

Ausbil Australian Active Equity Fund

Quarterly performance update

December 2018

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'The Australian equity market delivered weaker performance in the last quarter of 2018'

Performance Review

Fund performance for the December 2018 quarter was -13.19% (net of fees) versus the benchmark return of -8.41%, as measured by the S&P/ASX 300 Accumulation Index.

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

At a stock level, the overweight positions in Evolution Mining, BHP, Rio Tinto and The a2 Milk Company added to relative performance. The underweight positions in Woodside Petroleum, WorleyParsons, James Hardie, Oil Search and Unibail-Rodamco-Westfield also added value. Conversely, the overweight positions in BlueScope Steel, Santos, Lendlease, Clydesdale and Aristocrat Leisure also detracted from relative performance. The underweight position in Transurban Group and Commonwealth Bank also detracted value.

Market Review

The Australian equity market (represented by the S&P/ASX 300 Accumulation Index) delivered weaker performance in the last quarter of 2018 to return -8.4% on the back of rising global uncertainty and re-evaluation of global growth prospects. However, Australian equities outperformed most global equity peers during the quarter (MSCI World: -13.3%, MSCI Emerging: -7.4%, US: -13.5%, Europe: -12.9%, UK: -9.6%). For calendar year 2018, Australian equities (-3.1%) outperformed their global counterparts (MSCI World: -8.2%, MSCI Emerging: -14.2%, US: -4.4%, Europe: -12.0%, UK: -8.7%).

Domestically, large-cap stocks (S&P/ASX 20 Accumulation Index: -6.2%) outperformed, while mid-cap stocks (S&P/ASX MidCap 50 Accumulation Index: -13.1%) and small-cap stocks (S&P/ASX Small Ordinaries Accumulation Index: -13.7%) underperformed.

Outlook

We start 2019 with two major company reporting periods – the US 4Q18 earnings in January, followed by the Australian 1H19 earnings in February which will give early indications of the health of corporate earnings. Given the recent weakness highlighted by some global companies, expectations of earnings growth for the Australian equity market have shifted to the following year (FY20: 6.2%) at the expense of the current year (FY19: 7.5%) but still remain modest.

Domestically, we expect moderation in credit growth due to the imposition of regulation, stringent lending criteria and easing in credit demand. This is leading to anaemic wage growth and softening property prices which have also impacted consumer spending. As a result, domestically oriented businesses in the Financial, Consumer Discretionary and Real Estate Development sectors continue to face earnings headwinds.

Fund Characteristics

Returns¹ as at 31 December 2018

Period	Fund Return ¹ %	Bench-mark ² %	Out/Under performance %
1 month	-0.83	-0.23	-0.60
3 months	-13.19	-8.41	-4.79
6 months	-11.59	-7.03	-4.56
FYTD	-11.59	-7.03	-4.56
CYTD	-7.06	-3.06	-4.00
1 year	-7.06	-3.06	-4.00
3 years pa	5.74	6.65	-0.91
5 years pa	4.77	5.60	-0.83
7 years pa	9.61	9.45	0.16
10 years pa	8.77	8.91	-0.14
15 years pa	9.32	8.18	1.14
20 years pa	9.67	7.88	1.79
Since inception pa Date: July 1997	9.52	7.77	1.75

Top 10 Stock Holdings

	Fund %	Index ² %	Tilt %
BHP	9.20	6.53	2.67
CSL	7.77	5.43	2.34
Commonwealth Bank	7.27	8.26	-0.99
Westpac Bank	5.65	5.57	0.07
Santos	5.06	0.63	4.43
ANZ Bank	4.47	4.59	-0.12
QBE Insurance	4.46	0.89	3.56
Rio Tinto	4.05	1.89	2.16
Macquarie Group	3.61	2.23	1.38
National Australia Bank	3.23	4.26	-1.03

Sector Tilts

Name	Fund %	Index ¹ %	Tilt %
Energy	6.17	5.28	0.89
Materials	25.04	18.12	6.93
Industrials	6.51	7.97	-1.45
Consumer Discretionary	4.09	6.82	-2.73
Consumer Staples	6.96	5.78	1.18
Health Care	10.23	8.78	1.45
Financials	33.32	32.17	1.15
Information Technology	3.71	2.79	0.92
Communication Services	0.00	2.66	-2.66
Utilities	0.00	1.99	-1.99
Real Estate	2.30	7.64	-5.34
Cash	1.67	0.00	1.67
Total	100.00	100.00	0.00

1.Fund returns are net of fees but before taxes.

2.The benchmark is S&P/ASX 300 Accumulation Index.



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