

Ausbil MicroCap Fund

Monthly performance update

April 2022

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Returns¹ as at 30 April 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 ⁵
Fund return %	-0.28	4.49	-3.30	16.40	-5.78	19.02	41.35	21.14	21.24	18.08	19.90	23.55
Benchmark ² %	-4.31	3.89	-0.34	23.31	-4.08	24.27	50.38	25.13	18.45	15.96	6.43	6.79
Out/under performance %	4.03	0.60	-2.96	-6.91	-1.69	-5.25	-9.03	-3.98	2.79	2.12	13.47	16.76
Reference Index ³ %	-1.50	3.68	-4.61	-0.42	-5.65	2.91	19.94	7.64	9.62	9.03	5.96	5.60
Out/under performance %	1.22	0.81	1.31	16.82	-0.13	16.11	21.42	13.51	11.62	9.05	13.94	17.95

'Our focus on high-quality businesses with positive earnings revisions has supported performance over the month'

Performance Review

Fund performance for the month of April was -0.28% (net of fees) versus the benchmark return of -4.31%, as measured by the S&P/ASX Emerging Companies Accumulation Index and the reference index return of -1.50% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

Fund Review

The Fund delivered +4.03% outperformance (net of fees) in the month of April. This was pleasing against the backdrop of precipitous market gyrations and volatility, and as we seek to construct a portfolio that provides greater capital protection during down markets compared to the benchmark. The Fund's macroeconomic overlay, used as a tool and guide to direct research efforts, has benefited positioning over the past 6-months as interest rate expectations have risen. Shifting economic and market conditions saw in the fund redeploying capital from high-multiple growth companies, that have borne the brunt of the sell-off, into quality defensive growth businesses with a focus on sustainable business models and high cash flow generation. Quantitative easing and the low-rate environment which has supported the many unprofitable and speculative companies now appears to be unwinding, leaving lofty COVID valuations and beneficiary earnings a distant memory.

Fundamentally, we remain stock pickers, and our focus on high-quality businesses with positive earnings revisions has supported performance over the month, including **DGL Group** and **Johns Lyng Group**, in addition to tactical resource exposures in battery materials through **Syrah Resources**. While we are not immune to market sell-offs, we remain confident that the Portfolio is well positioned and that this volatility will provide compelling opportunities.

Key Contributors

DGL Group (DGL) returned 19.9% over the month. DGL posted a material earnings upgrade, with EBITDA anticipated to reach \$64m, up 20% from previously upgraded guidance and +120% from original FY22 Prospectus of \$29m. DGL noted stronger demand across its manufacturing segments, with strong volume utilisation across the group driving margin expansion. We continue to believe DGL remains well positioned to capitalise on both cross-sell opportunities across the group with further bolt-on M&A additions and remains a standout opportunity over the medium to long term.

Boss Energy (BOE) returned 20.1% over the month. BOE is an emerging uranium developer, preparing a restart of the Honeymoon uranium project in South Australia. Spot Uranium prices hit ~\$58 per pound after a period of historically depressed prices well below the marginal cost of production. We anticipate growing demand for uranium underpinned by the push to decarbonisation, with BOE well placed to capitalise on improving pricing as a fully funded, fully permitted producer in a Tier-1 mining jurisdiction.

Syrah Resources (SYR) returned 21.5% in April. SYR was the beneficiary of a \$107m term facility from the US Department of Energy for the initial expansion the Vidalia Anode Material Plant. The grant supports SYR's development of a vertically integrated supply chain for anode materials in the US supporting emerging battery and EV manufacturers in the US and Europe. SYR's quarterly report also showed continued growth to nameplate, with improving shipping conditions and ongoing strength in graphite pricing.

Key Detractors

Lovisa (LOV) fell 11.6% over the month on general negative market sentiment around higher-growth consumer discretionary businesses. In early May, LOV reported that continued positive sales momentum for the first several weeks of the half which continued into April, indicating the business remains well positioned to benefit from the ongoing reopening of post-COVID consumer activities.

City Chic (CCX) fell 12.1% in April, though rebounded inter-month after posting a positive trading update, posting +25% sales growth in the 2H to date. CCX remains well positioned to capitalise on returning post-COVID activity in the Northern Hemisphere, with strong growth in the US and emerging green shoots from a recovery in the distressed Avenues business acquired last year. Ongoing supply-chain constraints, which have only worsened following ongoing disruptions in China, position CCX well following a strategic decision to build-up inventory in the key May to June selling months.

Life360 (360) slid 31.7% over the month. The company reported a positive operating update with ongoing strength in top-of-funnel users and total paying subscribers in a seasonally weaker quarter. However, a softer than anticipated update on hardware sales from the recent Tiles acquisition given supply chain constraints and a misunderstanding of the company's underlying operating cashflow sent shares lower in an environment where small misses were compounded.

Outlook

Continued Fed hawkishness, including embracing 50bp rate moves and renewed focus on QT, have pushed real and nominal yields to new highs. In the absence of any sustainable change to the inflation/labour market backdrop, the pressure for tighter financial conditions is likely to remain front of mind for investors. Despite weakness in equity and credit markets, the front loading of rate hikes is still the most likely path so long as the risk of recession remains low. For now, we remain focused on segments of the market that can continue to grow earnings against the backdrop of lower global GDP forecasts, with a particular focus on parts of the economy that are beneficiaries of a post-COVID normalisation. The Fund remains positioned for an elongated period of market volatility with an increased focus on stocks higher in the market cap spectrum and with ample liquidity.

Top 10 Stocks⁴

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