

Ausbil Australian Emerging Leaders Fund

Monthly performance update

January 2023

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'Though inflation remains a watching brief at Ausbil, we believe markets and consumers are adjusting to the new level of rates'

Performance Review

Fund performance for January 2023 was +3.90% (net of fees) versus the benchmark return of +6.16%. 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 position in the Materials sector added to relative performance. The underweight positions in the Industrials, Information Technology and Real Estate sectors also added value. Conversely, the overweight positions in the Energy, Consumer Staples, Financials and Utilities sectors detracted from performance. The underweight exposures to the Consumer Discretionary, Health Care and Communication Services sectors also detracted value.

At a stock level, the overweight positions in Lynas Rare Earths, Boss Energy, Paladin Energy, Webjet and Evolution Mining contributed to relative performance. The nil positions in Steadfast Group, Aurizon, Ansell and New Hope also added value. Conversely, the overweight positions in AGL Energy, Beach Energy, Challenger, Nufarm, AMP, The a2 Milk Company, Incitec Pivot and OZ Minerals detracted from relative performance. The underweight position in WiseTech Global also detracted value.

Market Review

January saw the market return +6.2% (Composite Benchmark comprising 70% S&P/ASX MidCap 50 and 30% S&P/ASX Small Ordinaries accumulation indices), bringing the trailing market 1-year return to +11.6%.

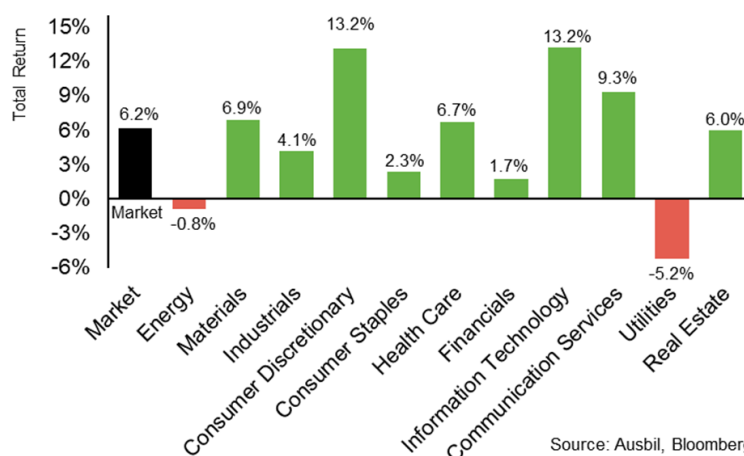
While inflation seemed to peak at the end of 2022, the headline December quarter read of 7.8%, up from the September quarter read of 7.3%, reinforced the view that the tightening cycle had a little further to run. January markets shrugged off the number, presumably as there is a general view that it will not significantly change the terminal path of official rates during this tightening cycle.

Though inflation remains a watching brief at Ausbil, and has been since the start of 2021, we believe markets and consumers are adjusting to the new level of rates. With the February half-year 2023 reporting season underway, we will see how the recent rise in inflation and rates has impacted company balance sheets and earnings statements.

Market enthusiasm for a new year, with a sense that rate rises would soon come to a hold saw all sectors but utilities rise together, as shown in the chart below.

Sector returns – January 2023

70% MidCap 50 / 30% Small Ordinaries



Source: Ausbil, Bloomberg

Fund Characteristics

Returns¹ as at 31 January 2023

Period	Fund Return ¹ %	Bench- mark ² %	Out/Under performance %
1 month	3.90	6.16	-2.26
3 months	6.16	6.57	-0.41
6 months	8.20	7.32	0.88
1 year	3.06	4.71	-1.66
2 years pa	9.84	7.53	2.31
3 years pa	10.04	8.03	2.01
5 years pa	7.20	8.16	-0.96
7 years pa	10.14	11.75	-1.62
10 years pa	10.17	10.19	-0.02
15 years pa	6.81	5.68	1.13
20 years pa	11.59	9.66	1.93
Since inception pa Date: April 2002	10.79	9.20	1.59

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
AMP	6.65	1.07	5.58
Lynas Rare Earths	5.58	2.19	3.39
Worley	4.96	1.48	3.48
AMPOL	4.60	1.87	2.73
Challenger	3.92	1.09	2.83
IDP Education	3.76	1.68	2.09
The a2 Milk Company	3.69	1.30	2.39
Evolution Mining	3.55	1.51	2.04
Nufarm	3.21	0.28	2.93
IGO	3.18	2.53	0.65

Sector Tilts

Sector	Fund %	Index ² %	Tilt %
Energy	16.63	8.63	8.00
Materials	28.30	25.47	2.84
Industrials	8.64	12.06	-3.42
Consumer Discretionary	6.98	11.44	-4.46
Consumer Staples	3.69	3.68	0.01
Health Care	0.00	3.81	-3.81
Financials	15.34	10.83	4.50
Information Technology	10.48	12.12	-1.64
Communication Services	0.00	0.98	-0.98
Utilities	3.01	1.18	1.83
Real Estate	4.90	9.79	-4.89
Cash	2.02	0.00	2.02
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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Outlook

Reporting season will show how companies have weathered the storm of rising rates and inflation. We are optimistic about how they have fared. We think earnings growth will be harder to come by this year at a market level, though we see a number of sectors and quality leaders still capable of delivering superior earnings growth in a slowing economy.

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.

Given the inflationary environment, we are still invested in resource companies generally (including energy and gold), general insurers 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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