

Ausbil Australian SmallCap Fund

Quarterly performance update

June 2024

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'We continue to see an attractive investment case for smaller companies as moderating inflation, improving earnings growth and a pick-up in capital market activity should help close the performance gap to large caps'

Performance Review

Fund performance for the quarter ending June 2024 was +0.08% (net of fees) versus the benchmark return of -4.46%, as measured by the S&P/ASX Small Ordinaries Accumulation Index.

Fund Review

A strong June quarter capped off a pleasing Financial Year for the Fund, which returned +25.73% (net of fees), outperforming the Small Ordinaries Benchmark by +16.39% (net of fees). Key contributors to performance for the year included core positions in **Pro Medicus**, **MMA Offshore** and **Life360**, though returns were offset by poor performances from **Credit Corp**, **Domain Group** and **Kelsian**.

Despite rallying from their lows in October, smaller companies underperformed their larger peers for the year, with the Small Ordinaries Index up +9.34% relative to the ASX 100 returns of +12.23%. The macroeconomic environment has become less prohibitive, creating a more favourable stock-picking environment than in recent years. We continue to see an attractive investment case for smaller companies as moderating inflation, improving earnings growth and a pick-up in capital market activity should help close the performance gap to large caps.

The Fund ended the period fully invested with 41 holdings and a Top 10 concentration of 41%. After a successful Financial Year, the Fund continues to identify and invest in companies with mispriced earnings growth. Notably, we are excited by the prospects of **DUG Technologies**, which is in the embryonic stage of its growth journey as it expands into the Middle East and also **Guzman Y Gomez**, a recent IPO in which the Fund participated, and has an exciting growth story over the medium term.

This quarter, the largest positive contributors to performance were Life360 and Pinnacle Investment Management. Negative contributors included Megaport and Credit Corp.

Key Contributors

Life360 (360) returned +25.1% for the quarter and has been a key Fund contributor for the year. With the dual US listing successfully executed, market attention can refocus on the re-acceleration of user and subscriber growth activity. A hint of this momentum was evident when the company announced it had exceeded 2 million global paying circles in mid-June, ahead of market half-year expectations. This is an important milestone, as it suggests that record 1st quarter user growth is translating into an acceleration of new subscriber growth. We now look forward to 360's half-year result.

Pinnacle Investment Management (PNI) returned +21.9% for the quarter. After several years of investments within the group of affiliate managers, we believe PNI is approaching an earnings inflection point as new products and managers mature. This is supported by strong group Funds Under Management to the end of April, which had already reached full-year consensus expectations, and a more stable market environment for net flows.

Key Detractors

Megaport (MP1) fell -25.2% over the quarter. The appointment of new CEO Michael Reid last year has reinvigorated the company's prospects by rebuilding the internal sales team and refocusing internal efforts on larger deals. Rebuilding a US sales team is never a linear process and will take time to show early signs of traction.

Credit Corp (CCP) fell -19.2% over the quarter. CCP has been navigating a difficult environment and been slower in US debt purchasing activity relative to competitors. With the ANZ debt market still depressed, lower activity in US purchases places greater weight on the Australian financial lending business to drive growth across the group.

Outlook

Central banks have maintained a steady hand, despite the somewhat choppy economic data in both Australia and the USA. The consensus has now pared back the timing of rate cuts (and quantum) in the USA and there is considerable debate as to whether a cut will eventuate in Australia, if at all. Still, a global cyclical recovery is emerging, and any rate cut (if/when they eventuate) should continue to facilitate a gradual recovery in corporate profits. This setup should continue to be accommodative for equity markets, particularly Small and Microcaps. There are two wildcards which could potentially have an impact on our thinking and the shape of the portfolio: (1) The outcome of the US federal election; and (2) Geopolitical tensions intensifying in the Middle East.

Returns¹ as at 30 June 2024

Period	Fund Return ¹ %	Bench- mark ² %	Out/Under performance %
1 month	2.56	-1.39	3.96
3 months	0.08	-4.46	4.54
6 months	15.07	2.75	12.32
1 year	25.73	9.34	16.39
2 years pa	18.35	8.89	9.46
3 years pa	9.70	-1.55	11.25
4 years pa	21.75	6.19	15.56
Since inception pa Date: 30 April 2020	24.25	8.01	16.24

Top 10 Stocks³

1. Aussie Broadband	6. Light & Wonder
2. Codan	7. MMA Offshore
3. Genesis Minerals	8. Pinnacle Investment Management
4. HUB24	9. Tuas
5. Life360	10. Webjet

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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