

Ausbil Active Sustainable Equity Fund

Quarterly performance update

September 2024

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'We think that consensus is being overly negative about the outlook for FY25 earnings growth, and we expect to see a retracement in this position'

Performance Review

Fund performance for the quarter ending September 2024 was +9.82% (net of fees), versus the benchmark return of +7.79%, as measured by the S&P/ASX 200 Accumulation Index.

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

At a stock level, the overweight positions in Charter Hall Group, Evolution Mining, Brambles, HUB24, ResMed, JB Hi-Fi, Sandfire Resources and Life360 added to relative performance. The nil positions in Woodside Energy Group and Cochlear also added value. Conversely, the overweight positions in Web Travel Group, Block, NextDC and CSL detracted from relative performance. The nil positions in Westpac Bank, BHP Group, WiseTech Global, Megaport, Aristocrat Leisure and Northern Star Resources also detracted value.

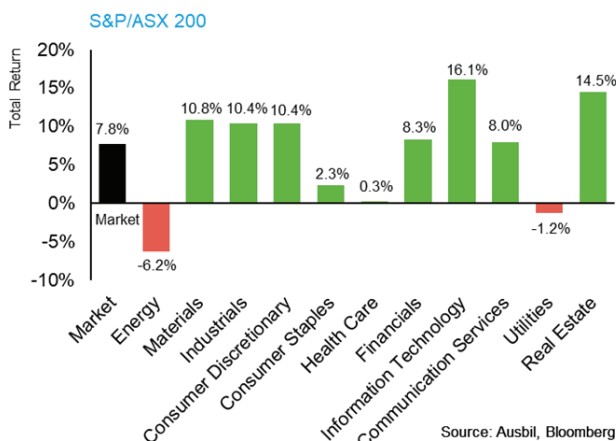
Market Review

The September quarter was positive for equities with the US Federal Reserve cutting interest rates slightly more than expectations (50bps) combined with a rate cut in China with the additional promise of more stimulus (monetary and fiscal) as needed to achieve GDP targets. The S&P/ASX 200 Accumulation Index delivered a positive return of +7.8%, bringing the trailing market 1-year return to +21.8%.

Globally, emerging markets (MSCI EM) outperformed developing markets (MSCI World). With the exception of Japan, all major developed markets were up in September.

At a sector level, performance was largely positive across the September quarter, with the exception of Energy which is under pressure from the combination of weaker than expected demand, and concerns regarding the potential that Saudi Arabia may be considering changing its oil price strategy and increasing output into an already well supplied market.

Sector returns – September Quarter 2024



Source: Ausbil, Bloomberg

Fund Characteristics

Returns¹ as at 30 September 2024

| Period | Fund Return ¹ % | Benchmark ² % | Out/Under-performance % |
|---|-------------------------------|-----------------------------|----------------------------|
| 1 month | 1.90 | 2.97 | -1.07 |
| 3 months | 9.82 | 7.79 | 2.04 |
| 6 months | 8.32 | 6.65 | 1.67 |
| 1 year | 29.43 | 21.77 | 7.66 |
| 2 years pa | 16.76 | 17.54 | -0.78 |
| 3 years pa | 6.03 | 8.45 | -2.42 |
| 4 years pa | 12.83 | 13.60 | -0.76 |
| 5 years pa | 10.44 | 8.38 | 2.07 |
| Since inception pa Date: 31 Jan 2018 | 10.47 | 9.11 | 1.36 |

Top 10 Stock Holdings

| Name | Fund % | Index ² % | Tilt % |
|-------------------------|-----------|-------------------------|-----------|
| Commonwealth Bank | 9.38 | 9.22 | 0.16 |
| CSL | 6.97 | 5.63 | 1.34 |
| National Australia Bank | 5.39 | 4.69 | 0.70 |
| Macquarie Group | 5.38 | 3.36 | 2.02 |
| Rio Tinto | 4.73 | 1.95 | 2.78 |
| Wesfarmers | 4.66 | 3.25 | 1.40 |
| ANZ Bank | 4.14 | 3.72 | 0.42 |
| Goodman Group | 4.06 | 2.63 | 1.43 |
| Telstra | 3.06 | 1.83 | 1.23 |
| Brambles | 3.01 | 1.08 | 1.93 |

Sector Tilts

| Sector | Fund % | Index ² % | Tilt % |
|------------------------|---------------|-------------------------|-------------|
| Energy | 0.00 | 4.44 | -4.44 |
| Materials | 14.31 | 20.98 | -6.67 |
| Industrials | 7.52 | 6.21 | 1.31 |
| Consumer Discretionary | 6.68 | 7.38 | -0.69 |
| Consumer Staples | 2.78 | 3.93 | -1.15 |
| Health Care | 10.78 | 9.42 | 1.36 |
| Financials | 31.75 | 32.39 | -0.64 |
| Information Technology | 12.99 | 4.57 | 8.42 |
| Communication Services | 3.06 | 2.24 | 0.81 |
| Utilities | 0.00 | 1.40 | -1.40 |
| Real Estate | 8.84 | 7.03 | 1.81 |
| Cash | 1.29 | 0.00 | 1.29 |
| 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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Outlook

The August FY24 reporting season was a weak one, and market expectations for FY25 earnings growth fell contrary to Ausbil's view that earnings will grow. At the end of Q3 calendar 2024, we think that consensus is being overly negative about the outlook for FY25 earnings growth, and we expect to see a retracement in this position as data shows that the environment is far more positive than the market is currently crediting. The surprise China rate cut in September and their express commitment to further stimulus as needed added a tailwind to Ausbil's positive earnings growth outlook.

We remain focused on the key thematic areas that are driving long-term earnings growth, particularly where imbalances see demand exceeding supply on a fundamental basis for some time. Our house view that economic growth will bottom in calendar 2024, after which we see it firming into calendar 2025 means that we see some return of select cyclical exposures in addition to key thematic areas like decarbonisation and technological change. Exposures in this regard focus on profitable models to capture cyclical growth and compound increased spending that comes with economic growth, and improvement in housing and discretionary spending.

Decarbonisation and the energy transition remain significant themes that are driving value across resources, energy, utilities and the mining services sector with respect to critical commodities. We like copper, uranium and rare earths for the central role these will play in renewable energy, energy storage and upgrading electrical grids worldwide.

We are also seeing structural earnings growth in technological transformation, the rise of artificial intelligence (AI), and the enablers and businesses that increasingly operate in the digital environment, including communications companies. These enablers include data centres, energy and energy storage that backs-up data processing, telecommunications and internet companies that support the web of connectivity and data. We also like beneficiaries of the digital revolution, companies that are able to leverage the networking and processing power offered by enablers to capture more business, more customers and at lower and lower costs.

ESG Review

In September, we finished up our remaining reporting season meetings while actively participating in investor working groups on various key ESG issues and engaging directly with the Australian government on anti-modern slavery regulation.

Throughout the month, Ausbil had 19 company meetings, three of which focused on governance matters ahead of upcoming AGMs. The ESG engagements had diverse focal points. For instance, Ausbil engaged with: Cleanaway on their PFAS treatment business; with Charter Hall Group on potential impacts from the gambling reforms to their pubs and clubs; with Sandfire Resources on the development of their water accounting framework and progress update on their engagements with traditional owners after the artefact disturbance; and with Wesfarmers on management's strategy to consolidate the supply chain for the retail business and its ESG benefits. Ausbil met with the outgoing and incoming CEOs of Woolworths to discuss management's priorities, including their continued focus on responsible sourcing, the declining tobacco-related exposure and safety benefits from increased automation.

Ethical AI is a key engagement theme for Ausbil. Ausbil became the first Australian investor to join the Collective Impact Coalition for Ethical Artificial Intelligence, organised by the World Benchmarking Alliance in 2022. During September, Ausbil engaged with Telstra as Lead Investor with the engagement focused on their ethical AI principles, how they are practically employed, governance and oversight structures, and how Telstra navigates high-risk use cases and conducts impact assessments. Ausbil also had a series of written engagements with Spark on similar issues.

Additionally, Ausbil travelled to Parliament House in Canberra together with the Human Rights Law Centre and the ACTU to meet with politicians across a wide spectrum to discuss how to strengthen Australia's anti-modern slavery regulatory framework. The timing of the trip was to discuss these matters before the government responds to the recommendations by Professor McMillan, before of the Anti-Slavery Commissioner commences, and before the visit of the UN Rapporteur.

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