

# BAZA HIGH CONVICTION FUND QUARTER ENDED 31 DECEMBER 2023



**+3.2%**

performance in December 2023 quarter<sup>1</sup>

**+4.8%**

performance in month of December 2023<sup>1</sup>

**+12.8%**

annualised performance since inception<sup>1,2,3</sup>

**+10.9%**

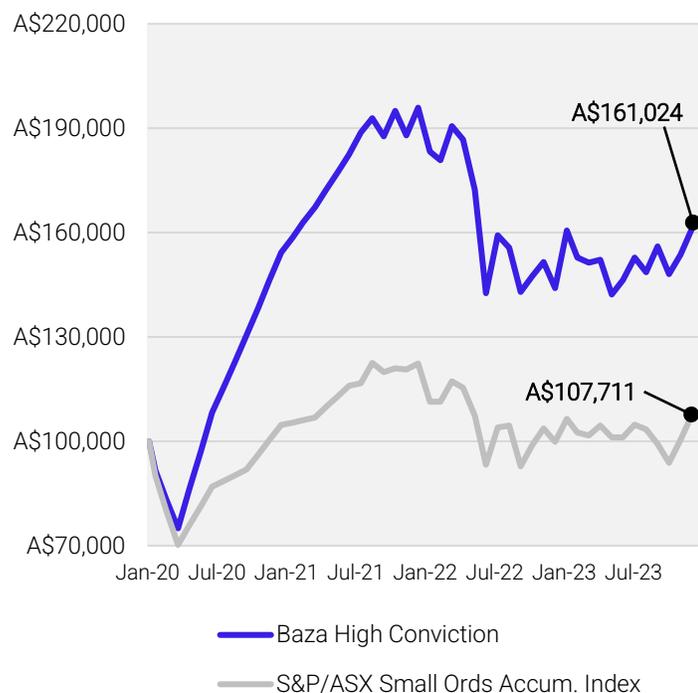
annualised outperformance vs. S&P/ASX Small Ordinaries Accumulation Index since inception<sup>1,2,3</sup>

## KEY METRICS

Unit price	A\$1.004
Performance in Dec-23 quarter <sup>1</sup>	+3.2%
S&P/ASX Small Ords Accum. (Benchmark) perf.	+8.5%
Fund performance for Dec-23 quarter vs. Benchmark	-5.3%
Performance in Dec-23 month <sup>1</sup>	+4.8%
S&P/ASX Small Ords Accum. (Benchmark) perf.	+7.2%
Fund performance for Dec-23 month vs. Benchmark	-2.4%
Cash as at end of month	5.7%

## HISTORICAL PERFORMANCE

Value of A\$100,000 invested at inception<sup>1,2,3</sup>



1 Post fees and expenses  
2 Assumes reinvestment of distributions (A\$0.023 declared 30-Jun-20 and A\$0.647 declared 30-Jun-21)  
3 Fund inception was 15-Jan-20

## HISTORICAL RELATIVE PERFORMANCE

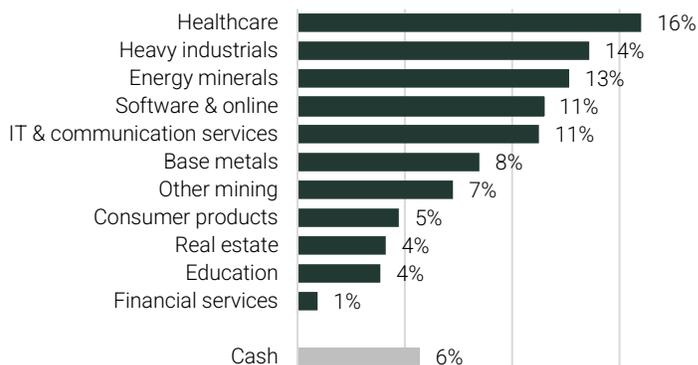
	Fund return <sup>1,2</sup>	S&P/ASX Small Ords Accum. Index	Fund out-performance
1 month	+4.8%	+7.2%	-2.4%
3 month	+3.2%	+8.5%	-5.3%
6 months	+10.0%	+6.4%	+3.6%
1 year	+11.8%	+7.8%	+3.9%
2 year	-17.8%	-12.0%	-5.8%
3 year	+4.3%	+2.9%	+1.5%
Since inception <sup>3</sup>	<b>+61.0%</b>	<b>+7.7%</b>	<b>+53.3%</b>
Since inception <sup>3</sup> , annualised	<b>+12.8%</b>	<b>+1.9%</b>	<b>+10.9%</b>

## PORTFOLIO SNAPSHOT

Top 5 holdings (as at 31 December 2023)

1	Probiotec	PBP	6.9%
2	Monash IVF Group	MVF	6.4%
3	Vysarn	VYS	5.2%
4	Lycopodium	LYL	5.1%
5	Frontier Digital Ventures	FDV	5.0%

Sector exposure (as at 31 December 2023)



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## Overview

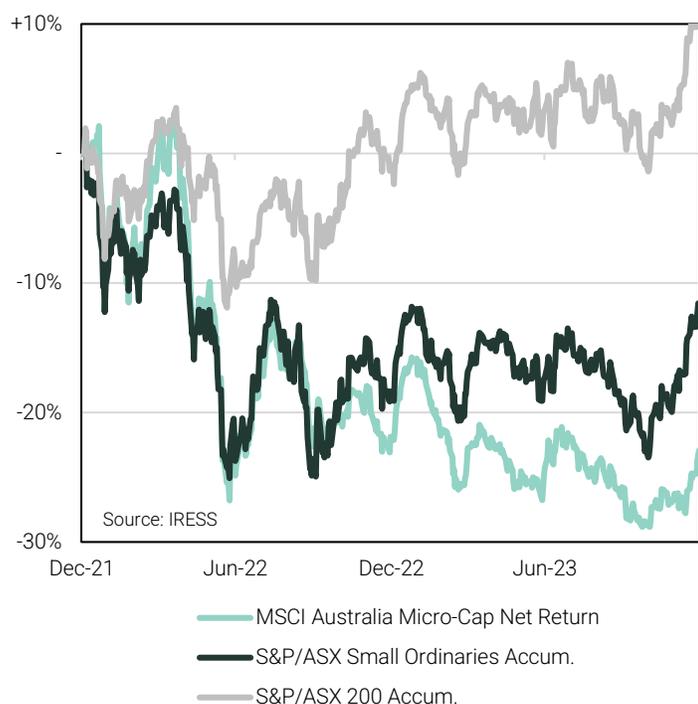
The Fund returned +4.8% for the month and +3.2% for the quarter ended 31 December 2023. The Fund underperformed the S&P/ASX Small Ordinaries Accumulation Index (Benchmark) which returned +7.2% and +8.5% over the respective periods. Total return for the Fund in CY2023 was +11.8%, outpacing the Benchmark which returned +7.8% over the same period.

Key sector contributors for the quarter included heavy industrials (+2.9%), software/online (+2.0%), and healthcare (+1.3%). The key detractor for the quarter was energy minerals (-2.4%) as key commodity prices continued declines.

Global equity markets rebounded in November and December as expectations of an interest rate pivot became widespread. Positive sentiment returned to equity markets, however smaller company prices remain significantly depressed relative to larger companies.

The Benchmark lagged the S&P/ASX 200 Accumulation Index for the 6 months to 31 December 2023 (+6.4% vs +7.6%), and the MSCI Australia Microcap Index lagged further (+1.8% vs. +7.6%). Risk-on (positive) sentiment can take time to filter down to smaller companies. Small companies have underperformed for a historically long period (over 2 years) and we expect a reversal will eventuate in time. The Fund is well exposed to this dynamic.

## Return of ASX indices (% , last 2 years)



## Key contributors to performance

The key positive performer for the quarter was water services operator Vysarn (VYS, +1.8% contribution). VYS operates water management services for iron ore miners as well as other water consulting and monitoring services predominantly in Western Australia. VYS has 12 water drilling rigs which are currently in strong demand – several are now running double shifts with an expectation of 3 by June 2024. The Fund initially invested in Vysarn in mid-2023 after a period of detailed diligence and gaining an understanding of water conservation and commercial demand in WA.

Our expectation is that VYS will double its earnings per share this financial year if it can maintain high utilisation of its equipment, and in time expand the company's footprint into water rights and tolling business models to capitalise on increasing demand for mining and industrial applications. Water rights are increasingly important to major miners with Mineral Resources (MIN) already investing to secure water rights near its operations. In November, VYS provided a positive trading update and the share price increased into the end of year and has continued thus far in January 2024.

Another positive contributor for the quarter was online digital classifieds operator Frontier Digital Ventures (FDV, +1.7%). FDV owns 16 online classifieds businesses in emerging markets and are currently pursuing a strategy to monetise two key assets: its Latin American portfolio and Zameen (Pakistan). FDV has been a core portfolio holding for nearly 3 years and has previously contributed negatively to Fund performance. The rebound in share price observed in the December 2023 quarter can be attributed to the improved macroeconomic outlook for emerging markets (incl. Pakistan) and FDV reporting another quarter of positive EBITDA.

## Takeovers continued to be a feature

In late December, the Fund's second largest holding, Probiotec (PBP), announced an agreed takeover from Indonesian competitor, PT Pyridam Farma, at A\$3.075 cash per share (including proposed dividends). PBP is a domestic manufacturer and packager of over-the-counter pharmaceuticals. We expect they will continue to capitalise on market growth post COVID-19 supply chain issues as part of an onshoring thematic.

This was the fourth takeover offer within the Fund's top 10 holdings in 2023; others being Cirrus Networks (CNW), Silk Laser (SLA) and DDH1 Drilling (DDH). The frequency of takeover offers provides strong validation of our investment approach. It is unfortunate that the 19% premium offered for PBP is relatively small compared to the typical takeover offer premiums of 30-40% seen in 2023. Given the small premium, there remains a chance that this takeover does not receive the requisite approval from shareholders, which is a result that we would be comfortable with. PBP has highly strategic assets and our long-term expectations for earnings growth justify holding at levels beyond the current takeover price.

# BAZA HIGH CONVICTION FUND QUARTER ENDED 31 DECEMBER 2023



The Fund has held a position in PBP since early 2022, we have met management numerous times and attended a site visit at their facility in Laverton, Victoria. We were relatively surprised that the founders were willing to proceed with the sale at a price we assess as too cheap. Nonetheless, the position contributed positively for the quarter, and we retain the majority of our holding in case of a rival bid.

## Junior mining exposure update

The Fund's exposure to junior mining developers was a negative contributor to performance for the quarter and calendar year.

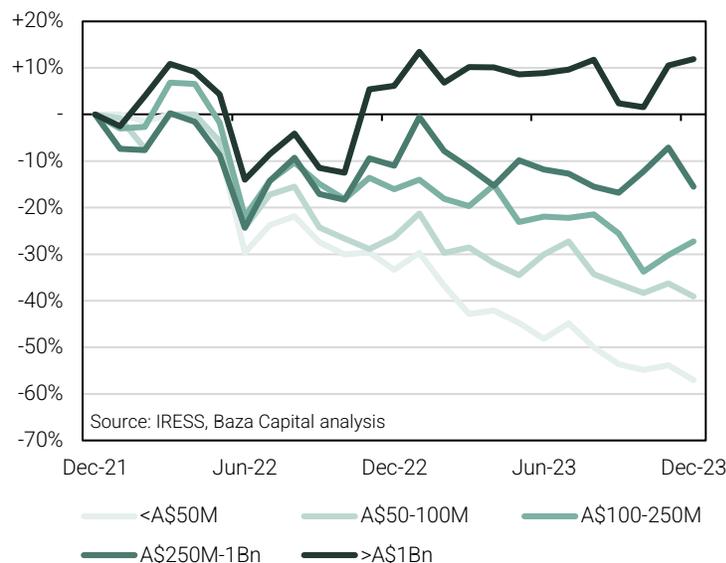
The Fund has selectively added to its position in electrification metals during this period of weakness. While there may be divergent views on the demand outlook for certain commodities tied to decarbonisation (namely copper, rare earths and lithium), it is evident that any material supply response required will lag due to permitting and geopolitical issues, as well as difficult debt and equity funding environments. This disconnect provides an opportunity for these commodity prices to re-rate as supply is squeezed over the medium term.

The key detractor for the quarter was lithium explorer Torque Metals (TOR, -1.6%). TOR has been exploring its lithium project 600m away from Mineral Resources' (MIN) Bald Hill Lithium Mine. TOR acquired this exploration project in the September 2023 quarter and commenced its maiden exploration programme in October. Initial exploration results did not meet market expectations, however subsequent results have validated the company's original thesis, and it subsequently exercised its option to acquire this project. The Fund maintains its position in TOR as we await a gold resource update in early 2024 and further exploration results from its lithium project in the March 2024 quarter. TOR was a material positive contributor in the September 2023 quarter.

There has been a marked divergence between small and large market capitalisation ASX-listed mining companies. The smallest mining companies have traded poorly since early 2022, with the median micro-cap mining company returning -57% over the last 2 years. Liquidity has also been low. The poor performance of small companies has been exacerbated by dilution from equity and alternative fundraising structures at discounts to already depressed prices and with other unfavourable terms.

The performance improves as the market capitalisation grows, with the largest miners (>A\$1Bn market capitalisation) recording gains of +12% over the last 2 years.

Mining company performance by size (2 years, median by band)



As at 31 December 2023 the Fund's average market capitalisation for junior miners was A\$258M. We have avoided the worst of the junior mining weakness, but it has been an overall negative contributor to total Fund performance. The Fund continues to find and invest in new opportunities where the value disconnect is greatest – typically emerging companies in favoured commodities with high quality assets and good management teams in the development phase.

## Outlook

We enter 2024 with a close to fully invested portfolio of ASX-listed emerging companies. Healthcare and IT & communication services remain among our largest sector exposures, though the portfolio has an increased exposure toward more cyclical sectors (including heavy industrials and mining).

Positive macro-economic data and central bank commentary sparked a late 2023 rally in equity markets, with liquidity starting to move toward the smaller and more speculative end. We remain cautiously optimistic given the current geopolitical and economic risks. Major elections in 2024 could result in heightened volatility, though these have shown to be surmountable challenges for equities historically. Declining inflation and a loosening of central bank interest rate policy could help small- and micro-cap companies outperform against larger peers in 2024 – our Fund stands to greatly benefit from this dynamic.

We thank unitholders for their continued support. We wish all unitholders and their families a healthy and prosperous 2024. The Fund is open for investment with applications processed at the end of each month.

# BAZA HIGH CONVICTION FUND QUARTER ENDED 31 DECEMBER 2023



## FUND SNAPSHOT

The Baza High Conviction Fund is a long only small-cap fund targeting undervalued emerging companies on the ASX. Actively invested in emerging companies that have the ability to generate sustainable, long-term shareholder returns. The Fund has a high risk, high return profile.

The Fund utilises strict responsible investment screening parameters; both positive and negative.

Inception	15-Jan-20
Structure	Unit trust
Management fee	1.5% p.a. (incl. GST)
Performance fee	20.0% (incl. GST) above benchmark
Benchmark	S&P/ASX Small Ordinaries Accumulation Index (post management fee & expenses)
Unit pricing, applications and redemptions	Monthly
Eligible investors	Wholesale Investors, as defined in the Corporations Act 2001 (Cth)
Distributions	Annually, post 30-Jun, and at the Trustee's discretion

## RESPONSIBLE INVESTMENT OVERVIEW

### Positive screens (non-exhaustive, up to 25% scale-up)

Renewable energy	Efficient transport
Recycling	Sustainable products
Healthy foods	Healthcare & wellbeing
Education	Electrification
Direct investment	Strong diversity policies, reporting and practices

### Negative screens

### Threshold

Fossil fuel (oil, gas, coal, tar sands) exploration, development and production	Zero tolerance
Provision of significant services to the fossil fuel industry	25%+ of focus or revenue, no investment
Excessive carbon emissions	Zero tolerance if no transition or offset plans
Production and manufacture of tobacco and nicotine alternatives	Zero tolerance
Old growth logging, destruction of ecosystems and animal cruelty	Zero tolerance
Military technology and armaments (including development, production and maintenance of nuclear weapons)	Zero tolerance
Carbon intensive agriculture	25%+ of focus or revenue, no investment
Gambling	Zero tolerance

We also investigate the diversity of Boards and senior management, and policies and reporting relating to diversity, and screen for controversy, prior to investment.

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