

Ausbil MicroCap Fund

Monthly performance update

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May 2025

Returns¹ as at 31 May 2025

Period	1 month	3 months	6 months	1 year	2 years pa	3 years pa	5 years pa	7 years pa	10 years pa	15 years pa	Since Inception pa ²
Fund return %	7.61	5.73	7.98	27.83	28.41	12.81	18.14	13.91	14.88	20.46	20.33
Benchmark ³ %	2.99	1.22	0.35	5.15	8.60	0.17	13.06	7.93	9.83	5.28	4.87
Out/under performance %	4.63	4.51	7.63	22.68	19.81	12.64	5.09	5.98	5.05	15.18	15.47
Reference Index ⁴ %	5.76	3.83	2.31	9.76	10.34	4.68	6.77	4.65	6.68	5.17	4.89
Out/under performance %	1.85	1.91	5.67	18.07	18.07	8.13	11.37	9.25	8.20	15.29	15.44

'We remain reasonably optimistic about the outlook for equity markets, despite the recent volatility'

Performance Review

Fund performance for May 2025 was +7.61% (net of fees) versus the benchmark return of 2.99%, as measured by the S&P/ASX Emerging Companies Accumulation Index, and the reference index return of +5.76% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

Fund Review

The market staged a strong rally in May as tariff fears dissipated due to more conciliatory trade signals from the Trump Administration, including a significant reduction in the proposed tariff on China. This was supported by a better-than-feared US corporate earnings season along with several robust US economic datapoints that, in aggregate, paint to a more robust underlying economic picture than was feared in April. The market returned to a 'risk-on' sentiment and quality names that were hit hard in the April de-risking staged particularly strong rebounds.

Avoiding significant drawdowns during a market sell off like we saw in April is critical to preserving capital and positions you well to capture any eventual recovery in markets. Simple but not easy. Pleasingly, the Ausbil MicroCap Fund managed to deliver performance well above the strong benchmark, delivering +7.61% absolute return, ahead of the benchmark's +2.99%.

Contribution over the month came from **Generation Development Group** (GDG), **Catapult International** (CAT) and **Codan** (CDA). Detractors for the month included **Propel Funerals** (PFP), **IPD Group** (IPG) and **Botanix** (BOT).

Key Contributors

Generation Development Group (GDG) surged +34.5% recovering from the fall the month prior. In May, GDG announced a strategic partnership with Blackrock to co-design and distribute retirement income solutions in Australia. The collaboration is expected to accelerate GDG's organic push into annuities, capitalising on a generational shift from accumulation to deaccumulation and a more favourable policy environment following the Retirement Income Covenant. GDG's early-stage annuities division had previously attracted little market attention but now offers meaningful optionality value. We believe Blackrock acquiring a minority stake in GDG is also a strong endorsement of the company and its long-term growth potential.

Catapult International (CAT) rocketed +43% in the month of May, following a FY25 result which confirmed the company as one of the highest quality tech propositions in the ex-ASX 200 universe. A combination of best-in-class operating metrics such as annual contract revenue (ACV), customer retention, cash flow and incremental profit contribution has given the market (incremental) confidence that the longer-term ambition of increasing ACV by 10x was a plausible scenario.

Key Detractors

Propel Funerals (PFP) fell -13.3% in May. While nothing is more certain than death and taxes, the death rate across PFP's end markets has been noticeably weak this CYTD which resulted in a trading update and a reasonable cut to FY25 consensus forecasts. The good news (or bad news – depending how you view it) is that death volumes ultimate mean-revert and they are unlikely to stay depressed for extended periods of time. Accordingly, we are sticking with the position and remain of the conviction that PFP can capitalise on a number of organic and inorganic opportunities in the future.

IPD Group (IPG) fell -23.5% following a weak trading update which confirmed the challenges across commercial construction end-markets. Whilst IPG embarks on a broader business diversification strategy, commercial construction/buildings account for about one-third of the revenue base and this sector has been impacted by broader macro challenges. In our view, we see these challenges as short-term and expect the wider structural tailwinds to prevail in the fulness of time.


Outlook

We remain reasonably optimistic about the outlook for equity markets, despite the recent volatility. Investors continue to contend with a range of potential challenges, whether it is geopolitics or tariffs - there is always something to worry about, particularly in small caps. However, none of the risks are insurmountable, and we continue to expect the market to climb the wall of worry. We expect that bilateral negotiations on the geopolitics/tariff front will prevail and, to date, global economic data has been resilient, and as uncertainty diminishes, conditions will see a potential increase in GDP at the back end of this year. We are still firmly of the view that now is not the time to be taking unnecessary risks in the Fund, rather we continue to focus on what we can control: rigorous bottom-up analysis; understanding the businesses we own; and maintaining discipline in our investment process.

Top 5 Stocks⁵

1. Aussie Broadband
2. Codan
3. Generation Development Group
4. Maas Group Holdings
5. Superloop

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 5 stocks sorted alphabetically.

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