

# Ausbil Active Sustainable Equity Fund

Quarterly performance update

March 2023

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'In March 2023, the ESG Research Team undertook two research field trips which provided essential information to our ESG engagement plan for the year'

## Performance Review

Fund performance for the quarter ending March 2023 was +1.80% (net of fees) versus the benchmark return +3.46%, as measured by the S&P/ASX 200 Accumulation Index.

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

At a stock level, the overweight positions in Sonic Healthcare, Sandfire Resources, Seek, Webjet, Woolworths Group, Xero and Goodman Group added to relative performance. The nil positions in Westpac Bank, Whitehaven Coal and Woodside Energy Group also contributed to relative performance. Conversely, the overweight positions in Computershare, Cleanaway Waste Management, Charter Hall Group, Lynas Rare Earths and Challenger detracted from relative performance. The nil positions in BHP, Newcrest Mining, Wesfarmers, Aristocrat Leisure and Fortescue Metals detracted from relative performance.

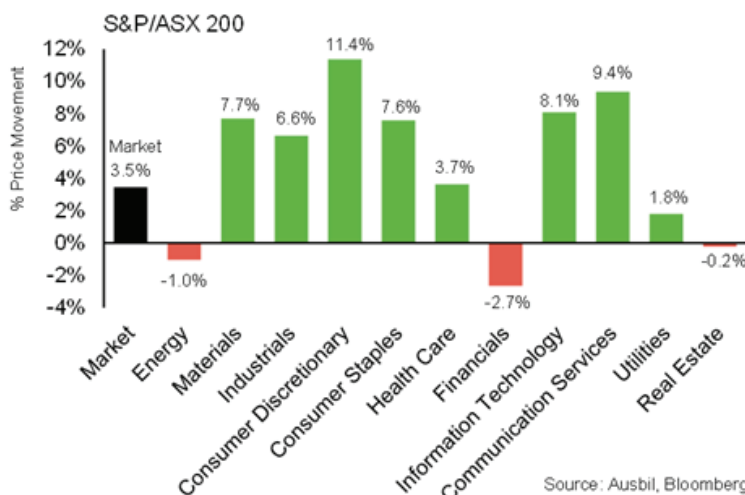
## Market Review

March saw markets give back a little on rate concerns with a monthly return of -0.2% (S&P/ASX 200 Accumulation Index), bringing the trailing market 1-year return to +0.1%. However, this masks a strong March quarter buoyed by lower inflation reads with a 3-month return of +3.5%.

Inflation continued to soften in the quarter in response to the hawkish monetary response that began a year ago. This saw the RBA increase rates in the March meeting, but revert to a pause in the April meeting which has just occurred, but with a hawkish edge to the commentary with no certainty yet that rates are truly on hold.

Sector returns were largely positive in the March quarter, as shown in the chart below, with Information Technology, Communication Services and Consumer Discretionary the standouts. Financials that are impacted from peaking rates fell with a softer outlook on inflation.

## Sector returns – March Quarter 2023



## Fund Characteristics

Returns<sup>1</sup> as at 31 March 2023

Period	Fund Return <sup>1</sup> %	Bench- mark <sup>2</sup> %	Out/Under- performance %
1 month	-2.56	-0.16	-2.40
3 months	1.80	3.46	-1.66
6 months	6.48	13.19	-6.71
1 year	-7.62	0.10	-7.72
2 years pa	3.49	7.28	-3.79
3 years pa	17.00	16.52	0.48
4 years pa	8.94	7.87	1.07
5 years pa	9.31	8.69	0.62
Since inception pa Date: 31 Jan 2018	8.41	7.68	0.72

## Top 10 Stock Holdings

Name	Fund %	Index <sup>2</sup> %	Tilt %
CSL	9.11	6.54	2.58
Commonwealth Bank	8.85	7.80	1.05
Macquarie Group	5.40	3.00	2.40
National Australia Bank	5.10	4.09	1.01
Rio Tinto	5.05	2.10	2.95
Telstra	4.82	2.29	2.53
Transurban Group	4.54	2.05	2.48
Woolworths	4.22	2.17	2.05
Goodman Group	3.48	1.51	1.97
Sonic Healthcare	3.32	0.79	2.53

## Sector Tilts

Sector	Fund %	Index <sup>2</sup> %	Tilt %
Energy	2.32	5.76	-3.44
Materials	14.43	25.11	-10.68
Industrials	8.35	6.33	2.01
Consumer Discretionary	2.49	6.75	-4.26
Consumer Staples	4.22	4.96	-0.74
Health Care	14.63	10.04	4.59
Financials	31.57	27.71	3.86
Information Technology	9.57	3.36	6.21
Communication Services	4.82	2.61	2.22
Utilities	0.00	1.46	-1.46
Real Estate	5.14	5.91	-0.77
Cash	2.46	0.00	2.46
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>0.00</b>

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 March 2023, the ESG Research Team undertook two research field trips which provided essential information to our ESG engagement plan for the year. First, Ausbil went on a four-day field trip to Western Australia and Perth. Ausbil visited the IGO Nova mine site plant and site, Bellevue Gold's underground gold mine and site with the plant still in construction, and held meetings in Perth with industry experts as well as IGO, Liontown Resources and Infinite Green Energy. The trip helps Ausbil to understand the relationships between mining companies and traditional owners as well as how mining companies address a wide range of ESG issues.

Second, this year is the 10th anniversary of the Rana Plaza building collapse which killed over 1,130 garment workers in Bangladesh. Ausbil recently travelled to Bangladesh to visit garment factories, meet with unions, the peak industry body for Bangladeshi garment exports, NGOs and other key stakeholders on the ground to see what has changed and what has not changed since the incident in 2013. The trip will help Ausbil to further enhance its engagements on responsible sourcing with companies across a wide range of sectors.

During the month of May, Ausbil also had ESG-related engagements on a number of other topics, including industrial relations and decarbonisation with Qube, culture and staff engagement with Healius and waste to energy with Cleanaway Waste Management. Ausbil also engaged with Woodside Energy Group on its decarbonisation strategy, including the economic viability of carbon capture storage (CCS), the use of offsets, commercial opportunities in hydrogen and risks related to the Scarborough project. Ausbil also gave feedback on Woodside Energy Group's climate change report.

## Outlook

We believe inflation is in a peaking phase in response to the stringent central bank tightening program. Whilst we expect some further small upward adjustments to interest rates, our view is that we are fast approaching the terminal rate for this cycle, where it will hold for an extended period as the RBA assesses the economic impact. The economy is slowing, and we see economic growth below trend in 2023 and into 2024. 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 see positive but more muted growth for FY23. 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 areas that are driving the 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. With China re-emerging from its intense COVID issues, we see upside in commodity prices as demand returns across calendar 2023.

The beneficiaries of elevated inflation are expected to perform in 2023, but the emphasis on those that perform well in a rising rate environment is starting to shift towards those that will benefit with stabilisation and peaking rates. Quality REITs, some quality leaders in technology, and some exposures in building products are helping to bridge the shift from the inflation beneficiaries that outperformed in 2022.

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