‘What a month’: Small-cap funds make history in May

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As Australia’s sharemarket races back towards its record high after a global market rout erased trillions of dollars earlier this year, one cohort of local fund managers have been enjoying one of their best months ever.

Small-cap funds from Ophir Asset Management to Forager and QVG Capital have all ripped higher in May as investors piled back into the market after sweeping US tariffs sent shares tumbling in April.

For many, May has been among the strongest months for returns since the ASX’s rapid rebound in 2020 from the pandemic-induced market crash.

Ophir’s Opportunities Fund returned 12 per cent net of fees, its third-best month on record behind April and May 2020. That more than doubled the 5.8 per cent gain by the S&P/ASX Small Ordinaries Index in May.

Forager's Steve Johnson, QVG's Tony Waters, Ophir's Andrew Mitchell and Ausbil's Arden Jennings. **Bethany Rae**

While almost all of Ophir's returns during the early COVID-19 months were fuelled by central banks slashing interest rates, portfolio manager Andrew Mitchell said May's performance all came down to stock picking.
"Position sizing matters," Mitchell told *The Australian Financial Review*, pointing to his fund's biggest holdings, family tracking company Life360 and Generation Development, which surged 52 per cent and 34 per cent respectively last month.

"It's also about avoiding the losers – in the top half of the fund only one stock lost in the month, with it down a paltry 2 per cent," he added.

The high-flying fund, which has ranked first [https://www.afr.com/markets/equity-markets/here-s-how-australia-s-best-small-cap-fund-smashed-rivals-20250501-p5lvku] over every time period in Mercer's latest small-cap investment survey, has now returned 23.3 per cent each year since its 2012 inception.

'Fantastic environment'

The bumper returns for small-caps have fuelled hopes of a resurgence after years of lagging the ASX's larger companies – the Small Ords returned 5.4 per cent a year over the past two decades versus an 8.8 per cent return for the ASX's 100 biggest companies.

While there has been the odd glimpse of a rotation into the small end of the sharemarket, fund managers are hoping that more interest rate cuts from the Reserve Bank this year will kickstart a more sustained shift.

"After 15 years of underperformance, it has to happen at some point," said Forager portfolio manager Steve Johnson.

Johnson's Australian Share Fund has also produced one of its strongest performances since inception in November 2009, returning 10 per cent in May and extending its one-year gain to 31.1 per cent. [https://www.afr.com/markets/equity-markets/how-forager-s-johnson-topped-the-fundie-tables-by-embracing-passive-20250422-p5lth1]

Last month's return was largely fuelled by two big winners – sports technology company Catapult Group and smash repairer AMA Group, which surged 43 per cent and 67 per cent, respectively.

While the veteran investor said enthusiasm was returning to small-caps, he wanted market conditions to stay volatile because it threw up more opportunities to trade in what is typically a less liquid part of the market.

'One of the best'

"I don't really want it to change," Johnson said. "This is a fantastic environment for active management and there are still newly hated stocks for us to get excited about almost every day."

Johnson named IDP Education, which plunged more than 40 per cent [https://www.afr.com/chanticleer/idp-education-s-48pc-free-fall-about-much-more-than-horror-earnings-20250603-p5m4gh] this week after a profit warning, and Johns Lyng as two beaten-down stocks that he's keeping an eye on. Both stocks are among the most shorted stocks on the ASX.

Hedge fund QVG Capital said its Opportunities Fund had also benefited from large positions in Life360 and Generational Development, propelling it to a massive 12.4 per cent return last month.

"We've had months like May before, but this would certainly be up there with one of the best," said co-portfolio manager Tony Waters.

Jeweller Lovisa and ingredients and stock-feed business Ridley, which have rallied 18 per cent and 16 per cent respectively, also bolstered returns.

Still, Waters and co-manager Chris Prunty acknowledged to clients that returns had been highly volatile over the past few years, partly due to being "fully invested" and concentrated on a select number of companies and sectors.

"What a month!" the duo wrote in a monthly update to clients.

"While we don't get every call right, the portfolio in aggregate is full of real businesses with growing earnings ... when cooler heads prevail, these companies come roaring back to life as they did in April and May."

Life360 and Generation Development also lifted Ausbil's Australian Small Cap Fund performance with an 11.2 per cent return in May. It's now up 25.3 per cent each year since inception in April 2020.

A 22 per cent surge in Genesis Minerals' has also helped, which portfolio manager Arden Jennings described as "one of Australia's highest quality small-cap gold producers".

"May was one of the biggest performing months since the fund's inception, but you are only as good as your last result," Jennings added.

Hyperion's Australian Small Growth Companies strategy was another winner last month with a 12.9 per cent return.

"Fear and speculation led by US tariff policies subsided and focus returned to underlying company fundamentals," the firm said.

Along with Life360, the fund manager pointed to solid financial results and trading updates from Fisher & Paykel Healthcare, Xero, and REA Group during the month.

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