

Global Small & Mid Cap Fund Overview

April 2022

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Fairlight Small & Mid Cap Fund	Parameters
Stock numbers	30-40
Market capitalisation	US\$500m-\$30bn
Style	Long only quality
Investment horizon	5+ years
Objective	Benchmark +3-5%
Benchmark	MSCI World SMID AUD (Net)

Auditor



Administrator



Responsible Entity



Distribution



Rating



Rating



ASX200 by Market Cap (\$B)



Source: Fairlight, S&P ASX, Factset



Nicholas Cregan

Nicholas is a Senior 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 outperformance over five years)

Qualifications:

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



Ian Carmichael, CFA

Ian is a Senior 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 a Portfolio Manager and 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 a Portfolio Manager and 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

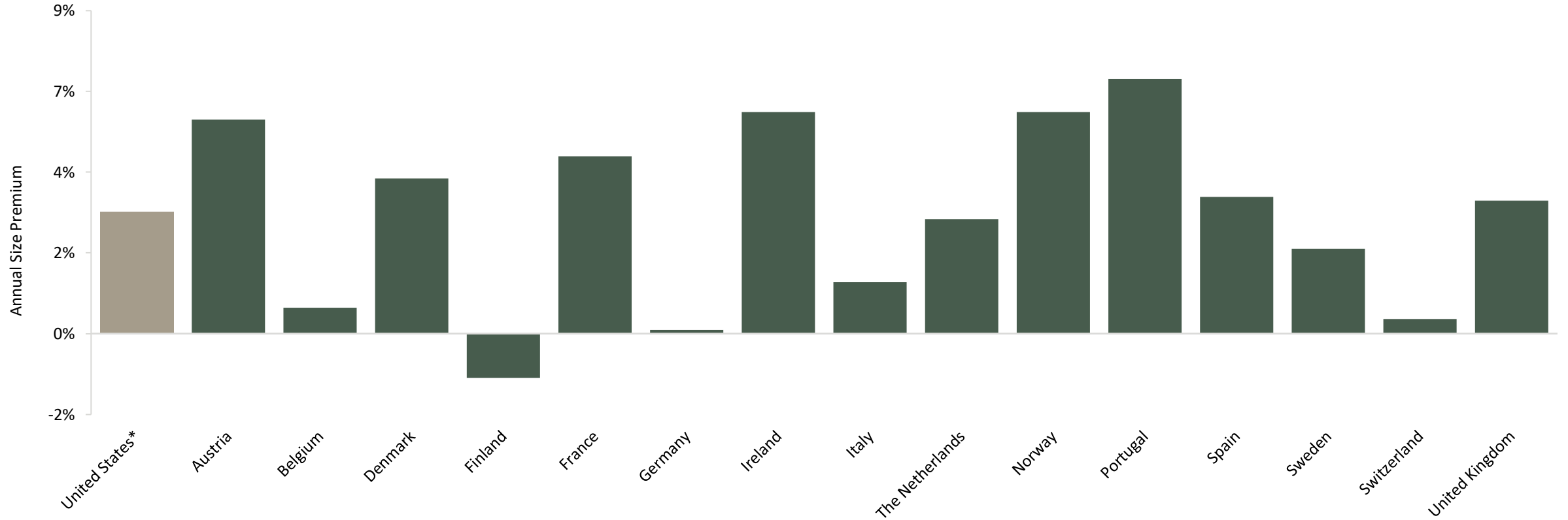
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↳ Why Global Small & Mid Cap?

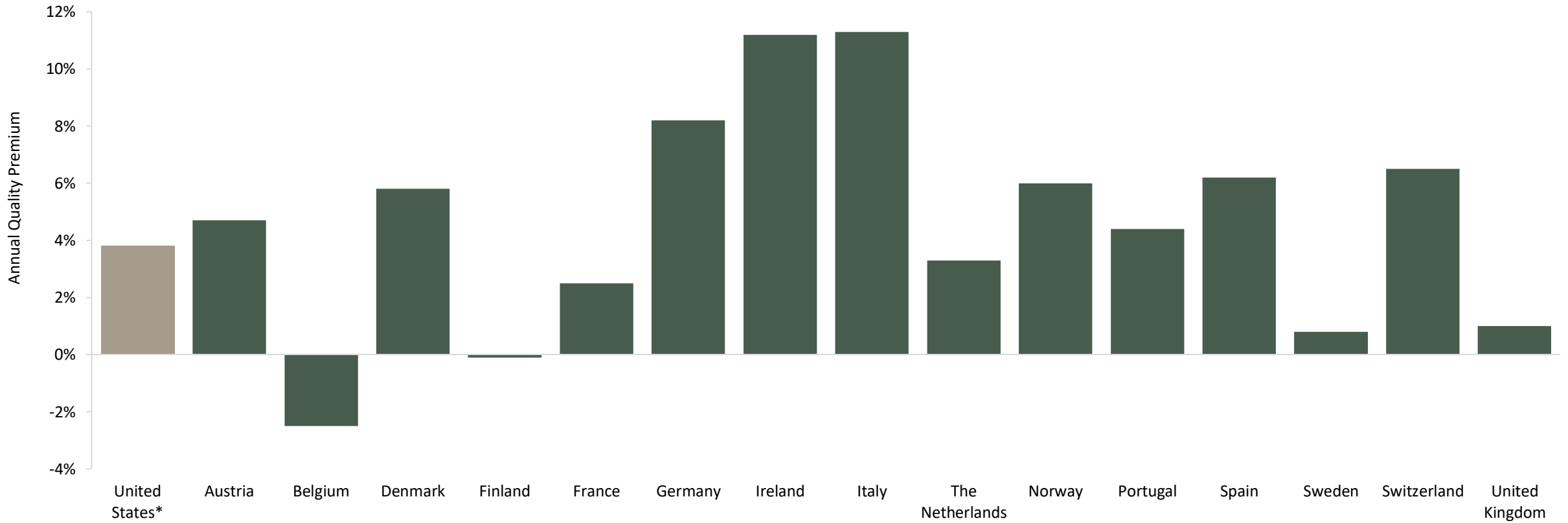
Portfolio Management

Stock Examples

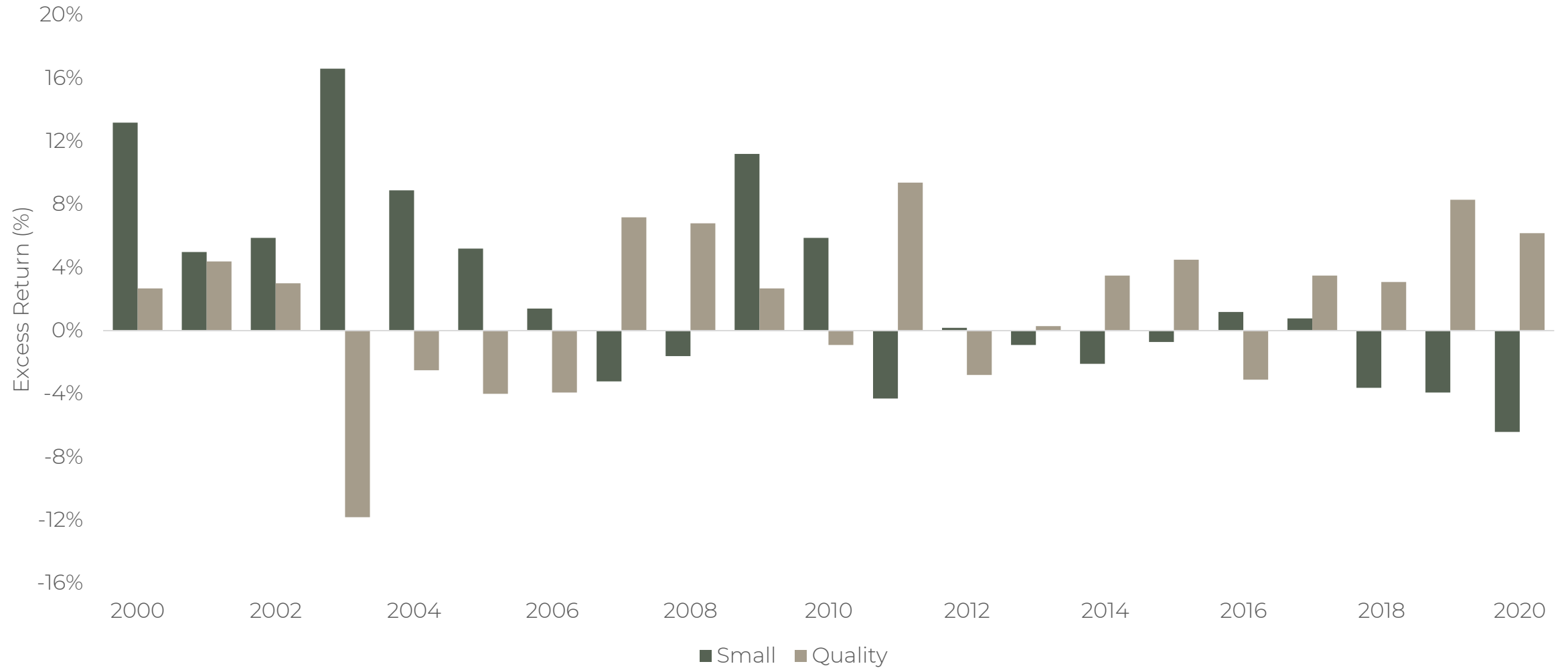
Market Valuations



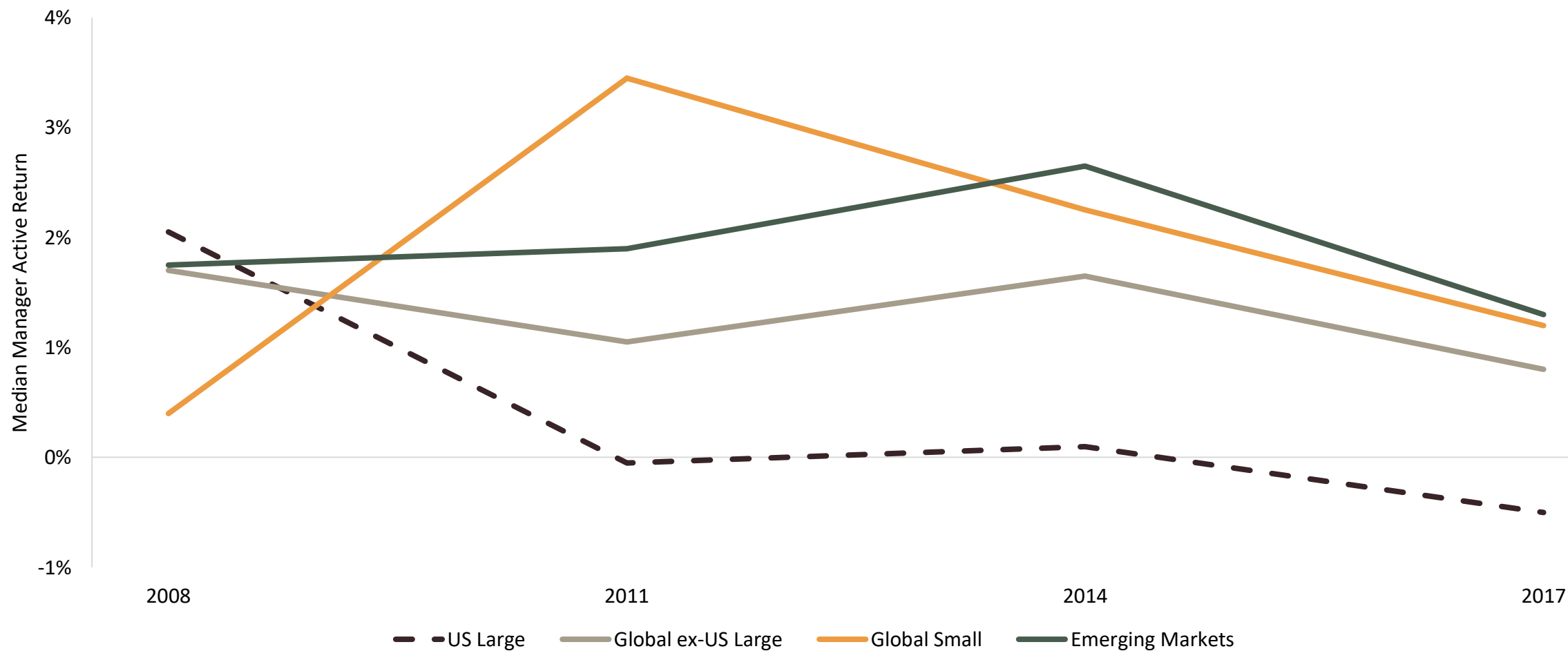
*U.S. 1927-2015; European markets 1982-2014
 Sources: Berkin & Swedroe, "Your Complete Guide to Factor-Based Investing", 2016.
 Black & Meyer-Brauns, "Dimensions of Equity Returns in Europe", 2015.



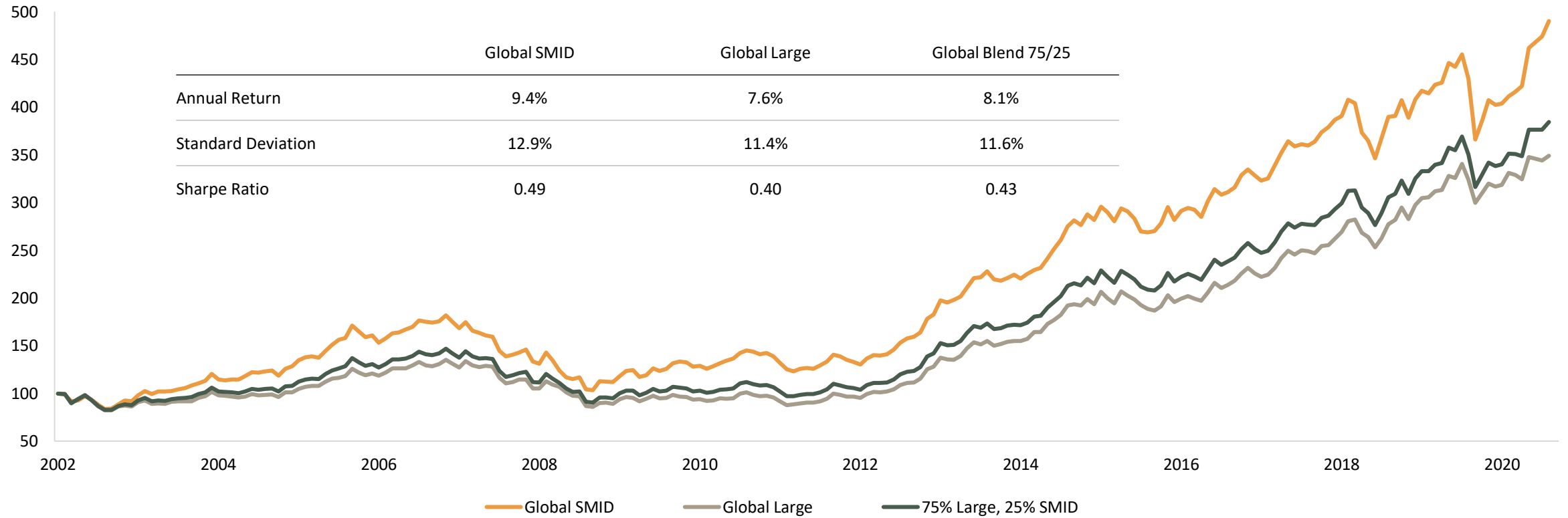
*U.S. 1927-2015; European markets 1982-2014
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Source: MSCI. Returns are relative to MSCI World Index in USD

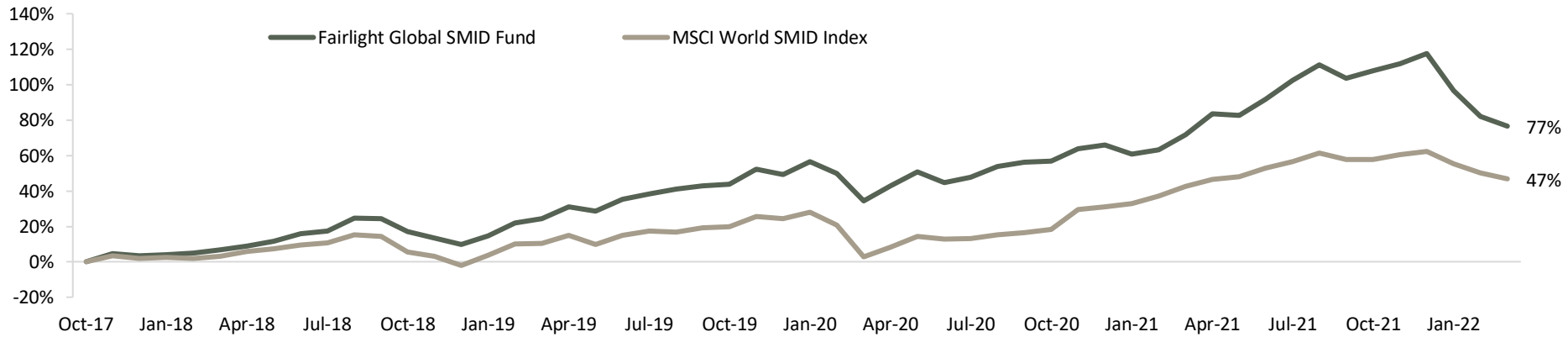
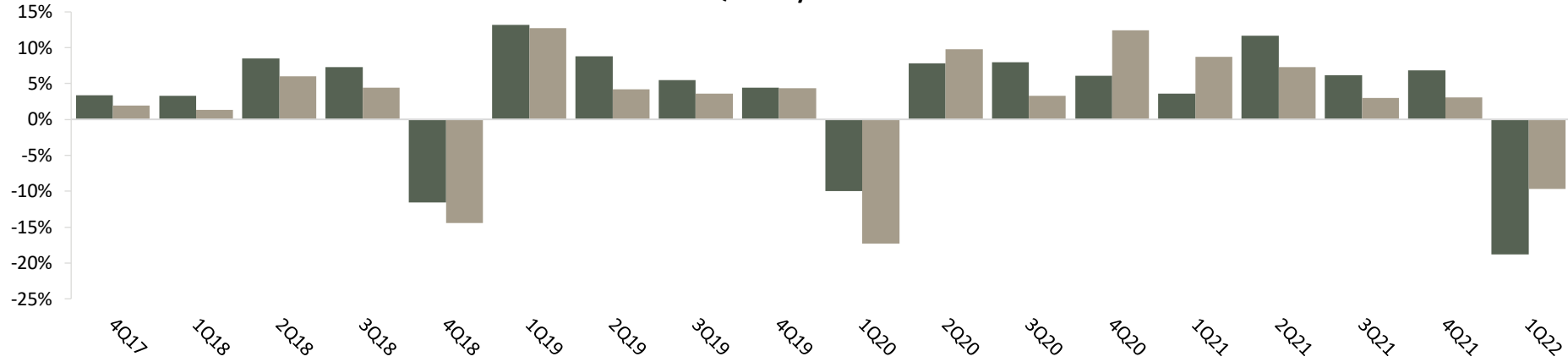


Source: Evaluating Opportunities in Active Management, Gupta, Oberoi & Subramanian, 2018



Source: MSCI and Factset

Quarterly Returns



March 2022

FAM: -3.0%

Benchmark: -2.3%

Outperformance: -0.7%

Return Profile

Upside capture: 120%

Downside capture: 98%

5% p.a. outperformance
(14% p.a. abs.) since 1st of
November 2017

Source: FactSet Portfolio Analytics. Returns are since inception (November 1st 2017), net of fees and indicative only. Past performance is not a reliable indicator of future performance

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Why Global Small & Mid Cap?

↳ **Portfolio Management**

Stock Examples

Market Valuations

1. High quality growth companies

- Network effects
- High ROIC growth capex

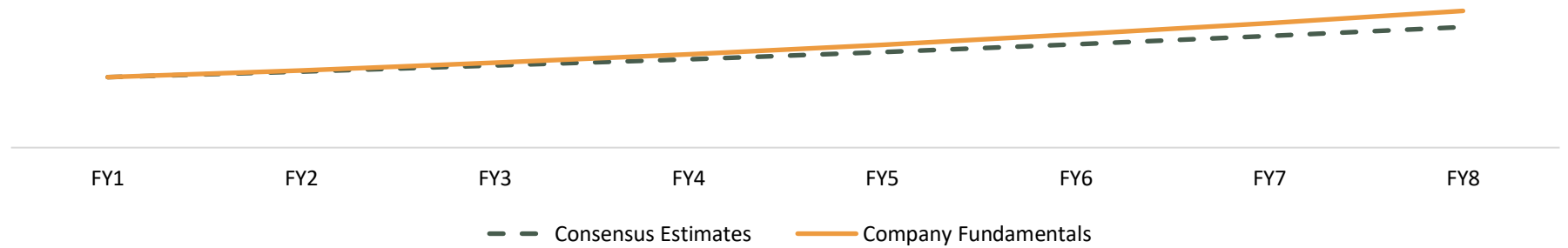
2. Stable compounders

- Unusually stable cash flows
- Modest revenue growth
- Margin expansion
- Sound capital allocation

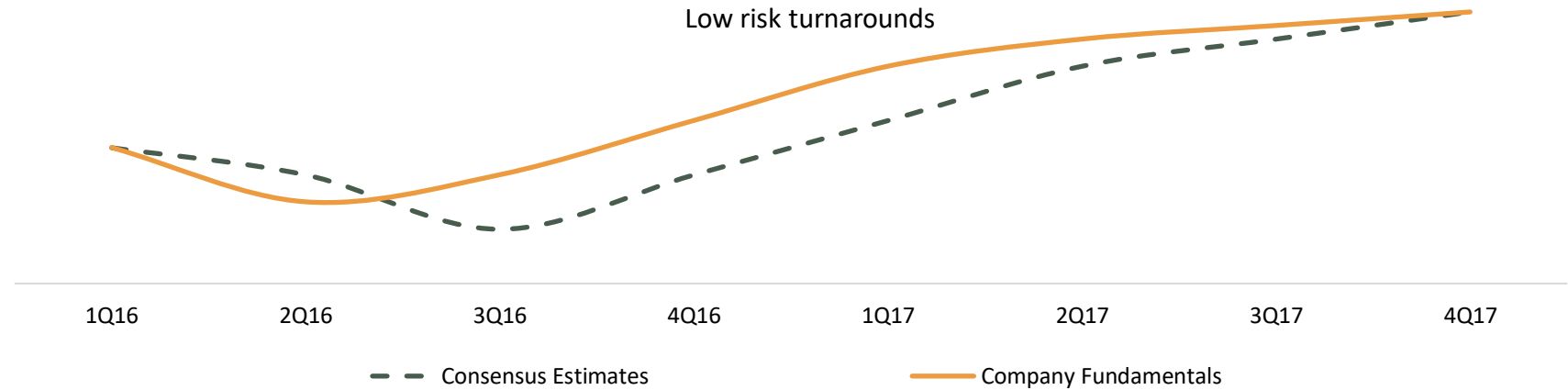
3. Low risk turnarounds / Special situations

- Quality core
- Requires strategic review or new management
- Divestment of non-core assets
- Spin-offs

High quality growth & stable compounders



Low risk turnarounds



High Quality Growth 40%



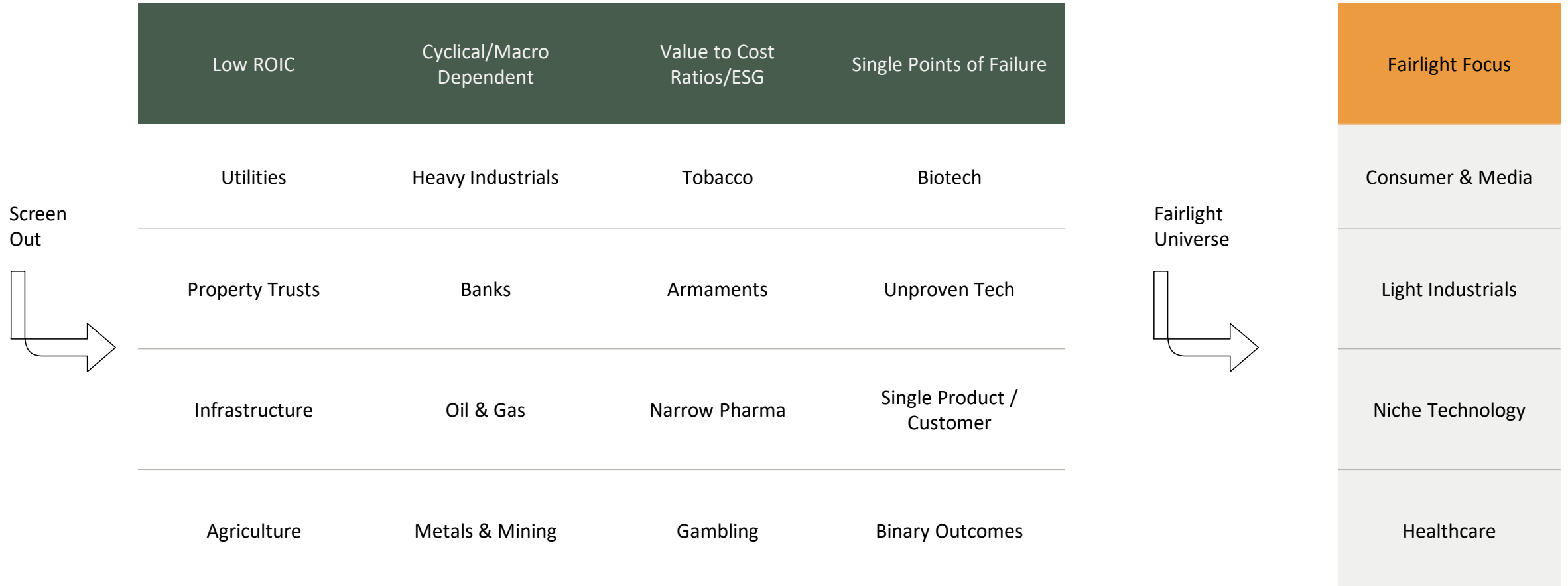
Stable Compounders 40%

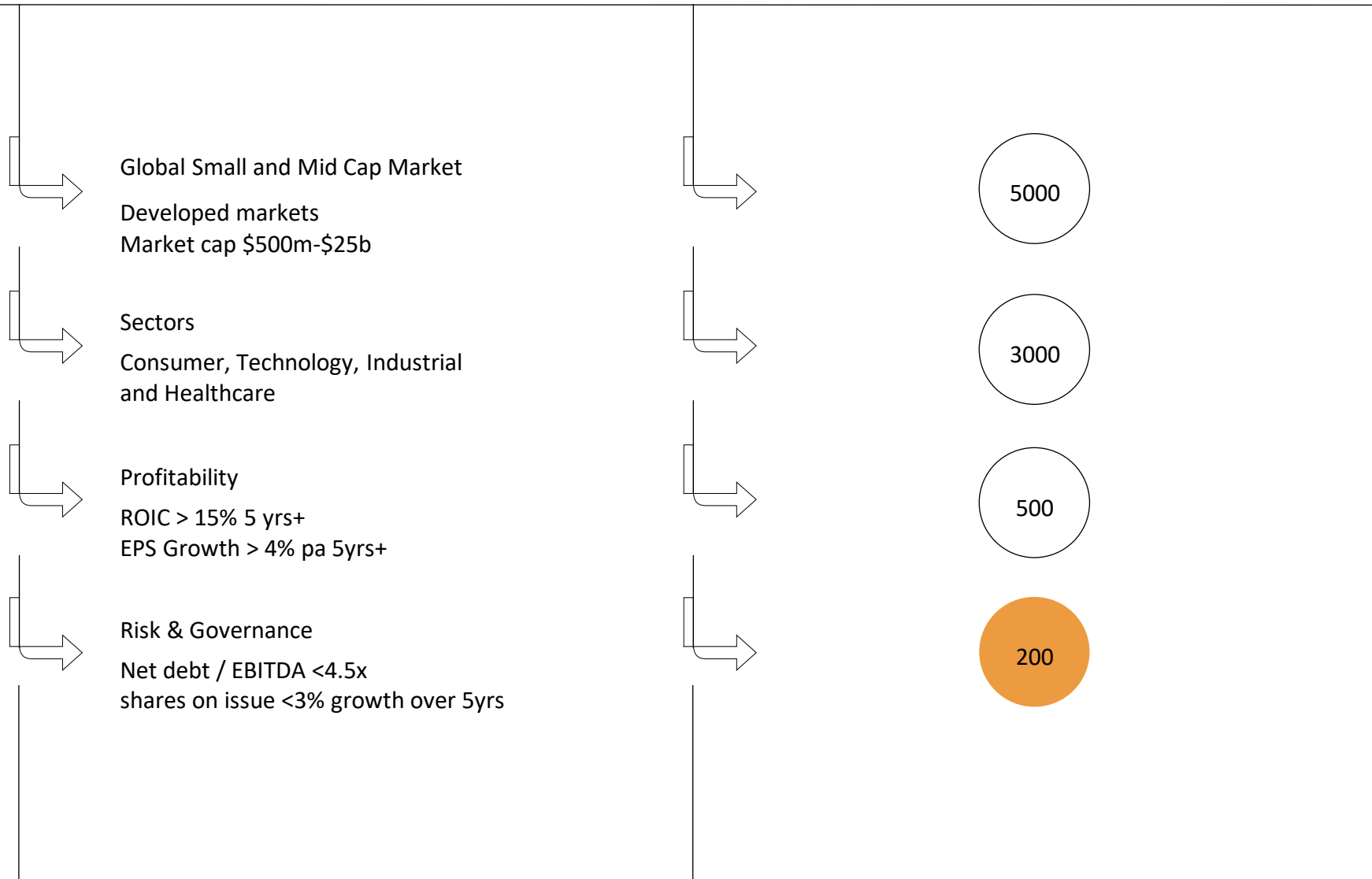


Turnarounds / Special Situations 15%



Cash 0-5%





Quality

EBITDA Margin	31%
Operating Margin	28%
CROCI (ROIC)	31%
Cash Conversion	105%
Net Debt/EBITDA	0.8x

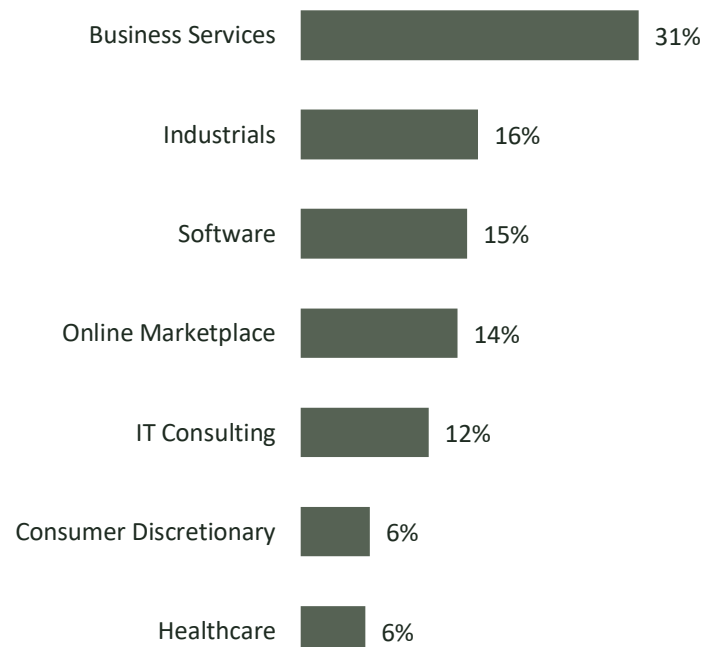
Growth

2021 Revenue	+18%
2021 EPS	+26%
2022 Revenue	+12%
2022 EPS	+15%

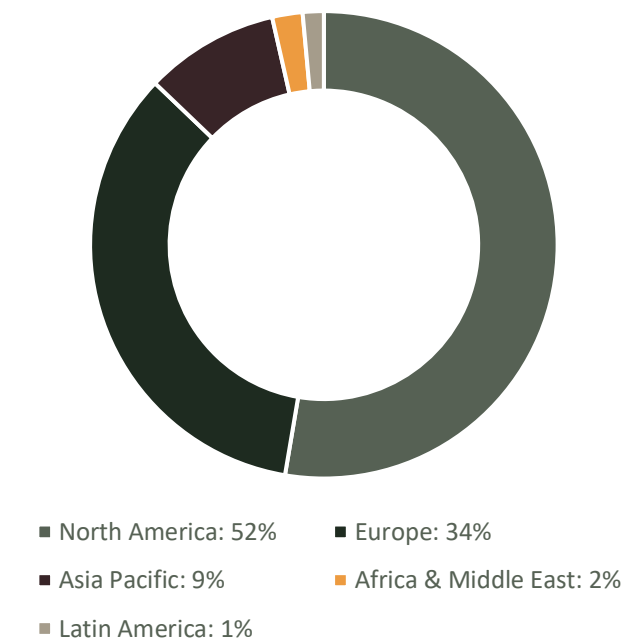
Valuation

Earnings Yield	4.4%
PE	23x
Dividend Yield	1.3%
Market Cap (USD)	\$15b

Revenue Exposure by Sector



Revenue Exposure by Geography



Source: FactSet Portfolio Analytics. Updated December 2021.

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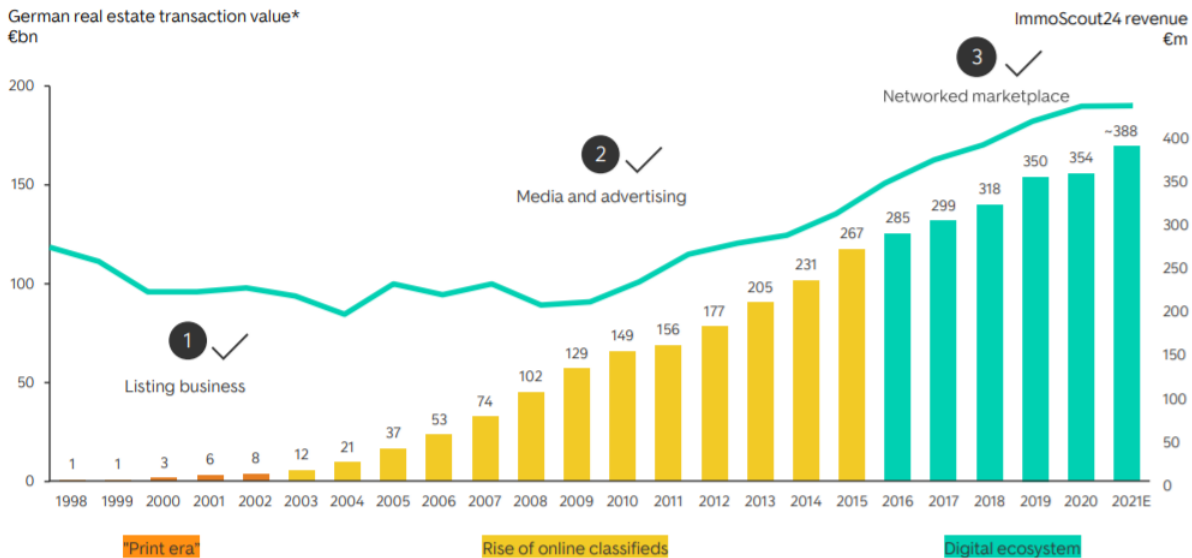
Why Global Small & Mid Cap?

Portfolio Management

 **Stock Examples**

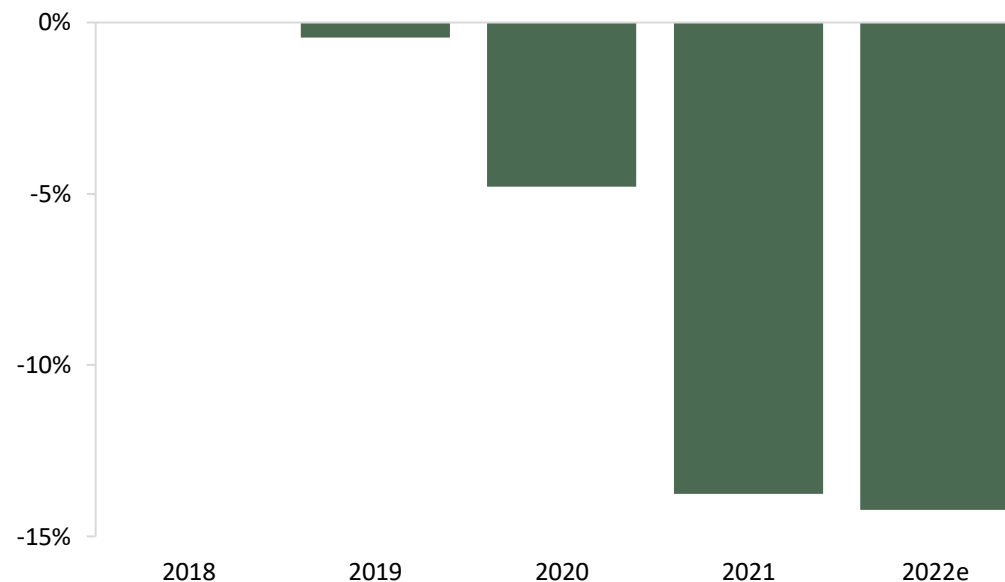
Market Valuations

ImmoScout24 Revenue Development in changing Real Estate Market



*Source: GEWOS (2020)

Change in Share Count



Dominant competitive positioning:

Scout24 is the dominant player in the German online real estate classifieds market, with >60% market share and 2x – 3x the listings/traffic/users of its nearest competitor.

Defensive revenues, high cash conversion:

Scout’s high value add customer proposition and subscription based model means revenues are particularly resilient. Capital light business model and negative working capital results in excellent cash conversion.

Accounting obscures quality:

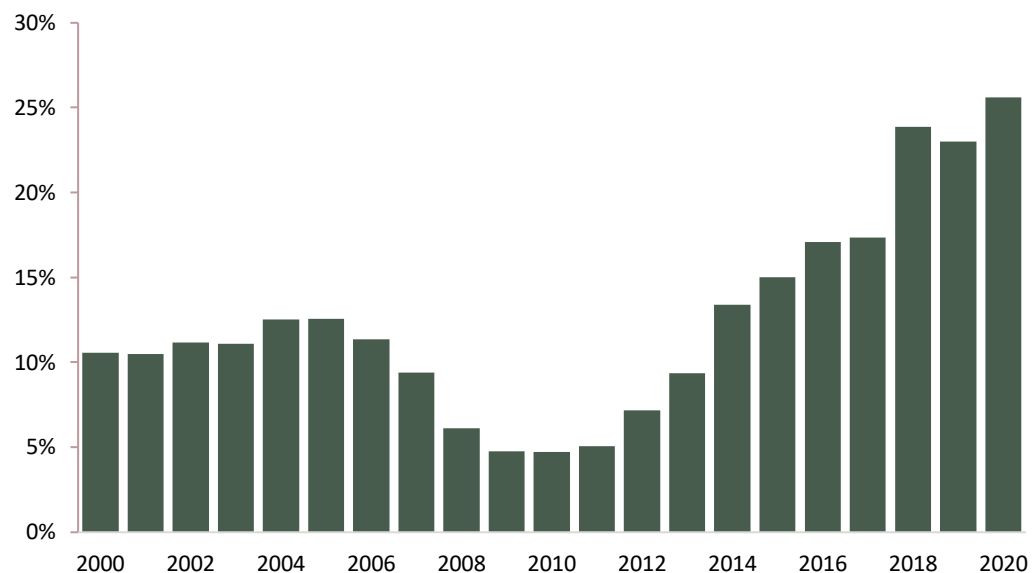
The IPO, AutoScout divestment and non-economic amortization in the P&L obscures the excellent track record and true cash generating power of the business.

Valuation and growth runway:

A combination of volume growth, price and membership upgrades provide a long runway of double digit organic growth. Adding operating leverage and the buyback offers the prospect of high teens earnings growth.

Source: Fairlight, FactSet

Cash Return on Capital Invested (CROCI)



2014	MASCO	2020
5	Segments	2
71%	Repair & Remodel ¹	89%
10.0%	Adjusted Operating Margin ²	18.2%
352 million	Share Count	264 million
3.4x	Gross Debt/EBITDA ²	1.9x

Leading brands:

Masco’s two primary brands are Behr Paint (#1 US DIY paint brand sold exclusively via Home Depot) and Delta Plumbing (#1 in US)

Shrink to quality:

In 2014 new management were appointed with a mandate to restructure the business focussing on returns on capital, margins and the repair/remodel market

Diminishing cyclicality:

Sales are now generated 90% from the Repair and Remodel market, meaning cyclicality should be dramatically lower than experienced in the GFC

Long term growth tailwinds:

R&R growth supported by ageing US housing stock, increasing house prices and DIY focused Millennials entering the market

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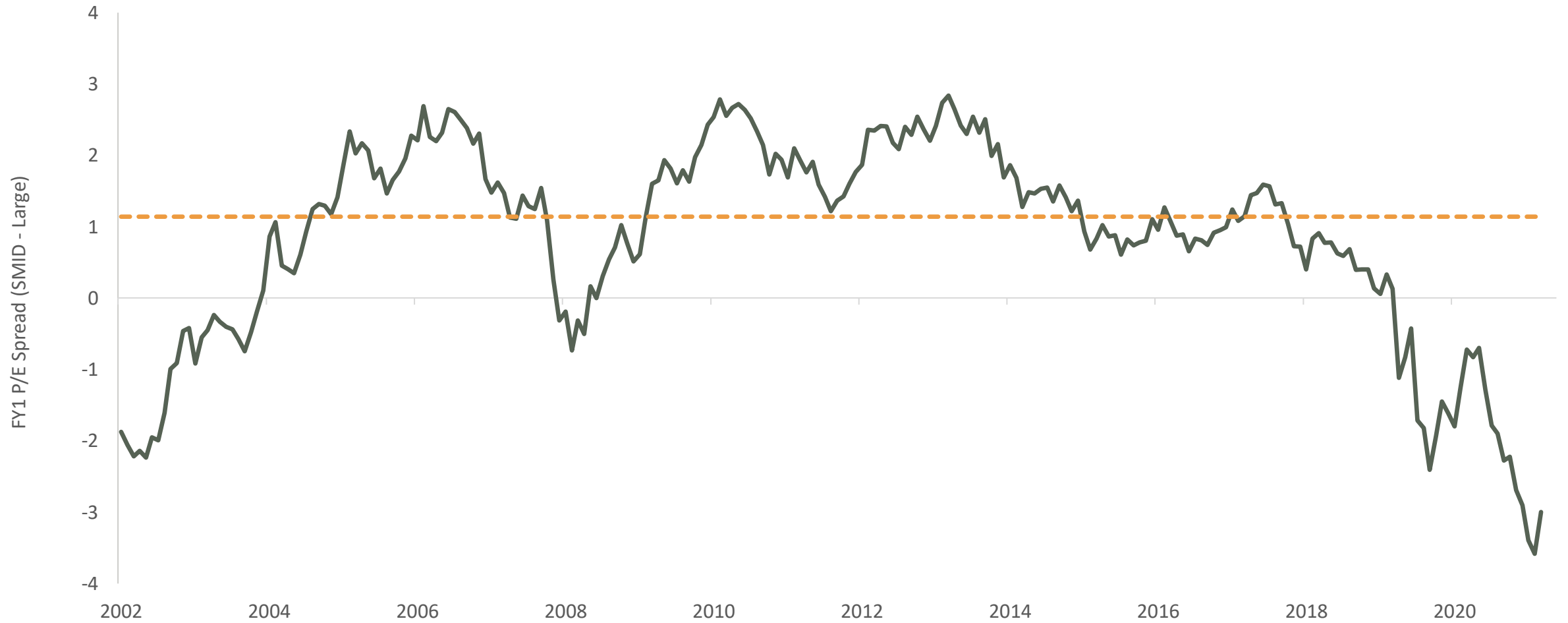
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