

Active equity investing: Australian large caps can be great alpha compounders

Research & Insights

November 2025

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Investors seeking quality compound investments should consider an actively managed Australian large-cap equity portfolio. Ausbil's top-down macro and bottom-up fundamental approach helps to stay invested in the right sectors through periods of economic and geopolitical volatility, with the aim of capturing the upside from these events. Paul Xiradis (PX), Co-Founder of Ausbil, Executive Chairman, Chief Investment Officer and Portfolio Manager for the large-cap Ausbil Australian Active Equity Fund shares how he looks at large caps, and how he invests to generate long, compound returns.

10 minute read

Key points

- Investors hunt for individual companies that compound over time, often overlooking the compounding benefits of an actively managed and diversified large-cap equity portfolio.
- Ausbil's active top-down (macro-economic) bottom-up (fundamental investment) process supports staying invested even across tumultuous markets with the aim of achieving long compound returns.
- Focus on future earnings growth and the potential for earnings surprise has served to generate a long track record of outperformance for Ausbil's Australian Active Equity Fund.
- Great large-cap equities are capable of generating earnings growth year-on-year, with businesses that also reward capital investment in expansion.

Q: From your experience, can you describe what a good large-cap company looks like?

PX: Having managed large, mid and small-cap equity strategies for over 40 years, you could say I have become quite familiar with the idiosyncratic nature of listed companies, what works, and what does not work.

Over the years, I have observed a number of things about successful large caps. The first is a strong business model that can generate earnings growth, year-on-year. For us, it all starts with positive earnings growth. Even better, we like finding a company that can invest cashflow from its earnings into capital expansion and business development at returns that are more attractive than the alternative, buybacks and dividend payouts. This sounds simple, but so many businesses cannot achieve these two things, let alone compete with peers in a global and competitive marketplace.

Beyond the quality of the core business model, in very simple terms, a good large company should have a strong balance sheet, manageable levels of debt, a supportive and stable ownership structure, strong corporate governance, strong and improving ESG credentials, and a strong and experienced management team.



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Ausbil Active Sustainable Equity Fund

A good large company should have a healthy brand, a strong reputation that is guarded, a unique position or proposition that sets it apart from competitors, and potentially an element of protection or barriers to entry that inhibit competitors and enhances the value of its business.

In most cases, great companies need to be in growing markets or sectors in order to generate growing earnings. This is where our macro-economic outlook helps to determine which sectors are beneficiaries of a given economic view looking forward, and which sectors will be challenged. This allocation is important because it can be hard to fight the cycle, even with great companies.

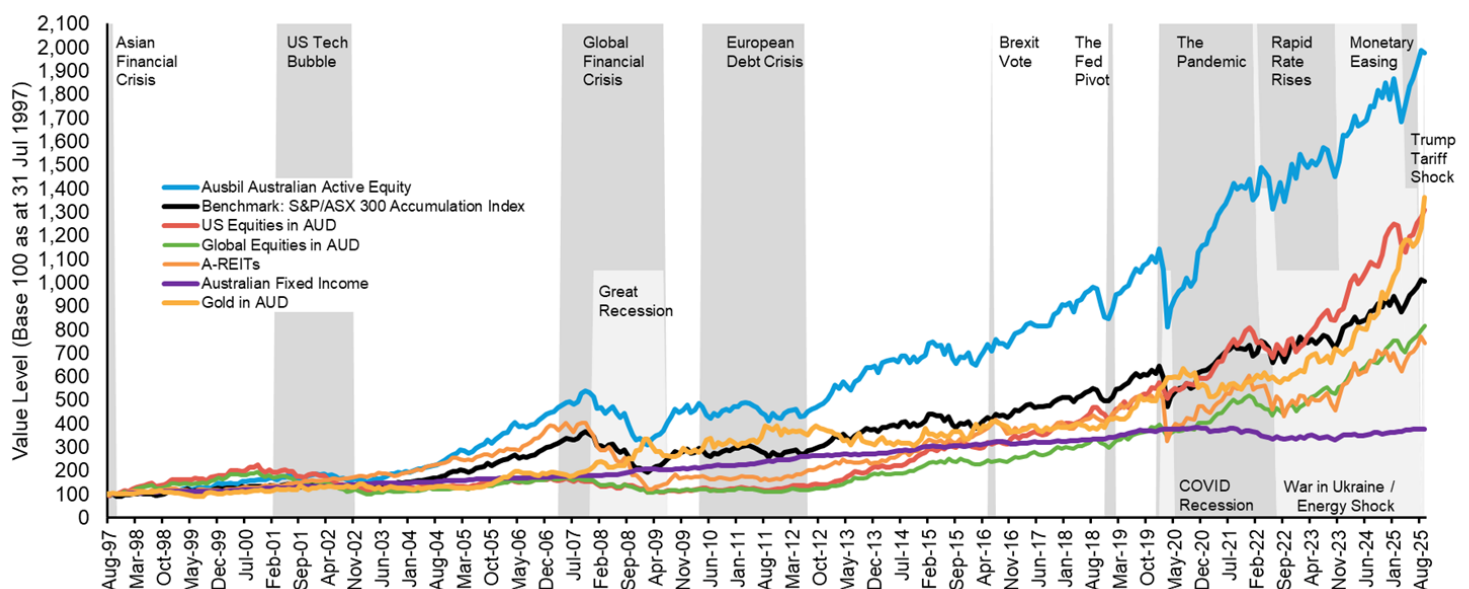
Q: Why do you prefer an active approach to equities versus a passive approach?

PX: In one sentence, at Ausbil, we prefer active investing because over time we believe we can improve on the market return. The value of this edge, across many years, is worth a lot of money to an investor.

With an active approach, we do not have to hold companies that we believe are going to be underperformers that, at best, will likely fall out of the index, or at worst, go bankrupt. I can also focus my capital on companies that demonstrate mastery in their businesses and are far more likely to perform over time than their peers. By perform, I mean that they are more likely to grow quality earnings, and in many cases, generate earnings growth above that expected by consensus.

The academic arguments fall either way on active versus passive approaches, but from our decades of actively generating alpha, we believe an active approach works well across time (Chart 1, comparative performance since inception of the Ausbil Australian Active Equity Fund).

Chart 1: Ausbil Australian Active Equity Fund gross performance across time against major asset classes



Source: Bloomberg, Ausbil, from inception 1 August 1997 to 30 September 2025. Important note, these returns are on a gross basis before fees simply to help illustrate how the strategy has negotiated various market crises. See the table below for the net returns over time and since inception after fees.

About Ausbil Investment Management

Ausbil is a leading Australian based investment manager. Established in April 1997, Ausbil's core business is the management of Australian and global equities for major superannuation funds, institutional investors, master trust and retail clients. Ausbil is owned by its employees and New York Life Investment Management a wholly-owned subsidiary of New York Life Insurance Company. As at 30 September 2025, Ausbil manage over \$20.4 billion in funds under management.

By way of comparison since the inception of our first strategy in 1997, on a gross basis from Chart 1, a passive approach invested in the S&P/ASX 300 Accumulation Index (the benchmark) across the timeframe would have seen A\$10,000 invested in August 1997 grow to around A\$100,671¹ by the end of September 2025. By contrast, the Ausbil Australian Active Equity strategy would have seen the same A\$10,000 grow to around A\$197,771 (gross of fees)¹. Even adjusting for fees on the active strategy would have seen an end investment balance of A\$153,616 (net of fees)¹, still significantly ahead of a passive approach based on the benchmark.

Q: Can you explain how compounding has worked?

A: The beauty of compounding is that an incremental edge can build into a significant advantage. This alpha has come from an investment approach that accounts for how the macro-economic environment will impact a company's earnings outlook from the top-down perspective; and a fundamental bottom-up approach that looks at the company's ability to generate superior earnings growth, ahead of peers and consensus expectations. Our ability to take regular wins, small and large, compared to consensus and market valuations, can compound into a significant difference over time. Chart 1 illustrates the benefits of compounding, but often due to our simple human nature, we miss the alpha on offer.

Behavioural finance is full of studies on the impact of investor behaviour on returns. Investors often make mistakes in cutting short a long-term investment plan because of the doom and gloom in current events, which outweighs level-headed analysis that can look beyond the noise of immediate crises.

Anchoring is another mistake investors make when they anchor to recent information at the expense of fuller and more balanced information. A classic example is to panic at a few months of negative returns, which anchor investors to think future returns will be negative; hence, they cut short an investment instead of riding through the short-term challenges for the longer-term gains.

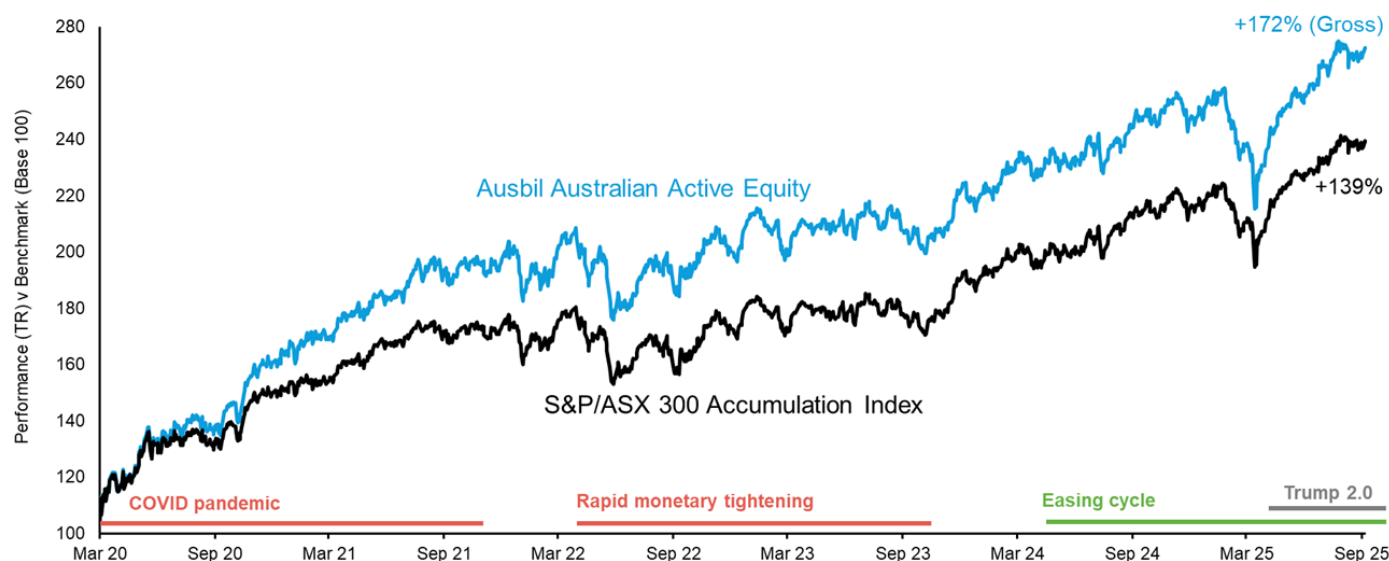
Chasing strong returns or running from short-term negative performance by 'flip-flopping' between investments, what we call switching, is where investors cut in and out of investments and typically lose money rather than stay the course. Studies show time and again that investors are notoriously bad at choosing when to enter or exit the market, and that returns typically come from 'time in the market', not timing the market. This is where focusing on long compound returns can make the most of the excess returns on offer from a good active investment strategy.

Q: Can you give us some examples that helped you stay invested in crises?

A: Ausbil has a top-down bottom-up process that melds our macro-economic outlook and fundamental analysis with the aim of generating alpha. This combination has helped significantly in negotiating complex market events like the pandemic with its supply-side shock, the energy shock from the invasion of Ukraine, the rapid monetary tightening of 2022/23 in response to rampant inflation, and more recently, the tariff shock of 2025. Figure 2 illustrates the path Ausbil's Australian Active Equity strategy has taken since the pandemic low in March 2020, and the benefit of staying invested across these crises.

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1. These numbers are based on total returns with distributions (for the fund / strategy) and dividends (for the benchmark S&P/ASX 300 Accumulation Index) reinvested.

Figure 2: Looking through the turmoil to find opportunities

Source: Ausbil, FactSet, returns gross of fees and assume distributions are reinvested from market low at 23 March 2020 to 30 September 2025, and based to 100. Benchmark is the S&P/ASX 300 Accumulation Index. Past performance is not a reliable indicator of future performance.

When a lot of other investment managers were pulling back into cash during these various shocks, Ausbil's process helped us identify areas that would benefit and we set our portfolios accordingly. During COVID, we actively tilted towards beneficiaries of work from home, beneficiaries of the massive stimulus, vaccines, the health care sector, and the acceleration in e-commerce that occurred. From positioning for these themes, we generated significant alpha from Qantas (reopening), JB Hi-Fi (on the home-based spending boom), Goodman (on the explosion in online fulfilment and warehousing) and NextDC (on the ever increasing demand for data centre capacity).

During the rapid monetary tightening in 2022/23, we analysed the impact of rapidly rising rates and realised that the beneficiaries would include banks (on reflation net interest margin), general insurers like QBE (on higher returns from higher interest rates from their replicating portfolios), and registries like Computershare (as they would be generating higher returns on their cash float). These positions generated alpha.

Recently, President Trump's tariff announcements shocked the market on 2 April, and led to significant volatility and a flight to safety. We determined within days of the tariff announcement that there would be negotiated outcomes (which has subsequently been occurring), and that we believed the impact, while sharp, would be temporary. At this stage, our premise has proven correct, and we have benefited from tilts to US domiciled companies and Sandfire Resources, both leveraged to expansion of the US electricity grid, renewables and US economic growth.

While some of these crises saw an expected drag on performance, Ausbil's process was able to adjust back to generating excess returns. Interestingly, across the pandemic, Ausbil was able to continue generating positive rolling excess returns with careful macro calibration and stock selection.

Ausbil's dynamic approach to earnings and earnings revisions has helped add quality earnings and earnings growth, but also reduced the downside risks through underweighting or avoiding sectors and stocks that have entered periods of earnings de-rating. This comes from both macro top-down and fundamental bottom-up intelligence on stocks and sectors, and from the additional risk benefits the integration of ESG offers our portfolios.

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Q: What do you like about large caps from an investment perspective?

PX: Large caps have always been of interest to me perhaps given the complexity they show, and the potential to find gems in this complexity if you take the time to analyse and know a company. This complexity accords with my naturally curious and forensic approach to finding superior earnings growth opportunities. Owning a share of Australia's largest and most successful companies is an exciting prospect for investors.

Of course, you do not invest in large companies just because they are large, or complex. There can be both good and bad reasons why a company has become a large cap. It is not always apparent, but understanding the reasons can help focus on what matters when finding large-cap stocks.

The relativity between valuation and the earnings growth outlook is what matters for the allocation of risk capital. Investors who are serious about generating compound return on equity look at the interrelationship between earnings and earnings growth, and what it means for value so that assets are acquired for a return on capital that offers the potential for outperformance.

To illustrate this with a contrasting example, in market-cap weighted ETFs (exchange-traded funds), the larger the market cap of a company, the more investment capital it attracts, regardless of its earnings profile, growth outlook or whether the business is growing or shrinking. Hence, sentiment-pumped market caps are rewarded for being big, rather than being profitable or having a future earnings growth profile.

By contrast, Ausbil's active approach allocates capital to companies that we have assessed to offer superior earnings growth and where we believe there are significant potential earnings surprises. We are earnings growth obsessed, simple as that, because in essence, companies are only as good as the earnings they can generate for shareholders.

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Q: What risks are unique to large-cap equities?

PX: There are a number of risks that come with larger companies. Firstly, there is the challenge of complexity that we have already discussed. To mitigate this complexity, we have a team of equity analysts and portfolio managers who study the same companies and are evaluating these companies on an ongoing basis. However, we believe this complexity also offers significant opportunities for outperformance that rewards diligence and a strong investment process.

Who owns the company and how management is incentivised makes a big difference in how they make decisions. How management and staff are aligned not just to the interests of customers but also the interests of equity holders can make a material difference to how a large cap performs. The flipside to this is that poor alignment and bad management can destroy a large cap very quickly.

Other risks which we seek to avoid through our research and knowledge of companies can include transparency problems, specific ESG issues or exposures (including negative momentum sustainability scores), and any other element of a company or the market in which it operates that is a risk to earnings. We are vigilant on risks to our view on earnings growth, and our process allocates away from anything we think is materially adverse to our view on a company's ability to continue growing its earnings and dividends.

Q: What do you think differentiates Ausbil's Australian Active Equity strategy?

PX: Ausbil has many significant points of differentiation that together, we believe, sets us apart from our competitors. Firstly, the application of macro that guides our top-down positioning, combined with a bottom-up fundamental focus on finding companies with a strong outlook for earnings and earnings revisions. We have an in-house Chief Economist who guides our macro-outlook with original research and thinking that we believe makes a real difference to our performance. Many investment managers simply have no economists to challenge their thinking and portfolio managers try to set the macro themselves. We benefit from continuous debate on macro trends that helps us position more effectively for alpha in our sector allocations.

Secondly, the integration of ESG in our large-cap strategy helps reduce risk in the portfolio, and in gaining a deeper fundamental understanding of companies. Ausbil's ESG Team produces proprietary ESG research on companies in the ASX 200 and held by the Fund. We have a team whose purpose is simply ESG research, analysis, company engagement, policy and scoring which we believe adds significantly to our risk-adjusted returns.

Thirdly, Ausbil's investment process can be broadly described as 'core'. We classify ourselves as 'style indifferent'. At certain stages of the cycle, the portfolio may have a value or growth tilt, or no material tilt of one over the other as markets provide opportunities for particular types of stocks to benefit from earnings growth depending on where we are in the cycle.

Finally, I would say that our team at Ausbil is a key advantage. We have a stable team, many of us have been here for one or two decades, following the same process.

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Q: How do you apply ESG to your investment approach?

PX: We have a dedicated in-house ESG research team who review, assess, score and engage every company that is in our large-cap portfolios. We take the ESG component very seriously in both our valuations and our risk assessment of companies.

Where we see the real value is in the contribution of ESG to a more complete picture of companies. When we are making investment decisions, ESG is adding more information on the sustainability of a company's business models and practices, any issues in personnel, culture or governance, how they act in the marketplace, and how they reward themselves.

Investors are expecting us to find the most compelling earnings growth opportunities in the large-cap universe, and ESG is helping to determine more about the future earnings profile than basic bottom-up approaches. We know ESG helps reduce the risks in our returns, and the ongoing active ESG engagement with companies adds an entirely new dimension of information that can help us enter, hold, size-up, size-down or exit a position.

Q: How has the Fund performed over time?

The Ausbil Australian Active Equity Fund is over 28-years old and has generated a gross long-term compound performance since inception of +11.18% per annum (before fees) to 30 September 2025, +10.21% per annum (after fees), outperforming the benchmark (S&P/ASX 300 Accumulation Index) by +1.67% pa since 1 August 1997 on a net basis (Table 1), and +2.63% on a gross of fees basis.

Table 1: Ausbil Australian Active Equity Fund performance (net of fees)

Period	Fund Return ¹ %	Benchmark ² %	Out/Under performance %
3 months	5.76	4.99	0.77
6 months	16.89	14.94	1.95
1 year	7.92	10.76	-2.84
3 years pa	12.75	15.03	-2.27
5 years pa	14.03	12.88	1.15
10 years pa	10.75	10.11	0.64
15 years pa	9.40	8.82	0.57
20 years pa	8.44	7.64	0.81
25 years pa	9.65	8.39	1.26
Since inception pa Date: July 1997	10.21	8.54	1.67

Source: Ausbil, post-fees as at 30 September 2025. Past performance is not a reliable indicator of future performance.

1. Annualised return. Inception date is 1 August 1997. These numbers are based on total returns with distributions (for the fund / strategy) and dividends (for the benchmark S&P/ASX 300 Accumulation Index) reinvested.

2. S&P/ASX 300 Accumulation Index.

More information

For more information on view our investment returns, visit www.ausbil.com.au.

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