

Ausbil MicroCap Fund

Monthly performance update

July 2021

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'Despite recent volatility, our central case is for a continued upswing in the global economy as vaccine rollouts accelerate, pent-up demand is unleashed, and activity picks up as a result'

Performance Review

Fund performance for the month of July was +2.31% (net of fees) versus the benchmark return of +2.76%, as measured by the S&P/ASX Emerging Companies Accumulation Index.

Fund Review

Resources were the notable contributor to July performance, with small-cap resources¹ up +7.39%, well-ahead of small-cap industrials² which fell -0.93%. Battery materials, or 'green metals' associated with decarbonisation, significantly outperformed, as higher lithium prices reported over the quarter reflected strong demand and a tight supply environment.

Merger and Acquisition activity continued to dominate headlines, most notably with former Ausbil Microcap holding, now large cap, **Afterpay** (APT) attracting interest from US payment's company Square (SQ: US). Fund holding **Praemium** (PPS) is also expected to unlock additional value from the divestment of its international business and could garner significant M&A interest for the profitable Australian operations.

Quality industrial businesses continue to attract a premium with top 5 holdings in **Uniti Group** (UWL), **Johns Lyng** (JLG) and **Lifestyle Communities** (LIC) all experiencing expanding earnings multiples. As highlighted last month, **DGL Group** (DGL) on a medium-term view remains one of the most compelling investment opportunities we have discovered over recent years. Despite its strong rerating since \$1.00 IPO in May, we still see significant upside as this founder led industrial business executes on ample organic and inorganic opportunities.

The spread of the COVID-19 Delta variant, national lockdowns and a reversal of bond yields saw a brief resurgence of interest in last years 'stay at home' winners (which the Fund has limited exposure to) though markets, for the moment, continue to look through mandatory lockdowns towards greater normality in a post vaccine world. Cinema software company **Vista Group** (VGL) and retailers **Lovisa** (LOV) and **Universal Stores** (UNI) fit this category in the Fund, and we remain positively disposed to these names.

This month, the largest positive contributors to performance were Orocobre, Macquarie Telecom and Johns Lyng Group. Negative contributors included Betmakers Technology, Catapult and Sezzle.

Key Contributors

Orocobre (ORE) was a standout performer for the Fund, returning +27.5% in July with shares hitting all-time highs. The market continued to embrace the battery materials thematic as listed lithium producers recorded higher prices in their June quarterly updates.

Macquarie Telecom (MAQ) returned +27.9% in July after reconfirming its FY21 EBITDA guidance and announcing the development of a new data centre, IC3 Super West, at its Macquarie Park campus. The new data centre adds 32MMW's of new IT capacity, the largest in MAQ's portfolio, exceeding the soon to be completed IC3 East capacity of ~12MMW. The Fund initiated a position in MAQ in November 2018, a great example of a high-quality business generating consistent long-term returns for shareholders.

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

Johns Lyng Group (JLG) continued its strong performance, returning +11.8% in July. After pre-releasing strong earnings upgrades ahead of the full-year results, JLG followed up with a series of acquisitions across strata and building management and restoration services, including a majority stake in Steamatics.

Key Detractors

Betmakers (BET) retraced -7.5% over the month. With the domestic B2C Tabcorp opportunity now behind it, we view BET's refocused attention on the B2B opportunity as incrementally positive for the outlook and attractive for existing investors who sold out on this abrupt strategic pivot as an opportunity to revisit. The outcome refocuses BET's long-term strategy to be a leading solution in the B2B wagering market, with legalisation of fixed-odds betting in New Jersey laying the groundwork for expansion into other US states.

Catapult (CAT) fell -14.0% over the month. CAT shares have traded weaker following the acquisition of SGB sports and an associated capital raising in June where management flagged a period of increased product investment. SGB offers a sophisticated set of video and data analytics solutions used in elite flow sports, including teams in the English Premier League, and motor racing which complements CAT's existing capabilities.

Sezzle (SZL) fell -18.2% in July after a softer quarterly update disappointed the markets growth expectations and raised concerns of rising competition with new entrants and industry consolidation.

Outlook

Despite recent volatility, our central case is for a continued upswing in the global economy as vaccine rollouts accelerate, pent-up demand is unleashed, and activity picks up as a result. This underpins the equity market albeit with different sectoral leadership. Any unanticipated or uncontrolled inflation that severely challenges the commitment of central banks to low rates is the key risk to our outlook. Another wildcard is the COVID-19 Delta variant and its impact on the global recovery. For now, we are monitoring this risk closely and remain vigilant.

Returns³ as at 31 July 2021

Period	Fund Return ³ %	Benchmark ⁴ %	Out/Under performance %
1 month	2.31	2.76	-0.45
3 months	4.62	3.56	1.06
6 months	20.02	10.57	9.45
FYTD	2.31	2.76	-0.45
CYTD	18.55	14.90	3.64
1 year	49.58	53.09	-3.51
3 years pa	20.02	16.77	3.26
5 years pa	15.06	11.23	3.82
10 years pa	19.05	4.21	14.85
Since inception pa Date: February 2010	23.86	5.55	18.31

Top 10 Stocks⁵

1. Australian Finance Group
2. BetMakers Tech
3. City Chic Collective
4. John Lyng Group
5. Karoon Gas Australia
6. Lifestyle Communities
7. Lovisa
8. Orocobre
9. Uniti Group
10. Vista Group International



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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.