

# Ausbil Active Sustainable Equity Fund

Monthly performance update

May 2023

Ausbil Investment Management Limited  
 ABN 26 076 316 473  
 AFSL 229722  
 Level 27  
 225 George Street  
 Sydney NSW 2000  
 GPO Box 2525  
 Sydney NSW 2001  
 Phone 61 2 9259 0200

'Earnings growth will be hard to come by in FY24, however Ausbil expects key sectors to offer strong EPS growth opportunities above consensus'

## Performance Review

Fund performance for May 2023 was -1.00% (net of fees) versus the benchmark return -2.53%, 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 positions in the Consumer Discretionary, Consumer Staples and Materials sectors also added value. Conversely, the overweight position in the Financials sector detracted from relative performance. The underweight exposures to the Energy, Real Estate and Utilities sectors also detracted from relative performance.

At a stock level, the overweight positions in Allkem, Worley, Cleanaway Waste Management, Xero, Suncorp, CSL and Lynas Rare Earths added to relative performance. The nil positions in BHP, Wesfarmers and Newcrest Mining also contributed to relative performance. Conversely, the overweight positions in IDP Education, Sandfire Resources, HUB24, Rio Tinto and National Australia Bank detracted from relative performance. The nil positions in Woodside Energy Group, WiseTech Global, Santos, Insurance Australia Group and AGL Energy detracted from relative performance.

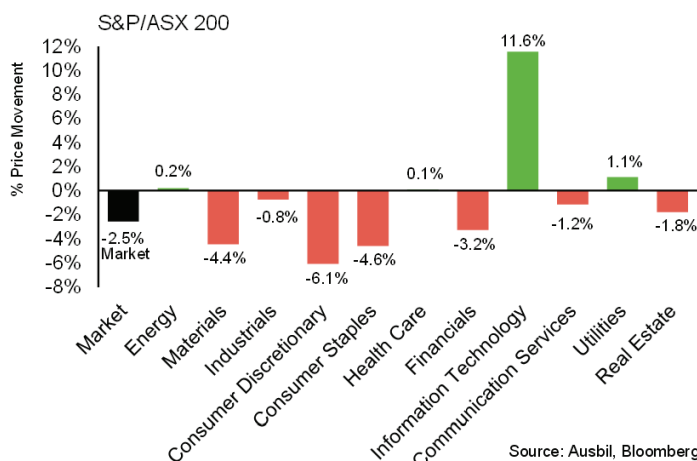
## Market Review

Across the month of May, the markets were under the shadow of the US debt ceiling negotiations which held back performance, the market generating -2.5% (S&P/ASX 200 Accumulation Index), bringing the trailing market 1-year return to +2.9%.

Focus remained on the uncertainty around when rate rises would end and how the slowing economy might be impacting consumers, though the resolution and bill to extend the debt ceiling until 2025 was passed on 1 June by Congress. Other than collapsing building companies, many of which are thinly capitalised and poorly shielded from adverse changes in the cycle, the economy has stayed around full employment. The RBA is expected to hike again given inflation remains high. The potential for a major policy mistake by the RBA from hawkish rate rises is very real, some already think monetary policy has tightened too fast and too far. Time will tell how this plays out, but further rate rises raise the risks.

The negative sentiment was felt across sectors except for Energy, Information Technology and Utilities that continued to rerate, as shown in the chart.

## Sector returns – May 2023



Source: Ausbil, Bloomberg

## Fund Characteristics

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

Period	Fund Return <sup>1</sup> %	Benchmark <sup>2</sup> %	Out/Under-performance %
1 month	-1.00	-2.53	1.53
3 months	-1.13	-0.89	-0.25
6 months	-1.51	-0.58	-0.93
1 year	-0.50	2.90	-3.40
2 years pa	1.48	3.87	-2.39
3 years pa	11.45	11.43	0.02
4 years pa	8.84	6.59	2.25
5 years pa	8.51	7.47	1.04
Since inception pa Date: 31 Jan 2018	8.43	7.29	1.14


## Top 10 Stock Holdings

Name	Fund %	Index <sup>2</sup> %	Tilt %
CSL	9.35	7.05	2.29
Commonwealth Bank	8.41	7.80	0.61
Macquarie Group	5.06	2.96	2.10
Telstra	4.81	2.40	2.40
National Australia Bank	4.61	3.89	0.72
Transurban Group	4.57	2.18	2.39
Woolworths	4.04	2.18	1.86
Rio Tinto	3.93	1.90	2.04
Goodman Group	3.51	1.60	1.91
Sonic Healthcare	3.24	0.81	2.43

## Sector Tilts

Sector	Fund %	Index <sup>2</sup> %	Tilt %
Energy	2.53	5.98	-3.45
Materials	13.26	23.38	-10.12
Industrials	8.45	6.53	1.92
Consumer Discretionary	2.20	6.62	-4.42
Consumer Staples	4.04	4.89	-0.86
Health Care	14.88	10.57	4.31
Financials	29.15	27.75	1.41
Information Technology	12.66	3.77	8.90
Communication Services	4.81	2.80	2.01
Utilities	0.00	1.52	-1.52
Real Estate	5.74	6.20	-0.46
Cash	2.28	0.00	2.28
<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 May, Ausbil attended the RIAA Conference in Melbourne and presented on a panel in relation to a new investor toolkit developed by a subgroup of RIAA's Human Rights Working Group, which Ausbil chairs, including expertise from a number of NGOs. The toolkit is a new resource for investors which outlines international humanitarian law, the UN Guiding Principles on Business and Human Rights, case studies on armed conflict and how this is relevant to investors. The toolkit also assists investors in navigating complexities around armed conflict and offers practical guidance for corporate engagements. Ausbil also chaired the second RIAA Human Rights Group Meeting of 2023, which included guest speakers from Walk Free and Global Compact. As part of the meeting, Ausbil presented views and findings in relation to the report from the statutory review into the Modern Slavery Act and associated upcoming advocacy opportunities in relation to that.

During a busy month for ESG, Ausbil also had a series of engagement meetings, including discussing industrial relations and diversification of the supplier base, responsible sourcing, the Australian horticultural sector and the need for harmonised accommodation standards with a leading consumer staples name. Ausbil also had a series of company ESG meetings with a leading investment and financial services name on the transition to renewable energy, such as wind energy offshore. As part of that we also discussed how cultural heritage is taken into account on projects, the potential for carbon capture and storage (CCS) and direct air capture (DAC) technologies, the Safeguard Mechanism and artificial intelligence. Ausbil also had dedicated ESG meetings with a number of diverse companies on topics including health and safety systems, modern slavery, climate change, biodiversity and governance.

## Outlook

Risk remains high across a number of fronts, including monetary policy, economic slowdown, and a weakening consumer. Inflation remains elevated. In a tighter economic environment, the geopolitical risks are pronounced. Escalating tensions in the war between Ukraine and Russia, and Russia's growing distance from the rest of the world remains concerning.

Australia's resource-based economy is well-placed to outperform other developed markets with below-trend growth, but no recession.

In this environment, earnings growth will be hard to come by in FY24, however Ausbil expects key sectors to offer strong EPS growth opportunities above consensus, and some quality leaders across the market to demonstrate earnings growth with resilient demand across the economic cycle, and the capacity to pass on higher costs to end-consumers.

We see ongoing support for earnings growth in resources, diversified financials, general insurers and in energy. In resources, we are invested extensively across the decarbonisation thematic, in copper, nickel, lithium and rare earths. We are avoiding sectors that are cyclical, over-exposed to slowing economic growth, and whose earnings are adversely impacted by continued inflationary pressures. We also see opportunity in information technology stocks with a strong earnings outlook.

Ausbil Investment  
Management Limited  
Level 27  
225 George Street  
Sydney NSW 2000  
Australia  
Toll Free 1800 287 245

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