Perhaps the environment in which a business operates has become structurally less favourable. Or perhaps management aren't taking the actions necessary to make the business better.

These are some elements of our investment process that help keep us humble:

- We rewrite our investment cases for portfolio companies every year from scratch, which is an opportunity to re-test our thinking.

- We conduct an adverse-event checklist when faced with materially negative developments for a business. This is a series of questions that help us think through the situation as rationally as possible, rather than letting our emotions take over.
- We regularly revisit businesses we've passed on, recognising we may have misappraised their qualities in the first place.
- We hold biannual investment team offsites, where we reflect on our mistakes and what we could have done differently.

While it's important for us to be confident in the companies we own, we also need to remain humble and willing to recognise when we're wrong. This mindset has helped ensure that when we have inevitably made mistakes, their severity and impact on investment returns have been low.

2. Patience vs. urgency

Investors need to strike the right balance between patience and the urgency to act when the facts change.

Another tension in our decision-making relates to timing, and knowing when to wait and when to act.

We aim to be patient, long-term owners of great businesses. We want to be patient in taking the time to get to know a business and whether it satisfies our demanding quality criteria, rather than getting excited and rushing into an investment we don't fully understand. We also want to be patient once we do own a business, recognising that every business will eventually endure tougher times and go through periods of share price underperformance. To benefit from the long-term compounding in value of a quality business, we must be able to stay the course.

But we can't let our patience devolve into inaction or inertia. We need to be willing to sell an investment with urgency as the facts change. In particular, through periods of share price volatility, we also need to be able to take advantage of price dislocations that can be short-lived.

At the end of 2020, portfolio company S&P Global announced a large acquisition that we felt diluted the quality of its existing franchise and introduced material integration risks. Even though we had only owned the business for three months at that time, we didn't hesitate to sell our investment the day after the acquisition was announced.

On the other hand, in hindsight we took too long to exit our investment in IT reseller CDW after we first recognised the company's waning customer relevance. There was a cost to this inaction in underperformance, as well as the opportunity cost of what other business we could have owned instead. This experience has heightened our vigilance and responsiveness to signs of structural weakness in a business.

To grow and protect our clients' capital over the long term, we need to strike the right balance between patience and the urgency to act when the facts change.

3. Trust vs. scepticism

We need to balance our trust in management teams with a healthy degree of scepticism.

Just as our clients entrust us with their capital, we need to be able to trust the management teams of our portfolio companies to allocate their capital sensibly and make the right decisions to strengthen their competitiveness.

We can't expect perfection – after all, management are only human and have their own biases. So when executives do make mistakes, we assess the severity of the impact, whether they're taking the right corrective actions, and look for evidence they've learned from the mistake so it's unlikely to be repeated.

But the allure of the narrative can be compelling. Just because an executive is a polished speaker doesn't mean they're an effective leader. We need to remain sceptical about whether we're being given the complete picture or just being told what we want to hear. Management's messaging needs to be supported by clear actions and in the financial outcomes. We often ask ourselves: **Does this make sense?**

Thinking by inversion, another question we ask ourselves is: **What are we not hearing?** We can't assume that just because something was true when we first looked at a business, it's still true today. If management have stopped talking about something, it's likely because it's no longer as important to them. We value consistency in management's messaging over time and across different representatives from the company.

Our recent sale of Atlas Copco was influenced by the absence of meaningful commentary from management about what they're doing to make the business competitively stronger and to reinforce its entrepreneurial culture.

The priorities and performance of any business can occasionally diverge from their norm. We need to constantly balance our trust in the management teams of our portfolio companies with a healthy degree of scepticism when their messaging deviates from our expectations.

4. Insights vs. information

Investing is more about insight and judgements than knowledge, and requires an active effort to focus on the things that matter.

Today's investors have access to more data than ever: real-time stock prices, financial news, earnings transcripts, expert networks, social media, and even satellite imagery of retail store parking lots. Paradoxically, this glut of information is more likely to cloud one's judgement than to result in better investment outcomes. Investors need to work out the few key issues that matter to the long-term prospects of a business, and what's just noise.

The overconsumption of irrelevant information can have a materially detrimental impact on investors' psyche and returns. It can lead them to overestimate their understanding of a business, to sell an investment prematurely in response to negative press, or to become indecisive in a never-ending search for the next piece of marginal data.

At Aoris, we try to tune out the noise as much as possible. For starters, managing an international equity portfolio out of Australia allows us to assess information and make decisions outside of the pressure of live market trading in the US and Europe.

We've chosen not to receive research from sell-side analysts, who often focus on the short term and exhibit herd mentality. We'd rather form our own judgements.

When we conduct research, speak with a company or hold discussions as a team, our emphasis is on uncovering real insights rather than fact-finding. We work hard to keep our meetings purposeful, to not get drawn into the periphery, and not feel like we have to contribute to every interaction if we have nothing of importance to add.

We build our own financial models based on the source documents from the company, and we try to keep them as simple as possible. A handful of variables determine the economics of a business. We'd rather be roughly right with our simple models, than precisely wrong with a 1,000-line model. The more variables introduced into a model, the more mistakes can be made.

Investing is more about insight and judgements than knowledge. Two investors armed with the same information could come to drastically different conclusions. It requires an active effort for us to tune out the noise and focus on what matters most to the long-term prospects of a business.

5. Diversity of thought vs. decisiveness

Our investment process is collaborative, while also embedding the decisiveness that investing requires.

Our investment team is deliberately collaborative. We recognise we all have our own blind spots, and that collectively we can benefit from each other's diverse backgrounds and ways of thinking. We can help sharpen each other's thinking by encouraging respectful dissent and a meritocracy of opinions.

We need to encourage healthy debate to benefit from our team-based approach and diversity of thought. Groupthink is a sign that ideas aren't being challenged robustly enough. We have an obligation to our clients and our colleagues to speak out where we feel differently, provide honest feedback to one another, and help each other learn and improve.

Any time we meet with a company or make a key investment decision, every member of the investment team records their individual views in our internal document system. This highlights any differences of opinion and helps each of us feel accountable for the decisions we make as a team.

But we can't allow differences of opinion to paralyse our decision-making. There's a point at which the discussions must end, and decisions have to be taken. Inaction can have a meaningful opportunity cost in investing. For this reason, we have clear guidelines around the degree of consensus needed to make portfolio decisions.

We work hard to keep our investment team collaborative and bring out a diversity of views, while at the same time our process embeds the decisiveness that investing requires. Being a small team helps us make decisions nimbly and without getting bogged down in peripheral views.

Conclusion

To make the best possible investment decisions we need to:

- Have confidence in our views, as well as humility and a recognition we could be wrong.
- Be patient, long-term owners of great businesses, while remaining vigilant for signs of weakness and acting with urgency once the facts change.
- Trust in the management teams of our portfolio companies while asking ourselves if what we're hearing from them matches with what we expect.
- Focus on insights that matter most to the long-term prospects of a business, and manage the constant flow of information we're exposed to every day as investors.
- Collaborate respectfully as a team and remain decisive.

We believe our disciplined investment process and collaborative team structure have helped us strike the right balance between these paradoxes.

Portfolio companies

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