

# Ausbil Australian Emerging Leaders Fund

Monthly performance update

February 2023

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'We have seen evidence of slowing earnings growth throughout this reporting season'

## Performance Review

Fund performance for February 2023 was -4.24% (net of fees) versus the benchmark return of -3.35%. 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 overweight positions in the Energy and Financials sectors added to relative performance. The underweight positions in the Industrials, Consumer Discretionary, Health Care and Information Technology sectors also added value. Conversely, the overweight positions in the Materials and Utilities sectors detracted from performance. The underweight exposures to the Consumer Staples, Communication Services and Real Estate sectors also detracted value.

At a stock level, the overweight positions in AUB Group, Ampol, Challenger, Orica, Worley, Webjet and NextDC contributed to relative performance. The nil positions in Lendlease, Aurizon and JB Hi-Fi also added value. Conversely, the overweight positions in AMP, Lynas Rare Earths, Evolution Mining, Paladin Energy, Lifestyle Communities and IDP Education detracted from relative performance. The underweight positions in Charter Hall Group, Steadfast Group, Orora and Qube also detracted value.

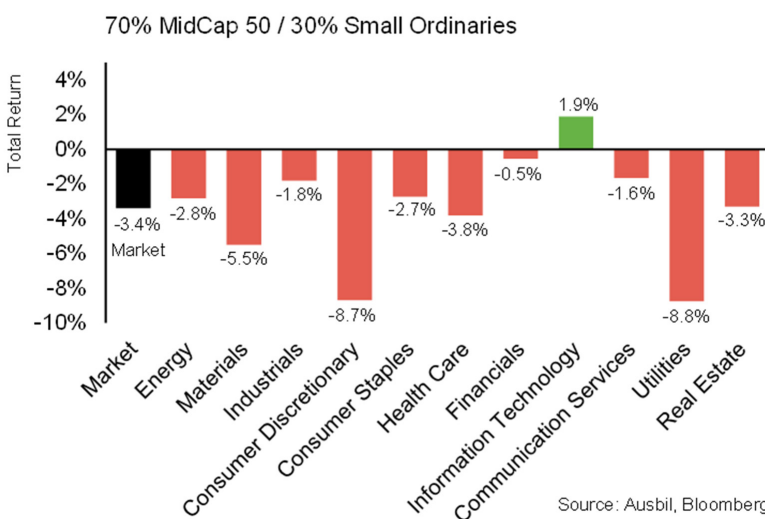
## Market Review

February saw markets give back a little on rate concerns with a return of -3.4% (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 +1.4%.

The half-year reporting season closed with companies having negotiated a full six-months of higher rates and elevated inflation levels. While the stubborn inflation level here and overseas 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 to date. Our analysis of the macro situation is that inflation is in its peaking phase and that we are near the end of the rate increase cycle. Regardless of the fundamental macro-outlook, markets will remain jittery until there is a clear message from central banks that this tightening cycle has ended.

Other than information technology, all sectors were down this February across the mid-cap market, as shown in the chart below, exacerbated by some rotation towards more defensive larger stocks.

## Sector returns – February 2023



## Fund Characteristics

Returns<sup>1</sup> as at 28 February 2023

Period	Fund Return <sup>1</sup> %	Bench- mark <sup>2</sup> %	Out/Under performance %
1 month	-4.24	-3.35	-0.89
3 months	-3.92	-1.87	-2.05
6 months	-0.87	0.62	-1.49
1 year	-1.13	1.43	-2.55
2 years pa	5.55	5.98	-0.44
3 years pa	12.96	10.39	2.57
5 years pa	5.76	7.29	-1.53
7 years pa	9.96	11.01	-1.05
10 years pa	9.07	9.50	-0.43
15 years pa	6.12	5.27	0.85
20 years pa	11.56	9.71	1.85
Since inception pa Date: April 2002	10.52	8.99	1.53

## Top 10 Stock Holdings

Name	Fund %	Index <sup>2</sup> %	Tilt %
AMP	5.34	0.86	4.48
AMPOL	5.16	2.09	3.07
Lynas Rare Earths	5.12	1.98	3.14
Worley	4.72	1.51	3.22
Challenger	4.18	1.17	3.00
IDP Education	3.64	1.60	2.04
NextDC	3.55	1.25	2.29
Vicinity Centres	3.18	2.10	1.08
Evolution Mining	3.12	1.33	1.79
ALS	3.11	1.64	1.47

## Sector Tilts

Sector	Fund %	Index <sup>2</sup> %	Tilt %
Energy	17.27	8.76	8.51
Materials	25.89	24.91	0.98
Industrials	8.91	12.22	-3.31
Consumer Discretionary	6.60	11.03	-4.43
Consumer Staples	2.70	3.72	-1.02
Health Care	0.00	3.80	-3.80
Financials	14.08	11.03	3.04
Information Technology	12.07	12.67	-0.60
Communication Services	0.00	0.99	-0.99
Utilities	2.77	1.10	1.66
Real Estate	7.02	9.76	-2.75
Cash	2.70	0.00	2.70
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>

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

While rates rose again in February, there is a general consensus that we are close to the end of the tightening cycle, even if some pundits are projecting a higher terminal cash rate in the media. Our fundamental reading of the macro is that inflation is peaking, and that we are near the end of the tightening cycle.

We have seen evidence of slowing earnings growth throughout this reporting season. 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. Moreover, we believe rates will settle at manageable levels for companies, and that inflation will start to fall, though it may take a while to return to the RBA's target zone.

Given the inflationary environment, we are still invested in resources 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 costs are also expected to deliver superior earnings growth in FY23.

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