

# Ausbil MicroCap Fund

## Monthly performance update

November 2021

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## Returns<sup>1</sup> as at 30 November 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 %	-1.50	3.93	23.97	18.55	37.36	44.91	24.75	28.39	20.93	22.08	22.38	24.66
Benchmark <sup>2</sup> %	-0.41	11.77	21.78	23.22	37.78	41.42	30.99	30.13	16.68	16.65	7.36	7.03
Out/under performance %	-1.09	-7.84	2.19	-4.67	-0.42	3.49	-6.25	-1.74	4.24	5.43	15.02	17.64
Reference Index <sup>3</sup> %	-0.31	-1.54	7.27	4.07	15.27	18.44	12.04	13.54	11.65	11.16	7.35	6.20
Out/under performance %	-1.20	5.47	16.70	14.48	22.10	26.47	12.71	14.85	9.27	10.92	15.03	18.46

'Market volatility returned in November following the emergence of a new COVID-19 strain'

### Performance Review

Fund performance for the month of November was -1.50% (net of fees) versus the benchmark return of -0.41%, as measured by the S&P/ASX Emerging Companies Accumulation Index.

### Fund Review

Markets ended November with an ominous tone as investors grappled with the uncertainty of another COVID-19 strain and a profound shift in the Federal Reserve's messaging on increasingly persistent inflation and taper timelines. Volatility indices spiked higher, oil prices pulled back and many high valued (unprofitable stocks) retraced materially. Put another way, equity markets began pricing in a policy mistake from central banks, resulting in a 'risk-off' market.

The Fund returned -1.50% against the micro-cap index<sup>2</sup> return of -0.41% and the small-cap<sup>3</sup> index return of -0.31%. The majority of the underperformance was through pullbacks in the Funds larger positions following a strong period of outperformance. This included high-conviction positions in **DGL Group**, **Lovisa** and **City Chic**. Positively, the Fund benefited from a number of positive trading updates, including in **Johns Lyng Group** and **Uniti Group**. We also introduced **Playside Studios** into the portfolio which now features as one of the more unique and exciting investment opportunities we have discovered in recent months.

This month, the largest positive contributors to performance were Johns Lyng Group, SiteMinder and Praemium. Negative contributors included DGL Group, Betmakers Technology and Atomos.

### Key Contributors

**Johns Lyng Group** (JLG) rose +14.80% in November to all-time highs. Management confirmed revenue and EBITDA guidance at the AGM, with a number of smaller but notable weather events expected to provide a tailwind for CAT volumes over the year. A new broker initiation during the month also added to positive sentiment. JLG remains a core long-term position in the Fund, characterised by it being founder led, capital light and a highly cash generative business model.

**SiteMinder** (SDR) had a strong IPO debut, ending the month at \$6.32, well above its \$5.06 listing price.

**Praemium** (PPS) returned +18.4% following a proposed control transaction from listed peer Netwealth (NWL) at an indicative price of \$1.50 at the time of the announcement. We believe there are significant cost and revenue synergies across the merged group, though agree with the Board's decision that the initial offer price was insufficient. For now, it appears that we are waiting for an update on the sale of PPS's international business before the next moves on the chessboard can take place.

### Key Detractors

**DGL Group** (DGL) took a breather over the month, retracing -18.3% in November after a significant run of performance +200% to \$3.00 prior to November, up from its \$1.00 issue price in May. DGL has successfully executed on several accretive transactions as it builds a full-service chemicals production, storage, and environmental solutions business across the Tasman. A positive AGM update in early December highlighted the EBITDA run-rate significantly ahead of consensus expectations with the company managing supply chain constraints and acquisition integrations. DGL remains a high-conviction position in the Fund, reminding us of many long-term holdings in founder-led businesses like **Johns Lyng Group**, **Uniti Group** and **City Chic**.

**Betmakers** (BET) fell -26.2% over the quarter. There were no new announcements over the month, though general risk aversion added pressure on the stock.

**Atomos** (AMS) fell -20.4% following the retirement of co-founder Jeremy Young over the month. While instrumental to the foundation of AMS, we believe management has taken the appropriate steps to transition and corporatize the business.

### Outlook

Market volatility returned in November following the emergence of a new COVID-19 strain (Omicron) and the Federal Reserve's hawkish messaging on persistent inflation and taper timelines. The Omicron variant adds another level of uncertainty or 'unknown unknowns' to the outlook for the global economy.

In Australia, as we move beyond lockdowns and into living with and managing COVID risk, we see a re-acceleration in the momentum of growth in the forthcoming December quarter and throughout calendar year 2022. This continues to underpin our view for a 'goldilocks' environment of fiscal stimulus and low rates; backed by potential consumer spend as the household savings dam bursts.

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

1. 29Metals	6. Macquarie Telecom Group
2. City Chic Collective	7. Orocobre
3. DGL Group	8. Praemium
4. Johns Lyng Group	9. Sandfire Resources
5. Lovisa	10. Uniti Group

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.