

Ausbil Global SmallCap Fund

Quarterly performance update

September 2023

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'The Fund continues to seek unrecognised growth opportunities in stocks leveraged to decarbonisation and onshoring'

Performance Review

Fund performance for the quarter ending September 2023 was -1.93% (net of fees) versus the benchmark return of -1.39%, as measured by the MSCI World Small Cap Net Total Return Index.

The MSCI World Small Cap index fell 1.39% in AUD terms over the quarter. Finland, Sweden and Denmark were the worst performing countries, while Portugal, Japan and Norway performed well. The UK outperformed the benchmark, while the US underperformed. Overall, global equities were under pressure as rates continued to head higher with the US 10-year yield approaching 4.6%, affecting both large-cap and small-cap equities.

The Industrials and Financials sectors were the key outperformers, while the Health Care, Utilities and Information Technologies sectors underperformed as US bond yields continue to rise.

Notable positive contributors over the period were Selective Insurance in the US and Kempower in Finland. By contrast, BE Semiconductors in The Netherlands contributed negatively to performance.

Contributors and Detractors

Selective Insurance is a prominent regional insurance company that is expanding across the US from its base in Branchville, New Jersey. Selective was founded in 1926 and offers a wide range of insurance products including personal and commercial insurance, flood insurance, and speciality insurance tailored to customer requirements. Selective has a strong network of independent insurance agents and brokers who distribute its products. Selective continues to invest heavily in technology and innovation which improves its digital capabilities and claims processing, while also providing improved tools for its network of insurance agents and brokers.

Kempower is a Finnish developer and manufacturer of electric vehicle fast charging units. The company was founded by Kemppi Group; one of the global leaders in welding equipment. Kempower has seen rapid growth in its local region of Northern Europe and has expanded further across Europe and into the UK. Kempower have also won recent contracts in the US and Australia. Kempower are currently establishing a manufacturing base in North Carolina to cater for the strong expected demand in the US market. Kempower's multiple product offerings and flexible solutions give it a strong competitive advantage against its European and US competitors.

BE Semiconductor Industries N.V. (BESI) is a leading assembly equipment supplier in the advanced packaging back-end market based in The Netherlands. This segment of the semiconductor industry focuses on packaging and assembly of integrated circuits after their fabrication and is becoming ever more critical in enabling smaller, more efficient, and higher-performing chips which are crucial in various industries such as Digital and infrastructure build, smart everything, AI, 5G, vehicle electrification and autonomous driving. The Fund expects these themes to be a tailwind for the earnings of BESI in the coming years.

Performance

Returns¹ as at 30 September 2023

Period	Fund Return % Net	Benchmark ² %	Out/Under Performance %
1 month	-5.85	-4.92	-0.93
3 months	-1.93	-1.39	-0.55
6 months	5.39	2.41	2.97
1 year	15.84	13.56	2.27
2 years pa	-9.47	-2.19	-7.29
3 years pa	5.17	10.01	-4.84
4 years pa	4.47	6.52	-2.05
5 years pa	2.66	5.49	-2.83
Since inception Date: 31 May 2018	4.25	6.35	-2.10

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
Atkore	4.83	0.09	4.74
Vertiv Holdings	4.38	0.17	4.21
Sterling Infrastructure	3.56	0.03	3.52
Applied Industrial Technologies	3.39	0.09	3.30
Selective Insurance Group	3.26	0.10	3.16
Pinnacle Financial Partners	3.10	0.08	3.02
EMCOR Group	3.03	0.15	2.87
EastGroup Properties	3.01	0.11	2.90
ANDRITZ	2.87	0.05	2.81
Valmet	2.55	0.06	2.50

Style Tilts

	Return on invested capital	Debt to equity	Dividend yield	Price to free cash flow
Portfolio	17.1	61.2	1.6	16.71
Benchmark ²	6.3	98.7	2.0	20.77

Sector Allocations

Sector	Fund %	Index ² %	Tilt %
Energy	1.05	5.75	-4.70
Materials	9.12	7.37	1.75
Industrials	39.42	19.88	19.55
Consumer Discretionary	9.40	13.05	-3.66
Consumer Staples	5.24	5.01	0.22
Health Care	8.64	9.93	-1.29
Financials	13.11	14.38	-1.28
Information Technology	8.05	10.82	-2.77
Communication Services	0.98	3.00	-2.02
Utilities	0.00	2.62	-2.62
Real Estate	3.69	8.18	-4.48
Cash	1.29	0.00	1.29
Total	100.00	100.00	0.00

1. Fund returns are net of fees.

2. The benchmark is MSCI World Small Cap Net Total Return (TR) Index in AUD.

Positioning and Outlook

The Fund continues to seek unrecognised growth opportunities in stocks leveraged to decarbonisation and onshoring as Western nations and specifically the US aim to reduce their reliance on China and certain areas of Asia for critical supply chains.

The Fund has sold its exposure to US homebuilders and related companies in the US after a period of strong performance. The rise in the US 10-year may limit the upside for the US homebuilders as new mortgage rates continue to be elevated, rising further in September. The Fund continues to be overweight both US and European industrials, with a focus on electrical equipment and machinery which will likely benefit from the recent Chinese stimulus, onshoring, government support and decarbonisation.

The Fund remains underweight the consumer as the US and global consumer is still at risk from elevated interest and inflation rates; alongside a rising oil price. The Fund is also underweight Financials and Real Estate; although Insurance holdings have been lifted in recent months. The largest holding in Financials continues to be Selective Insurance.

On a regional basis, the Fund is overweight Europe and the UK and underweight the US given the compelling relative valuation differences between the two regions. The US underweight increased during September as the Fund sold its US homebuilders due to higher US interest rate concerns, which directly affect mortgage applications and therefore housing sales.

The Fund remains biased to niche leaders within their industry, like Kempower (with strong demand tailwinds and increasing manufacturing); and Atkore (US non-residential electrical equipment), exposed to strong themes like decarbonisation and onshoring, which we expect to deliver positive earnings surprises in the near and mid-term. While we expect central banks to maintain restrictive monetary policies, creating tight financial conditions, the strategy continues to find unrecognised growth opportunities in our universe of under-researched small caps.

Region Allocation

Country	Fund %	Index ² %	Tilt %
North America	55.77	63.60	-7.83
Japan	6.39	12.21	-5.83
United Kingdom	9.65	5.45	4.20
Europe (Ex United Kingdom)	22.71	12.39	10.33
Asia Pacific (Ex Japan)	2.33	5.25	-2.93
Middle East	1.87	1.10	0.77
Cash	1.29	0.00	1.29
Total	100.00	100.00	0.00



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