

Ausbil MicroCap Fund

Quarterly performance update

December 2020

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'Markets posted another strong quarterly performance surpassing multiple key hurdles and events'

Performance Review

Fund performance for the December quarter was +13.95% (net of fees) versus the benchmark return of +17.40%, as measured by the S&P/ASX Emerging Companies Accumulation Index.

Fund Review

Markets posted another strong quarterly performance surpassing multiple key hurdles and events. Positive vaccine developments, fast-tracked vaccination plans, the US Presidential Election outcome, the US\$920bn additional US fiscal stimulus, and a Brexit trade agreement between the UK and the EU cleared the way for markets to move higher. Notwithstanding that many countries continue to contend with the spread of coronavirus, including the threat of potentially more infectious strains, the recovery trade continued.

The Fund returned +13.95% (net of fees) in the December quarter, in-line with the S&P/ASX Small Ordinaries Accumulation Index return of +13.85%, however trailing the S&P/ASX Emerging Companies Benchmark. Having gradually positioned for the November rotation into more cyclically sensitive recovery trades, the Fund continued with a strong December performance, as the Fund's largest positions delivered strong returns. Consumer Discretionary was a standout sector as we maintained conviction in select retail (City Chic) and travel (Helloworld) exposures, despite the expected speedbumps on the path to a recovery, best exemplified by recent COVID-19 outbreak events in NSW.

Over the quarter, the largest positive contributors to performance were Uniti Group, City Chic and Betmakers. Negative contributors included McPherson's, Tyro and Marley Spoon.

Key Contributors

Uniti Group (UWL) returned +11.8% after a transformative quarter for the company. Finalising the acquisition of Opticomm, UWL then completed the smaller acquisition of Harbour ISP, before undertaking a capital raising to purchase Telstra's Velocity assets. Velocity was the last available private fibre network at scale and adds considerable national presence to UWL's wholesale and infrastructure operations. Strategically, the acquisition also secures Telstra as a Retail Service Provider (RSP) on UWL's national networks, further improving its competitive offering to developers in the greenfield market against the NBN.

City Chic (CCX) returned +47.8% over the quarter. In December, CCX acquired the e-commerce and wholesale divisions of UK based plus-size retailer Evans. Evans is a leading high street fashion retailer with over 90 years of history, with an already established digital presence. Strategically, the acquisition accelerates CCX's UK footprint and provides the foundation to deploy the groups successful online operating model into a brand with a large and loyal customer base.

Betmakers (BET) returned +65.4% over the quarter. In December, BET completed the transformational acquisition of the racing and digital assets of international online sports betting company Sportech. Sportech's racing and digital assets offer BET highly strategic capabilities in tote betting and B2B digital betting solutions through an existing customer base, and established gaming licenses.

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

McPherson's (MCP) fell -55.3% over the quarter. In December, MCP reported that sales of its cornerstone Dr Lewin's brand via its joint venture partner, ABM, during the important Singles Day promotional period were below expectations and the historical sales rate. With Dr Lewin's a key driver of earnings growth, and a period of destocking excess inventory likely, the Fund exited its position in MCP.

Tyro (TYR) was -10.4% lower over the quarter. News that ANZ agreed to sell 51% of its merchant acquiring fleet business to European payments company, Worldline, likely created selling pressure from the potential for increased competition by a more focused joint venture partnership. We believe ANZ's decision, and Bendigo Bank's partnership with TYR, reflects the increasing complexity of providing merchant services and the clear value proposition TYR offers.

Marley Spoon (MMM) detracted from performance over the quarter. Positive developments from potential vaccine candidates prompted a strong rotation from COVID-19 beneficiaries towards vaccine recovery exposure. Investors anticipated that demand for home meal kit deliveries, which surged during lockdowns, would moderate as customers returned to more normal routines of meal consumption, both in and outside home channels.

Fund Outlook

Looking forward, our sense of optimism remains, albeit juxtaposed with our usual cautions and caveats. Concerns of a more virulent COVID strain that has appeared in the UK and South Africa have raised questions as to the effectiveness of currently approved vaccines, adding to the existing challenges of producing and distributing them on a global scale. The recent COVID outbreak experiences in Victoria and NSW are a stark reminder that the path to a recovery will likely encounter speedbumps and detours sparking ongoing political, philosophical and economic debates with respect to the optimal balance between containment and economic viability. While cautious of the risks, and aware of the hurdles, an eventual reopening of the global economy remains the most probable outcome at this stage. Accordingly, selectively increasing risk exposure is justified, however we are not throwing caution to the wind.

Returns¹ as at 31 December 2020

Period	Fund Return ¹ %	Bench- mark ² %	Out/Under performance %
1 month	5.49	2.64	2.86
3 months	13.95	17.40	-3.45
6 months	34.49	42.41	-7.92
FYTD	34.49	42.41	-7.92
CYTD	12.61	27.08	-14.47
1 year	12.61	27.08	-14.47
3 years pa	15.33	10.04	5.29
5 years pa	14.03	14.31	-0.28
7 years pa	17.96	9.98	7.98
10 years pa	18.11	1.70	16.41
Since inception pa Date: February 2010	23.34	4.51	18.83

Top 10 Stocks³

- | | |
|-------------------------------|------------------------------|
| 1. Australian Finance Group | 6. Lifestyle Communities |
| 2. BetMakers Technology Group | 7. Nuix |
| 3. City Chic Collective | 8. Pointsbet |
| 4. John Lyng Group | 9. Uniti Group |
| 5. Karoon Gas Australia | 10. Universal Store Holdings |



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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.