

Ausbil MicroCap Fund

Monthly performance update

October 2020

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'The Fund remains disciplined in its approach, only pursuing select opportunities'

Performance Review

Fund performance for the month of October was -2.00% (net of fees) versus the benchmark return of +1.31%, as measured by the S&P/ASX Emerging Companies Accumulation Index.

Fund Review

The Fund underperformed against the S&P/ASX Emerging Companies Accumulation Index (Emerging Companies Benchmark) after a mix of disappointing stock-specific news and an aggressive sell-off in technology and consumer discretionary exposure. Uniti Group (UWL) was forced to increase its offer for OptiComm (OPC) after another last-minute bid by Aware Super. Post month-end, the UWL/OPC scheme was successfully approved, paving the way for completion, with the shares strengthening since. E-commerce names were aggressively sold down by the market with signs that elevated levels of online retail spending growth are moderating as the domestic economy reopens.

The flood of IPOs continues as companies seek to capitalise on a supportive environment for primary listings. The Fund remains disciplined in its approach, only pursuing select opportunities that satisfy our investment and valuation criteria, and refraining from many others due to lofty price expectations.

Over the month, the largest positive contributors to performance were CleanSpace, OptiComm and Johns Lyng Group. Negative contributors included Uniti Group, McPherson's and Megaport.

Key Contributors

CleanSpace (CSX) made a strong IPO debut, up +68.3% on listing. CSX designs and locally manufacturers advanced powered respiratory protection equipment for the healthcare and industrial markets. The product is displacing the use of less effective and lower quality disposable masks as COVID-19 drives a deep structural shift in the requirements for quality personal protective equipment to ensure the safety of workers.

OptiComm (OPC) rose +11.1% in October after further corporate activity between two potential suitors, Uniti Group (UWL) and Aware Super (formerly First State Super). UWL responded to another last-minute attempt by Aware Super for control, revising the implied price at the time of offer to \$6.67 per OPC share, a premium to the last offer of \$5.85. After month-end, the UWL scheme of arrangement was approved by OPC shareholders, marking a remarkable return from a position the Fund has held since its IPO at \$2.00 in August 2019.

Johns Lyng Group (JLG) continued to grind higher, returning +11.6% over the month. In late October, Halloween hailstorms in QLD resulted in over 26,000 claims lodged with insurers with losses estimated at \$300m by the Insurance Council of Australia. Flash flooding triggered by severe storms in South-East Queensland will likely create a stream of upcoming repair work as we enter the catastrophic natural disaster season.

1. Fund returns are net of fees.
2. The benchmark is S&P/ASX Emerging Companies Accumulation Index.
3. Top 10 stocks sorted alphabetically.

Key Detractors

Uniti Group (UWL) fell -16.8% over the month as Aware Super launched another last-minute attempt for OPC, this time an off-market takeover at \$6.50 per share, an 11.1% premium to UWL's previously improved OPC offer of \$5.85. UWL's matching rights were triggered, with the company revising its offer to an implied price of \$6.67. After month-end, UWL rebounded strongly as OPC shareholders approved the revised scheme of arrangement.

McPherson's (MCP) was lower by -25.3% in October. Despite a strong 1H21 outlook, FY21 guidance implied a cautious outlook to growth in 2H21 given the benefit from increased stay-at-home sales due to lockdown measures in the previous 2H20 comparable period. While disappointing, we ultimately believe guidance this early in the financial year will prove conservative following the 1H21 result.

Megaport (MP1) fell -16.3% in October, giving up some of the strong gains achieved over the last year. A record number of new ports and customers were added in the September quarter, with solid growth in North America. However, currency headwinds and revenue declines in Europe relating to one-off repricing events slowed revenue growth quarter-on-quarter.

Fund Outlook

Trying to predict the path of markets is challenging at this point, to say the least. Extreme liquidity support from central banks, supercharged valuations leveraging ultra-low discount rates, COVID uncertainty and edgy investors have made for a potent mix, fuelling volatility. Post month-end, there appears to be a result in the US presidential election with a more moderate and less erratic President replacing the policy-by-tweet approach of the Trump administration. Adding to our sense of optimism is the promising progress towards the development of an effective vaccine. Accordingly, the balanced approach we have espoused in recent months will probably skew more towards economically sensitive positions as risks abate, remaining mindful of the ongoing risks.

Returns¹ as at 31 October 2020

Period	Fund Return ¹ %	Benchmark ² %	Out/Under performance %
1 month	-2.00	1.31	-3.30
3 months	8.51	14.96	-6.45
6 months	27.42	41.53	-14.11
FYTD	15.66	22.89	-7.22
CYTD	-3.15	9.66	-12.81
1 year	0.55	6.38	-5.83
3 years pa	13.16	8.31	4.86
5 years pa	13.11	10.60	2.52
7 years pa	15.42	6.61	8.81
10 years pa	19.47	1.41	18.06
Since inception pa Date: February 2010	22.02	3.15	18.86

Top 10 Stocks³

1. Arena REIT.
2. City Chic Collective
3. Johns Lyng Group
4. Lifestyle Communities
5. Macquarie Telecom Group
6. Megaport
7. Opticomm
8. Redbubble
9. Uniti Group
10. West African Resources



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A short notice on the COVID-19 public health event, and how it can impact investments

Given the currently evolving issues around the Coronavirus (or Covid-19) globally, which has officially been designated a pandemic by the World Health Organisation, we wish to notify that, as with many firms, business may be disrupted. A public health crisis, pandemic, epidemic or outbreak of a contagious disease, such as the recent outbreak of Coronavirus (or Covid-19) in Australia, Italy, China, South Korea, the United States and other countries, could have an adverse impact on global, national and local economies, which in turn could negatively impact investment returns in any of Ausbil Investment Management Limited's registered managed investment schemes (the Funds). Disruptions to commercial activity relating to the imposition of quarantines or travel restrictions (or more generally, an inability on behalf of authorities to contain this pandemic) may adversely impact any investment, including by delaying or causing supply chain disruptions or by causing staffing shortages. The outbreak of Coronavirus has contributed to, and may continue to contribute to, volatility in financial markets. The impact of a public health crisis such as the Coronavirus (or any future pandemic, epidemic or outbreak of a contagious disease) is difficult to predict, which presents material uncertainty and risk with respect to any investment or fund performance.