Contactus@
ausbil.com.au

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Ausbil Australian Emerging Leaders Fund

Quarterly performance update

June 2023

Ausbil Investment Management Limited
ABN 26 076 316 473
AFSL 229722
Level 27
225 George Street
Sydney NSW 2000
GPO Box 2525
Sydney NSW 2001
Phone 61 2 9259 0200

'Aggregate earnings camouflage both weak and strong sectors, which adds to a potentially alpha-rich environment.

Performance Review

Fund performance for the quarter ending June 2023 was +5.75% (net of fees) versus the benchmark return of +3.03%. 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.

Over the quarter, at a sector level, the overweight positions in the Information Technology and Utilities sectors contributed to relative performance. The underweight positions in the Consumer Discretionary, Consumer Staples, Health Care and Real Estate sectors also added value. Conversely, the overweight positions in the Energy, Materials, Industrials and Financials sectors detracted from relative performance. The underweight exposure to the Communication Services sector also detracted value.

At a stock level, the overweight positions in AGL Energy, Allkem, NextDC, Boss Energy, Aurizon Holdings, WiseTech Global, AUB Group, IGO and Worley contributed to relative performance. Conversely, the overweight positions in IDP Education, Johns Lyng Group, ALS, Incitec Pivot, Whitehaven Coal, Imdex, Block and Beach Energy detracted from relative performance. The nil position in Telix Pharmaceutical also detracted value.

Market Review

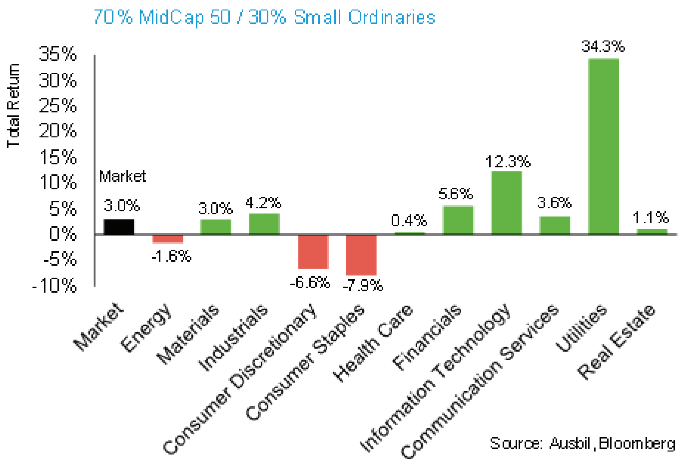
Across the June quarter, the markets were under the shadow of the US debt ceiling negotiations and the prospect of higher rates, with some earnings revisions in response to a slowing economy, however they still delivered a return of +3.0% for the quarter (Composite Benchmark comprising 70% S&P/ASX MidCap 50 and 30% S&P/ASX Small Ordinaries accumulation indices), bringing the trailing market 1-year return to +15.1%.

Inflation came off in the latest monthly read of 5.6% year on year, down from the last quarterly read for March of 7.0%. The RBA raised rates in June but held steady at the start of July.

While the 2023 financial year has been all about high and stubborn inflation and the most savage monetary response in recent memory, you might not know it from the markets, which posted some solid returns for the year across the market-cap spectrum. Amidst the doom and gloom expressed in the popular media, many would be surprised by the financial year returns that were generated across all size of companies.

At a sector level, the Utilities and Information Technology sectors delivered significant gains, which slightly overshadowed strong positive results across some other sectors, as shown in the Chart. Utilities had surged on the back of the Origin Energy takeover announcement at the end of the March quarter, sparking a resurgence in other utilities like AGL.

Sector returns – June Quarter 2023



Fund Characteristics

Returns[1] as at 30 June 2023

Period	Fund Return[1] %	Bench-mark[2] %	Out/Under performance %
1 month	1.66	0.76	0.90
3 months	5.75	3.03	2.72
6 months	1.00	3.62	-2.62
1 year	12.43	15.08	-2.65
2 years pa	1.54	0.65	0.90
3 years pa	14.18	10.99	3.19
5 years pa	5.78	6.85	-1.06
7 years pa	8.56	9.41	-0.85
10 years pa	10.21	10.82	-0.61
15 years pa	6.96	6.16	0.80
20 years pa	10.88	9.16	1.72
Since inception pa Date: April 2002	10.42	8.89	1.53

Top 10 Stock Holdings

Name	Fund %	Index[2] %	Tilt %
AMP	5.54	0.88	4.65
NextDC	5.50	1.73	3.77
Lynas Rare Earths	5.38	1.70	3.67
AGL Energy	5.30	1.72	3.58
Aurizon Holdings	4.94	1.92	3.02
IGO	4.92	2.73	2.19
WiseTech Global	4.71	3.74	0.97
Allkem	3.94	2.56	1.38
Worley	3.61	1.57	2.04
Cleanaway Waste Management	3.49	1.54	1.96

Sector Tilts

Sector	Fund %	Index[2] %	Tilt %
Energy	15.57	8.91	6.67
Materials	27.18	23.15	4.03
Industrials	13.49	12.93	0.56
Consumer Discretionary	0.75	9.69	-8.95
Consumer Staples	0.00	3.30	-3.30
Health Care	0.00	4.19	-4.19
Financials	12.71	11.00	1.71
Information Technology	17.26	15.05	2.21
Communication Services	0.00	1.05	-1.05
Utilities	5.30	1.72	3.58
Real Estate	3.54	9.02	-5.48
Cash	4.20	0.00	4.20
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

Though rates have risen rapidly, Ausbil's central view is that inflation and interest rates are peaking with the expectation thereafter that rates will plateau. Inflation is likely to fall over time at a measured pace, towards central bank target levels. Ausbil expects low earnings growth in FY23 and FY24, however, we believe that Australia will outperform peers in the context of the overall slowing in world economic growth because of the strong demand for natural resources in which Australia is a global leader. With this in mind, earnings growth will be hard to come by in FY24 because of the pressures of inflation, interest rate rises and a slowing economy. Aggregate earnings camouflage both weak and strong sectors, which adds to a potentially alpha-rich environment.

We remain focused on the key thematics that are driving 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.

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. Quality REITs, some quality leaders in technology, and some exposures in building products are helping to bridge the shift from the inflation beneficiaries that outperformed in 2022.

Ausbil Investment
Management Limited
Level 27
225 George Street
Sydney NSW 2000
Australia
Toll Free 1800 287 245

**Contactus@
ausbil.com.au**

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