

Ausbil MicroCap Fund

Quarterly performance update

September 2023

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 30 September 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 % | -2.15 | 2.18 | -1.19 | 1.58 | -9.87 | 7.17 | 8.20 | 9.04 | 13.79 | 18.91 |
| Benchmark ³ % | -4.94 | -5.26 | -7.60 | -2.97 | -10.92 | 7.35 | 7.96 | 6.45 | 7.03 | 3.99 |
| Out/under performance % | 2.78 | 7.44 | 6.42 | 4.55 | 1.05 | -0.19 | 0.24 | 2.59 | 6.76 | 14.92 |
| Reference Index ⁴ % | -4.04 | -1.94 | -2.47 | 6.85 | -9.04 | 2.57 | 1.63 | 4.31 | 5.13 | 3.85 |
| Out/under performance % | 1.88 | 4.11 | 1.28 | -5.27 | -0.83 | 4.60 | 6.57 | 4.73 | 8.66 | 15.06 |

'The economic backdrop in Australia and the US has been one of broad-based resilience, and the near-term outlook suggests this is likely to continue'

Performance Review

Fund performance for the quarter ending September 2023 was +2.18% (net of fees) versus the benchmark return of -5.26%, as measured by the S&P/ASX Emerging Companies Accumulation Index, and the reference index return of -1.94% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

Fund Review

Markets continued to adjust to the emerging regime of 'higher for longer' following the surge in US 10-year Treasury yields. Micro-cap³ returns of -5.26% underperformed both small caps⁴ of -1.94% and large caps⁵ of -0.71%. The Fund extended its positive performance over reporting season, outperforming by +2.78% (net of fees) for the month and +7.44% (net of fees) for the quarter.

Escalating bond yields have prompted intensified scrutiny on the cost of capital for our holdings and prospective ideas to ensure that they have the right capital and funding structures to generate returns on investment that align with the demands of a higher rate environment. This ensures the Fund is well structured to weather periods of volatility relative to the risk associated in the more unprofitable and speculative components of the Emerging Companies (XEC) benchmark. While this resulted in a rampaging XEC index over the past few years, fuelled by cheap, almost freely available capital and regardless of profitability, it appears that the tide is finally going out for those companies that are unprofitable or without sustainable business models.

Rising prices across the energy complex saw strong returns from Fund holdings **Karooon Energy** (oil) and **Boss Energy** (uranium) in September. Yield sensitive technology positions were softer, notably **Objective Corporation** and **Macquarie Technology**. TPG Singapore's spin-off, Tuas, surpassed expectations at its full-year results with a strong mobile subscriber number ahead of expectations.

This quarter, the largest positive contributors to performance were Boss Energy and Johns Lyng Group. Negative contributors included Objective Corp and Imdex.

Key Contributors

Boss Energy (BOE) rose 48.1% as a prolonged uranium bear market begins to thaw, with prices reaching over \$70 per pound in September. Factors such as the sourcing of ex-Russian supply, growing global momentum in the adoption of nuclear energy and the emergence of financial speculators (such as the Sprott Physical Uranium Trust) have significantly tightened the spot market. BOE is well positioned to capitalise with its Honeymoon project anticipated to commence inaugural production this quarter.

Johns Lyng Group (JLG) returned 23.6% over the September quarter. The ongoing rollout of JLG's comprehensive service offering in the US continues to build momentum, with promising early signs of success evident in both business-as-usual lines and expansion into catastrophic weather events (CAT) remediation following several recent and large weather events. JLG's expansion into the US and the introduction of new business lines in Australia underscores the extensive reinvestment opportunities over the coming years.

Key Detractors

Objective Corp (OCL) fell 21.5% over the quarter. OCL provides a suite of software and workflow solutions to customers in highly regulated markets. 2023 was a transitional year as the company made a purposeful decision to end perpetual upfront licence sales and refocused product development to reduce deployment cost. The Fund has been patiently and selectively building its position as several new products are anticipated to reinvigorate revenue growth in the future from its historical and lower-growth Enterprise Content Management (ECM) roots.

Imdex (IMD) fell 16.6% for the quarter. Full-year earnings were below expectation as slower drilling activity impacted higher-margin instrument sensors revenues. IMD is currently trading at cyclical low multiples which reflects a more subdued outlook for junior mining capital raising and drilling activity. The Fund has retained its position in IMD, confident in the company's evolution towards the more predictable mining production phase over the cyclical in exploration activity.

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 US has been one of broad-based resilience, and the near-term outlook suggests this is likely to continue. While we believe that the worst of the bond yield move is behind us, an environment of higher for longer yields and interest rates remains our base case. This backdrop emphasises the need to be mindful of heavily indebted companies; limited valuation re-rating upside; and that earnings matter more, that is, micro matters more than macro in this environment.

Top 10 Stocks⁶

- Genesis Minerals
- Johns Lyng Group
- Jumbo Interactive
- Life360
- Light & Wonder
- Macquarie Technology Group
- MMA Offshore
- Propel Funeral
- PSC Insurance Group
- 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.



Subscribe to our monthly updates here

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-tmds> before acquiring or investing in the fund.

Contactus@
ausbil.com.au

ausbil
Strength. Wisdom. Agility.

