

# Ausbil MicroCap Fund

Quarterly performance update

June 2023

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## Returns<sup>1</sup> as at 30 June 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>
Fund return %	0.74	-3.29	-5.33	3.76	-4.49	12.44	8.76	10.40	15.96	19.10
Benchmark <sup>3</sup> %	2.55	-2.47	-0.15	7.36	-0.26	16.57	8.58	8.82	10.01	4.48
Out/under performance %	-1.81	-0.82	-5.18	-3.60	-4.22	-4.13	0.19	1.57	5.95	14.62
Reference Index <sup>4</sup> %	0.03	-0.54	1.32	8.45	-6.58	5.16	2.25	5.83	6.81	4.07
Out/under performance %	0.71	-2.75	-6.65	-4.69	2.09	7.29	6.51	4.57	9.15	15.03

'The valuation disparity that has emerged between micro and large caps offers an enticing opportunity for investors'

## Performance Review

Fund performance for the quarter ending June 2023 was -3.29% (net of fees) versus the benchmark return of -2.47%, as measured by the S&P/ASX Emerging Companies Accumulation Index and the reference index return of -0.54% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

## Fund Review

Equity market returns muddled through the month of June against the backdrop of a resilient labour market and moderating inflation expectations. Technology indices led returns for the quarter, with the NASDAQ and ASX All Technology Index returning 13.1% and 9.3% respectively. The Fund's technology positions were beneficiaries, notably Macquarie Technology, which completed a successful raising to fund the next leg of growth likely to come from AI induced data centre demand.

Turning to the financial year, the Fund returned 3.8% (net of fees). Contributors to performance came from the Fund's core industrial positions in **PSC Insurance** and **TUAS**, in addition to technology positions in **Life360** and **Macquarie Technology**. Poor performances (operational and share price) from resource positions in **29Metals** (copper) and **Panoramic Resources** (nickel) detracted from returns.

While markets recorded a positive recovery since the lows last year, returns were concentrated in large caps<sup>5</sup>, returning 15.1%, relative to small-cap<sup>4</sup> and micro-cap<sup>3</sup> returns of 8.5% and 7.4% respectively. The valuation disparity that has emerged between micro and large caps offers an enticing opportunity for investors. As rate hikes approach their peak, inflation moderates and earnings visibility for smaller companies improves, there is a strong case for a broadening of the equity market rally into the smaller end of the market. The wide divergence in growth expectations in FY24 and the redrawing of business plans by earlier stage companies to accelerate their path to profitability presents an opportunity-rich environment for our investment approach which is focused on earnings and earnings revisions.

This quarter, the largest positive contributors to performance were TUAS and Macquarie Technology. Negative contributors included Johns Lyng Group and Imdex.

## Key Contributors

**TUAS** (TUA) rose 40.3% over the quarter. TUA, spun out of TPG, is a challenger telco in the Singapore market that is following the same playbook that was successfully executed by David Teoh in Australia: disrupting an established market through price leadership to rapidly scale the business, driven by an entrepreneurial mindset. The company delivered a strong earnings result in March and mobile download data has continued to suggest market share capture ahead of expectations. The recent launch into broadband at a similarly sharp price point offers further growth optionality. We think TUA ticks many boxes for a successful long-term telco investment.

**Macquarie Technology** (MAQ) returned 16.9% in the quarter and completed a successful capital raise as it moved forward with its data centre capacity expansion at Macquarie Park. The anticipated boom in AI is set to unleash a new wave of demand in the infrastructure needed to support large data sets and computational resources. Data centres will be a key enabler in the coming AI revolution – the 'picks and shovels' of the gold rush. The recent contract announcement by peer NXT highlights that 'hyper-scalers' are active in the market for data centre capacity, and MAQ is well placed to bring on incremental supply into an increasingly tight market.

## Key Detractors

**Johns Lyng Group** (JLG) fell 16.7% over the quarter after delivering an earnings upgrade that fell short of market expectations. This was primarily in relation to earnings mix, with the upgrade driven by record catastrophe (CAT) revenue that is linked to weather events, but steady business as usual lines. In hindsight, the market clearly wanted more, though we believe there are still several growth dynamics outside of CAT that will present earnings upside in time. In particular, the blueprint to expand its full service offering into the US through a high-calibre management team is in its early stages and has the added benefit of diversifying future catastrophic work between hemispheres. In early July, JLG also announced the launch of its 5th strategic business pillar into essential home services through two lower risk acquisitions in its home market.

**Imdex** (IMD) fell 15.4%. Shares were softer over the quarter in sympathy with weaker base metal prices and a continuation of softer drilling data exacerbated by weather events and a rising cost environment. The Fund continues to look through a period of softer data with the risk/reward skewed to the upside following the transformational acquisition of Devico and base metal prices, particularly copper, stabilising in June.


## Outlook

Australia's resource-based economy is well-placed to outperform other developed markets with below-trend growth, but no recession is anticipated (at this stage). In this environment, earnings growth will be hard to come by in FY24, however we expect key sectors to offer strong EPS growth opportunities above consensus. We also expect some quality leaders across the market to demonstrate earnings growth with resilient demand across the economic cycle, and the capacity to pass on higher costs to end consumers.

## Top 10 Stocks<sup>6</sup>

1. Data#3	6. Life360
2. Genesis Minerals	7. Macquarie Technology Group
3. Hansen Technologies	8. Propel Funeral
4. Imdex	9. PSC Insurance Group
5. Johns Lyng Group	10. Tuas

1. Fund returns are net of fees and before taxes.
2. Date: February 2010.
3. S&P/ASX Emerging Companies Accumulation Index.
4. S&P/ASX Small Ordinaries Accumulation Index.
5. S&P/ASX 100 Accumulation Index.
6. Top 10 stocks sorted alphabetically.

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