

# Ausbil MicroCap Fund

## Monthly performance update

October 2022

Ausbil Investment  
Management Limited  
ABN 26 076 316 473  
AFSL 229722  
Level 27  
225 George Street  
Sydney NSW 2000  
GPO Box 2525  
Sydney NSW 2001  
Phone 61 2 9259 0200

## Returns<sup>1</sup> as at 31 October 2022

Period	1 month	3 months	6 months	1 year	2 years pa	3 years pa	5 years pa	7 years pa	10 years pa	Since Inception pa <sup>6</sup>
<b>Fund return %</b>	5.51	-1.01	-16.82	-19.56	14.21	9.46	13.58	13.43	17.51	20.76
<b>Benchmark<sup>2</sup> %</b>	2.93	-5.62	-18.92	-19.20	13.82	11.29	10.48	11.51	5.78	4.76
<b>Out/under performance %</b>	2.58	4.61	2.10	-0.36	0.39	-1.82	3.10	1.92	11.73	15.99
<b>Reference Index<sup>3</sup> %</b>	6.46	-4.91	-14.36	-18.31	3.45	1.46	4.16	7.08	5.10	4.10
<b>Out/under performance %</b>	-0.95	3.91	-2.46	-1.25	10.76	8.00	9.42	6.35	12.41	16.66

'The debate over the coming quarter is focused on the type of landing global economies achieve in 2023'

## Performance Review

Fund performance for the month of October was +5.51% (net of fees) versus the benchmark return of +2.93%, as measured by the S&P/ASX Emerging Companies Accumulation Index and the reference index return of +6.46% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

## Fund Review

Lower-than-anticipated rate hikes by the Reserve Bank of Australia and the Central Bank of Canada tentatively indicated that central banks are beginning to moderate the speed of monetary tightening. This somewhat reflects a deteriorating economic outlook, however central banks in Australia and abroad remain firmly focused on bringing inflation back toward a 2% target. Ongoing gyrations in economic data has resulted in heightened market volatility.

The Fund outperformed the micro-cap benchmark by +2.58% (net of fees). Performance was driven by a strong recovery in the Fund's core holdings, including **Lovisa**, where we anticipate the store-rollout program is continuing to pick up pace. Technology exposure also performed strongly, **Data#3** delivering a positive AGM trading update, **Life360** putting through price rises and **Jumbo Interactive** with improving jackpots. Data#3 continues to benefit from ongoing structural trends in digital transformation with high earnings certainty rewarded by the market. Overall, the Fund continues to retain a balanced portfolio exposure into November with an elevated focus on earnings quality and balance sheet strength.

This month, the largest positive contributors to performance were Syrah Resources, Life360 and Lifestyle Communities. Negative contributors included 29Metals, Mincor Resources and Panoramic Resources.

## Key Contributors

**Syrah Resources** (SYR) rallied 45.7% in October after a raft of positive announcements. SYR was selected by the US Department of Energy for a proposed US\$220m grant to fund a potential extension of the Vidalia Active Anode Material facility in Louisiana and entered a non-binding memorandum with LG Energy Solution.

**Life360** (360) returned 39.6% in the month. The company confirmed material price increases across new sign-ups and 60% of the existing US membership base with a relatively modest impact on churn in testing. We believe the price increases offers the potential for management to bring forward free cash flow breakeven earlier than anticipated with further upside from bundling Tiles hardware to improve subscription sales conversion and member retention.

**Lifestyle Communities** (LIC) returned 15.7% as companies with longer dated cash flows recovered following expectations of a moderating rate hike cycle. An increase in debt facilities provides the optionality for LIC to accelerate its development pipeline with an operating model underpinned by a growing stream of recurring rental and deferred management fee revenue.

## Key Detractors

**29Metals** (29M) retraced 18.5% over the month, pairing back some of its recent recovery. 29M's third quarter update showed improved group copper production of 12.3 kt, up on the last two quarters, offset by softer zinc output. While base metal prices remain sensitive to slowing economic activity, any sign of a reopening in the Chinese economy will see support return.

Nickel miners **Mincor Resources** (MCR) and **Panoramic Resources** (PAN) fell 26.6% and 23.7% respectively, alongside the pullback in resources. MCR produced a weak 1st quarter update with maiden production guidance lower than market expectations. PAN continued to show an improving nickel production profile at Savannah as the restart gathers pace towards full nameplate production. While subject to short-term volatility, we believe both MCR and PAN are well positioned as existing producers to benefit from the tailwind of growing nickel demand in EV's.

## Outlook

The debate over the coming quarter is focused on the type of landing global economies achieve in 2023. In the USA, recent GDP data exhibited hints of both a soft and hard economic landing. A combination of a resilient services sector along with ongoing business investment supports the case for a soft landing. In contrast, the collapse in residential investment when analysed with ongoing pressures on the consumer and declining PMI data points to a dour outlook ahead. For now, we are of the view that cash rates in Australia and the USA will continue to rise, but it is not a pre-set path. Above all else, the Fund remains positioned for an elongated period of market volatility with an increased focus on quality companies that can grow irrespective of market conditions.

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

- |                     |                             |
|---------------------|-----------------------------|
| 1. Data#3           | 6. Jumbo Interactive        |
| 2. DGL Group        | 7. Karoon Energy            |
| 3. Dicker Data      | 8. Lifestyle Communities    |
| 4. Imdex            | 9. Lovisa                   |
| 5. Johns Lyng Group | 10. Macquarie Telecom 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.

Ausbil Investment  
Management Limited  
Level 27  
225 George Street  
Sydney NSW 2000  
Australia  
Toll Free 1800 287 245

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Contactus@  
[ausbil.com.au](mailto:ausbil.com.au)

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