

Ausbil Australian Emerging Leaders Fund

Quarterly performance update

September 2023

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'While the bond markets normalise to a new equilibrium real rate, there may be some volatility, however, Ausbil's view is that Australia does not enter recession'

Performance Review

Fund performance for the quarter ending September 2023 was +1.31% (net of fees) versus the benchmark return of -1.75%. 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 Energy, Financials, Information Technology and Utilities sectors contributed to relative performance. The underweight positions in the Health Care and Real Estate sectors also added value. Conversely, the overweight position in the Materials sector detracted from relative performance. The underweight positions in the Industrials, Consumer Discretionary, Consumer Staples and Communication Services sectors also detracted value.

At a stock level, the overweight positions in Boss Energy, Paladin Energy, AMP, Beach Energy, Life360, Worley, Incitec Pivot and Karoon Energy contributed to relative performance. The nil positions in Iluka Resources and Alumina also contributed to value. Conversely, the overweight positions in Block, Alkerm, Aurizon Holdings, IGO, NIB Holdings, Fletcher Building and WiseTech Global detracted from relative performance. The nil positions in Carsales.com, Seven Group and Altium also detracted value.

Market Review

The Australian market came back by -1.8 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 +9.3%.

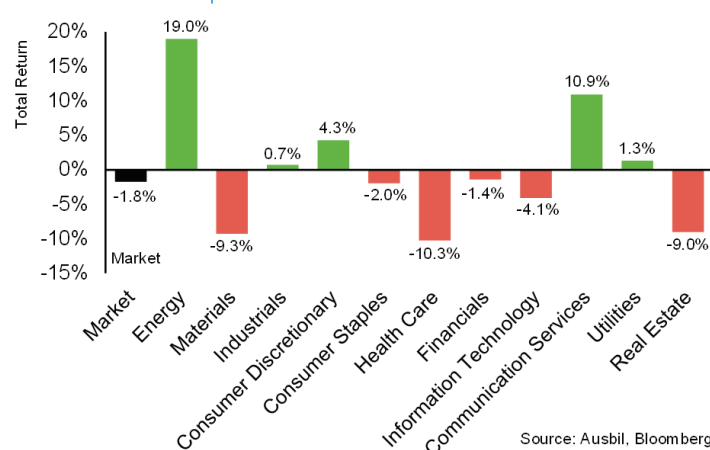
On 3 October, new RBA Governor Bullock held the cash rate steady for a fourth consecutive month. Australian interest rates continued to rise across the curve in this process of normalisation back to pre-pandemic levels. Globally, the real yield on the benchmark US 10-year Treasury continued to normalise, and the US term premium for investing for longer timeframes turned positive for the first time since 2015 as private sector bond investors demanded more compensation for term risk.

Globally, emerging markets outperformed developing markets, with every key global market showing negative returns for the quarter, except India, the UK and Singapore.

At a sector level, mixed sector performance saw the negative returns in all sectors other than the Energy, Consumer Discretionary, Communications Services, Utilities and Industrials sectors, as shown in the chart.

Sector returns – September Quarter 2023

70% MidCap 50 / 30% Small Ordinaries



Source: Ausbil, Bloomberg

Fund Characteristics

Returns¹ as at 30 September 2023

Period	Fund Return ¹ %	Bench- mark ² %	Out/Under performance %
1 month	-2.55	-4.44	1.89
3 months	1.31	-1.75	3.06
6 months	7.14	1.22	5.91
1 year	10.91	9.26	1.65
2 years pa	-1.81	-2.08	0.26
3 years pa	12.22	8.44	3.78
5 years pa	6.14	5.88	0.26
7 years pa	7.69	8.01	-0.32
10 years pa	8.53	9.41	-0.88
15 years pa	8.10	6.93	1.17
20 years pa	10.27	8.50	1.77
Since inception pa Date: April 2002	10.36	8.69	1.67

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
Lynas Rare Earths	4.85	1.71	3.14
AMP	4.41	0.95	3.46
IGO	4.31	2.30	2.01
AGL Energy	4.06	1.75	2.31
Worley	4.06	1.72	2.33
NextDC	4.03	1.72	2.30
WiseTech Global	3.93	3.20	0.74
Boss Energy	3.78	0.22	3.56
Aurizon	3.48	1.73	1.75
Beach Energy	3.47	0.34	3.13

Sector Tilts

Sector	Fund %	Index ² %	Tilt %
Energy	18.91	8.34	10.57
Materials	28.08	21.85	6.22
Industrials	13.30	15.68	-2.38
Consumer Discretionary	5.38	9.40	-4.01
Consumer Staples	0.00	2.85	-2.85
Health Care	0.00	3.81	-3.81
Financials	14.84	11.40	3.43
Information Technology	10.58	9.17	1.41
Communication Services	2.63	7.37	-4.74
Utilities	4.06	1.75	2.31
Real Estate	0.00	8.37	-8.37
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

As real yields normalise following the great monetary stimulus that has been in place since the Global Financial Crisis, the markets have been steadily repriced downwards to varying degrees across different sectors since early 2022. This is a normal part of finance and investment. Fundamentally, the change in values has rebased equities to provide a new platform for future earnings growth, which the market is pricing in for FY24 following the earnings growth pause of FY23. While the bond markets normalise to a new equilibrium real rate, there may be some volatility in equities, however, Ausbil's view is that Australia does not enter recession, so resilience in the economy is expected to support an earnings growth rebuild.

The economy is slowing as a result of this tight monetary policy. However, Ausbil believes that Australia will outperform peers in the context of the overall slowing in world economic growth because of the global demand for natural resources in which Australia is a global leader. Low unemployment, record levels of household savings, strong terms of trade, structural support for commodity prices, and net migration all support this view. There are signs of rising wages, but so far these are not seen as driving a wage-price spiral.

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 view earnings growth stabilising into FY24. 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 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. Quality REITs, selected leaders in technology, financials that benefit from higher interest rates and widening margins, and some exposures in building products and health care are also offering earnings growth in FY24.

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