

# Ausbil Australian Geared Equity Fund

Quarterly performance update

March 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

'We remain focused on the key thematic areas that are driving the long-term earnings growth, particularly where imbalances see demand exceeding supply'

## Performance Review

Fund performance for the quarter ending March 2023 was +4.51% (net of fees) versus the benchmark return of +3.33%, as measured by the S&P/ASX 300 Accumulation Index.

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

At a stock level, the overweight positions in Xero, Aristocrat Leisure, BlueScope Steel, QBE Insurance, Qantas, Seek, Block and James Hardie contributed to relative performance. Not holding Westpac Bank and Whitehaven Coal also contributed to relative value. Conversely, the overweight positions in Lynas Rare Earths, Computershare, National Australia Bank, 29Metals, OZ Minerals and IGO detracted from relative performance. The nil holdings in Newcrest Mining, Wesfarmers, Fortescue Metals and Liontown Resources also detracted value.

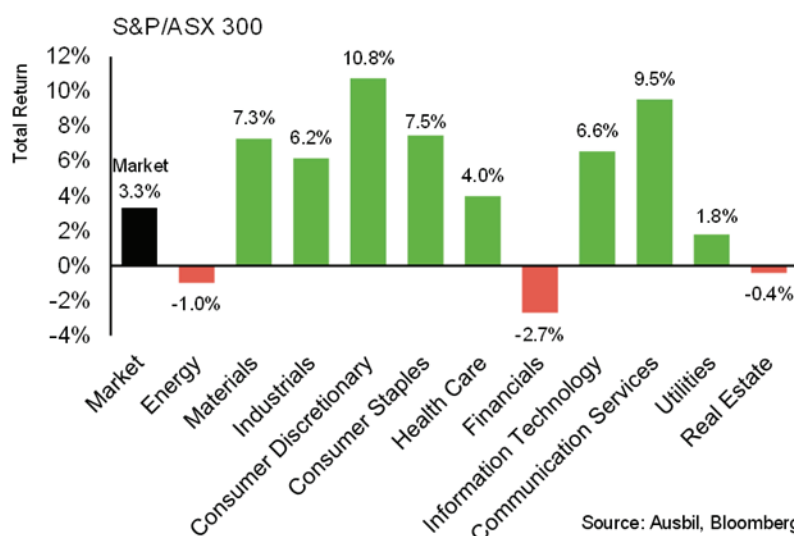
## Market Review

March saw markets give back a little on rate concerns with a monthly return of -0.2% (S&P/ASX 300 Accumulation Index), bringing the trailing market 1-year return to -0.57%. However, this masks a strong March quarter buoyed by lower inflation reads with a 3-month return of +3.3%.

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



## Fund Characteristics

Returns<sup>1</sup> as at 31 March 2023

Period	Fund Return %	Benchmark <sup>2</sup> %	Out/Under-performance %
1 month	-2.57	-0.24	-2.33
3 months	4.51	3.33	1.18
6 months	19.33	12.76	6.56
1 year	-6.21	-0.57	-5.64
2 years pa	14.88	7.03	7.85
3 years pa	41.72	16.59	25.13
5 years pa	13.80	8.64	5.16
7 years pa	16.11	9.37	6.74
10 years pa	13.80	8.13	5.67
15 years pa	7.05	6.37	0.68
Since inception pa Date: May 2007	4.47	5.21	-0.74

## Top 10 Stock Holdings

Name	Fund %	Index <sup>2</sup> %	Tilt %
BHP	22.62	10.93	11.69
CSL	18.45	6.35	12.10
Commonwealth Bank	15.14	7.59	7.56
National Australia Bank	11.32	3.98	7.34
Macquarie Group	8.53	2.92	5.61
Santos	6.58	1.04	5.54
QBE Insurance	6.36	0.99	5.37
ANZ Bank	5.71	3.15	2.56
Rio Tinto	5.58	2.04	3.54
Telstra	5.53	2.23	3.30

## Sector Tilts

Sector	Fund %	Index <sup>2</sup> %	Tilt %
Energy	13.58	5.76	7.82
Materials	55.33	25.12	30.22
Industrials	4.96	6.43	-1.47
Consumer Discretionary	8.67	6.94	1.73
Consumer Staples	9.94	4.92	5.01
Health Care	25.46	10.07	15.39
Financials	53.12	27.23	25.89
Information Technology	14.67	3.62	11.04
Communication Services	5.53	2.60	2.93
Utilities	0.00	1.42	-1.42
Real Estate	5.36	5.88	-0.52
Cash	-96.62	0.00	-96.62
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>

1. Fund returns are net of fees but before taxes.  
 2. The benchmark S&P/ASX 300 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 areas 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. 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

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