

Monthly Fact Sheet February 2022

Performance ¹	3 month %	1 year %	2 years % p.a	3 years % p.a	Inception % p.a ²
Fund return (net)	-15.97	-7.50	18.46	17.16	11.12
S&P/ASX Small Ordinaries Accumulation Index	-7.71	5.02	10.93	7.74	6.54
Active return	-8.26	-12.52	7.53	9.41	4.58
S&P/ASX Small Industrials Accumulation Index ³	-10.97	-1.21	5.59	5.65	5.48
Active return	-5.00	-6.29	12.87	11.51	5.64

Past performance is not a reliable indicator of future performance. Numbers may not add due to rounding.

¹ Returns are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

² The inception date for the Fund is 31 January 2018

³ The benchmark for the Fund is the S&P/ASX Small Ordinaries Accumulation Index. For comparison purposes, the S&P/ASX Small Industrials Accumulation Index is displayed as the Fund does not typically invest in resource securities.

Fund facts	
Portfolio managers	James Dougherty, Liam Donohue
Inception date	31 January 2018
Investment objective	To outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term (after fees)
Management fee	1.30%
Performance fee	20% of the Fund's daily return (after fees and expenses and after adding back any distributions paid) above the Performance Benchmark
Buy/sell spread	+0.50% / -0.50%
Fund size	\$34.1M
Distribution frequency	Half-yearly

Top 3 active positions (alphabetical)
Aussie Broadband Pty Ltd
DDH1 Ltd
Infomedia Ltd

Stock attribution
Top 3
Aussie Broadband Pty Ltd
SRG Global Ltd
Novonix Ltd*
Bottom 3
Tyro Payments Ltd
Superloop Ltd
Trajan Group Holdings Ltd

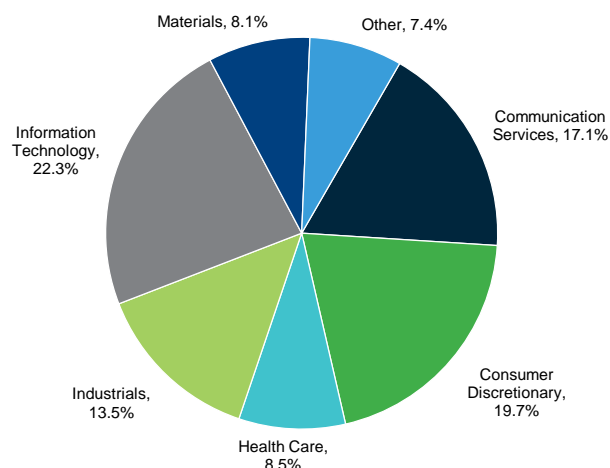
*Not Held

Data Source: Fidante Partners Limited, 28 February 2022.

Fund features
An actively managed portfolio of microcap companies: Lennox invests using in-depth fundamental research coupled with selective quantitative screening to identify investment opportunities.
Experienced investment team: The investment team has a long and successful history investing in Australian small and microcap companies.
A refined and tested investment process: Lennox have a robust investment process which is combined with key insights gained through deep-dive research 'on the ground'.
Risk aware: Lennox embed risk management at the centre of their investment philosophy and portfolio construction. This is considered a critical function given the inherent volatility in microcap equities.

Asset allocation	Actual %	Range %
Security	96.53	70-100
Cash	3.47	0-30

Sector exposure



Fund highlights

The Fund returned -4.33% (after fees) for the month of February, while the S&P/ASX Small Ordinaries Accumulation Index returned -0.01% and the S&P/ASX Small Industrials Accumulation Index returned -2.09% (the Small Industrials index excludes resources and energy companies, which the Fund does not invest in).

The largest contributors to performance included overweight positions in domestic telco Aussie Broadband and contractor SRG Global and an underweight position in lithium miner and battery developer Novonix. Aussie Broadband rallied 16.8% following a strong first half result buoyed by continued market share gains and the near completion of the highly accretive acquisition of Over The Wire. Shares in SRG Global rallied 21.1% following a strong 1H22 result buoyed by strong cash flow conversion and an upgrade to full year Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA) guidance. Novonix fell 32.9% as it continued to pull back with other unprofitable growth names on high multiples. Lennox does not hold Novonix and was positively impacted by an underweight position relative to the benchmark.

The largest detractors from performance included payment software provider Tyro, telecommunications provider Superloop and healthcare product supplier Trajan. Tyro lost 31.5% following the release of an underwhelming 1H22 result which reflected weaker than expected operating leverage and cash flow conversion. Superloop was down 19.3% following an underwhelming first half result that reflected cost inflation and an unwind of the new subscriber momentum the Company had achieved across the first quarter. Shares in Trajan were down 20.5% across the month of February despite delivering a first half result broadly in-line with market expectations, we put the underperformance down to a lack of liquidity.

During the month, Lennox opened a position in aerial imagery software provider Nearmap. We are attracted to the Company's long term growth prospects driven by its subscription model offering, premium product differentiation and favourable industry dynamics. Management continues to scale their North American business which remains important to the validation of the Company's business model and expands their ability to generate meaningful future cash flows.

Market overview

Energy was the best performing sector in February, up 10.2%, followed by Materials (+7.1%) and Industrials (+6.1%). Information Technology was the worst performing sector over the month, down -12.8%, followed by Healthcare (-10.0%) and Communication Services (-4.7%).

The top performers for the month were mining & engineering contractors NRW Holdings and CIMIC Group, followed by metal recycler Sims. NRW was up 36.3% after it reported a strong 1H22 result and reaffirmed full year guidance despite tough operating conditions, strong cash flow was the key surprise in the result. CIMIC rose 34.8% after Spanish conglomerate Hochtief offered an all-cash bid of \$22.00/share for the remaining shares it does not already own. Lastly, Sims rallied 28.2% following a 1H22 result ahead of expectations and an expectation that strong operation conditions will continue into the second half.

The worst performers for the month were location sharing mobile app provider Life360, lithium miner and battery developer Novonix and payment software provider Tyro. Life360 was down 36.6% after concerns mounted around the safety of the location tracking technology recently acquired through the Tile deal. Novonix fell 32.9% as it continued to pull back with other unprofitable growth names on high multiples. Finally, Tyro lost 31.5% following the release of an underwhelming 1H22 result which reflected weaker than expected operating leverage and cash flow conversion.

What's making waves

With the 1H FY22 reporting season concluding in February we were once again given with the opportunity to absorb a new set of data points and management interactions to test our investment theses. The team concluded almost 100 meetings across February, uncovering several interesting trends which included: (1) Wage inflationary pressures and staff turnover. Almost all companies we spoke to over the reporting season experienced wage inflation and some degree of staff turnover. This was particularly prevalent across technology names such as Tyro, Bravura and Infomedia which all delivered cost growth ahead of expectations. This negatively impacted short-term operating results as well as forward looking outlook statements, how this develops over the medium term for individual companies remains a key focus for the team at Lennox; (2) Strong demand dynamics driven by a combination of high employment, house price strength and a continued reopening of the economy meant most businesses experienced strong demand for their products and services; and (3) Supply chain congestion which saw various management teams increase inventory above traditional levels. This not only negatively impacted the cash flow results for various companies but also presents a risk that consumer discretionary stocks are carrying excess inventory into a consumer downturn.

For further information, please contact:

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This material has been prepared by Lennox Capital Partners Pty Ltd (ABN 19 617 001 966, AFSL 498737) Lennox, the investment manager of the Lennox Australian Microcap Fund. Fidante Partners Limited ABN 94 002 835 592 AFSL 234668 (Fidante) is a member of the Challenger Limited group of companies (**Challenger Group**) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at www.fidante.com should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. Lennox and Fidante have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, Lennox and Fidante may receive remuneration or other benefits in respect of financial services provided by the parties. Fidante is not an authorised deposit-taking institution (ADI) for the purpose of the *Banking Act 1959* (Cth), and its obligations do not represent deposits or liabilities of an ADI in the Challenger Group (**Challenger ADI**) and no Challenger ADI provides a guarantee or otherwise provides assurance in respect of the obligations of Fidante. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.