

Ausbil Australian Emerging Leaders Fund

Quarterly performance update

March 2023

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'We remain focused on the key thematiccs that are driving the long-term earnings growth, particularly where imbalances see demand exceeding supply on a fundamental basis for some time.'

Performance Review

Fund performance for the quarter ending March 2023 was -4.49% (net of fees) versus the benchmark return of +0.58%. 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 position in the Materials sector added to relative performance. The underweight positions in the Industrials, Consumer Staples, Information Technology and Real Estate sectors also added value. Conversely, the overweight positions in the Energy, 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 Webjet, Ampol, AUB Group, NextDC, Evolution Mining and Boss Energy contributed to relative performance. The nil positions in Virgin Money UK, Aurizon, Bendigo and Adelaide Bank and Region Group also added value. Conversely, the overweight positions in AMP, Lynas Rare Earths, Challenger, Beach Energy, The a2 Milk Company, Lifestyle Communities and Nufarm detracted from relative performance. The underweight position in Charter Hall Group and the nil positions in REA Group and Liontown Resources also detracted value.

Market Review

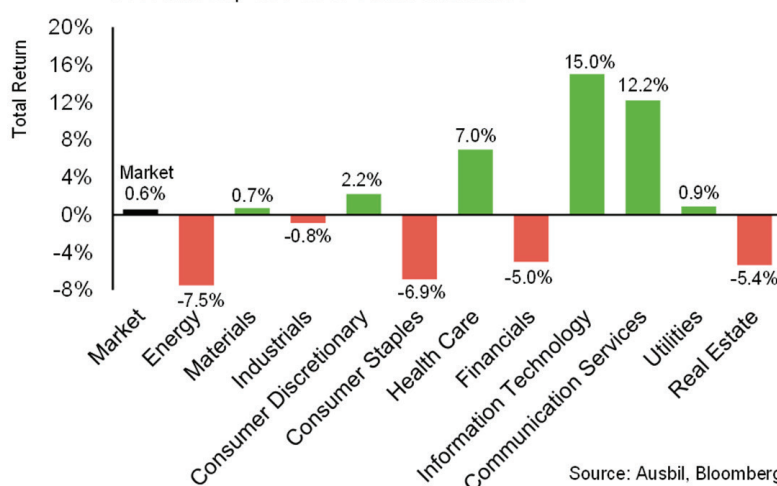
March saw markets give back a little on rate concerns with a monthly return of -2.0% (Composite Benchmark comprising 70% S&P/ASX MidCap 50 and 30% S&P/ASX Small Ordinaries accumulation indices), bringing the trailing market 1-year return to -6.7%.

Inflation continued to soften in the quarter in response to the hawkish monetary response that began a year ago. This saw the RBA increase rates in the March meeting, but revert to a pause in the April meeting which has just occurred, but with a hawkish edge to the commentary with no certainty yet that rates are truly on hold.

Sector returns were largely positive in the March quarter, as shown in the chart below, with Information Technology, Communication Services and Consumer Discretionary the standouts. Financials that are impacted from peaking rates fell with a softer outlook on inflation.

Sector returns – March Quarter 2023

70% MidCap 50 / 30% Small Ordinaries



Source: Ausbil, Bloomberg

Fund Characteristics

Returns¹ as at 31 March 2023

Period	Fund Return ¹ %	Bench- mark ² %	Out/Under performance %
1 month	-4.00	-1.97	-2.03
3 months	-4.49	0.58	-5.07
6 months	3.53	7.94	-4.41
1 year	-12.45	-6.66	-5.78
2 years pa	3.23	3.83	-0.60
3 years pa	21.28	19.43	1.85
5 years pa	5.58	7.45	-1.87
7 years pa	8.44	9.85	-1.41
10 years pa	8.73	9.50	-0.76
15 years pa	6.38	5.56	0.83
20 years pa	11.22	9.49	1.73
Since inception pa Date: April 2002	10.26	8.85	1.41

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
AMP	5.67	0.87	4.80
Lynas Rare Earths	5.11	1.56	3.54
AMPOL	5.00	1.98	3.02
Worley	4.45	1.46	2.98
IDP Education	3.81	1.55	2.26
NextDC	3.78	1.31	2.48
Evolution Mining	3.74	1.56	2.18
Challenger	3.64	1.00	2.64
AGL Energy	3.38	1.31	2.06
ALS	3.17	1.63	1.53

Sector Tilts

Sector	Fund %	Index ² %	Tilt %
Energy	18.94	8.87	10.07
Materials	25.23	25.24	0.00
Industrials	9.00	12.00	-3.00
Consumer Discretionary	5.92	10.26	-4.33
Consumer Staples	2.28	3.57	-1.29
Health Care	0.00	4.10	-4.10
Financials	13.70	10.73	2.97
Information Technology	12.77	13.75	-0.98
Communication Services	0.00	1.04	-1.04
Utilities	3.38	1.31	2.06
Real Estate	6.56	9.13	-2.58
Cash	2.22	0.00	2.22
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

We believe inflation is in a peaking phase in response to the stringent central bank tightening program. Whilst we expect some further small upward adjustments to interest rates, our view is that we are fast approaching the terminal rate for this cycle, where it will hold for an extended period as the RBA assesses the economic impact. The economy is slowing, and we see economic growth below trend in 2023 and into 2024. In this environment, we believe earnings growth will be harder to find. Compared to the stellar earnings growth of 22% in FY22 and 30% in FY21 in the pandemic rebound, we see positive but more muted growth for FY23. There is room for some upward surprise in certain sectors as Australia's economy remains relatively resilient and is operating near full employment.

We remain focused on the key thematic that are driving the long-term earnings growth, particularly where imbalances see demand exceeding supply on a fundamental basis for some time. We like critical metals and commodities for the long rotation from fossil fuels to renewables in the great decarbonisation, and the electrification-of-things, with the steady switch from combustion and fossil fuel power to renewable electricity generation. Service companies associated with the cap-ex investment needed for this energy transition are also attractive. With China re-emerging from its intense COVID issues, we see upside in commodity prices as demand returns across calendar 2023.

The beneficiaries of elevated inflation are expected to perform in 2023, but the emphasis on those that perform well in a rising rate environment is starting to shift towards those that will benefit with stabilisation and peaking rates.

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