

Global Small & Mid Cap Fund Overview

February 2024

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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



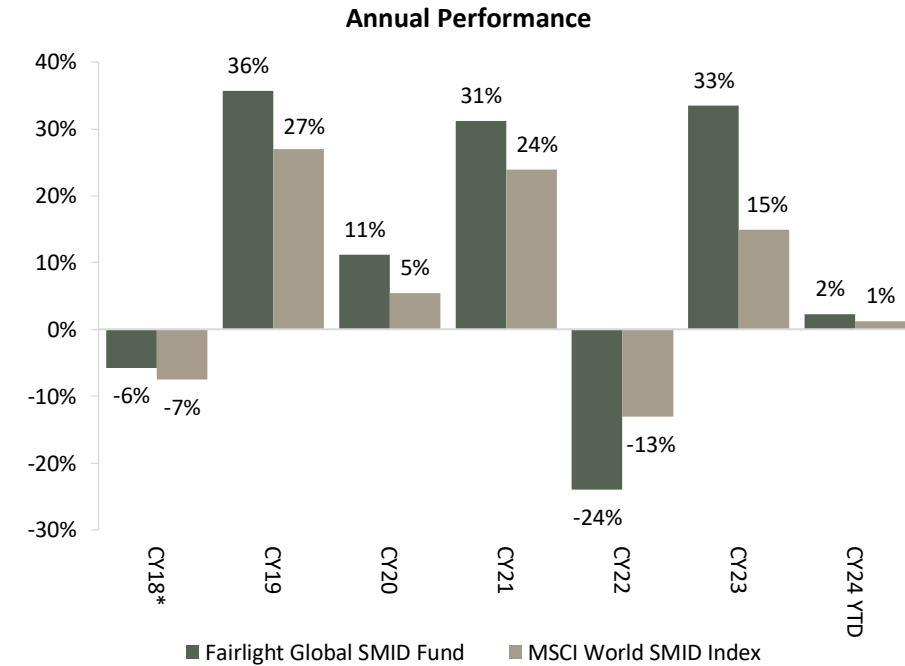
Rating



Rating



Performance to Jan-23	Since Inception	Since Inception p.a.	5 Years p.a.	3 Years p.a.	1 Year	3 Months	1 Month
Fairlight Global SMID Cap Fund	93.8%	13.4%	14.5%	12.0%	28.5%	16.7%	2.3%
MSCI World SMID Cap Index	55.3%	8.8%	9.6%	7.4%	11.1%	11.6%	1.3%
Outperformance	38.5%	4.7%	4.9%	4.7%	17.3%	5.1%	1.0%



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



Nicholas Cregan

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

Investment Experience:
20 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



Will Dowd, CFA

Will is a Portfolio Manager and responsible for investment analysis and database design.

Investment & Analytics Experience:
12 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:
11 years

- Forager Funds Management (2013 – 2019): Global Equity Analyst

Qualifications:

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



Abbey Cook

Abbey is a Portfolio Manager and responsible for investment analysis.

Investment Experience:
20 years

- Magellan Financial Group (2019 – 2022): Investment Analyst
- Perpetual Limited (2014 – 2019): Global Consumer Analyst
- Wavestone Capital (2009 – 2013): Senior Investment Analyst.

Qualifications:

- Master of Commerce, Economics
- Bachelor of Commerce/ Bachelor of Liberal Studies



Hero Gunawan, CFA

Hero is a Quantitative Analyst and responsible for applying statistical models and quantitative techniques to produce insights from data.

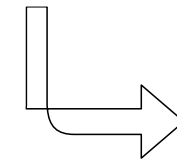
Investment & Analytics Experience:
5 years

- Foresight Analytics (2022 – 2023): Quantitative Consultant
- Glass Lewis & Co (2019 – 2022): Research Analyst

Qualifications:

- Bachelor of Business Administration
- Chartered Financial Analyst

1. Industry Quality	Porter	Rational Market / Pricing	Scale / First Mover Advantage
2. Business Quality	Management Quality	Capital Allocation	Cash Flow Conversion
3. Durability	Recurring Revenue	High Customer Retention	Cyclical (capex vs opex)
4. Risk	Leverage	Turnover	Internal Change (restructuring / acquisitions)
5. ESG	Environment	Social	Governance



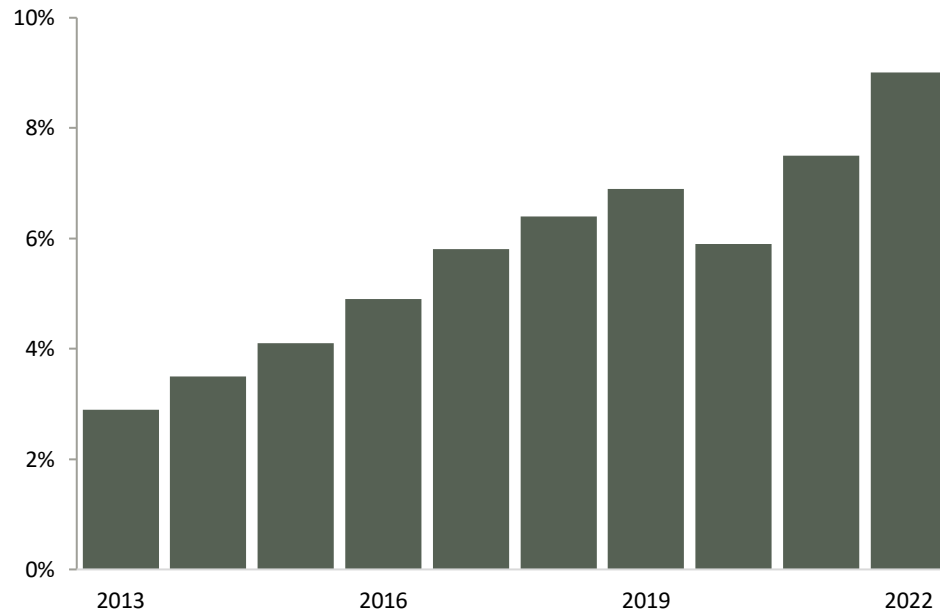
**FAM Stock Selection
&
Valuation**



Dominant US beauty retailer

- Largest distributor of beauty products and services in the US.
- Operates 1,400 stores, average size 10,000 square feet.
- Suburban locations, grade A strip malls.
- All beauty categories: cosmetics, haircare, skincare, fragrance, bath, accessories.
- All price segments: mass, prestige, luxury.
- Full-service salon.

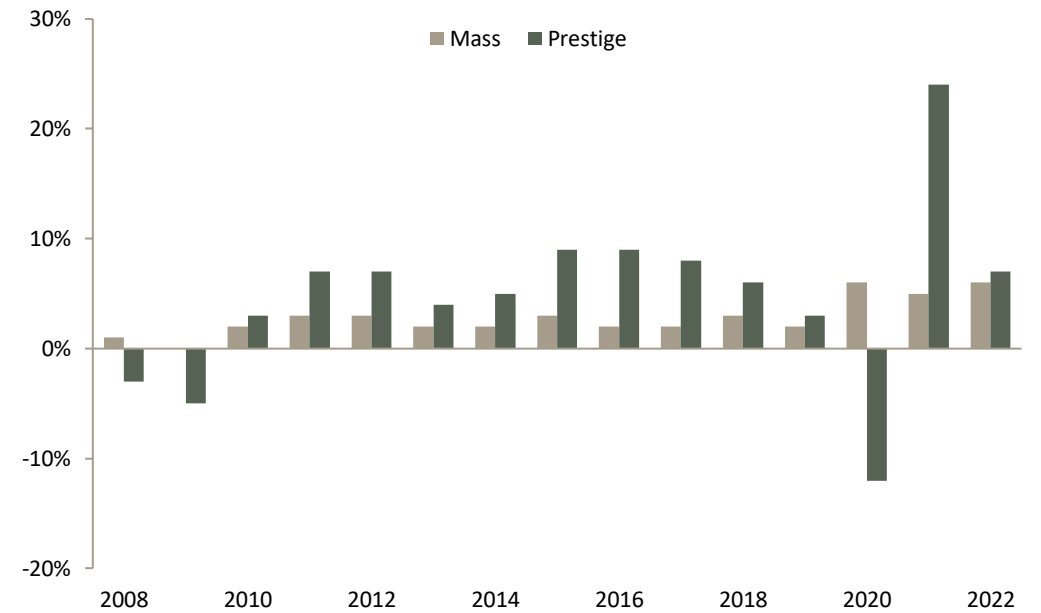
Market Share (%)



Scaling in fragmented market

- Long runway with only 9% market share.
- Fragmented market: distribution, categories, brands.
- Differentiated model: one-stop-shop.

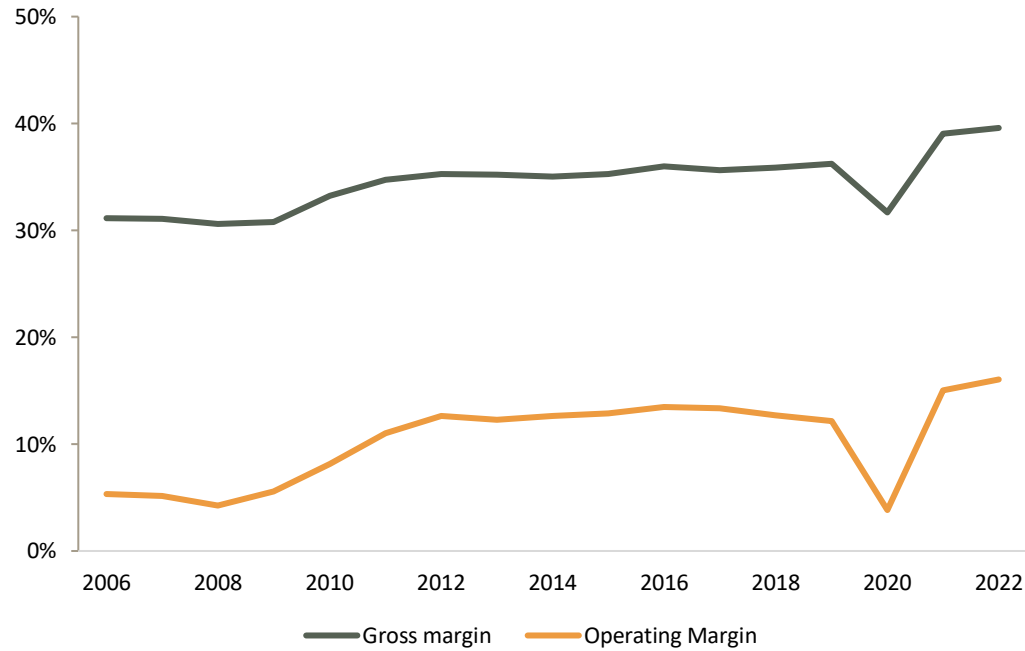
US Beauty Market: Growth (%)



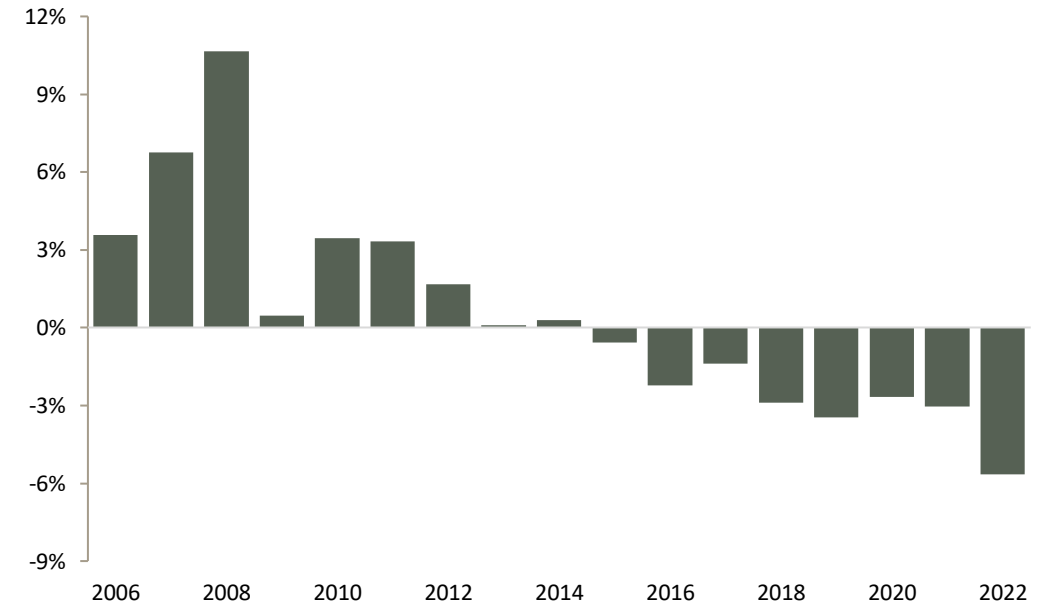
Beauty is defensive and growing

- 85% of consumers prefer store experience: treat vs chore.
- Downturn resilience: GFC, trade up/down, accessible luxury, secular tailwinds.

Margins (%)



Change in Share Count (%)



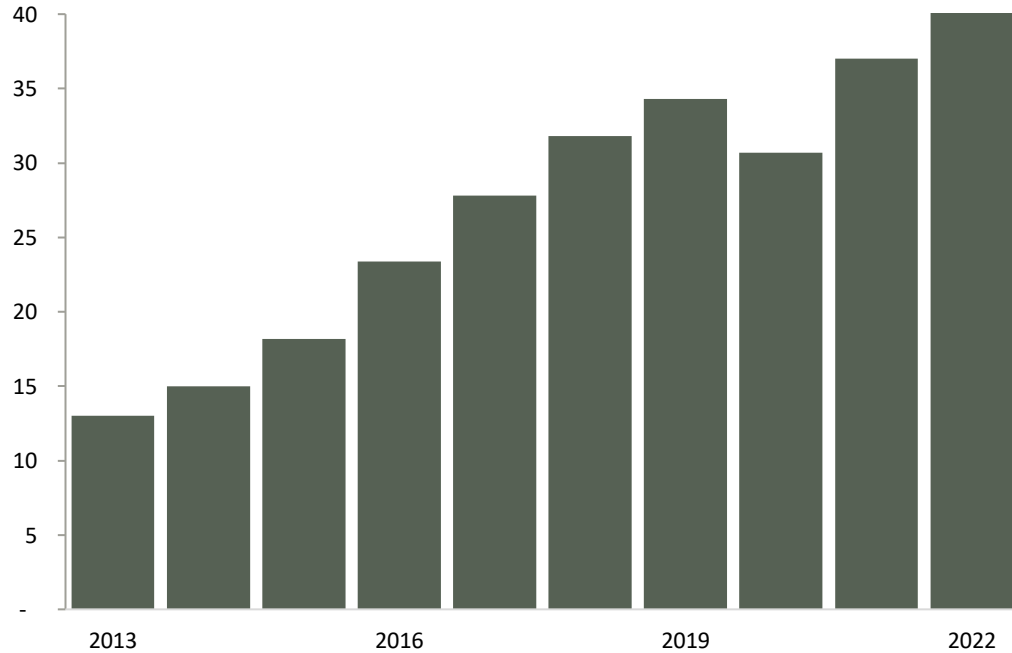
Management Quality

- Consistent execution e.g. margin expansion.
- ‘People-first’ culture elevates associates e.g. Covid bonus. Loyalty drives superior store productivity.

Capital Allocation

- Highly profitable store economics (<2 year payback), reflected in ROIC exceeding 30%.
- Buyback 3%-4% of share capital p.a.

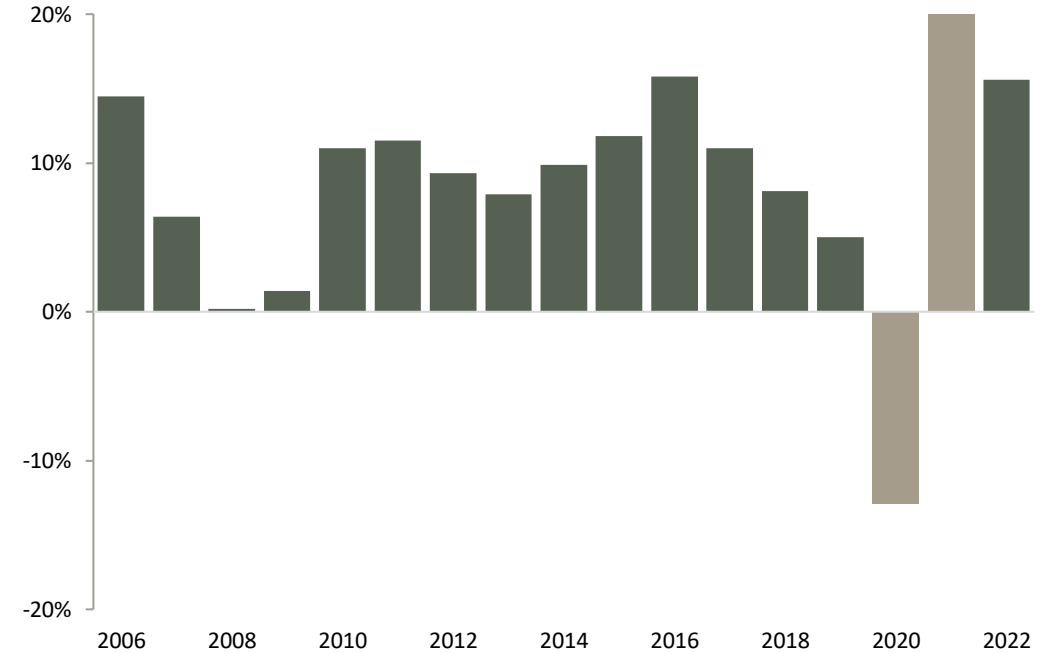
Loyalty Members (m)



High customer retention

- Loyalty program >42m members (45% larger than Starbucks).
- Value to members: aggregate beauty basket spend, retention.
 - Represents >95% of revenue, best industry data.

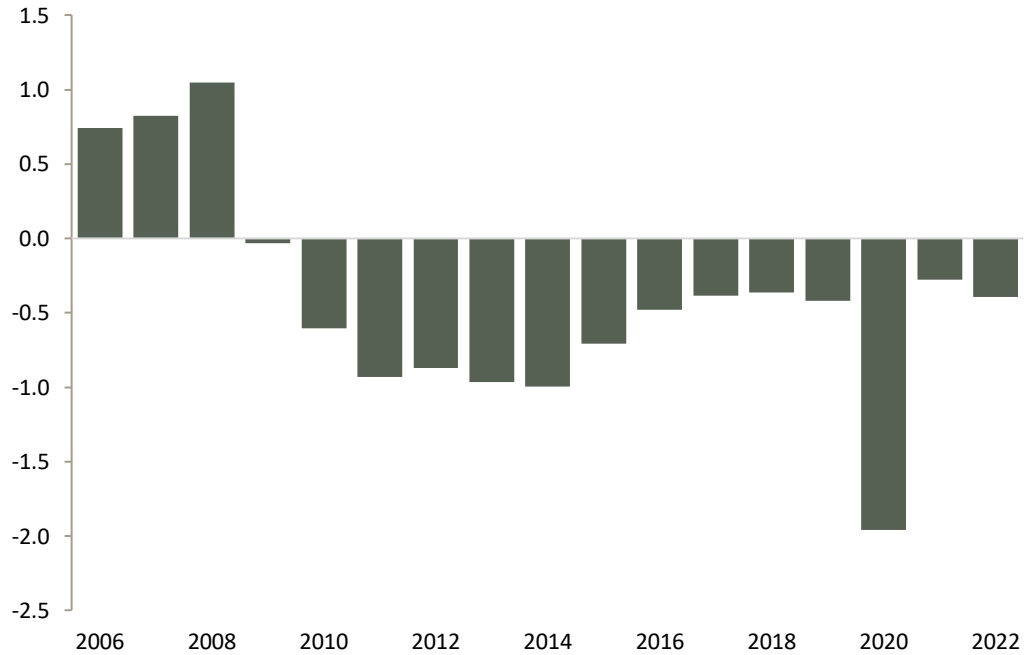
LFL Growth (%)



Track record through cycles

- Two decades compounding revenue at 17% p.a. and earnings at 28% p.a.
- Positive organic growth and profitability.

Net Debt to EBITDA (x)



Low risk

- No financial debt.
- No irregular accounting.
- Low management turnover, high staff retention.

Environmental leader

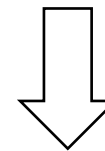
- ULTA is #1 clean beauty retailer in US.
- Reducing scope 1 & 2 emissions and engaging brands (scope 3).

Best-in-class DEI

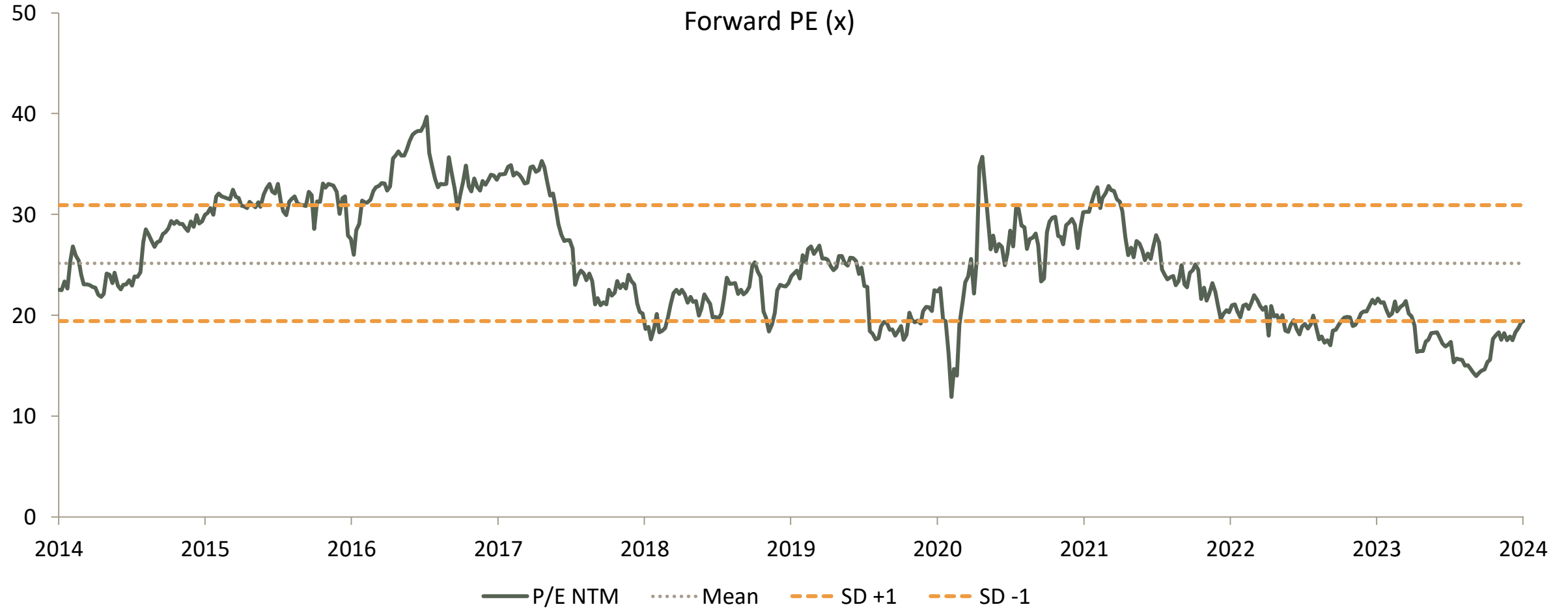
- Product assortment: 15% black-owned and founded.
- Senior leadership: 66% female and 53% of colour.

High quality governance

- Strong succession planning, cultural fit importance.
- Transparent reporting.



Sustainable competitive advantage



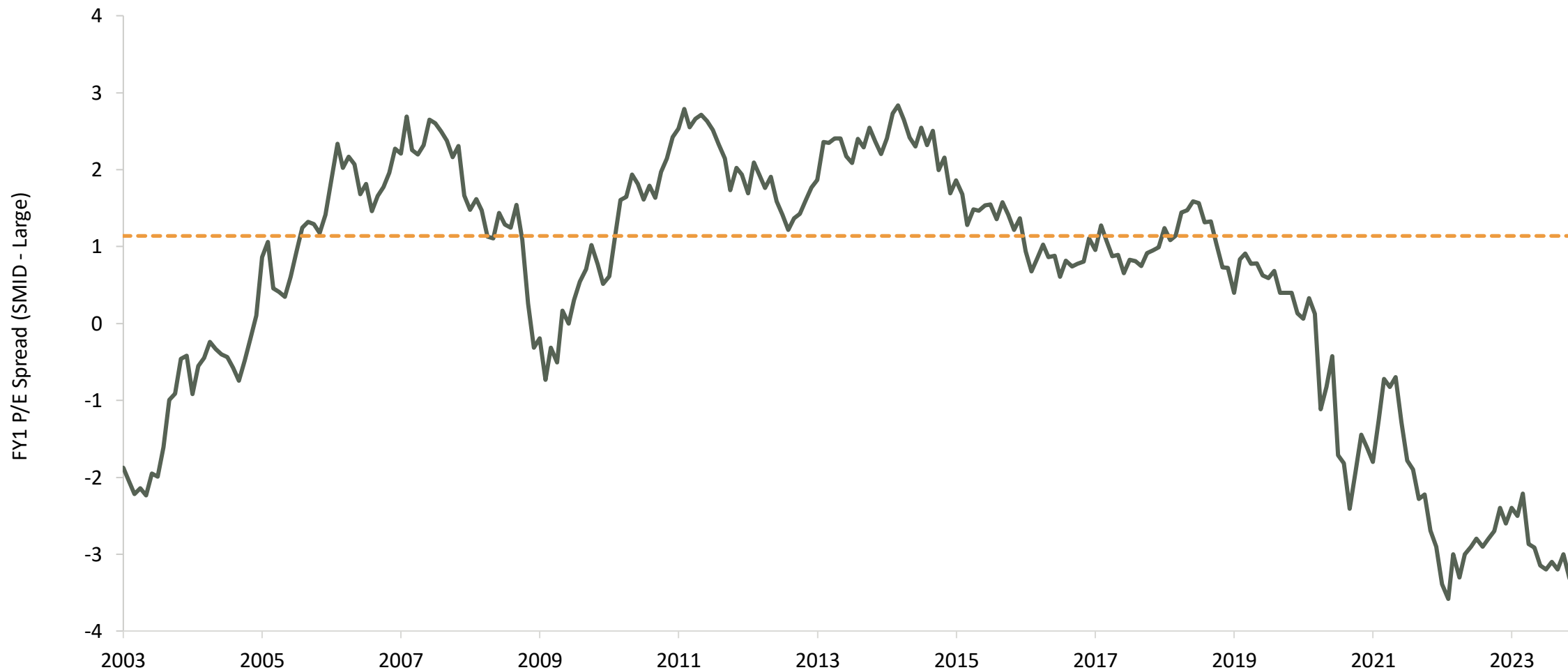
Source: Fairlight



Source: Fairlight, FactSet



Source: MSCI, FactSet. Updated January 2024.



Source: MSCI, FactSet, Updated January 2024.

Fairlight Portfolio Characteristics

Quality

EBITDA Margin	28%
Operating Margin	26%
CROCI	31%
Cash Conversion	101%
Net Debt/EBITDA	0.7x

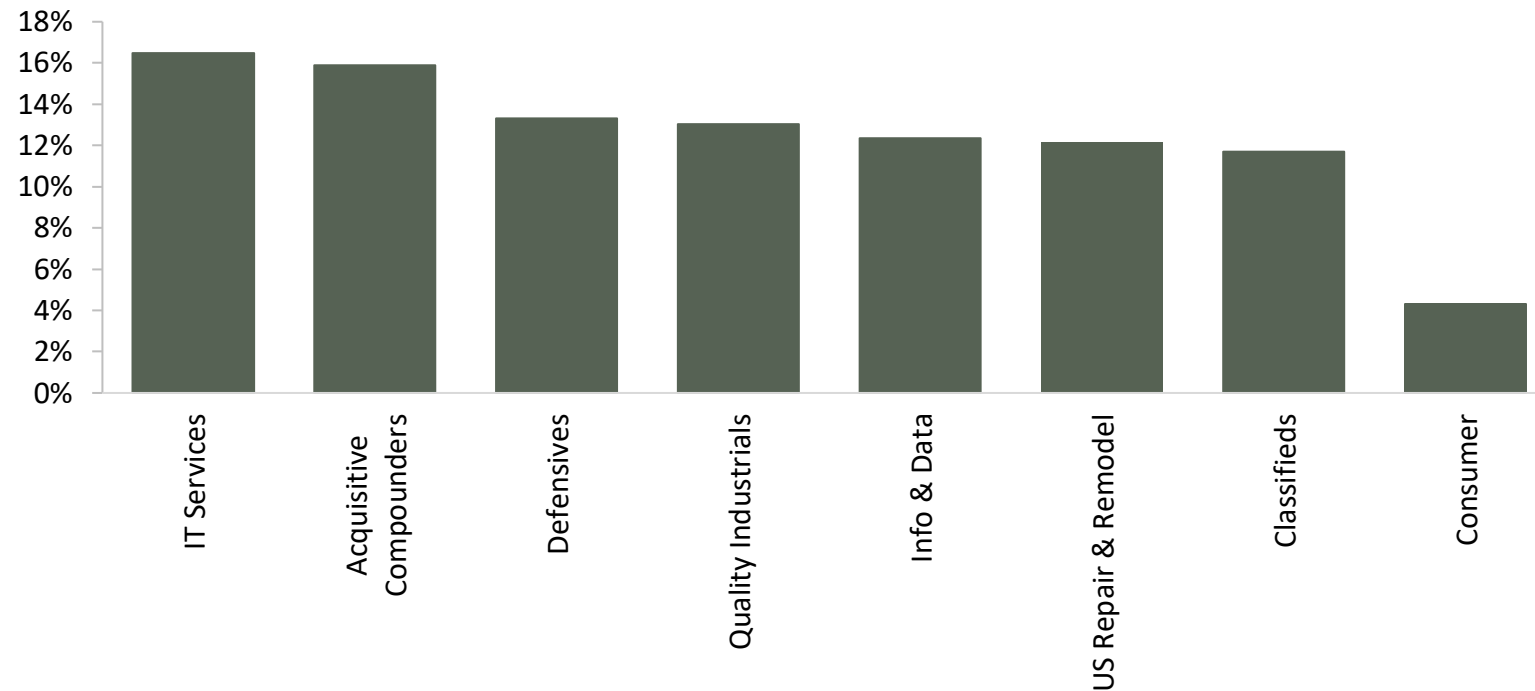
Growth

2023 Revenue	+2%
2023 EPS	+3%
2024E Revenue	+8%
2024E EPS	+13%

Valuation

Earnings Yield	4.4%
PE	23x
Dividend Yield	1.3%
Market Cap (USD)	\$17.6b

Portfolio Positioning



Source: Fairlight Estimates. FactSet

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