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Ausbil Australian Emerging Leaders Fund

Quarterly performance update

December 2023

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'We believe that earnings growth well above system can be achieved in some sectors in FY24'

Performance Review

Fund performance for the quarter ending December 2023 was +0.85% (net of fees) versus the benchmark return of +5.90%. The benchmark is a composite, 70% of the S&P/ASX MidCap 50 Accumulation Index and 30% of the S&P/ASX Small Ordinaries Accumulation Index.

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

At a stock level, the overweight positions in Block, Evolution Mining, Sandfire Resources, Viva Energy Group, ALS, REA Group and WiseTech Global contributed to relative performance. The underweight positions in Liontown Resources and IDP Education, and the nil position in Iluka Resources also contributed to value. Conversely, the overweight positions in AMP, Boss Energy, IGO, Paladin Energy, Allkem, Life360 and AGL Energy detracted from relative performance.

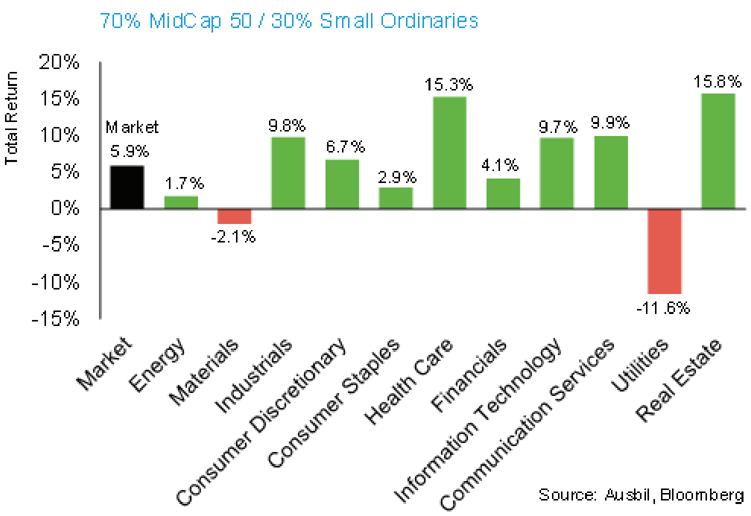
Market Review

Markets staged a rebound in the December quarter as inflation figures brought forward the possibility of rate cuts, commencing in the US in the first half of calendar 2024, with a quarterly return of +5.9% for the Composite Benchmark (70% S&P/ASX MidCap 50 and 30% S&P/ASX Small Ordinaries accumulation indices), bringing the trailing market 1-year return to +7.8%.

As a result of monetary policy normalisation, while the economy remained near full employment, economic growth had slowed to below trend. As Ausbil has argued across 2023, persistently low unemployment, demand for Australian resources, and significant excess savings in the system helped soften the rapid normalisation of interest rates, and the impact of persistent higher inflation on consumers. Though markets were significantly impacted by the rising 10-year yield in 2022 and early 2023, and slowing economic growth, they responded positively to the slowing of rate rises towards the end of 2023.

At a sector level, the positive sentiment was also reflected across all sectors other than Utilities and Materials, as shown in the chart.

Sector returns – December Quarter 2023



Fund Characteristics

Returns[1] as at 31 December 2023

Period	Fund Return[1] %	Bench-mark[2] %	Out/Under performance %
1 month	5.83	6.99	-1.15
3 months	0.85	5.90	-5.05
6 months	2.17	4.04	-1.88
1 year	3.19	7.81	-4.62
2 years pa	-4.03	-1.50	-2.52
3 years pa	6.85	5.20	1.64
5 years pa	10.78	10.20	0.59
7 years pa	8.63	8.94	-0.32
10 years pa	7.96	9.77	-1.81
15 years pa	9.69	9.53	0.16
20 years pa	9.93	8.55	1.38
Since inception pa Date: April 2002	10.28	8.87	1.40

Top 10 Stock Holdings

Name	Fund %	Index[2] %	Tilt %
Evolution Mining	5.97	2.01	3.96
Lynas Rare Earths	5.28	1.72	3.56
WiseTech Global	5.13	3.55	1.58
REA Group	4.09	2.40	1.70
NextDC	4.03	1.81	2.21
Block	3.82	0.95	2.86
Worley	3.65	1.65	2.00
AMPOL	3.49	2.21	1.28
ALS	3.48	1.60	1.88
Whitehaven Coal	3.40	1.60	1.80

Sector Tilts

Sector	Fund %	Index[2] %	Tilt %
Energy	18.01	5.91	12.11
Materials	27.14	20.50	6.64
Industrials	10.24	16.54	-6.30
Consumer Discretionary	6.13	9.15	-3.02
Consumer Staples	0.00	2.56	-2.56
Health Care	0.00	4.09	-4.09
Financials	10.86	13.29	-2.43
Information Technology	16.01	9.69	6.32
Communication Services	4.09	7.56	-3.47
Utilities	3.34	1.47	1.87
Real Estate	1.31	9.24	-7.93
Cash	2.86	0.00	2.86
Total	**100.00**	**100.00**	**0.00**

1. Fund returns are net of fees and gross of taxes.
2. The composite benchmark is 70% S&P/ASX Midcap 50 Accumulation Index and 30% S&P/ASX Small Ordinaries Accumulation Index.

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Outlook

Our reading of the economy is that economic growth will stabilise and improve in 2024, as will be the case for system earnings growth. However, the average outcome for EPS growth in FY24 and into FY25 masks several areas where we expect to see growth.

From the perspective of cyclicality, the market is currently balanced on edge, between a negative view based on household spending that is being impacted by high inflation, higher rates, utilities and food costs; and a positive outlook that sees households adjusting because of a relatively resilient economy and a cushion of excess savings. In cyclical sectors there are some names that still standout, but overall, we remain cautious. Ausbil continues to favour earnings growth from GDP agnostic sectors and stocks, and quality leaders with demonstrated operational and pricing leverage.

In aggregate terms, the market is expecting little earnings growth to June 30 financial year 2024. On balance, we see potential upside relative to consensus driven by better than forecast commodity prices, particularly for the bulks and energy. In the non-resource sectors, better earnings growth outcomes are likely in the health care, technology, telecommunications, commercial services, and to a lesser extent the banking sector.

While rising rates had punished technology names across 2022, the plateauing and normalisation of rates as well as cost-out programs saw them re-rating in 2023. Ausbil sees technology as a potential earnings rerate in FY24, however, as most are long duration growth assets, the impact will be variable.

The overall valuation of the Australian equity market is currently sitting close to long-term average multiples on a suppressed earnings outlook. Despite this, our conclusion on earnings growth opportunities heading into calendar 2024 is that the average never really tells the story on its own. Consensus currently expects earnings contraction in FY24 of -4.3% for the S&P/ASX 200, then a return to earnings growth of +4.3% in FY25, however we believe that earnings growth well above the system can be achieved in some sectors in FY24, and through key quality opportunities looking ahead.

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