Contactus@
ausbil.com.au

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Ausbil Active Sustainable Equity Fund

Quarterly performance update

March 2024

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

‘Ausbil believes that we are at the start of a rate cutting cycle, though the quantum and timing remains unknown’

Performance Review

Fund performance for the quarter ending March 2024 was +9.39% (net of fees), versus the benchmark return of +5.33%, as measured by the S&P/ASX 200 Accumulation Index.

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

At a stock level, the overweight positions in Altium, Goodman Group, Sandfire Resources, NextDC, ResMed, HUB24, Wesfarmers and Charter Hall Group added to relative performance. The nil positions in BHP and Fortescue Metals also added value. Conversely, the overweight positions in Evolution Mining, Rio Tinto, GPT Group, Pilbara Minerals, Woolworths Group, Transurban Group and CSL detracted from relative performance. The nil positions in Westpac Bank, QBE Insurance and WiseTech Global also detracted value.

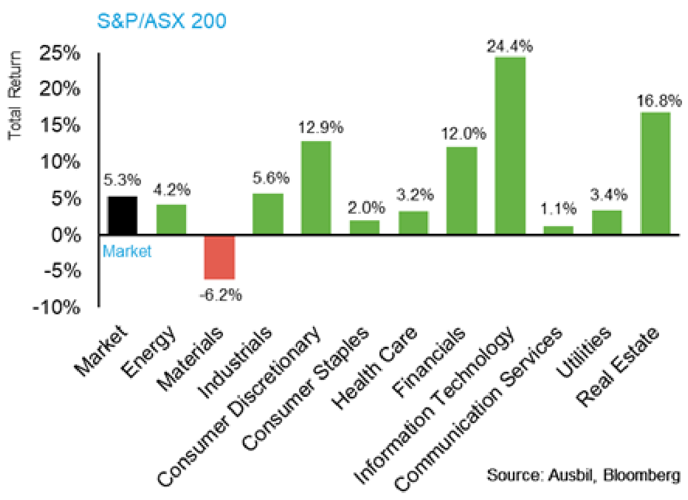
Market Review

The March quarter was buoyant in equities with the S&P/ASX 200 Accumulation Index posting gains of +5.3%, bringing the trailing market 1-year return to +14.5%.

Globally, developed markets (MSCI World) outperformed emerging markets (MSCI EM). Every major market, with the exception of Hong Kong and Singapore, delivered positive returns this quarter, with Japan showing a thumping +20.0% and the S&P 500 delivering +10.2%.

At a sector level, Information Technology, Consumer Discretionary and Real Estate sectors were significantly rerated as the cycle turned from a tightening to an easing outlook with falling inflation, as shown in the chart. Materials lagged largely through weakness in commodity prices, cyclical issues, and ongoing concerns around China.

Sector returns – March Quarter 2024



Fund Characteristics

Returns[1] as at 31 March 2024

Period	Fund Return[1] %	Bench-mark[2] %	Out/Under-performance %
1 month	3.94	3.27	0.67
3 months	9.39	5.33	4.06
6 months	19.49	14.17	5.32
1 year	18.19	14.45	3.74
2 years pa	4.49	7.03	-2.54
3 years pa	8.17	9.62	-1.44
4 years pa	17.30	16.00	1.30
5 years pa	10.73	9.15	1.57
Since inception pa Date: 31 Jan 2018	9.93	8.75	1.18

Top 10 Stock Holdings

Name	Fund %	Index[2] %	Tilt %
Commonwealth Bank	8.98	8.59	0.39
CSL	7.82	5.93	1.90
National Australia Bank	5.44	4.59	0.85
Macquarie Group	5.28	3.05	2.24
Goodman Group	4.90	2.49	2.42
Wesfarmers	4.85	3.31	1.55
ANZ Bank	4.21	3.76	0.45
Rio Tinto	3.76	1.93	1.84
Sandfire Resources	3.56	0.17	3.38
Transurban Group	3.19	1.75	1.43

Sector Tilts

Sector	Fund %	Index[2] %	Tilt %
Energy	1.25	5.22	-3.97
Materials	14.31	21.73	-7.42
Industrials	6.84	6.24	0.61
Consumer Discretionary	4.85	7.14	-2.29
Consumer Staples	2.66	4.06	-1.40
Health Care	12.04	9.60	2.43
Financials	33.08	30.96	2.13
Information Technology	12.22	4.42	7.80
Communication Services	2.83	2.37	0.46
Utilities	0.00	1.35	-1.35
Real Estate	9.15	6.91	2.24
Cash	0.76	0.00	0.76
Total	**100.00**	**100.00**	**0.00**

1. Fund returns are net of fees but before taxes and assume distributions are reinvested.
2. The benchmark is S&P/ASX 200 Accumulation Index.

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ESG Review

In March, Ausbil had a number of ESG-related engagements, including both companies held by the Fund and companies not held or excluded from the Fund's investible universe. For instance, Ausbil engaged with Worley on their disclosure framework for sustainability-related revenue, their prospects in direct-air-capture (DAC) technology, battery technology and hydrogen, and the role these could play in global decarbonisation. We also discussed the company's risk management framework in regards to bribery and corruption. Ausbil also engaged with Qantas in relation to potential impacts from the Australian government's workplace reforms. We met with Life360 on their investment into cyber security, security risks and understanding exposure to personal information. We also engaged BHP's sustainability committee and an independent director on a wide range of topics, including: BHP's safety performance (including recent fatalities), culture and the issue of discrimination in the mining industry at large, the industrial relations / workplace reforms in Australia, progress on the remediation of Samarco, chairman succession on the board, BHP's position on coal as part of the asset mix, and BHP's interactions with traditional owners. On top of that, Ausbil had dedicated ESG engagement meetings with Pilbara Minerals and Treasury Wine Estates. For Pilbara Minerals, the engagement covered culture, internal process for whistle blowing, OH&S performance, engagement with traditional owners, modern slavery and decarbonisation of PLS' operations.

In addition, Ausbil engaged with a number of companies in relation to their upcoming AGMs and associated resolutions, and on governance matters. Ausbil engaged with TPG on their performance rights retention plan in 2024. We had a pre-AGM meeting with Rio Tinto's Chairman where we discussed upcoming AGM resolutions, board composition and the level of relevant industry experience on the board, the relationship between RioTinto and traditional owners in the wake of the Juukan Gorge incident, the fatal plane accident where four members of Rio died, progress on the cultural findings of the Everyday Respect Report, the Safeguard Mechanism, Rio's decarbonisation pathway, and the government's workplace reforms in Australia. Ausbil also provided feedback on materiality surveys related to ESG for ANZ, Evolution Mining and Origin Energy.

Ausbil also continued its industry engagement and representation in the broader responsible investment industry, including speaking to ASFA (Association of Superannuation Funds of Australia) where Ausbil gave a detailed presentation on modern slavery / human rights, including the investor perspective (financial materiality and how to best address the issue) and the regulatory landscape. Ausbil also presented to AIRA (the Australian Investor Relations Association) on the topic of modern slavery and human rights, including reflections on the Modern Slavery Act to date, potential future regulatory requirements, the investor relevance and best practice. The event was well attended with some 100 registered investor relations staff from listed companies, providing an ideal platform to discuss ESG.

Outlook

The overall macro-economic outlook has stabilised 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. Ausbil believes that we are at the start of a rate cutting cycle, though the quantum and timing remains unknown.

In this environment, we believe earnings growth will recover more than the market expects, broadening across sectors, and moving down the market cap spectrum. We think that with a downward bias in rates, cyclicality will return to the market, with more relief for the consumer, supporting housing, consumer, select real estate and other cyclical businesses. Decarbonisation and the energy transition remain significant themes that will drive value across resources, energy, utilities and the mining services sector with respect to critical commodities. 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.

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