

Ausbil Australian Emerging Leaders Fund

Quarterly performance update

March 2021

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'Ausbil's macro outlook, set early in the pandemic, has largely played out as the market rebounded, followed by a resurging economy'

Performance Review

Fund performance for the quarter ending March 2021 was +5.94% (net of fees) versus the benchmark return of +0.75%. The benchmark is represented by a composite benchmark, 70% of the S&P/ASX MidCap 50 Accumulation Index and 30% of the S&P/ASX Small Ordinaries Accumulation Index.

At a sector level, the Portfolio's underweight positions in the Industrials, Health Care, Financials and Real Estate sectors added value. Conversely, the overweight positions in Materials, Information Technology and Communication Services detracted from performance. The underweight exposures to Energy, Consumer Discretionary, Consumer Staples and Utilities also detracted value.

At a stock level, the overweight positions in Lynas, Zip Co, Uniti, Elders, Incitec Pivot, Galaxy Resources and Webjet contributed to relative performance. The nil positions in Magellan Financial Group and AMP also added value. Conversely, the overweight positions in Nuix, Northern Star Resources, NextDC, Megaport, Charter Hall Group and Domain Holdings detracted from relative performance. The underweight position in IDP Education, and nil positions in Crown Resorts, Reece Australia and Domino's Pizza also detracted value.

Market Review

The market delivered a positive quarter, up 0.8% as measured by the (Blended Benchmark (70% S&P/ASX MidCap 50 and 30% S&P/ASX Small Ordinaries Accumulation Index). The March quarter confirmed that economic growth is on track, with a consequent recovery in earnings from improved trading conditions and emergence from intense lockdowns, though the experience of sporadic localised lockdowns is likely to be the norm for some time yet.

Returns for the quarter suggest that a steady rotation towards cyclicals from growth continues, with rising bond yields adding complexity in a macro environment dominated by government and central bank stimulus, and driving some reduction in equity duration across portfolios. These changes are incremental and not revolutionary, and as outlined in Ausbil's economic review and outlook, we believe that economic growth can run for some years before it becomes a real risk for sustained inflation.

In terms of sectors, while Consumer Discretionary (+12.0%) was the strongest performing sector, it was followed by Consumer Staples (+8.2%), Utilities (+3.6%) and Energy (+3.4%). Industrials (-2.3%), Real Estate (-1.9%) and Health Care (-1.4%) underperformed, with growth significantly underperforming (Information Technology: -10.3%).

Apart from Japan (Nikkei 225: -0.9%), all major equity markets yielded positive to stellar total returns for the quarter, with Singapore (Straits Times: +11.3%) topping the group, as illustrated in Chart 1. Global developed markets (MSCI World: +4.9%) outperformed both Australian equities (S&P/ASX 300: +4.2%) and emerging markets (MSCI EM: +2.3%).

Outlook

Ausbil's macro outlook, set early in the pandemic, has largely played out as the market rebounded, followed by a resurging economy. The current economic growth path is expected to run through the balance of 2021 and 2022, and possibly beyond, and is expected to be accompanied by solid years of earnings growth.

Markets are still, on average, tentative around the impact of firming bond yields and the potential for unanticipated inflation. At this stage in the recovery, the house view remains that while there might be some unanticipated higher reads on inflation, it is not in our view that inflation will become a problem in the short to medium term such that it warrants central banks to move.

Ausbil's portfolios have been positioned for a clear path to recovery, but with some volatility and uncertainty along the way. We believe the next two years will see strong earnings growth in which investors are compelled to participate.

Fund Characteristics

Returns¹ as at 31 March 2021

Period	Fund Return ¹ %	Bench-mark ² %	Out/Under performance %
1 month	0.35	2.12	-1.77
3 months	5.94	0.75	5.19
6 months	23.78	16.86	6.93
FYTD	32.08	23.08	8.99
CYTD	5.94	0.75	5.19
1 year	67.40	58.01	9.39
2 years pa	12.85	12.72	0.14
3 years pa	7.18	9.93	-2.76
5 years pa	10.60	12.35	-1.75
10 years pa	8.04	8.33	-0.29
15 years pa	7.06	6.11	0.95
Since inception pa Date: April 2002	11.03	9.39	1.64

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
Lynas	6.29	0.67	5.62
Bank of Queensland	5.66	1.47	4.19
BlueScope Steel	5.64	2.60	3.04
Northern Star Resources	4.07	2.95	1.12
Boral	3.99	1.51	2.48
Tabcorp	3.91	2.77	1.14
Charter Hall Group	3.58	1.60	1.98
Seek	3.46	2.69	0.77
Domain	3.38	0.12	3.26
NextDC	3.28	1.27	2.01

Sector Tilts

Sector	Fund %	Index ² %	Tilt %
Energy	3.14	5.39	-2.25
Materials	37.90	23.37	14.54
Industrials	8.00	13.40	-5.40
Consumer Discretionary	14.58	15.76	-1.18
Consumer Staples	3.33	3.93	-0.60
Health Care	2.59	6.62	-4.03
Financials	11.17	10.90	0.27
Information Technology	10.92	10.11	0.81
Communication Services	2.86	1.76	1.10
Utilities	0.00	1.92	-1.92
Real Estate	3.58	6.85	-3.27
Cash	1.93	0.00	1.93
Total	100.00	100.00	0.00

1. Fund returns are net of fees and gross of taxes.

2. The composite benchmark is 70% S&P/ASX Midcap 50 Accumulation Index and 30% S&P/ASX Small Ordinaries Accumulation Index.



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A short notice on the COVID-19 public health event, and how it can impact investments

Given the currently evolving issues around the Coronavirus (or Covid-19) globally, which has officially been designated a pandemic by the World Health Organisation, we wish to notify that, as with many firms, business may be disrupted. A public health crisis, pandemic, epidemic or outbreak of a contagious disease, such as the recent outbreak of Coronavirus (or Covid-19) in Australia, Italy, China, South Korea, the United States and other countries, could have an adverse impact on global, national and local economies, which in turn could negatively impact investment returns in any of Ausbil Investment Management Limited's registered managed investment schemes (the Funds). Disruptions to commercial activity relating to the imposition of quarantines or travel restrictions (or more generally, an inability on behalf of authorities to contain this pandemic) may adversely impact any investment, including by delaying or causing supply chain disruptions or by causing staffing shortages. The outbreak of Coronavirus has contributed to, and may continue to contribute to, volatility in financial markets. The impact of a public health crisis such as the Coronavirus (or any future pandemic, epidemic or outbreak of a contagious disease) is difficult to predict, which presents material uncertainty and risk with respect to any investment or fund performance.