

Ausbil MicroCap Fund

Monthly performance update

July 2024

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Returns¹ as at 31 July 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 %	1.60	7.01	23.41	34.78	12.49	6.55	12.37	15.42	14.96	20.05
Benchmark³ %	0.25	-2.90	11.57	1.50	-0.44	0.72	8.67	9.65	8.24	4.53
Out/under performance %	1.35	9.91	11.83	33.29	12.93	5.83	3.70	5.77	6.72	15.52
Reference Index⁴ %	3.49	2.00	5.39	9.29	4.94	-0.64	3.50	6.62	6.30	4.65
Out/under performance %	-1.89	5.01	18.01	25.49	7.55	7.19	8.87	8.80	8.66	15.40

'Central banks have maintained a steady hand, despite the somewhat choppy economic data in both Australia and the US'

Performance Review

Fund performance for July was +1.60% (net of fees) versus the benchmark return of +0.25%, as measured by the S&P/ASX Emerging Companies Accumulation Index and the reference index return of +3.49% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

Increasing clarity of rate cuts in the US and a better-than anticipated inflation print in Australia have set the stage for a potential rotation into smaller companies. While large-cap US equities have dominated the narrative for much of the year, a peak in interest rates could drive a rotation into overlooked smaller companies, as observed in previous rate cycles.

The Fund recorded a pleasing month, outperforming the Emerging Companies Benchmark by +1.35% (net of fees). Positive contributors to performance included **Codan** and **EQT Holdings**, which continues to execute in the Australian trustee space. Detractors included core holding **Aussie Broadband**, however we believe expectations have now been reset and we have continued to add to the position.

This month, the largest positive contributors to performance were Codan and EQT Holdings. Negative contributors included Aussie Broadband.

Key Contributors

Codan returned +9.1% for the month, marking a stellar CYTD total return of 55.7% for the Fund since initiating a position in September 2023. Positive earnings revisions and an earnings multiple rerate on an increasing Communications earnings mix have subsequently supported the share price. Potential S&P/ASX 200 inclusion would further increase market awareness. CDA screens well with strong organic growth, high return on invested capital (ROIC), strong cash generation and a conservative balance sheet to support further organic investment skewed towards communications and pursue accretive M&A.

EQT Holdings returned +10.9% for the month and has been a consistent contributor to the Fund over CYTD with a 42.7% total return. 2024 was a transformational year for the business, marked by the integration of recent acquisition Australian Executor Trustees, the closure of its loss-making offshore operations and significant progress towards an internal technology refresh. We believe EQT's annuity style earnings, long-tenured clients and attractive growth pipeline are underappreciated by the market. Valuations remain very supportive (~18x FY25 P/E), and the industry structure favours continued market share gains following the proposed takeover of Perpetual's rival Corporate Trust business by KKR.

Key Detractors

Aussie Broadband fell -7.8% in July following a mixed trading update. FY24 EBITDA is expected to be at the top end of its previously upgraded guidance range, however FY25 guidance disappointed with the full impact of the Origin contract loss now accounted for. In addition, FY25 guidance was impacted by a \$10m investment for a new digital first challenger brand 'Buddy Telco' with positive EBITDA on a run rate basis expected in FY26, with FY27 being a full year positive contribution. We are attracted to founder-led businesses because they generally make decisions based on the long-term interests of shareholders, even if at the expense of short-term profits. We believe ABB is case in point. Looking forward, we believe downside is limited with ABB having a conservatively geared balance sheet, generating strong cash flow and is priced on an attractive free cash flow multiple. ABB offers potential upside from an improving enterprise and government customer mix with further customer wins expected, further Symbio synergies, and a multiple rerate opportunity on 'infrastructure' earnings. We believe the share price lows have occurred and we have added to the position.

Boss Energy fell -11.6% over the month. While BOE is progressing initial production at the Honeymoon project and proving technical success, expectations of production volumes have been tempered during the ramp-up period. Poor share price performance has also been exacerbated by a consolidation in spot uranium prices and a material sell-down by management. With production expectations reset, we look to strong execution over the coming quarters to restore market faith.

Outlook

Developed market central banks have commenced the unwinding of tight monetary conditions with rate cuts. We expect the US easing cycle to commence in September while the prospect of any rate cut in Australia has been deferred until 1Q25.

Volatile swings in macroeconomic data have exacerbated swings in equity market sentiment. However, we have maintained a steady hand with no change to our thinking around an emerging global cyclical recovery. This setup should continue to be accommodative for equity markets, particularly small and micro caps.

Top 10 Stocks⁵

- | | |
|---------------------|-------------------------------|
| 1. Aussie Broadband | 6. Light & Wonder |
| 2. Codan | 7. Macquarie Technology Group |
| 3. Equity Trustees | 8. Propel Funeral |
| 4. Genesis Minerals | 9. Superloop |
| 5. Life360 | 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. Top 10 stocks sorted alphabetically.



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