

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 2026

Class A (Unhedged – base fee option) Inception 26 March 2018	March Quarter	1 Year p.a.	5 Years p.a.	Since Inception p.a.*
Portfolio return (AUD)	-13.7%	-9.5%	11.5%	12.3%
MSCI AC World Accum Index ex-Australia (AUD)	-5.8%	9.2%	11.9%	12.1%
Excess return	-7.8%	-18.7%	-0.4%	0.2%

Class C (Hedged – base fee option) Inception 28 September 2018	March Quarter	1 Year p.a.	5 Years p.a.	Since Inception p.a.*
Portfolio return (AUD)	-10.1%	-1.9%	7.9%	9.8%
MSCI AC World Accum Index ex-Australia (AUD)	-2.8%	19.1%	9.3%	9.8%
Excess return	-7.3%	-21.0%	-1.4%	0.0%

*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 5.8% in the March quarter. (All returns are in AUD unless stated otherwise.) Equity markets fell by 2.8% in local currency, while changes in currency values detracted 3.0% from the AUD return.

As shown in the table on the previous page, the Aoris International Fund (Class A – Unhedged) declined by 13.7% for the quarter, underperforming its benchmark by 7.8%. The Aoris International Fund (Class C – Hedged) declined by 10.1% for the quarter, underperforming its benchmark by 7.3%.

The magnitude of the negative return for the Fund over the quarter is confronting, both in absolute terms and relative to our benchmark, as is the case for our performance over the last 12 months. For this reason, I'd like to provide a thorough explanation of the portfolio holdings that have contributed to the poor performance, and why we hold a more positive view than the market.

The startling pace of advancement in AI tools over the last year is extremely impressive but has also unnerved many investors. The key concerns are what these tools will be capable of a few months, a year, or five years from now, and what that means for incumbent software, data and services businesses. Will AI displace white-collar workers, shrinking their client base? Will it make software free? Will data become a commodity?

Such reservations contributed to sharp share price declines over the quarter for five businesses in our portfolio – Microsoft and SAP (enterprise software), Experian and RELX (data), and Accenture (professional services). These declines collectively had a negative impact on performance of 9.4%. I should note that these businesses were also major contributors to the Fund's underperformance last year due to the same underlying investor concerns.

We remain confident in our ownership of these businesses. There are five attributes they have in common, which I believe are currently underappreciated and will see them well placed as AI tools are more broadly adopted:

1. Strong foundations
2. Adaptability to evolving technology and changing customer needs
3. Broad services offering
4. Depth in data, content and industry expertise
5. Good customer value.

Let me explore this in more detail.

The importance of strong foundations. Rapid change accelerates the decline of already weak businesses

Periods of rapid technological progress have historically been associated with the demise of, or lasting damage to, incumbent businesses and even entire industries. Consider department stores and other brick-and-mortar retailers in the face of ecommerce; cable TV up against Netflix and streaming media; and licensed taxis facing off against Uber. When investors think about the age of AI and what it means for existing software, data, and services businesses, many naturally see a high failure rate ahead.

Technological change was associated with the demise of many brick-and-mortar retailers, cable TV operators and licensed taxis, but is the truth as simple as one causing the other?

Looking closely at the incumbent businesses that were damaged or displaced by technological change and those that survived and thrived, I see an important separator in the competitive strength of each individual company at the time of rapid change.

Let's start with retailers. Sears, Macy's, Nordstrom, Toys "R" US, Target, and, here in Australia, Myer and David Jones, have all either gone out of business or been greatly diminished over the period of Amazon's rise. But they were all weak businesses when Amazon delivered its first package, with tired stores, unimaginative merchandising, poor service and dissatisfied customers. On the other hand, Costco, Walmart, Bunnings and JB Hi-Fi have all grown significantly in the face of Amazon's success, because of their strong foundations.

At the time Netflix launched its streaming service, cable TV had the lowest customer satisfaction of any industry in the US. Advertisements made up 20 minutes per hour in prime time, up from around 15 minutes a decade earlier. Much the same could be said of licensed taxis when Uber came along.

Rapid technological change accelerates the decline of already weak businesses. The five portfolio companies mentioned earlier, in contrast, all have strong foundations. At Experian, which is the world's largest credit bureau, for example, customer satisfaction has increased for the last seven consecutive years. In the most recent global Great Place to Work survey, it ranked 14th out of 14,000 companies.

Over the last few years, SAP has moved its enterprise software applications, critical to the functioning of thousands of large organisations, to the cloud. More than just a 'lift and shift' approach, though, SAP has undertaken to improve the quality and interoperability of these applications, which has included a complete rewriting of the code for its Ariba procurement software. As a result, SAP's market share has been steadily rising.

We are confident that Microsoft, SAP, Experian, RELX and Accenture will all face the changes and challenges that AI brings from a position of competitive strength.

Strong businesses adapt to change. The ones that don't are vulnerable

Customer needs evolve, and good businesses evolve with them. Those that don't are more vulnerable to technological change.

Intel perhaps knew more about microprocessors than anyone two decades ago, but it was rigid and inflexible in its thinking. With its belief that what matters most is the computational power of its chips, it missed the rising importance of battery life and with it, the vast opportunity in mobile phones.

Many years ago, Accenture's primary offerings were helping organisations outsource labour to low-cost locations and implementing complex IT systems in the data centres of its customers. If it hadn't evolved, it would still be selling low-value services and subject to intense price competition. Instead, Accenture has become a critical partner to help large corporate and government customers migrate their IT infrastructure to the cloud, minimise cybersecurity risks, and build and implement AI productivity solutions.

Microsoft recognised that as the world becomes more digital, and data moves to the cloud, cybersecurity risks rise dramatically. It has adapted to this growing need and is now the world's leading provider of cybersecurity software.

We are confident that our five portfolio holdings will continue to adapt, using AI to meet the evolving needs of their customers, as well as making their own operations more efficient.

Companies with a broad service offering are less susceptible to displacement

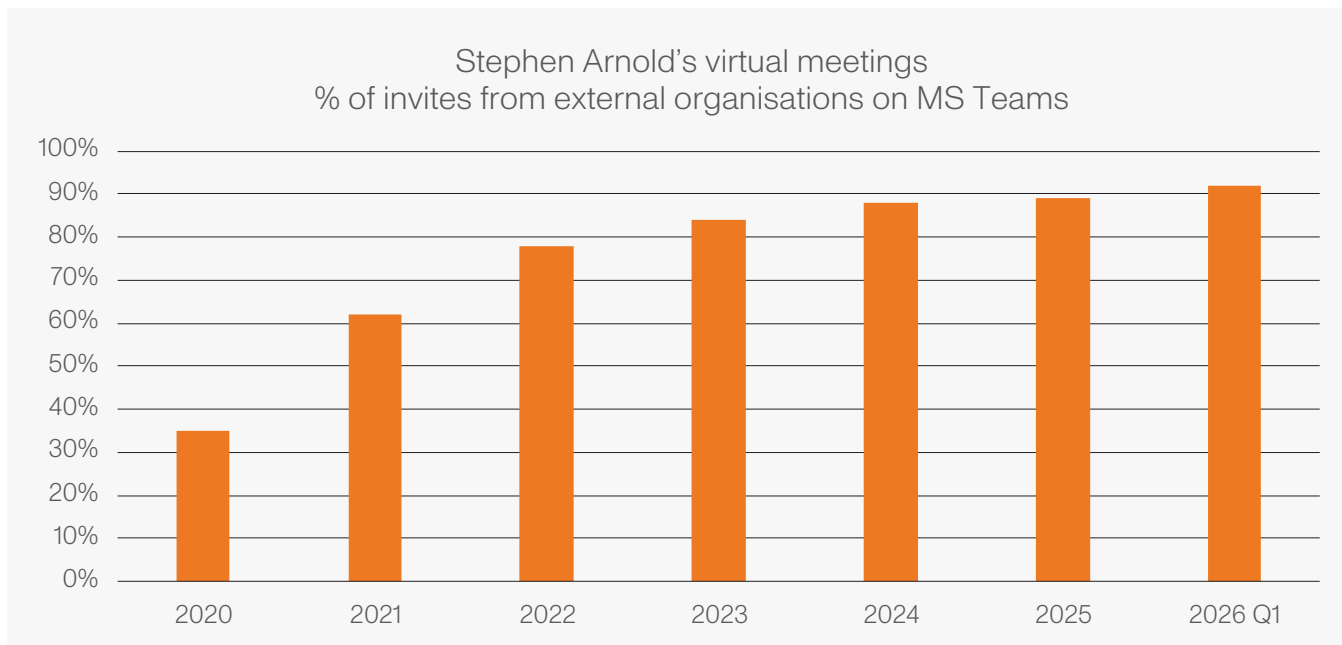
Some software and data businesses are narrow, doing just one thing, such as payroll processing, image creation or expense management. This leaves them vulnerable to displacement by AI, as new coding tools can create applications with far fewer hours of software developer time. However, a software, data or services company that provides a broad set of solutions, which is relevant to their customers in many ways, is far more defensible.

SAP provides its enterprise customers with an extensive range of interconnected applications, such as accounts payable and receivable, financial reporting, inventory management, procurement, human resources, demand planning, and supply chain management. These applications share a common database or 'single source of truth', reducing the risks that arise from multiple applications creating data independently and having discrepancies creep in over time. The interconnectedness across these applications will be even more valuable to SAP's customers when it comes to applying AI to this data.

Furthermore, many large organisations want to reduce complexity by having fewer rather than more IT vendors. This makes businesses with a breadth of offerings, such as SAP, increasingly appealing. Today, 23% of SAP's cloud customers adopt four or more of its applications, up from 9% in 2021.

Microsoft's breadth is also a huge advantage. Rather than using Zoom as a standalone communications and video-conferencing product, many organisations have found it to be cheaper and easier to include Microsoft Teams as part of a software bundle. Users also benefit from the fact that Teams is tightly integrated with Microsoft's Outlook email and calendar. This breadth positions Microsoft well when organisations consider taking standalone AI tools or Microsoft's AI tools as part of a broad software package.

I explored this in a personal context by asking Microsoft Copilot to tell me the percentage of virtual meetings for each year since 2020 that I was invited to by someone from another organisation that was on Teams. You can see the rising penetration of Teams from the chart on the next page.



The comprehensive, broad range of software and services offered by Microsoft, SAP and the other three portfolio companies is a significant source of strength and reduces the risk of displacement from AI.

Depth is defence. Here, AI is a source of opportunity

AI can add significant value to companies whose software and solutions are based on proprietary data and deep industry expertise. Businesses based on publicly available data or generic content are at risk.

RELX provides data services to a variety of professional markets. It helps car insurers in the US in their underwriting decisions, using a granular and comprehensive database on every vehicle and every driver in the country, and every claim they've submitted. It is a one-of-a-kind database that is not available to AI models.

RELX's digital identity service helps banks, governments and ecommerce sites detect and avoid fraud and identity theft. It captures over 8 billion transactions every month, and measures more than 200 data points on every one of these transactions. It is based on data provided to RELX on an exclusive basis by its customers.

For legal practitioners, where new AI tools have created notable investor concerns, RELX is one of two companies with comprehensive historical case law content totalling over 200 billion documents, as well as a proprietary citation database.

Third-party AI tools can't replace or even access these incredible proprietary data sets. AI can, though, add a lot of value to this data. RELX is creating its own AI tools, using the underlying models from the likes of Anthropic. Beyond proprietary data, RELX benefits from a deep understanding of its professional customers, which is key in creating AI tools that solve their particular problems, as well as respecting the rules and regulations that govern how data can be used in their specific industry and country.

Experian's credit data is proprietary and deep. In fact, in the US alone Experian accesses 12,000 different sources to compile comprehensive credit profiles on individuals and businesses. Experian's decades of experience with the banking industry is extremely valuable as the ways in which data can be accessed and used evolves. Banking is highly regulated, and Experian understands its bank customers' needs for data governance and accuracy.

The five software, data and services businesses in our portfolio are all built on depth in content and data, as well as a deep understanding of their customers and their unique needs.

Great value means happy customers that aren't actively looking for a cheaper alternative

Businesses that have a history of aggressive price increases place themselves at a great disadvantage when it comes to technological change. They have unhappy customers desperate for an alternative. That was true for cable TV and licensed taxis, and it is true of some software, data and services businesses today. Some dominant real estate and car sale classified businesses, for example, have recently faced legal and regulatory pressure due to their history of aggressive price increases. This issue of companies with a dominant market position increasing prices aggressively in the belief they have no effective competition is explored further in Matt Berry's feature article, later in this report.

Microsoft 365 Business Premium, the software bundle that contains Microsoft applications such as Outlook, Teams, Excel, Word and PowerPoint, costs about \$1 per day in Australia. That is remarkably good value considering how much it adds to our work life. That price has increased over the last decade at a rate of about 2% p.a., which feels more than reasonable given the improvements in areas such as security, storage, cloud computing and collaboration features over that period.

Had Microsoft taken a more aggressive stance on pricing, believing that its users are so dependent on its software that they will stay regardless, it would have resulted in unhappy customers and left it vulnerable to cheaper alternatives.

RELX does not increase prices for its data services. It recognises that doing so would encourage its customers to look for alternatives. Even if those customers couldn't practically switch to an alternative, they would be less likely to take other existing and new solutions that RELX creates over time, undermining the lifetime value of that customer relationship.

The five businesses discussed here have all taken a customer-first approach to pricing over many years. They've grown revenue and profits by creating more solutions, solving more problems for their existing customers, and winning new ones, not through like-for-like pricing.

In summary

The advent of AI will damage and displace some existing software, data and services businesses. The most vulnerable are those that are already competitively weak, have proven slow to adapt to new technology and the changing needs of their customers, whose product is narrow and thin, and offer their customers poor value.

We believe Microsoft, SAP, Experian, RELX and Accenture are all businesses with strong competitive foundations today. Their offerings are broad, and they benefit from depth in content and data and a deep understanding of the markets they serve. They all have a history of successfully evolving with the times, and they represent good value to their customers.

We added to our investments in SAP and Experian during the quarter, taking advantage of what we believe to be extremely attractive valuations.

The main positive contributors to performance in the quarter were Diploma, which rose by 8.4%, Grainger (+5.4%) and Halma (+2.6%).

Stephen Arnold

Chief Investment Officer

Portfolio Changes

Purchases

Cintas

Cintas is America's largest provider of uniform rental services. For around \$1.50 per worker per day Cintas will collect, clean and replace uniforms for organisations in industries such as lodging, entertainment, manufacturing and health care, allowing them to reduce cost and complexity and to focus on their core businesses. Cintas will often provide additional facility services in the same delivery, such as entrance mats, aprons, restroom supplies, and fire safety inspection. It keeps its customers on average for more than 20 years and has grown earnings at an impressive rate over time.

We had previously owned Cintas in the portfolio for six years until July 2024, when we sold it for valuation reasons. We repurchased this high-quality business on a significantly lower earnings multiple than it traded on when we sold it.

Sales

Sherwin-Williams

Sherwin-Williams is a leading provider of paints and coatings, with a particularly strong position with professional painters in the US. A key driver of the paint market is the volume of property sales, as homes are often repainted after they're purchased. Higher mortgage rates and lower population growth in the US have meant the number of property sales has been weak in recent years, affecting Sherwin-Williams' paint volumes.

Growth in its industrial coatings business has also been weak due to a sluggish industrial economy. Even though Sherwin-Williams has continued to grow its market share, we have become concerned that its end markets are structurally slower growing. We also had the opportunity to purchase a higher quality business in Cintas at a wider discount to fair value.



Iron Sharpens Iron: The Underappreciated Upside of Competition



Written by Matthew Berry,
Senior Investment Analyst

Introduction

Imagine you're an equity analyst in 1983. A business that's about to list on the Nasdaq comes across your desk. The business model is simple: it launders and rents out uniforms. What it does isn't proprietary – competitors can offer similar uniforms. There are no meaningful barriers to entry. Nor does this business have scale advantages – there are peers just as large. The company's pitch is that it does an unglamorous job, but reliably well. By any conventional analysis, this company would have looked ordinary.

This company was Cintas, one of the best-performing stocks of the past 42 years. By the end of 2025, \$1 invested at the initial public offering had become \$288. Today, Cintas has earned roughly 30% of the US uniform rental market. Earnings have grown at an attractive rate through all manner of recessions, rate rises, and wave after wave of competition.

How did a business doing something as ordinary as cleaning and renting uniforms, with so many other businesses offering a similar service, turn out to be this special?

The answer lies in how competition pushed the business to get better.

Rather than competition always being a source of pressure, we believe that for the best businesses, competition can make them better.

In this feature article, we discuss how competition can make the best businesses better, more durable, and mitigate the risk of competitive fade, while a lack of competition can breed complacency.

Conventional competitive advantages protect a business from competition. They do not protect a business from itself.

The absence of real competition creates the temptation for complacency

Without competition to keep it accountable, a business can slip into complacency.

Take away deadlines, feedback and recognition for a year. How hard would you push yourself?

Without any pushback or accountability, many people drift towards doing the minimum. Work still gets done, just not as well, not as carefully, and not as often. When there are no consequences to coasting, it can be easy to become lazy.

For businesses that don't face competition, this is often the scenario they find themselves in. There is less incentive for the business to improve its product or service because customers don't have alternatives. Unhappy customers can't leave.

There is also less incentive to maintain efficient operations. If costs aren't managed effectively, the company can pass those costs on to its customers with higher prices, without immediate consequence.

The danger for an investor is that complacency rarely announces itself in the numbers straight away, even if under the surface there is erosion. In these situations it's often only a matter of time until an unexpected change brings the cost of complacency to light: a new technology, a regulatory change, a new substitute. By then, it's already too late to make changes.

The costs of complacency can remain hidden for years, but when they eventually become apparent, the business's decline can be rapid.

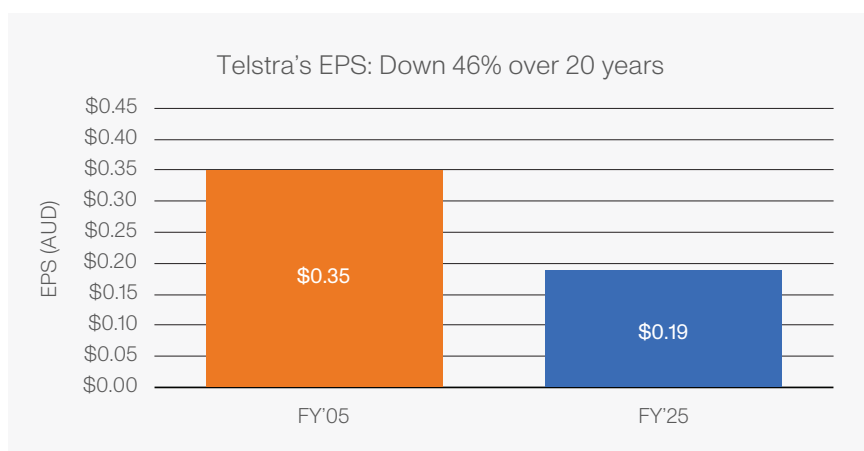
Below are two examples of how businesses protected from competition can become complacent, and how the cost of complacency can be hidden until there's a change in the industry.

Telstra

When Telstra became publicly listed in the late 1990s, it was insulated from competition. Demand for connectivity was increasing rapidly and Telstra had a monopoly on most of the fixed-line network needed for connectivity in Australia.

Over the next two decades, Telstra became one of the least trusted brands in Australia, known for its high prices and poor customer service. Customer relationships deteriorated in a way that wouldn't have been likely in a genuinely competitive environment. Over the short term, the impact was muted. The lack of competition made Telstra complacent.

When the NBN was announced, threatening Telstra's infrastructure advantage, it was too late for the business to meaningfully rebuild its reputation with customers. As the NBN arrived, customers had a choice for their fixed-line internet connection for the first time, and many exercised it. Telstra's fixed market share, which was 68% in the late 1990s, fell to 34% by 2025. Over the past 20 years, its EPS has nearly halved as shown below.



Source: Company data and Aoris analysis

IBM

IBM's story differs from Telstra in that it wasn't born a monopoly. Instead, IBM worked hard over decades to achieve its dominant position in enterprise computing. By the 1990s, it had a strong data centre infrastructure offering and deep enterprise relationships. In the early 2000s, it was among the first to recognise the potential of cloud computing. Despite recognising the opportunity early, IBM failed to turn that insight into leadership. Today, cloud computing is associated with Amazon, Microsoft and Google, but not IBM. Why is this?

By the early 2000s, IBM already had a large installed base of enterprise clients, where its products were deeply embedded. With minimal effort, it earned excellent recurring revenue. IBM's dominant position protected it from competition, but it also allowed complacency to creep in. The focus of the business shifted towards improving margins and maintaining the status quo.

By the time the company raised the alarm that it was being left behind by the market's shift to cloud infrastructure, it was too late.

An example from nature – the dodo

The impacts of limited competition can also be seen in evolution, as was observed with the dodo.

The dodo was a bird that evolved on Mauritius, an isolated island with no large predators. With no predators, the dodo lost its ability to fly and the fear instinct that helps animals avoid danger. It didn't need to protect its eggs from predators so it built nests on the ground.

The dodo thrived for millions of years on Mauritius.

Then, Dutch sailors arrived in 1598, and with them invasive animals like rats, pigs and monkeys. These were species that had gone through natural selection against the toughest competition the Afro-Eurasian supercontinent offered.

Within one human lifetime, dodos became extinct. The last sighting of a dodo was in 1662.

Businesses are no different. Businesses protected from competition also don't go through the natural selection process. Just like the dodo, they can appear fine for a long time, even if vigilance has waned. But eventually a day will come when there's a change in their ecosystem. If the business has allowed complacency to creep in, it will only take a small change for its underlying weaknesses to be exposed. The downfall can be sudden and rapid.

Competition makes the best businesses better

A competitive environment separates the exceptional businesses from average ones and pushes them to get even better.

Competition separates the best from the rest

At Aoris, we like businesses that win in competitive markets. It accentuates the strengths of a strong business and the weaknesses of a weak business. Returning to our nature analogy, in more competitive environments, weaker animals quickly die out, while the species that can survive eventually flourish when they reach more forgiving environments – sometimes to the point where we label them as pests!

Competition can push the best businesses to get stronger

Just as a lack of competition can breed complacency, competition forces leading firms to stay sharp. It exposes weaknesses, reveals where improvement is needed, and creates a constant push to get better.

The same pattern appears across history. Between 1500 and 1800, the Western world opened up a clear lead in warfare over other great civilisations, including the Middle East, China and India. A central reason was Europe's political fragmentation. It was made up of many rival states locked in continual competition, while the Middle East, China and India were more often unified under dominant powers, limiting that same intensity of conflict. China offers a similar example. Many of its most important advances in warfare and state-building came between 770 BC and 221 BC, the age of Confucius and Sun Tzu, and the period before China was unified. These were centuries of relentless struggle, with its later centuries aptly named the 'Warring States period'.

How competition pushes Cintas to win

Cintas operates in a competitive market. Customers are free to choose from many uniform rental providers, so Cintas has to offer something superior to win them. Then, to retain customers in the face of ever-improving competition, Cintas has to keep finding ways to get better. It's improved its reliability, broadened its range of uniforms, and turned each customer visit into a chance to provide more services, like restocking soaps, towels, doormats, and first aid kits. It's also improved its efficiency over time, with customers benefiting from muted price increases.

Cintas' value proposition is so compelling that its average customer stays for 25 years.

Businesses that have thrived against competition, can offer investors the opportunity for more durable growth and less risk.

Why businesses that thrive in competitive markets can make attractive investments

1. Significant room to grow via share gains

Competitive markets expose weak businesses, causing them to lose share at a faster rate. But the same dynamic creates an opportunity for stronger businesses. As weaker competitors falter, the strongest businesses benefit from having substantial headroom to gain share from these weaker businesses and drive growth.

Today, Cintas still only has 30% of the US uniform rental market. There is a lot more room for that to grow, fuelling growth for many years to come.

2. The size of the pie can grow

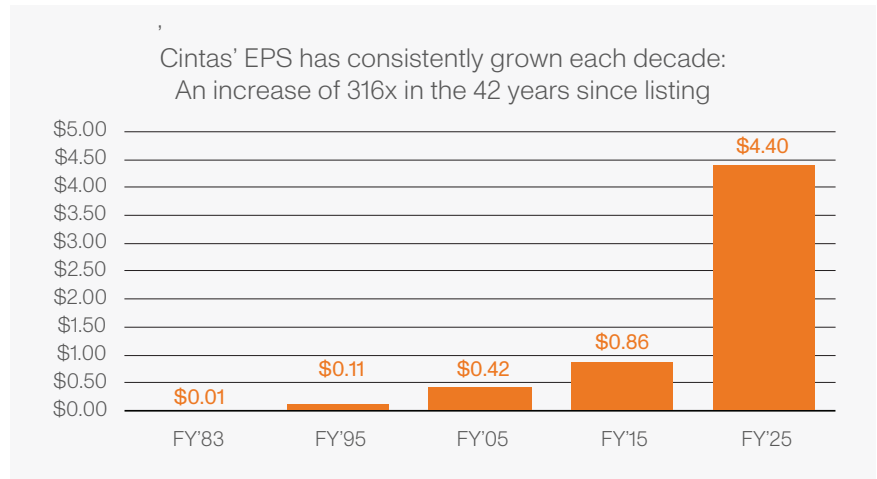
Markets aren't zero-sum. By pushing all players to improve, competition can expand the size of a market.

In Cintas' case, many businesses either manage their uniform programs themselves or ask employees to purchase and clean their own uniforms. By Cintas improving what it offers, it has persuaded many businesses that previously operated this way to transition to renting uniforms from them. This grows the size of Cintas' overall market. Today, two-thirds of Cintas' new customers are companies that are new to renting uniforms from an external provider.

3. Competitive pressure brings issues to the surface, lessening the chance of a hidden surprise

Weaknesses brewing beneath the surface are more likely to be exposed by competitive pressure. As my favourite mixed martial arts athlete Khabib Nurmagomedov once proclaimed after winning the biggest match in mixed martial arts history: 'Diamonds are made under big pressure. If you can handle this pressure, you can become a diamond'.

Cintas has been remarkable in the lack of surprises that investors have experienced over its history. This is reflected in its earnings, which have consistently grown at a strong rate as shown below.



Source: Company data and Aoris analysis

Conclusion

The best businesses are not always the ones with the easiest path. Often, they are the ones that have been forced to fight, adapt and improve for years.

Competition does not guarantee greatness, but it does make complacency much harder. That is why it can be such a powerful force in investing. When a company can keep winning in a hard market, it is usually telling you something important: this is a business still sharpening its edge.

Portfolio companies

accenture

Amphenol

CINTAS
READY FOR THE WORKDAY[®]

COMPASS
GROUP

DIPLOMA PLC

experian.

GRAINGER

Halma

IHG[®] HOTELS &
RESORTS

jack henry[™]

L'ORÉAL
PARIS

Microsoft

RELX

SAP

VISA

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AORIS

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