

# Ausbil MicroCap Fund

## Monthly performance update

August 2021

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### Performance Review

Fund performance for the month of August was +11.49% (net of fees) versus the benchmark return of +7.28%, as measured by the S&P/ASX Emerging Companies Accumulation Index.

### Fund Review

Reporting season is always a key litmus test for active fund managers, and we are pleased to report an +11.49% return (net of fees) in August, capping a strong reporting season performance for the Fund. The Fund comfortably outperformed both the benchmark return<sup>1</sup> of +7.28% and the small-cap<sup>2</sup> return of +4.98%.

Reporting season was broadly positive, though as anticipated, company guidance was scarce, and the market looked for trading updates to gauge performance in the early weeks of FY22. Retailers sat firmly in this category, with strong FY21 results and positive trading updates driving impressive returns from Fund holdings **Lovisa** and **City Chic**, while **Universal Stores** is primed for a domestic reopening. Industrial holdings **DGL Group**, **Johns Lyng Group** and **Pact Group** all posted strong results with **Pact Group** being a recent addition to the Fund. Other notable observations included continued operational excellence from **Pinnacle Investment Management**, strong ending loan book values supporting growth for both **Australian Finance Group** and **Money3** and improving outlooks for reopening technology exposures **Atomos** and **Vista Group**.

This month, the largest positive contributors to performance were DGL Group, Uniti Group and Lovisa. Negative contributors included PointsBet, People Infrastructure and Peter Warren.

### Key Contributors

**DGL Group** (DGL) surged +55.6% in August, ending the month at \$2.35 to its IPO price of \$1.00 in May. As we have written in recent reports, DGL is one of the most exciting micro caps we have recently uncovered given its organic and inorganic growth opportunities, defensive earnings, and regulatory tailwinds. Despite an impressive share price performance since listing, we continue to see significant upside to earnings on a medium-term view, reminding us of many key attributes in successful long-term investments like Uniti Group and Johns Lyng.

**Uniti Group** (UWL) continued its strong performance, returning +24.4% over the month after delivering another impressive annual result, capping a remarkable 12-month share price performance of +207.8%. Strong free cash flow generation was a standout and underpins capital expenditure into its core fibre-to-the-premise deployments. With the scale to continue competing for market share, expected capital management and a market appetite for high-quality infrastructure type assets, the market has justifiably re-rated UWL and it remains a core portfolio holding.

**Lovisa** (LOV) returned +25.3% for the month after a positive full-year result and the FY22 trading update buoyed investor sentiment. For the first 8-weeks of FY22, comparable store sales for open stores increased +37.8% over the prior corresponding period. LOV remains one of the Fund's key exposures to a global reopening, leveraged to a return in post-lockdown consumer activity in the US, Europe, and Australia, with further growth optionality from new store openings.

### Key Detractors

**PointsBet** (PBH) detracted from returns over the month after falling -5.3% from its pre-raising share price. While PBH's management team have proven themselves highly capable of expanding in both the US and Australian markets, increasing industry competition by well capitalised players and high customer acquisition costs remain key risks.

**People Infrastructure** (PPE) retraced -7.0% over the month. We believe PPE offers exceptional value and market concerns over lockdown impacts are very short term, with a reopening of the economy likely to lead to increased activity levels.

**Peter Warren** (PWR) fell 5.8% over the month as a strong result was overshadowed by a softer outlook with ongoing lockdown restrictions. PWR achieved pro-forma FY21 NPAT of \$52.2m, up over 66% from its prospectus forecast of \$31.4m, highlighting the significant operating leverage over its cost base as strong consumer demand and a tight supply environment improves dealership margins.

### Outlook

For now, we are extremely encouraged by Chair Powell's market-friendly speech at the annual Central Bank economic symposium at Jackson Hole which returned equity markets to a 'risk-on' stance. Our central case is for inflation to remain under control over the medium-term, supporting a 'goldilocks' environment of fiscal stimulus and low rates; backed by potential consumer spend as the household savings dam bursts. Supporting this is the continued upswing in the global economy as vaccine rollouts accelerate, pent-up demand is unleashed, and activity picks up as a result.

### Returns<sup>3</sup> as at 31 August 2021

Period	Fund Return <sup>3</sup> %	Bench- mark <sup>4</sup> %	Out/Under performance %
1 month	11.49	7.28	4.21
3 months	19.28	8.95	10.33
6 months	28.01	16.29	11.72
FYTD	14.07	10.24	3.82
CYTD	32.17	23.27	8.90
1 year	51.76	43.28	8.48
3 years pa	22.41	19.68	2.73
5 years pa	18.43	13.54	4.89
10 years pa	20.98	5.56	15.42
Since inception pa Date: February 2010	24.84	6.15	18.69

### Top 10 Stocks<sup>5</sup>

- BetMakers Tech
- City Chic Collective
- DGL Group
- Johns Lyng Group
- Lifestyle Communities
- Lovisa
- Macquarie Telecom
- Orocobre
- Uniti Group
- Universal Store

1. S&P/ASX Emerging Companies Accumulation Index.

2. S&P/ASX Small Ordinaries 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.



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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.