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Ausbil Australian Emerging Leaders Fund

Quarterly performance update

June 2021

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'The 2021 financial year has been impressive in the performance produced by markets across sectors and commodities'

Performance Review

Fund performance for the quarter ending June 2021 was +9.30% (net of fees), versus the benchmark return of +9.65%. The benchmark is represented by a composite, 70% of the S&P/ASX MidCap 50 Accumulation Index and 30% of the S&P/ASX Small Ordinaries Accumulation Index.

Over the quarter, at a sector level, the overweight positions in the Materials and Communication Services sectors contributed to relative performance. The underweight positions in Energy and Utilities sectors also added value. Conversely, the underweight exposures to the Industrials, Consumer Discretionary, Consumer Staples, Health Care, Financials, Information Technology and Real Estate sectors also detracted value.

At a stock level, the overweight positions in Galaxy Resources, Uniti Group, Chalice Mining, Boral, Domain, Mineral Resources and IGO contributed to relative performance. The nil positions in Beach Energy, AMP and Vicinity Centres also added value. Conversely, the overweight positions in Lynas, Zip Co, Webjet, Evolution Mining, Challenger and Incitec Pivot detracted from relative performance. Nil positions in Reece Australia, Domino's Pizza and Altium also detracted value.

Market Review

The market delivered another positive month with a return of +3.5% as measured by the Blended Benchmark (70% S&P/ASX MidCap 50 and 30% S&P/ASX Small Ordinaries Accumulation Index), which is up +9.7% for the quarter, +10.5% for calendar year 2021, and +35.0% for the year to 30 June 2021.

The 2021 financial year has been impressive in the performance produced by the markets, across sectors and commodities, and in the radical about-turn from derating earnings at FY20, and a negative EPS growth outlook of -1.7%, to an earnings outlook of +15.9% EPS growth heading into reporting season FY21 (S&P/ASX 200). The outlook for earnings in FY21, 22 and 23 remains strong.

With the July announcement of a takeover offer for Sydney Airport by a consortium of super funds, capital markets remain buoyant with transactions (Boral and Seven Holdings), spin-offs (Woolworths and Endeavour), and divestments (Telstra and towers). Despite ongoing inflationary fears, the expectations for company profits remains buoyant and the prospect of rampant inflation remains muted, we believe for the short to medium term.

Outlook

As 30 June closes the Australian financial year, a look back at performance across markets and commodities illustrates the power of the rebound we have experienced, even as the virus remains an overhanging risk. Markets are riding the strong multi-year outlook for earnings driven by the economic growth cycle. Massive stimulus and monetary support since the pandemic has seen the Australian economy rebound from the two-quarter technical recession (with pandemic contraction of -2.4% in 2020) towards a consensus growth outlook for 2021 of 4.9%, and an Ausbil forecast of 5.1%. The consensus earnings outlook for both indices is only now starting to catch-up, with the EPS growth outlook for 2021 growth now at +24.6%, and +15.9% for 2022.

We still think that the market is under-estimating the rebound in earnings that will occur in the prevailing economic conditions, with low rates, and world economic growth a strong tailwind. We do not see inflation as a persistent problem for some years, consistent with the emphatic guidance of the key central banks around the world. Rather than worry about inflation, which we do not see as a sustained threat for some years, investors should instead be looking to capture this multi-year earnings growth while it is on offer, preferably in the best quality companies they can find.

Fund Characteristics

Returns[1] as at 30 June 2021

Period	Fund Return[1] %	Bench-mark[2] %	Out/Under performance %
1 month	1.59	3.48	-1.90
3 months	9.30	9.65	-0.36
6 months	15.79	10.48	5.31
FYTD	44.36	34.97	9.39
CYTD	15.79	10.48	5.31
1 year	44.36	34.97	9.39
2 years pa	16.19	15.41	0.78
3 years pa	8.71	11.19	-2.48
5 years pa	11.50	13.13	-1.63
10 years pa	9.59	10.02	-0.44
15 years pa	7.57	6.81	0.75
Since inception pa Date: April 2002	11.39	9.79	1.60

Top 10 Stock Holdings

Name	Fund %	Index[2] %	Tilt %
BlueScope Steel	6.29	2.72	3.57
Boral	5.32	1.85	3.47
Bank of Queensland	5.02	1.43	3.58
Lynas	4.74	1.26	3.47
IGO	4.14	1.26	2.88
Seek	4.05	2.88	1.17
Tabcorp	4.04	2.83	1.21
ALS	3.80	1.55	2.25
Domain	3.75	0.14	3.61
Mineral Resources	3.63	2.19	1.43

Sector Tilts

Sector	Fund %	Index[2] %	Tilt %
Energy	2.87	4.93	-2.05
Materials	40.88	23.39	17.50
Industrials	12.10	14.40	-2.30
Consumer Discretionary	12.68	16.29	-3.62
Consumer Staples	0.00	2.55	-2.55
Health Care	3.61	7.20	-3.59
Financials	8.33	11.00	-2.67
Information Technology	8.61	10.48	-1.87
Communication Services	3.18	1.04	2.14
Utilities	0.00	1.77	-1.77
Real Estate	3.16	6.96	-3.80
Cash	4.58	0.00	4.58
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.