# TYNDALL AUSTRALIAN SMALL COMPANIES FUND

## FUND UPDATE

AS AT
29 FEBRUARY 2024

## Fund Performance (%)

| | 1 Mth | 3 Mth | 6 Mth | Since Inception p.a |
|---|---|---|---|---|
| **Total Fund (net)** | 3.17% | 11.20% | 4.59% | 13.38% |
| **Benchmark return** | 1.72% | 10.05% | 6.88% | 12.19% |
| **Excess Return** | 1.45% | 1.14% | -2.29% | 1.20% |

Source: Citi. Past performance is not an indicator of future performance. Excess return is the difference between the Fund's net return and its benchmark. Benchmark: S&P/ASX Small Ordinaries Accumulation Index. Inception date: March 2023.

The Tyndall Australian Small Companies Fund outperformed the benchmark over the month. The Fund returned 3.17% (net of fees) for the month, compared to the benchmark return of 1.72%. Since its inception in March 2023 the fund has returned 13.38% compared to the benchmark return of 12.19%.

Key contributors to relative performance:

- **Light and Wonder** delivered double digit growth across all segments and management reaffirmed FY25 targets. This execution as well as strong momentum in the performance of a key new gaming-ops title, contributed to the stock outperforming.
- **SG Fleet** reported a strong result underpinned by strengthening in the core novated fleet business which more than offset the ongoing normalisation in end-of-lease profits.

Key detractors from relative performance:

- Despite delivering a solid first-half result **Alliance Aviation** was sold off on the back of a note to the accounts highlighting that the company, at the time of the report, did not have committed financing facilities available to cover the outstanding financial commitments associated with the procurement of additional aircraft over the next 12 months. The company has well defined plans for the deployment of these additional aircraft, namely the provision of additional wet-lease capacity to Qantas. As a result, we have no concerns over the ability to secure financing.
- **Coronado Global Resources** also detracted from performance following worse-than-expected cost performance.

## Top 5 Holdings

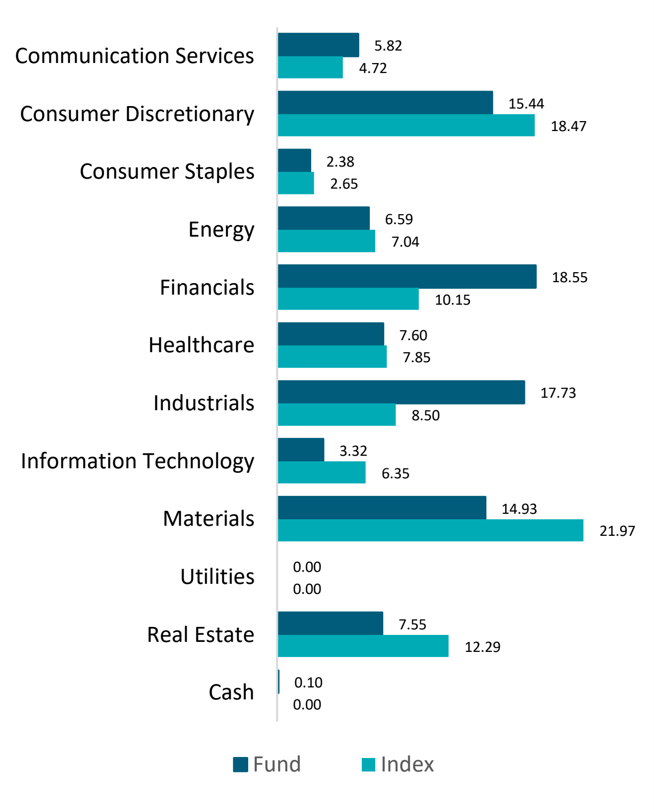
| Security Name | % of Fund |
|---|---|
| AUB Group | 3.96 |
| Light and Wonder | 3.84 |
| Telix Pharmaceuticals | 3.17 |
| Webjet | 3.10 |
| Viva Energy | 3.01 |

## Fund Metrics

| | Fund | Benchmark |
|---|---|---|
| FCF Yield | 8.4% | 7.7% |
| Price/Earnings | 14.0x | 16.5x |
| 2 Year EPS Growth | 25.2% | 21.1% |
| ROE | 11.7% | 9.0% |
| Beta | 0.89 | |
| Tracking Error | 6.5% | |

Source: Quant Answer, Tyndall

## Sector Exposure (%)




## Portfolio Changes

During the month we initiated positions in MA Financial, Accent Group and Webjet, exited Ridley Corporation and Collins Foods and reduced the position in Jumbo Interactive. We also exited Corporate Travel early in the month before reinitiating a position later in the month at a price 20% below our exit price.

MA Financial and Accent Group were both added to the portfolio following unwarranted price declines after their February earnings reports. For MA Financial the company disappointed consensus earnings due to lower performance fees. While this volatile, unreliable earnings stream missed expectations, the core funds management business continued to perform strongly, with double digit inflows driving a 22% increase in recurring revenue for the year.

Accent Group is a best-in-class retailer with well-known brands and solid growth prospects underpinned by newer brands such as Nude Lucy. This top-line growth, combined with gross margin expansion driven by increased private label product, will underpin solid earnings growth.

Webjet was added to the portfolio on the back of ongoing strength in the demand for travel. Webjet is experiencing robust growth and improving return-on-investment as it achieves scale in Web Beds, its bed bank business. At current prices, we believe that the market is under-appreciating the change the company has made in diversifying away from its online travel portal.

Having exited Corporate Travel early in the month on the back of strong share price appreciation, we subsequently bought it back after its result. The company was sold off heavily following disclosures around the size of one UK government contract as well as some softness in US volumes. The 20% sell off was an overreaction in our view as the core business remains in good shape with a strong growth profile underpinned by increased market share.

We exited Ridley and Collins Foods following substantial share price appreciation which saw the stocks trade through our intrinsic valuations.

Jumbo was reduced following substantial outperformance on the back of a series of extremely large jackpot draws.

## Market Commentary

Investors will recall that the market rally that kicked off in November last year was triggered by a rapid reassessment of the macroeconomic outlook. The evolving outlook saw expectations of a recession revised to a soft-landing, with growth holding up and inflation moderating. Importantly, the February reporting season provided evidence to support this narrative, with better-than-expected revenue outcomes for cyclical sectors and commentary highlighting moderating cost pressures across the market.

The non-mining cyclicals delivered average revenue growth of 10.4%. Further, the positive outlook commentary resulted in modest upgrades to consensus revenue forecasts. This strength in the face of the step change in interest rates suggests a very robust underlying demand environment. Certainly, the continued growth in discretionary consumer spending highlights that the widely reported cost of living pressures are not affecting all households and a significant proportion clearly have financial capacity to continue to spend. This favourable view on the consumer is also supported by the low credit losses being experienced by credit providers.

The second proof point regarding the economic narrative was the commentary from companies regarding cost pressures. Companies at the pointy end of labour shortages in recent years in sectors such as healthcare, childcare and mining services, made comments around the easing labour pressures and expectations of wage growth returning toward more manageable levels. In a similar vein, a number of companies noted moderating prices in consumables as high prices resulting from the COVID disruptions continued to normalise.

The combination of resilient demand in cyclical sectors and moderating growth in operating costs across the economy does suggest that the soft-landing scenario is playing out for now. However, we are also cognisant that inflation data remains volatile and further, better-than-expected demand may see the moderation in inflation become more protracted, delaying the prospect of interest rate cuts.

The portfolio remains well diversified in order to insulate against the impact of macro-economic gyrations.

## Fund Objective

The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over the long term, before fees, expenses and tax.

### Key Facts

**Responsible Entity**
Yarra Funds Management Limited

**APIR Code**
TYN8782AU

**Portfolio Manager**
Tim Johnston and James Nguyen

**Asset Allocation**

| | |
|---|---|
| Australian Shares | 90% - 100% |
| International Shares unhedged | 0% - 10% |
| Cash | 0% - 10% |

**Minimum Investment**
AUD 10,000 or platform nominated minimums

**Buy/Sell Spread**
0.30%/0.30%

**Management Cost**
90bps + 20% of outperformance of the S&P/ASX Small Ordinaries Accumulation Index (after fees), subject to all prior benchmark underperformance being recouped.

**Distribution Frequency**
Half yearly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