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Ausbil Australian SmallCap Fund

Monthly performance update

August 2024

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'We continue to believe an easing cycle is accommodative for equity markets, particularly small and micro caps'

Performance Review

Fund performance for August 2024 was +1.23% (net of fees) versus the benchmark return of -2.02%, as measured by the S&P/ASX Small Ordinaries Accumulation Index.

Fund Review

Unlike the four-year cycle of the Olympics, fund managers experience the thrill of reporting season twice a year. And just like the Olympics, August's reporting season brought its share of standout performances and surprises. Overall, we would describe 2024 earnings as being broadly in-line with market expectations, with impressive margin expansion typically driving earnings relative to market expectations in the Industrials, Technology and Consumer Discretionary sectors. However, full-year guidance reflected more conservative outlook from corporates, resulting in more outer year earnings downgrades.

The Fund outperformed by +3.25% (net of fees) for the month of August and has pleasingly outperformed in 8 of the last 9 reporting periods (February and August) since inception. Positive contributors over reporting season included core holdings in **Life360** (360), that vaulted through with both a beat to estimates and an upgrade to guidance, and **ZIP** (ZIP) that sprinted away with a strong outlook on US growth opportunities. Up and coming Microcaps (ex200) that starred in reporting included **Codan** (+18%), **Guzman & Gomez** (+23%), **Regis Healthcare** (+22%) and **Aussie Broadband** (+6%). The Fund certainly didn't escape without a few false starts, with **Credit Corp** (CCP) and **EQT Holdings** (EQT) detracting from returns, however both finished the race while **Kelsian** (KLS) was a clear disqualification.

This month, the largest positive contributors to performance were ZIP and Life360. Negative contributors included Kelsian and Credit Corp.

Key Contributors

ZIP (ZIP) returned +26.6% for the month on the back of a strong outlook for growth in the US. Expansion in the US continues to show strong signs of momentum in the fast-growing Buy Now Pay Later market, with new product development and an extended partnership with Stripe expected to fuel transaction growth. A more rational market structure, disciplined risk management, and a revamped capital structure have laid the groundwork for sustained, profitable growth.

Life360 (360) returned +15.5% for the month, and now returned +152.9% for the CYTD. 360 delivered both a beat to consensus estimates and an upgrade to full-year earnings guidance on the back of a quarterly net adds record of 132k, with strong momentum heading into the critical back-to-school period in the US. The ongoing roll-out of its successful US membership model into international markets, ramp-up of higher margin adjacent revenue and opportunities for new verticals into the platform continue to drive upside in our view.

Key Detractors

Kelsian (KLS) was hammered, falling -28.4% for the month and deservedly so in our view. Capex blow outs, successive depreciation and interest cost driven downgrades, lack of free cash flow generation and anaemic earnings per share growth for a number of years saw investor patience evaporate, including ours. Consequently, we exited the position and have recycled the capital.

Credit Corp (CCP) fell (-13.4%) over the month. The result was broadly line with expectations with a conservative but constructive outlook for debt purchasing. CCP expressed increased confidence on the outlook for pricing, with improved productivity of the US team. Having reported early in the month, CCP may have been overlooked amid minor market estimate adjustments following its conservative guidance. Results from US peers continue to signal a constructive industry environment, with improved supply and collection activity. With a stronger earnings outlook, we believe the worst is behind CCP, and current valuations do not fully reflect the value of its US operations.

Outlook

Heightened volatility was a feature of August, underpinned by the unwind of the yen carry trade (if you blinked you missed it) and the Jackson Hole economic symposium. The US central bank is adopting a more dovish tone, signalling the commencement of a rate cutting cycle in September. However, the chances of sharper Fed rate cuts was recently exacerbated by softer US labour market data. Markets are now pricing in 115bps of rate cuts this year with the possibility of cuts being front-loaded which should be sufficient to hold-off a deeper downturn in corporate profits. In Australia, the RBA has continued with its hawkish jawboning with the prospect of any rate cut firmly pushed into 1Q25 (at the earliest). We continue to believe an easing cycle is accommodative for equity markets, particularly small and micro caps. The key wildcard which could potentially have an impact on our thinking and the shape of the portfolio is the escalation in geopolitical tensions.

Returns[1] as at 31 August 2024

Period	Fund Return[1] %	Bench-mark[2] %	Out/Under performance %
1 month	1.23	-2.02	3.25
3 months	7.36	-0.01	7.37
6 months	11.37	1.52	9.85
1 year	26.01	8.51	17.50
2 years pa	15.25	3.58	11.67
3 years pa	7.15	-2.90	10.05
4 years pa	18.09	4.35	13.73
Since inception pa Date: 30 April 2020	24.50	8.03	16.47

Top 10 Stocks[3]

1. Aussie Broadband
2. Codan
3. Elders
4. Genesis Minerals
5. HUB24
6. Life360
7. Light & Wonder
8. Premier Investments
9. Propel Funeral Partners
10. Zip

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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