

# Ausbil MicroCap Fund

## Monthly performance update

August 2024

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### Returns<sup>1</sup> as at 31 August 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 <sup>2</sup>
<b>Fund return %</b>	2.88	9.00	16.08	33.65	12.64	3.73	12.78	15.34	14.80	20.16
<b>Benchmark<sup>3</sup> %</b>	1.95	-1.61	8.18	7.98	-0.31	-0.97	9.23	9.60	8.20	4.64
<b>Out/under performance %</b>	0.93	10.61	7.90	25.67	12.95	4.71	3.54	5.75	6.60	15.52
<b>Reference Index<sup>4</sup> %</b>	-2.02	-0.01	1.52	8.51	3.58	-2.90	3.89	5.91	5.84	4.48
<b>Out/under performance %</b>	4.90	9.01	14.56	25.15	9.06	6.63	8.89	9.44	8.96	15.68

'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 +2.88% (net of fees) versus the benchmark return of +1.95%, as measured by the S&P/ASX Emerging Companies Accumulation Index, and the reference index return of -2.02% as measured by the S&P/ASX Small Ordinaries Accumulation Index.

The macroeconomic volatility in early August was short-lived as market attention quickly shifted to the reporting season and corporate earnings outlooks. Full-year results were broadly in-line with market expectations, with impressive margin expansion typically driving earnings beats relative to market expectations in the Industrials, Technology and Consumer Discretionary sectors. However, full-year guidance reflected a more conservative outlook from corporates, resulting in more outer-year earnings downgrades.

We are pleased that the Fund had a strong month, outperforming the materials heavy Emerging Companies Benchmark by +0.93% (net of fees), and the more industrial Small Ordinaries Index by +4.90% (net of fees), reflecting the Fund's focus on bottom-up earnings and earnings revisions. Positive contributions to performance this month included **ZIP** (ZIP) and **Codan** (CDA) following strong beats to market earnings estimates, with **Aussie Broadband** (ABB) also performing well. Detractors included positions in **EQT Holdings** (EQT) and **Macquarie Technology** (MAQ), though both have pulled back from recent highs and the Fund remains constructive on their outlook.

This month, the largest positive contributors to performance were ZIP and Codan. Negative contributors included EQT Holdings and Macquarie Technology.

### 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.

**Codan** (CDA) returned +18.0% for the month following a beat to consensus earnings estimates. CDA's traditional Metal Detection (MineLab) division delivered strong revenue growth and operating leverage, particularly in Africa. While the Metal Detection segment for the rest of the world is expected to be driven by the company's Amazon and ecommerce channels. Codan's strong forward orderbook +21% supports the positive outlook which is primarily driven by the high quality Communications division, particularly Zetron which we visited in the USA last year as part of our company visitation program. Zetron is a key growth driver for the Communications segment of the company going forward and the most exciting part of the business in our view.

### Key Detractors

**EQT Holdings** (EQT) fell -13.8% for the month following a softer result impacted by what we believe is largely a timing issue and a broker downgrade. The weakness stemmed largely from EQT's Trustee and Wealth Services (TWS) division, where revenue margins were softer and cost growth higher than expected in the 2H of FY24. We expect the TWS division margin to rebound in FY25. Looking ahead, the full integration of Australian Executor Trustees is expected to deliver significant cost synergies to the merged group. We believe EQT's annuity-style earnings, long-standing client relationships, and attractive growth pipeline remain underappreciated by the market, with valuations still highly supportive.

**Macquarie Technology** (MAQ) fell -10.0% over the month. While the FY24 headline result was in line with expectations, the composition was less favourable. The Telecommunications division outperformed, but the Cloud Services and Government segment was impacted by an inability to pass through cost increases. Outlook guidance was also below expectations which catalysed consensus earnings downgrades. This unfortunately detracted from the main MAQ story which is premised around IC3 Super West, the uncontracted and premium capacity in a very strong demand environment. Whilst we don't underplay the significance of earnings downgrades, we remain confident in value being realised over the medium-term.

### 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.

### Top 10 Stocks<sup>5</sup>

- |                                 |                            |
|---------------------------------|----------------------------|
| 1. Aussie Broadband             | 6. Light & Wonder          |
| 2. Codan                        | 7. Propel Funeral Partners |
| 3. DUG Technology               | 8. Superloop               |
| 4. Equity Trustees              | 9. Tuas                    |
| 5. Generation Development Group | 10. Zip                    |

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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