

# Ausbil Australian Geared Equity Fund

Monthly performance update

July 2023

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'Despite a lot of negativity on inflation and rising rates, markets closed FY23 strongly, and have delivered a positive first month of FY24'

## Performance Review

Fund performance for July 2023 was +5.87% (net of fees) versus the benchmark return of +2.89%, as measured by the S&P/ASX 300 Accumulation Index.

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

At a stock level, the overweight positions in Block, Evolution Mining, Worley, James Hardie, Webjet, Sandfire Resources, IDP Education, Seek and National Australia Bank contributed to relative performance. The nil position in Fortescue Metals also contributed to relative value. Conversely, the overweight positions in Allkem, IGO, CSL, Lynas Rare Earths, Macquarie Group, Treasury Wine Estates, QBE Insurance and Telstra detracted from relative performance. The underweight position in Woodside Energy Group and the nil position in Westpac Bank also detracted value.

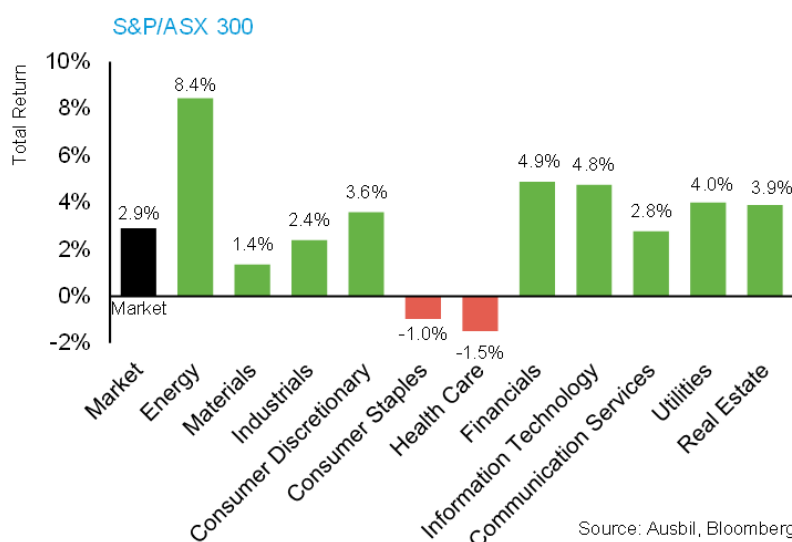
## Market Review

With an RBA rate pause in July, markets rallied, delivering +2.9% for the month (S&P/ASX 300 Accumulation Index), bringing the trailing market 1-year return to +11.1%.

Despite a lot of negativity on inflation and rising rates, markets closed FY23 strongly, and have delivered a positive first month of FY24, largely because of expectations that the rate cycle is peaking.

At a sector level, all sectors delivered a good July return, except for Consumer Staples and Health Care, as shown in the chart.

## Sector returns – July 2023



## Fund Characteristics

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

| Period                               | Fund Return % | Bench-mark <sup>2</sup> % | Out/Under-performance % |
|--------------------------------------|---------------|---------------------------|-------------------------|
| 1 month                              | 5.87          | 2.89                      | 2.98                    |
| 3 months                             | 5.45          | 2.03                      | 3.42                    |
| 6 months                             | 0.01          | 1.02                      | -1.02                   |
| 1 year                               | 22.59         | 11.09                     | 11.50                   |
| 2 years pa                           | 7.96          | 4.18                      | 3.79                    |
| 3 years pa                           | 30.64         | 11.91                     | 18.73                   |
| 5 years pa                           | 11.54         | 7.46                      | 4.09                    |
| 7 years pa                           | 14.34         | 8.40                      | 5.94                    |
| 10 years pa                          | 13.99         | 8.30                      | 5.70                    |
| 15 years pa                          | 8.50          | 7.11                      | 1.39                    |
| Since inception pa<br>Date: May 2007 | 4.92          | 5.35                      | -0.44                   |

## Top 10 Stock Holdings

| Name                    | Fund % | Index <sup>2</sup> % | Tilt % |
|-------------------------|--------|----------------------|--------|
| BHP                     | 20.56  | 10.36                | 10.20  |
| CSL                     | 15.22  | 5.76                 | 9.46   |
| Commonwealth Bank       | 14.78  | 7.93                 | 6.85   |
| National Australia Bank | 10.91  | 3.97                 | 6.95   |
| Macquarie Group         | 7.57   | 2.83                 | 4.75   |
| ANZ Bank                | 6.63   | 3.44                 | 3.19   |
| Santos                  | 6.38   | 1.16                 | 5.22   |
| Goodman Group           | 5.94   | 1.56                 | 4.38   |
| Telstra                 | 5.91   | 2.19                 | 3.72   |
| QBE Insurance           | 5.83   | 1.05                 | 4.78   |

## Sector Tilts

| Sector                 | Fund %        | Index <sup>2</sup> % | Tilt %      |
|------------------------|---------------|----------------------|-------------|
| Energy                 | 13.79         | 6.28                 | 7.51        |
| Materials              | 52.47         | 23.78                | 28.69       |
| Industrials            | 2.05          | 6.46                 | -4.41       |
| Consumer Discretionary | 8.47          | 6.85                 | 1.62        |
| Consumer Staples       | 8.53          | 4.66                 | 3.87        |
| Health Care            | 21.35         | 9.36                 | 11.99       |
| Financials             | 53.01         | 28.25                | 24.76       |
| Information Technology | 17.29         | 4.23                 | 13.07       |
| Communication Services | 5.91          | 2.56                 | 3.35        |
| Utilities              | 0.00          | 1.50                 | -1.50       |
| Real Estate            | 5.94          | 6.07                 | -0.13       |
| Cash                   | -88.82        | 0.00                 | -88.82      |
| <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

Inflation continued to soften slowly, and the RBA held rates for a second month in a row, though the market remains on notice that data might still call for another rate rise.

The economy is slowing as expected. 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.

We have entered reporting season, so next month we will have an idea on how inflation and rates have impacted earnings, and whether there is any sign of strain in the economy, or any significant impacts from a pressured consumer.

We have been saying all year that earnings growth will be hard to come by in FY24 because of the pressures of inflation, interest rate rises and a slowing economy. The market is still grappling with the impact of rising rates and inflation. Volatility reflects uncertainty about rates and growth. Inflation is likely to fall over time at a measured pace, towards central bank target levels. Ausbil expects low earnings growth in FY24. Aggregate earnings camouflage both weak and strong sectors, which adds to a potentially alpha-rich environment.

We remain focused on the key thematic areas 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, some quality leaders in technology, and some exposures in building products and health care are helping to bridge the shift from the inflation beneficiaries that outperformed in 2022 and into 2023.

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