

# Ausbil MicroCap Fund

## Quarterly performance update

March 2024

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### Returns<sup>1</sup> as at 31 March 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 <sup>2</sup>
Fund return %	6.15	18.82	24.90	23.42	-0.12	9.85	13.25	14.03	15.02	20.05
Benchmark <sup>3</sup> %	6.34	6.00	11.66	3.17	-9.64	4.45	11.76	9.40	8.51	4.66
Out/under performance %	-0.20	12.81	13.24	20.25	9.51	5.39	1.48	4.64	6.51	15.40
Reference Index <sup>4</sup> %	4.79	7.55	16.71	13.83	-0.60	2.72	5.43	6.79	6.69	4.85
Out/under performance %	1.36	11.27	8.19	9.59	0.47	7.13	7.82	7.24	8.34	15.21

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### Performance Review

Fund performance for the quarter ending March 2024 was +18.82% (net of fees) versus the benchmark return of +6.00%, as measured by the S&P/ASX Emerging Companies Accumulation Index, and the reference index return of +7.55% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

The March quarter marked off a strong period of performance for the Fund, taking Financial year to date returns to +27.62% (net of fees), ahead of the Emerging Companies Benchmark<sup>3</sup> returns of +5.78% and Small Ordinaries Index return of +14.45%. A moderating inflation profile and a peak in rates has buoyed the more economic sensitive micro-cap<sup>3</sup> returns to +6.00% for the quarter, outperforming large cap returns<sup>5</sup> of +5.17%.

A successful reporting season campaign carried performance into March with strong returns from **MMA Offshore**, after its earnings upgrade and takeover approach; **PSC Insurance** following renewed corporate appeal in its assets; and **Life360**, after a watershed earnings result. **Genesis Minerals** rose on the release of its 5-year plan in conjunction with a site visit in which Ausbil participated, further aided by a resurgent gold price. **TUAS** reported a particularly strong subscribers result in March and provided an update on the company's broadband launch. Fund holding **Superloop** received a takeover approach from other Fund holding **Aussie Broadband** that was swiftly rejected, though the strong performance in **Superloop** was offset by weakness in **Aussie Broadband** following the loss of a key contract to **Superloop**. On balance, we continue to see strategic merit in a combined **Superloop / Aussie Broadband** entity, with material synergies on offer. On a standalone basis, valuation is supportive of the current **Aussie Broadband** share price, and a robust balance sheet should support strong earnings growth. Other detractors were primarily concentrated across the Fund's resources, and travel and tourism exposed segments.

With rates stabilising, inflation gradually moderating and labour markets remaining near full employment, the macroeconomic backdrop is conducive for micro caps to outperform, therefore the Fund is looking to take opportunities when valuation opportunities are presented.

This quarter, the largest positive contributors to performance were Life360 and MMA Offshore. Negative contributors included 29Metals and DGL Group.

### Key Contributors

**Life360** (360) returned +73.2% for the quarter following what we believe was a watershed moment for the business. An impressive earnings beat, strong guidance and the launch of its digital in-app advertising solution underscores the organic growth potential of its global family platform. Digital in-app advertising has been a path well-trodden by other consumer apps, such as Uber, and is a low-risk and high margin opportunity for Life360

to monetise its substantial +65m global user base. Even modest success in advertising offers a further re-rating opportunity and highlights the value of its emerging platform to tap into new verticals of growth.

**MMA Offshore** (MRM) returned +39.6% over the quarter after it beat its recently upgraded earnings guidance in February. In March, MRM received a takeover offer by a subsidiary of Seraya Partners, an offshore infrastructure fund, at \$2.60 per share. Given the robust earnings cycle and the presence of franking credits on the balance sheet, we anticipate the possibility of a revised bid. The Fund is continuing to explore other industrial opportunities that benefit from a significant underinvestment in global energy capex, most notably **DUG Technologies** (DUG).

### Key Detractors

**29Metals** (29M) fell -41.9% over the quarter which was disappointing. Fortunately, the position size was relatively small, given we had proactively reduced the weight in the portfolio, and it did not detract further from a positive quarter for the Fund.

**DGL Group** (DGL) fell -20.2% over the quarter after a disappointing earnings update in February. While summer weather patterns have been supportive of an improving outlook for agricultural cropping activity, this has yet to play through DGL's chemical solutions businesses given elevated industry inventory. Its recycling divisions have also proven to be more cyclical than anticipated.

### Outlook

Consensus is now firmly of the view that we have passed the peak in rates, both in Australia and the US. Expectations have been progressively pushed out as the economic backdrop remains resilient. Against the backdrop of a "soft economic landing", the Fund is now positioned for a "soft take-off" as growth re-accelerates in the back half of 2024, and into 2025. This setup should remain accommodative for equity markets, particularly for small and micro caps.

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

- |                     |                               |
|---------------------|-------------------------------|
| 1. Aussie Broadband | 6. Macquarie Technology Group |
| 2. Codan            | 7. MMA Offshore               |
| 3. Genesis Minerals | 8. Propel Funeral             |
| 4. Life360          | 9. Superloop                  |
| 5. Light & Wonder   | 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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