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Ausbil Active Sustainable Equity Fund

Quarterly performance update

June 2023

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'In June, Ausbil carried out two major pieces of ESG research focused on biodiversity and climate change'

Performance Review

Fund performance for the quarter ending June 2023 was +1.58% (net of fees), versus the benchmark return of +1.01%, as measured by the S&P/ASX 200 Accumulation Index.

Over the quarter, at a sector level, the overweight positions in the Financials, 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 positions in the Communication Services and Health Care sectors detracted from relative performance. The underweight positions in the Energy, Real Estate and Utilities sectors also detracted value.

At a stock level, the overweight positions in Allkem, Xero, Worley, James Hardie, Suncorp, Cleanaway Waste Management and Goodman Group added to relative performance. The nil positions in BHP, South32 and Ramsay Health Care also added value. Conversely, the overweight positions in IDP Education, Rio Tinto, Seek, HUB24, Sandfire Resources and CSL detracted from relative performance. The nil positions in WiseTech Global, Pilbara Minerals, Insurance Australia Group and Santos also detracted value.

Market Review

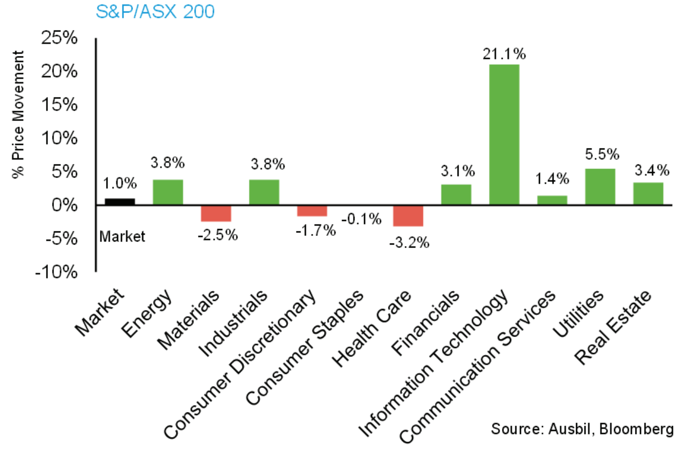
Across the June quarter, the markets were under the shadow of the US debt ceiling negotiations and the prospect of higher rates, with some earnings revisions in response to a slowing economy, however they still delivered a small positive of +1.0% for the quarter (S&P/ASX 200 Accumulation Index), bringing the trailing market 1-year return to +14.8%.

Inflation came off in the latest monthly read of 5.6% year on year, down from the last quarterly read for March of 7.0%. The RBA raised rates in June but held steady at the start of July.

While the 2023 financial year has been all about high and stubborn inflation and the most savage monetary response in recent memory, you might not know it from the markets, which posted some solid returns for the year across the market-cap spectrum. Amidst the doom and gloom expressed in the popular media, many would be surprised by the financial year returns that were generated across all size of companies.

At a sector level, the big story was the resurgence in the Information Technology sector, which slightly overshadowed strong positive results across some other sectors, as shown in the chart.

Sector returns – June Quarter 2023



Source: Ausbil, Bloomberg

Fund Characteristics

Returns¹ as at 30 June 2023

Period	Fund Return¹ %	Bench-mark² %	Out/Under-performance %
1 month	0.11	1.76	-1.64
3 months	1.58	1.01	0.56
6 months	3.41	4.51	-1.10
1 year	10.02	14.78	-4.76
2 years pa	0.55	3.61	-3.06
3 years pa	10.21	11.12	-0.90
4 years pa	7.84	6.09	1.75
5 years pa	7.93	7.16	0.77
Since inception pa Date: 31 Jan 2018	8.32	7.52	0.80

Top 10 Stock Holdings

Name	Fund %	Index² %	Tilt %
Commonwealth Bank	8.65	7.95	0.71
CSL	8.24	6.29	1.96
Macquarie Group	5.27	3.03	2.24
Telstra	4.62	2.33	2.28
National Australia Bank	4.56	3.89	0.67
Transurban Group	4.28	2.06	2.21
Rio Tinto	4.24	2.00	2.24
Woolworths	4.21	2.28	1.93
Goodman Group	3.55	1.61	1.93
ANZ Bank	3.33	3.35	-0.02

Sector Tilts

Sector	Fund %	Index² %	Tilt %
Energy	2.49	5.95	-3.46
Materials	14.70	24.13	-9.42
Industrials	7.99	6.38	1.61
Consumer Discretionary	2.17	6.64	-4.47
Consumer Staples	4.21	4.96	-0.75
Health Care	13.72	9.72	4.00
Financials	29.96	28.17	1.78
Information Technology	13.63	3.79	9.84
Communication Services	4.62	2.71	1.91
Utilities	0.00	1.52	-1.52
Real Estate	5.52	6.03	-0.51
Cash	1.00	0.00	1.00
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 June, Ausbil carried out two major pieces of ESG research focused on biodiversity and climate change. Utilising the framework suggested by the Taskforce on Nature-related Financial Disclosure (TNFD), Ausbil conducted an initial analysis on the S&P/ASX 200 and Ausbil's Funds to increase our understanding of financial risks from the loss of biodiversity. The TNFD is still a work in progress, with the final report due in September this year. For now, Ausbil's analysis is a preliminary assessment with the intent to build it out and enhance it once companies start reporting on TNFD. In addition, Ausbil updated its annual climate change assessment, also known as the Net Climate Change Risk (NCCR) analysis for the fourth year running, covering the S&P/ASX 200 and Ausbil Funds. This is a bespoke proprietary model on climate change that takes a more holistic view of the impact companies have on climate change by taking a forward-looking approach that accounts for future decarbonisation plans and assesses the credibility of those plans. Both pieces of work are primarily qualitative, but with a quantitative element that enables us to track Ausbil Funds relative to the benchmark. Assessment of Task Force on Climate-Related Financial Disclosures (TCFD) and TNFD risks help identify new ESG-related engagement opportunities, and add to Ausbil's annual ESG engagement plan.

In terms of company-specific engagements, Ausbil had a number of governance meetings to discuss board composition, climate change strategy and modern slavery. Other meetings discussed proposed changes to the executive remuneration structure, and discussed the concept of voluntary say-on-climate resolutions. Continuing our engagements on modern slavery, Ausbil promoted a number of ideas for their private-label products and involvement in the Responsible Business Alliance. Ausbil also provided input and feedback for their materiality assessment.

Outlook

Though rates have risen rapidly, Ausbil's central view is that inflation and interest rates are peaking with the expectation thereafter that rates will plateau. Inflation is likely to fall over time at a measured pace, towards central bank target levels. Ausbil expects low earnings growth in FY23 and FY24, however, we believe that Australia will outperform peers in the context of the overall slowing in world economic growth because of the strong demand for natural resources in which Australia is a global leader. With this in mind, earnings growth will be hard to come by in FY24 because of the pressures of inflation, interest rate rises and a slowing economy. Aggregate earnings camouflage both weak and strong sectors, which adds to a potentially alpha-rich environment.

We remain focused on the key thematics that are driving 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.

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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