

Ausbil Australian Geared Equity 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 -2.91% (net of fees) versus the benchmark return of -2.53%, as measured by the S&P/ASX 300 Accumulation Index.

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

At a stock level, the overweight positions in Allkem, Xero, James Hardie, Lynas Rare Earths, Worley, IGO, CSL and NextDC contributed to relative performance. The nil holdings in Wesfarmers and Newcrest Mining also contributed to relative value. Conversely, the overweight positions in Treasury Wine Estates, IDP Education, QBE Insurance, 29Metals, Ramsay Health Care, Sandfire Resources, BlueScope Steel, National Australia Bank and Woodside Energy Group detracted from relative performance. The nil holding in WiseTech Global also detracted value.

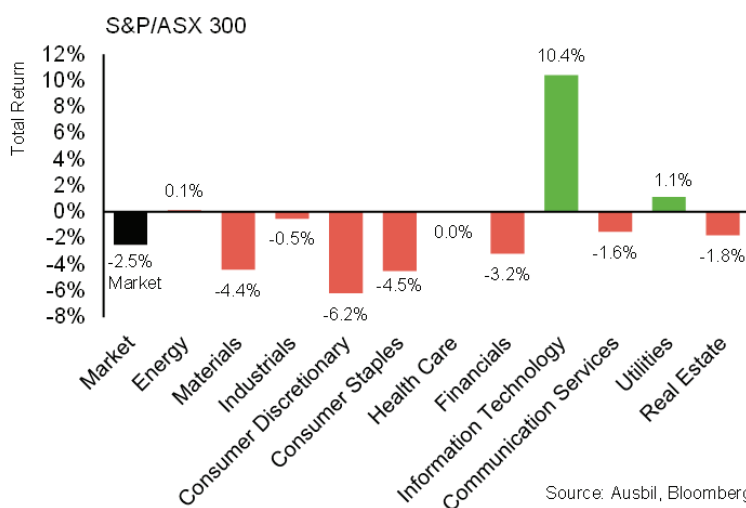
Market Review

Across the month of May, the markets were under the shadow of the US debt ceiling negotiations which held back performance, the market generating -2.5% (S&P/ASX 300 Accumulation Index), bringing the trailing market 1-year return to +2.4%.

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 Energy, Information Technology and Utilities that continued to re-rate, as shown in the chart.

Sector returns – May 2023



Fund Characteristics

Returns¹ as at 31 May 2023

Period	Fund Return %	Benchmark ² %	Out/Under-performance %
1 month	-2.91	-2.53	-0.38
3 months	-2.56	-0.96	-1.59
6 months	-3.71	-0.80	-2.91
1 year	-0.07	2.37	-2.43
2 years pa	7.97	3.53	4.43
3 years pa	30.54	11.33	19.21
5 years pa	11.19	7.43	3.76
7 years pa	13.94	8.27	5.67
10 years pa	13.76	8.10	5.67
15 years pa	6.33	5.88	0.45
Since inception pa Date: May 2007	4.43	5.11	-0.68

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
BHP	20.08	9.88	10.20
CSL	19.38	6.86	12.52
Commonwealth Bank	14.58	7.58	7.00
National Australia Bank	10.27	3.79	6.49
Macquarie Group	8.11	2.88	5.23
Santos	6.80	1.12	5.68
Telstra	6.11	2.34	3.77
QBE Insurance	5.93	1.01	4.92
Goodman Group	5.91	1.56	4.35
Aristocrat Leisure	5.86	1.13	4.73

Sector Tilts

Sector	Fund %	Index ² %	Tilt %
Energy	14.31	5.98	8.33
Materials	52.94	23.42	29.52
Industrials	4.14	6.66	-2.52
Consumer Discretionary	8.58	6.78	1.79
Consumer Staples	9.29	4.86	4.43
Health Care	25.80	10.60	15.20
Financials	51.18	27.28	23.90
Information Technology	16.67	4.06	12.61
Communication Services	6.11	2.73	3.38
Utilities	0.00	1.48	-1.48
Real Estate	5.91	6.16	-0.26
Cash	-94.92	0.00	-94.92
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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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.

We see ongoing support for earnings growth in resources, diversified financials, general insurers and in energy. In resources, we are invested extensively across the decarbonisation thematic, in copper, nickel, lithium and rare earths. We are avoiding sectors that are cyclical, over-exposed to slowing economic growth, and whose earnings are adversely impacted by continued inflationary pressures. We also see opportunity in information technology stocks with a strong earnings outlook.

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