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Ausbil Active Sustainable Equity Fund

Monthly performance update

February 2023

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‘February was a busy month for company meetings and ESG-related engagements, both with portfolio companies and companies not currently held’

Performance Review

Fund performance for February 2023 was -2.27% (net of fees) versus the benchmark return -2.45%, as measured by the S&P/ASX 200 Accumulation Index.

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

At a stock level, the overweight positions in HUB24, Suncorp, Macquarie Group, Transurban Group, Woolworths and Altium added to relative performance. The nil positions in BHP, Northern Star Resources, Westpac Bank and Domino’s Pizza also contributed to relative performance. Conversely, the overweight positions in Allkem, Rio Tinto, Evolution Mining, IDP Education, Lynas Rare Earths, Sandfire Resources and IGO detracted from relative performance. The nil positions in QBE Insurance, Aristocrat Leisure and Brambles detracted from relative performance.

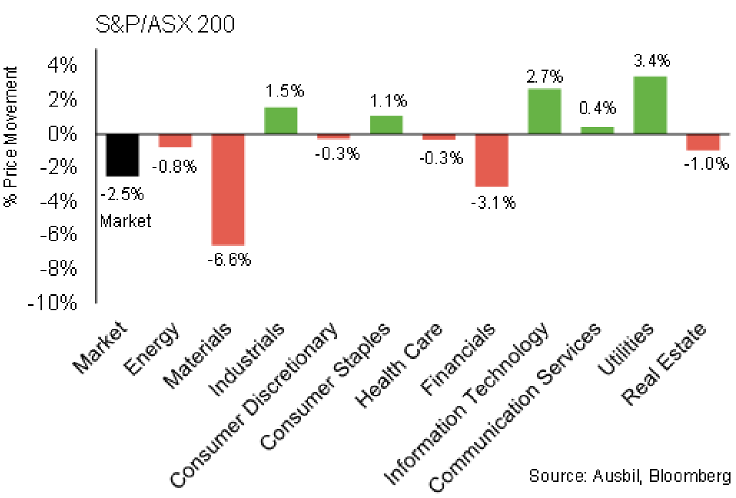
Market Review

February saw markets give back a little on rate concerns with a return of -2.5% (S&P/ASX 200 Accumulation Index), bringing the trailing market 1-year return to +7.2%.

The half-year reporting season closed with companies having negotiated a full six-months of higher rates and elevated inflation levels. While the stubborn inflation level here and overseas 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 to date. Our analysis of the macro situation is that inflation is in its peaking phase and that we are near the end of the rate increase cycle. Regardless of the fundamental macro-outlook, markets will remain jittery until there is a clear message from central banks that this tightening cycle has ended.

Sector returns were mixed in February, as shown in the chart below, with some of the more defensive sectors rising, and those leveraged to the economy slipping a little in the current uncertainty.

Sector returns – February 2023



Fund Characteristics

Returns[1] as at 28 February 2023

Period	Fund Return[1] %	Bench-mark[2] %	Out/Under-performance %
1 month	-2.27	-2.45	0.17
3 months	-0.38	0.30	-0.69
6 months	2.00	6.37	-4.37
1 year	2.31	7.16	-4.85
2 years pa	5.49	8.66	-3.17
3 years pa	9.56	7.93	1.63
4 years pa	9.89	8.11	1.79
5 years pa	8.84	7.90	0.95
Since inception pa Date: 31 Jan 2018	9.11	7.85	1.26

Top 10 Stock Holdings

Name	Fund %	Index[2] %	Tilt %
CSL	9.22	6.64	2.57
Commonwealth Bank	8.92	7.93	0.98
National Australia Bank	5.91	4.40	1.51
Macquarie Group	5.73	3.20	2.53
Telstra	4.22	2.24	1.99
Goodman Group	4.07	1.58	2.49
Transurban Group	4.04	2.03	2.01
Rio Tinto	4.01	2.01	1.99
Woolworths	3.83	2.09	1.74
ANZ Bank	3.42	3.43	-0.01

Sector Tilts

Sector	Fund %	Index[2] %	Tilt %
Energy	2.85	5.92	-3.07
Materials	13.55	23.95	-10.40
Industrials	7.82	6.32	1.50
Consumer Discretionary	2.57	6.59	-4.02
Consumer Staples	3.83	4.95	-1.12
Health Care	14.02	9.91	4.11
Financials	32.90	28.94	3.96
Information Technology	9.43	3.21	6.22
Communication Services	4.22	2.54	1.68
Utilities	0.00	1.42	-1.42
Real Estate	6.35	6.24	0.11
Cash	2.45	0.00	2.45
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

February was a busy month for company meetings and ESG-related engagements, both with portfolio companies and companies not currently held. During the month, Ausbil met with Qantas and Cleanaway Waste Management to discuss industrial relations and the impact of the proposed workplace reforms in Australia. We met with Ansell to discuss responsible sourcing practices, with Seek to discuss processes for modern slavery identification in job ads, and with Mineral Resources to discuss their engagement with traditional owners and strategies for staff retention. We engaged with BHP to understand their recent fatality and how they manage risks at their tailings storage facility at Spence, with Woolworths to discuss labour rights issues in the Australian horticultural supply chain, and with Bendigo & Adelaide Bank to engage on the case of alleged modern slavery identified in their workforce. We had meetings with Insurance Australia Group, QBE Insurance and Suncorp to discuss the risk of increased reinsurance costs in Australia due to the country's vulnerability to natural perils. We met with JB Hi-Fi to discuss their solar installation program and with Commonwealth Bank and Telstra to discuss customer hardship programs. In other words, our engagements this month covered a wide range of ESG topics. Ausbil also met with Rio Tinto's new chair and provided feedback on a range of matters, from Rio Tinto's response to the Juukan Gorge incident, their decarbonisation strategy and board structure. Ausbil also continued its chairmanship of the Human Rights Working Group of RIAA (Responsible Investment Association Australasia) and provided input on the Investor Group on Climate Change's (IGCC) submission to the government in relation to the Safeguard Mechanism.

Outlook

While rates rose again in February, there is a general consensus that we are close to the end of the tightening cycle, even if some pundits are projecting a higher terminal cash rate in the media. Our fundamental reading of the macro is that inflation is peaking, and that we are near the end of the tightening cycle.

We have seen evidence of slowing earnings growth throughout this reporting season. 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. Moreover, we believe rates will settle at manageable levels for companies, and that inflation will start to fall, though it may take a while to return to the RBA's target zone.

Given the inflationary environment, we are still invested in resources 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. Quality leaders across the market, particularly those with relatively inelastic demand and the capacity to pass on inflationary costs are also expected to deliver superior earnings growth in FY23.

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