Zurich Investments
Small Companies Fund Class D
Fund Focus - June 2021

Investment Strategy
The Fund generally invests in 30 – 60 securities listed on the Australian Securities Exchange that fall outside of the S&P/ASX 100. No more than 10% of the Fund can be invested in one issuer (stock or collective investment vehicle).

Fund Facts
APIR Code: ZUR7150AU
Inception Date: 15/06/2018
Total Est. Management Cost %: 1.64
Buy/Sell Spread %: 0.3
Est. Transactional Op. Cost %: 0.53
Distribution Frequency: Semi-Annually
Underlying Fund Manager: Celeste Funds Management Pty Limited

Portfolio Characteristics
Funds Under Management: $1.40m
Number Of Holdings: 37
Turnover Ratio %: 39.54%
Latest distribution date: 30 Jun 2021
Latest distribution amount: 0.0710
Benchmark: S&P/ASX Small Ordinaries Accumulation Index

Fund Performance After Fees*
As at 30/06/2021
1 Month 3 Months 1 Year Since Inception
% % % p.a % p.a
Growth -2.23 3.05 37.01 0.23
Distribution 6.91 7.27 10.37 10.49
Total 4.68 10.32 47.38 10.72
Benchmark 3.08 8.50 33.23 8.31

Investment Growth
30/06/2020 to 30/06/2021
Portfolio Equity Sectors
- Materials 4.85%
- Industrials 12.89%
- Consumer Discretionary 26.71%
- Consumer Staples 5.89%
- Health Care 4.90%
- Financials 18.90%
- Information Technology 16.03%
- Communication Services 6.64%
- Real Estate 3.20%

Top 10 Holdings
Portfolio Date: 30/06/2021
Portfolio Weighting % Benchmark Weighting %
ARB Corp Ltd 4.19 1.26
Steadfast Group Ltd 3.96 1.47
IRESS Ltd 3.76 0.96
Breville Group Ltd 3.70 1.09
Eclipx Group Ltd 3.58 0.28
Eagers Automotive Ltd 3.47 1.10
City Chic Collective Ltd 3.28 0.50
Codan Ltd 3.27 0.83
Bapcor Ltd 3.16 1.11
BWX Ltd 3.14 0.29
Market

The Australian Small Companies Index surged in the June quarter. During the quarter, the Federal Government released their FY22 Budget which included $96bn in additional stimulus. The Budget outlined increased business capex incentives, as well as significant spending on infrastructure and aged care. Households can expect FY22 tax cuts aimed at low-to-middle-income workers, and access to the HomeBuilder construction grant has seen the construction commencement deadline move from 6 months to 18 months.

Fund

The Fund produced an impressive return of 10.30% in the June quarter and was comfortably ahead of the strong index return.

Top performing stocks in the quarter included Iress, Hansen Technologies, City Chic and ARB Corporation.

Iress - Speculation of a proposed takeover bid from an unknown buyer drove stock performance. While management announced it had not been formally approached, it reaffirmed full-year profit guidance and announced a series of new initiatives from a strategic review, overseen by incoming Chairman Roger Sharp. Most significant was the potential divestment of its UK mortgage sales & originations business.

Hansen Technologies – The company received a takeover offer from BGH Capital to acquire all ordinary shares for $6.50 per share. Andrew Hansen (CEO) has agreed to work together exclusively with BGH Capital to roll over his 17% stake as part of a co-operation agreement, plus he intends to vote in favour of any scheme of arrangement. The Board has determined that progressing the Proposal is in the interests of all shareholders and has formed an Independent Board Committee who will engage an independent expert to assess the offer.

City Chic - Reopening economies have translated to strong sales in the dress category, City Chic’s higher value products. The March trading update noted sales on the Avenue US website were exceeding pre-acquisition levels. Australia and New Zealand sales strength appears to have continued into 2H21. Evans (CCX’s UK acquisition) has been fully integrated ahead of schedule and under budget. Management has not disclosed any progress on further M&A. However, given the company’s track record of acquisitions and successful integrations, along with a 1H21 cash balance of $83m, it is anticipated that M&A activity has contributed to market optimism.

ARB Corporation – Whilst the extension of border restrictions continued to provide a buoyant sales backdrop, the announcement of note was the Ford Bronco partnership in the US. Selected as one of three aftermarket providers, ARB Corporation has developed a full suite of premium, aftermarket products for the coveted Bronco. This is a significant opportunity for the company and highlights the weight of the ARB Corporation brand and the quality of the products and intellectual property within the company. Looking ahead, the Bronco opportunity, combined with additional original equipment manufacturer partnerships, will give way to a multi-year growth runway.

Negative contributors included Integrated Research and Nuix.

Integrated Research – The company had a disappointing quarter after announcing a weaker than expected trading update late in June. While 2H21 is expected to show a significant improvement in sequential sales growth over 1H21, revenue guidance was below market expectations. The pandemic has slowed customers’ ability to sign contracts and when they have, these have tended to be shorter term in nature. Commitment remains difficult with counterparties focused on their own tighter budget conditions and indecision around their own future operating environments. The investment team continues to see strong new product development in unified communications and ongoing upgraded releases of the Prognosis payment software as a medium term positive. While the short-term has been difficult, the medium-term outlook for the stock remains positive given the high intellectual property nature of the products, new product releases and mission critical nature of the software.

Nuix - On the back of a second reduction to prospectus forecasts, Nuix declined significantly during the quarter. The reduction in revenue guidance came despite management reaffirming prior guidance at an investor day in the middle of May. Nuix’s accelerated transition to more consumption-based pricing contracts is likely to see materially slower revenue growth over the next five years. This slower growth rate will impact the company’s ability to meaningfully scale cash earnings. The position in Nuix was subsequently sold during the quarter.

Outlook

The Budget reiterates the Government’s fiscally accommodative stance and should reinforce business and consumer confidence. The Reserve Bank of Australia (RBA) remains committed to maintaining highly accommodative monetary conditions with no desire to increase the current 0.10% cash rate until inflation is sustainably within a 2% to 3% band, an environment it continues to suggest will not be evident until 2024 at the earliest.