Contactus@
ausbil.com.au

ausbil

Ausbil MicroCap Fund

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

Monthly performance update

August 2023

Returns[1] as at 31 August 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 %	3.75	5.20	-1.23	-5.07	-8.61	8.22	8.90	9.98	14.76	19.22
Benchmark[3] %	-4.17	2.20	-3.05	-7.97	-5.17	8.82	9.04	7.85	7.81	4.40
Out/under performance %	7.92	3.00	1.82	2.90	-3.44	-0.59	-0.14	2.13	6.95	14.82
Reference Index[4] %	-1.31	2.22	0.90	-1.12	-8.14	3.00	2.40	5.15	5.74	4.19
Out/under performance %	5.06	2.98	-2.13	-3.94	-0.47	5.22	6.50	4.83	9.02	15.04

‘Despite one of the sharpest rate hiking cycles in history, consensus fears of a hard landing have, to date, proven to be overly bearish’

Performance Review

Fund performance for the month of August 2023 was +3.75% (net of fees) versus the benchmark return of -4.17%, as measured by the S&P/ASX Emerging Companies Accumulation Index, and the reference index return of -1.31%, as measured by the S&P/ASX Small Ordinaries Accumulation Index.

Fund Review

The absence of any major macro news flow throughout the month of August allowed the market to unequivocally focus on company results. Reporting season is always a key test for the Fund holdings given Ausbil’s focus on earnings and earnings revisions. The Fund outperformed the Emerging Companies Index by 7.92% (net of fees), reflecting a consistent quality focus against the volatility of the more speculative components within the micro-cap benchmark. Performance throughout the month of August vindicates our preference for high quality, liquid and profitable business which are in upgrade cycles.

Quality growth emerged as the prevailing theme this reporting season as investors sought shelter in companies demonstrating robust structural growth characteristics in a slower growth environment. High conviction quality-growth holdings in **Johns Lyng Group** (+21%) and **PSI Insurance** (+10%) were rewarded after impressive results backed by positive outlook statements. Technology positions also continued to outperform following earnings upgrades from **Life360** (+21%) and a strong result from **Hansen Technologies** (+6%). Selective positioning in consumer discretionary, such as **Temple & Webster** (+9%) added to performance.

Key Contributors

Life360 (360) extended a period of strong performance, returning 20.7% in August. The company delivered a strong 2nd quarter result, with core subscription revenue growth of +55% yoy and a full-year EBITDA guidance upgrade of +50% at the midpoint. The result reflects a maturing of 360’s strategy after successfully executing a shift to profitability through subscription price rises and cost out. Growth initiatives, such as subscription conversion through Tiles hardware bundling and a staged international rollout are set to continue the organic momentum.

Johns Lyng Group (JLG) rose 21.4% after a its full-year result (already pre-released) showed fantastic operating cash flow conversion and a robust outlook statement. While full-year guidance was broadly in line with current market expectations, the earnings mix was of higher quality as business-as-usual lines continue robust growth driven by ongoing market penetration, the roll-out of strata services and the integration of recent acquisitions.

Key Detractors

Imdex (IMD) fell 17.4% after a full-year earnings result below consensus expectations. Slowing drilling data and a shift in revenue away from higher margin instrument rentals saw a material decline in 2H group operating margins. Positively, the recent acquisition of Devico performed in line with expectations for its 4-month contribution in FY23. Although timing is uncertain, an increase in sensor rentals from June, coupled with indicative signs that drilling activity and junior raising data has troughed, support a recovery.

Global Lithium (GL1) retraced 19.7% in a broadly weaker month for the lithium sector on softer Chinese EV demand and a reversal in Chinese lithium carbonate pricing.

Outlook

Despite one of the sharpest rate hiking cycles in history, consensus fears of a hard landing have, to date, proven to be overly bearish. The economic backdrop in Australia and the USA has been one of broad-based resilience and the near-term outlook suggests this is likely to persist. Inflation continues to soften slowly, which could give central banks room to pause on interest rates, dependent on the data. On balance, the August reporting season was characterised by a reduction in consensus forward estimates given higher funding costs, strong wage inflation and a general inability to covert a strong top line into profit. We continue to believe that 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. Escalating tensions in the war between Ukraine and Russia remain a tail risk and we are monitoring those developments closely.

Top 10 Stocks[5]

1. Data#3
2. Genesis Minerals
3. Imdex
4. Johns Lyng Group
5. Life360
6. Light & Wonder
7. Macquarie Technology Group
8. MMA Offshore
9. Propel Funeral
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. Top 10 stocks sorted alphabetically.

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

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ausbil.com.au**

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