

# Ausbil MicroCap Fund

Monthly performance update

February 2022

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## Returns<sup>1</sup> as at 28 February 2022

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 %	-3.22	-9.06	-5.48	7.81	-12.73	20.99	25.21	20.70	18.40	18.29	19.22	23.13
Benchmark <sup>2</sup> %	-1.87	-5.47	5.66	16.48	-9.40	22.87	36.42	25.65	15.19	15.37	5.47	6.38
Out/under performance %	-1.35	-3.58	-11.14	-8.66	-3.33	-1.88	-11.21	-4.94	3.21	2.92	13.75	16.75
Reference Index <sup>3</sup> %	-0.01	-7.71	-9.14	-3.96	-9.00	5.02	10.93	7.74	9.35	8.42	5.50	5.37
Out/under performance %	-3.21	-1.34	3.65	11.77	-3.72	15.97	14.28	12.96	9.04	9.87	13.72	17.76

'A confluence of geopolitical tensions, inflationary spikes, souring commodity prices and volatile bond markets have clouded the outlook for equity markets'

## Performance Review

Fund performance for February was -3.22% (net of fees) versus the benchmark return of -1.87%, as measured by the S&P/ASX Emerging Companies Accumulation Index and the reference index return of -0.01% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

## Fund Review

Reporting season was overshadowed by geopolitical events, with increased volatility exacerbated by fears of an inflationary shock and a hawkish Federal Reserve. Market rotations were aggressive, with intra-day moves often magnified by profit taking and de-risking on the back of earnings results and a general lack of liquidity. The Fund benefited from very strong results from **Lovisa** and **DGL Group**, which defied concerns around supply-chain headwinds. Recent additions in **Aussie Broadband** and **Smartgroup** also reported well with positive outlooks. As anticipated, a tight labour market, staff turnover, wage inflation and supply-chain constraints were common themes over the month. Markets however had little tolerance to look through unexpected cost growth or revenue delays, which impacted the Funds largest three detractors over the month.

This month, positive contributors to performance were Lovisa, Karoon Energy and Aussie Broadband. Negative contributors included Praemium, City Chic and Uniti Group.

## Key Contributors

**Lovisa** (LOV) returned +13.0% over the month after posting a strong half-year result well ahead of market expectations driven by the economic reopening in the US and Europe. Same-store sales growth of +12.1% for the first 8 weeks of the second half show continued business momentum and minimal impact from Omicron. As COVID-induced restrictions ease and supply-chain challenges stabilise, the scene is set for an accelerated global store rollout and continued momentum in same store sales growth.

**Karoon Energy** (KAR) rose +6.8% in February. Growing risks to the security of oil supply following tighter economic sanctions against Russia are driving the price of oil to multi-year highs.

**Aussie Broadband** (ABB) rose +16.8% in February after following up a pre-released first-half result with stronger than anticipated profit and cash conversion. Supplementing retail broadband growth was strong business broadband services over the half, with the acquisition of listed peer, Over The Wire (OTW), bolstering capabilities across business cloud and managed services.

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.

## Key Detractors

**Praemium** (PPS) fell -39.3% after posting a result with significantly higher cost growth than anticipated, disappointing expectations for operating leverage in the Australian business. This was further compounded following the removal of any M&A premium as commentary from previous suitor, Netwealth (NWL), removed the likelihood of a further bid.

**City Chic** (CCX) fell -20.4% over the month. Despite posting a strong operating result, the market was surprised by the magnitude of its inventory build-up over the half as the business took the strategic decision to add additional stock to support strong growth given supply-chain constraints. Alongside a qualitative, not quantitative, trading update for the first several weeks of the second half, the market became concerned with the size of the inventory build and sent shares lower. While this adds short-term uncertainty as inventory is worked through, there is lower fashion risk compared to traditional retailers with an estimated 80% of the fashion range transferrable between seasons and geographies, in addition to a general restock required for previous acquisitions in the UK and Europe. We added to the position.

**Uniti Group** (UWL) fell -21.3% during the month. The market gravitated to the lower construction revenue and flow disruption in the run-rate of new fibre connections. We see more value reopening in the name following the pullback as construction delays are short-term in nature and acquisitions to be on strategy, highly accretive and come with contracted premises that support future active service growth.

## Outlook

A confluence of geopolitical tensions, inflationary spikes, souring commodity prices and volatile bond markets have clouded the outlook for equity markets. This is a dynamic situation, and the risks are elevated. We are monitoring developments closely, and where appropriate we will be adjusting the macro-outlook accordingly, though this may need to be revisited multiple times subject to developments.

For now, we remain focused on the overall growing economy, locally and offshore, including the beneficiaries of a post-COVID normalisation. 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 becomes tighter. The Fund remains positioned for an elongated period of market volatility with an increased focus on stocks higher in the market cap spectrum with ample liquidity.

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

1. 29Metals	6. Imdex
2. Allkem	7. Johns Lyng Group
3. City Chic Collective	8. Lovisa
4. Core Exploration	9. Sandfire Resources
5. DGL Group	10. Uniti Group



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