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Ausbil Australian Active Equity Fund

Monthly performance update

February 2024

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‘With HY24 reporting season finished there has been some softening in the consensus outlook for both FY24 and FY25 earnings growth’

Performance Review

Fund performance for February 2024 was +1.40% (net of fees), versus the benchmark return of +0.98%, as measured by the S&P/ASX 300 Accumulation Index.

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

At a stock level, the overweight positions in Goodman Group, Block, NextDC, Treasury Wine Estates, Xero, Worley, Altium and Suncorp contributed to relative performance. The nil positions in Fortescue Metals and Newmont Corporation also added value. Conversely, the overweight positions in ResMed, CSL, Santos, BHP, Evolution Mining and Webjet detracted from relative performance. The nil positions in Wesfarmers, Westpac Bank, WiseTech Global and Cochlear also detracted value.

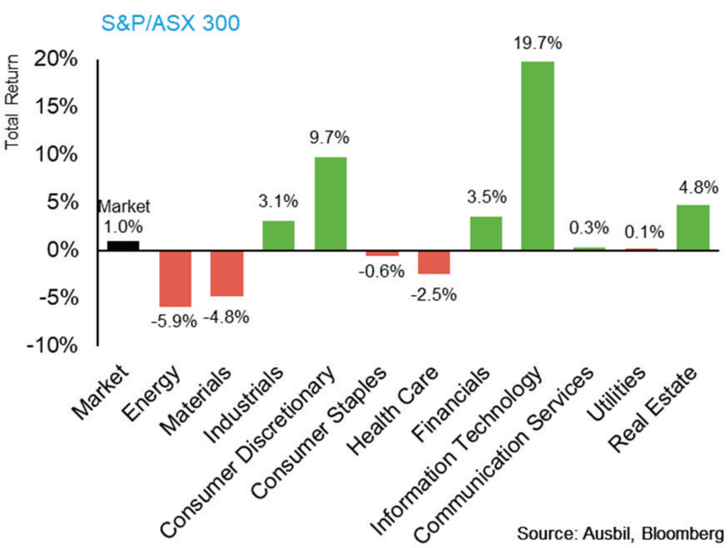
Market Review

February saw the close of the FY24 reporting season with a positive return for the month of +1.0% for the S&P/ASX 300 Accumulation Index, bringing the trailing market 1-year return to +10.5%.

Globally, emerging markets (MSCI EM) slightly underperformed developed markets (MSCI World). Every major market, with the exception of a small fall in Singapore and the United Kingdom, which was flat, delivered positive returns with markets expecting the shift towards rate cuts to evolve across calendar 2024.

At a sector level, Information Technology delivered outsize returns of +19.7% driven by a market-wide rerating of the sector and a takeover bid for Altium, with Consumer Discretionary also delivering +9.7%, significantly outperforming the rest of the market, as shown in the chart. Materials and Energy markets suffered from weakness in commodity prices, largely related to cyclical issues, and ongoing concerns around China.

Sector returns – February 2024



Source: Ausbil, Bloomberg

Fund Characteristics

Returns[1] as at 29 February 2024

Period	Fund Return[1] %	Bench-mark[2] %	Out/Under performance %
1 month	1.40	0.98	0.42
3 months	8.52	9.46	-0.94
6 months	4.97	7.44	-2.46
1 year	8.45	10.53	-2.08
2 years pa	8.57	8.52	0.05
3 years pa	9.79	9.09	0.69
5 years pa	10.74	8.61	2.12
7 years pa	10.03	8.60	1.43
10 years pa	8.70	7.94	0.76
15 years pa	10.87	10.22	0.65
20 years pa	10.16	8.69	1.47
25 years pa	10.19	8.33	1.86
Since inception pa Date: July 1997	10.15	8.27	1.88

Top 10 Stock Holdings

Name	Fund %	Index[2] %	Tilt %
BHP	10.70	9.45	1.24
Commonwealth Bank	8.21	8.28	-0.07
CSL	7.83	5.87	1.96
National Australia Bank	6.78	4.49	2.29
Goodman Group	4.72	2.19	2.53
Macquarie Group	4.26	2.97	1.29
ANZ Bank	3.76	3.63	0.13
Aristocrat Leisure	3.11	1.28	1.82
Xero	3.04	0.76	2.28
Treasury Wine Estates	2.98	0.42	2.56

Sector Tilts

Sector	Fund %	Index[2] %	Tilt %
Energy	5.07	5.20	-0.12
Materials	25.76	22.41	3.35
Industrials	4.06	7.29	-3.23
Consumer Discretionary	4.48	7.72	-3.24
Consumer Staples	4.76	4.02	0.74
Health Care	10.63	9.58	1.05
Financials	29.62	29.36	0.26
Information Technology	5.17	3.06	2.11
Communication Services	2.83	3.54	-0.71
Utilities	1.65	1.30	0.35
Real Estate	4.72	6.51	-1.78
Cash	1.23	0.00	1.23
Total	**100.00**	**100.00**	**0.00**

1.Fund returns are net of fees but before taxes.
2.The benchmark is S&P/ASX 300 Accumulation Index.

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Outlook

With HY24 reporting season finished there has been some softening in the consensus outlook for both FY24 and FY25 earnings growth that we think is more attributable to prevailing views on the possibility, or not, of rate cuts globally. Inflation fell across HY24 and there was only one rate rise of 25 basis points in the 6-months from July to December 2023, compared to 400 basis points in the year and a half that preceded. Ausbil believes that we are at the start of a rate cutting cycle in terms of the direction of rates, though the quantum and timing remains unknown.

The overall macro-economic outlook has improved with rates peaking, and inflation falling, and with Australia's excess savings, strong employment market and global demand for our resources, Ausbil expects Australia to avoid recession. We are also seeing structural earnings growth in technological transformation, the rise of artificial intelligence (AI), and the enablers and businesses that increasingly operate in the digital environment, including communications companies.

On aggregate, we see earnings growth for FY24 as a little more positive than implied by consensus as companies are now settling into operating in a normalised interest rate environment. Our macro reading of the economy is that rate cuts will come from central banks while economic growth remains positive, though sub-trend, mainly in order to ensure that real interest rates are not a hinderance for longer term business investment. We think this will also see economic growth strengthen, and earnings growth for FY25 exceed consensus expectations, as earnings recover and broaden across sectors, and down the market cap spectrum. We believe dividend yields have peaked and will normalise across FY24 and FY25.

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