Fairlight
Asset Management

Global Small & Mid Cap Fund

Overview

November 2020

Fairlight

Asset Management

Important Information: Fairlight Asset Management Disclaimer

Figures and graphs sourced from Mainstream BPO, Fairlight AM, Bloomberg, and FactSet Portfolio Analytics. This document has been prepared by Fairlight Asset Management Pty Ltd ACN 628 533 308 Corporate Authorised Representative No 001277649 of AFSL No 000247293, the investment manager of Fairlight Asset Management Global Small and Mid Cap Fund. This document may not be reproduced, used or given to any other person, in whole or in part, without Fairlight's consent. It has been prepared to assist you and does not purport to be all-inclusive or contain all information that you require to decide on Fairlight products and services. Neither Fairlight, nor any of its directors, officers, employees or associates, make any representation or warranty as to the accuracy or completeness of the Information and none of them has liability for any loss or damage, whether direct, incidental or consequential, caused by reliance on or use of Information or representations (express or implied) in, or for omissions from, this document or other communications to you in the course of your evaluation of Fairlight products and services. All opinions and estimates constitute judgments of Fairlight and Perennial and are subject to change without notice. These statements should therefore not be relied upon as an accurate representation or prediction as to any future matters. The Product Disclosure Statement (PDS) contains all of the details of the offer. You can obtain a copy of the PDS from fairlightam.com.au or by contacting Fairlight Asset Management 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. Past performance is not an indicator of future performance. Returns are not guaranteed and so the value of an investment may rise or fall. The Trust Company (RE Services) Limited (ABN 45 003 278 831 AFS Licence 235150) is the Responsible Entity of Fairlight Global Small & Mid Cap Fund ARSN 629 066 913. All data in this presentation sourced from Factset or Fairlight unless otherwise stated.

Overview

Fairlight Small & Mid Cap Fund	Parameters
Stock numbers	30-40
Market capitalisation	US$500m-$20bn
Style	Long only quality
Maximum cash	20%
Objective	8-12% through cycle / capital preservation
Benchmark	MSCI World SMID AUD (Net)

Distribution

PERENNIAL

Administrator

MAINSTREAMBPO

Auditor

EY

Responsible Entity

Perpetual

Hedging

STATE STREET

ESG

Signatory of:

PRI Principles for Responsible Investment

Investment team

Nicholas Cregan

Nicholas is a **Portfolio Manager** of the Fairlight Global SMID Fund.

Investment Experience: 18 years

- **E&P (2014 – 2017):** Portfolio Manager. Awarded "Best Global Fund" in 2016 with top decile performance since inception
- **Schroders (2006 – 2013):** Senior Analyst of the US$7bn Small Mid Cap Fund covering 25% of fund assets. Portfolio Manager AUS Micro Cap Equities (11% pa out performance over five years)

Qualifications

- Bachelor of Business (Accounting, Law)
- FINSIA Applied Valuation, UTS Fin Cert. Dip. Derivatives

Ian Carmichael, CFA

Ian is a **Portfolio Manager** of the Fairlight Global SMID Fund.

Investment Experience: 13 years

- **Watermark (2017 – 2018):** Portfolio Manager
- **Platinum (2013 – 2017):** Team leader of Consumer team, managing a $100m sleeve. Analyst coverage of healthcare sector.
- **MLC (2008 – 2013):** Senior Analyst & PM at MLC Multi Asset.

Qualifications

- Bachelor of Chemical Engineering & Masters of Biomedical Engineering
- Chartered Financial Analyst

Will Dowd, CFA

Will is responsible for **investment analysis** and **database design**.

Investment & Analytics Experience: 10 years

- **E&P (2015 – 2017):** Global equity analyst
- **Ernst & Young (2011 – 2015):** Senior Consultant (data analytics & advisory)

Qualifications

- Bachelor of Business Systems
- Masters of Finance
- Chartered Financial Analyst

Alvise Peggion, CFA

Alvise is responsible for **investment analysis.**

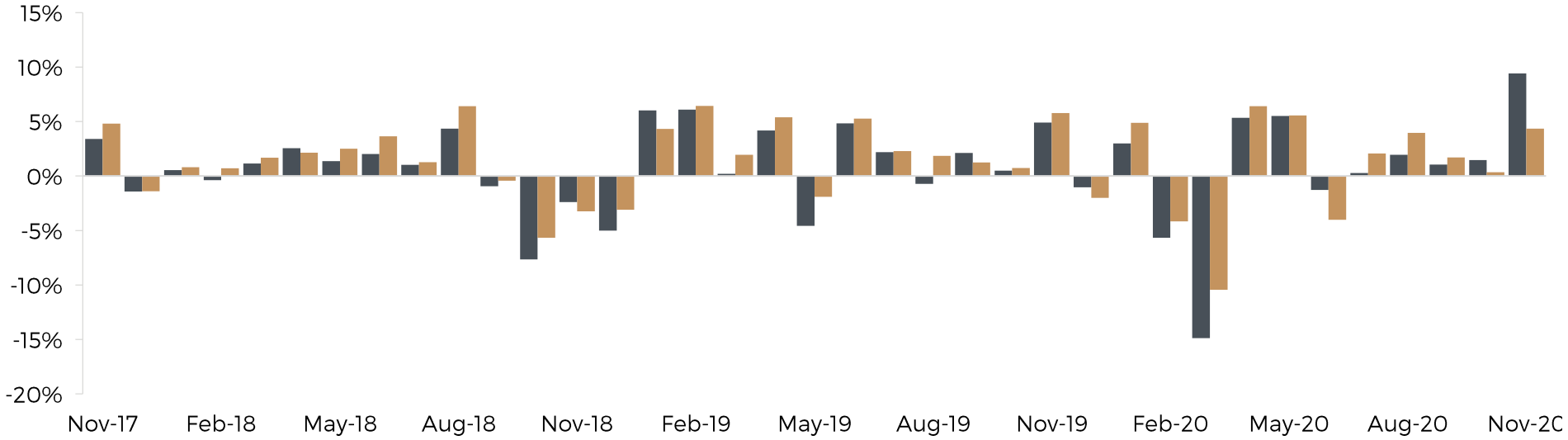
Investment Experience: 8 years

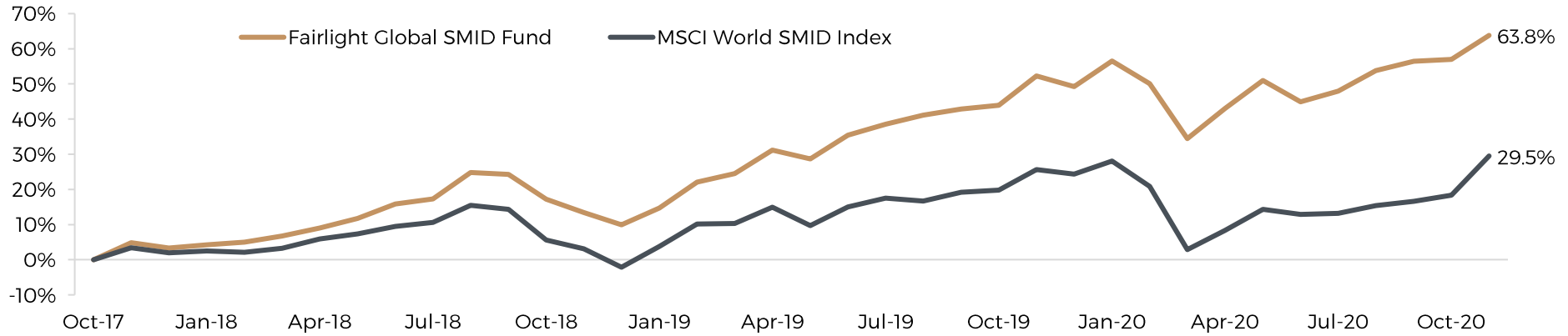
- **Forager Funds Management (2013 – 2019):** Global equity analyst

Qualifications

- Bachelor of Finance (1st Class Honours)
- Chartered Financial Analyst

Fairlight track record





November 2020

FAM: +4.4%
Benchmark: +9.4%
Outperformance: -5.0%

Return Profile

Upside capture: 116%
Downside capture: 74%

8.6% p.a. outperformance (17.3% p.a abs.) since 1st of November 2017

Unit trust performance

Performance to November-20	1 Month	3 Months	6 Months	1 Year	2 Years p.a.	Since Inception p.a.
Fairlight Global Small & Mid Cap Fund	4.4%	6.5%	8.5%	7.6%	20.2%	17.7%
MSCI World Small & Mid Cap Index	9.4%	12.2%	13.2%	3.1%	12.1%	10.2%
Outperformance	**-5.0%**	**-5.7%**	**-4.7%**	**4.5%**	**8.1%**	**7.5%**

Performance is in AUD and net of all fees. Inception date is 1 November 2018. Since inception returns are on a per annum basis.
Past performance is not a reliable indicator of future performance

Unit trust performance

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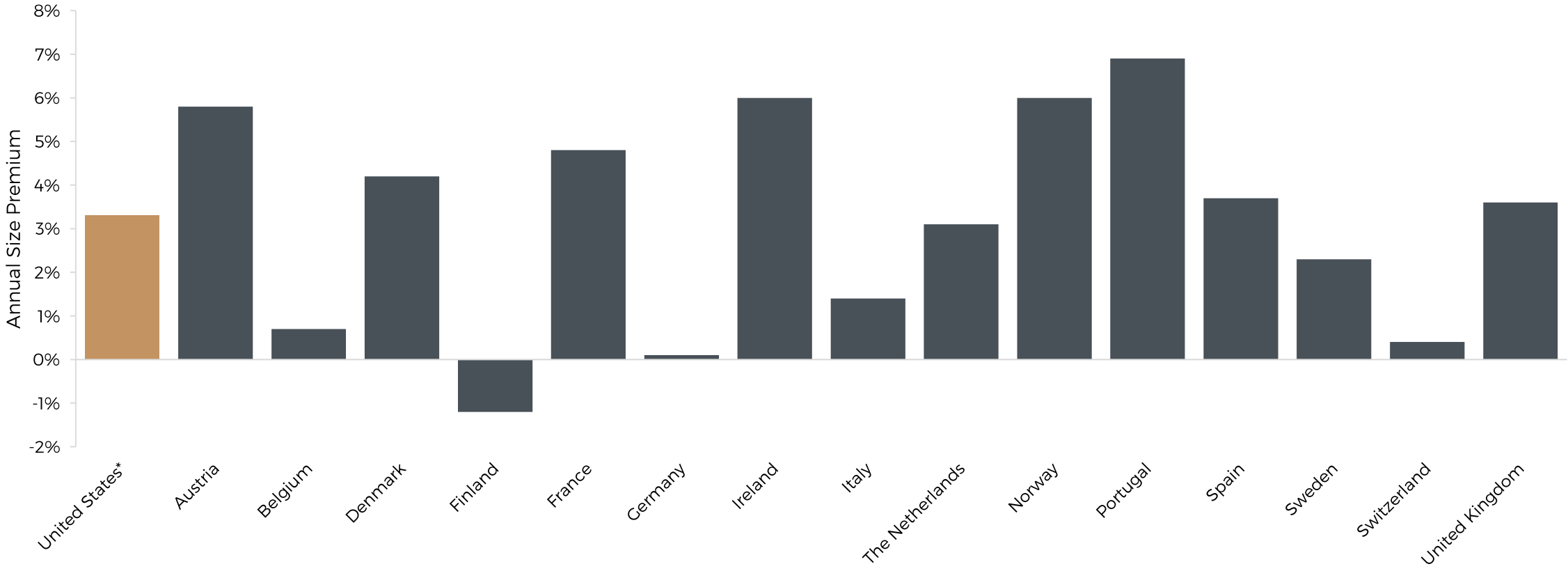
Performance is in AUD and net of all fees. Inception date is 1 November 2018. Since inception returns are on a per annum basis.
Past performance is not a reliable indicator of future performance

2

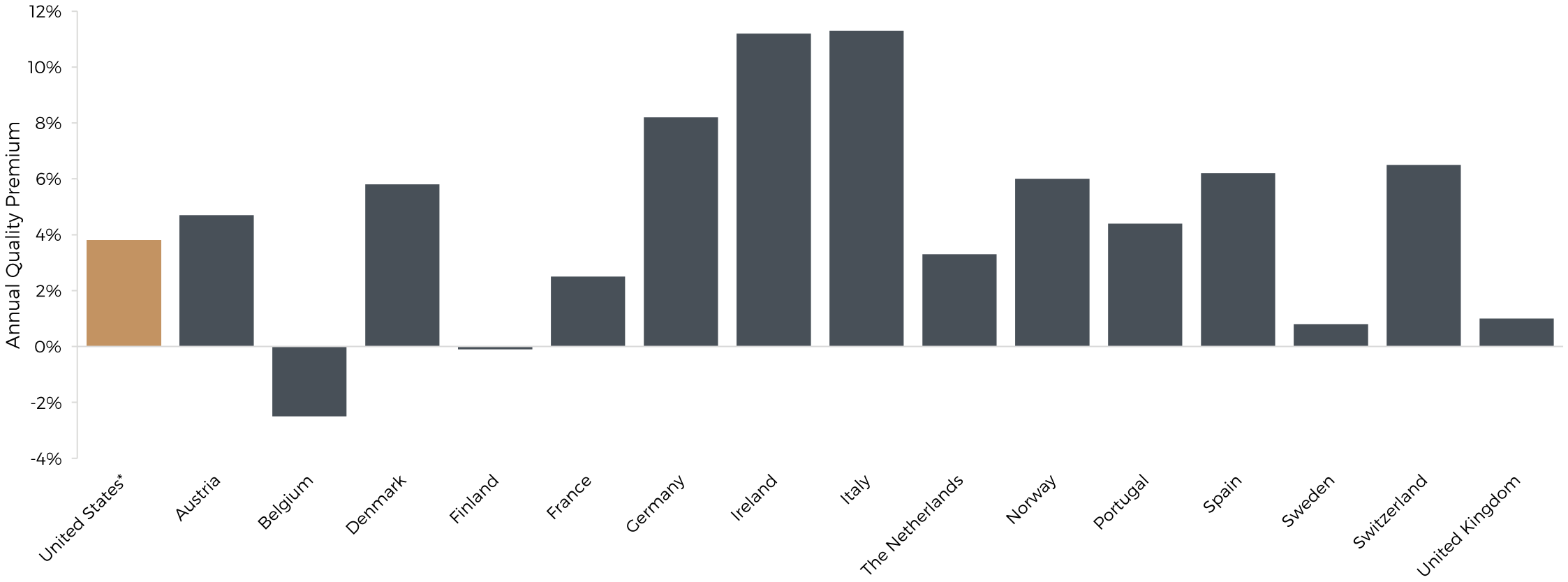
Why Global Small & Mid Cap?

Belief 1: Smaller companies outperform



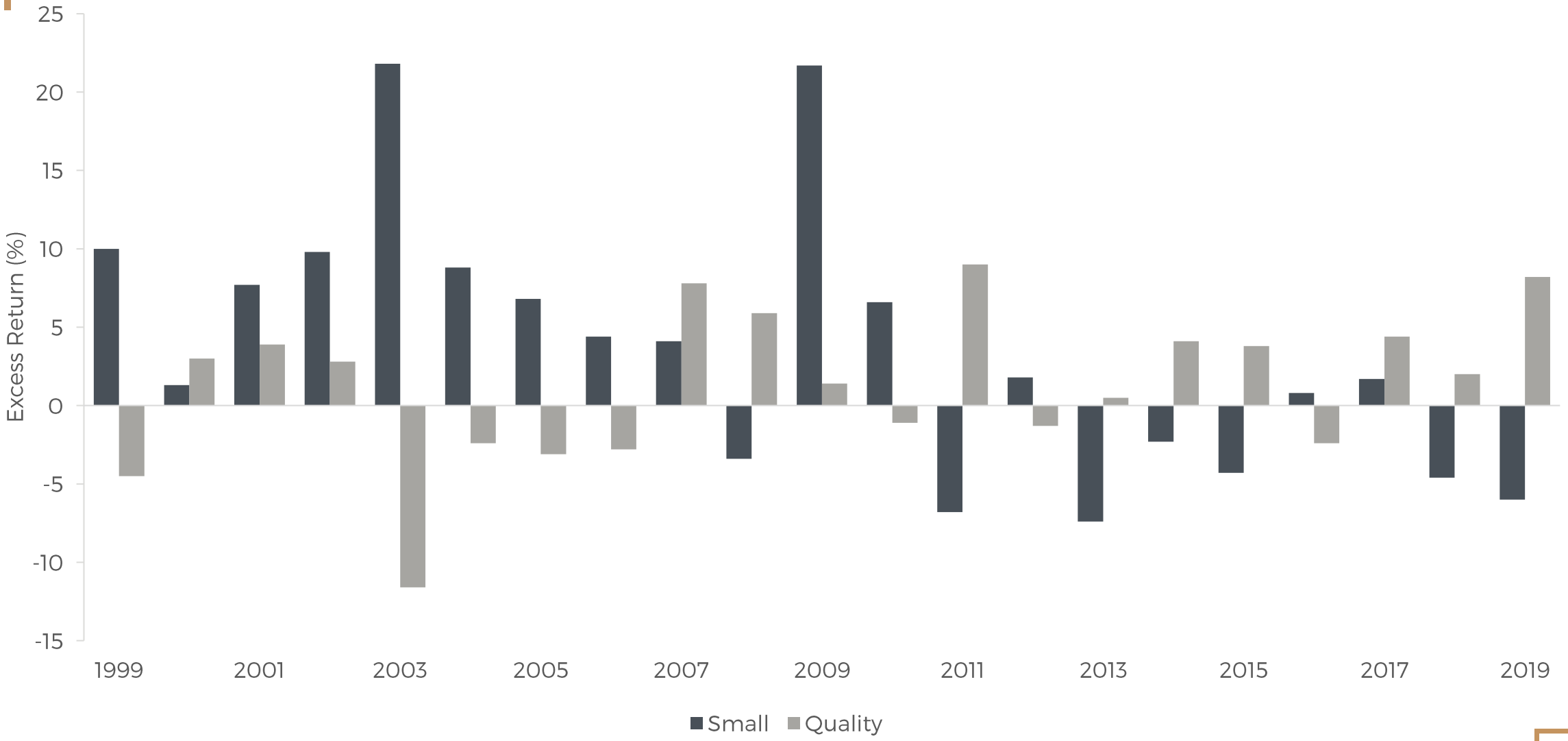
*U.S. 1927-2015; European markets 1982-2014
Sources: Berkin & Swedroe, "Your Complete Guide to Factor-Based Investing", 2016.
Black & Meyer-Brauns, "Dimensions of Equity Returns in Europe", 2015.

Belief 2: Quality companies outperform



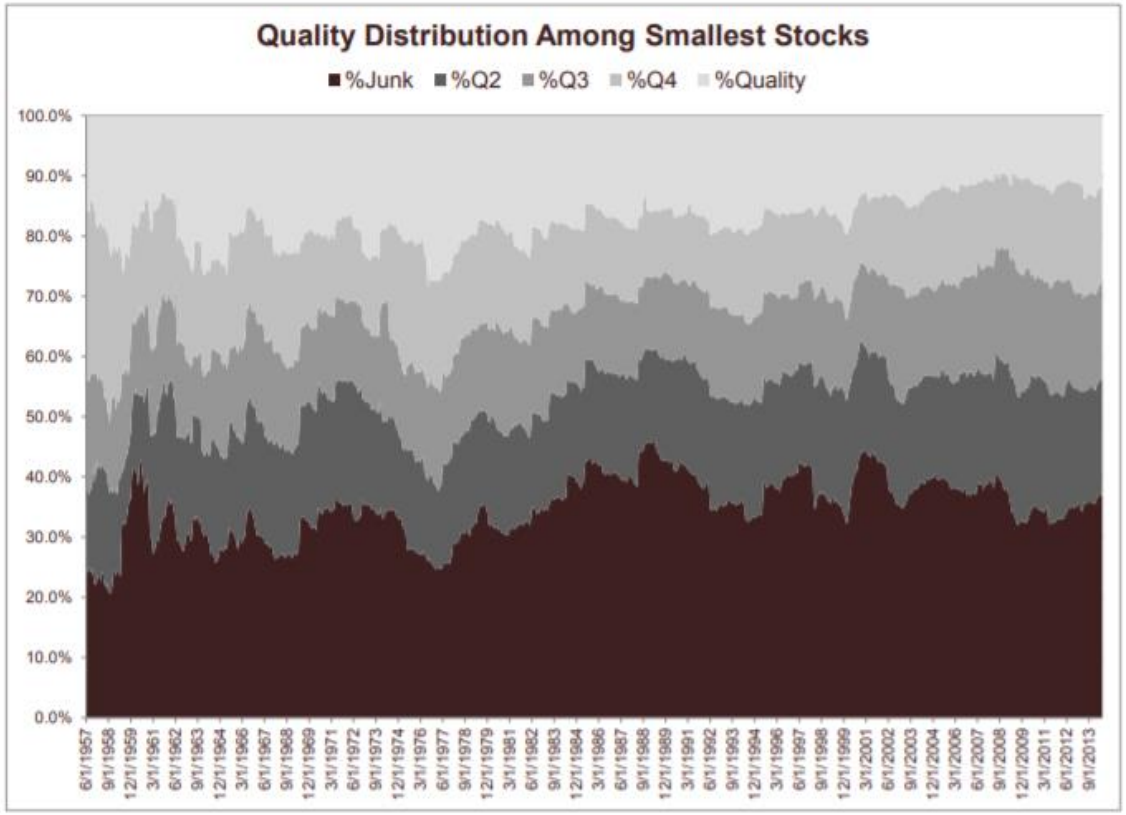
*U.S. 1927-2015; European markets 1982-2014
Sources: Berkin & Swedroe, "Your Complete Guide to Factor-Based Investing", 2016.
Black & Meyer-Brauns, "Dimensions of Equity Returns in Europe", 2015.

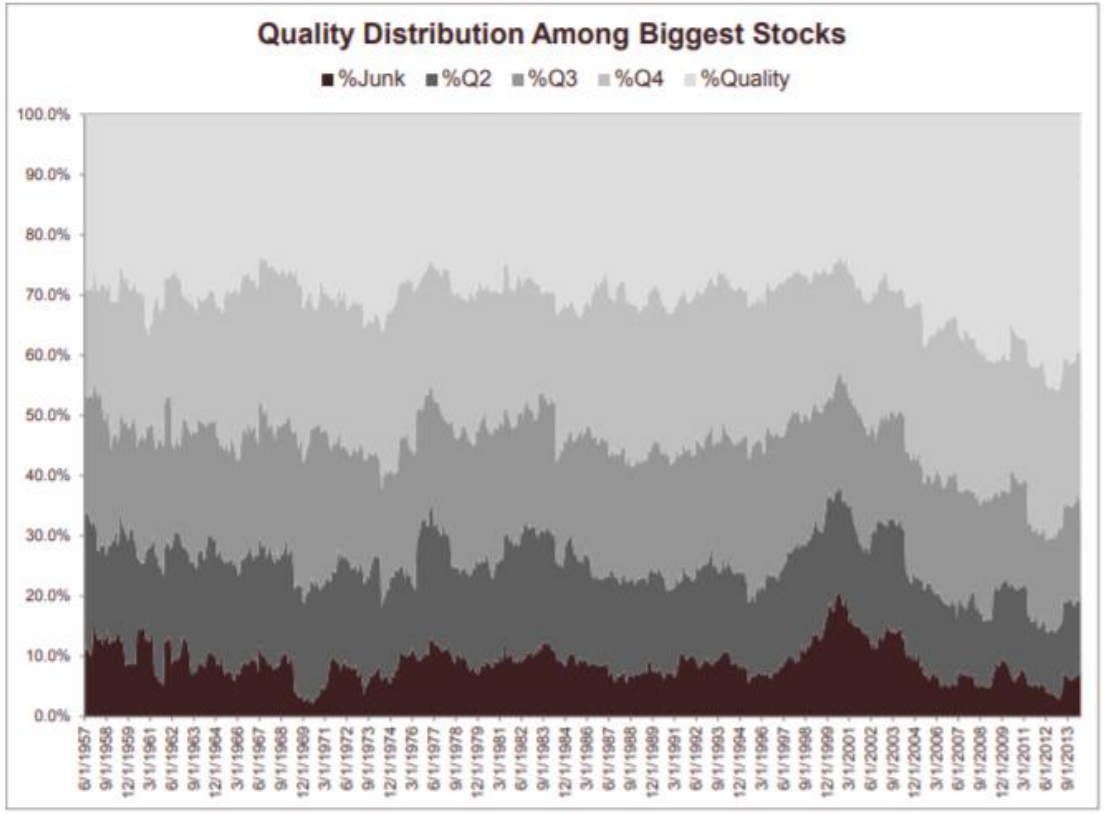
Belief 3: Small and quality investing styles blend beneficially



Source: MSCI. Returns are relative to MSCI ACWI Index in USD.

Belief 3 cont.: Small and quality investing styles blend beneficially



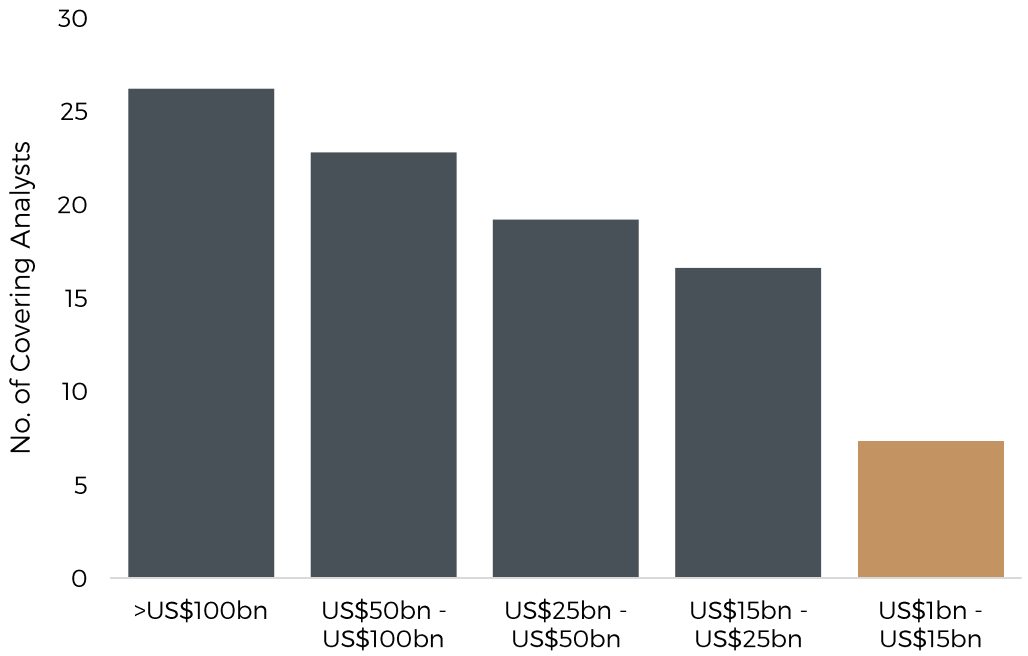


Source: Asness, Frazzini, et al. “Size matters, if you control your junk”, 2018.

Belief 4: Inefficient markets create opportunities for active management

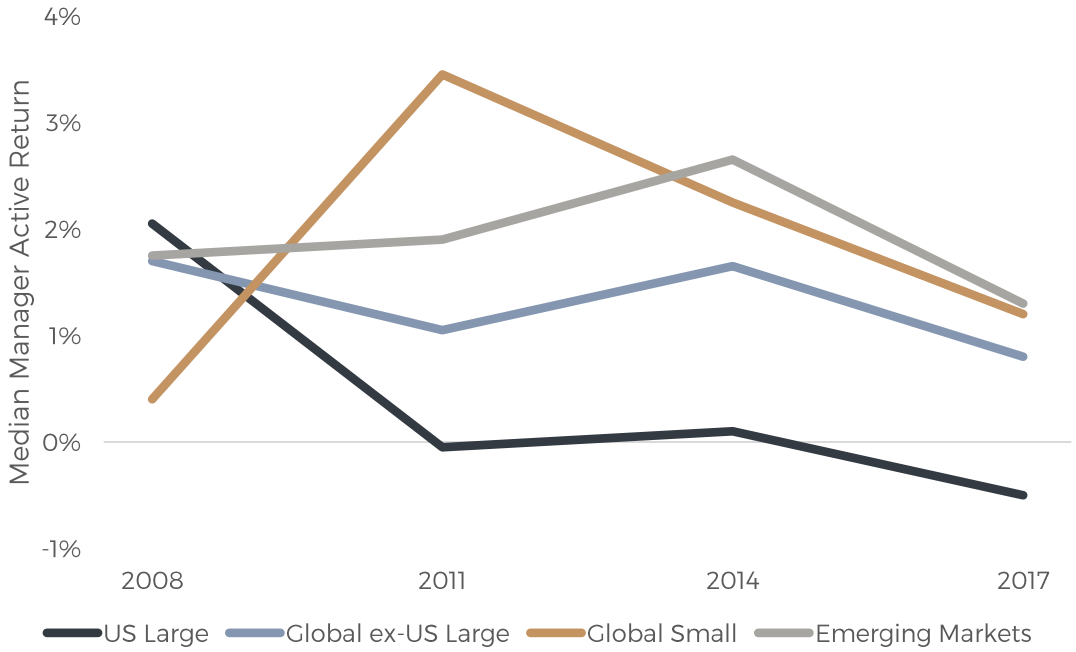
SMID segment is under researched…

There are five times less analysts covering our cohort of stocks compared to mega caps and the disparity is only increasing due to cost pressures.



Creating opportunity for active managers…

Historically the more inefficient a market, the better the excess returns delivered by active managers.



 Source: i) Factset; ii) Evaluating Opportunities in Active Management, Gupa, Oberoi & Subramanian, 2018

Concentrated portfolios are differentiated but not necessarily higher risk

Number of stocks	1	15	30	60	Entire Market
Standard Deviation	45.0%	16.5%	15.4%	15.2%	14.5%
Diversification Benefit	0%	93%	97%	98%	100%
Tracking Error	45.0%	8.1%	6.2%	5.3%	0.0%

Academic research has found:

- Active managers' best ideas (largest active weights) outperform by approximately one to four percent per quarter.
- Funds with the highest aggregate active share were shown to outperform those with the lowest active share by roughly 2.5% a year.

Source: Cremers and Petajisto (2009), Cohen, Polk and Silli (2009), Surz and Price (2000)

3

Investment Philosophy

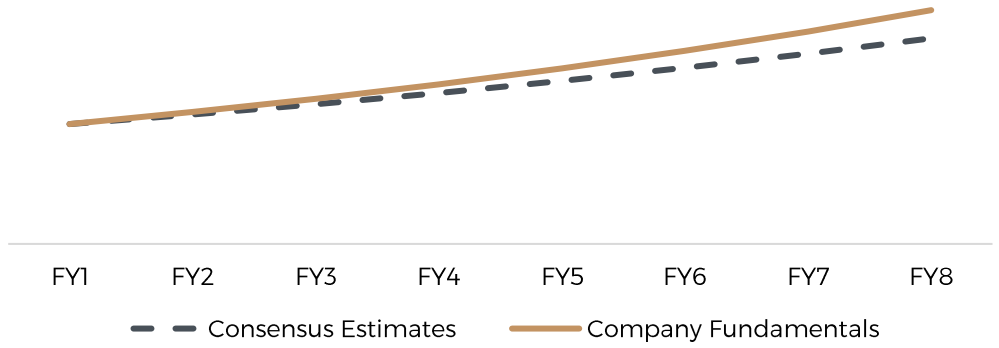
Our investment opportunities defined

1. High quality growth companies
   - Network effects
   - High ROIC growth capex

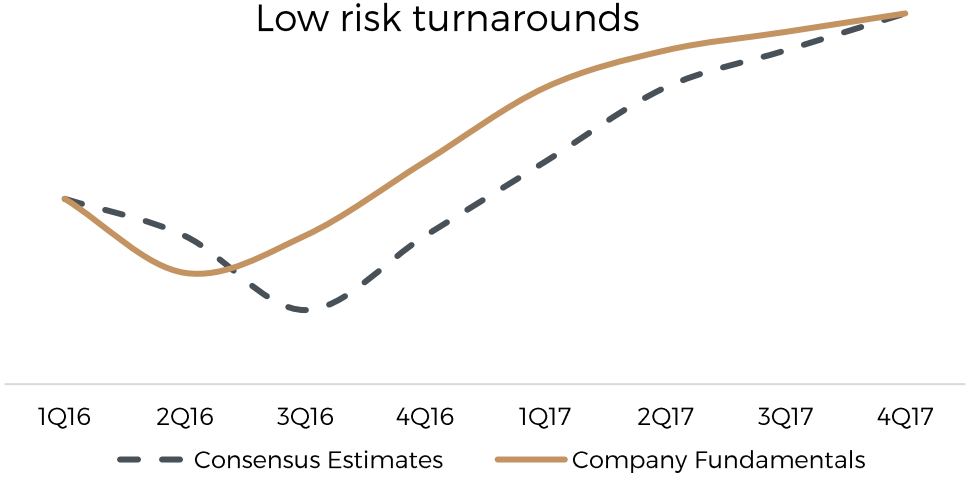
2. Stable compounders
   - Unusually stable cash flows
   - Modest revenue growth
   - Margin expansion
   - Sound capital allocation

3. Low risk turnarounds / Special situations
   - Quality core
   - Requires strategic review or new management
   - Divestment of non core assets
   - Spin offs

High quality growth & stable compounders



Low risk turnarounds



Typical portfolio positioning

High Quality Growth 40%

AutoTrader
rightmove
Softcat
MSCI
Verisk
MORNINGSTAR

Stable Compounders 40%

CONSTELLATION SOFTWARE INC.
GEBERIT
Broadridge
Copart
McCormick
VERISIGN

Turnarounds / Special Situations 10%

Domino's
PIZZA PAPA JOHN'S
Cerner

Cash 10%

Screen out low quality, low cash generative, macro dependent sectors

Screen Out

Low ROIC	Cyclical/Macro Dependent	Value to Cost Ratios/ESG	Single Points of Failure
Utilities	Heavy Industrials	Tobacco	Biotech
Property Trusts	Banks	Armaments	Unproven Tech
Infrastructure	Oil & Gas	Narrow Pharma	Single Product / Customer
Agriculture	Metals & Mining	Gambling	Binary Outcomes

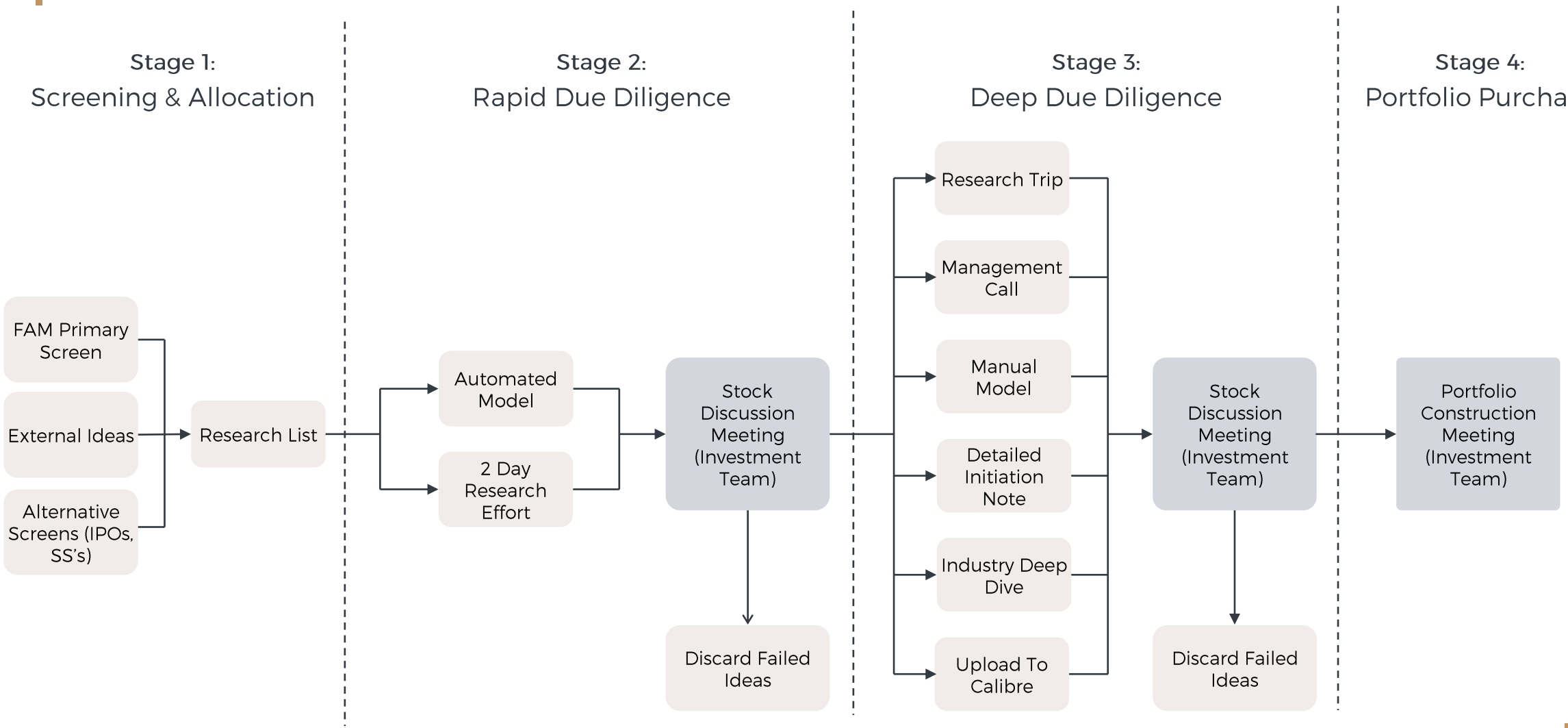
Fairlight Universe

Fairlight Focus
Consumer & Media
Light Industrials
Niche Technology
Healthcare

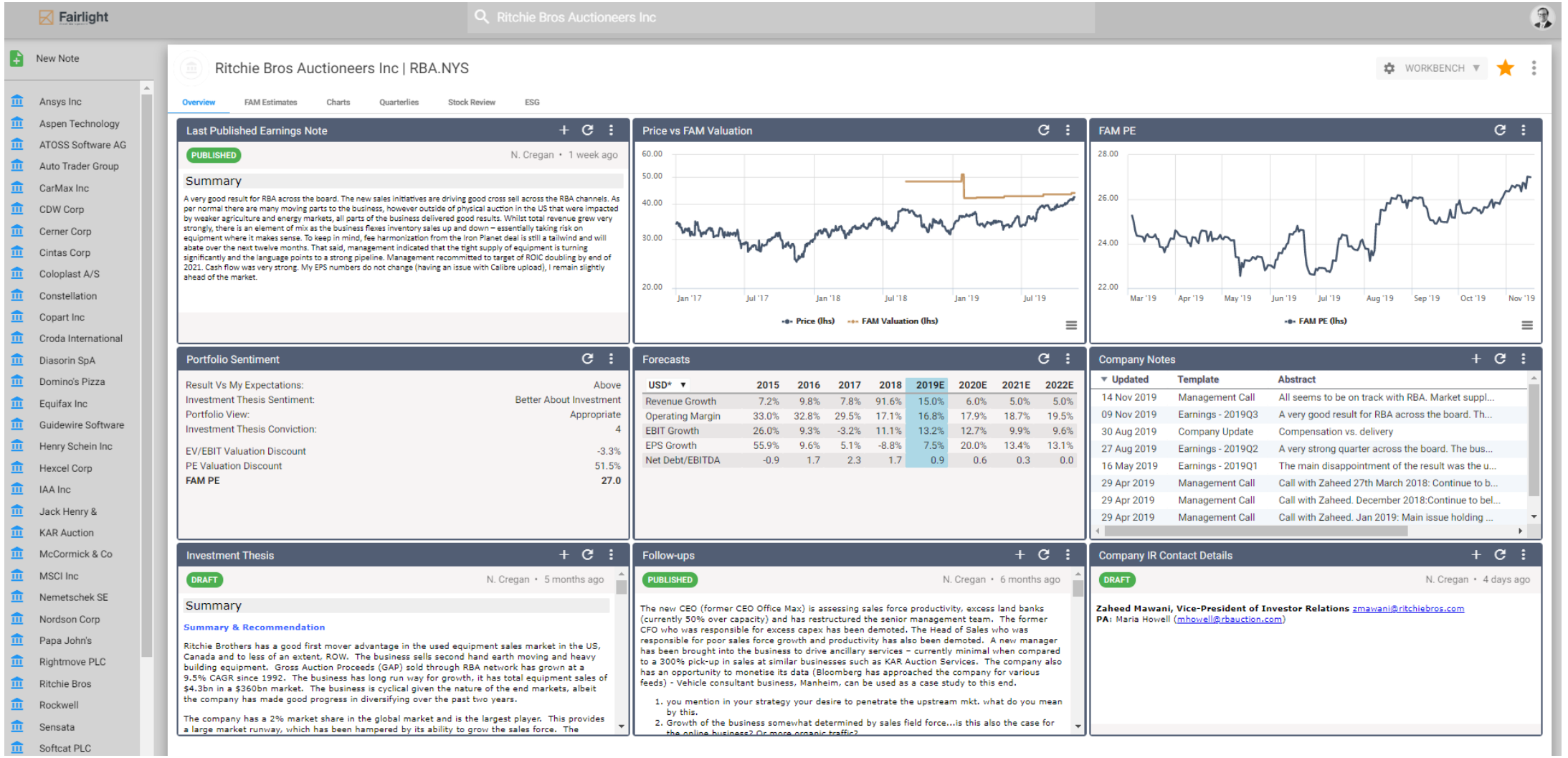
Primary screen

Global Small and Mid Cap Market Developed markets Market cap $500m-$25b	5000
Sectors Consumer, technology, industrial and healthcare,	3000
Profitability ROIC > 15% 5yrs+ EPS growth > 4% pa 5yrs+	500
Risk & Governance Net debt / EBITDA < 4.5x Shares on issue < 3% growth over 5yrs	200

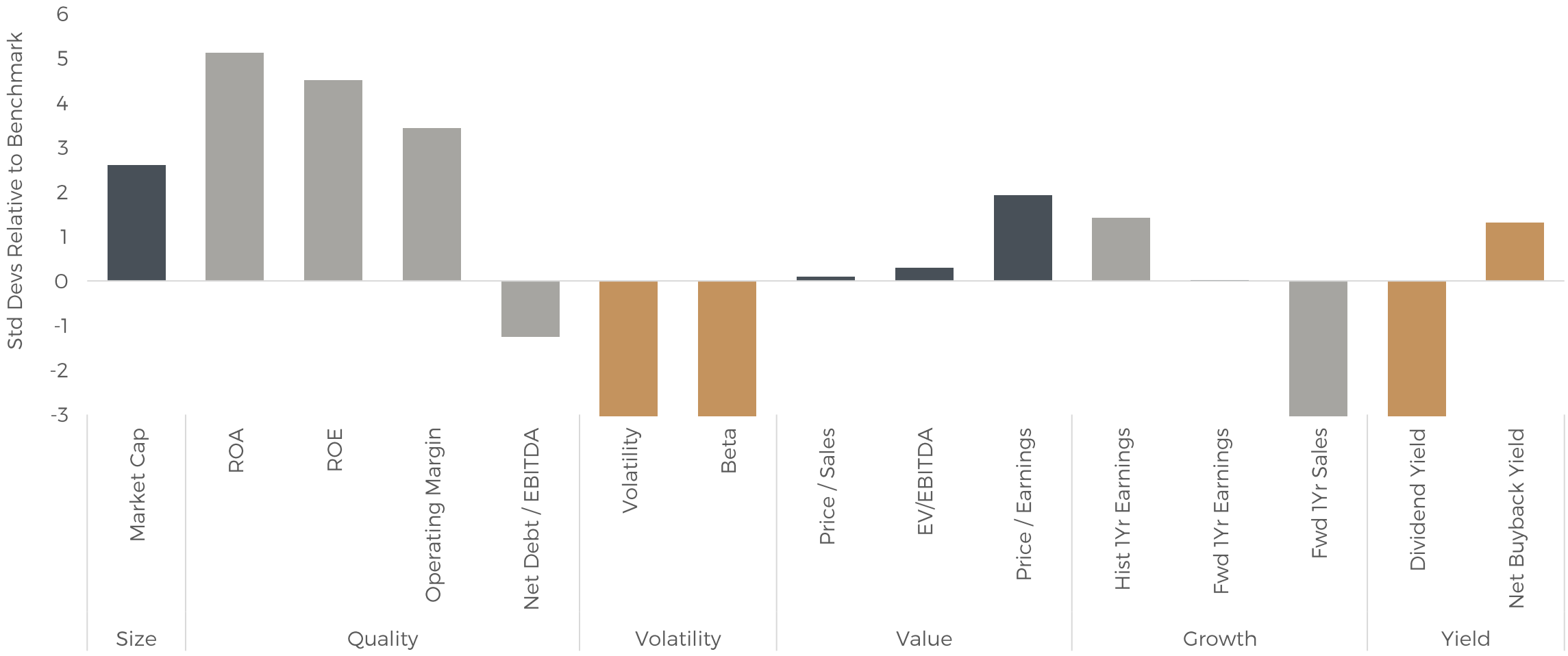
Idea lifecycle



Systems & analytics - Calibre



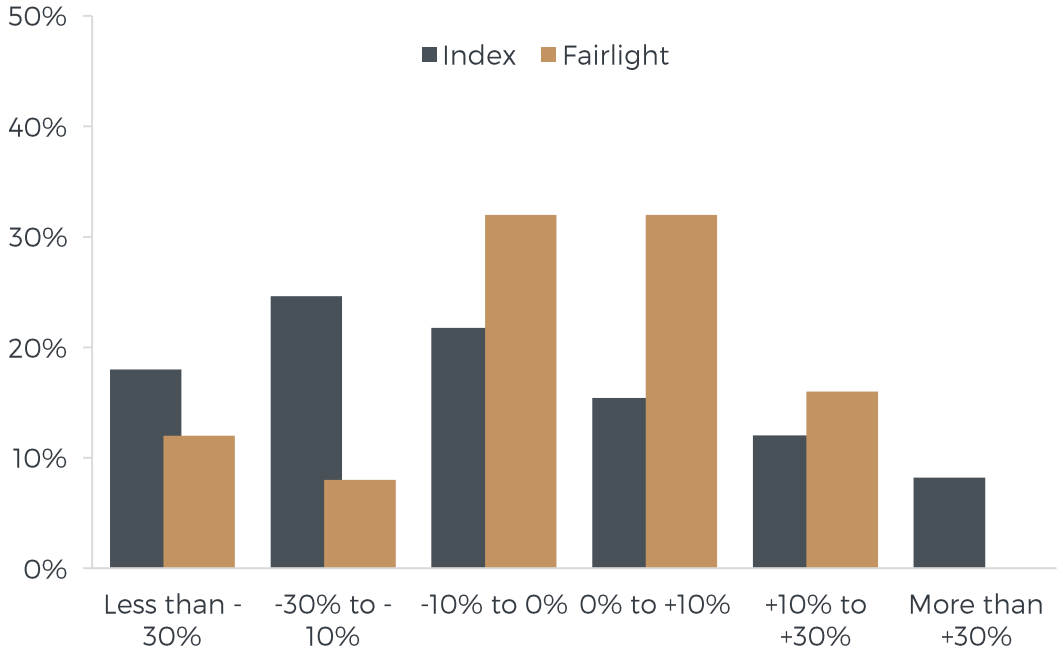
Characteristics of the fund



Source: FactSet Portfolio Analytics. Porfolio as at 30th September 2020. Benchmark is MSCI World Small and Mid Cap Index.

Business performance during the COVID-19 shutdown (2Q20)

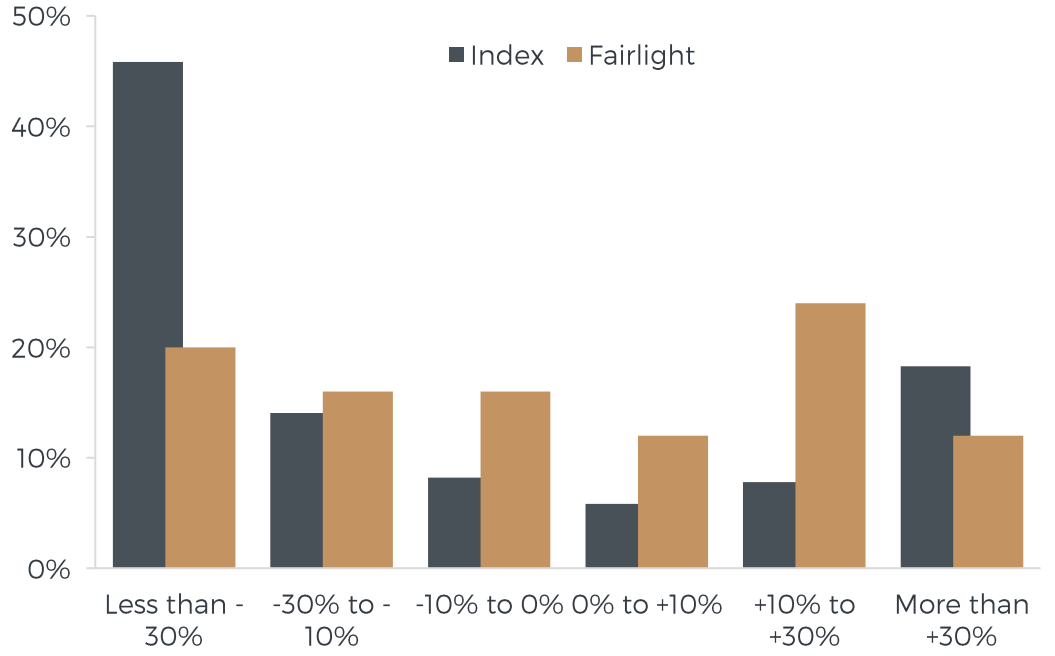
Fairlight vs Index Revenue Resilience



48% of the portfolio grew revenues compared to only 36% for the index.

Median change in revenue for the Fairlight portfolio was flat year over year (-6% index).

Fairlight vs Index Earnings Resilience



46% of companies in the Index suffered a >30% earnings decline (Fairlight 20%).

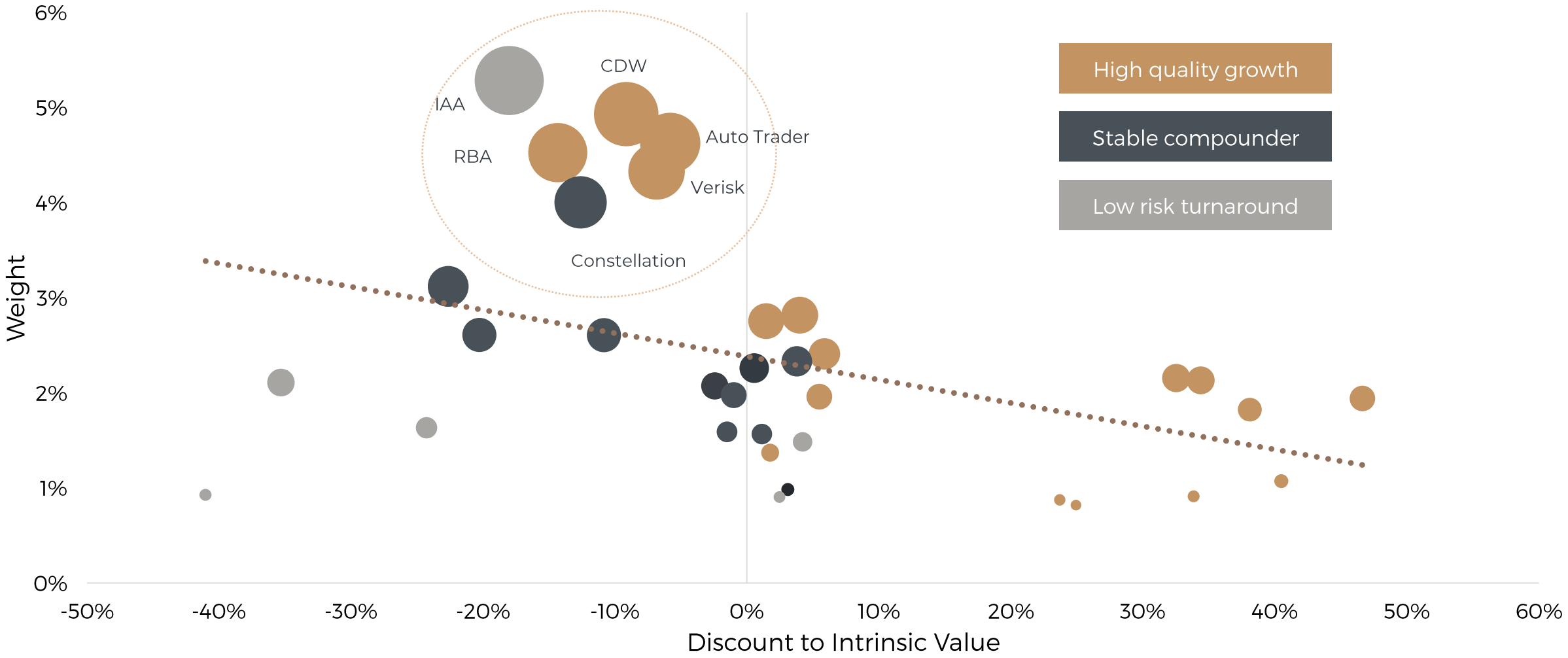
Median change in earnings for the Fairlight portfolio was -2% year over year (-24% index).

Source: MSCI & FactSet Portfolio Analytics. Performance is in AUD and net of all fees.
Past performance is not a reliable indicator of future performance

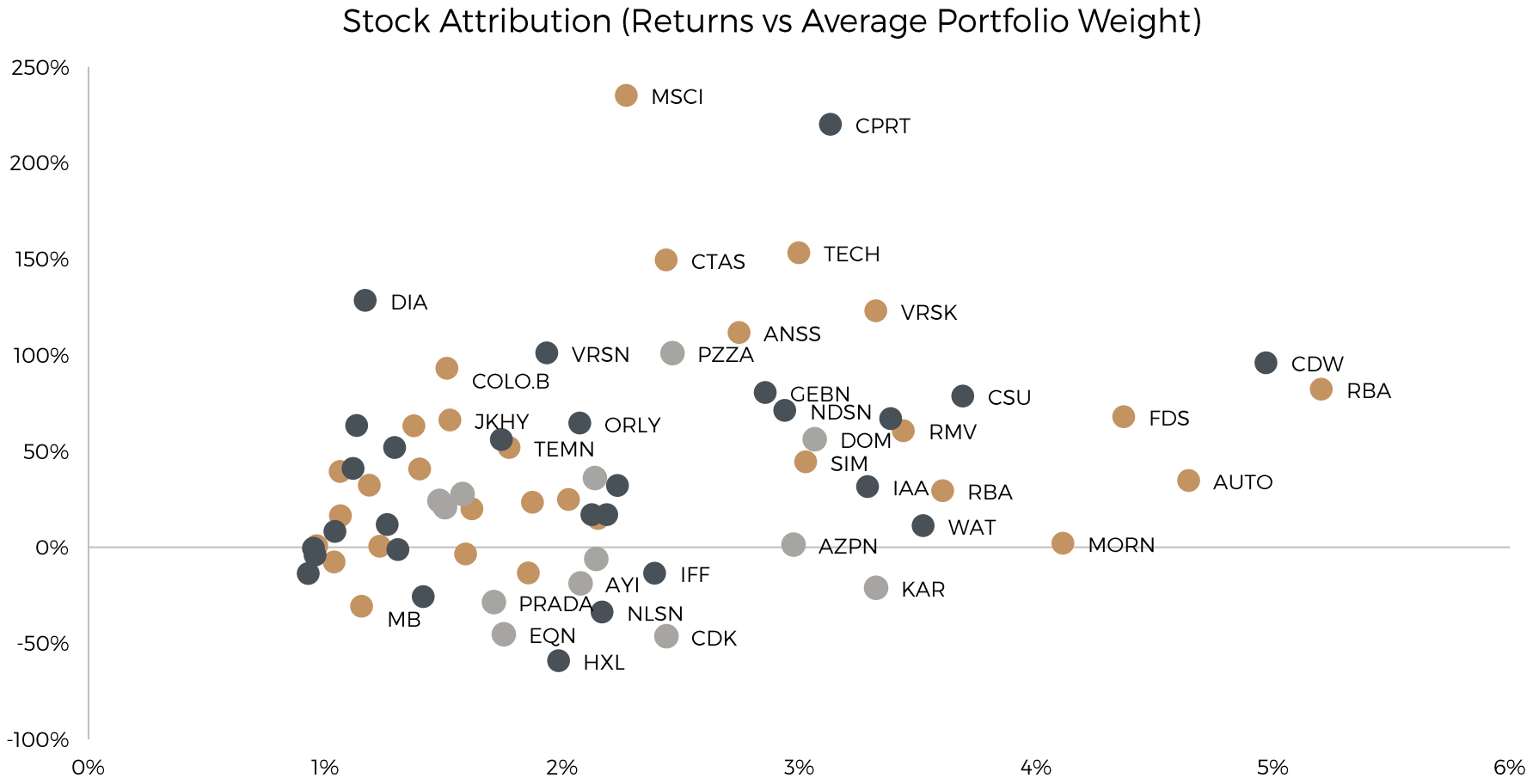
4

Portfolio Management

Portfolio positioning – investment type



Stock attribution



High quality growth

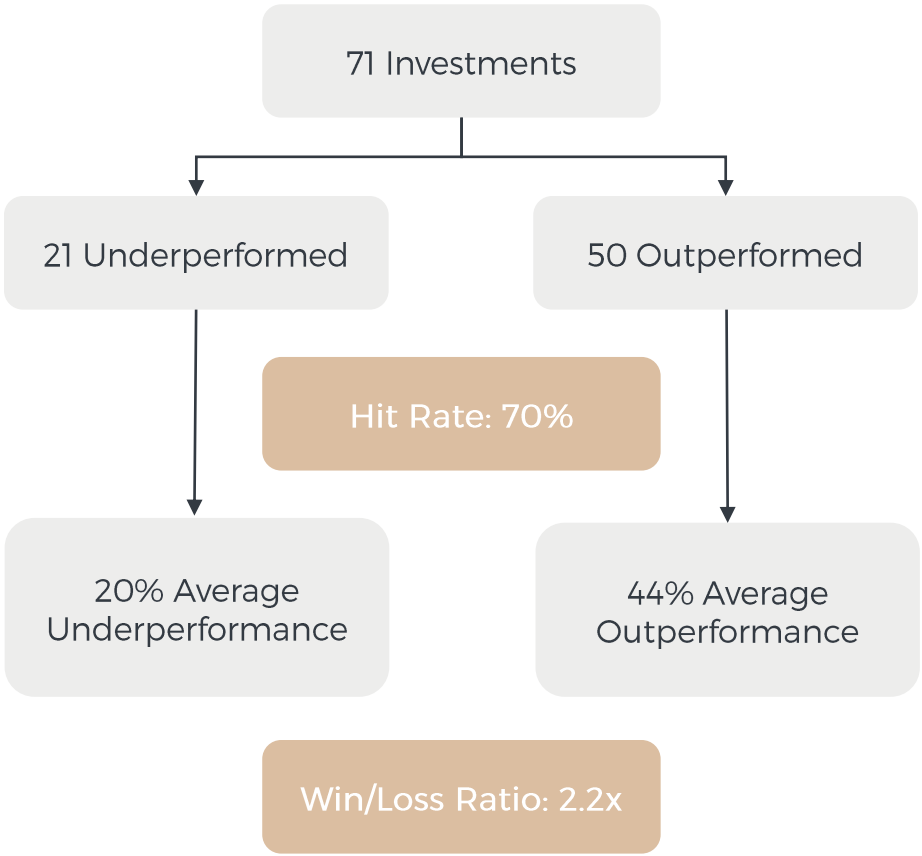
Stable compounder

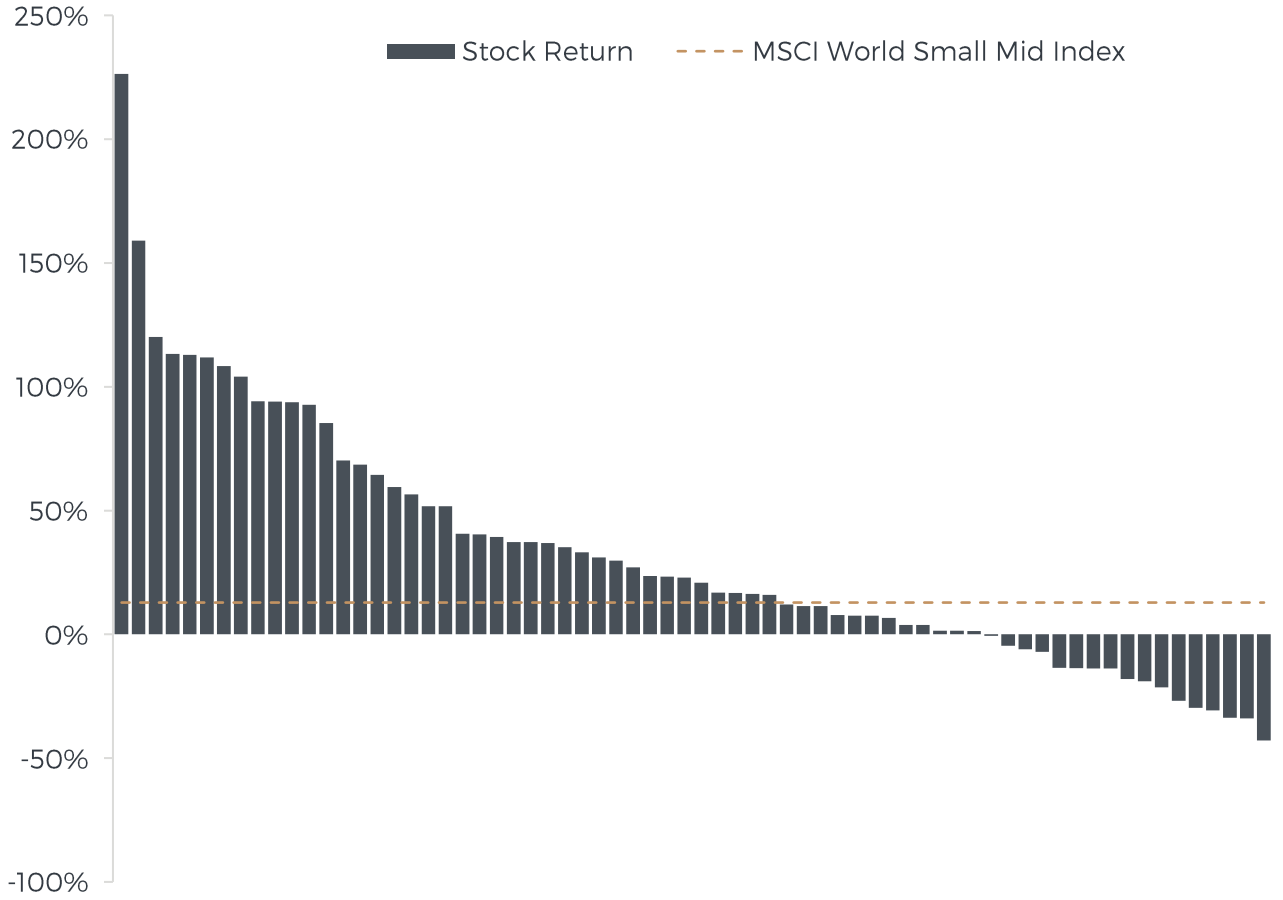
Low risk turnaround

Type	Contr. to Return	Average Weight
HQG	42%	40%
SC	25%	35%
LRT/SS	3%	14%
Cash	3%	12%
Total	**74%**	**100%**

Source: FactSet Portfolio Analytics. Returns are since inception (November 1st 2017). Updated September 2020.

Win/Loss Analysis

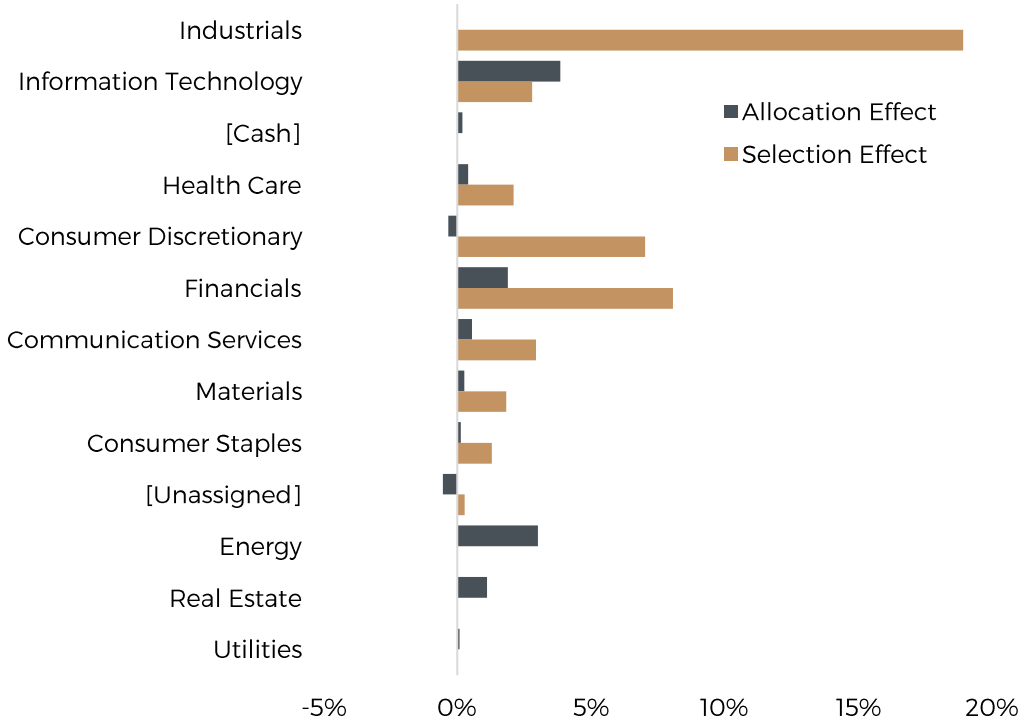




Source: FactSet Portfolio Analytics. Returns are since inception (November 1st 2017). Updated September 2020.

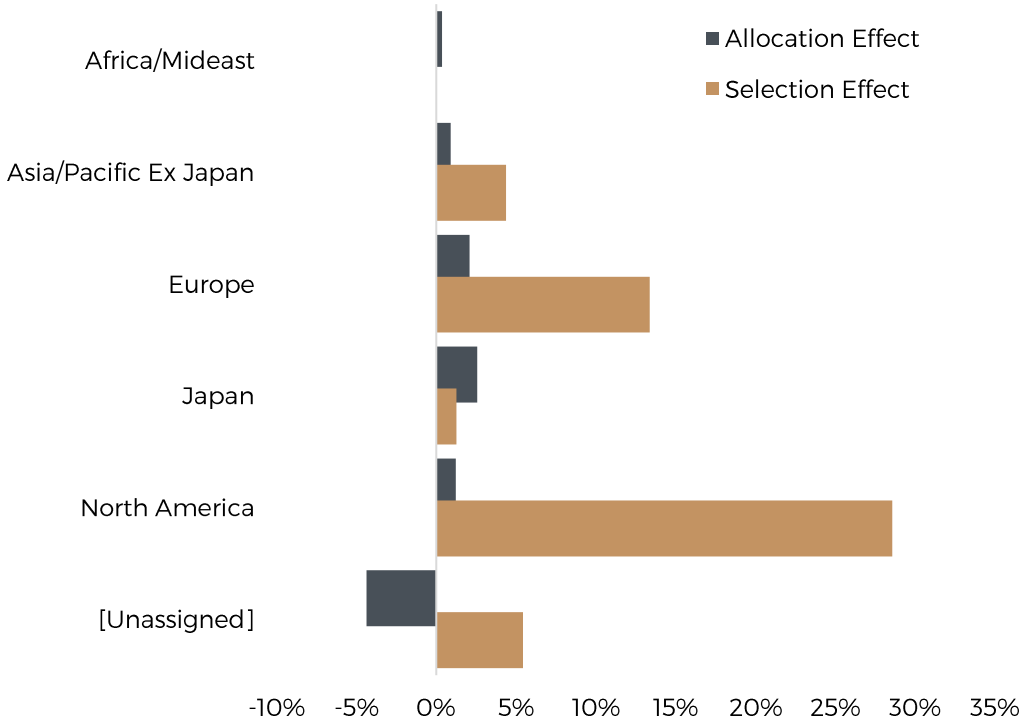
Attribution analysis

Sector Attribution since Inception



Total Attribution: Allocation: 11% | Selection: 45%

Geographic Attribution since Inception



Total Attribution: Allocation: 3% | Selection: 53%

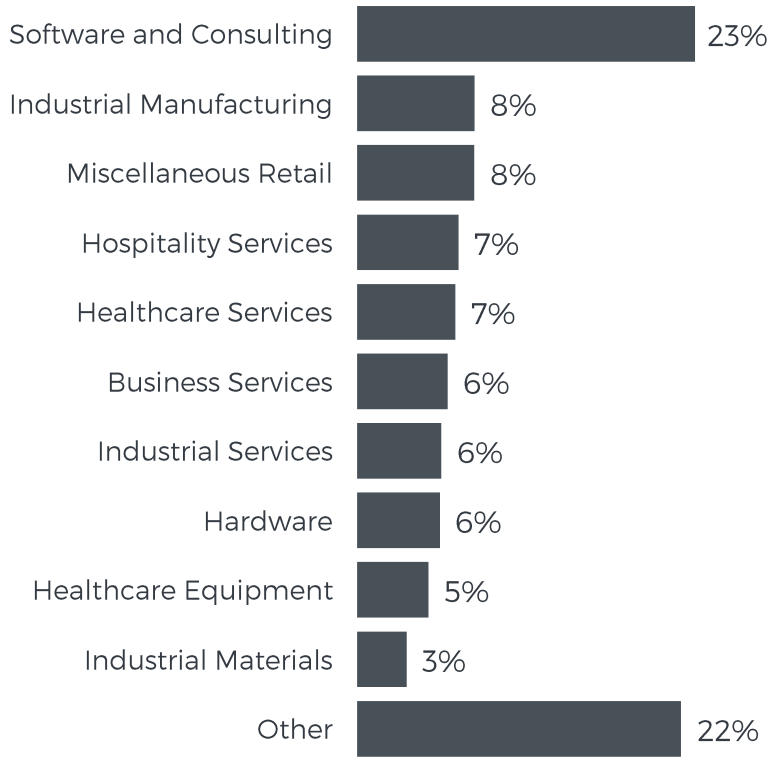
Source: FactSet Portfolio Analytics. Returns are gross of fees, since inception (November 1st 2017). Updated September 2020.

Portfolio positioning

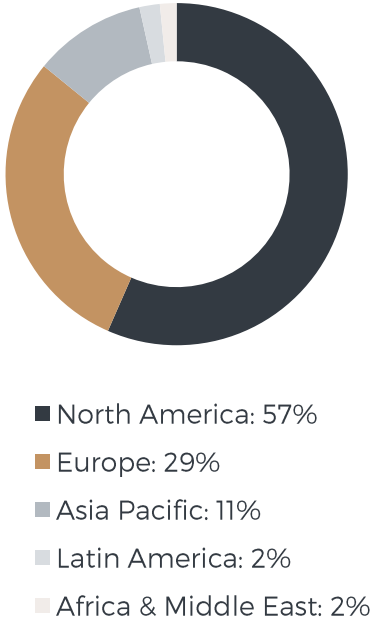
Top 10 Holdings

Auto Trader Group PLC
Aspen Technology, Inc.
CDW Corp.
Copart, Inc.
Constellation Software Inc.
Morningstar, Inc.
Ritchie Bros. Auctioneers Incorporated
Rightmove plc
Techtronic Industries Co., Ltd.
VeriSign, Inc.
Top 10 represent 43% of the portfolio

Revenue Exposure by Sector



Revenue Exposure by Geography

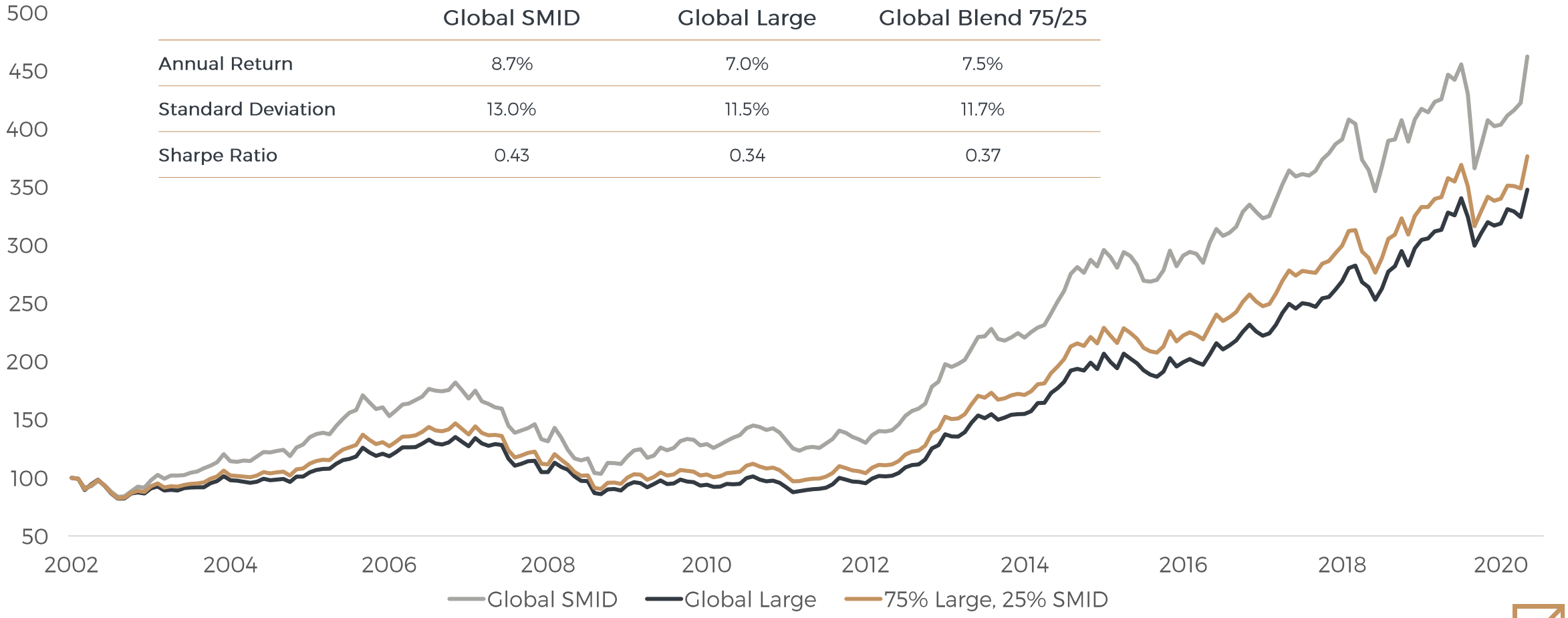


5

A Historical Perspective

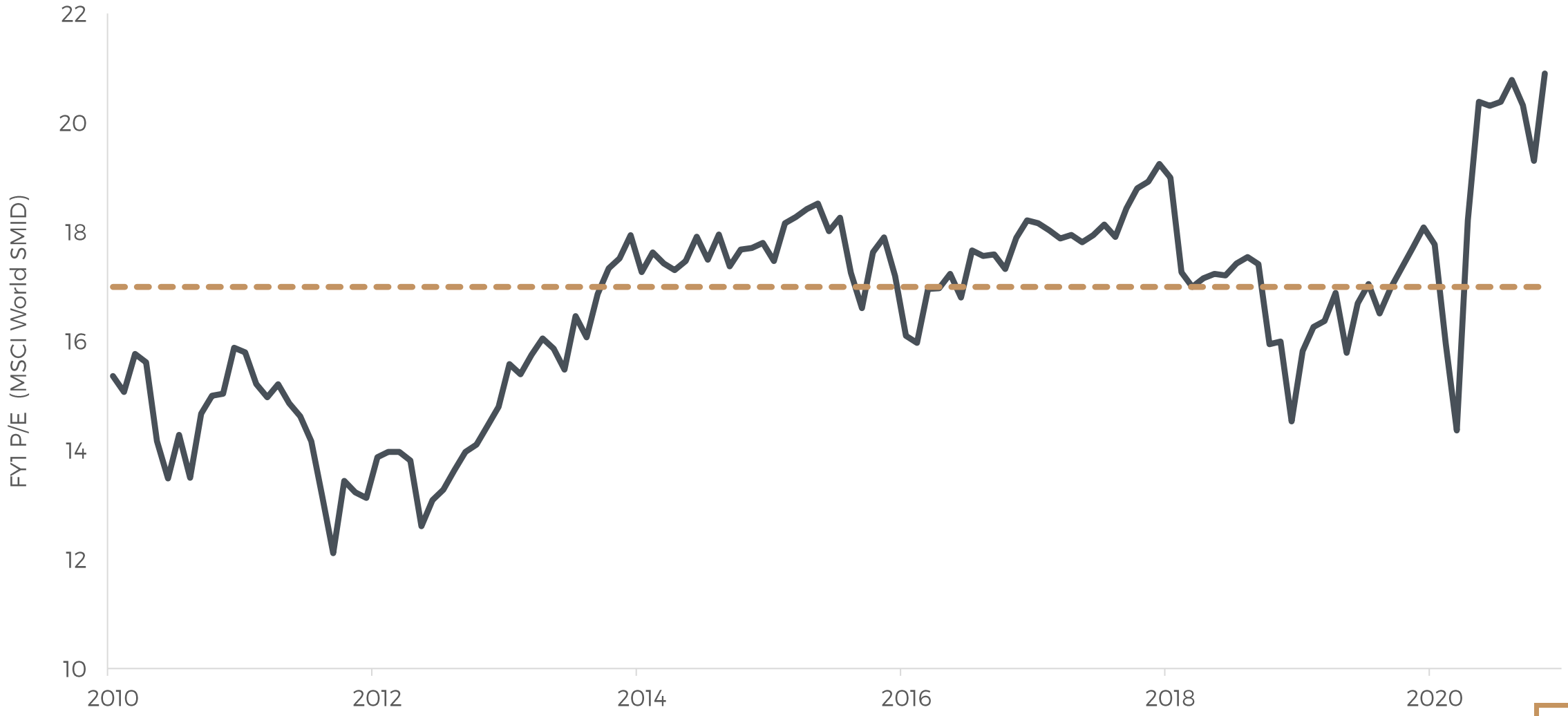
A global SMID allocation improves the risk/return profile of global equities

	Global SMID	Global Large	Global Blend 75/25
Annual Return	8.7%	7.0%	7.5%
Standard Deviation	13.0%	11.5%	11.7%
Sharpe Ratio	0.43	0.34	0.37



Source: MSCI & Factset

Near term valuation is obscured by the earnings impact of COVID-19



Source: MSCI, Factset

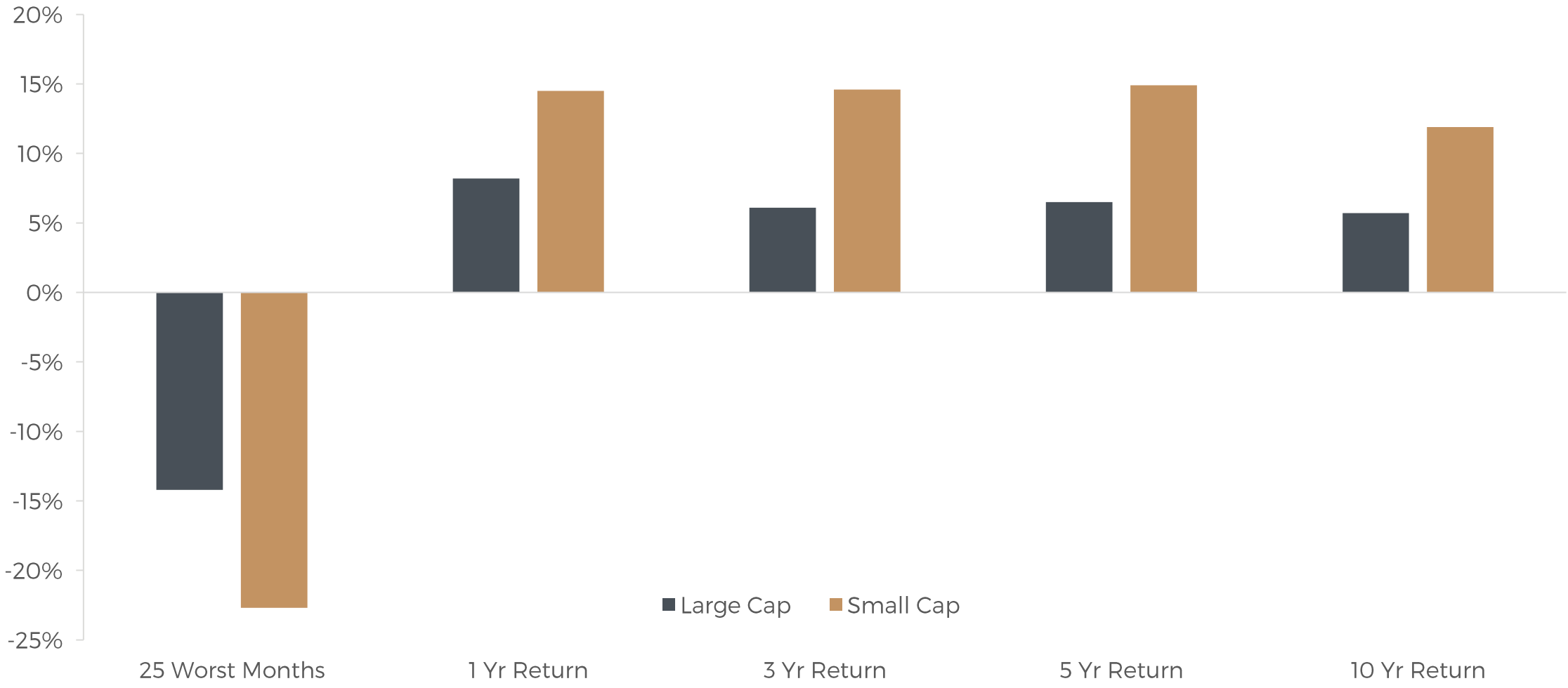
Small companies are the cheapest they have been relative to large companies in a decade

Source: MSCI, Factset

Smaller companies are recovering recent underperformance

Source: MSCI, Factset

Small companies outperform for years after a crisis



Source: Ibbotson Associates, O'Shaughnessy Asset Management

Questions?

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Platform Availability

Direct Online Application
www.fairlightam.com.au

Powerwrap, ausmaq (Better results for your business), XPLORE WEALTH, MLC, MACQUARIE, FNZ, CRAIGS INVESTMENT PARTNERS, BT, præmium, Asgard, netwealth, HUB24

Research

Zenith Investment Partners — Highly Recommended (Approved, Not Rated, Redeem)

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