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Ausbil Global SmallCap Fund

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Quarterly performance update

September 2024

'The Fund continues to see unrecognised earnings growth opportunities in companies with excellent management teams'

Performance Review

Fund performance for the quarter ending September 2024 was +6.62% (net of fees) versus the benchmark return of +5.30%, as measured by the MSCI World Small Cap Net Total Return Index.

MSCI World small caps rose +5.30% over the quarter in AUD terms. Singapore and Australia were the best performing countries, with Portugal also performing well. Denmark was the worst performing country followed by Italy which dragged the overall index down during the month. The US was the third worst performing country in the index.

September saw the US and China join the growing list of central banks in the global rate cutting cycle which has been underway since the June quarter of 2024. The US Federal Reserve opened with an outsized 50bps cut in the Fed funds rate to 5%, as they recalibrate restrictive policy settings. The Chinese authorities surprised with the Peoples Bank of China and the Central Committee Politburo meeting, announcing co-ordinated multiple measures aimed at supporting the housing market, boosting household consumption and achieving the 5% growth target for 2024.

Global equity capital returns powered ahead in September with the MSCI Emerging Markets index surging 6.8% driven by a skyrocketing 23.1% rise in the China MSCI. Meanwhile, the MSCI World Index for developed markets was up 1.7%, the US S&P500 up 2.0% and Europe's STOXX flat. Brent crude oil declined 5.5%, spot gold was up 5.4% and the Japanese 10-year bond fell to 0.85% from 0.89%. US 10-year yield fell 12bps to 3.78%, the 2/10-year curve returned to normal to be positive 14bps, corporate credit spreads widened by 3-7 bps,10-year inflation-protected real yields fell 16bps to 1.60%, and the US dollar index depreciated 0.9%.

Fund Highlights

In terms of sector performance, the Energy and Information Technology sectors both had weak quarters compared to the rest of the index, being the only two sectors to deliver a negative return. The Energy sector was down over 10% following the oil price lower during the quarter. Real Estate was the best performing sector followed by the Financials sectors. The Federal Reserve interest rate cut of 50 basis points clearly provided relief for these sectors during the quarter.

Notable positive contributors over the period were Powell Industries in the US and Hammond Power Solutions in Canada. Atkore in the US and Celestica in Canada were the main negative contributors during the quarter.

On the positive side, Powell Industries, founded in 1947, and a leading provider of electrical equipment based in Huston, Texas, reported strong quarterly results in July. Powell beat market expectations as ongoing electrical grid expansion both in the US and globally drove demand for its products. Hammond Power Solutions (HPS) is the main manufacturer of dry-type transformers in North America, alongside magnetic products, and related equipment. Founded in 1917, Hammond contributed strongly to performance with their innovative solutions for power conversion, distribution, and control applications. The Fund believe that the ongoing investment to upgrade and expand the US electricity grid will lead to large demand increases for Hammond's high quality electrical products.

In terms of detractors, Atkore struggled during the quarter as broadband investment and spending by several of its larger telecom customers slowed. However, as US telecom companies lift their spending into 2025, propelled

Performance

Returns[1] as at 30 September 2024

Period	Fund Return % Net	Benchmark[2] %	Out/Under Performance % Net
1 month	3.47	-0.37	3.84
3 months	6.62	5.30	1.32
6 months	-0.25	0.16	-0.41
1 year	30.23	16.16	14.07
2 years pa	22.82	14.86	7.96
3 years pa	2.19	3.58	-1.39
4 years pa	10.94	11.52	-0.58
5 years pa	9.18	8.38	0.80
Since inception Date: 31 May 2018	7.97	7.84	0.14

Top 10 Stock Holdings

Name	Fund %	Index[2] %	Tilt %
Powell Industries	5.00	0.03	4.97
Hammond Power Solutions	4.95	0.01	4.94
Sterling Infrastructure	4.74	0.05	4.68
EMCOR Group	4.72	0.00	4.72
Mueller Industries	4.47	0.10	4.37
Eagle Materials	4.24	0.12	4.12
Modine Manufacturing Company	4.04	0.08	3.96
Fabrinet	3.95	0.10	3.85
NKT	3.94	0.06	3.87
Primoris Services Corporation	3.84	0.04	3.80

Investment Characteristics

	Return on invested capital	Debt to equity	Dividend yield	Price to free cash flow
Fund	14.8	52.6	1.0	17.94
Benchmark[2]	5.8	98.3	1.8	21.48

Sector Allocations

Sector	Fund %	Index[2] %	Tilt %
Energy	0.00	4.18	-4.18
Materials	9.93	7.63	2.29
Industrials	39.15	19.84	19.31
Consumer Discretionary	14.93	13.58	1.34
Consumer Staples	3.95	4.77	-0.82
Health Care	3.46	9.65	-6.19
Financials	9.06	15.42	-6.36
Information Technology	13.23	10.82	2.42
Communication Services	0.00	3.09	-3.09
Utilities	0.00	2.58	-2.58
Real Estate	5.70	8.45	-2.75
Cash	0.59	0.00	0.59
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.

by the US BEAD program subsidies and grants, we expect Atkore to benefit via increased revenue. The company benefits from several themes including the onshoring of supply chains back to the US; ongoing non-residential manufacturing investment; and government support in terms of the Infrastructure Investment and Jobs Act (Biden's original legislation in 2021 which includes the $42.5bn allocated to the BEAD Program), and more recently, in 2022, the Inflation Reduction Act which commits investment and tax breaks into the US economy specifically focused on infrastructure and manufacturing. Celestica, another that underperformed this month, is a leading electronics manufacturing services (EMS) and supply chain solutions company headquartered in Toronto, Canada. Celestica provides a comprehensive suite of services encompassing design and engineering, manufacturing, and supply chain management, aimed at helping clients bring their products from concept to market efficiently. While Celestica serves a diverse set of industries and clients the Fund expects the business to benefit from the onshoring of high-tech manufacturing back into the US market and the ongoing demand for Semiconductor manufacturing equipment.

Positioning and Outlook

The Fund's outlook remains constructive. Global economic growth is expected to be robust in 2024 and into the new year, with the US likely to deliver reasonable GDP growth as ongoing fiscal support remains strong, and unemployment remains low. Markets may experience increased volatility, especially in the US as the election approaches. Regardless of the US election outcome, the Fund's view remains unchanged from last year believing that the large fiscal stimulus provided by the US administration will likely continue under either new president and will remain a robust tailwind for US and global growth, preventing any material recession in Western economies. The Fund is also expecting significant investment from European governments and utility companies into the European grid upgrade in the coming years. Specific focus areas including the manufacturing renaissance in the US, onshoring, data centre investment and the evolution of artificial intelligence. Furthermore, the move to decarbonisation and the associated electrical grid upgrade continues to provide exciting investment opportunities within the global small-cap market.

Global central banks are now clearly in an interest rate cutting cycle with the Federal Reserve delivering an outsized 50 basis point cut in September. There is a strong possibility that more cuts will be delivered by the Federal Reserve into year end. The reduction and stabilisation of inflation rates globally are providing the justification for these interest rate cuts and ensures that real interest rates do not become excessively high and restrictive for investment.

Global manufacturing surveys continued to disappoint during the quarter with numerous regions registering a pull back in the survey data during the quarter and in September. However, the Fund is cautiously optimistic that the interest cuts being delivered should provide an impetus for the global manufacturing economy and allow the manufacturing PMIs to improve over the neutral level of 50. The recent interest rate cuts and liquidity injections in China by the administration and the PBOC should also provide a tailwind for manufacturing, and ultimately be positive for global growth.

On geopolitics, major risks remain in the Middle East and with the war between Russia and Ukraine. We retain a watching brief on these issues in terms of our asset allocation and stock selection.

In summary, Global macro settings are expected to remain within their 'back to normal' levels in 2025. We are forecasting growth, lower inflation, real rate cuts and a recalibration of restrictive policy settings towards a higher neutral level for this cycle. We believe fears of a US recession are unsubstantiated. The risk of a sharper slowdown is mitigated by the fact that central banks now have significant room to cut rates The structural themes of decarbonisation and slowing globalisation continue to underpin activity. The US Federal Reserve has joined the growing list of central banks in the global rate cutting cycle, which has been underway since the June quarter of 2024. Underlying resilient private demand, business investment, employment growth, and multiple rate cuts will sustain the expansion of the global business cycle. We remain vigilant to unpredictable geopolitical events that may materially impact our view.

The Fund continues to see unrecognised earnings growth opportunities in companies with excellent management teams based in the US who are leveraging the growth tailwinds of onshoring, data centre expansion and electrical grid upgrades. Core positions continue to be Powell Industries and EMCOR which are exposed to these earnings drivers.

The Fund maintained its holdings in US and European industrials, and its overweight in electrical equipment with exposure to continued investment in the electrical grid in the US and Europe, and to increased spend in construction and infrastructure. The Fund is underweight the consumer, specifically apparel and core retail exposure as the US and global consumer is still at risk from elevated interest and inflation rates, although we believe the peak in these is behind us. The Financial sector is an underweight alongside the Real Estate sector; however, this underweight has been reduced in September as further interest rate cuts are being delivered into the market which will reduce the pressure on these two sectors.

On a regional basis, the Fund is overweight the US, Europe and the UK. The Fund is underweight Asia, Japan and Australia.

The Fund remains biased to niche leaders within their industry, like Powell and Hammond (with both having significant exposure to the electrical infrastructure required to upgrade and expand the US and Global electrical grids), while still maintaining exposure to areas with structural earnings growth drivers like onshoring and datacentre build out, which we expect to deliver earnings ahead of the market. In general, lower levels of inflation and interest rates cuts provide an attractive environment for businesses to deliver growth. Small cap stock valuations continue to trade at significant discounts to large-cap peers providing good potential for relative outperformance for small caps. We continue to find attractive unrecognised growth opportunities in our universe of under-researched small caps.

Region Allocation

Country	Fund %	Index[2] %	Tilt %
North America	71.10	64.93	6.17
Japan	3.24	12.54	-9.30
United Kingdom	6.94	5.36	1.57
Europe (Ex United Kingdom)	14.52	11.16	3.36
Asia Pacific (Ex Japan)	3.61	5.05	-1.44
Middle East	0.00	0.96	-0.96
Cash	0.59	0.00	0.59
Total	**100.00**	**100.00**	**0.00**

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