



2019 Investment Roadshow

“See the Forest, Not the Tree”

May 2019



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2019 Investment Roadshow

“See the Forest, Not the Tree”



Mark Knight
Head of Distribution

Ausbil Australian Equity Funds – Large Cap

Generating active returns over the long term

Performance 31 March 2019	3 months %		1 year % (p.a)		3 year % (p.a)		Inception* % (p.a)	
	Return	Excess	Return	Excess	Return	Excess	Return	Excess
Active Equity	+12.9	+2.0	+9.5	-2.2	+11.9	+0.5	+11.0	+2.8
Geared Equity	+25.1	+14.2	+19.0	+7.3	+25.0	+13.6	+9.4	+5.1
Concentrated Equity	+13.0	+2.1	+10.1	-1.7	+12.5	+1.1	+10.9	+2.4
130/30 Focus	+10.2	-0.7	+9.5	-2.6	+14.0	+2.6	+10.8	+2.2
Active Sustainable	+14.6	+3.7	+11.8	-0.2	-	-	+7.6	+0.5
Active Dividend Income	+13.6	+2.7	-	-	-	-	+7.2	+3.9

Returns are gross of fees.

Concentrated performance shown is based on a composite series.

*Inception dates: Active Equity 01.07.97, Geared Equity 24.05.07, Concentrated 30.04.02, 130/30 Focus 14.07.10, Active Sustainable 31.01.18, Dividend Income 30.06.18.

Ausbil Australian Equity Funds – Small Cap

Generating active returns over the long term

Performance 31 March 2019	3 months %		1 year % (p.a)		3 year % (p.a)		Inception* % (p.a)	
	Return	Excess	Return	Excess	Return	Excess	Return	Excess
Emerging Leaders	+14.0	+3.3	-2.6	-7.2	+9.9	-2.2	+12.2	+3.2
MicroCap	+16.1	+3.8	+11.0	+19.4	+13.3	+5.3	+31.8	+30.8

Returns are gross of fees.

*Inception dates: Emerging Leaders 01.05.02, MicroCap 12.02.10.

Ausbil Global Funds

Australian based manager - global in scope

Performance 31 March 2019	3 months %		1 year % (p.a)		3 year % (p.a)		Inception* % (p.a)	
	Return	Excess	Return	Excess	Return	Excess	Return	Excess
Candriam Sustainable Global Equity	+11.4	0.0	+13.5	+1.1	+12.3	-1.3	+6.6	+0.2
MacKay Shields Unconstrained Bond	+3.0	+2.4	+2.6	+0.5	-	-	+5.0	+3.1
Ausbil Global Essential Infrastructure	+14.7	+13.0	-	-	-	-	+13.8	+11.9
Ausbil Global SmallCap	+9.8	-2.9	-	-	-	-	+1.4	+0.1

Returns are gross of fees.

Inception date for Candriam Sustainable Global Equity 01.12.04, MacKay Shields Unconstrained Bond 01.06.16, Global Essential Infrastructure 17.12.18, Global SmallCap 31.05.18.

Your speakers

Experienced investment professionals



Jim Chronis

Chief Economist

Balanced Fund



Paul Xiradis

Executive Chairman
Chief Investment Officer
Head of Equities

Active Equities

Concentrated Equities

Active Sustainable
Equities



Michael Price

Portfolio Manager

Active Dividend Income

2019 Investment Roadshow

“See the Forest, Not the Tree”



Jim Chronis
Chief Economist



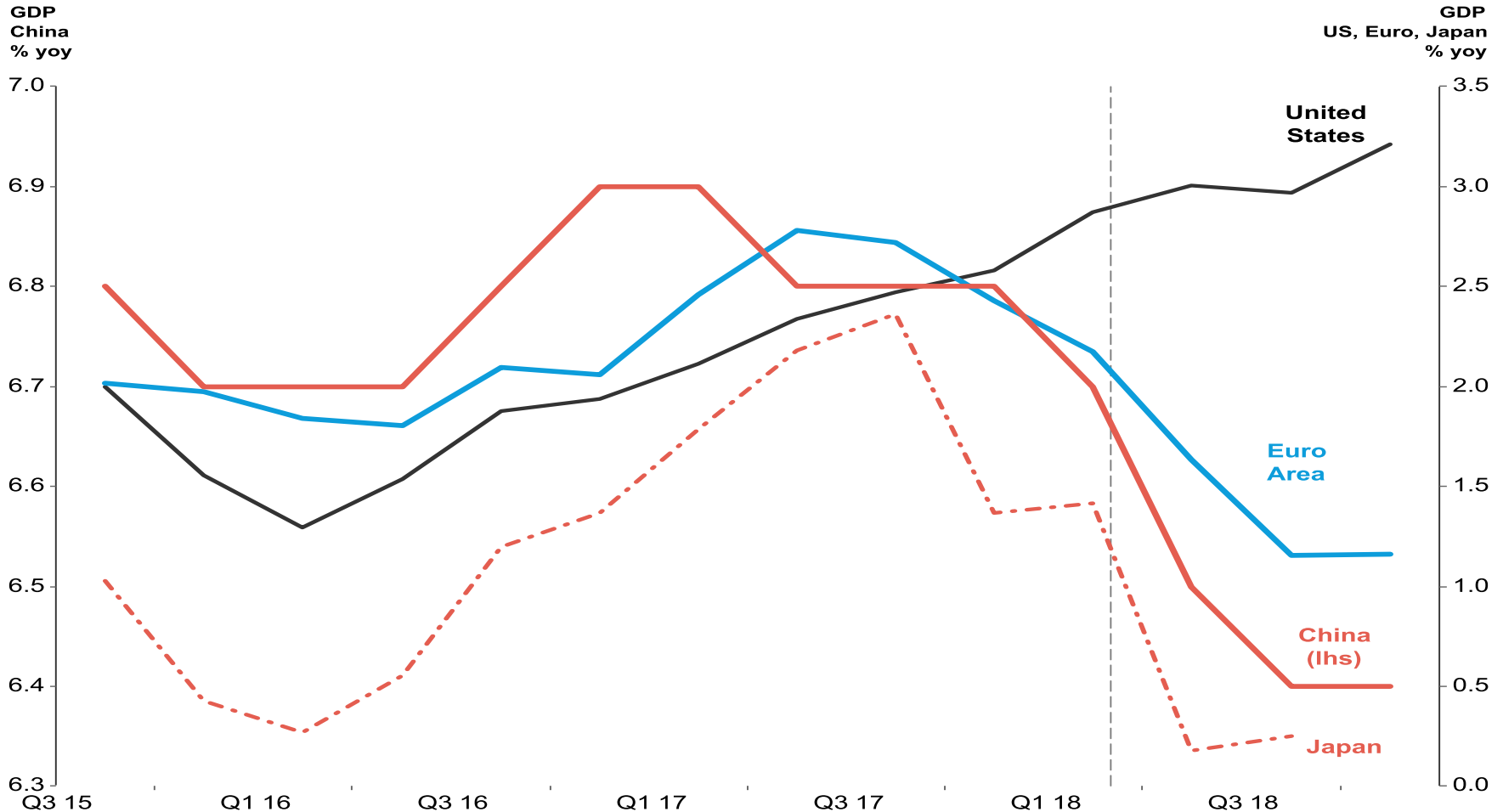
What happened since roadshow 2018?

Rollercoaster ride to a record equity high in 2019

- **Euphoria - May to Q3**
 - US equities, bond yields and credit spreads higher
 - Fed on auto pilot, tolerating inflation overshoot
 - **Fear - Q4**
 - Recession fervour as yield curve flattens on Fed misstep
 - Trump “I’m a tariff man”
 - **Rebound – Christmas eve to now**
 - Fed’s dovish pivot and central banks ease to prolong growth
 - Equities set new record highs, bond yields sharply lower
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Global uncertainty

Europe, China, Japan slowed - US supported by fiscal policy





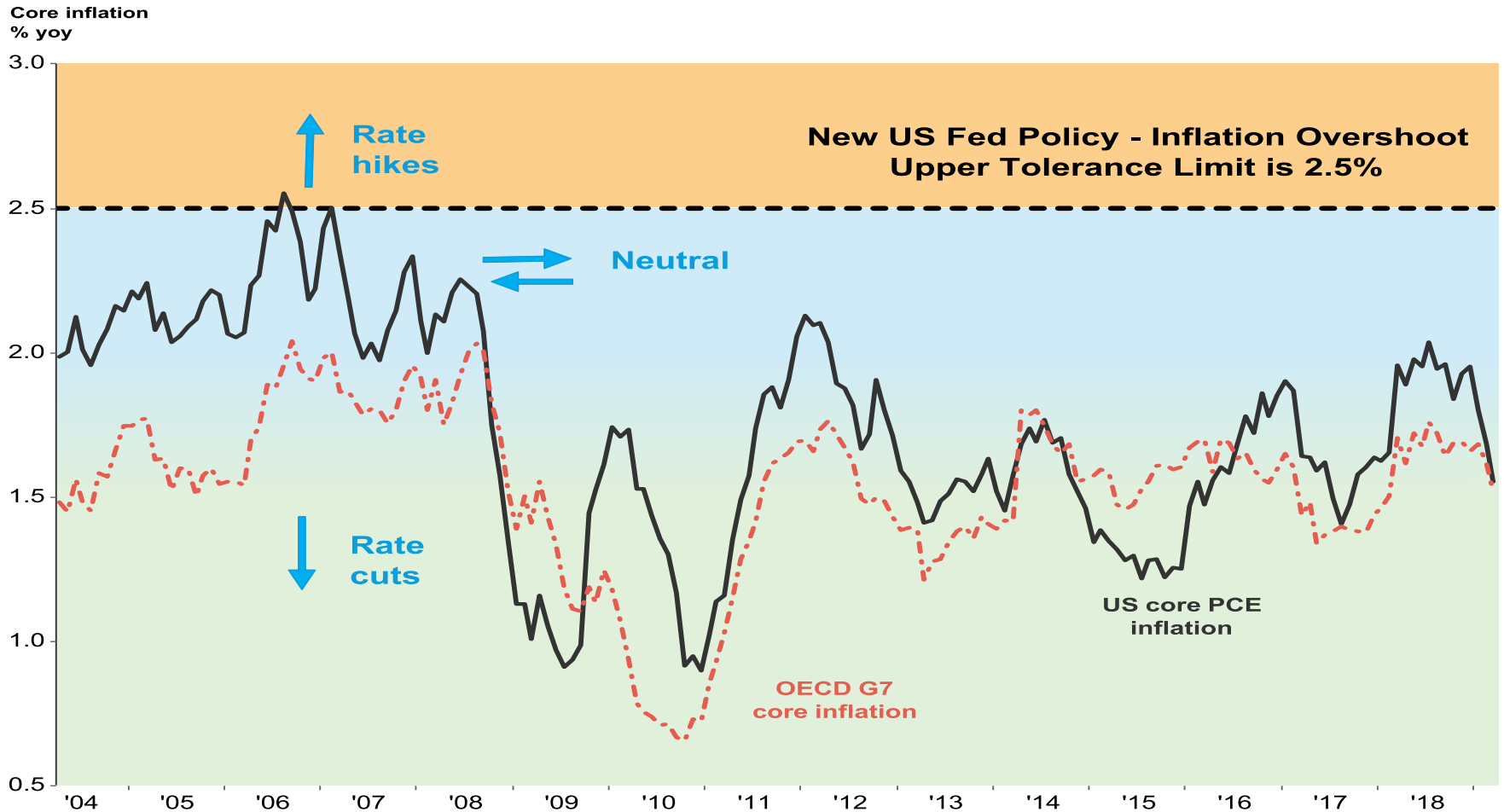
Outlook 2020 - expansion prolonged

Global growth to respond to easier financial conditions

- Lower inflation expectations permit cuts in the US Fed funds rate
 - Productivity growth contains global core inflation below 2%
 - Advanced and emerging economies growing at potential GDP
 - US TWI depreciation and growth supports commodity prices
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FED - cuts on lower inflation expectations

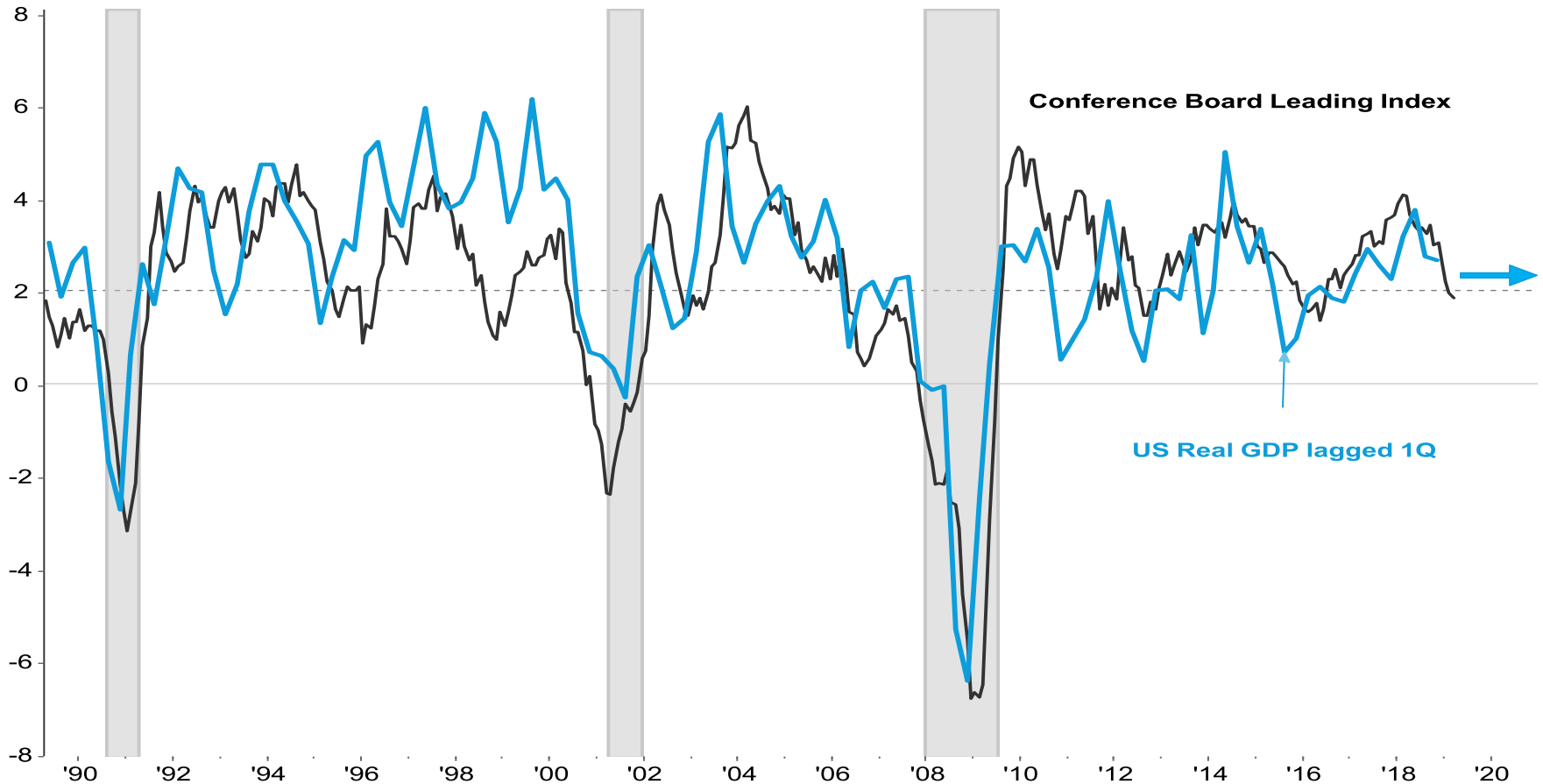
Bernanke recommends easier policy to ensure 2.5% overshoot



US 2% potential GDP growth

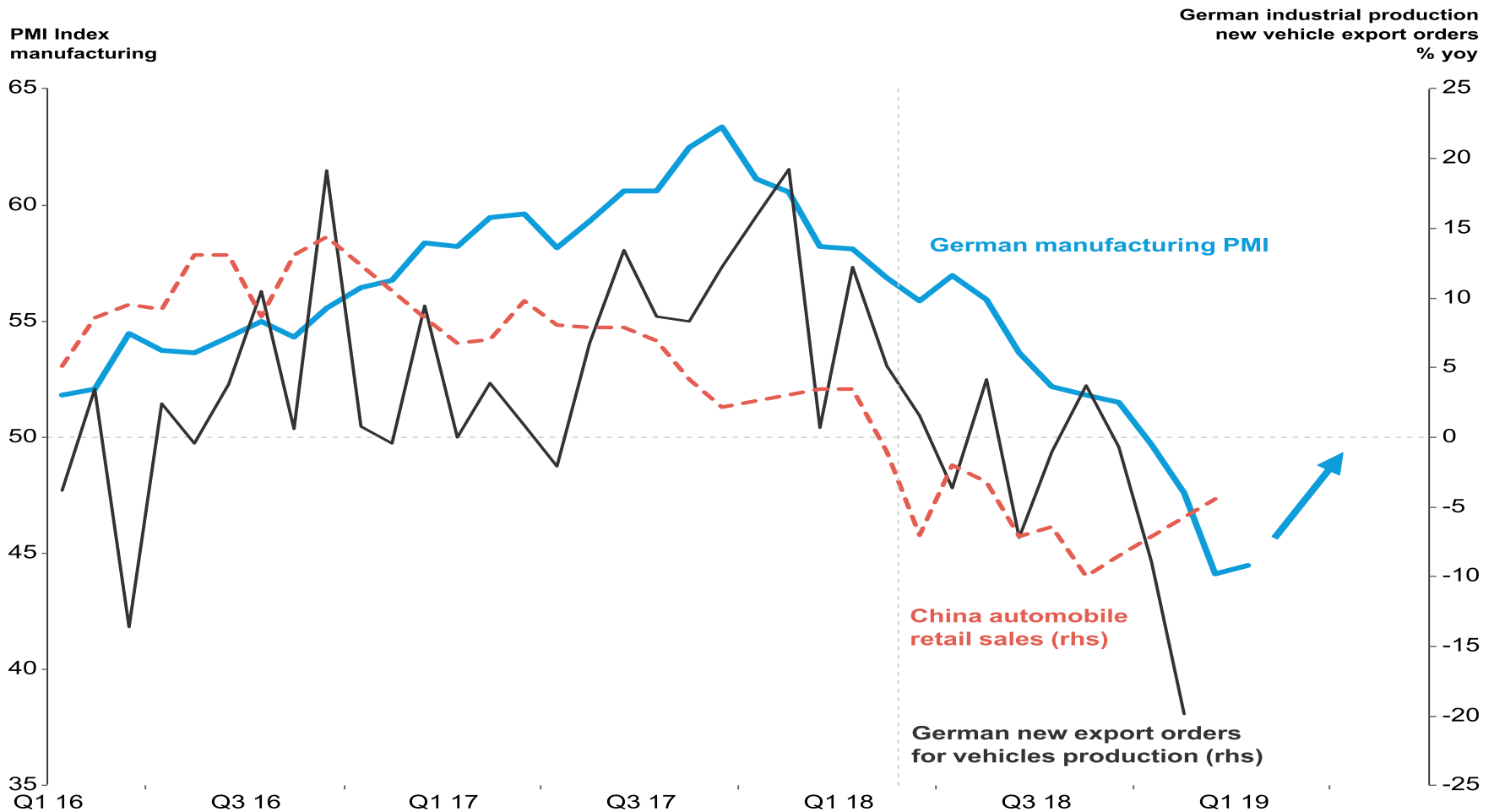
Rising productivity consistent with 3% wages and low inflation

6 month
annualised rate %



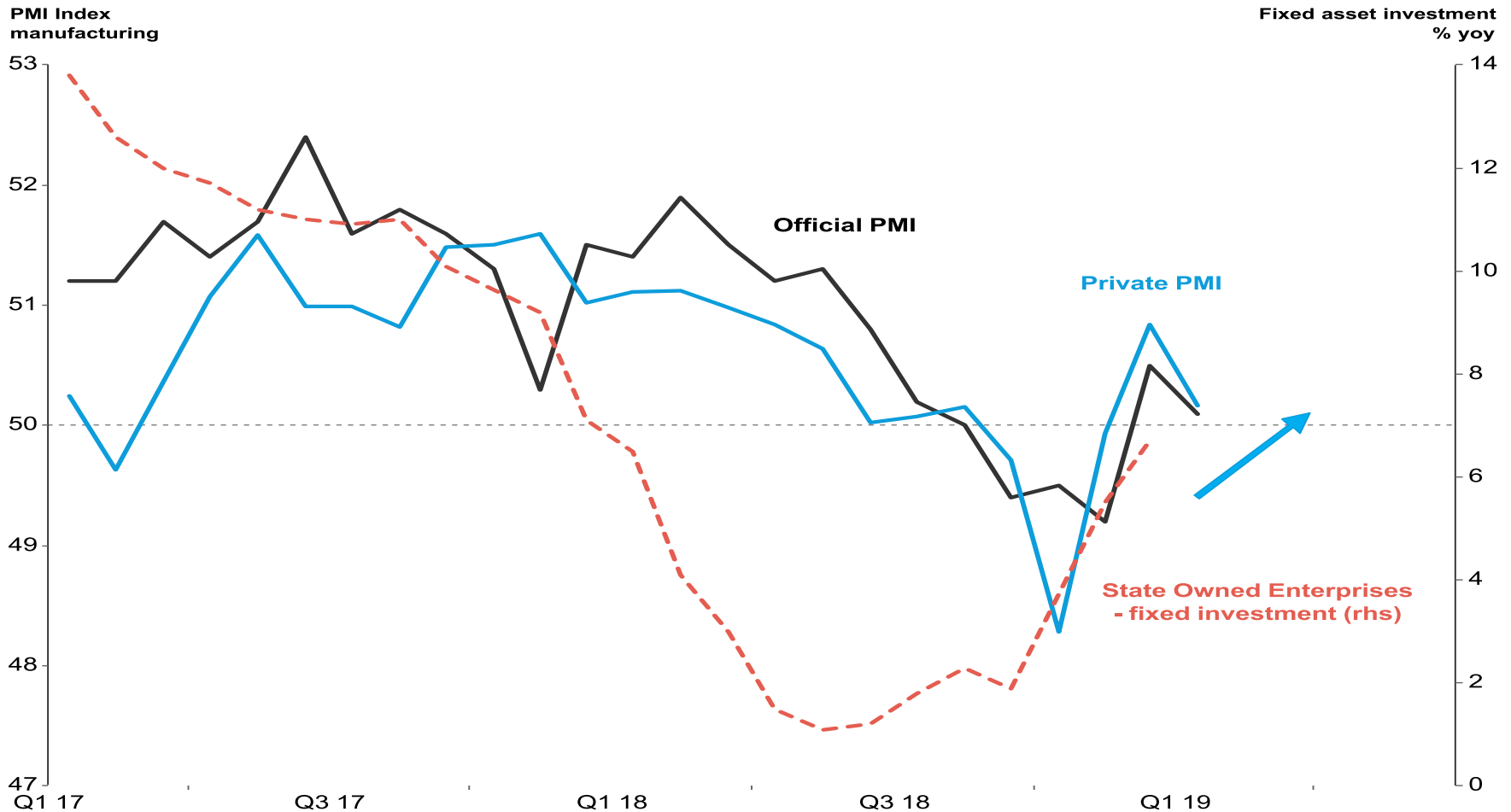
Europe - supply chains disrupted

China traction to spur German rebound



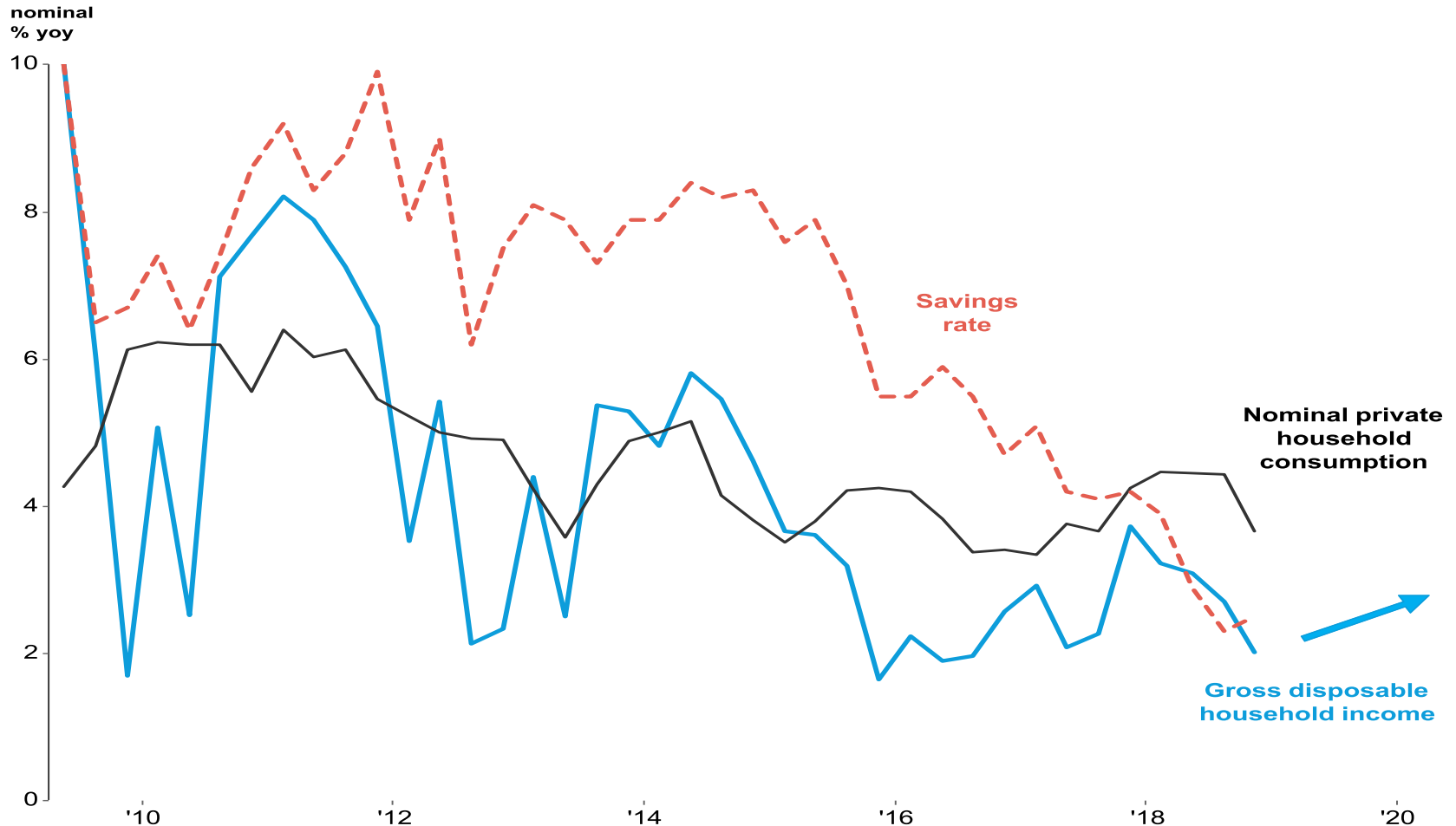
China – aggressive stimulus measures

Policy traction reflected in improving manufacturing PMIs



Australia – slower household consumption

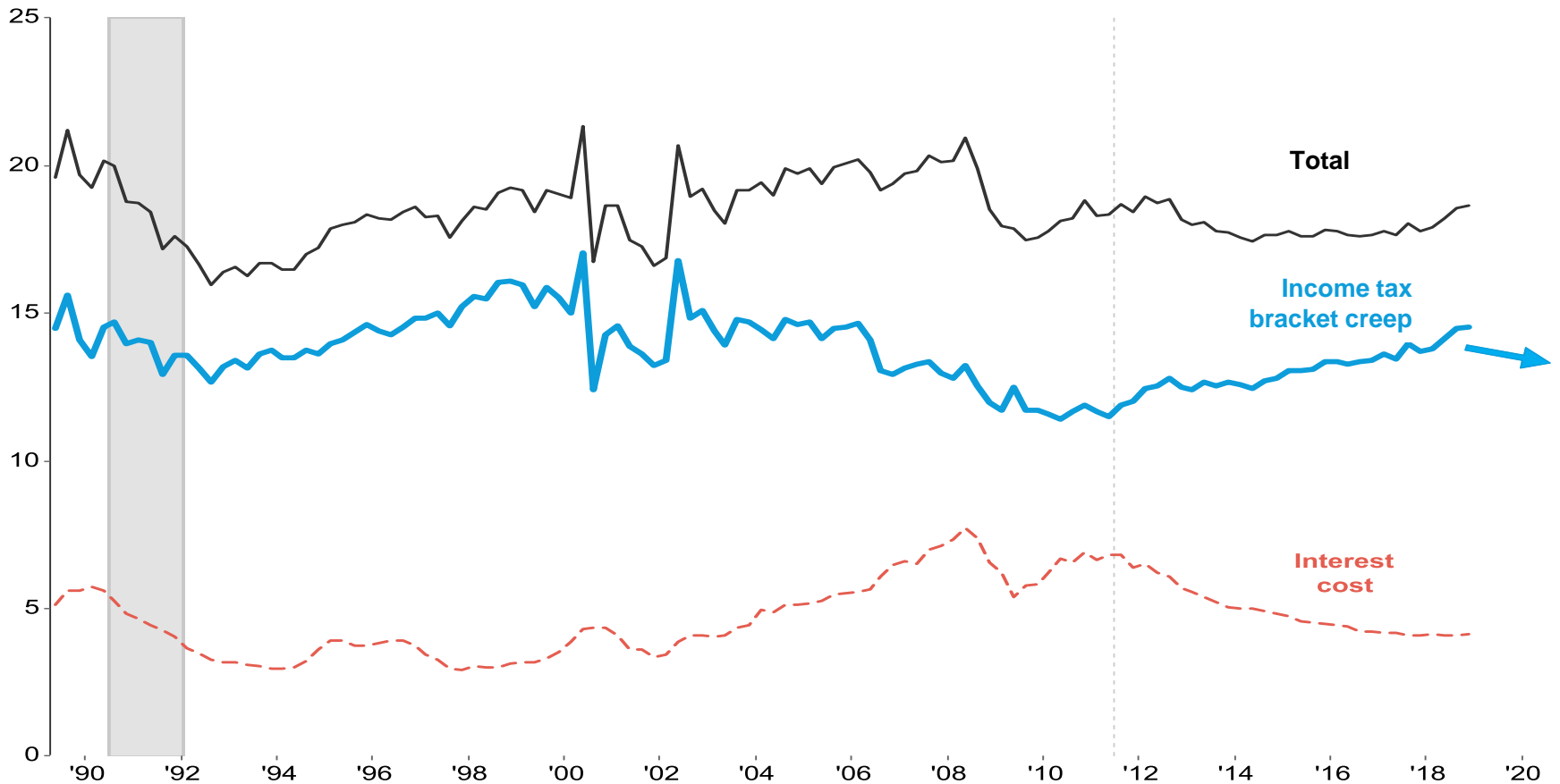
Low income growth offset by a falling savings rate for now



Australia - fiscal support for consumption

Household income tax cuts to offset bracket creep

share of gross household income
% ratio



Australia - modest wage growth

Demand key to a low unemployment rate and wages

Unemployment rate %
Wages % yoy

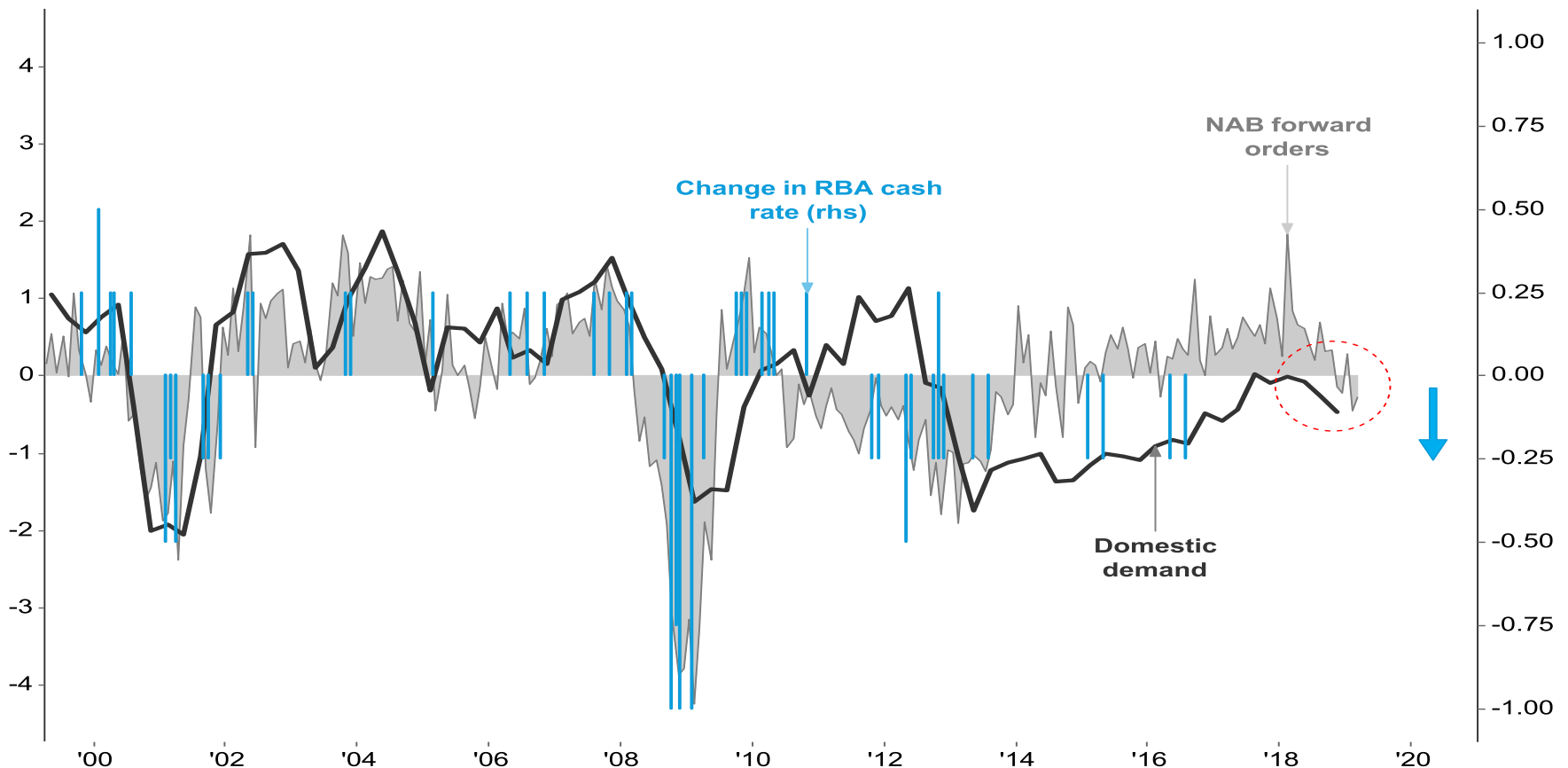


Australia – rate cut as “insurance”

RBA can respond to weaker demand and lower inflation

NAB forward orders
Real GDP Domestic demand
Z-score

RBA cash rate
basis points
change in level





Summary

Key messages

- Global growth to continue - respond to easier financial conditions
 - Fed rate cut expected, expansion prolonged
 - US/China trade agreement expected
 - RBA cut to 1.25% and income tax cuts to offset weaker outlook
 - AUD/USD in the range 67-72c
 - Commodity cycle supportive of resources and earnings outlook
-

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Paul Xiradis

Executive Chairman
Chief Investment Officer
Head of Equities

Global growth

Central banks extend accommodative policy settings

Real GDP % yoy	Official Sector Consensus 2019 (f) %	Ausbil (f) 2019 %	Official Sector Consensus 2020 (f) %	Ausbil (f) 2020 %
May 2019				
United States	2.4	2.2	1.9	2.0
Japan	0.9	0.9	0.6	0.6
Eurozone	1.3	1.3	1.5	1.5
China	6.2	6.3	6.0	6.1
Australia	2.6	2.5	2.7	2.7
Global GDP	3.5	3.5	3.5	3.6

Sources: (a) International Monetary Fund, World Economic Outlook Update, released 10 April 2019 (b) OECD Economic Outlook Update, released 06 March 2019 (c) The World Bank, Global Economic Prospects, released 09 Jan 2019 (d) US Federal Reserve Economic Projections of Federal Reserve Board Members and Federal Reserve Presidents, released 20 March 2019 (e) European Central Bank Staff Macroeconomic Projects, released 8 March 2019 (f) European Commission, released 07 February 2019 (g) ECB's Survey of Professional Forecasters 11 April 2019 (h) Bank of England Inflation Report, released 07 February 2019 (i) Bank of Japan Economic Outlook, released 25 Apr 2019 (j) Bank of Canada Monetary Policy Report, released 09 Jan 2019 (k) Australian Treasury Budget 2019-20, released 02 April 2019 (l) RBA Statement on Monetary Policy, released 08 February 2019.

Financial markets

The last 12 months



Australian equity market

Consensus earnings expectations



Australian equity market

Consensus earnings expectations



Australian equity market

EPS growth led by resources and quality industrials

April 2019	PE FY19 (f) X	PE FY20 (f) X	EPS Growth FY19 (f) %	EPS Growth FY20 (f) %	Ausbil** EPS Growth FY20 *(f) %
MARKET	16.4	15.2	5.8	8.0	↑
Financials	13.7	13.0	2.8	5.4	↓
REITS	16.9	16.1	6.3	4.9	↔
Industrials*	22.2	20.2	-1.0	9.9	↑
Resources	13.4	12.1	21.3	10.6	↑

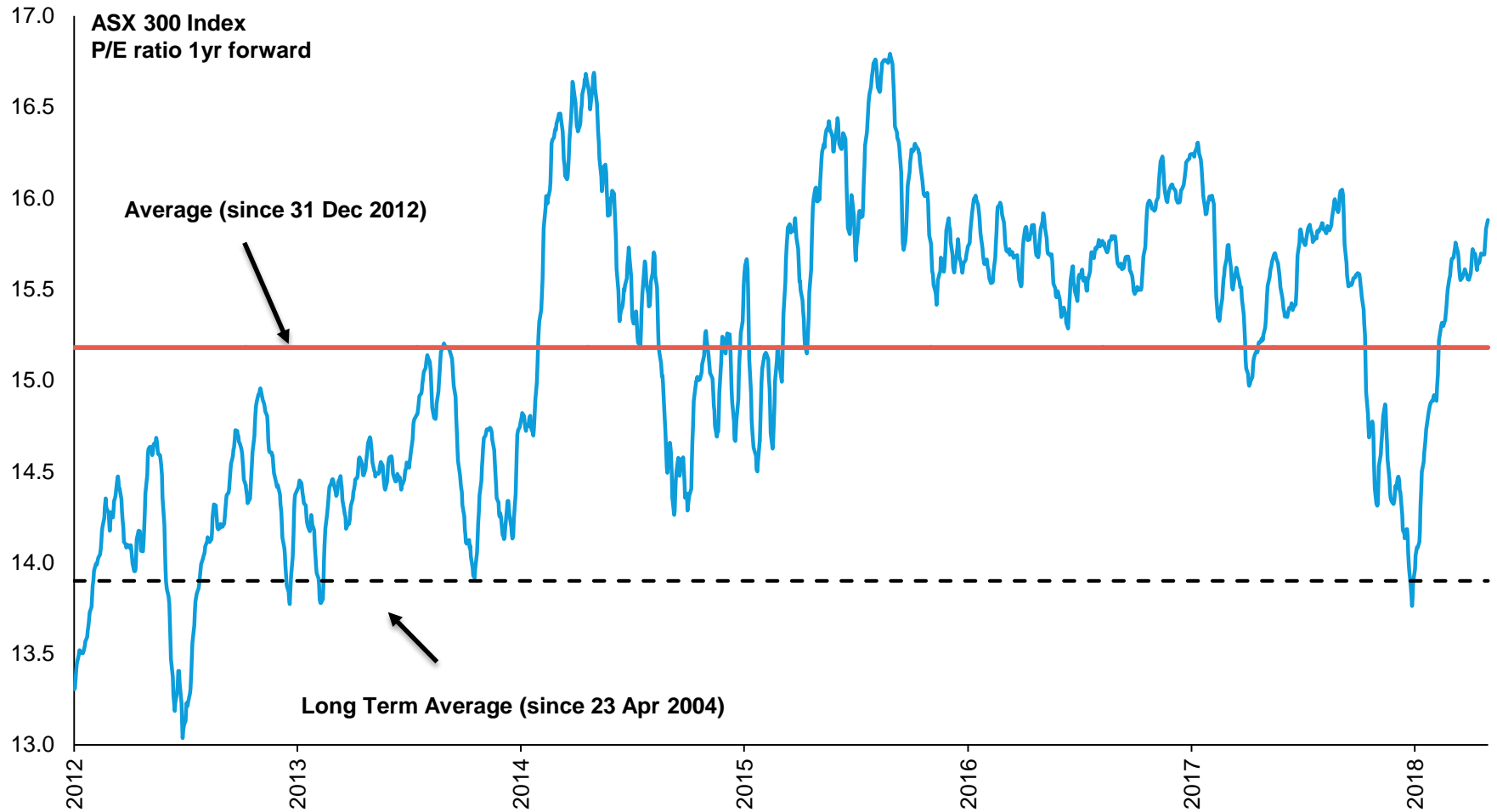
Source: Ausbil, as at 30 April 2019.

*Industrials defined as the Market ex-Financials, REITs, and Resources.

**Ausbil view of earnings direction relative to consensus.

Australian equity market

Valuation supported by lower interest rates





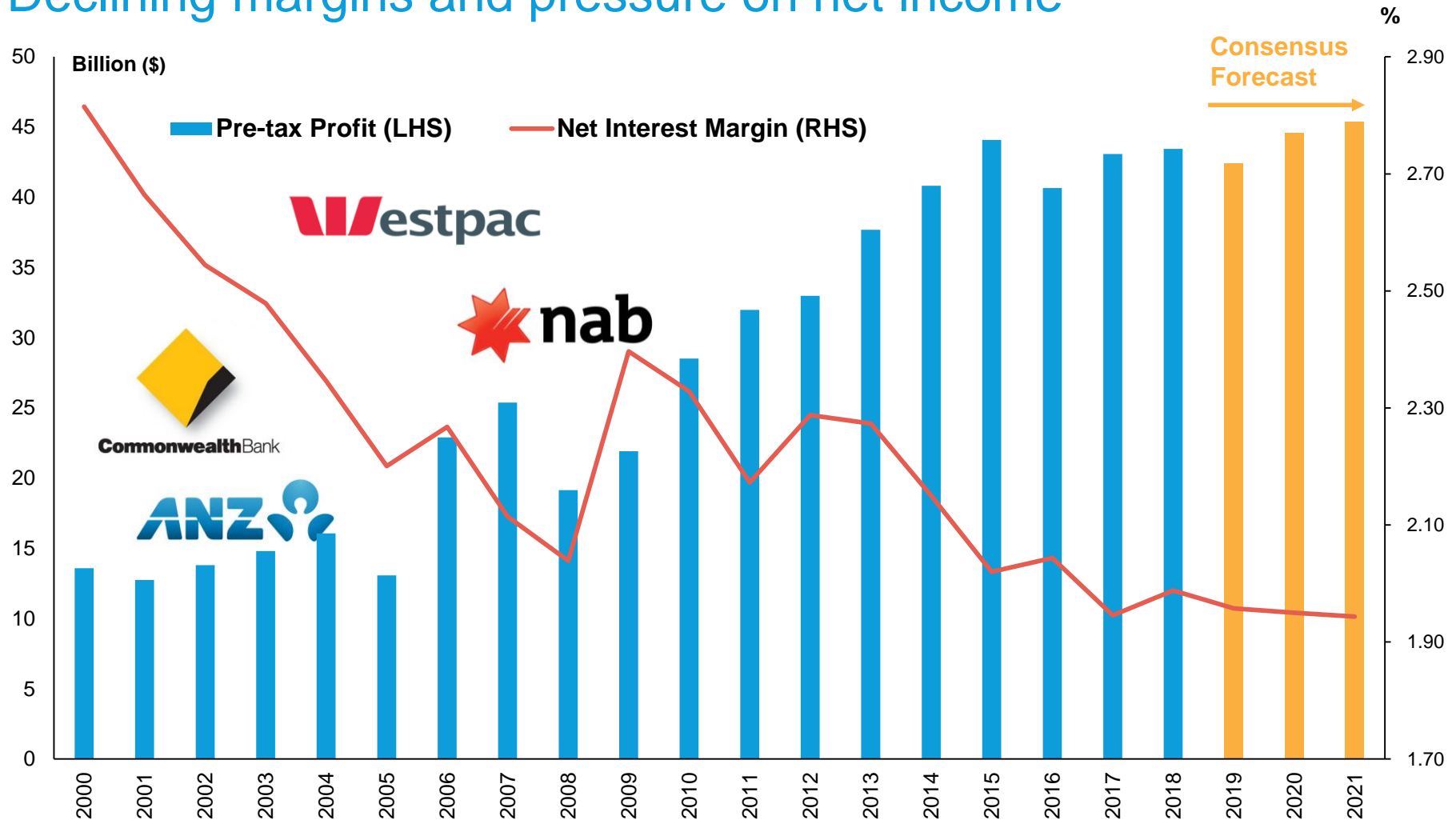
Market drivers for FY20

Outlook for key sectors

- **Banks**
 - Earnings, margins and business models under pressure
 - **Real Estate Investment Trusts**
 - Not all REITs are equal
 - **Industrials**
 - Quality income and quality growth to outperform
 - **Resources**
 - Strong EPS growth with attractive valuations
-

Banks since 2000

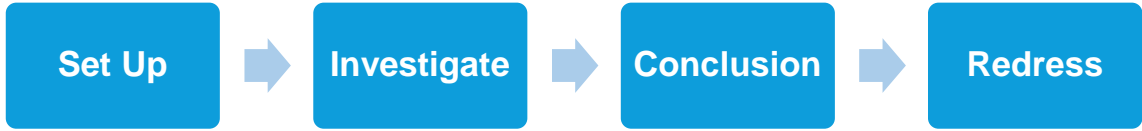
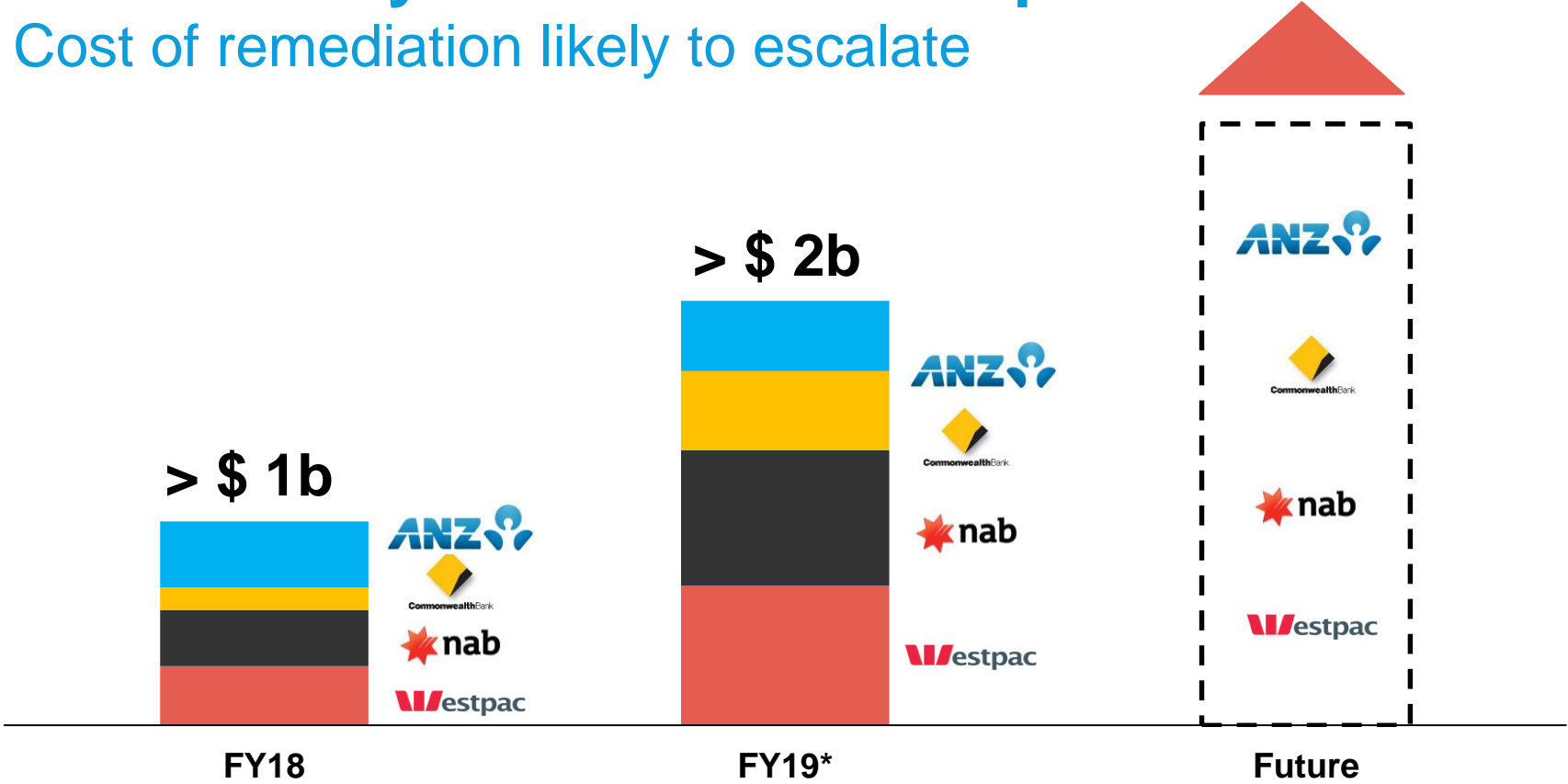
Declining margins and pressure on net income



Source: Ausbil, Bloomberg.
Aggregated pre-tax profit of the Big-4 Banks used.

Banks – Royal Commission impact

Cost of remediation likely to escalate



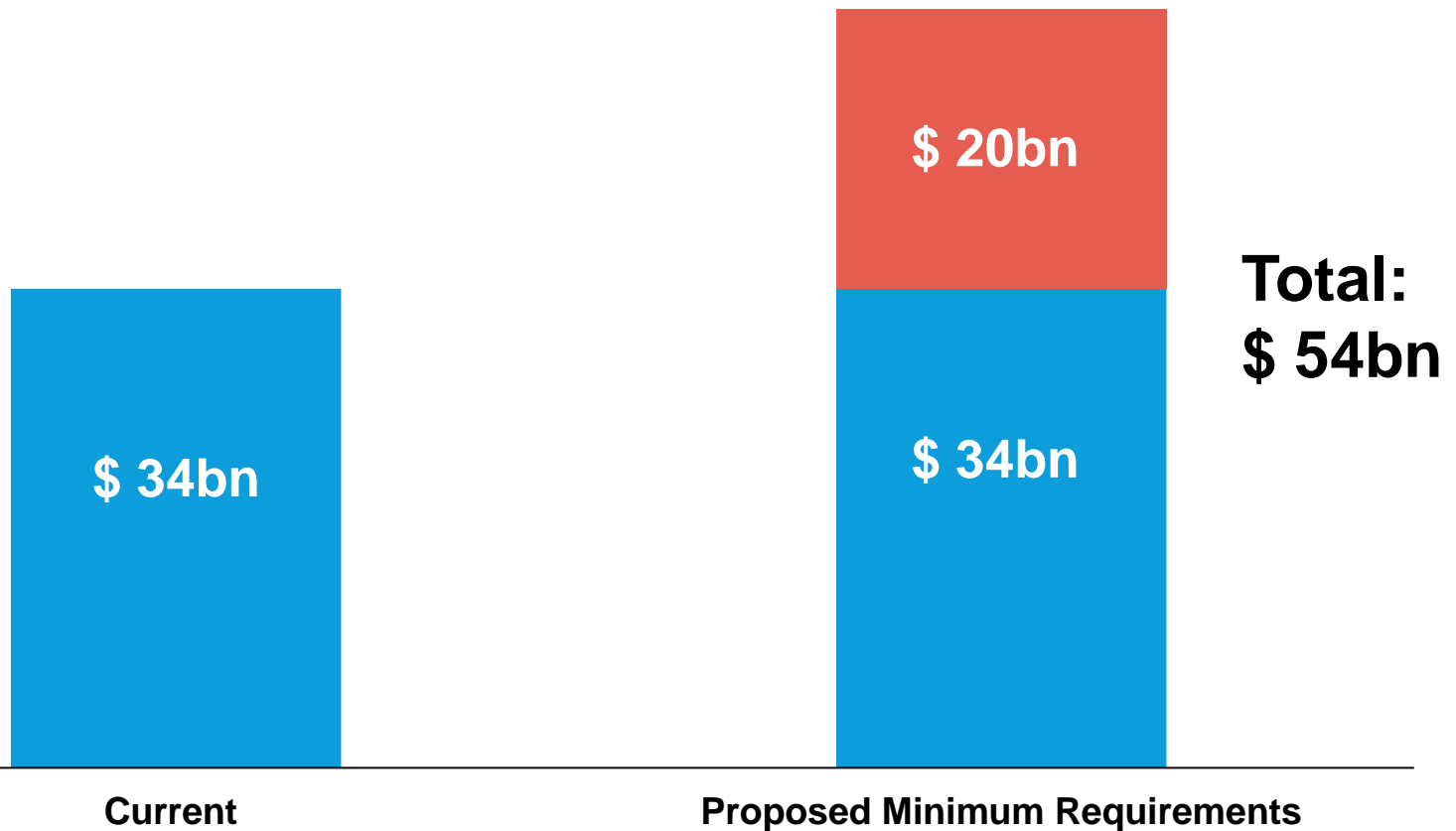
United Kingdom

- PPI episode
- Initial estimates £ 2-4b
- Realised £ 36b

Source: Ausbil, Goldman Sachs, CLSA.
*Estimated costs so far (Ausbil, CLSA).

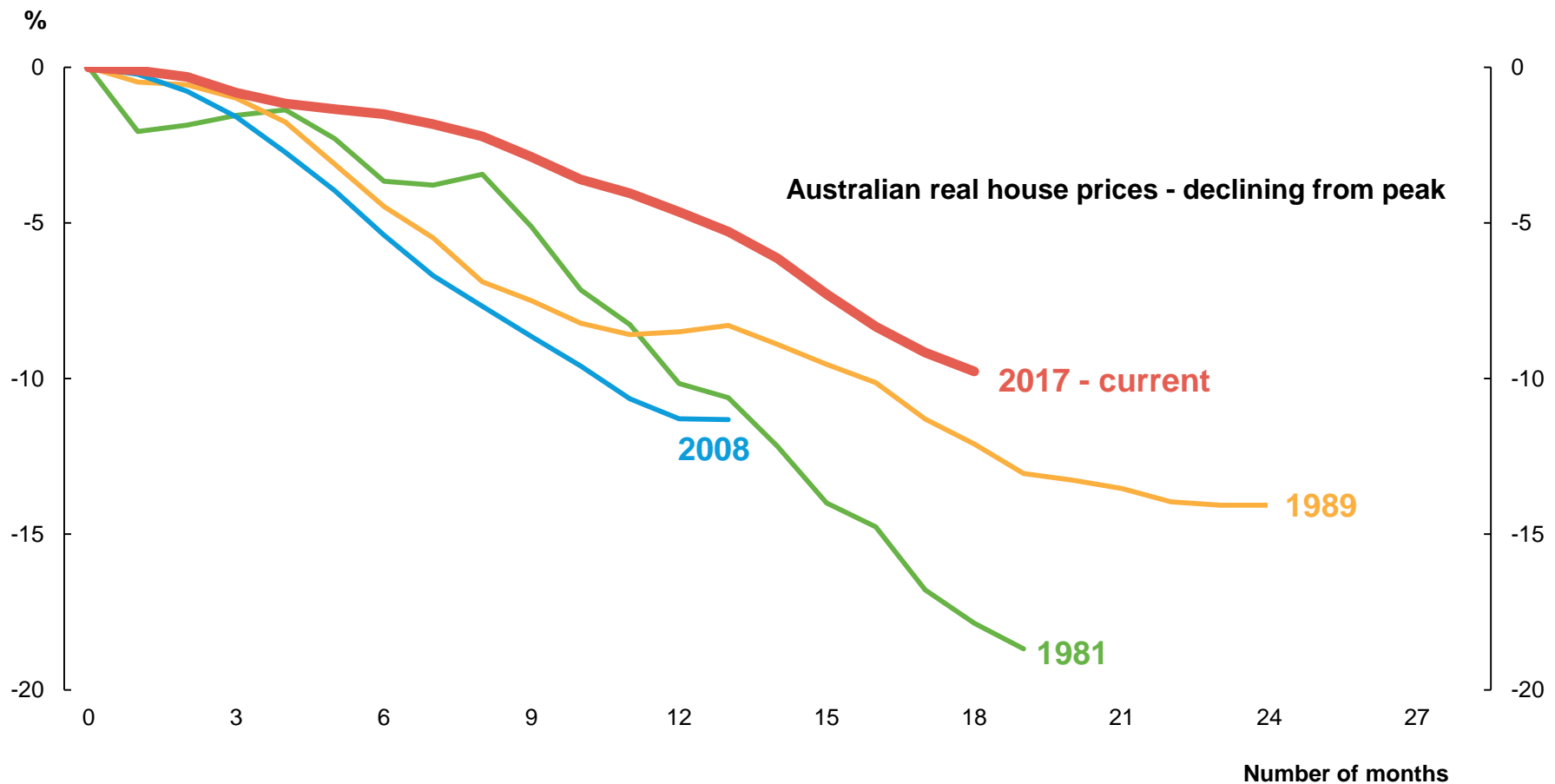
Banks – New Zealand capital impost

RBNZ proposal requires additional \$20bn of Tier 1 capital



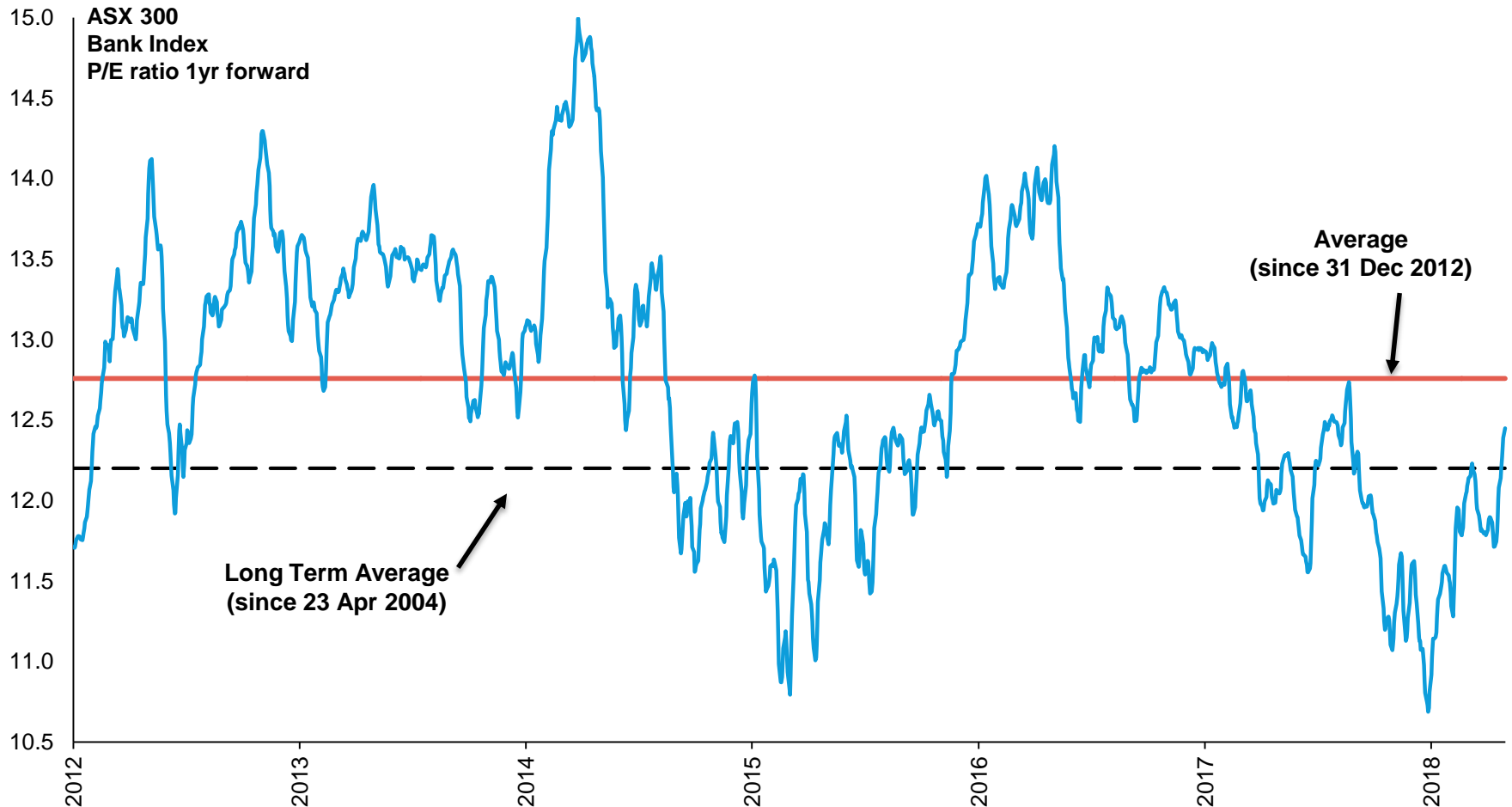
Banks – declining house prices

Increasing bad debt charges?



Banks – valuation

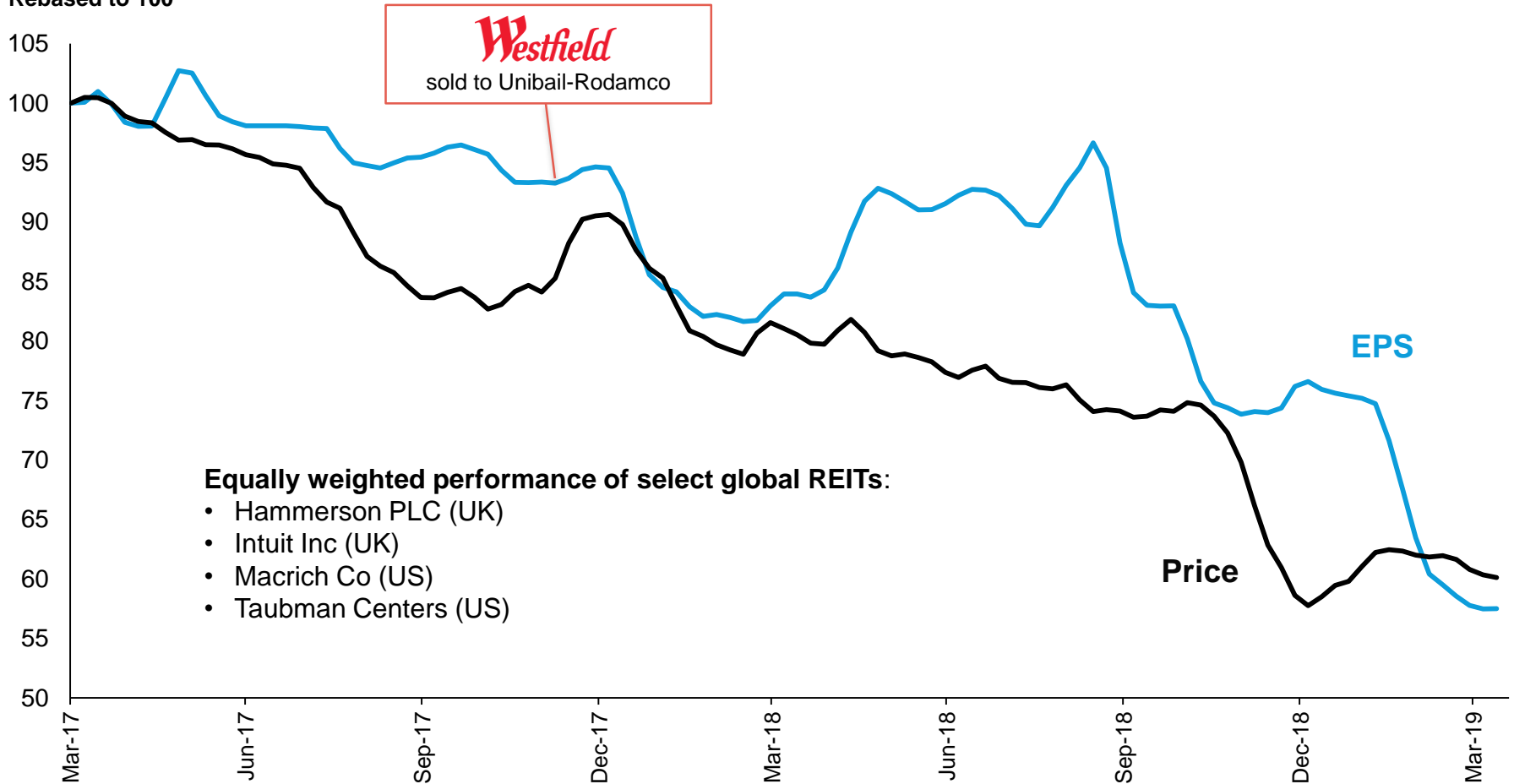
Appear cheap for a reason - beware earnings risks



Real Estate Investment Trusts

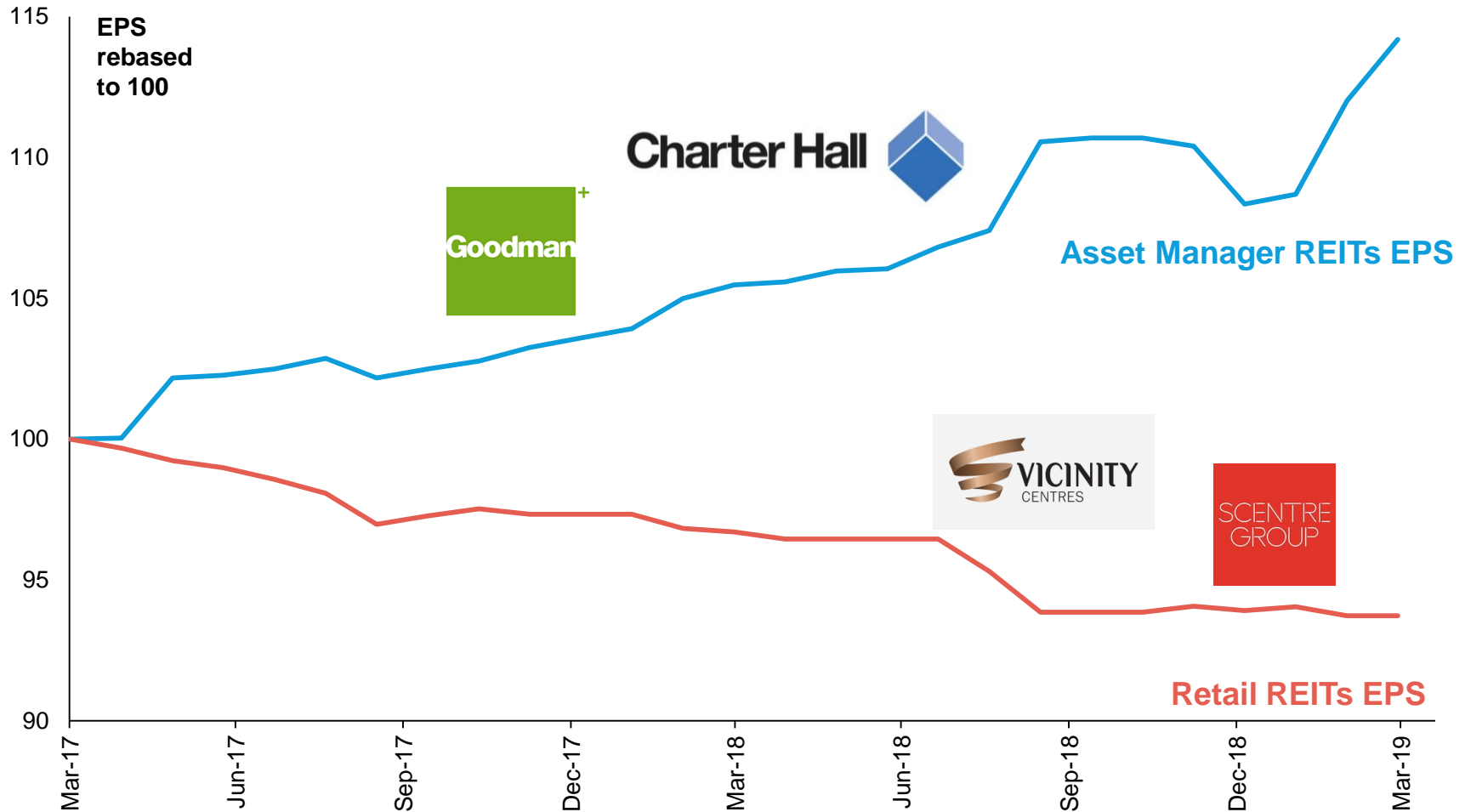
Global retail REITs under pressure

Rebated to 100



Australian retail REITs to follow global experience

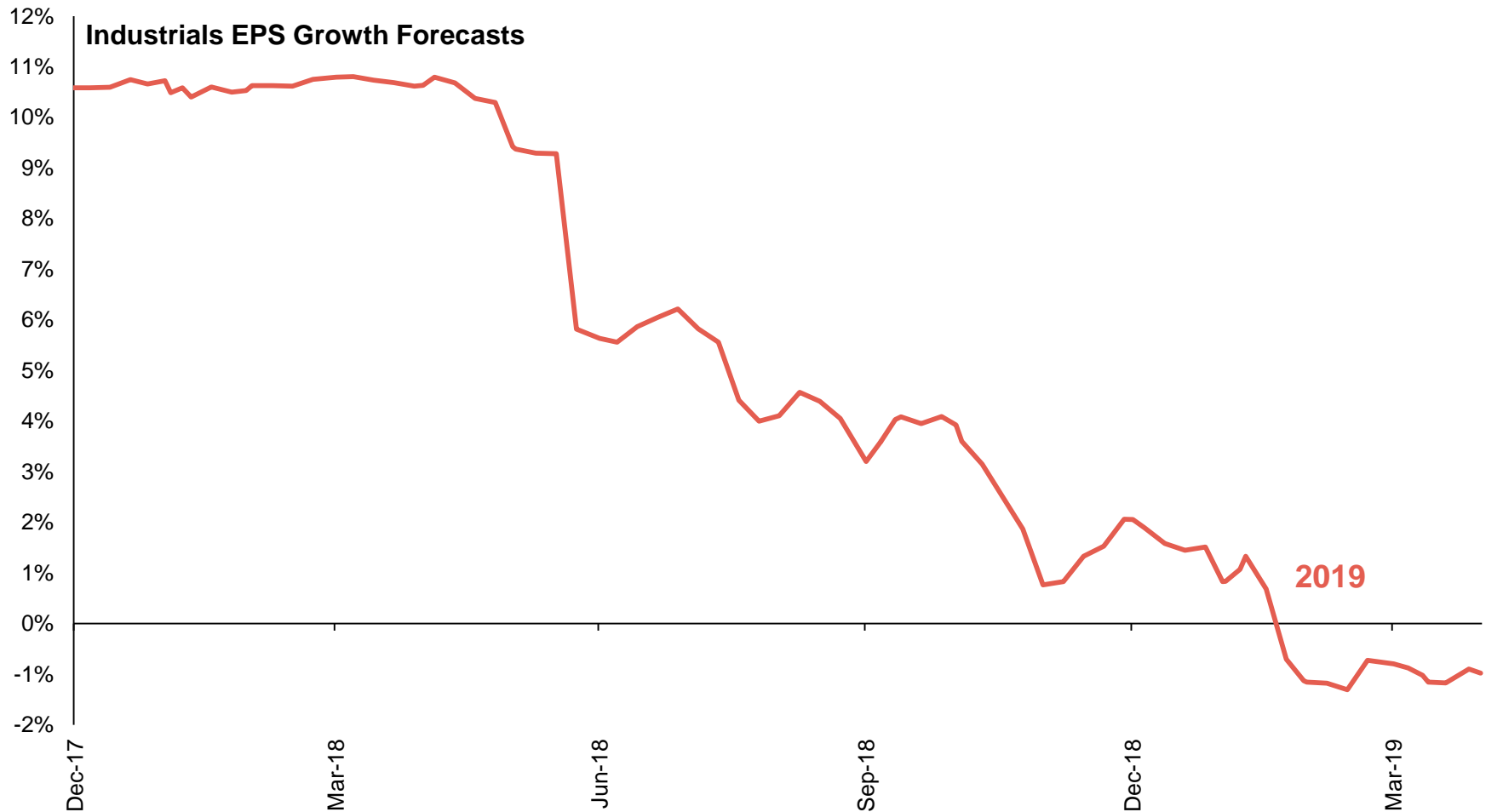
Not all REITs are equal



Source: Ausbil, Bloomberg, as at 17 April 2019. Equally weighted performance of Asset Manager REITs (CHC, GMG) and Retail REITs (SCG, VCX)

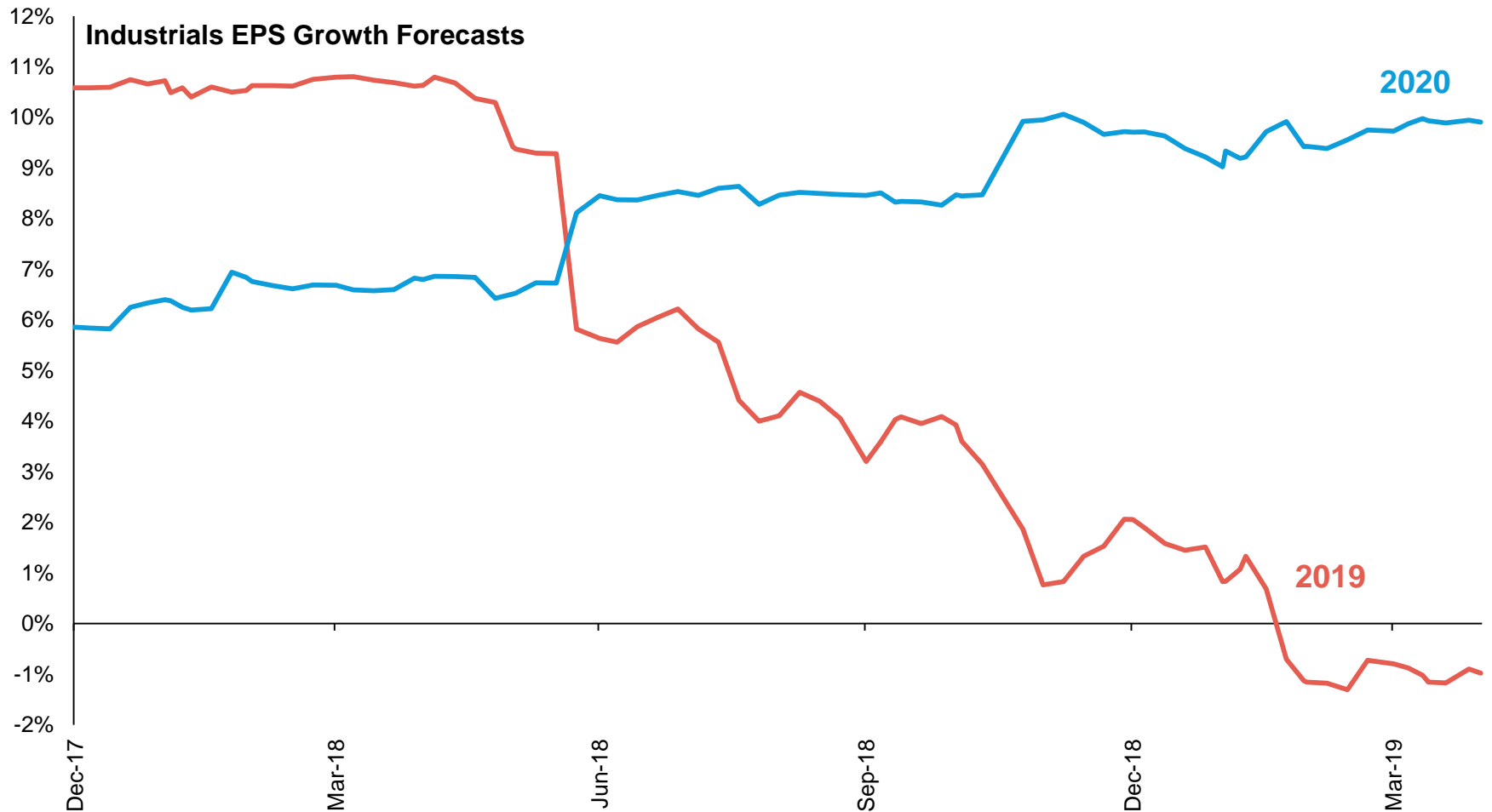
Industrials

Earnings growth hard to find in 2019



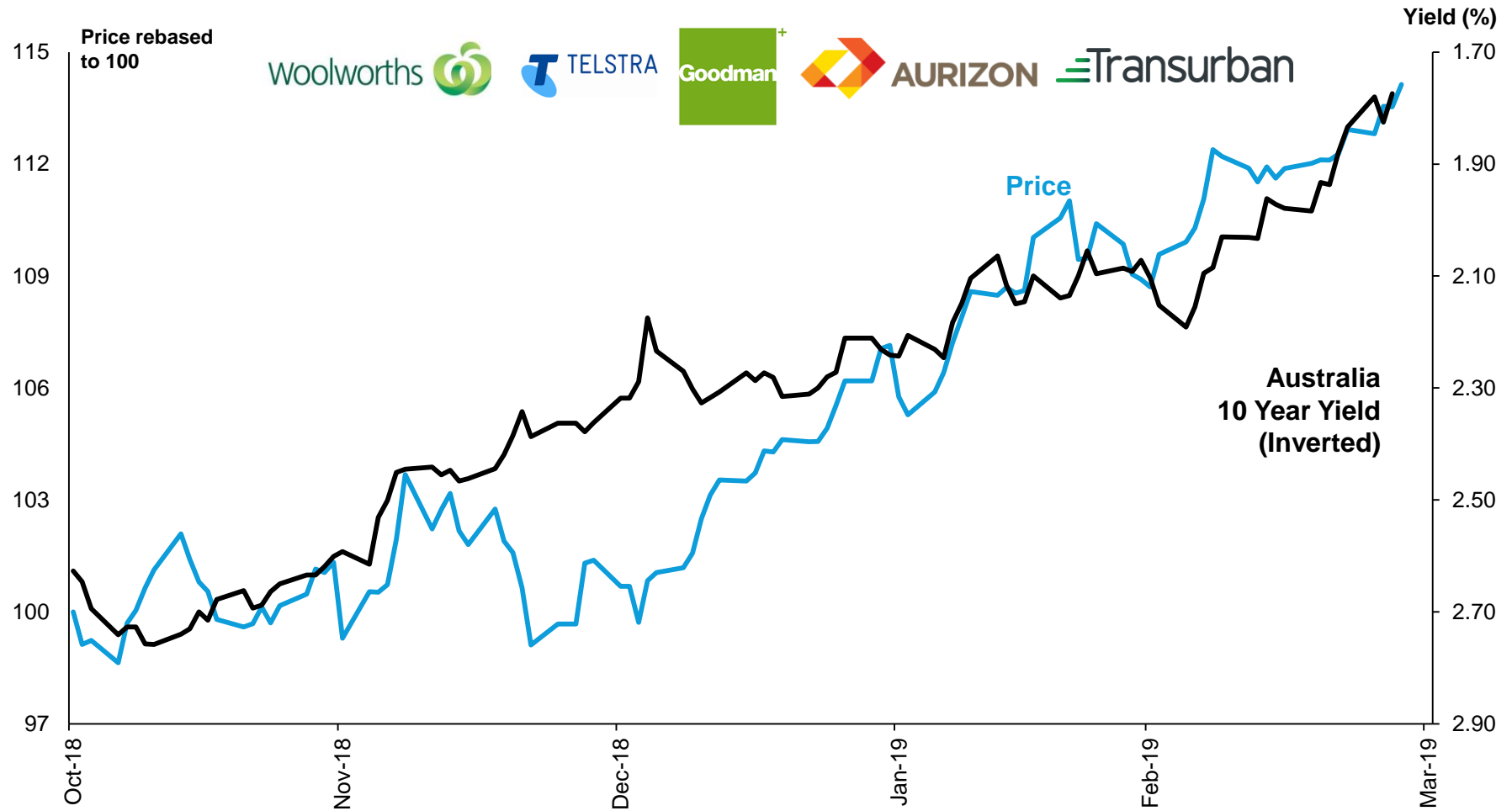
Industrials

Earnings outlook improving in 2020



Industrials - quality income

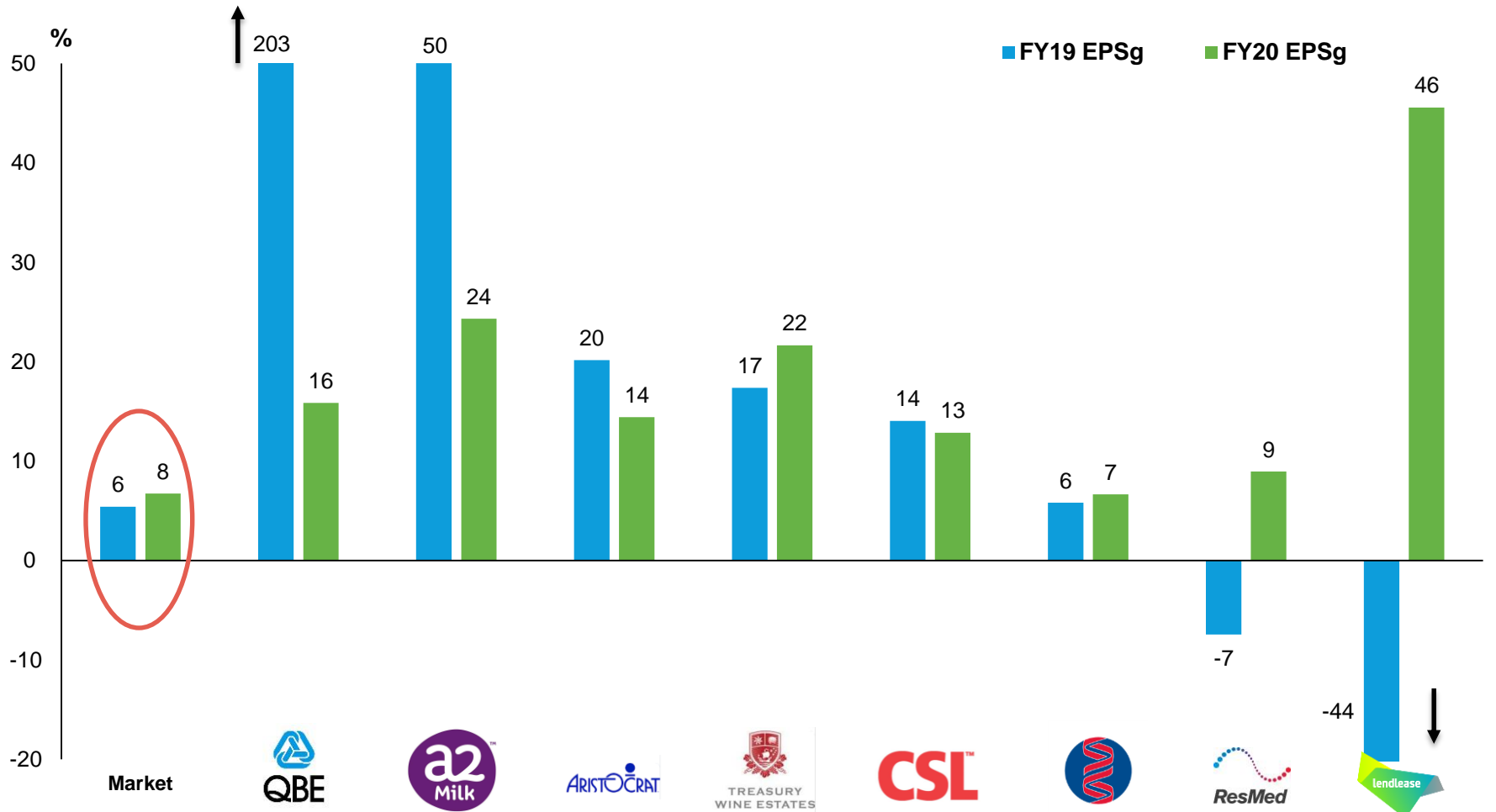
Earnings certainty benefiting from low interest rates



Source: Ausbil, Bloomberg. Equally weighted price performance of Quality Defensives (AZJ, GMG, TCL, TLS, WOW) (LHS) and Australian 10Y Bond Yields (RHS).

Industrials - quality growth

Superior earnings growth will be rewarded



Lendlease

Global leader in major urbanisation projects



	Development Backlog FY15	Development Backlog FY19*
Total	\$ 45b	\$ 96b
Number of Major Projects > \$ 3b	4	7



* Represents the remaining end development value of work yet to be completed.
Left picture: Barangaroo FY09. Right picture: Barangaroo, FY24.

Lendlease

What is the market pricing in?

Lendlease

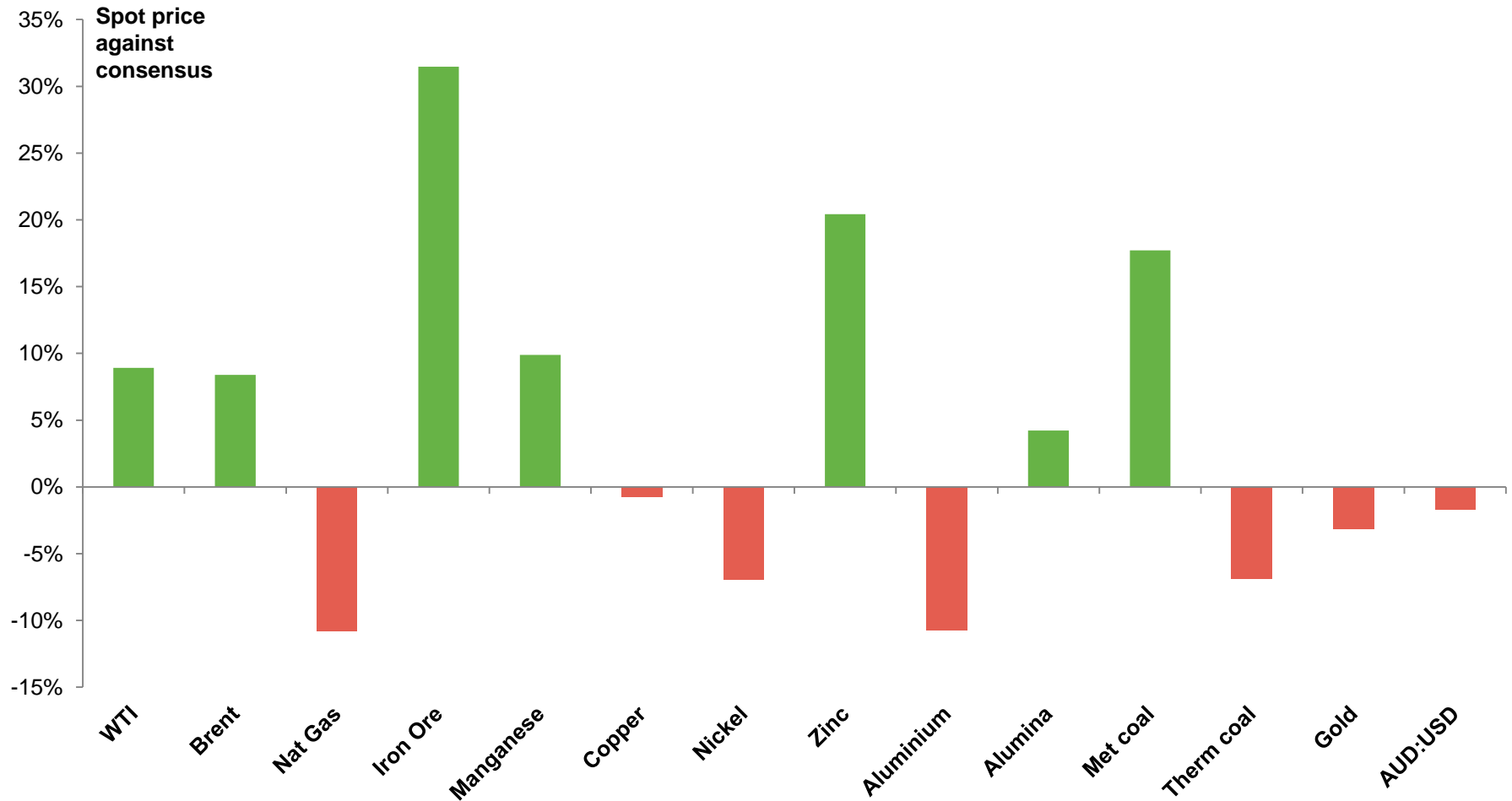
Lendlease business segment	Implied market multiples	Comparable multiples
Development	6.0x	16.0x
Investments	8.0x	17.0x
Construction	5.0x	8.5x
Engineering & Services	0.0x	0.0x
Group multiple (ex E&S)	6.6x	15.0x



Left picture: Euston Station, London. \$10.5 bn end value for project is FY40.
Right picture: Silvertown Quays, London. \$6.4 bn end value for project is FY32.

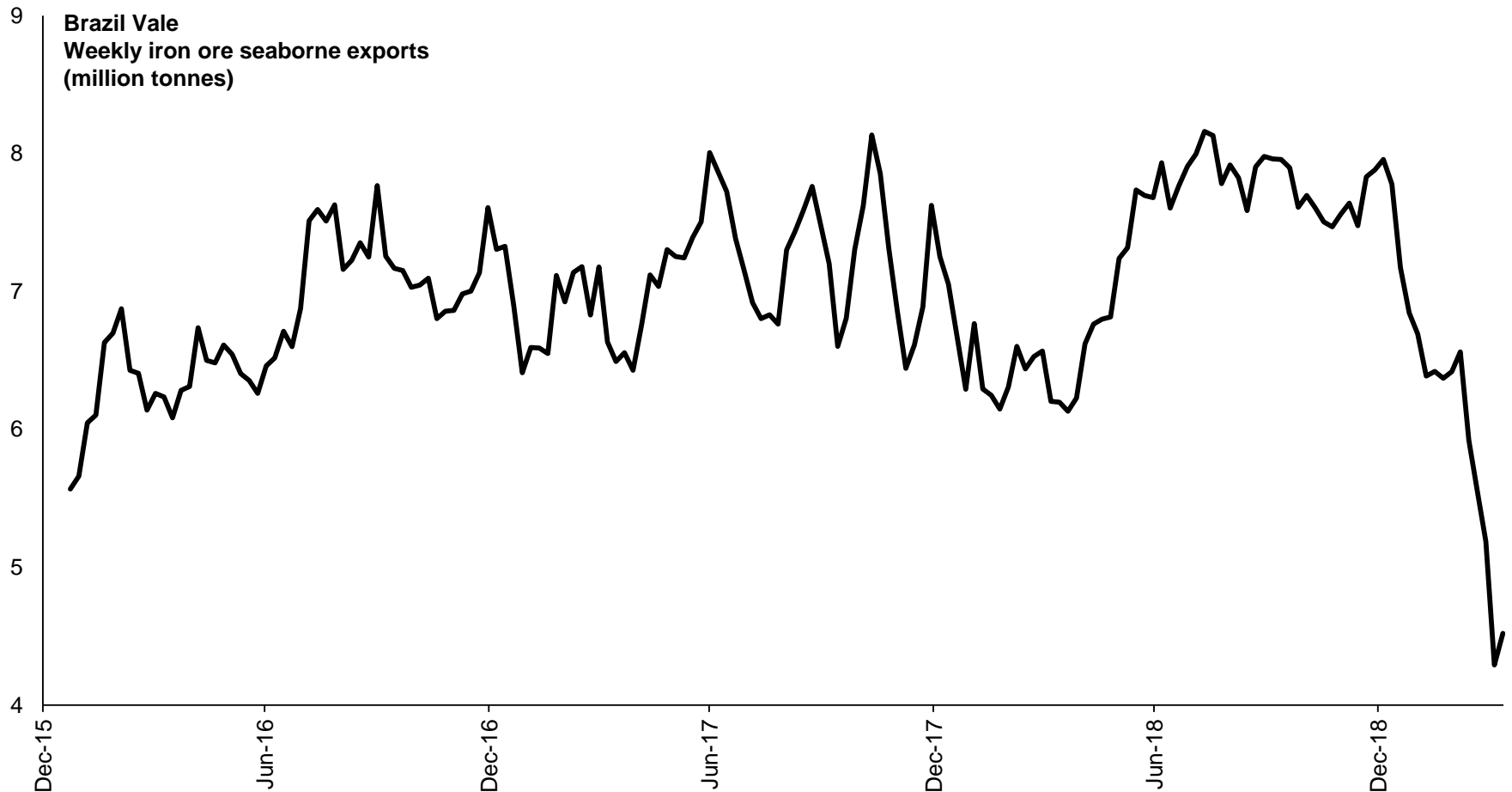
Resources – commodity prices

Spot relative to consensus



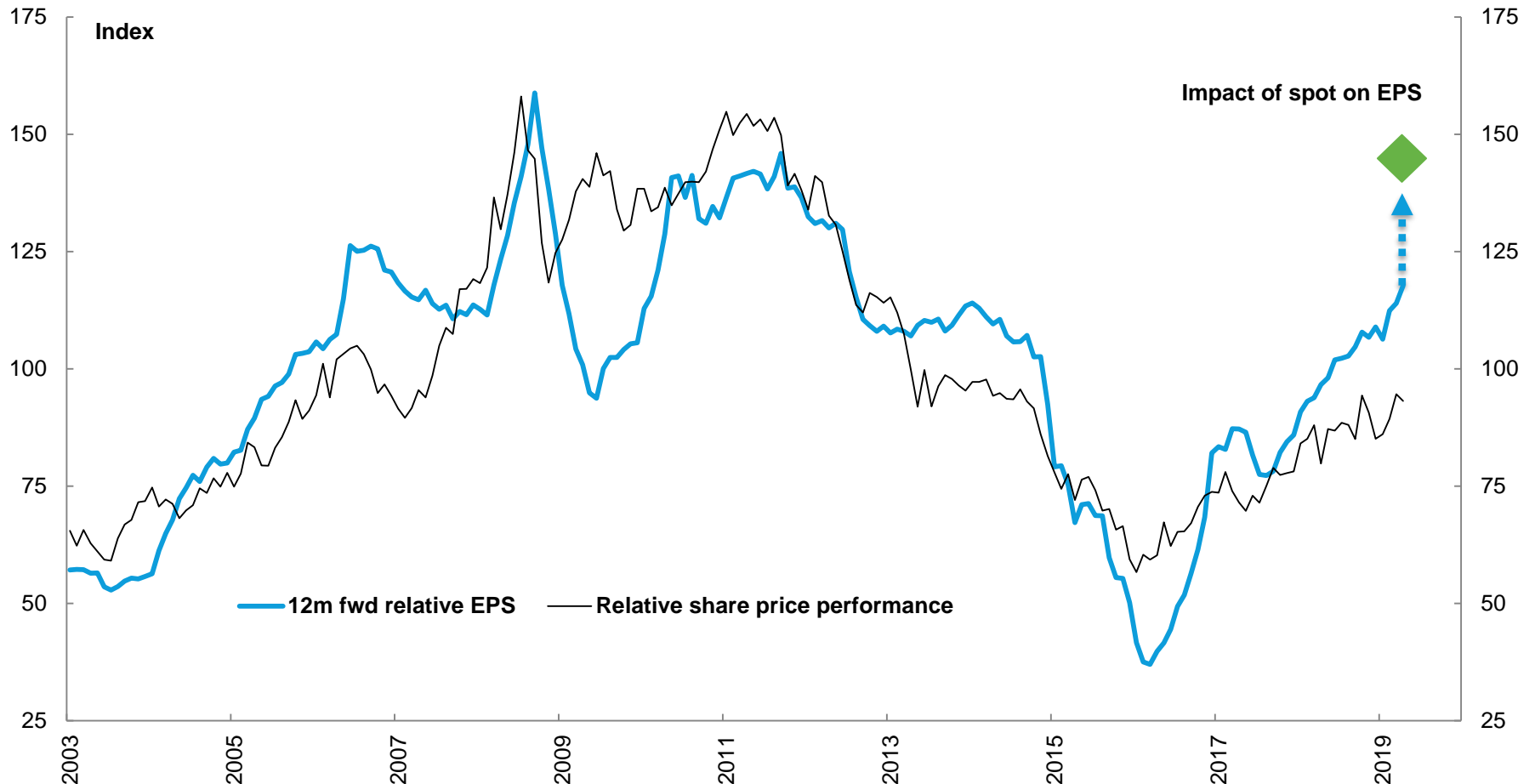
Resources - metals and mining

Disruption to Brazil iron ore exports



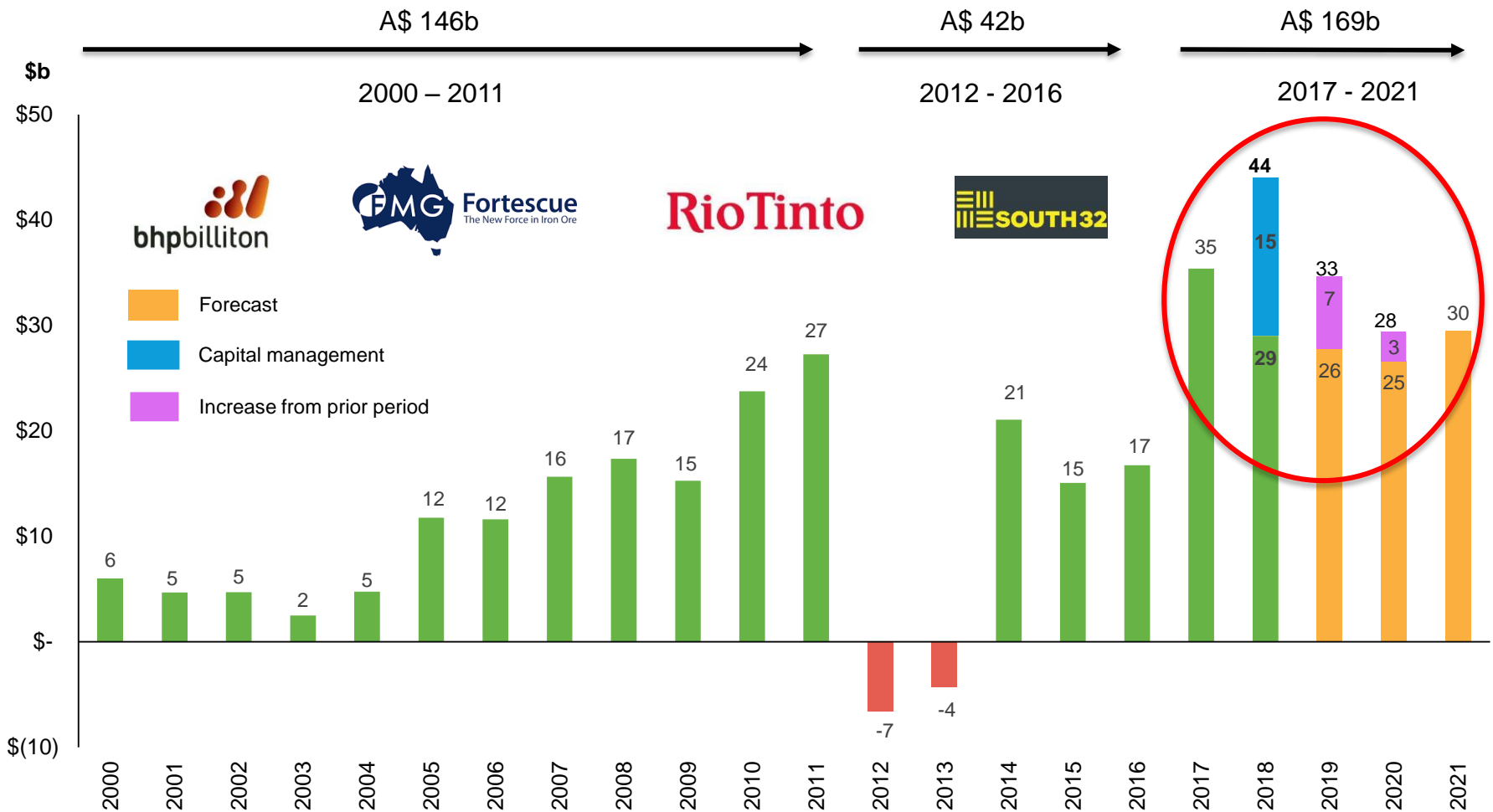
Resources - metals, mining and energy

EPS upgrades drive outperformance



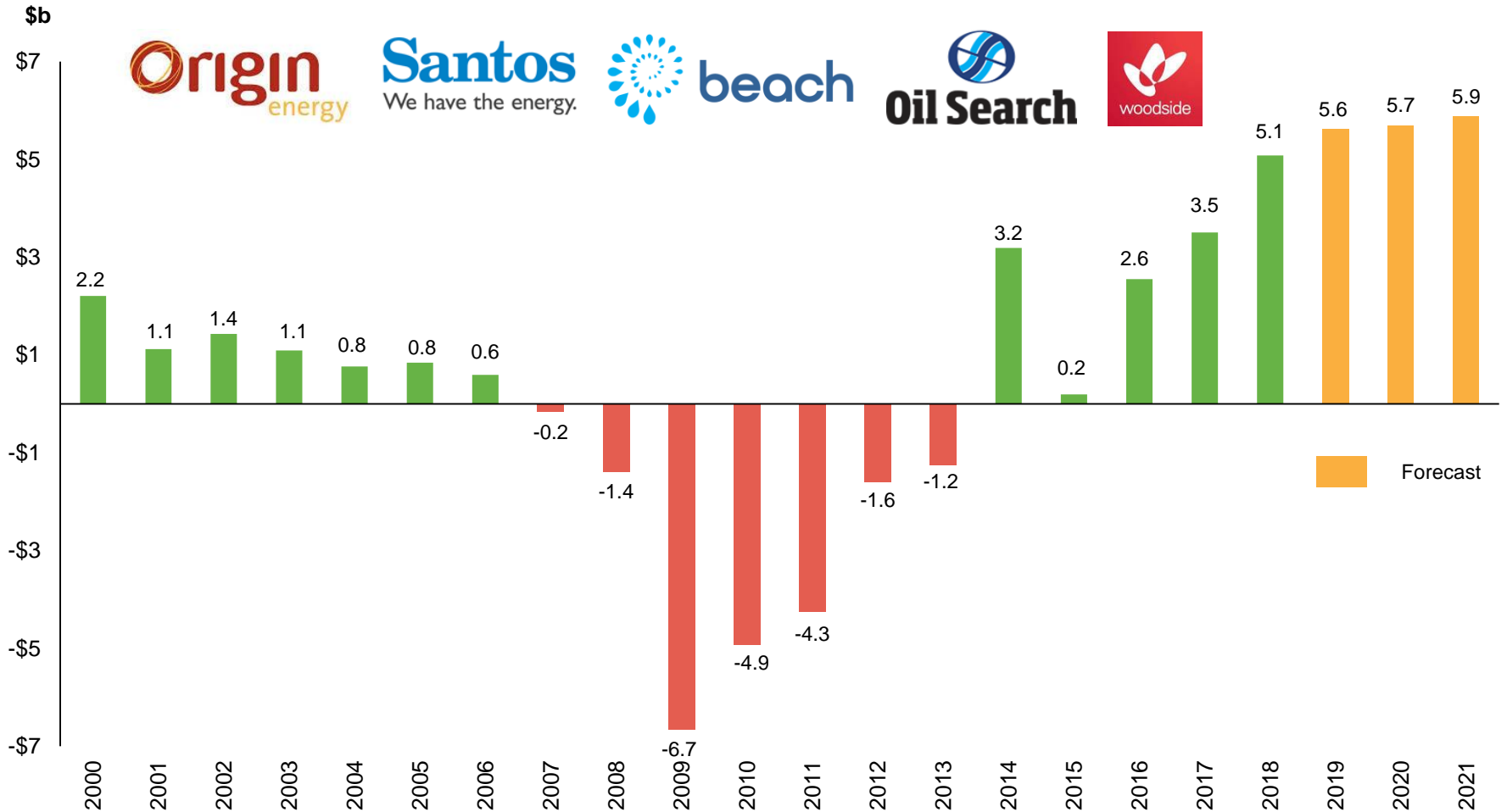
Resources - metals and mining

Free cashflow boom



Resources - energy

Free cashflow boom



Ausbil Australian Active Equity

Key portfolio themes and holdings

Quality growth	 ResMed	 QBE	 TREASURY WINE ESTATES	 ARISTOCRAT	 SONIC HEALTHCARE	 lendlease	 CSL™
Resources	 RioTinto	 bhpbilliton	 FMG	 Fortescue The New Force in Iron Ore	 ILUKA	 Santos	
Quality income	 Goodman+	 TELSTRA	 Woolworths	 AURIZON	 Transurban		
Infrastructure spend	 Downer Relationships creating success	 SevenGroup Holding					



Ausbil Australian Emerging Leaders

Key portfolio themes and holdings

Quality growth					
Resources					
Quality income					
Infrastructure spend					

Ausbil MicroCap

Key portfolio themes and holdings

Quality growth			
Resources			
Quality income			
Infrastructure spend			



Summary

Key messages

- **Earnings:** Risk remains but significant stock picking opportunities
- **Banks:** Earnings, margins and business models under pressure
- **REITs:** Some opportunities but not all REITs are equal
- **Industrials:** Quality income and quality growth to outperform
- **Resources:** Strong EPS growth with attractive valuations

Fiscal and monetary stimulus extends recovery and market cycle

2019 Investment Roadshow

“See the Forest, Not the Tree”



Michael Price

Portfolio Manager
Active Dividend Income

The demand for retirement income

People are living longer

Age to which different proportions of retirees* are likely to live from age 65?

Likelihood of survival for couples (at least one alive):

90% 85 years old

50% 93 years old

10% 99 years old

Retirees require an income stream which is:

High – as a replacement to previous income source

Growing – income stream to help mitigate against rising costs of living

Lasting – minimise capital drawdown

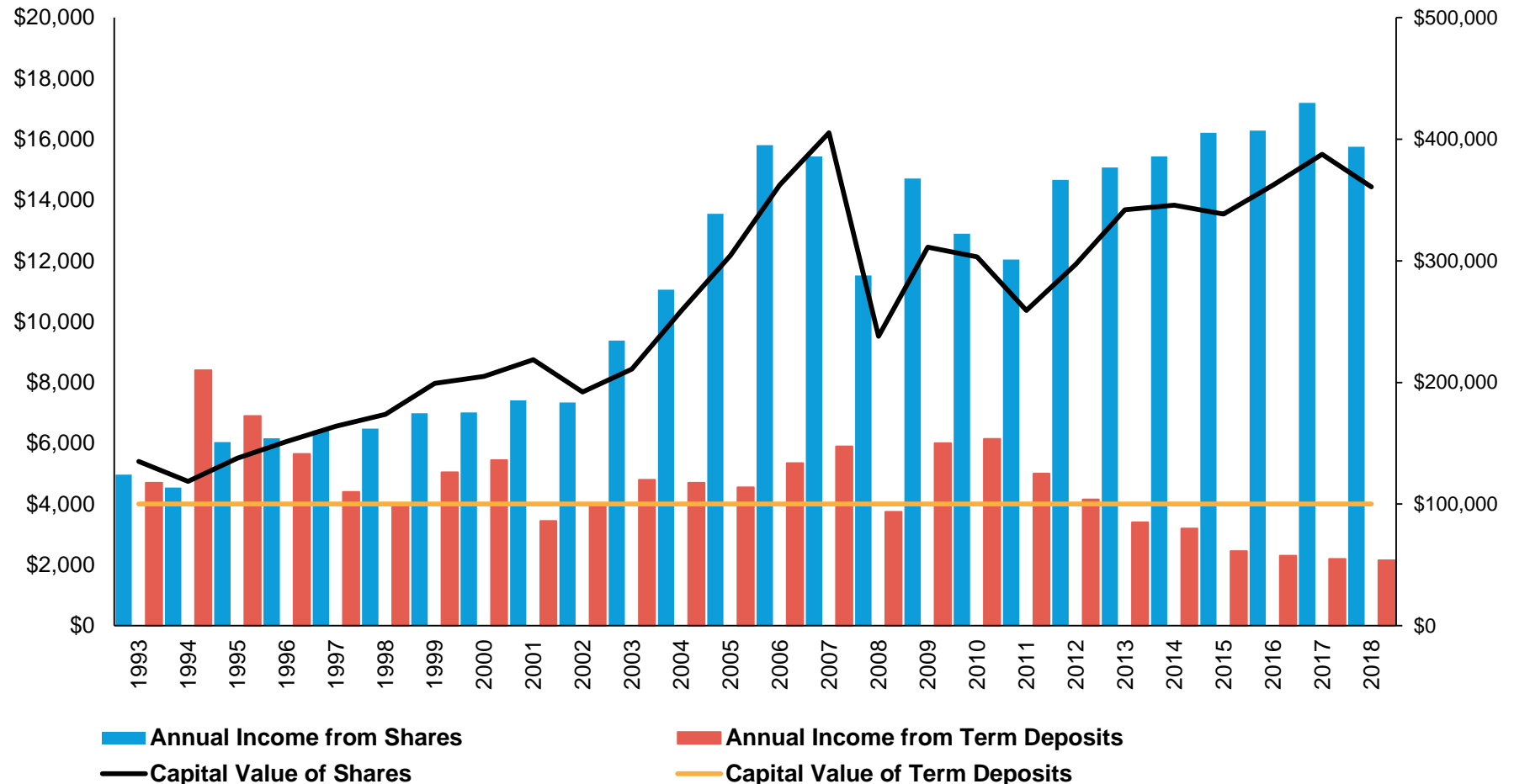
Reliable – to allow confidence and planning

Regular – monthly and predictable to aid budgeting

Tax Effective – franked dividends are valuable

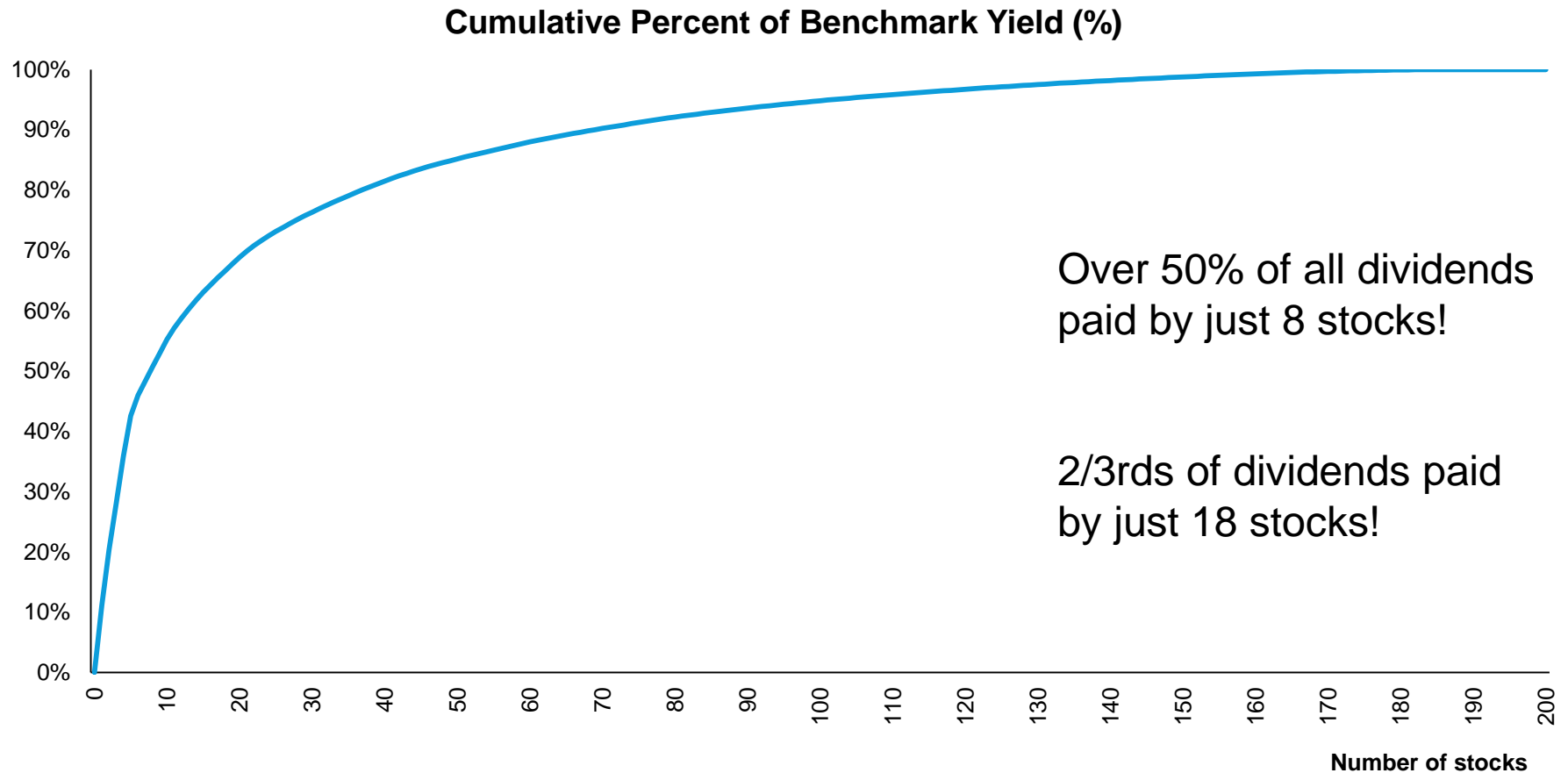
ASX 200 Dividends vs Term Deposits

Annual income generated by \$100,000 invested in December 1993 to December 2018



Passive yield – not what it seems

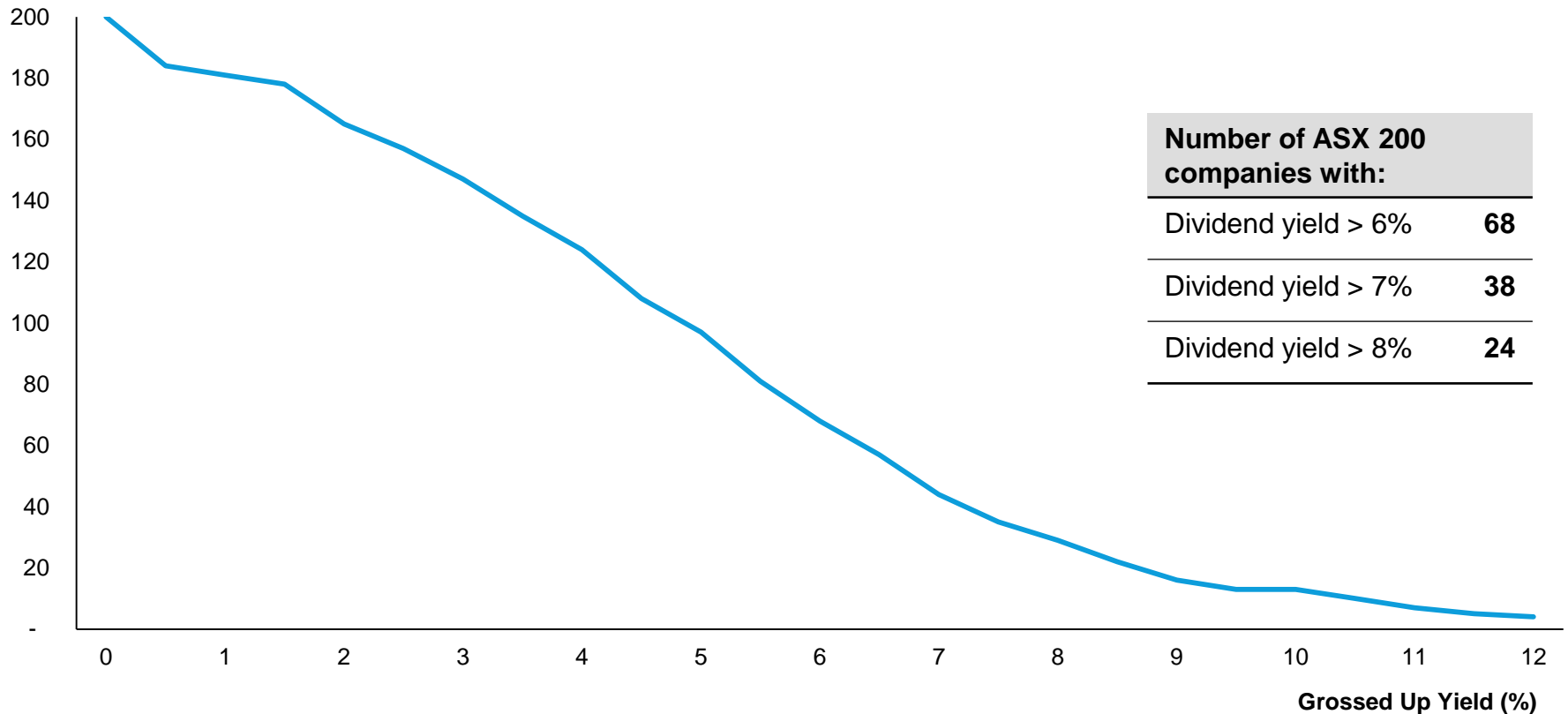
Index dividends come from a very limited number of companies



Passive yield – not what it seems

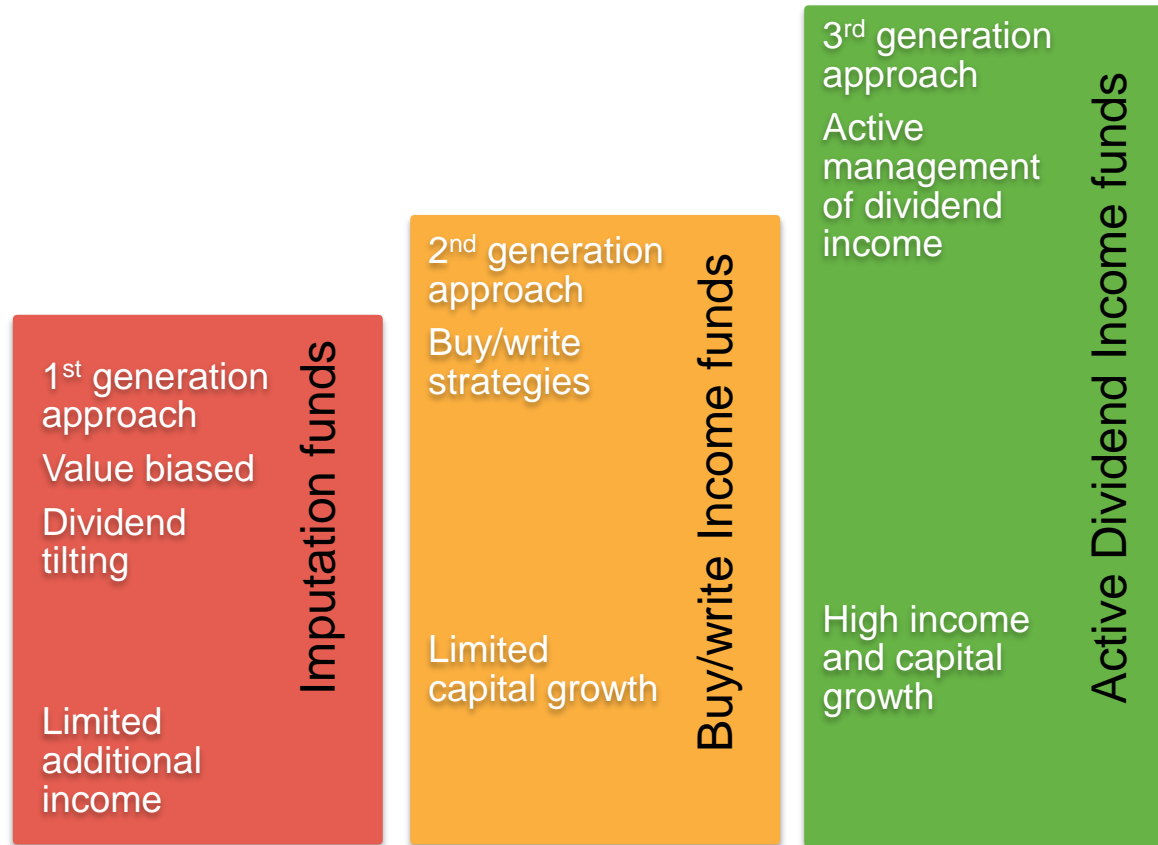
Limited options to increase the yield

Number of ASX 200 stocks greater than a specified grossed up yield



“Evolution” of equity income investing

Seeking high income and capital growth



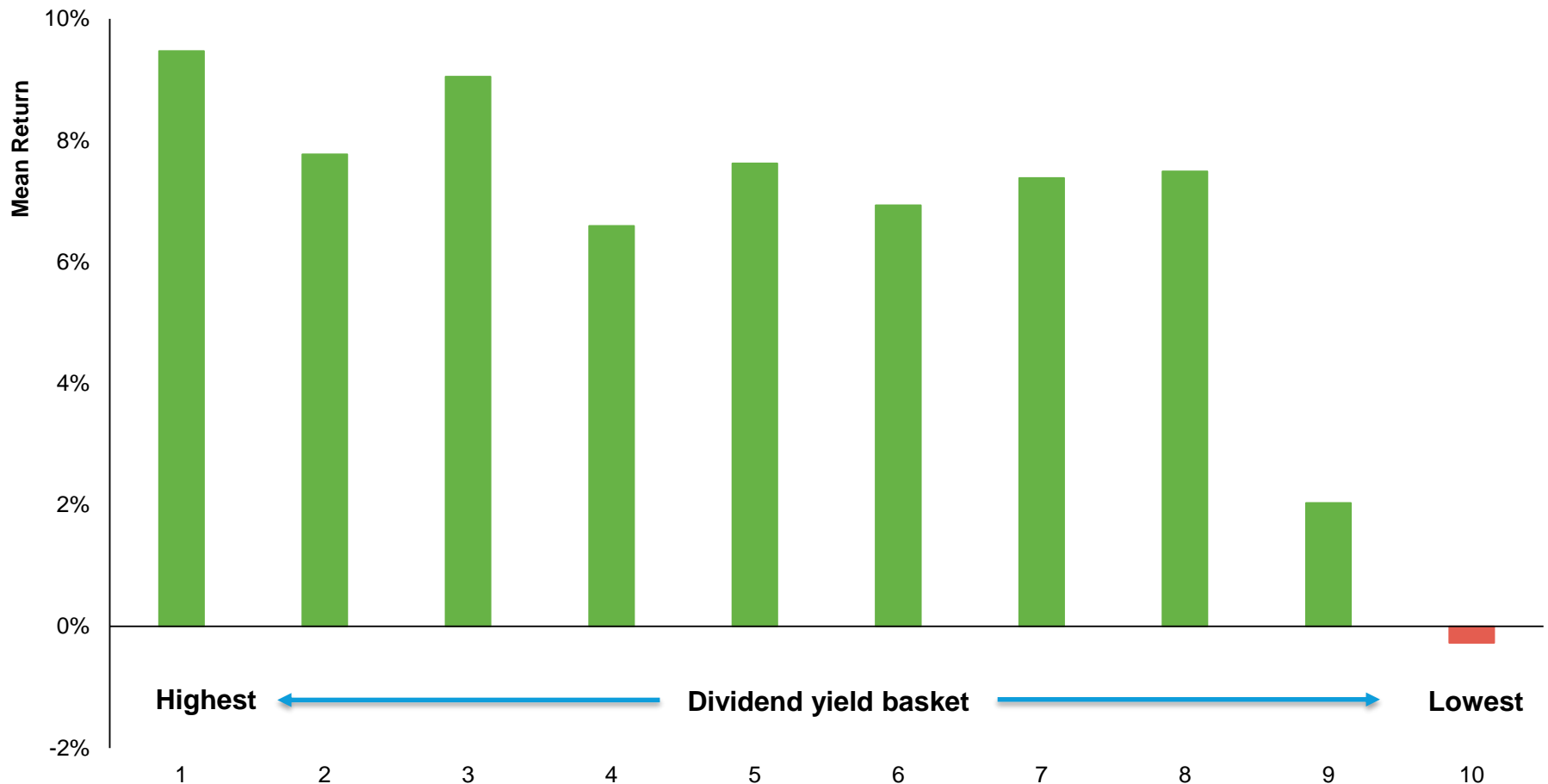


Income from equities

Dispelling some myths about “high dividend stocks”

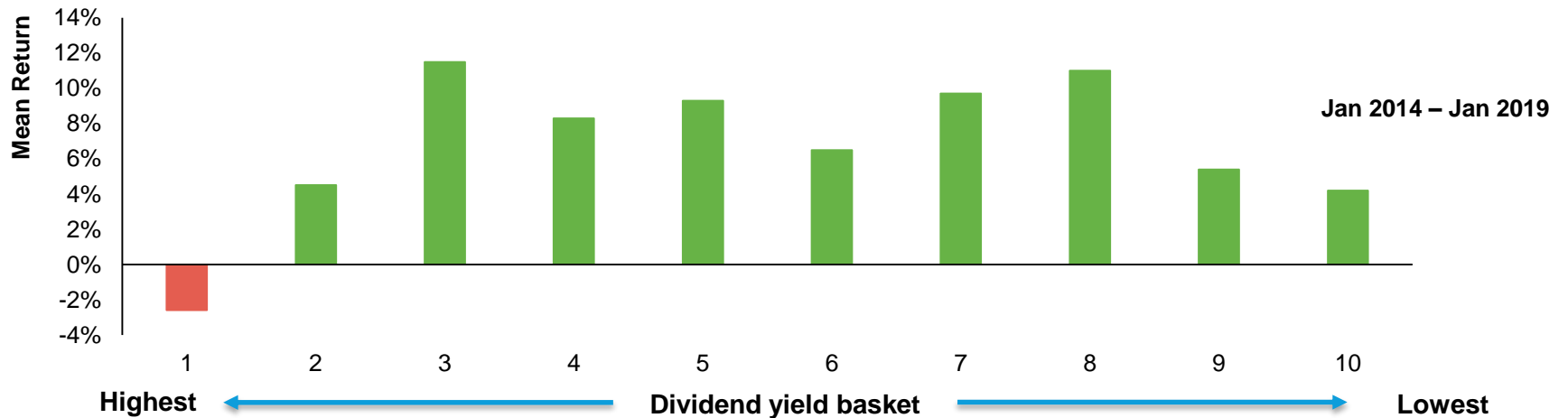
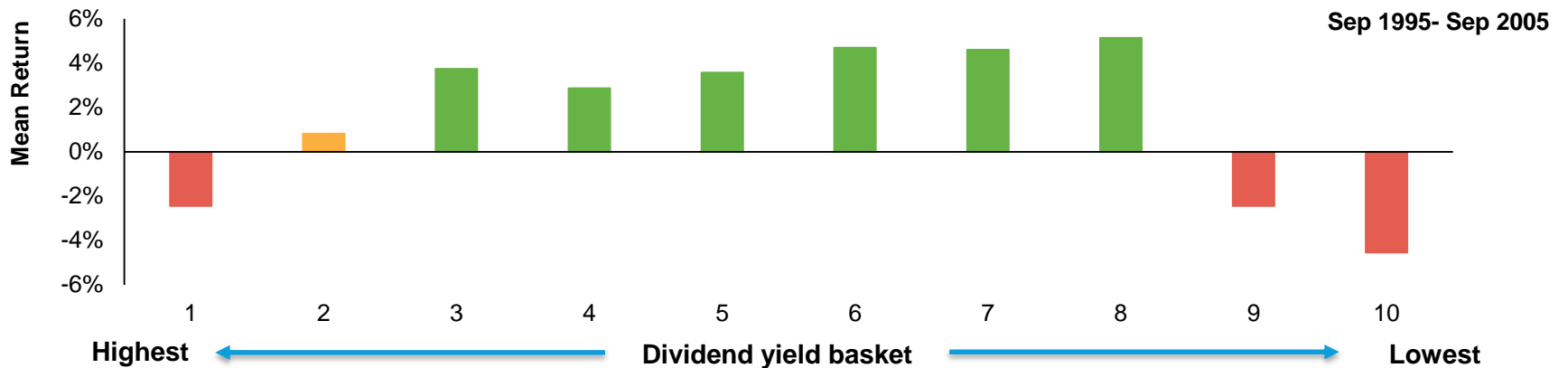
The highest dividend paying companies

Have outperformed over the long term but...



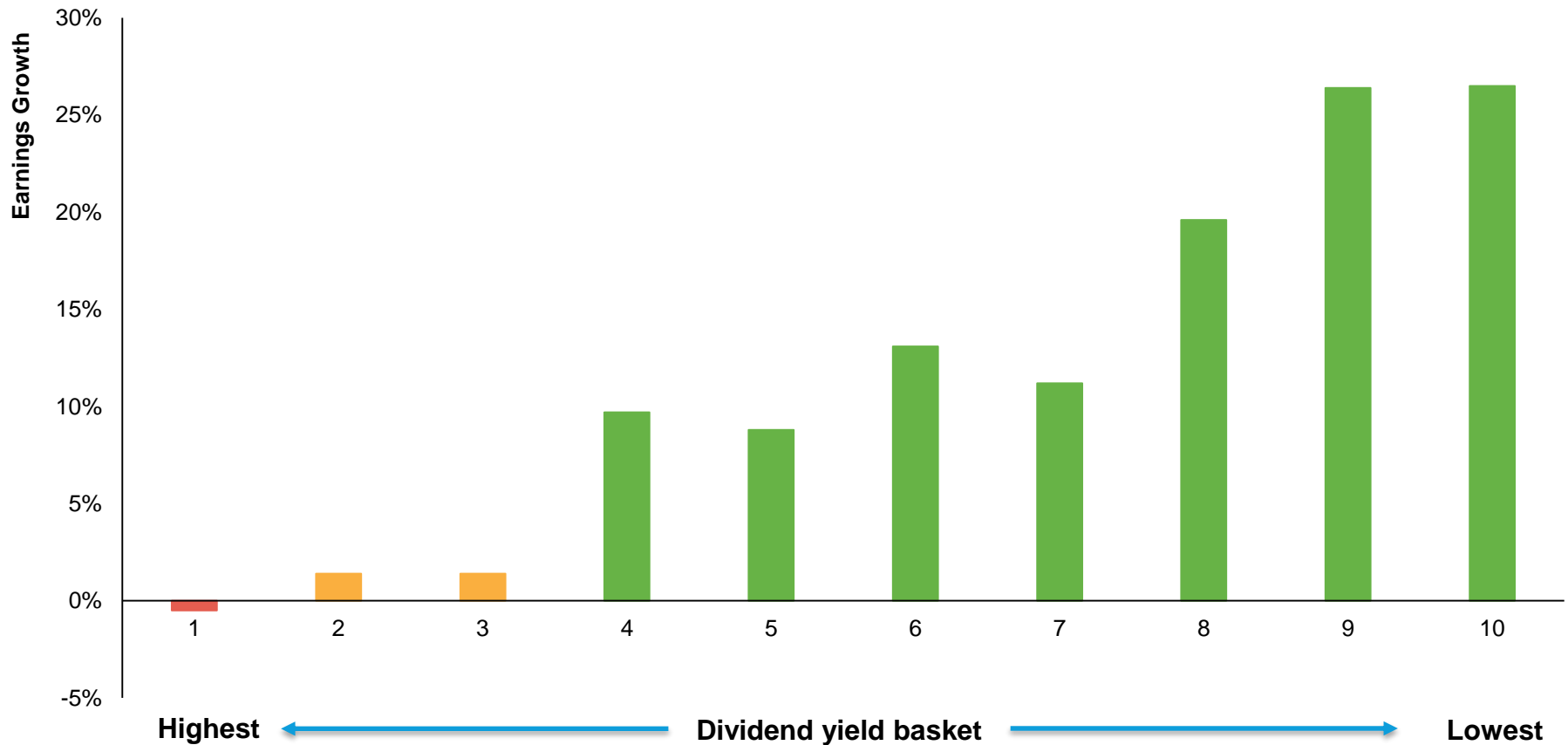
The highest dividend paying companies

... don't always outperform



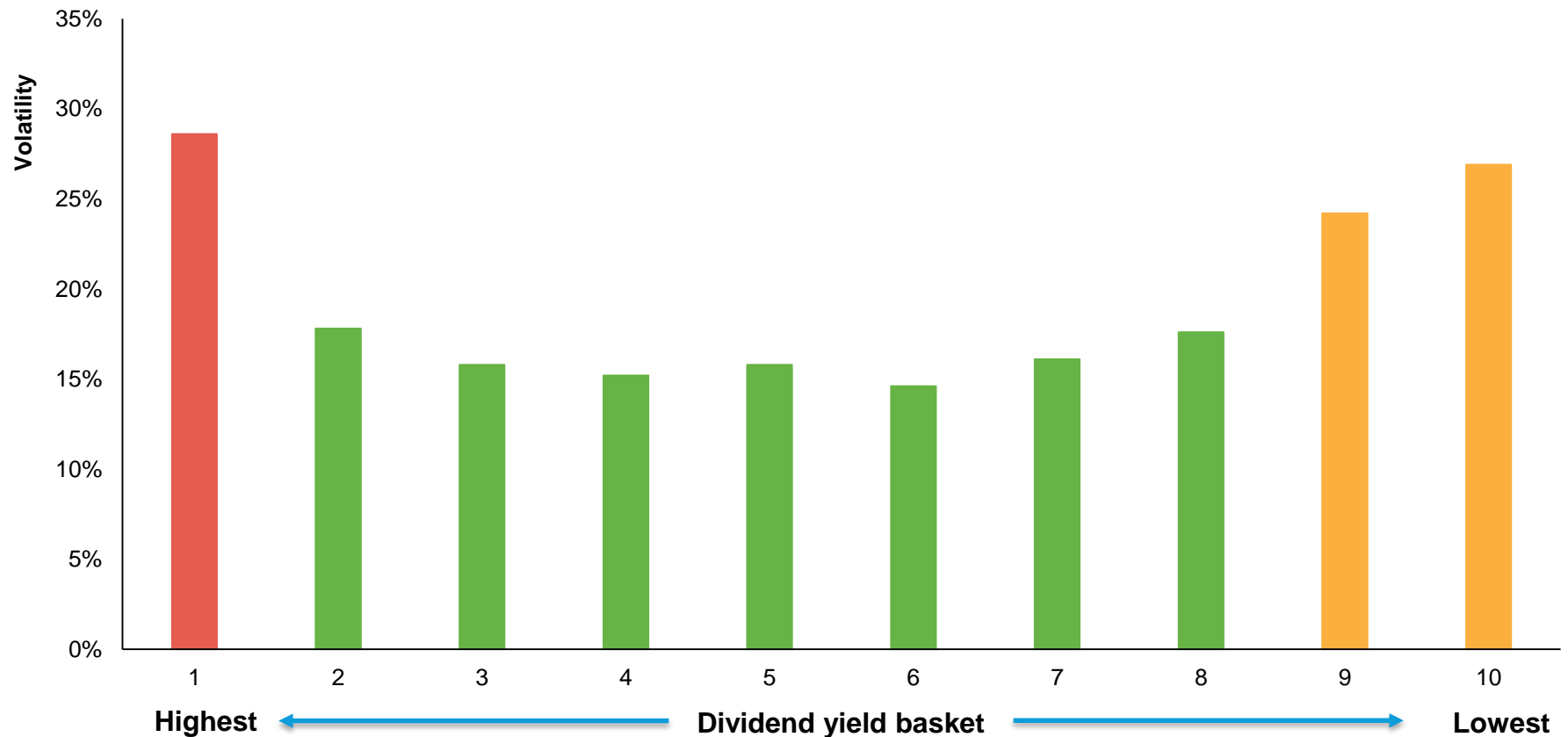
The highest dividend paying companies

Don't grow their earnings...



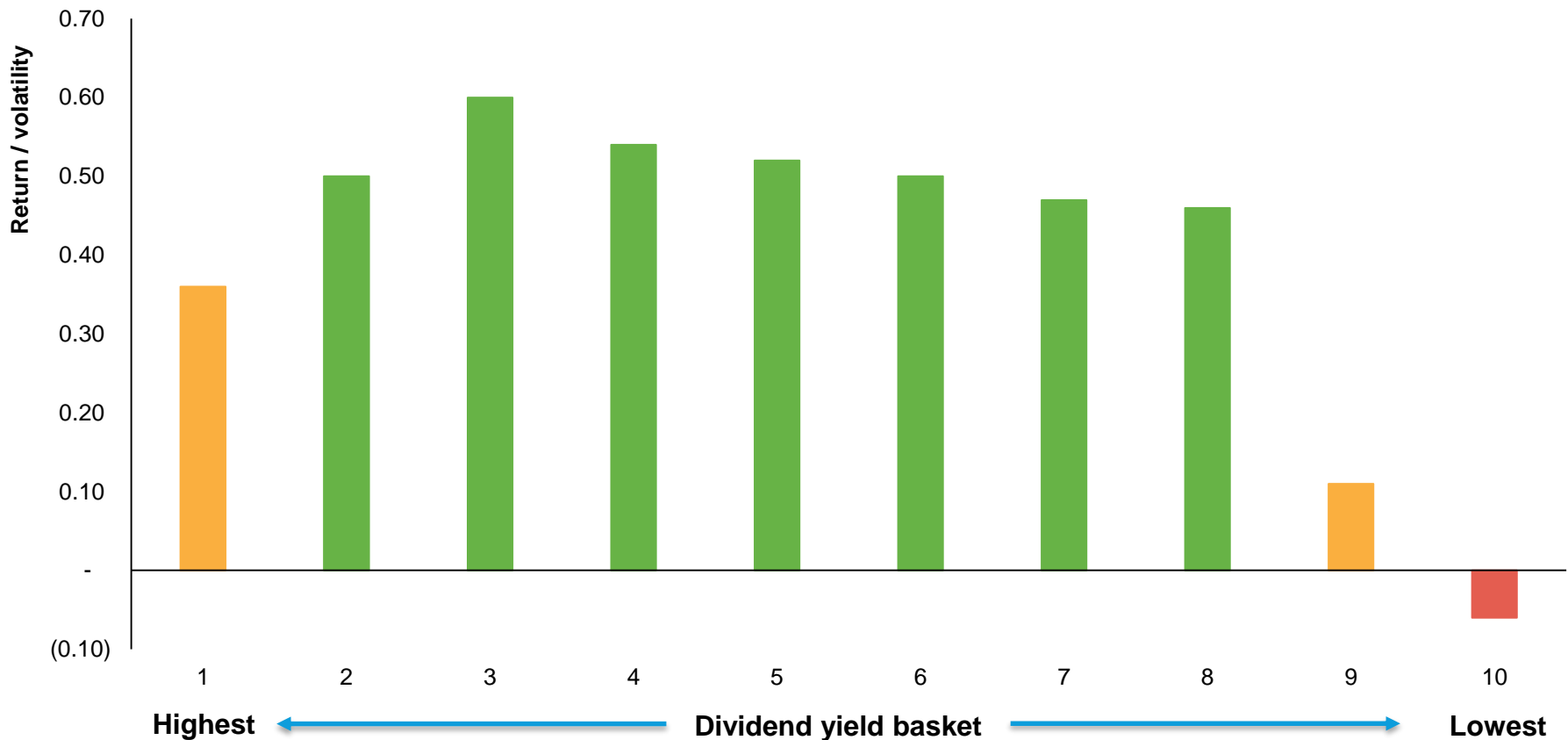
The highest dividend paying companies

...and they are volatile



The highest dividend paying companies

Don't provide the best risk adjusted return outcomes





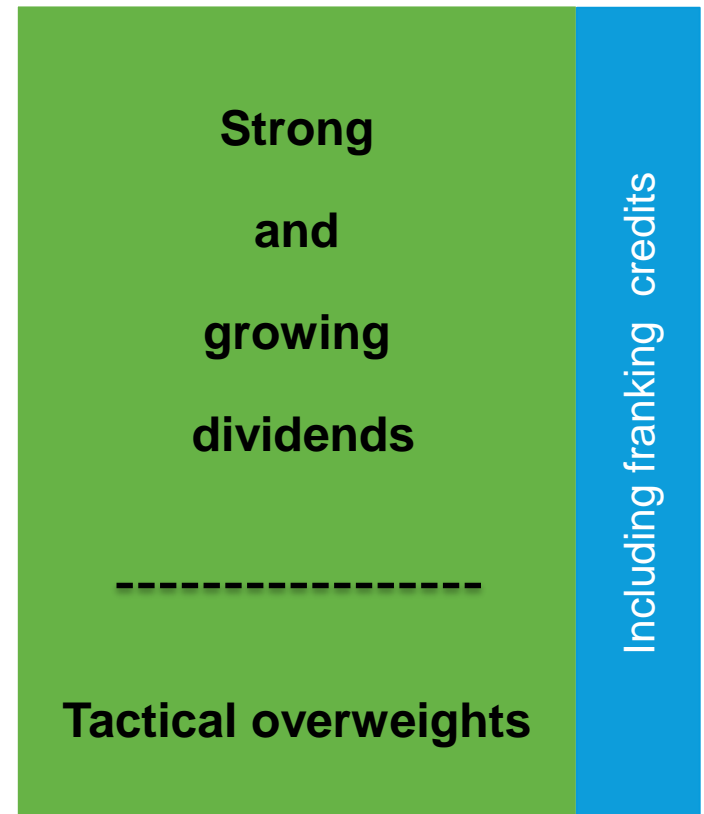
Income from equities

Next generation active dividend income

Next generation dividend income

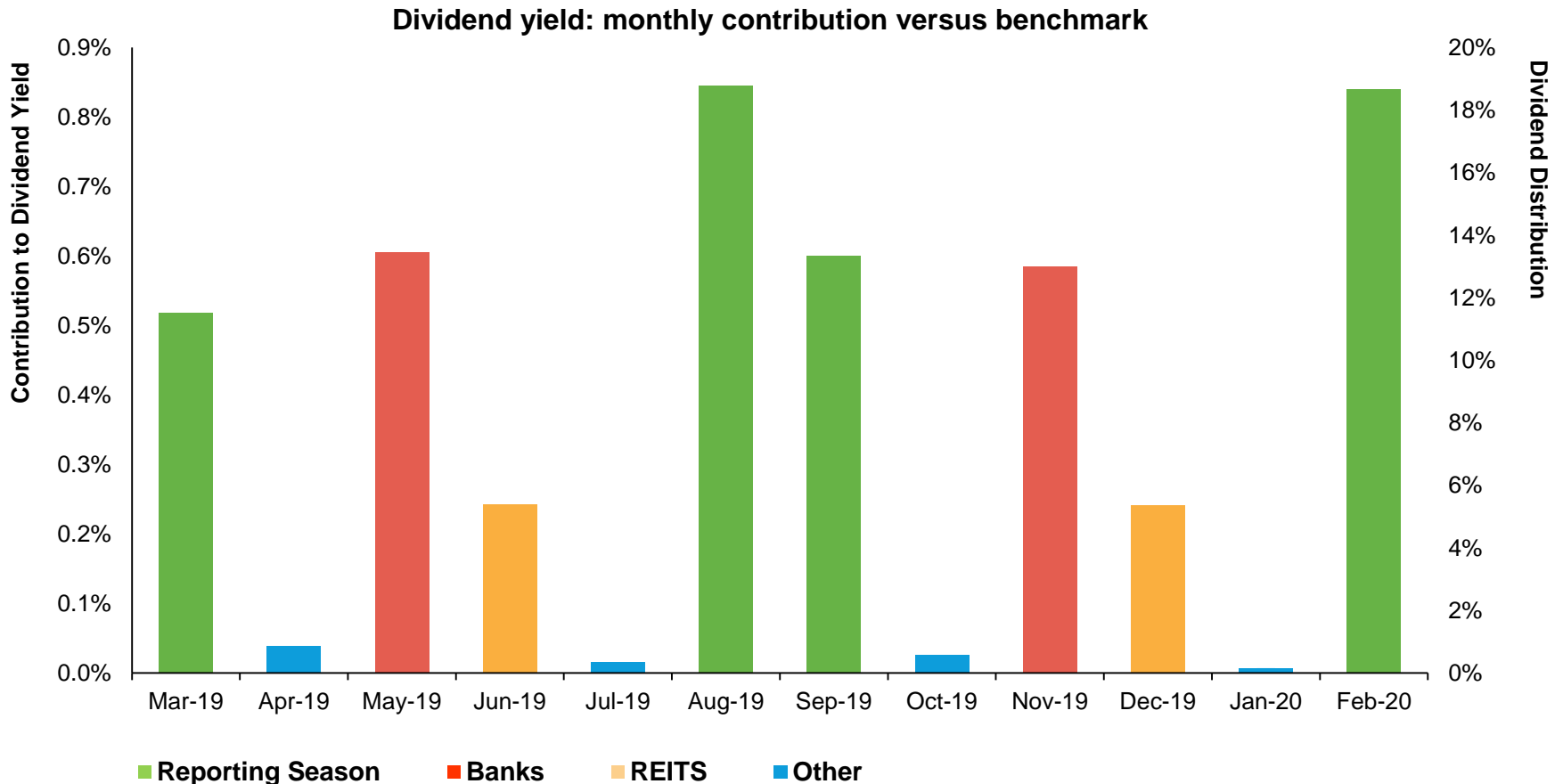
Actively seeking superior income

- All securities should offer an attractive total return
- Focus on strong and growing dividends, rather than just high dividends
- Overall portfolio in line with top-down sector views
- Tactical overweights to dividend-paying stocks and sub-sectors



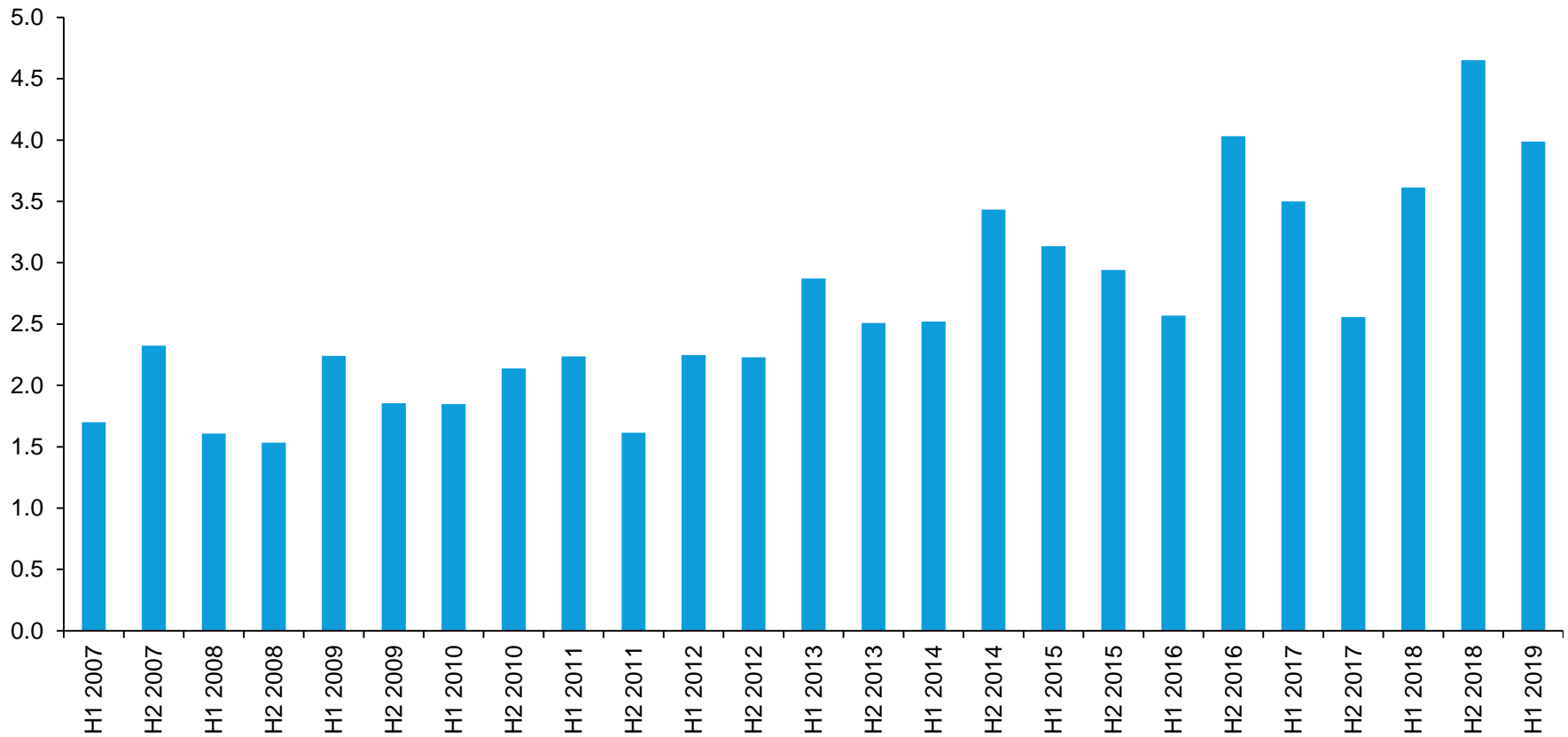
Next generation active dividend income

Opportunities for increasing dividends



Next generation dividend income

Increased opportunity, and risk, on reporting date



■ Earning Day Move/ Av. Daily Move



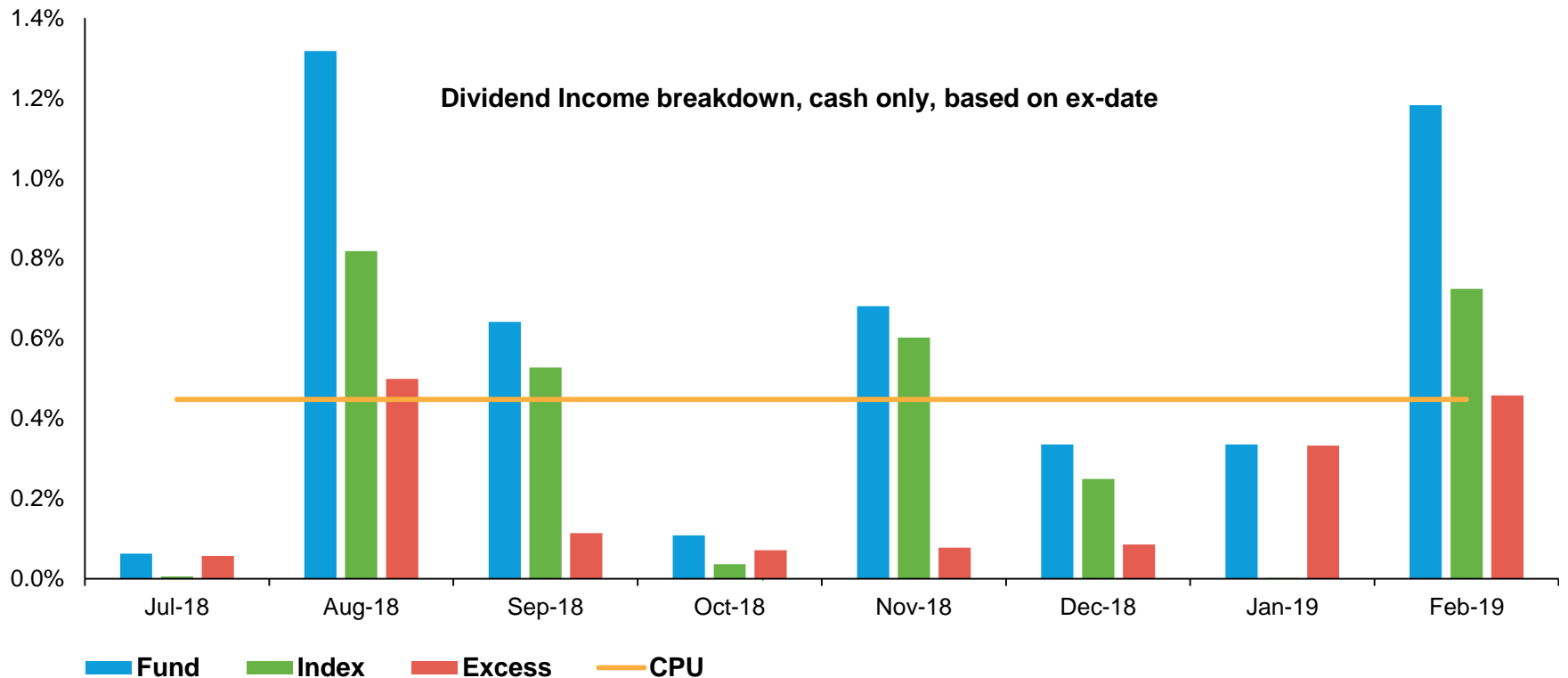
Ausbil Active Dividend Income Fund

Targeted outcomes

- Underlying gross income yield of at least 25% above market
 - Outperform the market over the cycle
 - **Increasing income without reducing total return**
 - **Allows income and capital to grow over time**
 - Managed specifically for superannuation and pension environments
 - A focus on after tax returns
 - Regular, recurring income via smoothed monthly distributions
-

Ausbil Active Dividend Income Fund

Smooth monthly income

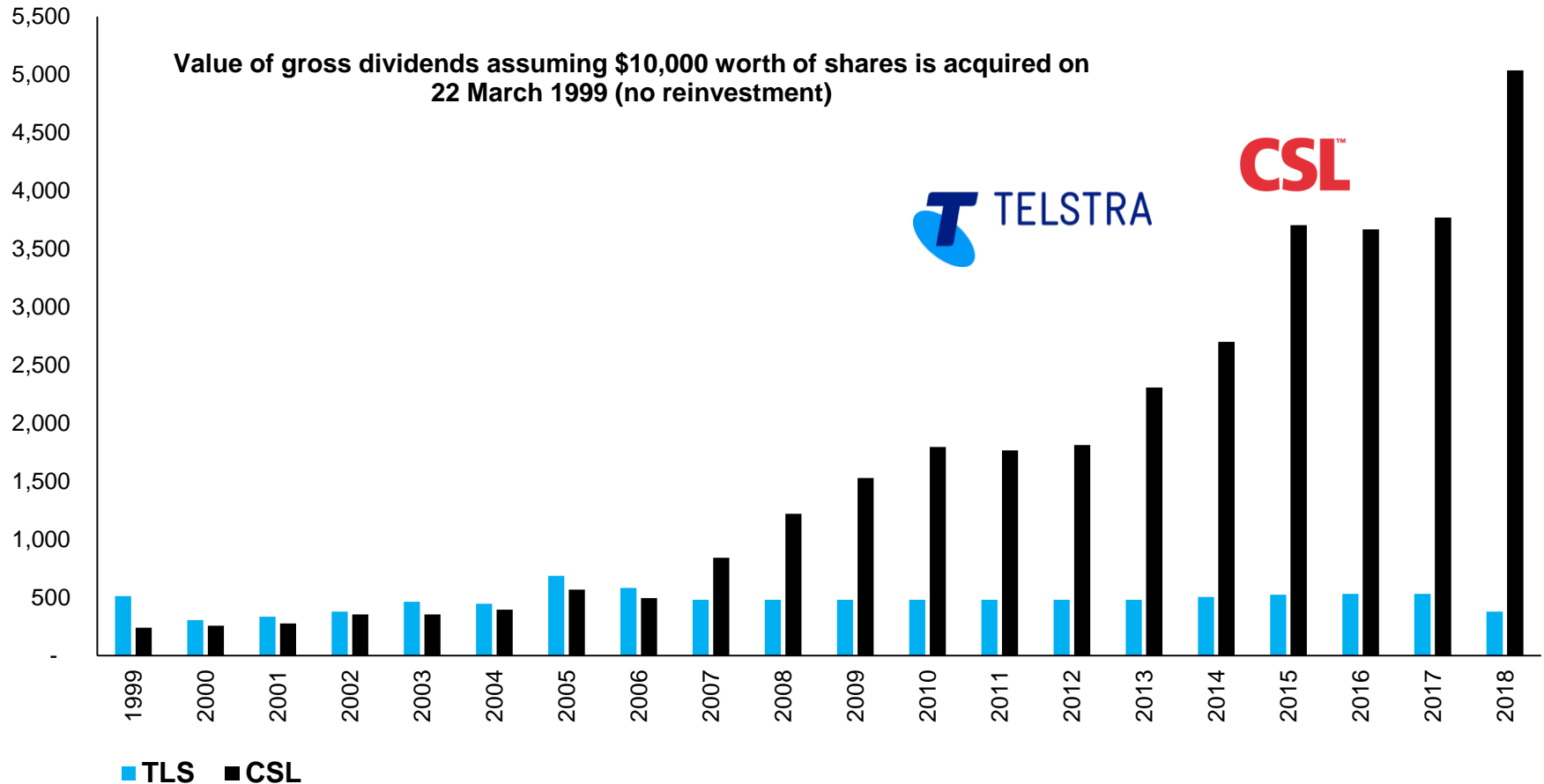


Past performance is not a reliable indicator of future performance.

Returns are for the Wholesale Class and are calculated before fees have been deducted. No allowance is made for tax except for franking credits when calculating these figures. Numbers may not add due to rounding. Inception date for the class is 1 July 2018.

Sustainable and growing dividends

Telstra v CSL: cash dividend amount



Stock example

Rural Funds Group (ASX: RFF)



- **REIT with \$770m market cap**
- Diversified agricultural assets
- 4.5% dividend yield (paid quarterly)
- 5% pa expected earnings and dividend growth
- Inexpensive valuation

Ausbil Active Dividend Income Fund

Performance, including franking since inception

March 2019	Cash (%)	Franking Credit (%)	Total Return (%)
Dividend return (ex buyback)	5.7	2.2	+7.9
Benchmark dividend return	3.5	1.3	+4.8
Excess dividend return (ex buyback)	2.2	0.9	+3.1
<hr/>			
Fund return	7.2	4.4	+11.6
Benchmark return	3.3	1.1	+4.4
Fund excess return	3.9	3.3	+7.2

Past performance is not a reliable indicator of future performance.

Returns are for the Wholesale Class and are calculated before fees have been deducted. No allowance is made for tax except for franking credits when calculating these figures. Numbers may not add due to rounding. Inception date for the class is 1 July 2018. The benchmark for the Fund is the S&P/ASX 200 Accumulation Index.

DISCLAIMER

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2019 Investment Roadshow

“See the Forest, Not the Tree”

May 2019