

Ausbil Australian Emerging Leaders Fund

Quarterly performance update

December 2022

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'We think earnings growth will be hard to come by in 2023, but there will be some clear opportunities'

Performance Review

Fund performance for the quarter ending December 2022 was +8.39% (net of fees) versus the benchmark return of +7.32%. The benchmark is a composite, 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 Fund's overweight positions in the Energy, Financials and Utilities sectors added to relative performance. The underweight positions in the Consumer Discretionary, Consumer Staples and Communication Services sectors also added value. Conversely, the overweight positions in the Materials sector detracted from performance. The underweight exposures to the Industrials, Health Care, Information Technology and Real Estate sectors also detracted value.

At a stock level, the overweight positions in Evolution Mining, AMP, The a2 Milk Company, Challenger, Webjet, Nufarm, Worley and AUB Group contributed to relative performance. The nil position in Star Entertainment also added value. Conversely, the overweight positions in Alkerm, Boss Resources, Domain, Life360, Cleanaway Waste Management, Ampol Energy and Nine Entertainment detracted from relative performance. The nil positions in Virgin Money UK and Bendigo and Adelaide Bank also detracted value.

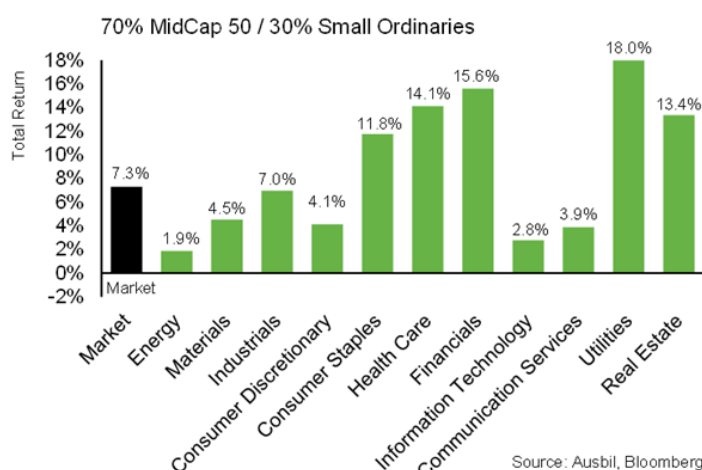
Market Review

While the month of December did not deliver a Santa rally with a return of -4.4% (Composite Benchmark, comprising 70% S&P/ASX MidCap 50 and 30% S&P/ASX Small Ordinaries accumulation indices), it closed a strong quarter, with a total return of +7.3% over the three months to the end of 2022. This saw the Composite Benchmark deliver a decline for calendar year 2022 of -10%, though in the context of a ramp-up in inflation, an energy shock, and the fastest rate hikes in living memory.

Inflation seemed to peak in the December quarter adding some positive sentiment and suggesting central banks were close to the end of their radical tightening cycle which caught a lot of consumers and businesses by surprise at the start of 2022. By the end of 2022, sentiment was more positive that rate rises would soon reach a terminal level and remain on hold, offering some respite to consumers and businesses alike.

The strong positive return generated in markets this month was underpinned by positive performances across all sectors. The rebound in commodity and energy markets was particularly strong on the back of China reopening moves in the quarter, though there is still some doubt as to the current COVID situation in China. The utilities sector was a particular standout this quarter with the Brookfield-led consortium making an offer for Origin Energy.

Sector returns – December quarter 2022



Fund Characteristics

Returns¹ as at 31 December 2022

Period	Fund Return ¹ %	Benchmark ² %	Out/Under performance %
1 month	-3.43	-4.36	0.93
3 months	8.39	7.32	1.07
6 months	11.32	11.06	0.26
1 year	-10.74	-10.01	-0.72
2 years pa	8.72	3.92	4.80
3 years pa	9.88	7.39	2.49
5 years pa	6.18	6.82	-0.64
7 years pa	9.08	10.15	-1.08
10 years pa	10.49	10.12	0.37
15 years pa	5.69	4.32	1.37
20 years pa	11.43	9.38	2.04
Since inception pa Date: April 2002	10.63	8.93	1.70

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
AMP	6.74	1.12	5.62
OZ Minerals	4.96	2.55	2.42
Worley	4.57	1.52	3.05
Lynas	4.44	1.94	2.51
Evolution Mining	4.43	1.49	2.94
AMPOL	4.12	1.84	2.28
The a2 Milk Company	4.10	1.39	2.71
AGL Energy	3.93	1.32	2.61
Challenger	3.76	1.22	2.54
IGO	3.45	2.47	0.98

Sector Tilts

Sector	Fund %	Index ² %	Tilt %
Energy	17.44	9.14	8.30
Materials	31.54	25.26	6.29
Industrials	8.18	12.25	-4.07
Consumer Discretionary	4.96	10.79	-5.83
Consumer Staples	4.10	3.81	0.29
Health Care	0.00	3.80	-3.80
Financials	15.26	11.34	3.92
Information Technology	8.77	11.55	-2.78
Communication Services	0.00	1.04	-1.04
Utilities	3.93	1.32	2.61
Real Estate	4.68	9.71	-5.04
Cash	1.13	0.00	1.13
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.

Outlook

Market volatility, and concerns around inflation and rate rises remain an issue, but some clear caution in the rhetoric of central banks has given some hope that most of the hard steps may have already been taken in the battle against inflation.

We have clearly entered a period of slowing growth. However, given the relative strength of the Australian economy, the demand for our resources, low unemployment, and the current strength in the job market, Ausbil does not currently see Australia entering recession.

We think earnings growth will be hard to come by in 2023, but there will be some clear opportunities. Given the inflationary environment, we are still overweight resource companies generally (including energy and gold) and select diversified financials that are expected to deliver positive earnings growth again in FY23, some delivering upward earnings revisions yet to be recognised in the consensus outlook. Quality leaders across the market, particularly those with relatively inelastic demand and the capacity to pass on inflationary rate costs are also expected to deliver superior earnings growth in FY23.

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