

# Ausbil MicroCap Fund

Quarterly performance update

September 2021

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

Period	1 month	3 months	6 months	FYTD	CYTD	1 year	2 years pa	3 years pa	5 years pa	7 years pa	10 years pa	Since Inception pa <sup>5</sup>
Fund return %	0.59	14.74	30.63	14.74	32.95	51.50	27.99	22.21	17.67	20.46	22.15	24.71
Benchmark <sup>2</sup> %	7.72	18.76	28.62	18.76	32.79	55.90	27.74	22.71	14.31	14.18	7.47	6.79
Out/under performance %	-7.13	-4.01	2.01	-4.01	0.16	-4.40	0.25	-0.50	3.35	6.28	14.68	17.92
Reference Index <sup>3%</sup>	-2.14	3.44	12.23	3.44	14.57	30.41	12.28	9.43	10.18	10.36	7.69	6.24
Out/under performance %	2.73	11.30	18.40	11.30	18.38	21.09	15.71	12.78	7.49	10.10	14.45	18.47

'We continue to focus our attention on identifying businesses that can compound returns over many years'

## Performance Review

Fund performance for the September quarter was +14.74% (net of fees) versus the benchmark return of +18.76%, as measured by the S&P/ASX Emerging Companies Accumulation Index.

## Fund Review

Australian indices posted broadly positive returns over the quarter, though volatility crept back into the market following a weaker September month. This wasn't the case for the Emerging Companies Benchmark (XEC), which continued to be propelled by cheap liquidity and market speculation. Unprofitable and speculative mining and biotech companies drove a significant portion of its performance. The micro-cap index<sup>2</sup> returned +18.8% over the quarter, outpacing the small-cap<sup>3</sup> return of +3.4%.

The quality bias of the Fund, with a focus on profitability, return on invested capital and sustainable business models reduces the exposure to more early-stage businesses. We continue to focus our attention on identifying businesses that can compound returns over many years, such as **Lifestyle Communities** and **Macquarie Telecom**, which appear in the Fund's top contributors for the quarter and have been long-term holdings.

This quarter, the largest positive contributors to performance were DGL Group, Lifestyle Communities and Macquarie Telecom. Negative contributors included Sezzle, People Infrastructure and PointsBet.

## Key Contributors

**DGL Group** (DGL) surged +134.4% for the quarter and has been a significant contributor to the Fund's performance following our participation in the May IPO at \$1.00. DGL has been one of our high-conviction recent additions, highlighted in each of our June, July and August 2021 reports for its potential. A strong maiden earnings result in August has been bolstered by several smaller acquisitions in QLD and WA in line with its post-IPO strategy of targeted capital deployment.

**Lifestyle Communities** (LIC) returned +36.8% for the quarter. LIC provided a strong 3-year settlements guidance of 1,100 to 1,300 houses at its full-year results, underpinning ongoing capital recycling into a pipeline of greenfield development opportunities in the Victorian market. We are particularly attracted to the growing annuity income stream from LIC's rental income and DMF revenue, which continue to increase with new settlements and annual rent increases.

**Macquarie Telecom** (MAQ) was a strong performer over the quarter, returning +47.4%. In July, MAQ announced the development of a new data centre, IC3 Super West, taking the total IT load at its Macquarie Park campus

to 50MW. Expansion of its data centre capacity is the foundation of MAQ's growth story in colocation and private cloud over the medium-term, with additional opportunities in cyber security and SD-Wan across government and enterprise clients.

## Key Detractors

**Sezzle** (SZL) retracted -35% over the quarter. A softer quarterly trading update combined with an increase in bad debts at the half-year results raised concerns over customer acquisition in an environment of growing BNPL competition. Management have acknowledged the issue and reportedly taken action to remediate, with the objective of reigning in bad debts to be more in line with industry averages over the year. We look to the subsequent updates for signs of improvement while they continue to execute on numerous growth opportunities across the business.

**People Infrastructure** (PPE) retraced -15.3% over the quarter as the lingering uncertainty of lockdowns on short-term earnings dragged on sentiment. With a line of sight to a reopening in key NSW and Victorian markets, we believe lockdown headwinds will be transitory and see a strong pick-up in demand in the second half of FY22 as NSW and Victoria reopen and services demand normalises.

**PointsBet** (PBH) detracted from returns over the quarter following ingestion of the capital raising to fund the next stage of its US growth plans. Competition to attract and retain new customers in an ultra-competitive US market where market structure is still being established raises concerns around sustainable levels of marketing and promotional spend.

## Outlook

The month of September was somewhat volatile as a wall of worry emerged on many fronts. The financial health of Chinese property developer, Evergrande, sent fears of a liquidity crisis reverberating through equity markets. This was compounded by a fast-approaching US debt ceiling, along with QE tapering and rising risks of inflation. While these risks are still somewhat present, our central case is for these risks to be dealt with in an appropriate and measured way supporting a 'goldilocks' environment of fiscal stimulus and low rates.

## Top 10 Stocks<sup>4</sup>

- |                          |                            |
|--------------------------|----------------------------|
| 1. 29 Metals             | 6. Lovisa Holdings         |
| 2. City Chic Collective  | 7. Macquarie Telecom Group |
| 3. DGL Group             | 8. Orocobre                |
| 4. Johns Lyng Group      | 9. Uniti Group             |
| 5. Lifestyle Communities | 10. Universal Store        |

1. Fund returns are net of fees and before taxes.
2. S&P/ASX Emerging Companies Accumulation Index.
3. S&P/ASX Small Ordinaries Accumulation Index.
4. Top 10 stocks sorted alphabetically.
5. Date: February 2010.



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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.