

Ausbil Australian Geared Equity Fund

Monthly performance update

May 2022

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'Supply-shock inflation is further complicating the asset allocation decisions of investors who are also weighing the impact of a new federal government'

Performance Review

Fund performance for May 2022 was -3.81% (net of fees) versus the benchmark return of -2.76%, as measured by the S&P/ASX 300 Accumulation Index.

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

At a stock level, the overweight positions in Allkem, Lynas Rare Earths, Santos, Worley, Treasury Wine Estates, Aristocrat Leisure and CSL contributed to relative performance. The underweight position in Woodside Energy and the nil holdings in James Hardie and Fortescue Metals also contributed to relative value. Conversely, the overweight positions in BlueScope Steel, Seek, Macquarie Group, Goodman Group and Computershare detracted from relative performance. The nil holdings in Westpac Bank, South32, Amcor, Transurban Group and Mineral Resources also detracted value.

Market Review

The domestic markets were soft in May, coming off -2.8% for the month (S&P/ASX 300 Accumulation Index), with the 1-year return to end May now at +4.7%. The Australian election saw Anthony Albanese elected as the new Labor Prime Minister. Markets have taken the change in their stride, particularly as Labor had firmed as favourite well out from the election.

May saw all sectors deliver negative returns. Though they lost ground during the month, Financials (-2.3%), Health Care (-1.2%), Industrials (-1.0%), Energy (-0.7%) and Materials (-0.3%) all outperformed the market. Conversely, Real Estate (-8.7%), Information Technology (-8.0%), Consumer Staples (-6.6%) and Consumer Discretionary (-5.5%) sectors all underperformed the market. The difference between these groups was largely the inflation spikes and the first steps in tightening, with inflation beneficiaries outperforming growth sectors like Information Technology, and Real Estate.

Outlook

The inflation narrative and some elevated fear around rising interest rates is having an impact on market sentiment. The Reserve Bank of Australia raised the official cash rate by 25 basis points to 0.35%, the first rate hike in this cycle, heralding a path towards normalising monetary policy. The Fed has already raised official target rates twice. Higher than expected inflation is partly a result of supply shocks rather than significant overheating in the economy, and it is complicating rate decisions for policymakers. Moreover, supply-shock inflation is further complicating the asset allocation decisions of investors who are also weighing the impact of a new federal government.

With the Labor party having just seized power in Australia after 9-years of Liberal government. Ausbil is keenly studying the first 100 days of this government for clear signals that matter for where they are going to take policy on a range of open issues, such as: tax reform; wages and industrial relations; foreign relations and defence; energy and decarbonisation policy; and other areas where Labor governments typically intervene, such as education, health care and retirement.

In terms of the earnings outlook, we are a month from the start of FY22 reporting season. Ausbil's outlook is ahead of consensus for FY22 and FY23 earnings particularly in specialised metals, quality leaders and inflationary beneficiaries. Overall, Australia's business conditions are supportive for earnings growth, even with some rotation across sectors as markets adjust to changing conditions. We remain invested to capture the beneficiaries of these changing conditions.

Fund Characteristics

Returns¹ as at 31 May 2022

Period	Fund Return %	Benchmark ² %	Out/Under performance %
1 month	-3.81	-2.76	-1.05
3 months	9.91	3.08	6.84
6 months	4.43	1.05	3.38
FYTD	13.45	2.41	11.05
CYTD	-1.10	-1.56	0.46
1 year	16.65	4.71	11.93
2 years pa	49.19	16.10	33.09
3 years pa	16.83	8.01	8.82
5 years pa	15.99	8.98	7.01
7 years pa	12.70	7.58	5.12
10 years pa	19.32	10.33	8.99
15 year pa	4.66	5.23	-0.57
Since inception pa Date: May 2007	4.73	5.30	-0.56

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
BHP	21.51	10.24	11.27
CSL	18.18	5.90	12.28
Commonwealth Bank	17.75	8.08	9.68
National Australia Bank	14.50	4.60	9.91
Macquarie Group	10.36	3.04	7.32
Santos	8.47	1.13	7.34
QBE Insurance	7.49	0.81	6.68
ANZ Bank	7.31	3.20	4.11
IGO	7.26	0.39	6.88
Allkem	6.76	0.37	6.39

Sector Tilts

Sector	Fund %	Index ² %	Tilt %
Energy	14.78	5.22	9.56
Materials	56.44	24.42	32.02
Industrials	8.70	6.18	2.52
Consumer Discretionary	7.15	6.94	0.21
Consumer Staples	7.64	4.75	2.89
Health Care	25.21	9.39	15.82
Financials	64.72	28.98	35.73
Information Technology	13.97	3.65	10.33
Communication Services	3.96	2.54	1.42
Utilities	0.00	1.42	-1.42
Real Estate	4.83	6.51	-1.69
Cash	-107.39	0.00	-107.39
Total	100.00	100.00	0.00

1. Fund returns are net of fees but before taxes.

2. The benchmark S&P/ASX 300 Accumulation Index.



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