

Ausbil MicroCap Fund

Monthly performance update

July 2022

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Returns¹ as at 31 July 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 %	11.23	-15.97	-12.20	11.23	-20.83	-4.41	19.58	12.29	16.61	14.80	19.14	21.32
Benchmark² %	14.31	-14.10	-10.76	14.31	-17.61	3.08	25.62	15.19	13.96	13.72	6.98	5.35
Out/under performance %	-3.08	-1.88	-1.45	-3.08	-3.22	-7.49	-6.04	-2.91	2.65	1.07	12.16	15.97
Reference Index³ %	11.43	-9.94	-6.63	11.43	-15.03	-10.93	8.55	2.55	7.30	8.06	6.53	4.60
Out/under performance %	-0.20	-6.04	-5.58	-0.20	-5.80	6.52	11.02	9.74	9.31	6.74	12.60	16.71

'Equity markets rebounded strongly in July following comments from the Federal Reserve that policy was moving closer toward a neutral setting and future rate hikes will be data dependant'

Performance Review

Fund performance for the month of July was 11.23% (net of fees) versus the benchmark return of 14.31%, as measured by the S&P/ASX Emerging Companies Accumulation Index, and the reference index return of 11.43% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

Fund Review

Equity markets rebounded strongly in July following comments from the Federal Reserve that policy was moving closer toward a neutral setting and future rate hikes will be data dependant. Equity market performance was strongest across the sectors most sensitive to falling bond yields as these sectors were hit worst when bond yields were rising aggressively. For context, some aggressive price rebounds were noted in growth names such as ZIP (158.0%), Megaport (77.8%) and Kogan (65.8%).

Positive contributors from the Fund included high-conviction positions in **Johns Lyng Group**, which the Fund selectively added to during the May and June sell-off, and long-term holdings in **Lovisa** and **Lifestyle Communities**. The Fund also benefitted from a well-received update from value-added IT reseller **Data#3**, with an extended backlog of hardware products given supply shortages. The takeover of **Uniti Group** was completed in July, marking the end to the Fund's long-term and most successful investment since inception. On the detractors, the Fund's materials exposure broadly failed to keep up with the overall strength of the market.

This month, the largest positive contributors to performance were Johns Lyng Group, Lovisa and Data#3. Negative contributors included DGL Group, 29Metals and Panoramic Resources

Key Contributors

Johns Lyng Group (JLG) rebounded 31.4% in July following a sharp sell-off in May and June. The Fund added significantly to its holding in the pullback, confident that the sell-off reflected short-term macroeconomic concerns rather than the fundamental underlying strength in JLG's business momentum. JLG's upgraded guidance in June highlighted revenue and earnings growth of 52.5% and 57.8% for FY22 vs FY21.

Lovisa (LOV) rallied 28.9% over the month along with a rebound in global growth names. LOV appears to be entering several new geographies including Canada, Poland, Northern Ireland and Hong Kong, indicating an acceleration in the global store rollout. Reporting season will prove a timely update on the pace and success of the current and future rollout opportunity.

Data#3 (DTL) returned 7.1% over the month. DTL pre-released a strong FY22 result with net profit before tax up 19% over FY22. The result included a significant backlog of delayed hardware revenue, two times larger than the same time last year, due to ongoing supply challenges and semi-conductor shortages in networking infrastructure. DTL is well positioned to benefit from continued enterprise and government demand for digital transformation projects and improving hardware supply.

Key Detractors

DGL Group (DGL) fell 9.8% over the month. Having pre-released upgraded FY22 guidance in April-22, we see a high degree of earnings certainty entering this reporting season's result, a rarity in this market. Additionally, we believe a strong cash flow backed earnings result will be rewarded by the market. On our analysis, simply taking FY22 guidance of \$65m EBITDA, adding a full year contribution of already announced acquisitions in FY22 and very modest benefits from new greenfield investments, implies consensus earnings upgrades. This is before including any organic growth or potential future acquisitions. DGL remains a high conviction position.

Commodity exposures to **29Metals** (29M) and **Panoramic Resources** (PAN) fell 13.0% and 2.5% respectively over the month. 29M fell in sympathy with a pullback in copper prices on concerns of weaker global growth and a slower rebound in Chinese economic activity. PAN detracted following a slower ramp-up to nameplate nickel production than was initially targeted, offset by higher nickel prices.

Outlook

Mildly dovish Federal Reserve comments (relative to recent months) against the backdrop of equity markets trading in 'oversold' territory fuelled the market rally from the July lows. Despite the market re-rate, there is still significant uncertainty surrounding the market's future earnings, which will invariably be dictated by broader economic conditions and the pace at which central banks return to neutral rate settings. We remain acutely aware of bond market signals, with the 2/10 yield curve significantly inverted, reflecting concerns about a weakening economic backdrop. While a potential US recession and resultant earnings downgrades remain firmly on the table, employment data (albeit a lagging indicator) remains robust. We continue to monitor the pulse of the consumer, as higher inflation and higher interest rates impact household budgets, along with the adverse implications of falling house prices and the resultant wealth effect.

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.

Top 10 Stocks⁴

1. Boss Resources
2. Core Lithium
3. Data#3
4. DGL Group
5. Imdex
6. Johns Lyng Group
7. Jumbo Interactive
8. Lifestyle Communities
9. Lovisa
10. Macquarie Telecom Group

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