

Ausbil Global SmallCap Fund

Quarterly performance update

December 2024

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'In summary, global macro settings are expected to remain within their 'back to normal' levels in 2025'

Performance Review

Fund performance for the quarter ending December 2024 was +10.75% (net of fees) versus the benchmark return of +9.16%, as measured by the MSCI World Small Cap Net Total Return Index.

The MSCI World Small Cap index delivered a strong return of +9.16% over the quarter in AUD terms. Israel and the US and were the best performing countries during the quarter, with Finland the worst performing, followed closely by Belgium.

In terms of sector performance, the Real Estate sector was the worst performing sector, with Materials second. Financials was the best performing sector this quarter, with Information Technology at second-best.

Notable positive contributors over the period were Sterling Infrastructure in the US and Celestica based in Canada. NKT in Denmark and Hammond Power Solutions, also in Canada, were the main negative contributors during the quarter.

As we enter 2025, we wanted to share some reflections on the team's recent travels and the valuable insights this has provided for our investment process during the last quarter of 2024. One of the cornerstones of our approach is conducting detailed, on-the-ground research, and our visits to Europe, the UK, the United States, Canada and Japan over the past few months have been both enlightening and impactful.

On the ground in North America. In Toronto, we met with Celestica and Hammond Power Solutions, two of our core positions within the Fund. We have written in detail on these two companies recently, and these interactions further enhanced our conviction in each business. At Celestica, we discussed their evolving role in the data centre networking supply chain and the technological shifts they are navigating. Their niche leadership in networking and the new suite of 800G switch products bodes well for future growth.

Hammond Power Solutions, a North American producer of electrical transformers and related products, provided a unique perspective on the growing demand for energy-efficient solutions and the opportunities arising from electrical infrastructure upgrades. These conversations continue to deepen our understanding of the industries they operate in and their competitive positioning. Discussing firsthand how these companies are innovating to meet market demands highlights the quality of the management teams and their focus on research and development. Both Celestica and Hammond align with the top-down research and analysis we have undertaken over the last couple of years on US onshoring, data centres and AI, and electrical grid CAPEX spend.

Bruno Cucinelli, globally. Our visits to Brunello Cucinelli stores in Sydney, London, Toronto, and New York were equally enlightening. Spending time with the staff, we learned about the company's strong culture, which includes opportunities for employees to travel to Italy and meet the founder and experience directly the quality of the tailoring. This commitment to fostering a sense of community and purpose within the organisation stood out as a key differentiator in the competitive luxury retail space. Brunello Cucinelli's approach underscores the importance of brand identity and the value of cultivating deep emotional connections with both employees and customers.

Performance

Returns¹ as at 31 December 2024

Period	Fund Return % Net	Bench- mark ² %	Out/Under Performance % Net
1 month	-2.84	-1.06	-1.78
3 months	10.75	9.16	1.60
6 months	18.09	14.94	3.15
1 year	32.95	19.19	13.76
2 years pa	25.94	17.10	8.84
3 years pa	4.20	6.10	-1.90
4 years pa	9.94	10.06	-0.12
5 years pa	10.58	9.16	1.42
Since inception Date: 31 May 2018	9.34	8.96	0.37

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
NKT	4.88	0.05	4.83
Hammond Power Solutions	4.77	0.01	4.76
Mueller Industries	4.63	0.11	4.52
EMCOR Group	4.39	0.00	4.39
EastGroup Properties	3.42	0.10	3.32
Powell Industries	3.37	0.03	3.35
Brunello Cucinelli	3.29	0.05	3.24
Keppel DC REIT	3.26	0.04	3.23
Greggs	3.23	0.04	3.19
Primoris Services	3.15	0.05	3.09

Investment Characteristics

	Return on invested capital	Debt to equity	Dividend yield	Price to free cash flow
Fund	16.4	50.8	1.4	17.87
Benchmark ²	7.7	95.9	1.8	21.73

Sector Allocations

Sector	Fund %	Index ² %	Tilt %
Energy	0.00	4.37	-4.37
Materials	6.54	7.09	-0.55
Industrials	37.30	19.77	17.53
Consumer Discretionary	13.23	13.29	-0.06
Consumer Staples	6.38	4.59	1.80
Health Care	4.22	9.38	-5.16
Financials	9.04	16.29	-7.25
Information Technology	11.79	11.46	0.33
Communication Services	0.00	3.38	-3.38
Utilities	0.00	2.59	-2.59
Real Estate	9.78	7.80	1.98
Cash	1.72	0.00	1.72
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.

The value of direct engagement. These travels and meetings are a reminder of the value of engaging directly with the companies in which we invest. Conversations with management teams, store visits, and firsthand observations of operations provide insights that go beyond financial statements. They help us to better understand the qualitative aspects of businesses—their culture, strategy, and adaptability—which are often crucial drivers of long-term success. For instance, seeing the physical footprint of a company or hearing directly from leadership often provides context that is impossible to glean from reports alone.

Moreover, these trips allow us to identify broader trends that can influence our portfolio. Whether it is the acceleration of digital and electrical infrastructure in the US, the evolving retail landscape in the UK, or the innovation driving industrial sectors in Canada and Japan, these insights shape our investment thesis and help us stay ahead of the curve.

Contributors and Detractors

Sterling Infrastructure is a US construction company with a focus on both residential and non-residential construction. Sterling has been held in the Fund for several years and continues to perform well as it proceeds with its growth strategy. Over the last four years, the company has refocused its business operations on its more profitable segments, especially e-infrastructure solutions. This segment delivers significantly higher margins for the group and has been a key driver of increased revenue and earnings. This segment specifically focuses on site development for e-commerce, data centres, distribution centres, warehousing and energy infrastructure. The Fund expects the high-quality management team led by the CEO, Joe Cutillo, to continue to capitalise on the onshoring of manufacturing back to the US; and the ongoing strong growth in the construction of data centres, distribution centres and high-end technological manufacturing plants. Sterling reported earnings for its third quarter in November and continued to surprise the market with its earnings growth and robust outlook.

NKT is a global leader in the design, manufacturing, and installation of power cable solutions. Headquartered in Denmark, the company specialises in high-voltage and medium-voltage power cables, including subsea and underground systems for energy transmission. NKT supports the green energy transition by enabling the connection of renewable energy sources like offshore wind farms to power grids. Its solutions are vital for modernising electricity infrastructure, and ensuring reliable and efficient power distribution. With a focus on sustainability, innovation, and advanced technology, NKT serves utility companies, infrastructure developers, and industrial clients worldwide, playing a critical role in enabling the global energy transition and grid expansions. While NKT underperformed during the quarter, recent guidance from the company highlights solid industry demand for its products in the coming years.

Outlook

The month of December saw equity markets underperform as US long bond yields surged higher, the 2/10 yield curve re-steepen and the US dollar appreciate. The moves, driven by a stronger than expected US economy, forced the Federal Reserve to reduce the number of rate cuts forecast for 2025. Chair Powell sees policy as being closer to neutral - raising the prospect of a pause in policy in the near term at 4%. Meanwhile, the latest update from China's Central Economic Work Conference disappointed market expectations despite the announcement of explicit but as yet unspecified commitments to stimulus in 2025 to counter Trump 2.0 tariffs.


On monetary policy, the US Federal Reserve cut rates by 25bps to 4.50%, Canada cut by 50bps to 3.25%, the European Central Bank cut by 25bps to 3.0%, Sweden cut by 25bps to 2.75% and Switzerland cut by a supersized 50bps to 0.5%. England, Norway and Japan left rates unchanged with the Governor of the Bank of Japan expressing a lack of urgency to tighten.

On geopolitical, developments were tumultuous, with the Syrian Assad 50-year dynastic regime collapsing, the South Korean President being impeached for declaring and then lifting the imposition of martial law, the French prime minister resigning following a no confidence vote and the German Chancellor also suffering a no confidence vote leading to the dissolution of parliament with German elections scheduled to be held in the New Year.

In summary, global macro settings are expected to remain within their 'back to normal' levels in 2025. We are forecasting growth, lower inflation, and modest real rate cuts with the recalibration of restrictive policy settings towards a higher neutral level for this cycle. Fears of a US recession are unsubstantiated, and the risk is mitigated by the fact that central banks have significant room to cut nominal rates. The structural themes of decarbonisation and slowing globalisation (which is now expected to accelerate under Trump 2.0) will continue to underpin activity.

Region Allocation

Region	Fund %	Index² %	Tilt %
North America	57.84	67.13	-9.29
Japan	5.90	12.11	-6.21
United Kingdom	11.70	4.74	6.96
Europe (Ex United Kingdom)	18.28	10.19	8.09
Asia Pacific (Ex Japan)	4.57	4.68	-0.11
Middle East	0.00	1.15	-1.15
Cash	1.72	0.00	1.72
Total	100.00	100.00	0.00

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