

Ausbil MicroCap Fund

Quarterly performance update

December 2021

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Returns¹ as at 31 December 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 ⁵
Fund return %	4.20	7.66	23.53	23.53	43.14	43.14	26.96	31.79	21.87	22.63	23.40	24.90
Benchmark² %	4.33	8.26	28.56	28.56	43.75	43.75	35.16	33.74	17.62	17.77	8.30	7.36
Out/under performance %	-0.13	-0.60	-5.03	-5.03	-0.62	-0.62	-8.20	-1.95	4.25	4.86	15.09	17.54
Reference Index³ %	1.41	2.03	5.54	5.54	16.90	16.90	12.99	15.71	11.17	11.31	7.98	6.28
Out/under performance %	2.79	5.63	17.99	17.99	26.24	26.24	13.97	16.08	10.70	11.32	15.42	18.62

'The Fund retains its preference for companies exposed to a reopening of economies'

Performance Review

Fund performance for the December quarter was +7.66% (net of fees) versus the benchmark return of +8.26%, as measured by the S&P/ASX Emerging Companies Accumulation Index and the reference index return of +2.03% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

Fund Review

The Fund returned +43.14% (net of fees) for CY21, ahead of the Small Ordinaries Index³ return of +16.90%, and in-line with the strong Emerging Companies Benchmark² return of +43.75%. This takes the February 2010 since inception return to +24.90% pa versus the benchmark of 7.36% pa.

This outstanding result in 2021 was achieved with commensurately less risk given the vast majority of the benchmark's 10 largest contributors were unprofitable, highly speculative and not held by the Fund. Examples of stocks we avoided include PPK Group (-55%), Dubber (-32%) and Vulcan Energy (-34%), which have since come crashing back to earth after exiting the Emerging Companies Index.

Significant Fund winners over the year included **Uniti Group** and **Lifestyle Communities** which were both promoted into the S&P/ASX 200 Index, as well as **Johns Lyng Group**, **DGL Group**, **Lovisa** and **City Chic**. Conversely, the Fund's positions in BNPL, technology and personal consumer lending detracted from performance.

The Fund retains its preference for companies exposed to a reopening of economies (**Lovisa** and **City Chic**), highly cash generative telco's (**Uniti Group**), quality founder-led industrials (**Johns Lyng Group** and **DGL Group**), green metal companies supporting decarbonisation and EV production (**Core Lithium**, **Boss Energy** and **Syrah**), beneficiaries of rising inflation through copper producers (**29Metals** and **Sandfire**) while being selective with technology positions (**PlaySide**, **Jumbo** and **Data#3**).

This quarter, the largest positive contributors to performance were Johns Lyng Group, 29Metals and Praemium. Negative contributors included Atomos, City Chic and Betmakers Technology.

Key Contributors

Johns Lyng Group rose +49.1% over the quarter to all-time highs. In December, JLG announced the acquisition of Reconstruction Experts, a US-based business specialising in insurance repair services. Reconstruction Experts operates across Colorado, Florida, California and Texas, primarily in defect and damage insurance, providing a beachhead into launching JLG's full suite of capabilities into the US. As a long-term shareholder of JLG, we are excited by the platform for further US expansion. JLG is a pioneer in its field of expertise, disrupting a fragmented market.

29Metals (29M) returned +34.1% over the quarter. A softer than anticipated quarterly result was offset by improving zinc by-product prices.

Praemium (PPS) returned +36.7% over the quarter following a proposed takeover offer from listed peer Netwealth (NWL). There are significant strategic and synergistic benefits from the proposed merger, though the initial offer was insufficient to warrant further engagement from the Board with its suitor and competitor. With the confirmation of the sale of PPS's loss-making international business to Morningstar in December, attention can now firmly turn to the strong prospects for the core Australian business in which we see significant upside.

Key Detractors

Atomos (AMS) fell -31.4% after a transitional quarter following the departure of co-founder Jeromy Young. While instrumental to the foundation of AMS, the company is corporatising with a new CEO, Estelle McGeachie, bringing significant credentials.

City Chic (CCX) fell -15.4% over the quarter as the market digested a tale of two halves to come in FY22. 1H22 is characterised by temporary store closures (Australia), labour shortages and logistics challenges in the Evans UK business and supply chain constraints. We see these headwinds as short term and transitory. 2H22 will see a ramp-up of marketplace partnerships including Walmart (US), eBay & David Jones (Australia) and Very (UK). With Target (US), the Iconic (Australia), Amazon, Dedenhams (UK) and Zalando (Germany) still to come. Online marketplaces delivered \$9m revenue in FY19, which could be dwarfed with the names being onboarded above, only time will tell.

Betmakers (BET) retraced -25.6% over the period following the general underperformance in technology-related names.

Outlook

Following a late Christmas rally, the market awoke to a US Federal Reserve's more hawkish messaging on persistent inflation, taper timelines and interest rate rises. As we look towards 2022, the withdrawal of easy monetary settings through the anticipated unwinding of quantitative easing and the expectation for multiple rate rises across developed economies will likely prove more challenging for the unprofitable and speculative growth segment of the market as liquidity is withdrawn. In Australia, the spread of Omicron in early January is likely to hit a crescendo in the short term, and a decision to move beyond lockdowns given high vaccination rates should allow an acceleration in growth momentum throughout calendar 2022.

Top 10 Stocks⁴

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