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Ausbil Active Sustainable Equity Fund

Quarterly performance update

June 2024

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'Ausbil has joined the PRI's Social Issues Reference Group in 2024, providing guidance and advice to the PRI on human rights and other social issues'

Performance Review

Fund performance for the quarter ending June 2024 was -1.37% (net of fees), versus the benchmark return of -1.05%, as measured by the S&P/ASX 200 Accumulation Index.

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

At a stock level, the overweight positions in Pro Medicus, Hub24, REA Group, Macquarie Group, Goodman Group and Life360 added to relative performance. The nil positions in Fortescue Metals, BHP, Woodside Energy Group and Mineral Resources also added value. Conversely, the overweight positions in Block, Charter Hall Group, James Hardie, Pilbara Minerals, Megaport and Brambles detracted from relative performance. The nil positions in Westpac Bank, Aristocrat Leisure, Worley and South32 also detracted value.

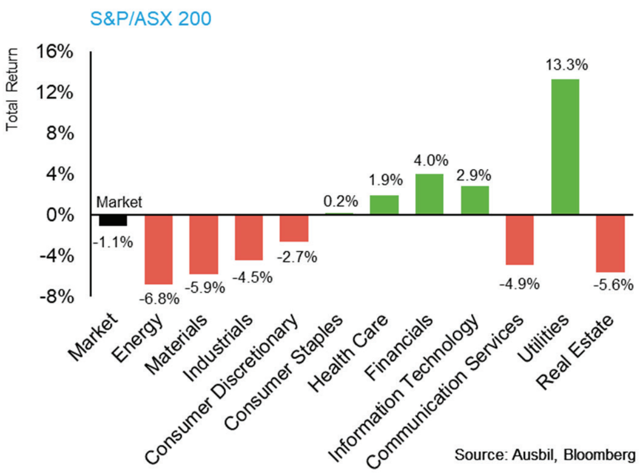
Market Review

In the June quarter, the S&P/ASX 200 Accumulation Index delivered a return of -1.1%, bringing the trailing market 1-year return to +12.1% with positive economic data, tax cuts from 1 July and a steady level of interest rates as background. Markets were further buoyed by interest rate cuts in Canada and Europe.

Globally, markets were mixed over the quarter with the US, Hong Kong and India outperforming and Europe, China and Japan lagging.

At a sector level, Utilities significantly outperformed other sectors delivering returns of +13.3%, positive returns were also derived from Health Care, Financials and Information Technology. All other sectors underperformed compared to the market, as shown in the chart.

Sector returns – June Quarter 2024



Source: Ausbil, Bloomberg

Fund Characteristics

Returns[1] as at 30 June 2024

Period	Fund Return[1] %	Bench-mark[2] %	Out/Under-performance %
1 month	1.61	1.01	0.60
3 months	-1.37	-1.05	-0.32
6 months	7.89	4.22	3.67
1 year	14.76	12.10	2.66
2 years pa	12.37	13.43	-1.07
3 years pa	5.08	6.37	-1.29
4 years pa	11.33	11.36	-0.03
5 years pa	9.19	7.26	1.92
Since inception pa Date: 31 Jan 2018	9.29	8.22	1.08

Top 10 Stock Holdings

Name	Fund %	Index[2] %	Tilt %
Commonwealth Bank	8.68	9.23	-0.54
CSL	7.93	6.17	1.76
National Australia Bank	6.08	4.86	1.22
Macquarie Group	5.20	3.15	2.04
Goodman Group	4.84	2.60	2.24
Wesfarmers	4.45	3.20	1.24
ANZ Bank	4.00	3.68	0.32
Woolworths	3.76	1.79	1.98
Rio Tinto	3.64	1.91	1.73
ResMed	3.35	0.75	2.60

Sector Tilts

Sector	Fund %	Index[2] %	Tilt %
Energy	0.00	5.06	-5.06
Materials	12.14	20.51	-8.38
Industrials	5.74	5.97	-0.23
Consumer Discretionary	5.98	7.05	-1.07
Consumer Staples	3.76	4.15	-0.39
Health Care	13.16	10.07	3.08
Financials	32.33	32.25	0.08
Information Technology	13.86	4.61	9.25
Communication Services	2.80	2.26	0.54
Utilities	0.00	1.54	-1.54
Real Estate	8.20	6.53	1.67
Cash	2.04	0.00	2.04
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

During June, Ausbil concluded its annual climate change model update. This refers to Ausbil's proprietary Net Climate Change Risk (NCCR) model, which is a scenario analysis assessing climate change impacts on ASX200 companies using three climate change scenarios across three timeframes. The proprietary model allows Ausbil to assess climate change risk by portfolios. Unsurprisingly, the model shows that this strategy, which has a negative screen for material fossil fuel exposure, has relatively low climate change risk compared to the benchmark, particularly in a deep-decarbonisation scenario. Climate change remains an important portfolio theme, including positions in companies we believe stand to benefit from accelerated decarbonisation.

Ausbil participated in the UN PRI's Social Issues Reference Group, guiding heightened human rights due diligence (HHRD) in the context of armed conflict, including a discussion on the toolkit on the topic that Ausbil co-authored in 2023. During the month, Ausbil also had several ESG-related engagement meetings, including another meeting with Sandfire Resources to discuss the disturbance of an artefact scatter associated with the Yugunga-Nya people, including a discussion on the investigation and the governance process on cultural heritage. Ausbil also participated in National Australia Bank's climate change roundtable, which focused on NAB's climate change strategy, engaging on NAB's strategy on offsets. Ausbil also had a governance meeting with Suncorp in regards to their next AGM and a governance meeting with the chair of Xero to discuss the company's executive remuneration structure. In addition, Ausbil met with Newmont Corporation to engage on their use of deep-sea tailings disposal at Lihir and with Worley to discuss the company's indirect fossil fuel exposure. Ausbil joined the PRI's Social Issues Reference Group in 2024, providing guidance and advice to the PRI on human rights and other social issues.

Outlook

Australia's economic growth remains positive, though below trend. Ausbil expects economic growth to bottom by the middle of calendar 2024, after which we see it firming into calendar 2025. We are forecasting the RBA to leave rates on hold at 4.35% for most of 2024, with ongoing forensic monitoring of the underlying dynamics on services inflation.

In terms of risk, the major focus is the possibility of a policy misstep by central banks given sticky inflation and geopolitical events. The unique aspect of the pending US Presidential election is that the two main candidates are known quantities, so either outcome would be unlikely to unsettle financial markets.

Ausbil is constructive on earnings growth, and more positive overall than consensus. We are expecting FY25 earnings growth of +5.5%, broadening across sectors, and moving down the market cap spectrum.

Decarbonisation and the energy transition remain significant themes that will drive value across resources, energy, utilities and the mining services sector. We are also seeing structural earnings growth in technological transformation and the rise of artificial intelligence (AI). The enablers and businesses that increasingly operate in the digital environment, including communications companies, are set to benefit.

Consensus estimates for the S&P/ASX 200 Index forecast EPS growth at -5.1% for FY24 and +3.5% for FY25. The market is now offering PE valuations of 17.1x and 16.5x for FY24 and FY25 respectively, with a dividend yield of 3.8% for FY24.

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