

Ausbil Active Sustainable Equity Fund

Quarterly performance update

December 2022

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'December saw the end of the 2022 proxy voting season'

Performance Review

Fund performance for the quarter ending December 2022 was +4.60% (net of fees) versus the benchmark return +9.40%, as measured by the S&P/ASX 200 Accumulation Index.

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

At a stock level, the overweight positions in Webjet and Suncorp added to relative performance. The nil positions in Aristocrat Leisure, Pilbara Minerals, Medibank, Santos, Coles Group and Endeavour also contributed to relative performance. Conversely, the overweight positions in Allkem, ResMed, Cleanaway Waste Management, CSL, Sonic Healthcare and IDP Education detracted from relative performance. The nil positions in BHP, Fortescue Metals, Westpac Bank and Origin Energy detracted from relative performance.

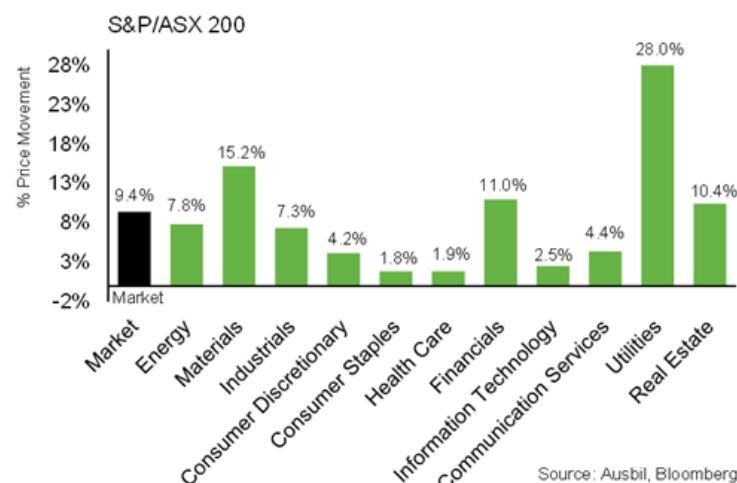
Market Review

While the month of December did not deliver a Santa rally with a return of -3.2% (S&P/ASX 200 Accumulation Index), it closed a strong quarter, with a total return of +9.4% over the three months to the end of 2022. This saw markets deliver a slight decline for calendar year 2022 at -1.0%, though in the context of a ramp-up in inflation, an energy shock, and the fastest rate hikes in living memory.

Inflation seemed to peak in the December quarter adding some positive sentiment and suggesting central banks were close to the end of their radical tightening cycle which caught a lot of consumers and businesses by surprise at the start of 2022. By the end of 2022, sentiment was more positive that rate rises would soon reach a terminal level and remain on hold, offering some respite to consumers and businesses alike.

The strong positive return generated in markets this month was underpinned by positive performances across all sectors. The rebound in commodity and energy markets was particularly strong on the back of China reopening moves in the quarter, though there is still some doubt as to the current COVID situation in China. Utilities was a particular standout this quarter with the Brookfield-led consortium making an offer for Origin Energy, generating enthusiasm for the sector.

Sector returns – December quarter 2022



Fund Characteristics

Returns¹ as at 31 December 2022

Period	Fund Return ¹ %	Bench- mark ² %	Out/Under performance %
1 month	-4.65	-3.21	-1.44
3 months	4.60	9.40	-4.80
6 months	6.40	9.82	-3.43
1 year	-10.94	-1.08	-9.86
2 years pa	3.27	7.69	-4.42
3 years pa	7.38	5.55	1.83
4 years pa	12.14	9.75	2.38
Since inception pa Date: 31 Jan 2018	8.45	7.34	1.12

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
Commonwealth Bank	10.08	8.34	1.74
CSL	9.30	6.66	2.64
National Australia Bank	6.63	4.55	2.08
Macquarie Group	5.26	2.91	2.35
Rio Tinto	4.21	2.07	2.14
Telstra	3.68	2.21	1.47
Goodman Group	3.47	1.42	2.05
Woolworths	3.39	1.96	1.43
ANZ Bank	3.38	3.39	-0.01
Computershare	3.38	0.72	2.66

Sector Tilts

Sector	Fund %	Index ² %	Tilt %
Energy	2.31	6.14	-3.83
Materials	14.08	24.39	-10.30
Industrials	7.53	6.15	1.38
Consumer Discretionary	2.65	6.26	-3.61
Consumer Staples	3.39	4.78	-1.38
Health Care	13.64	9.87	3.77
Financials	37.34	29.47	7.87
Information Technology	7.79	2.97	4.82
Communication Services	3.68	2.53	1.15
Utilities	0.00	1.48	-1.48
Real Estate	5.29	5.97	-0.68
Cash	2.29	0.00	2.29
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

In December, Ausbil had a number of ESG-related engagements, including a meeting with Medibank to discuss their response to the cyberattack, including the scope of the independent review by Deloitte, the risk of class actions, and how Medibank will manage the risk going forward. We also met with Rio Tinto's Chief Advisor - Climate Change to discuss Rio's climate change strategy, scenario analysis and climate change goals. We discussed Rio's recent announcement about the Juukan Gorge Legacy Foundation, created jointly by PKKP and Rio after signing a remedy agreement. It has now been more than two and a half years since the Juukan Gorge incident and the Juukan Gorge Legacy Foundation could be an important milestone in improving the relationship between the company and traditional owners. Mining companies' relationships with traditional owners continue to be an important engagement area for Ausbil.

December also saw the end of the 2022 proxy voting season. During the month, Ausbil met with BHP to give feedback to BHP's board on the executive remuneration structure, including a discussion on how to include climate change metrics, the balance between non-financial and financial metrics in the STI plan, and the structure of the LTI plan. Ausbil also had a pre-AGM meeting with NAB to discuss their AGM resolutions, including shareholder resolutions on climate change, and NAB's strategy for decarbonising their portfolio as well as executive remuneration, including the APRA CPS 511 recommendation on non-financial hurdles for their long-term incentive plan.

Outlook

Market volatility, and concerns around inflation and rate rises remain an issue, but some clear caution in the rhetoric of central banks has given some hope that most of the hard steps may have already been taken in the battle against inflation.

We have clearly entered a period of slowing growth. However, given the relative strength of the Australian economy, the demand for our resources, low unemployment, and the current strength in the job market, Ausbil does not currently see Australia entering recession.

We think earnings growth will be hard to come by in 2023, but there will be some clear opportunities. Given the inflationary environment, resource companies, general insurers and select diversified financials are expected to deliver positive earnings growth again in FY23, some delivering upward earnings revisions yet to be recognised in the consensus outlook. Quality leaders across the market, particularly those with relatively inelastic demand and the capacity to pass on inflationary rate costs are also expected to deliver superior earnings growth in FY23.

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