

# Ausbil MicroCap Fund

Quarterly performance update

March 2022

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## Returns<sup>1</sup> as at 31 March 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>
<b>Fund return %</b>	8.26	-5.51	1.73	16.72	-5.51	32.88	54.04	23.14	20.25	18.85	19.72	23.76
<b>Benchmark<sup>2</sup> %</b>	10.64	0.24	8.51	28.87	0.24	39.57	72.42	28.77	18.09	17.11	6.43	7.22
<b>Out/under performance %</b>	-2.37	-5.75	-6.79	-12.15	-5.75	-6.68	-18.39	-5.63	2.16	1.74	13.29	16.53
<b>Reference Index<sup>3</sup> %</b>	5.26	-4.21	-2.27	1.09	-4.21	9.68	29.18	9.64	9.90	9.52	6.02	5.77
<b>Out/under performance %</b>	3.00	-1.30	3.99	15.63	-1.30	23.20	24.86	13.50	10.34	9.33	13.70	17.98

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

## Performance Review

Fund performance for the March quarter was -5.51% (net of fees) versus the benchmark return of +0.24%, as measured by the S&P/ASX Emerging Companies Accumulation Index, and the reference index return of -4.21% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

## Fund Review

Market performance by sectors diverged significantly in the first quarter of 2022. Small Resources<sup>1</sup> continued a stretch of dominant outperformance returning +14.49% against the Small Industrials<sup>2</sup> return of -9.10% over the quarter, while the S&P/ASX All Technology Index was hit even harder at -14.60%.

In March, the Fund returned a strong +8.26% (net of fees), taking the return for the quarter to -5.51% (net of fees). The Fund's Materials and Energy positions were strong contributors given the supportive commodity pricing environment, including **Core Lithium** and **Karoon Energy**. The Fund also benefitted from the takeover offer for long-term core holding **Uniti Group** and also **DGL Group** which reached all-time highs. The Fund ended the quarter with 40 holdings, cash of 4.2% and top 20 concentration of 73%, reflecting a high-conviction positioning. Despite the volatility, we maintain our focus on high-quality industrials with a demonstrable track record around cash flow, cash conversion, and positive earnings revisions. Furthermore, we remain attracted to profitable mining and energy names, particularly in emerging battery materials as market pricing continues to strengthen in light of tightening supply-demand dynamics.

This quarter, the largest positive contributors to performance were Core Lithium, Karoon Energy and Allkem. Negative contributors included City Chic, Praemium and Pinnacle.

## Key Contributors

**Core Lithium** (CXO) returned 133.1% over the quarter, closing at \$1.375. Importantly, CXO has been a key contributor to performance after initiating a position in August 2021 following a placement at \$0.31. Despite the strong run, the company remains one of the more promising emerging lithium developer in the Australian Ex-200 universe. In March, CXO signed a binding term sheet with Tesla to supply spodumene over 4-years, which importantly includes a market referenced pricing mechanism. CXO is anticipated to commence maiden production later this year with the potential for further drilling opening options to pursue Stage 2 expansions, which would double planned production, with further long-term optionality to pursue downstream conversion.

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.

**Karoon Energy** (KAR) rose 28.0%. Oil prices hit multi-year highs over the quarter following concerns to the security of oil supply and tighter economic sanctions against Russia, a significant global producer of global oil and natural gas.

**Allkem** (AKE) returned 9.9% over the quarter following continued improvement in underlying lithium pricing. In early April, AKE provided a positive update with spodumene pricing in the June quarter anticipated to be US\$5,000 per tonne compared to the March quarter of US\$2,218 per tonne.

## Key Detractors

**City Chic** (CCX) fell 38.2% over the quarter after a larger than anticipated inventory build-up following a strategic decision to support strong growth given supply-chain constraints.

**Praemium** (PPS) fell 53.1% after posting a result with significantly higher cost growth than anticipated, disappointing expectations for operating leverage in the Australian business following more consistent net inflow momentum and the sale of the loss-making international business.

**Pinnacle** (PNI) retraced 30.9% for the quarter. PNI is susceptible to short-term market gyrations given its market-linked exposure through its equity affiliates and higher relative multiple to peers.

## Outlook

A confluence of geopolitical tensions, inflationary spikes, soaring 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 Lithium         | 9. Macquarie Telecom Group |
| 5. DGL Group            | 10. Uniti Group            |



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