

Ausbil Australian Emerging Leaders Fund

Monthly performance update

May 2023

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'Earnings growth will be hard to come by in FY24, however Ausbil expects key sectors to offer strong EPS growth opportunities above consensus'

Performance Review

Fund performance for May 2023 was +0.93% (net of fees) versus the benchmark return of -0.99%. 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 Information Technology and Utilities sectors added to relative performance. The underweight positions in the Consumer Discretionary, Consumer Staples, Health Care, Communication Services and Real Estate sectors also added value. Conversely, the overweight positions in the Energy, Materials, Industrials and Financials sectors detracted from performance.

At a stock level, the overweight positions in Life360, NextDC, Lynas Rare Earths, Allkem, AGL Energy, Charter Hall Group, Worley, WiseTech Global and NIB Holdings contributed to relative performance. The nil position in Vicinity Centres also added value. Conversely, the overweight positions in IDP Education, Paladin Energy, ALS, Whitehaven Coal, Lifestyle Communities, AMP, AUB Group and Imdex detracted from relative performance. The nil positions in Washington H. Soul Pattinson and Technology One also detracted value.

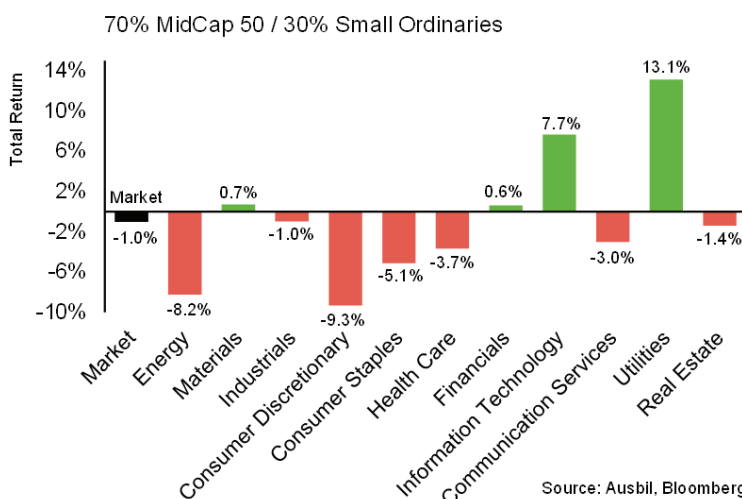
Market Review

Across the month of May, the markets were under the shadow of the US debt ceiling negotiations which held back performance, the market generating -1.0% (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 +1.5%.

Focus remained on the uncertainty around when rate rises would end and how the slowing economy might be impacting consumers, though the resolution and bill to extend the debt ceiling until 2025 was passed on 1 June by Congress. Other than collapsing building companies, many of which are thinly capitalised and poorly shielded from adverse changes in the cycle, the economy has stayed around full employment. The RBA is expected to hike again given inflation remains high. The potential for a major policy mistake by the RBA from hawkish rate rises is very real, some already think monetary policy has tightened too fast and too far. Time will tell how this plays out, but further rate rises raise the risks.

The negative sentiment was felt across sectors except for Utilities, Information Technology, Materials and Financials, as shown in the chart.

Sector returns – May 2023



Fund Characteristics

Returns¹ as at 31 May 2023

Period	Fund Return ¹ %	Bench-mark ² %	Out/Under performance %
1 month	0.93	-0.99	1.92
3 months	-0.14	0.24	-0.38
6 months	-4.05	-1.64	-2.41
1 year	-5.05	1.47	-6.52
2 years pa	1.51	2.00	-0.49
3 years pa	13.70	11.57	2.13
5 years pa	5.51	7.07	-1.56
7 years pa	7.82	9.00	-1.18
10 years pa	9.45	10.16	-0.71
15 years pa	6.48	5.49	1.00
20 years pa	10.94	9.22	1.71
Since inception pa Date: April 2002	10.38	8.89	1.49

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
Lynas Rare Earths	5.94	1.83	4.11
AMP	5.70	0.90	4.81
NextDC	5.60	1.76	3.84
WiseTech Global	4.76	3.51	1.25
Cleanaway Waste Management	4.49	1.56	2.94
Charter Hall Group	4.43	1.42	3.00
AGL Energy	4.17	1.51	2.66
Worley	3.75	1.63	2.12
Allkem	3.68	2.39	1.29
IGO	3.64	2.58	1.05

Sector Tilts

Sector	Fund %	Index ² %	Tilt %
Energy	14.36	8.83	5.52
Materials	26.18	23.49	2.69
Industrials	15.28	12.79	2.49
Consumer Discretionary	3.13	9.77	-6.65
Consumer Staples	0.00	3.37	-3.37
Health Care	0.00	4.09	-4.09
Financials	11.85	10.87	0.98
Information Technology	17.72	14.89	2.83
Communication Services	0.00	1.09	-1.09
Utilities	4.17	1.51	2.66
Real Estate	6.22	9.28	-3.06
Cash	1.10	0.00	1.10
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

Risk remains high across a number of fronts, including monetary policy, economic slowdown, and a weakening consumer. Inflation remains elevated. In a tighter economic environment, the geopolitical risks are pronounced. Escalating tensions in the war between Ukraine and Russia, and Russia's growing distance from the rest of the world remains concerning.

Australia's resource-based economy is well-placed to outperform other developed markets with below-trend growth, but no recession.

In this environment, earnings growth will be hard to come by in FY24, however Ausbil expects key sectors to offer strong EPS growth opportunities above consensus, and some quality leaders across the market to demonstrate earnings growth with resilient demand across the economic cycle, and the capacity to pass on higher costs to end-consumers.

With this in mind, we see ongoing support for earnings growth in resources, diversified financials, general insurers and in energy given the shock we have experienced from the invasion of Ukraine. In resources, we are invested extensively across the decarbonisation thematic, in copper, nickel, lithium and rare earths. We also see opportunity in information technology stocks with a strong earnings outlook.

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