

Ausbil MicroCap Fund

Monthly performance update

October 2024

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Returns¹ as at 31 October 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 %	0.79	8.51	16.11	50.56	17.78	3.72	12.72	14.76	16.21	20.34
Benchmark³ %	0.23	9.55	6.37	27.88	7.26	-2.40	9.66	9.55	9.99	5.10
Out/under performance %	0.56	-1.04	9.74	22.68	10.51	6.12	3.06	5.21	6.23	15.24
Reference Index⁴ %	0.80	3.77	5.84	26.65	9.63	-0.61	4.65	5.69	7.11	4.83
Out/under performance %	-0.01	4.74	10.27	23.91	8.15	4.33	8.06	9.07	9.10	15.51

'Upside surprises to US economic data was a feature in October which resulted in the paring back of excessive rate cut expectations'

Performance Review

Fund performance for October 2024 was +0.79% (net of fees) versus the benchmark return of +0.23%, as measured by the S&P/ASX Emerging Companies Accumulation Index, and the reference index return of +0.80% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

A lot can change in a month, let alone a year in markets. Since the last interest rate rise in the US and Australia in 2023, the small and micro-cap indices have recorded very healthy returns for investors. Pleasingly the Ausbil MicroCap Fund has delivered +50.56% net of fees, outperforming the Emerging Companies Index return of +27.88% and the Small Ordinaries return of +26.65%.

October added to gains driven by the S&P/ASX Small Cap Resources which rose +6.08% sparked by record USD gold prices, up +4.2%, and outperforming S&P/ASX 100 Resources which fell -6.30%. S&P/ASX Small Industrials were weaker for the month by -1.12%.

The Fund entered a new position during the month, namely **Service Stream (SSM)** – a company very familiar to us and a company we believe is on the cusp on getting back on the radar of the market. Key contributors for the month included **Generation Development (GDG)**, **Ora Banda Mining (OBM)** and **Zip Co (ZIP)**. Detractors for the month included **DUG Technology (DUG)**, **Smartpay (SMP)** and **Aussie Broadband (ABB)**.

Key Contributors

Generation Development (GDG) returned +21.55% announcing an exceptional start to the 2025 financial year with record inflows for the quarter including over \$200m in investment bond inflows, with FUM growing to almost \$3.6b. Lonsec, now wholly owned by GDG, reported \$11.7b in FUM at quarter end, another record, driven by a combination of strong inflows and market growth. Having followed the company since 2018, led by Industry veteran and GDG Chairman Rob Coombe and CEO Grant Hackett, GDG remains one of the highest conviction ex200 holdings within the Fund. Having been early investors in **HUB24 (HUB)** when it was an ex-200 micro-cap, we believe GDG is following in similar footsteps and the Fund is positioned accordingly. ASX 300 inclusion is expected in March 2025.

ZIP Co (ZIP) continued its strong run rising by a further +9.82% in the month of October. This brings the total return to ~100% since the initial investment was made in July 2024. A better-than-expected 1Q25 was the catalyst for outperformance, underpinned by strong TTV growth in the US, relatively low bad debts and solid net transaction margins. There is scope for ZIP to further build-out the merchant and payment ecosystem in the US (in addition to Stripe) and with expectations of better unit economics, we see upside to consensus FY25 estimates. ZIP remains a high conviction position in the Fund.

Key Detractors

DUG Technology (DUG) disappointingly fell by -26.48%. This coincided with a \$30m capital raising to accelerate growth in the Middle East and build-out capabilities in Houston. Timing of the spend was unclear and concerns around future growth were exacerbated by the absence of any expansion in the order book. The Fund retains a position in DUG.

Aussie Broadband (ABB) fell -5.45% during the month, although not a significant share price move, ABB remains a high conviction position for the Fund. Aussie's AGM update was sound with guidance reiterated, a number of Enterprise customers signed and a significant energy customer win in Red Energy. While no capital management was announced such as a buyback, we can only assume that M&A must be on the table to make use of ABB's net cash balance sheet. Trading on 16x FY26 PE, this founder led business with strong industry dynamics providing telco challengers with a clear growth trajectory over the coming years means we can sleep well at night. We look forward to the 1H25 result and a potential investor day planned to follow the 1H25 results.

Outlook

Upside surprises to US economic data was a feature in October which resulted in the paring back of excessive rate cut expectations and a surge in bond yields. For now, we continue to believe the global rate cutting cycle (albeit shallower) 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 previous cycles, which gives us confidence in the subsequent earnings growth story. Importantly, this should continue to facilitate an equity market rotation toward more cyclical companies with strong growth prospects. This backdrop is also very supportive for micro/small cap outperformance. Geopolitics is always a wildcard.

Top 10 Stocks⁵

- | | |
|---------------------------------|----------------------------|
| 1. Aussie Broadband | 6. Propel Funeral Partners |
| 2. Codan | 7. Superloop |
| 3. Equity Trustees | 8. Tuas |
| 4. Generation Development Group | 9. Universal Store |
| 5. Maas 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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