

Microcaps: Renewed Interest, Real Opportunities

By Joel Fleming, Portfolio Manager, Microcaps

Microcap companies have long demonstrated their ability to deliver strong returns across diverse market conditions, thanks to performance driven by company-specific factors rather than the broader economic cycle. Today's environment—marked by plateauing interest rates, moderating inflation and attractive valuation gaps versus large caps—creates a particularly favourable backdrop. With structural tailwinds and renewed investor interest, we believe microcaps are well-positioned for continued success into 2026.

In the year almost gone, microcap companies experienced a strong year of performance. The S&P/ASX Emerging Companies Index returned an impressive +26.5% for the 11 months through to 30 November. On a three-year compound annual growth rate (CAGR) basis, it has generated +12.0% p.a. compared to the ASX 100's +9.4% p.a., reflecting the former's stronger underlying growth profile.

Our own Microcap strategy has also fared well through this period, returning +37.8% net of fees for the 11 months to 30 November, outperforming its Small Ordinaries benchmark by +14.6%. Strong stock selection across key names including Artrya, Pantoro and Energy One – many of which are discussed below – have underpinned very strong returns for our investors.

Pleasingly for investors employing a research-driven approach, microcaps remain an inherently inefficient part of the market. This situation is often worsened by poor liquidity, exacerbating market sentiment. The confluence of these factors continues to drive significant opportunities for active fund managers in this space.

Our focus remains on investing in companies with resilient business models that are gaining market share, disrupting incumbents and showing meaningful progress in their core business metrics. Often overlooked by the broader market, these small and agile companies continue to attract renewed interest from potential acquirers. Whether it's strategic industry players or private equity firms, this space is ripe for investment.

The microcap sector's strong performance over the past year has been supported by moderating inflation and global interest rate cuts by the major central banks. This improved economic backdrop and reduced uncertainty is fuelling renewed investor interest and capital inflows into small and illiquid companies.

Looking into 2026, the risk-reward profile continues to strengthen, driven by long-term demand tailwinds. Hence, we think this market is well-positioned for continued success.

Sectors to Watch through 2026

- **Resources:** Fiscal and infrastructure stimulus is driving a continued strength in commodity prices. Although currently underweight the sector overall, we are enthusiastic about management teams capable of capitalising. Notably, **Metals X**



the 2026
outlook
microcaps

(MLX), an Australian tin miner, is well positioned to benefit from supply constraints. Similarly, **Polymetals** (POL), a company focused on silver and zinc, is ramping up, optimizing production schedules for higher silver prices.

- **Healthcare:** Medical technology group **Artrya** (AYA) continues to progress towards achieving final FDA approval for their patented technology to detect coronary artery disease, enabling point of care assessment and management. With a commercial launch planned for early 2026 the business remains well placed, partnering with some of the largest hospital networks in the US. Similarly, **Dimerix** (DXB) is advancing phase three clinical trials for rare kidney disease, with imminent results. The healthcare sector remains active, with the recent takeover offer for **Monash IVF** (MVF) helping to support valuations amidst what has been a difficult period for the business.
- **Industrials:** We continue to see opportunities in industrials with strong earnings growth. **Southern Cross Electrical** (SXE) and **Mayfield Group** (MYG) are benefitting from major infrastructure projects in datacentres, and separately remain aligned with Australia's electrification and decarbonization efforts. **MLG Group** (MLG), which supports some of Australia's largest gold mining operations with trucking and haulage services, is focused on driving margins which we expect will continue to support rising cash flows.
- **Technology:** Attractive growth rates and emerging operating leverage continue to drive substantial interest in this sector. **RPM Global** (RUL), a software provider for tier-one mining companies, was recently the subject of a takeover offer from global equipment manufacturer Caterpillar Inc, with anticipation of the scheme being implemented in February next year. Another key holding we see as experiencing a similar inflection point – despite serving a completely different end market – is energy trading solutions provider **Energy One** (EOL).

Microcap companies continue to present a very compelling avenue for long-term wealth creation, with the potential for meaningful value to be unlocked as businesses scale from a low base. Drawing on deep, bottom-up research, there remains a rich pipeline of under-researched and high-growth opportunities that larger investors are often forced to overlook.

As market conditions and structural themes evolve, this inefficiency creates repeated entry points to back quality businesses before they are more broadly recognised. Supported by an improving macroeconomic backdrop and a strengthening outlook for the asset class, our portfolio is deliberately positioned to harness this inflection.

As we move into 2026, the case for microcaps remains compelling. Structural growth drivers, improving macro conditions and persistent market inefficiencies create a fertile environment for active investors. With a deliberate focus on quality businesses and identifiable catalysts, and high confidence in portfolio positioning, we believe this segment offers one of the most attractive avenues for long-term wealth creation.



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Australian microcaps are well-positioned for continued success

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