

# Ausbil Australian SmallCap Fund

Quarterly performance update

September 2024

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'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 +7.90% (net of fees) versus the benchmark return of +6.53%, as measured by the S&P/ASX Small Ordinaries Accumulation Index.

## Fund Review

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 including **ZIP**, **Life360**, **HUB24**, **Codan**, **Guzman Y Gomez**, **Pinnacle**, **Tuas** and **Genesis Minerals**. Pleasingly even the largest detractor (Light & Wonder) was smaller in absolute terms than the Fund's 6th largest contributor in the quarter. Other positions that partially offset performance were much more modest positions in **Kelsian & Johns Lyng Group** (both exited) and **Macquarie Technology** – 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 Zip and Codan. Negative contributors included Kelsian and Light & Wonder.

## Key Contributors

**ZIP Co** (ZIP) zipped away in the quarter, rising +88.4%. The beginning of the rate easing cycle in the US was seemingly the catalyst for the strong outperformance. Additionally, the comps for ZIP are relatively easy heading into the back-end of 2024 and there is scope to further build-out the merchant and payment ecosystem in the US (in addition to Stripe). Combined, this supports the prospect of TTV upside, better unit economics and arguably better bad debt performance against a stronger consumer backdrop. We continue to see upside to consensus forward estimates.

**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.

**Kelsian** (KLS) was hit hard, falling -17.1% over the quarter after providing a maiden FY25 guidance which was again materially below consensus expectations at NPAT, despite being in-line with EBITDA. Investors lost patience after yet another D&A and net interest-driven downgrade, accompanied by a capex blowout. Despite de-rating to an all-time low PE multiple, with management credibility tarnished and the earnings/ROIC recovery deferred again, we exited the position and found better uses for the capital.

**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.

## Returns<sup>1</sup> as at 30 September 2024

Period	Fund Return <sup>1</sup> %	Bench- mark <sup>2</sup> %	Out/Under performance %
1 month	3.08	5.06	-1.98
3 months	7.90	6.53	1.37
6 months	7.98	1.78	6.20
1 year	32.68	18.79	13.89
2 years pa	21.98	12.66	9.32
3 years pa	8.36	-0.57	8.94
4 years pa	19.16	6.40	12.76
Since inception pa Date: 30 April 2020	24.85	9.09	15.76

## Top 10 Stocks<sup>3</sup>

1. Aussie Broadband	6. Life360
2. Codan	7. Light & Wonder
3. Generation Development Group	8. Sandfire Resources
4. Genesis Minerals	9. Tuas
5. HUB24	10. Zip

1. Fund returns are net of fees.

2. S&P/ASX Small Ordinaries Accumulation Index.

3. Top 10 stocks sorted alphabetically.



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