

Ausbil Active Sustainable Equity Fund

Quarterly performance update

September 2022

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'We are confident that even in a slowing environment Ausbil will be able to find superior earnings and earnings growth'

Performance Review

Fund performance for the quarter ending September 2022 was +1.72% (net of fees) versus the benchmark return +0.39%, as measured by the S&P/ASX 200 Accumulation Index.

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

At a stock level, the overweight positions in Allkem, IGO, OZ Minerals, Altium, IDP Education, CSL, Cleanaway Waste Management and ResMed added to relative performance. The nil positions in Newcrest Mining and AVZ Minerals also contributed to relative performance. Conversely, the overweight positions in Goodman Group, Ramsay Health Care, Transurban Group, Webjet, Lynas Rare Earths and Seek detracted from relative performance. The nil positions in Pilbara Minerals, Whitehaven Coal, Westpac Bank and Mineral Resources detracted from relative performance.

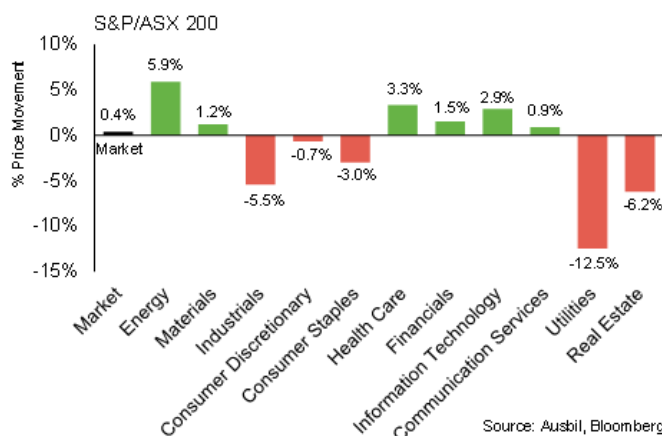
Market Review

The September quarter has seen markets roiled by inflation and rate rises, the ASX no exception, with a 3-month return of +0.39%, a monthly return of -6.27%, and a trailing 1-year return of -7.69% (S&P/ASX 200 Accumulation Index).

Interest rates globally have continued on a hawkish tear, with central banks raising the stakes in their war on inflation with another round of solid rate rises. While FY22 reporting season showed how resilient Australian companies are, moving into FY23 and a slowing economy has markets worrying about earnings growth. Despite this, we remain confident that even in a slowing environment Ausbil will be able to find superior earnings and earnings growth.

Energy and materials stocks have been beneficiaries of elevated commodity prices, which reflected positively not only in their reported annual results, but also across the September quarter, as illustrated in the chart below. Health care, financials and information technology were a mixed bag of other positive outcomes, contrasting sharply with the negative returns in utilities and real estate.

Sector returns – September 2022



Fund Characteristics

Returns¹ as at 30 September 2022

Period	Fund Return ¹ %	Bench- mark ² %	Out/Under performance %
1 month	-6.66	-6.17	-0.49
3 months	1.72	0.39	1.33
6 months	-13.24	-11.56	-1.68
1 year	-12.56	-7.69	-4.88
2 years pa	9.04	9.78	-0.74
3 years pa	6.43	2.67	3.76
4 years pa	7.22	5.03	2.19
Since inception pa Date: 31 Jan 2018	7.88	5.69	2.19

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
CSL	10.21	7.16	3.06
Commonwealth Bank	9.54	8.07	1.47
National Australia Bank	6.75	4.77	1.98
Macquarie Group	4.31	2.89	1.41
Allkem	3.97	0.43	3.54
Telstra	3.83	2.32	1.52
Computershare	3.79	0.74	3.05
Woolworths	3.63	2.15	1.49
ANZ Bank	3.52	3.55	-0.03
Goodman Group	3.50	1.40	2.10

Sector Tilts

Sector	Fund %	Index ² %	Tilt %
Energy	0.00	6.20	-6.20
Materials	13.41	23.16	-9.75
Industrials	9.34	6.12	3.22
Consumer Discretionary	2.69	6.58	-3.88
Consumer Staples	3.63	5.07	-1.43
Health Care	17.27	10.51	6.76
Financials	34.40	29.37	5.03
Information Technology	8.05	3.13	4.92
Communication Services	3.83	2.63	1.20
Utilities	0.00	1.27	-1.27
Real Estate	5.43	5.96	-0.53
Cash	1.94	0.00	1.94
Total	100.00	100.00	0.00

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

ESG Review

During September 2022, Ausbil continued to play its part in the investor response against modern slavery, through both engagement and advocacy. For instance, Ausbil chaired the third RIAA Human Rights Group Meeting of 2022, which included guest speakers on the human rights impact from climate change, and Professor John McMillan who leads the Federal Government's review of the Modern Slavery Act. Ausbil also provided feedback on the draft 2021-22 Commonwealth Modern Slavery Statement on a confidential basis, and Ausbil presented on a panel at the RIAA Conference in Auckland, New Zealand.

Ausbil presented on a panel at the Governance Institute of Australia's National Conference in Melbourne. During September, Ausbil had an in-depth meeting with Wesfarmer's sustainability manager about ethical sourcing, engaged with AllKern on water management in South America, and with the chair of Santos on the legal challenge by a traditional landholder about lack of consultation in regards to the Barossa project. We also discussed stakeholder consultation at Narrabri, the greenwashing claims by ACCR, and Santos' recent advisory climate change resolution.

Outlook

Market volatility and concerns around inflation and rate rises continues to rankle investors. In this low earning environment, with slowing growth from rising rates, Ausbil's view is that the market will continue to diverge on performance. Sectors that benefit in an environment of inflation and rising rates are expected to outperform. Those sectors for which inflation creates an earnings drag and dampens demand will underperform. Overall, the economy is set to play a major part in earnings growth. As noted in our economic review, Ausbil does not currently see Australia entering recession.

Across the market, quality leaders, particularly those with relatively inelastic demand and the capacity to pass on higher input costs such as commodity prices through to their customers, are also expected to deliver superior earnings growth in FY23. Our portfolio is exposed to leaders in health care and pharmaceuticals, biotechnology and life sciences, some leaders in information technology, and in select global leaders.

We are avoiding sectors that are cyclical, over-exposed to slowing economic growth, and whose earnings are adversely impacted by inflationary pressures. This includes construction, retailing, consumer discretionary and housing.

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