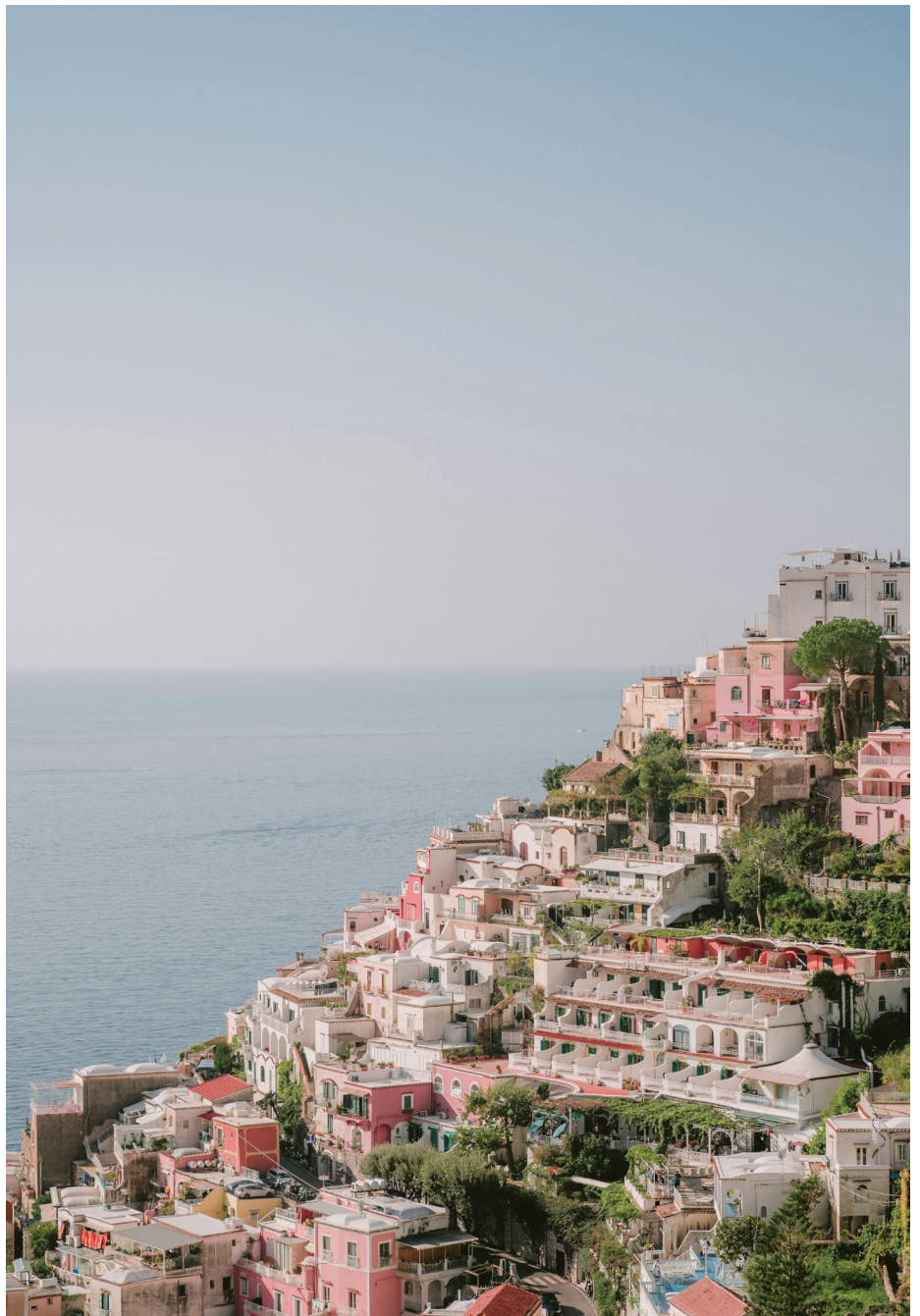


AORIS

How To Say
Goodbye



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.

How To Say Goodbye



Written by Alasdair Kingham,
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Introduction

The world isn't short of books to help investors identify attractive businesses to buy, but there's little written on when to sell. Yet selling is a critical part of the investment process.

Selling is difficult and not everything written on the subject is helpful. If we followed simple but reasonable-sounding adages like 'buy low, sell high' or 'don't trim your flowers and water your weeds', we'd quickly tie ourselves in knots.

At Aoris, we have a disciplined sales process that helps us overcome these difficulties. We believe our process is repeatable, and although not immune from error, it has contributed positively to performance. It has helped us avoid owning businesses in decline, and holding on to expensive stocks that subsequently delivered disappointing returns.

Most of the stocks we have sold have gone on to underperform our benchmark index, some by a large margin. In this feature article, we share the thought process of our sale decisions and look at how they have added value to our investment performance.

Why we sell

We look to sell portfolio holdings when we believe either valuation or a lapse in quality will detract from investment returns.

Our investment goal is to generate 8%–12% p.a. returns through the cycle, net of fees. We aim to do this by owning high-quality businesses at attractive valuations, where the risk of a disappointing outcome is low. We expect the bulk of investment returns to come from our businesses growing in intrinsic value.

We look to sell portfolio holdings when we believe either valuation or a lapse in quality will detract from investment returns.

Valuation sales are relatively straightforward. They occur when the market price of one of our holdings is sufficiently above our estimate of what we think the business is worth, or where we believe we've found another business of equivalent or better quality to one in the portfolio, but trading at a more attractive price.

Quality sales are those where we believe the business has deteriorated in quality, or we've made a mistake appraising how good a business really is. When this happens, we are disciplined in selling and will exit our investment regardless of valuation.

Since the inception of the Fund in 2018 we have sold 31 stocks, or about four a year.

We're disciplined when selling for valuation

In aggregate the stocks we've sold for valuation reasons have subsequently underperformed the index by 5% p.a.

At Aoris, we believe valuation matters. If the share price is rising faster than intrinsic value, there is a degradation of expected investment returns.

We expect our portfolio companies to grow their earnings and intrinsic value over time, but sometimes the share price overshoots the growth in intrinsic value. We also recognise there's a margin of error around any valuation, so we won't sell immediately when the share price reaches our valuation, but we're also disciplined about selling portfolio companies when the gap between the two becomes sufficiently wide.

Selling a business that has done well might not always feel easy, but sticking to our valuation discipline makes it a relatively simple decision. It ensures we don't fall in love with a stock, and can recycle capital into other quality businesses trading below what we think they're worth.

Markets are inherently volatile, so selling for valuation doesn't have to mean saying goodbye forever. We know that each year the share price of individual companies declines on average by 30% from their highs, so we believe that if we're patient, the market should provide opportunities to repurchase at a fairer price the businesses we've sold on valuation grounds.

Several years ago, we sold L'Oréal and Halma due to valuation and were later able to repurchase them at more attractive valuations.

Most of the stocks we've sold for valuation reasons have subsequently underperformed the index and in aggregate underperformed by 5% p.a., indicating our valuation discipline has added value to our investment outcomes.

Selling for quality requires judgement

Quality sales call for more judgement than valuation sales. They force us to overcome a paradox that we wrote about in our June 2025 feature article: the conflict between patience vs. urgency that comes with being long-term investors. We want to be patient, long-term owners of high-quality businesses. At the same time, we know history is filled with once great businesses that have become less special, and holding onto a business in decline can lead to disappointing investment outcomes.

We know all businesses will inevitably go through tough times, so we don't want to panic when they do. But we also don't want to ignore actions by management, or a changing environment, which may be the start of a great business becoming simply average. This requires us to separate short-term headwinds from long-term signs of decay. This is not easy to do and is why selling for quality is difficult.

The remainder of this article focuses on how our process aims to overcome this inherent conflict and ultimately make the decision to sell for quality.

To maintain conviction and be long-term owners, we need to separate signals from noise

Investors face a deluge of information and it's important to separate true signals from noise – short-term headwinds from long-term decline. As mentioned, we expect most of our returns to come from the businesses we own compounding in value over time. This means we don't want to jump at shadows each time a company goes through a tough period, or its share price underperforms.

One element of our investment process that helps with this is our formal thesis reviews. A thesis review is automatically triggered when one of our portfolio holdings underperforms our benchmark by more than 20%, or if we think the environment has changed to the detriment of the business. The review forces us to ask ourselves where we could be wrong, helps us identify if the facts have changed, and if we need to change our minds.

We've owned businesses like Experian, Amphenol, and Accenture since the Fund's inception. They've all experienced periods of share price underperformance during the time we've owned them, triggering a thesis review. On each occasion we felt comfortable keeping, and in some cases adding to, our investment.

The ability to separate false signals from true signs of business decay is an important part of our process. It helps us to avoid selling high-quality businesses going through a difficult period, and to identify risks that could cause a great business to become average.

How we identify business decline

If we decide to sell for quality reasons, it's because we've lost confidence in the long-term outlook for the business.

To help us make these judgements, we lean on the anti-fade mental model we wrote about in our March 2024 feature article. History shows us that over time, most once great businesses have faded and become less special. Therefore, we consider fade as the norm rather than the exception, and assume a business is declining in quality unless we can prove otherwise.

We look to identify risks that indicate a decline in quality – before they show up in the financials.

Good businesses will rarely decline overnight, and unfortunately nobody will inform us once decline has begun. Management certainly won't broadcast it on their earnings calls. Therefore, we look to identify risks that indicate a decline in quality – before they show up in the financials.

We believe management play an important role in preventing fade, so we are sensitive when they take actions that we think may precipitate decline. These include reducing the pace of investment to focus on higher margins, excessive price increases that leave a bad taste in customers' mouths, or failing to adapt to changing client needs. These actions might not guarantee business decline, but they increase the risk of fade and the range of outcomes for a business.

Conversely, if management continue investing in growth and increasing the value they provide to customers, we think they are well placed to avoid decline. We're less likely to sell businesses that are continuing to grow faster than their end markets, win more customers, and do more for existing customers.

Management communication also plays a role in our decisions to sell. As shareholders, we expect management to treat us as co-owners of the business. If we feel a company's communication lacks candour and doesn't allow us to deeply understand the issues a business might be going through, we will look to exit. This is especially important when a business is going through a difficult period. Poor management communication played a role in our sales of Nike and CDW.

Making a judgement on business decline is not easy, but our anti-fade framework helps us identify actions that we believe increase the chances of a business becoming less relevant before it shows up in the financials.

We're disciplined in selling quickly when confidence is lost, regardless of valuation

Once we identify potential signs of decline, we are quick to sell.

Once we identify potential signs of decline, we are quick to sell. When we make investment decisions, we recognise we're always operating with incomplete information. When an investment deviates from our expectations, the temptation for investors is to keep waiting for the next data point, to feel like they're making a more informed decision. But in most cases gathering more information is not helpful, and we need to make decisions based on our judgement of the few key factors that are important to each investment.

Beyond acting on incomplete information, sell decisions can also be uncomfortable because they require us to acknowledge we made a mistake, or that things have changed in a way we didn't expect.

It might feel uncomfortable, but we are disciplined and will exit a position if we are losing confidence in the quality of a business. We don't want to bear the risk and consequence of owning a declining business. If we were wrong in selling a business that actually isn't in decline, we can always reassess our decision from the sidelines and repurchase the business at a future point.

If we think a business is declining, that our investment thesis has been invalidated, or we made a mistake assessing the quality of a business, we will sell regardless of valuation. Our view of business quality is a key input into our valuations, so if we believe a business is declining, we don't gain comfort from what may look like a discounted price.

Businesses in decline may look attractively valued, but we need to remain disciplined in our quality first approach. Most of our quality sales were trading at what looked like cheap valuations at the time, and most became even cheaper.

In aggregate the stocks we've sold for quality reasons have subsequently underperformed the index by 8% p.a. on average.

This disciplined process led us to sell Nike due to concerns of management focusing too much on ecommerce sales at the expense of traditional retailers – where consumers still like to shop – which eventually opened the door to new competition. In hindsight we could have identified these issues earlier, but once we lost confidence in management we were quick to sell. Since our sale, the stock has underperformed our benchmark by 35%.

Our process means we sell quickly when events change, regardless of how long we've owned a business. Just three months after we invested in S&P Global, the company made a large acquisition that introduced material risks around its integration and created distractions from its core businesses. We decided to sell our investment the day after the deal was announced, despite our short holding period. We've observed the integration from afar and subsequently resumed our research on the business once we felt the long-term risks from the deal had subsided.

The majority of our quality driven sales subsequently lagged the index, and in aggregate underperformed by 8% p.a. on average. This gives us confidence that remaining disciplined on quality, and exiting quickly once we lose confidence in a business, has added to our investment performance.

Assessing the success of our sale decisions

Our aim is to generate investment returns above our benchmark index, so it's reasonable to measure the success of our sale decisions against the returns of the index.

Looking at our 31 sales, they have on average underperformed our benchmark by 7% p.a. after we've sold them. Further, 22 of the 31 have underperformed – indicating that more often than not we make the right decision to sell.

Investing is a probabilistic pursuit and the share price only tells you so much. Sometimes good decisions don't result in good outcomes, and vice versa. Just because a business we sold for quality reasons continues to appreciate in the year or two since we sold it, doesn't mean we made a poor decision. Equally, just because a stock declines after we sold it doesn't necessarily mean we've made a good decision.

That said, looking at the post-sale operating and share price performance of businesses we've exited, we believe our process has improved investment outcomes.

Conclusion

We have a disciplined selling process that can be characterised as selling quickly if our confidence wanes or if valuation becomes excessive. This sounds easy in theory, but in practice it is difficult and often uncomfortable. It requires us to remain open-minded and accept when we are wrong.

Despite the difficulties and judgement required, we believe our process is repeatable if we maintain our high-quality threshold for the portfolio and are disciplined in selling once we lose confidence in a business, regardless of how uncomfortable it might be or how cheap the valuation might appear.

Not all our decisions will be correct, but we think our process has helped avoid disappointing outcomes and has contributed positively to our investment returns.

Portfolio companies

The logo for Accenture, featuring the word "accenture" in a lowercase, sans-serif font with a small stylized icon above the 't'.The logo for Amphenol, consisting of the word "Amphenol" in a bold, sans-serif font.The logo for Compass Group, featuring a stylized figure holding a compass above the words "COMPASS GROUP" in a sans-serif font.The logo for Diploma PLC, with the word "DIPLOMA" in a bold, sans-serif font and "PLC" in a smaller font to the right.The logo for Experian, featuring a stylized icon of three dots above the word "experian" in a lowercase, sans-serif font.The logo for Grainger, with the word "GRAINGER" in a bold, sans-serif font and a stylized icon of a building below it.The logo for Halma, featuring a stylized icon of a circle with a dot inside, followed by the word "Halma" in a sans-serif font.The logo for IHG Hotels & Resorts, with "IHG" in a large, bold, sans-serif font and "HOTELS & RESORTS" in a smaller font to the right.The logo for Jack Henry, with the words "jack henry" in a bold, lowercase, sans-serif font.The logo for L'Oréal Paris, with "L'ORÉAL" in a bold, sans-serif font and "PARIS" in a smaller font below it.The logo for Microsoft, featuring the four-color square icon followed by the word "Microsoft" in a sans-serif font.The logo for RELX, with a stylized "R" icon followed by the word "RELX" in a sans-serif font.The logo for SAP, with the letters "SAP" in a bold, sans-serif font inside a dark square.The logo for Sherwin-Williams, featuring a stylized icon of a paint can above the words "SHERWIN-WILLIAMS" in a sans-serif font.The logo for Visa, with the word "VISA" in a bold, sans-serif font.

Get in touch

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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.