

# Ausbil MicroCap Fund

## Monthly performance update

May 2021

Ausbil Investment  
Management Limited  
ABN 26 076 316 473  
AFSL 229722  
Level 27  
225 George Street  
Sydney NSW 2000  
GPO Box 2525  
Sydney NSW 2001  
Phone 61 2 9259 0200  
Fax 61 2 9259 0222

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### Performance Review

Fund performance for the month of May was -2.21% (net of fees) versus the benchmark return of +1.98%, as measured by the S&P/ASX Emerging Companies Accumulation Index.

### Fund Review

This month, micro caps +1.98% (S&P/ASX Emerging Companies Index) and small caps +0.27% (S&P/ASX Small Ordinaries Index) also took a backseat to the strong performance in large caps +2.60% (S&P/ASX 100 Index).

May was a particularly challenging month, as the more unprofitable and speculative end of the market started to unwind, taking the index to an intra-month low of -4.8%, only to turn significantly and drive the index higher by month end. The Fund had looked to end the month with positive absolute returns though lost ground in the last few days. The Fund's position in the recent speciality chemicals IPO, DGL Group, and the core holding in Uniti Group contributed to performance over the month, offset by weakness across a basket of holdings after a strong month in April.

Over the month, the largest positive contributors to performance were Uniti Group, DGL Group and Praemium. Negative contributors included Sezzle, Betmakers and Carbon Revolution.

### Key Contributors

**Uniti Group** (UWL) returned +7.9% in May and has been one of our regular top contributors over the last few months. Shares have continued to rerate over the course of the year, ending the month around all-time highs. Several investment banks have recently initiated coverage, increasing awareness amongst larger institutional investors.

**DGL Group** (DGL) completed a successful IPO, ending the month at \$1.27, comfortably above its \$1.00 issue price. DGL is a speciality chemicals and dangerous goods handling business operating across the trans-Tasman market in manufacturing, logistics and warehousing, and environmental services. Increasing regulatory compliance requirements in warehousing chemicals benefits larger operators, such as DGL, with a post-IPO balance sheet that supports potential acquisitions in a fragmented market poised for consolidation. DGL offers investors an attractive multi-year growth story alongside founder Simon Henry, who did not sell-down during the IPO and retains a majority stake in the business.

**Praemium** (PPS) returned +20.0% over the month after announcing the departure of its long-serving CEO and a strategic review of the international operations. The sudden announcement combined with the review suggests there is potential for greater value to be unlocked from the international business, with a small but fast-growing FUA base and a proprietary technology platform having significant corporate appeal.

### Key Detractors

**Sezzle** (SZL) fell -22.4% in May, as the buy-now-pay-later (BNPL) sector retraced over the month amidst a broader rotation out of higher multiple growth names, combined with potential concerns of increasing industry competition. We continue to see significant upside as SZL broadens into enterprise merchants from its SME base, with the recent Target

partnership announced post-month end a significant milestone that should garner additional enterprise interest.

**Betmakers Technology** (BET) fell -11.4% in May. BET announced it had submitted a \$4 billion bid for Tabcorp's wagering and media business. The bid structure raised a few eyebrows, comprising predominantly of BET scrip to be priced at a 15% premium to the prevailing BET share price if and when an agreement is reached. Whilst the bid is scrip-heavy, BET brings a lot to the table that competing bidders will struggle to match, including an all-star executive team led by Matt Tripp, probable support from key racing industry stakeholders, and a highly credible international expansion strategy leveraging BET's US distribution network following the acquisition of Sportech.

**Carbon Revolution** (CBR) fell -26.8% over the month after it reported a key customer temporarily shut down vehicle production due to the global shortage of semi-conductors, forcing CBR to suspend forward orders and downgrade its FY21 forecast for wheel sales. Most of the issues plaguing CBR have been largely outside of their control, and we remain confident that management will continue to execute on what they can control. The announcement of large volume contracts for electrical vehicle and SUV models was a good example and highlighted the attractiveness of the product for OEMs and the significant opportunity ahead.

### Outlook

Our central case remains one of continued positive performance for equity markets as earnings track economic improvements, discount rates remain low, inflation remains controlled, and consumer and business sentiment strengthens. The combination of stimulus and vaccine-fuelled economic recovery, improving sentiment and upwardly biased but controlled inflation should mean continued outperformance for cyclical over growth names, and our portfolio positioning remains consistent with this view.

### Returns<sup>1</sup> as at 31 May 2021

Period	Fund Return <sup>1</sup> %	Bench- mark <sup>2</sup> %	Out/Under performance %
1 month	-2.21	1.98	-4.19
3 months	7.32	6.74	0.58
6 months	16.89	16.13	0.76
FYTD	49.02	61.13	-12.11
CYTD	10.80	13.14	-2.34
1 year	47.39	63.35	-15.95
3 years pa	16.80	14.70	2.10
5 years pa	15.48	13.61	1.87
10 years pa	17.82	3.43	14.39
Since inception pa Date: February 2010	23.52	5.49	18.02

### Top 10 Stocks<sup>3</sup>

1. Australian Finance Group	6. Lovisa
2. Betmakers Tech Group	7. Money3 Corporation
3. City Chic Collective	8. Uniti Group
4. John Lyng Group	9. Universal Store
5. Karoon Gas Australia	10. Vista Group

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



Ausbil Investment  
Management Limited  
Level 27  
225 George Street  
Sydney NSW 2000  
Australia  
Toll Free 1800 287 245

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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.