

Ausbil Australian Geared Equity 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 -3.09% (net of fees), versus the benchmark return of -0.84%, as measured by the S&P/ASX 300 Accumulation Index.

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

At a stock level, the overweight positions in Worley, Treasury Wine Estates, National Australia Bank, Santos, Computershare, Goodman Group, James Hardie and Aristocrat Leisure contributed to relative performance. The nil positions in Transurban Group and Coles Group added value over the quarter. Conversely, the overweight positions in Alkerm, Block, ResMed, IGO, CSL and Xero detracted from relative performance. The underweight position in Woodside Energy Group and the nil positions in Wesfarmers, Cochlear and Carsales.com also detracted value.

Market Review

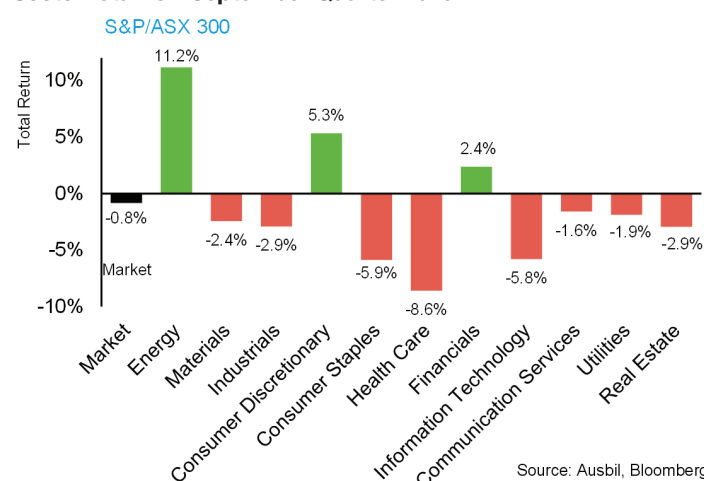
The Australian market came back by -0.8% for the quarter (S&P/ASX 300 Accumulation Index), bringing the trailing market 1-year return to +12.9%.

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 %	Benchmark ² %	Out/Under-performance %
1 month	-6.97	-2.89	-4.09
3 months	-3.09	-0.84	-2.25
6 months	-0.56	0.14	-0.70
1 year	18.65	12.92	5.73
2 years pa	1.82	1.93	-0.11
3 years pa	26.67	10.78	15.89
5 years pa	9.45	6.62	2.83
7 years pa	13.89	7.99	5.89
10 years pa	11.78	7.40	4.38
15 years pa	9.26	7.31	1.95
Since inception pa Date: May 2007	4.30	5.06	-0.76

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
BHP	21.34	10.42	10.93
CSL	15.34	5.62	9.72
Commonwealth Bank	15.08	7.79	7.30
National Australia Bank	12.38	4.24	8.14
Macquarie Group	7.83	2.80	5.03
ANZ Bank	7.26	3.58	3.68
Goodman Group	7.18	1.71	5.47
Santos	6.84	1.19	5.65
Aristocrat Leisure	6.14	1.23	4.91
QBE Insurance	6.04	1.09	4.96

Sector Tilts

Sector	Fund %	Index ² %	Tilt %
Energy	11.11	6.30	4.81
Materials	51.83	24.11	27.72
Industrials	9.61	7.34	2.27
Consumer Discretionary	10.99	7.15	3.84
Consumer Staples	9.82	4.51	5.31
Health Care	22.27	8.99	13.28
Financials	55.33	27.93	27.40
Information Technology	9.63	2.61	7.02
Communication Services	5.83	3.63	2.19
Utilities	0.00	1.49	-1.49
Real Estate	7.18	5.92	1.26
Cash	-93.61	0.00	-93.61
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

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 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.

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