

Ausbil MicroCap Fund

Quarterly performance update

September 2024

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Returns¹ as at 30 September 2024

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 %	4.64	9.38	14.44	42.94	20.50	5.11	13.72	15.14	15.63	20.41
Benchmark³ %	7.20	9.56	9.05	21.77	8.70	-1.14	9.53	10.17	9.35	5.11
Out/under performance %	-2.55	-0.18	5.39	21.17	11.80	6.25	4.19	4.96	6.28	15.30
Reference Index⁴ %	5.06	6.53	1.78	18.79	12.66	-0.57	4.38	6.46	6.96	4.80
Out/under performance %	-0.42	2.84	12.66	24.15	7.84	5.68	9.34	8.68	8.67	15.61

'The global rate cutting cycle will alleviate broader concerns of a 'hard landing' with a reacceleration of growth in 2025'

Performance Review

Fund performance for the quarter ending September 2024 was +9.38% (net of fees) versus the benchmark return of +9.56%, as measured by the S&P/ASX Emerging Companies Accumulation Index, and the reference index return of +6.53% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

Momentum into the first quarter of the 2025 financial year picked up where FY24 left off with strong absolute returns across broad market indices. Key Fund contributors to performance for the quarter included positions in **ZIP, Codan, Tuas, Guzman Y Gomez, Genesis Minerals** and **Aussie Broadband**. Pleasingly, even the largest detractor (**Light & Wonder**) was smaller in absolute terms than the Fund's than the Fund's 9th largest contributor in the quarter. Other positions that partially offset performance were **Cosol, Smartpay** and **Macquarie Technology** – all of which the Fund remains positively disposed to.

With the global interest rate easing cycle well and truly underway, and the Reserve Bank of Australia expected to join in the first half of calendar 2025, we believe the case for small and micro-cap companies remains compelling after a prolonged period of underperformance. This is despite strong absolute returns achieved over the past year, particularly for active managers.

This quarter, the largest positive contributors to performance were Codan and Tuas. Negative contributors included SmartPay Holdings and Light & Wonder.

Key Contributors

Codan (CDA) returned +35.5% for the quarter following a beat to consensus earnings estimates in reporting season, a further re-rate of the multiple which we believe reflects the increasing appreciation of the communications earnings mix and S&P/ASX 200 inclusion. Codan's strong forward orderbook (+21%) supports the positive outlook, which is primarily driven by the high-quality Communications division, particularly Zetron which we visited in the USA last year as part of our company visitation program. Zetron is a key growth driver for the Communications segment of the company going forward and the most exciting part of the business in our view. CDA recently graduated from the ex-200 micro-cap universe into the S&P/ASX 200 and is now firmly on the radar of small-cap managers, with an update expected at the upcoming AGM in October.

Tuas (TUA) returned +22.4% for the quarter after beating revenue and earnings consensus expectations for FY24 which were reported in September. Mobile subscribers have now surpassed 1 million with the David Teoh backed company launching into Broadband which we expect to achieve significant success, supercharged off the back of their Mobile success. Strong cash flow conversion added to the net cash balance sheet with TUA proving it can self-fund growth. Beyond broadband, regional expansion remains a future growth opportunity for the company. TUA has been a holding since 2021 and remains a core position.

Key Detractors

SmartPay Holdings (SMP) fell -24.0% for the quarter. The underperformance is in response to the RBA's remarks regarding potential further regulation or a ban on surcharging, which is a key pillar in SMP's revenue model. The market reaction to this appears excessive, in our view. On face value, the RBA's scrutiny around surcharging raises questions around SMP's business model, however we see it as a material opportunity if we look beyond the current noise.

Light & Wonder (LNW) finished down -16.6% for the quarter. An adverse legal case resulted in a preliminary injunction relating to the LNW game, Dragon Train. Sales and placements of the game have been paused, raising market concerns about LNW's future growth prospects. This is despite the company maintaining forward AEBITDA guidance of \$1.4bn in 2025. The setback for LNW is disappointing, however, we are confident in the company's ability to roll-out superior alternative games and continue on its multi-year growth trajectory.

Outlook

The US and China joined the growing list of central banks in the global rate cutting cycle. In the US, the market is now pricing in another 50bps in cuts by year end, with a further 100bps cut in 2025. In Australia, the consensus is expecting approximately 75bps of rate cuts over the next 12-months – this is optimistic in our view. We believe that the global rate cutting cycle will alleviate broader concerns of a 'hard landing' with a reacceleration of growth in 2025. The current unemployment rate starting point is a lot lower than in previous cycles, which gives us confidence in the subsequent earnings growth story. Importantly, this should continue to facilitate an equity market rotation towards more cyclical companies with strong growth prospects. This backdrop is also very supportive for micro and small-cap outperformance. As always, the wildcard which could potentially have an impact on our thinking and the shape of the portfolio is the escalation in geopolitical tensions.

Top 10 Stocks⁵

- | | |
|---------------------------------|-------------------|
| 1. Aussie Broadband | 6. Maas Group |
| 2. Codan | 7. Propel Funeral |
| 3. Dicker Data | 8. Superloop |
| 4. Equity Trustees | 9. Tuas |
| 5. Generation Development Group | 10. Zip |

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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