

# Ausbil MicroCap Fund

## Monthly performance update

February 2023

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## Returns<sup>1</sup> as at 28 February 2023

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>2</sup>
<b>Fund return %</b>	-3.73	-4.66	-3.88	-10.53	4.04	11.94	10.53	12.67	15.30	20.15
<b>Benchmark<sup>2</sup> %</b>	-4.22	-1.01	-5.07	-12.21	3.86	17.78	8.36	12.19	6.52	4.82
<b>Out/under performance %</b>	0.49	-3.65	1.19	1.67	0.18	-5.84	2.17	0.48	8.78	15.33
<b>Reference Index<sup>3</sup> %</b>	-3.70	-1.21	-2.01	-7.97	-1.69	4.24	3.56	7.70	4.88	4.28
<b>Out/under performance %</b>	-0.03	-3.45	-1.88	-2.57	5.73	7.70	6.96	4.97	10.42	15.87

'China has significantly accelerated the removal of its COVID-zero policy which has buoyed the outlook for consumption and commodity demand'

## Performance Review

Fund performance for February 2023 was -3.73% (net of fees) versus the benchmark return of -4.22%, as measured by the S&P/ASX Emerging Companies Accumulation Index and the reference index return of -3.70% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

## Fund Review

Reporting season was mixed overall, with companies reporting broadly stronger top-line revenue growth but weaker than expected bottom-line earnings due to cost inflation and rising financing costs. Cracks finally emerged in consumer and housing exposed sectors as pressure builds on real incomes and household savings late into the cycle, though the Fund has limited exposure to these sectors. Strength in travel and tourism was a consistent theme, with several of the Fund's travel exposed names benefitting over the period, including **Experience Co** and **Tourism Holdings**. Strong earnings results from positions in **Johns Lyng Group**, **DGL Group** and **PSC Insurance** also added to performance. The Fund's resources exposure was a detractor in February.

This month, positive contributors to performance were **DGL Group** and **Johns Lyng Group**. Negative contributors included **Dicker Data** and **Jumbo Interactive**.

## Key Contributors

**Johns Lyng Group** (JLG) rebounded 7.2% over the month after a strong earnings result and full-year guidance upgrade. The beat was driven by an exceptional CAT result, as JLG continues to work through a large backlog of disaster recovery work following several major weather events on the Australian East Coast. JLG's growing national footprint provides the platform to mobilise for disaster recovery at scale for both insurance and state governments. The acquisition of Reconstruction Experts, growth in Steamatic and the organic roll out of MakeSafe and Express Builders sets the foundation for the US strategy.

**DGL Group** (DGL) returned 20.1% over the month. Making up for lost time, DGL reported a beat to consensus expectations and exceptional operating cash flow. Guidance was also upgraded to reflect the contribution for the most recent acquisition of Nightingale Transport. The result showed that the business has taken clear steps to address concerns raised at the full-year result through strong operating cash flow conversion, a more diversified revenue base across customers and sectors, and good organic revenue growth. With a pipeline of bolt-on M&A optionality, organic growth opportunities and a focus on operating cash flow, DGL remains an attractively priced story in our view.

## Key Detractors

**Dicker Data** (DDR) retracted 22.9% over the month. Despite posting a strong top-line result over CY22, duplicated overhead costs following two acquisitions and rising working capital funding resulted in flat earnings growth for the year. We are constructive on the company's ability to refocus on cost management following consolidation of warehouse sites, integration of acquisitions and driving better operating margins in NZ which has a lower margin profile relative to the more mature Australian business.

**Jumbo Interactive** (JIN) fell 12.8% over the month. Despite posting an earnings result in-line with consensus expectations, a slowdown in penetration of digital lottery sales and a softer series of jackpot runs at the start of the new quarter weighed on the market. We believe that the softer digital lottery sales penetration this reflected the impact of a broader reopening of physical retail outlets though we see no change to the longer-term digital adoption trends.

## Outlook

The debate continues on the type of landing global economies achieve in 2023. Growth is materially slowing and a number of forward indicators (such as yield curve inversion) point to heightened recessionary risks. At the same time, China has significantly accelerated the removal of its COVID-zero policy which has buoyed the outlook for consumption and commodity demand in 2H23. For now, we are of the view that cash rates in Australia and the USA will continue to rise, but the magnitude of future hikes will be data-dependant and we are already seeing early signs to warrant a slowdown in monetary tightening.

## Top 10 Stocks<sup>3</sup>

- |                        |                            |
|------------------------|----------------------------|
| 1. Data#3              | 6. Jumbo Interactive       |
| 2. DGL Group           | 7. Karoon Gas Australia    |
| 3. Hansen Technologies | 8. Macquarie Telecom Group |
| 4. Imdex               | 9. PSC Insurance Group     |
| 5. Johns Lyng Group    | 10. Sandfire Resources     |

1. Fund returns are net of fees and before taxes.
2. Date: February 2010.
3. Top 10 stocks sorted alphabetically.



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