

Ausbil 130/30 Focus 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 -1.74% (net of fees), versus the benchmark return of -0.77%, as measured by the S&P/ASX 200 Accumulation Index.

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

The largest short positions were in selected stocks within the Consumer Discretionary, Real Estate and Industrials sectors.

At a stock level, the overweight positions in Carsales.com, Treasury Wine Estates, Suncorp, Santos, Aristocrat Leisure and Worley contributed to relative performance. The underweight position in WiseTech Global, and the nil position in Sonic Healthcare also added value. Conversely, the overweight positions in ResMed, CSL, QBE Insurance, Telstra, Block, Pilbara Minerals, Aurizon Holdings and IDP Education detracted from relative performance. The underweight position in Wesfarmers also detracted value.

Market Review

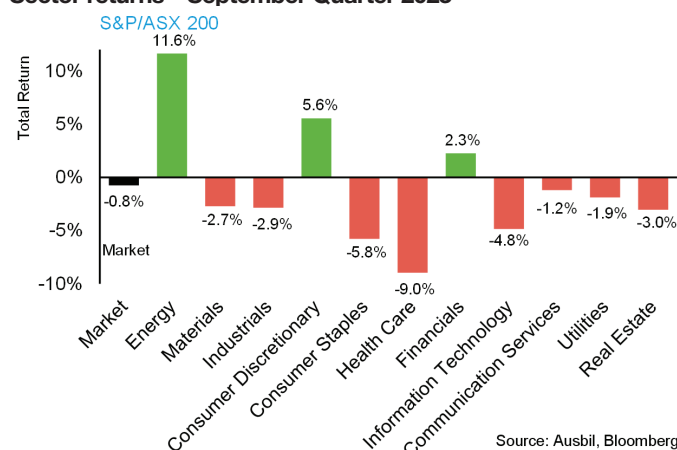
The Australian market came back by -0.8% for the quarter (S&P/ASX 200 Accumulation Index), bringing the trailing market 1-year return to +13.5%.

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, the negative sentiment was reflected in all sectors other than the Energy, Consumer Discretionary and Financials sectors, as shown in the chart.

Sector returns – September Quarter 2023



Fund Characteristics

Returns¹ as at 30 September 2023

Period	Fund Return ¹ %	Bench- mark ² %	Out/Under- performance %
1 month	-2.90	-2.84	-0.06
3 months	-1.74	-0.77	-0.97
6 months	-1.03	0.24	-1.27
1 year	6.02	13.46	-7.44
2 years pa	-0.57	2.34	-2.92
3 years pa	8.21	11.00	-2.79
5 years pa	5.67	6.67	-1.00
7 years pa	7.62	8.05	-0.43
10 years pa	7.52	7.43	0.09
Since inception pa Date: July 2010	8.45	8.05	0.39

Market Exposure

	% of Fund
Long	99.01
Short	-5.15
Net	93.86

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
BHP	12.66	10.72	1.94
CSL	7.93	5.78	2.14
Commonwealth Bank	7.03	8.01	-0.99
National Australia Bank	5.41	4.36	1.04
ANZ Bank	4.70	3.69	1.01
Woodside Energy Group	4.62	3.31	1.31
Woolworths	3.71	2.17	1.54
Macquarie Group	3.64	2.88	0.76
Telstra	3.64	2.13	1.51
Aristocrat Leisure	3.27	1.27	2.00

Sector Tilts

Sector	Fund %	Index ² %	Tilt %
Energy	8.74	6.26	2.48
Materials	21.56	24.09	-2.53
Industrials	5.06	7.26	-2.20
Consumer Discretionary	5.26	6.97	-1.71
Consumer Staples	5.66	4.59	1.07
Health Care	9.77	9.04	0.73
Financials	27.20	28.36	-1.16
Information Technology	0.77	2.41	-1.63
Communication Services	4.66	3.61	1.05
Utilities	2.97	1.53	1.44
Real Estate	2.23	5.89	-3.66
Cash	6.14	0.00	6.14
Total	100.00	100.00	0.00

1. Fund returns are net of fees but before taxes.
 2. The benchmark S&P/ASX 200 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 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, 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.

ASIC Benchmark 2. - Periodic Reporting

This benchmark is aimed at ensuring that investors receive timely, basic fund investment performance information on a periodic basis to make informed investment decisions. Please refer to the below information relating to this benchmark.

The Fund's current net asset value and redemption price are available at www.ausbil.com.au/unit-prices. The Ausbil 130/30 Focus Fund – wholesale class' net performance returns are available at www.ausbil.com.au/performance-tables. There have been no changes to the key service providers, the related party status of the Fund, the Fund's risk profile, the Fund's strategy or the investment team.

Please refer to the Update of Information available at <http://www.ausbil.com.au/products/ausbil-130-30-focus-fund> (Important Notice to Investors) for more information on the appointment of additional securities lenders.

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