

Ausbil Active Sustainable Equity Fund

Monthly performance update

January 2023

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'With the 2023 half-year reporting season underway, we will see how the recent rise in inflation and rates has impacted company earnings'

Performance Review

Fund performance for January 2023 was +6.90% (net of fees) versus the benchmark return +6.23%, as measured by the S&P/ASX 200 Accumulation Index.

At a sector level, the underweight positions in the Consumer Staples, Energy and Utilities 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 Consumer Discretionary, Materials and Real Estate sectors also detracted value.

At a stock level, the overweight positions in IDP Education, Block, Goodman Group, Allkem, Charter Hall Group, Macquarie Group, Seek and Sandfire Resources added to relative performance. The nil positions in Westpac Bank and Woodside Energy also contributed to relative performance. Conversely, the overweight positions in Computershare, HUB24, OZ Minerals, CSL, Worley, ASX and Telstra detracted from relative performance. The nil positions in BHP, Pilbara Minerals and South32 detracted from relative performance.

Market Review

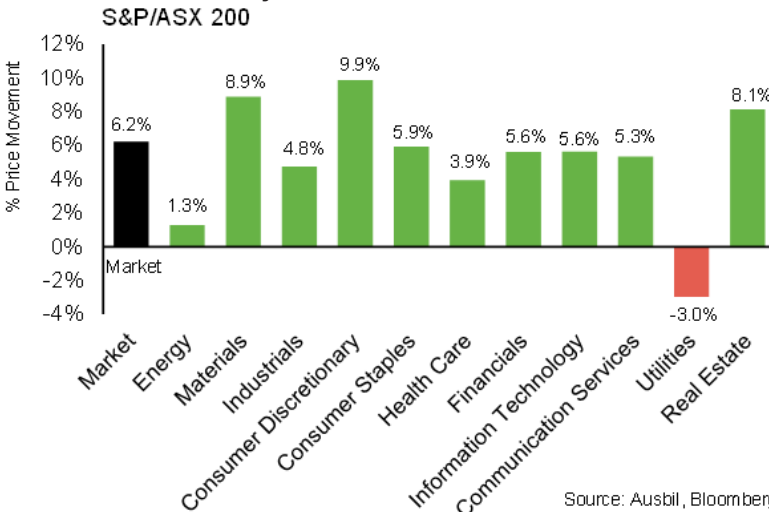
January saw the market return +6.2% (S&P/ASX 200 Accumulation Index), bringing the trailing market 1-year return to +12.2%.

While inflation seemed to peak at the end of 2022, the headline December quarter read of 7.8%, up from the September quarter read of 7.3%, reinforced the view that the tightening cycle had a little further to run. January markets shrugged off the number, presumably as there is a general view that it will not significantly change the terminal path of official rates during this tightening cycle.

Though inflation remains a watching brief at Ausbil, and has been since the start of 2021, we believe markets and consumers are adjusting to the new level of rates. With the February half-year 2023 reporting season underway, we will see how the recent rise in inflation and rates has impacted company balance sheets and earnings statements.

Market enthusiasm for a new year, with a sense that rate rises would soon come to a hold saw all sectors but utilities rise together, as shown in the chart below.

Sector returns – January 2023



Source: Ausbil, Bloomberg

Fund Characteristics

Returns¹ as at 31 January 2023

Period	Fund Return ¹ %	Benchmark ² %	Out/Under performance %
1 month	6.90	6.23	0.68
3 months	5.37	9.59	-4.22
6 months	5.59	10.32	-4.72
1 year	4.31	12.21	-7.90
2 years pa	6.80	10.82	-4.01
3 years pa	7.85	5.96	1.88
4 years pa	12.57	10.37	2.20
5 years pa	9.76	8.51	1.25
Since inception pa Date: 31 Jan 2018	9.76	8.51	1.25

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
Commonwealth Bank	9.68	8.42	1.26
CSL	7.87	6.49	1.38
National Australia Bank	5.89	4.53	1.36
Macquarie Group	5.24	3.07	2.17
Rio Tinto	4.23	2.12	2.11
Goodman Group	3.78	1.54	2.24
Telstra	3.50	2.13	1.37
Woolworths	3.37	1.98	1.38
ANZ Bank	3.32	3.39	-0.07
Transurban Group	3.31	1.92	1.39

Sector Tilts

Sector	Fund %	Index ² %	Tilt %
Energy	2.59	5.83	-3.25
Materials	15.36	24.99	-9.63
Industrials	7.06	6.11	0.95
Consumer Discretionary	2.59	6.46	-3.87
Consumer Staples	3.37	4.76	-1.40
Health Care	11.88	9.66	2.22
Financials	32.37	29.17	3.20
Information Technology	8.94	3.09	5.85
Communication Services	3.50	2.43	1.07
Utilities	0.00	1.35	-1.35
Real Estate	6.12	6.15	-0.03
Cash	6.24	0.00	6.24
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.



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ESG Review

In January 2023, Ausbil carried out a major piece of ESG research which focused on workplace culture. In recent years, we have seen a number of culturally driven events that have destroyed shareholder wealth and also led to various executive resignations. Ausbil's proprietary ESG research includes analysis of independent staff reviews in the public domain. The exercise seeks to identify trends in staff engagement, CEO approval rates and also includes a qualitative review of comments to identify specific cultural issues. Ausbil also participated in a webinar with a cyber-security consultant to understand key threats and trends in cyber-security and how to assess corporate preparedness. In addition, in January, the Federal Government announced its proposed policy following extensive consultation on the Safeguard Mechanism, which is an important policy for Australia's response to climate change. The proposal was broadly in line with Ausbil's expectations, although it remains to be seen how Emissions Intensive Trade-exposed Entities (EITEs) will be subject to financial assistance as further consultation is needed. Ausbil has been a member of the PRI (Principles for Responsible Investment), which is the biggest global network for responsible investment which now has over 3,000 investor signatories. In January, Ausbil provided member feedback for PRI's consultation 'PRI in a Changing World' signatory consultation, which aims to inform the PRI's strategy going forward.

Outlook

Reporting season will show how companies have weathered the storm of rising rates and inflation. We are optimistic about how they have fared. We think earnings growth will be harder to come by this year at a market level, though we see a number of sectors and quality leaders still capable of delivering superior earnings growth in a slowing economy.

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.

Given the inflationary environment, we remain invested in resource companies generally (including energy and gold), general insurers and select diversified financials that are expected to deliver positive earnings growth again in FY23, some delivering upward earnings revisions yet to be recognised in the consensus outlook. However, the emphasis on the beneficiaries of a rising rate environment is starting to shift towards the beneficiaries of stabilisation, which our allocations will start to reflect.

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