

Ausbil Global SmallCap Fund

Quarterly performance update

December 2023

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'The current large valuation discount for small caps versus mid and large caps gives the strategy a constructive view on the future profile for small-cap returns'

Performance Review

Fund performance for the quarter ending December 2023 was +8.49% (net of fees) versus the benchmark return of +6.38%, as measured by the MSCI World Small Cap Net Total Return Index.

MSCI World small caps rose +6.38% in over the quarter in AUD. Canada and Israel were the worst performing countries, while Sweden and Finland performed well. The US and the UK performed slightly better than the overall benchmark during the quarter.

Overall, global equities performed well during the quarter after declining during August and September. The significant rally in bonds and the associated fall in yields helped equity markets during the quarter with the US 10-year retracing from a peak of 5% to under 4%.

The Real Estate and Financial sectors were the key outperformers, benefitting from the fall in bond yields during the quarter, while Energy and Consumer Staples underperformed.

Contributors and Detractors

Notable positive contributors over the period were Vertiv Holdings in the US and BE Semiconductor (BESI) in The Netherlands, while Kempower in Finland and LSB Industries in the US contributed negatively to performance.

Vertiv is a leading provider of critical digital infrastructure solutions with a strong focus on data centres, offering a comprehensive strategy of products and services to ensure the availability and reliability of essential applications across a wide range of industries. Vertiv has been a key holding of the strategy for over two and a half years.

Vertiv's product strategy encompasses a wide range of offerings, including precision cooling systems that regulate temperature and humidity, intelligent power distribution units for efficient power management, integrated racks and enclosures for equipment housing, and advanced monitoring and management software for optimising performance. They also provide services such as installation, maintenance and remote monitoring to support the lifecycle of their products.

Vertiv serves customers in more than 130 countries, offering tailored solutions and localised support through a network of service centres and partners worldwide. Given the strong demand for data centres and advanced computing, including AI (artificial intelligence), the strategy expects Vertiv to deliver attractive earnings growth in the coming years.

Kempower is a Finnish developer and manufacturer of electric vehicle fast charging units. The company was founded by Kemppe 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, and 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. Kempower struggled during the quarter as renewable energy companies underperformed the broader market. However, the strategy expects Kempower to be a leader in its niche going forward, and to deliver earnings and revenue growth above the market consensus.

Performance

Returns¹ as at 31 December 2023

Period	Fund Return % Net	Bench- mark ² %	Out/Under Performance % Net
1 month	8.28	6.52	1.77
3 months	8.49	6.38	2.11
6 months	6.39	4.91	1.48
1 year	19.31	15.05	4.26
2 years pa	-7.75	0.10	-7.85
3 years pa	3.19	7.18	-3.98
4 years pa	5.60	6.79	-1.19
5 years pa	8.29	10.45	-2.16
Since inception Date: 31 May 2018	5.58	7.23	-1.65

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
Atkore	4.85	0.08	4.77
Vertiv	4.67	0.00	4.67
Sterling Infrastructure	3.51	0.04	3.47
Applied Industrial Technologies	3.35	0.09	3.26
Horiba	3.09	0.04	3.05
TopBuild	3.02	0.16	2.86
EMCOR Group	3.01	0.14	2.87
Pinnacle Financial Partners	2.98	0.09	2.89
BE Semiconductor Industries	2.91	0.00	2.91
EastGroup Properties	2.89	0.11	2.78

Style Tilts

	Return on invested capital	Debt to equity	Dividend yield	Price to free cash flow
Portfolio	16.3	59.9	1.4	17.98
Benchmark ²	7.1	96.7	1.9	22.15

Sector Allocations

Sector	Fund %	Index ² %	Tilt %
Energy	0.99	4.82	-3.83
Materials	7.06	7.41	-0.35
Industrials	38.25	19.79	18.46
Consumer Discretionary	9.48	13.40	-3.93
Consumer Staples	3.59	4.60	-1.01
Health Care	8.05	9.94	-1.89
Financials	16.10	14.95	1.15
Information Technology	10.13	11.25	-1.11
Communication Services	1.00	2.96	-1.96
Utilities	0.00	2.52	-2.52
Real Estate	4.31	8.38	-4.07
Cash	1.04	0.00	1.04
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

Global equity markets rose during the quarter as bond yields retreated from their recent highs. The US market performed slightly better than other global markets, however the longer duration sectors of Information Technology and Real Estate outperformed from a sector perspective. Within Information Technology, the semiconductor industry performed strongly, closely followed by software. BE Semiconductors, a key holding of the strategy, performed well in Europe during the quarter as demand for their semiconductor packaging technology and hardware remained robust.

The oil price struggled for much of the quarter and the Energy sector was the only sector to deliver a negative absolute return during the period. The strategy expects global economic growth to moderate in 2024, with the US unlikely to enter recession next year while government fiscal support remains strong, and unemployment remains low.

The current large valuation discount for small caps versus mid and large caps gives the strategy a constructive view on the future profile for small-cap returns versus mid and large caps.

Global manufacturing surveys weakened slightly in December. The Global manufacturing PMI continued to be below 50; with the score weakening to 49.0 from 49.3 in November. The Purchasing Managers Index (PMI) data produced by S&P Global highlighted a weaker score for the US, registering a reading of 47.9 which was a decrease month on month. US PMIs have been below the neutral level of 50 since November 2022, which is a long period of weakness compared to history. European PMIs continued to be noticeably weak but are showing signs of stabilisation and improvement with Germany's manufacturing PMI printing 43.3, which was a small improvement from 42.6 in October.

The strategy continues to seek out unrecognised opportunities in companies leveraged to key themes that are providing growth and earnings tailwinds in the current environment. Thematics include onshoring as Western nations, and specifically the US, aim to reduce their reliance on China and certain areas of Asia for critical supply chains; decarbonisation and electrical grid upgrades; and artificial intelligence and data centre investment. Core positions continue to be Atkore, Vertiv and Kempower which are exposed to these themes.

The strategy remains overweight both US and European industrials, with a focus on electrical equipment including the ongoing investment in the US electricity grid, and machinery which will likely benefit from the recent Chinese stimulus, onshoring, government support and decarbonisation.

The strategy continues to be underweight the consumer as the US and global consumer is still at risk from elevated interest and inflation rates. However, the strategy has lifted its exposure to US homebuilders over the quarter as mortgage rates declined and as the structural underbuild in the US remains. The strategy is also underweight Financials and Real Estate. Eastgroup Properties, a niche leader in mid and small sized industrial distribution centres is the strategy's biggest position in Real Estate.

On a regional basis, the strategy is overweight Europe and the UK, with a small underweight the US given the compelling relative valuation differences between the two regions. The US underweight decreased during the quarter as the strategy lifted its exposure to US Industrials while trimming its EU Industrials. The strategy expects its US Industrial holdings to benefit further from the ongoing fiscal support by the US government.

The strategy remains biased to niche leaders within their industry, such as Vertiv (with strong demand tailwinds for their data centre capital equipment and services) and Atkore (US non-residential electrical equipment). The strategy is also exposed to strong themes like decarbonisation and onshoring which we expect to deliver positive earnings surprises in the near and mid-term. The strategy expects central banks to maintain restrictive monetary policies into 2024, however the bias for interest rates and inflation is expected to be downwards over the course of the year. The strategy continues to find unrecognised growth opportunities in our universe of under-researched global small caps.

Region Allocation

Country	Fund %	Index ² %	Tilt %
North America	59.44	64.34	-4.90
Japan	7.11	11.96	-4.85
United Kingdom	7.17	5.42	1.74
Europe (Ex United Kingdom)	22.95	12.40	10.55
Asia Pacific (Ex Japan)	2.29	4.87	-2.58
Middle East	0.00	1.00	-1.00
Cash	1.04	0.00	1.04
Total	100.00	100.00	0.00



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