

# Ausbil MicroCap Fund

## Quarterly performance update

June 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

'Conditions should remain broadly favourable for equity markets albeit with different sectoral drivers depending on the recovery path'

### Performance Review

Fund performance for the June quarter was +13.85% (net of fees) versus the benchmark return of +8.30%, as measured by the S&P/ASX Emerging Companies Accumulation Index.

### Fund Review

The June quarter concluded a remarkable financial year for Australian small and micro caps. Micro caps (S&P/ASX Emerging Companies Index) returned +59.24% for the year, outperforming both the small-caps return of +33.23% (S&P/ASX Small Ordinaries Accumulation Index), and large-caps return of +27.91% (S&P/ASX 100 Accumulation Index). A notable observation over the year was the material outperformance of unprofitable micro caps, with unproven business models over peers generating sustainable profits. This drove material outperformance in the S&P/ASX Emerging Companies Index, which consists of more early-stage and 'concept' style businesses. In that context, we are pleased with the Fund's +55.83% (net of fees) performance, which significantly outperformed the Small Ordinaries Index by +24.19%, and comprises relatively more profitable and liquid small and micro-cap companies.

Turning to the June quarter, the Fund's high conviction and long-term core holdings contributed significantly to outperformance. Uniti Group (UWL) and Johns Lyng (JLG), both held since 2019; and City Chic (CCX), held since 2018, were meaningful contributors. Other notable mentions were investment platform Praemium (PPS), youth street fashion brand Universal (UNI) and chemicals solutions and environmental services provider DGL Group (DGL). We are encouraged by the growth outlook for DGL on a medium-term view, with ample organic and inorganic opportunities to underpin future earnings growth. A founder-led management team and defensive earnings profile only adds to DGL's investment appeal. As of 30th June, the Fund held 36 holdings, with the top 20 accounting for over 74% of the portfolio, and active risk of over 90%, as the Fund looks toward the FY21 reporting season.

Over the quarter, the largest positive contributors to performance were Uniti Group, City Chic and Johns Lyng Group. Negative contributors included Carbon Revolution, Maca and Nickel Mines.

### Key Contributors

High-conviction holding, **Uniti Group** (UWL), topped off a transformational year with a strong June quarter performance of +43.9%. UWL is a classic case of an undiscovered, under-researched and under-owned micro cap, unearthed when it was around \$250m in market capitalisation. UWL has since grown into an established small cap with market capitalisation of \$2.2b. The Fund's high-conviction position in UWL, which at times was over 9% of the fund in 2020 (prior to its significant share price outperformance), has driven material Fund outperformance. Growing interest in long-dated infrastructure assets, exemplified by the recent sale of Telstra's 5G tower assets, supports UWL's underlying fibre asset base.

**City Chic Collective** (CCX) returned +37.9% in the June quarter. Several positive retail updates in April were followed by a strong qualitative trading update by CCX in May at the Macquarie Conference. While no specific numbers were provided, commentary highlighted the continuing momentum across the business. Notably, the trading activity of US based brand Avenues improved beyond pre-acquisition levels with the integration of UK based plus-size retailer Evans, completed ahead of schedule.

**Johns Lyng Group** (JLG) returned +32.12% over the quarter after a strong earnings upgrade in June ahead of the release of its full-year results. More work from catastrophic weather events drove the bulk of the upgrade, adding to ongoing activity from the March floods in Northern NSW and South-East Queensland.

### Key Detractors

**Carbon Revolution** (CBR) fell -47.6% over the quarter. CBR announced a large \$95m equity raising to fund the construction of its first mega-line to meet contracted demand. While a key step in product commercialisation, the announcement was released alongside an underwhelming quarterly report that led to a significant raising discount.

**Maca** (MLD) fell -26.3% over the quarter. While the pipeline of work remains strong, supported by robust commodity prices, significant labour supply shortages, particularly in Western Australia, driven by border closures and COVID disruptions have seen contractors sell-off across the board. Already earning thin margins in a competitive environment, contractors are susceptible to labour availability, wage inflation and staff turnover, which clouds earnings visibility.

**Nickel Mines** (NIC) fell -19.2% in the June quarter after a disappointing quarterly update released in April.

### Outlook

Inflation remains in the spotlight and the macro environment is likely to disproportionately influence equity markets over the coming months. Whether inflation is transitory or permanent, central banks (globally) remain intent on keeping interest rates low for the foreseeable future to achieve employment and inflation targets. In many instances, central banks appear intent on letting inflation overshoot to the upside before removing any accommodative policy. Accordingly, our central view is that conditions should remain broadly favourable for equity markets albeit with different sectoral drivers depending on the recovery path.

### Returns<sup>1</sup> as at 30 June 2021

Period	Fund Return <sup>1</sup> %	Bench-mark <sup>2</sup> %	Out/Under performance %
1 month	4.57	-1.17	5.74
3 months	13.85	8.30	5.54
6 months	15.87	11.82	4.05
FYTD	55.83	59.24	-3.41
CYTD	15.87	11.82	4.05
1 year	55.83	59.24	-3.41
3 years pa	18.60	14.90	3.70
5 years pa	16.98	12.68	4.30
10 years pa	18.80	4.21	14.59
Since inception pa Date: February 2010	23.81	5.34	18.47

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

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

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

Unless otherwise specified, any information contained in this publication is current as at the date of this report and is prepared by Ausbil Investment Management Limited (ABN 26 076 316 473 AFSL 229722) (Ausbil). Ausbil is the issuer of the Ausbil MicroCap Fund (ARSN 130 664 872) (Fund). This report contains general information only and the information provided is factual only and does not constitute financial product advice. It does not take account of your individual objectives, financial situation or needs. Before acting on it, you should seek independent financial and tax advice about its appropriateness to your objectives, financial situation and needs. Securities and sectors mentioned in this monthly report are presented to illustrate companies and sectors in which the Fund has invested and should not be considered a recommendation to purchase, sell or hold any particular security. Holdings are subject to change daily. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. Past performance is not a reliable indicator of future performance. Unless otherwise stated, performance figures are calculated net of fees and assume distributions are reinvested. Due to rounding the figures in the holdings, breakdowns may not add up to 100%. No guarantee or warranty is made as to the accuracy, adequacy or reliability of any statements, estimates, opinions or other information contained herein (any of which may change without notice) and should not be relied upon as a representation express or implied as to any future or current matter. You should consider the Product Disclosure Statement which is available at [www.ausbil.com.au](http://www.ausbil.com.au) before acquiring or investing in the fund. Source: MSCI. The MSCI information may only be used for your internal use, may not be reproduced or disseminated in any form and may not be used as a basis for or a component of any financial instruments or products or indices. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each other person involved in or related to compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties (including, without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages. Further information is available at [www.msci.com](http://www.msci.com).

**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.