

Ausbil MicroCap Fund

Quarterly performance update

December 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

Returns¹ as at 31 December 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 ⁶
Fund return %	-4.75	5.01	9.60	-21.99	5.67	7.93	11.36	11.58	16.86	20.42
Benchmark² %	-3.56	2.57	7.51	-22.51	5.55	12.29	8.22	11.73	6.51	4.67
Out/under performance %	-1.19	2.44	2.08	0.51	0.12	-4.35	3.15	-0.16	10.35	15.74
Reference Index³ %	-3.73	7.54	7.03	-18.38	-2.32	1.38	2.92	6.64	5.13	4.12
Out/under performance %	-1.02	-2.52	2.57	-3.61	7.99	6.56	8.44	4.93	11.73	16.29

'We remain positioned for an elongated period of market volatility with an increased focus on quality companies that can grow irrespective of market conditions'

Performance Review

Fund performance for the quarter ending December 2022 was +5.01% (net of fees) versus the benchmark return of +2.57%, as measured by the S&P/ASX Emerging Companies Accumulation Index, and the reference index return of +7.54% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

Fund Review

Market hopes of a Santa rally fizzled into a Santa slide, ending a challenging year for many asset classes. The less liquid micro-cap² segment of the market bore the brunt of the sell-off, down 22.5%, relative to large-cap⁴ returns of +0.6%. The micro-cap segment could have been a lot worse, as companies such as Jervois Global (JRV) fell 66.8% and Lake Resource (LKE) fell 48.4%. AVZ Minerals has been suspended since May 2022 after exiting the benchmark in March 2022 so their fall was not captured.

The dominant theme over the year was inflation and the impact of higher rates on asset valuations. The Fund responded relatively early to the impact of rising rates by reducing exposure to higher growth names, rotating into more defensive growth exposure through **Data#3** and later **Hansen Technologies** which were both strong performers. Exposure to battery materials, in particular an early investment in **Core Lithium**, added to performance in addition to positions in **Lovisa** and **PWR Holdings**.

This quarter, positive contributors to performance came from **Lifestyle Communities** and **Imdex**. Negative contributors included **29Metals** and **City Chic**.

Key Contributors

Lifestyle Communities (LIC) returned 25.7%. LIC reconfirmed full-year guidance at its AGM, with a recent increase in its debt facilities providing the optionality to accelerate its development pipeline. Since establishing our initial position in May 2019, LIC has been a strong contributor to the Fund as growth has accelerated under the guidance of founder and CEO, James Kelly. Following graduation into the S&P/ASX 200, the Microcap Fund has exited, however the Ausbil Australian SmallCap Fund continues to follow LIC into its next stage of growth.

Imdex (IMD) rebounded 23.8% over the quarter. Improving sentiment towards a China reopening, the length of the commodity cycle and ongoing spending by larger resource companies towards exploration buoyed sentiment. While

IMD has its origins in mining exploration, particularly gold and copper, the business has taken clear steps to diversify into the larger and more consistent mining production value chain. In this regard, steps towards the commercialisation of Blast Dog, used for blast hole sensing, following the initial contract with Fortescue Metals (FMG) is an important driver of value creation.

Key Detractors

29Metals (29M) fell 15.9% after delivering a poor production update late in December, with group production anticipated to be at the lower end of the guidance range. Slower development rates at Golden Grove had been previously flagged, however 29M was forced to scale back production at Capricorn Copper to manage tailings capacity following approval delays for a tailings storage lift.

City Chic (CCX) fell 63.7% in the December quarter, as the company delivered a 2nd downgrade a month after a soft AGM trading update in November. Caught with excess inventory into a weakening consumer backdrop and more aggressive competitor discounting, CCX has been forced to increase promotional activity, compressing earnings, which on our forecasts pushes the company into a net debt position.

Outlook

The debate over the coming quarter is focused on the type of landing global economies achieve in 2023. Growth is materially slowing and inversion across the yield curve points to heightened recessionary risks in the USA and Europe. At the same time, China has significantly accelerated its preparation for an actual reopening in recent weeks which has buoyed the outlook for commodity demand in 2H23. 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 Stocks⁴

1. Data#3	6. Johns Lyng Group
2. DGL Group	7. Jumbo Interactive
3. Dicker Data	8. Karoon Gas Australia
4. Hansen Technologies	9. Macquarie Telecom Group
5. Imdex	10. PSC Insurance 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. S&P/ASX 100 Accumulation Index.
5. Top 10 stocks sorted alphabetically.
6. Date: February 2010.

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

Unless otherwise specified, any information contained in this publication is current as at the date of this report and is prepared by Ausbil Investment Management Limited (ABN 26 076 316 473 AFSL 229722) (Ausbil). Ausbil is the issuer of the Ausbil MicroCap Fund (ARSN 130 664 872) (Fund). This report contains general information only and the information provided is factual only and does not constitute financial product advice. It does not take account of your individual objectives, financial situation or needs. Before acting on it, you should seek independent financial and tax advice about its appropriateness to your objectives, financial situation and needs. Securities and sectors mentioned in this monthly report are presented to illustrate companies and sectors in which the Fund has invested and should not be considered a recommendation to purchase, sell or hold any particular security. Holdings are subject to change daily. The value of an investment and the income from it can fall as well as rise and you may not get back the amount originally invested. Past performance is not a reliable indicator of future performance. Unless otherwise stated, performance figures are calculated net of fees and assume distributions are reinvested. Due to rounding the figures in the holdings, breakdowns may not add up to 100%. No guarantee or warranty is made as to the accuracy, adequacy or reliability of any statements, estimates, opinions or other information contained herein (any of which may change without notice) and should not be relied upon as a representation express or implied as to any future or current matter. You should consider the Product Disclosure Statement which is available at www.ausbil.com.au and the target market determination which is available at <https://www.ausbil.com.au/invest-with-us/design-and-distribution-obligations/fund-tmtds> before acquiring or investing in the fund.

Contactus@
ausbil.com.au

ausbil
Strength. Wisdom. Agility.

