

Ausbil Australian SmallCap Fund

Quarterly performance update

March 2024

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'Consensus is now firmly of the view that we have passed the peak in rates, both in Australia and the US'

Performance Review

Fund performance for the quarter ending March 2024 was +14.98% (net of fees) versus the benchmark return of +7.55%, as measured by the S&P/ASX Small Ordinaries Accumulation Index.

Fund Review

The March quarter marked off a strong period of performance for the Fund, taking Financial year-to-date returns to +25.63% (net of fees) ahead of the Benchmark² return of +14.45%. A moderating inflation profile and a peak in rates has buoyed more economic sensitive smaller companies² returns to +7.55% for the quarter, outperforming large cap returns³ of +5.17%.

A successful reporting season campaign carried performance into March including **Codan**, **Light & Wonder**, **Webjet** and **Life360**, which was the Fund's largest position prior to the watershed earnings result. **TUAS** reported a particularly strong subscriber results in March and provided an update on the company's broadband launch. **MMA Offshore** received a takeover approach in March. Detractors were limited in March with the exception of **Aussie Broadband**, which the Fund subsequently added materially to the position.

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

This quarter, the largest positive contributors to performance were Life360 and Light & Wonder. Negative contributors included Kelsian and Lifestyle Communities.

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.

Light & Wonder (LNW) returned +32.3% over the quarter after a strong 4Q result ahead of consensus earnings expectations. The result reinforces our view that LNW, alongside market leader Aristocrat (ALL), are continuing to take share from smaller competitors as they successfully reinvest into new gaming franchises and IP. With a promising lineup of new content successfully tested in Australia and poised for launch in the lucrative US market in the coming quarters, coupled with ongoing deregulation in the US iGaming sector, we foresee a compelling growth trajectory ahead for LNW.

Key Detractors

Kelsian (KLS) fell -16.3% over the quarter. Despite delivering a strong topline beat and EBITDA in line at their result, though earnings below the EBITDA line came in short of consensus expectations partly due to one-off accelerated depreciation following the acquisition of All Aboard Transport in the US. While disappointing and poorly communicated, we believe shares overreacted to the non-cash driven miss (i.e., accounting), and future earnings growth remains underpinned by a supportive outlook for the domestic bus division and ongoing growth in the US. Given our view on the one-off nature and limited impact to cash earnings, the Fund added to its position, elevating KLS to a top-10 holding, trading on an attractive valuation below market and KLS's long term average.

Lifestyle Communities (LIC) fell -12.9%. Slower new home settlements drove a softer result relative to expectations, however it was the announcement of an unexpected capital raising that disappointed long-standing investors including ourselves. The core of the investment premise in LIC revolved around its capital recycling model whereby the sale of new houses under its land lease model would be recycled into future land purchases and developments, all underpinned by a steadily growing stream of long-term recurring rental revenue. The company's decision to accelerate land purchases through a capital raising was a breach to this longstanding discipline, and one we think may raise several operational risks as they accelerate the speed of new development activity.

Outlook

Consensus is now firmly of the view that we have passed the peak in rates, both in Australia and the US. However, the quantum and timing of rate cuts has been a point of conjecture. 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.

Returns¹ as at 31 March 2024

Period	Fund Return ¹ %	Benchmark ² %	Out/Under performance %
1 month	6.31	4.79	1.53
3 months	14.98	7.55	7.43
6 months	22.87	16.71	6.16
1 year	26.75	13.83	12.92
2 years pa	6.79	-0.60	7.38
3 years pa	13.75	2.72	11.03
Since inception pa Date: 30 April 2020	25.95	9.81	16.14

Top 10 Stocks⁴

- | | |
|-------------------------------|------------------------|
| 1. Aussie Broadband | 6. MMA Offshore |
| 2. Kelsian Group | 7. Premier Investments |
| 3. Life360 | 8. Pro Medicus |
| 4. Light & Wonder | 9. Tuas |
| 5. Macquarie Technology Group | 10. Webjet |

1. Fund returns are net of fees.
2. S&P/ASX Small Ordinaries Accumulation Index.
3. S&P/ASX 100 Accumulation Index.
4. Top 10 stocks sorted alphabetically.



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