

Ausbil MicroCap Fund

Monthly performance update

July 2023

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Returns¹ as at 31 July 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 ²
Fund return %	0.65	-3.72	-8.35	-6.11	-5.26	10.31	9.19	8.84	14.93	19.03
Benchmark ³ %	3.99	-0.09	-3.11	-2.34	0.33	15.51	9.89	8.00	8.74	4.76
Out/under performance %	-3.34	-3.62	-5.24	-3.77	-5.60	-5.19	-0.71	0.84	6.19	14.27
Reference Index ⁴ %	3.54	0.20	-1.54	0.77	-5.26	5.89	3.18	5.11	6.18	4.31
Out/under performance %	-2.89	-3.92	-6.81	-6.88	0.00	4.42	6.01	3.73	8.75	14.71

'Earnings growth will be hard to come by in FY24, however we expect key sectors to offer strong EPS growth opportunities above consensus'

Performance Review

Fund performance for July 2023 was +0.65% (net of fees) versus the benchmark return of +3.99%, as measured by the S&P/ASX Emerging Companies Accumulation Index and the reference index return of +3.54% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

Fund Review

After an aggressive rate hiking cycle, milder inflation prints permit central banks to fine tune monetary policy and shift into a pausing phase. Policy makers appear to have orchestrated the highly sought after 'soft-landing' as economic growth remains below-trend, but positive, excessive demand is tamed, and labour markets remain resilient.

Micro caps³ and small caps⁴ returns of 3.95% and 3.53% respectively outperformed large cap⁵ returns of 2.82% over the month on increased confidence in the soft-landing scenario. Peaking rates and moderating inflation should improve the earnings visibility of smaller companies and broaden returns that have been overlooked in the rally. The market has also rewarded smaller companies refocusing on operating profitability, with returns from Megaport and Siteminder (neither held) over the month as they reform to self-sustaining growers.

Key Contributors

Genesis Minerals (GMD) was the Fund's top contributor for the month, returning +12.6%. After a lengthy pursuit, Genesis was successful in acquiring the historic Gwalia Mine from St Barbara Minerals. Led by well-regarded CEO Raileigh Finlayson, Genesis has now emerged as a consolidator of the Leonara gold mining district with a pathway to become a 300k ounce pa gold producer overtime. We believe GMD is set up for a potential 'blockbuster' few months with multiple index inclusion events expected to lead to significant passive buying.

MMA Offshore (MRM) also contributed to Fund performance, returning 13.5%, following an earnings upgrade in July. Operating conditions, including limited new vessel supply in an environment of strong demand, are supportive of rates and vessel returns for existing operators.

Key Detractors

Panoramic Resources (PAN) detracted after it completed a heavily discounted capital raise to support working capital after a slower production ramp up, operational disruptions and higher costs at its Savannah Mine. While the immediate balance sheet challenges have been addressed, evidence of the ramp-up and tight cost management will be needed for execution in a difficult operating environment.

Tourism Holdings (THL) also fell 8.2% over the month as lingering concerns of new campervan & RV sales weakness in the US raised at the investor day further weighed on the stock. We believe Tourism Holdings have a high-quality management team, with significant synergies still yet to be realised from the Apollo Tourism merger. Coupled with the tourism recovery globally, particularly international arrivals into Australia & New Zealand, the outlook remains compelling with significant growth on offer.

Outlook

After much debate, the consensus has converged to the view of a soft economic landing for Australia and the USA. Despite restrictive monetary policy, economic resiliency has been underpinned by ongoing fiscal policy support and a productivity dividend reflecting reduced supply chain friction and labor market turnover. While there are still some concerns around the stickiness of services inflation, the general trend is for a cooling inflationary backdrop toward central bank target ranges. 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, and some quality leaders across the market to demonstrate earnings growth with resilient demand across the economic cycle.

Top 10 Stocks⁶

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

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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