

Ausbil Global SmallCap Fund

Quarterly performance update

March 2024

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Performance Review

Fund performance for the quarter ending March 2024 was +20.34% (net of fees) versus the benchmark return of +9.02%, as measured by the MSCI World Small Cap Net Total Return Index.

MSCI World small caps rose +9.02% over the quarter in AUD. Belgium and Switzerland were the worst performing countries, while Denmark and Italy performed well. The US performed well against the overall benchmark driven upwards by a strong company reporting season during February.

Energy and Industrials were the best performing sectors over the month, contrasting significantly against Real Estate and Communication Services which were the worst performing sectors and continue to struggle in this environment.

Contributors and Detractors

Notable positive contributors over the period were Vertiv and EMCOR Group, both in the US, while Kempower in Finland and Fabrinet in the US underperformed.

Vertiv was the biggest positive contributor for the Fund during the quarter. Vertiv is a global leader specialising in critical digital infrastructure solutions with a strong focus on data centres, offering a comprehensive strategy of products and services to ensure the availability and reliability of essential applications across a wide range of industries. Vertiv's products include power equipment and heating and cooling systems for data centres which are currently in high demand. Vertiv has been a key holding of the strategy for over two and a half years.

EMCOR Group is a global specialist in the design, installation, integration, and start-up of distribution systems for electrical power, lighting, heating and cooling, and fire and safety systems. Its three core segments are focused on construction, industrial and business services catering to both new developments and large-scale renovation and upgrade projects. The company is headquartered in Norwalk in the US but has a global footprint. EMCOR Group published its latest results in February and discussed its growing exposure to the data centre construction and installation market where it is experiencing very strong demand.

Kempower is a Finnish developer and manufacturer of electric vehicle fast charging units. The company was founded by Kemppe Group; one of the global leaders in welding equipment. Kempower has seen rapid growth in its local region of Northern Europe and has expanded further across Europe and into the UK. Kempower have also won recent contracts in the US and Australia. Kempower are currently establishing a manufacturing base in North Carolina to cater for the strong expected demand in the US market. Kempower's multiple product offerings and flexible solutions give it a strong competitive advantage against its European and US competitors. Kempower struggled during the period as renewable energy companies and companies exposed to electric vehicles (EVs) demand underperformed the broader market. The Fund exited its position in Kempower during the quarter as there is risk of further slowdown in the EV market and related suppliers.

Fabrinet is a multinational company, listed in the US, specialising in providing advanced optical packaging and precision optical, electro-mechanical, and electronic manufacturing services to original equipment manufacturers (OEMs) in the telecommunications, data storage, semiconductor, and other industries. Several of the advanced optical links are essential components used in the latest semiconductor chips and racks required for the roll out of A.I. Fabrinet has a strong management team led by Seamus Grady and a diversified set of clients in the advanced semiconductor market. Fabrinet is expected to deliver robust earnings growth as its essential components continue to be in strong demand.

Performance

Returns¹ as at 31 March 2024

Period	Fund Return % Net	Bench-mark ² %	Out/Under Performance % Net
1 month	3.76	3.54	0.22
3 months	20.34	9.02	11.32
6 months	30.55	15.98	14.57
1 year	37.58	18.78	18.81
2 years pa	14.22	9.86	4.36
3 years pa	6.45	6.58	-0.13
4 years pa	16.48	15.26	1.21
5 years pa	10.36	9.72	0.64
Since inception Date: 31 May 2018	8.73	8.51	0.22

Top 10 Stock Holdings

Name	Fund %	Index ² %	Tilt %
Atkore	5.04	0.09	4.95
Vertiv	4.85	0.00	4.85
EMCOR Group	4.76	0.22	4.54
Sterling Infrastructure	4.28	0.04	4.23
TopBuild	3.91	0.18	3.73
Eagle Materials	3.85	0.12	3.72
Applied Industrial Technologies	3.69	0.10	3.59
Medpace	3.49	0.13	3.35
Evercore	3.44	0.09	3.35
NKT	3.36	0.06	3.30

Style Tilts

	Return on invested capital	Debt to equity	Dividend yield	Price to free cash flow
Portfolio	17.3	58.1	1.0	16.78
Benchmark ²	6.4	94.6	1.8	21.61

Sector Allocations

Sector	Fund %	Index ² %	Tilt %
Energy	0.00	5.11	-5.11
Materials	6.55	7.46	-0.91
Industrials	40.35	20.59	19.76
Consumer Discretionary	15.00	13.50	1.50
Consumer Staples	4.23	4.63	-0.40
Health Care	6.72	9.73	-3.01
Financials	12.41	14.92	-2.52
Information Technology	12.01	11.09	0.92
Communication Services	0.00	2.80	-2.80
Utilities	0.00	2.37	-2.37
Real Estate	1.94	7.81	-5.86
Cash	0.79	0.00	0.79
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.

Positioning and Outlook

The Fund expects global economic growth to be robust in 2024 with the US likely to deliver reasonable GDP growth as ongoing fiscal support remains strong, and unemployment remains low. India's robust economy and further stimulus measures in the Chinese economy are also expected to support global growth this year. The Fund's view remains unchanged from last year; the Fund believes that the large fiscal stimulus provided by the US administration will continue to be a robust tailwind for US and global growth preventing any material recession in the 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; and finally, the move to decarbonisation and the associated electrical grid upgrade continue to provide exciting investment opportunities within the global small cap market.

Global manufacturing surveys continued to improve during the quarter, continuing a pattern observed from late last year, indicating that a global manufacturing recovery is underway. The global manufacturing PMI hit 50.6 in March, up from 50.3 in February and the highest since August 2022. This represents the second month of expansion in the manufacturing survey after 18 months of declines. The Purchasing Managers Index (PMI) data produced by S&P Global showed a stabilisation in the score for the US registering a reading of 51.9 which was only a small decrease month on month, but still significantly higher than the end of last quarter with December 2023 displaying a score of 47.9. European PMIs took a step backwards in March with Germany's manufacturing PMI printing 41.9 which was a disappointment after improving for several months earlier in the year.

The Fund continues to seek out unrecognised growth opportunities in stocks leveraged to the identified themes and growth tailwinds including onshoring, data centres and electrical grid upgrades. We believe that these themes combined with the identification of excellent company management teams can lead to robust shareholder outcomes. Core positions continue to be Atkore, Vertiv and EMCOR which are exposed to these thematic.

The Fund remains overweight both US and European industrials, with a focus on electrical equipment including the ongoing investment in the US and European electricity grid and the associated increase in construction and infrastructure investment. The Fund is underweight the consumer as

Region Allocation

Country	Fund %	Index ² %	Tilt %
North America	67.35	64.96	2.39
Japan	9.45	12.10	-2.65
United Kingdom	6.01	5.17	0.84
Europe (Ex United Kingdom)	16.40	12.06	4.34
Asia Pacific (Ex Japan)	0.00	4.69	-4.69
Middle East	0.00	1.03	-1.03
Cash	0.79	0.00	0.79
Total	100.00	100.00	0.00

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. We remain neutral financials and underweight real estate. During the quarter US homebuilder exposure was lifted via TopBuild. TopBuild is one of the leading providers of insulation to both the residential and non-residential construction sectors in the US. The largest holding in financials is now Evercore, the independent investment bank founded in 1995 by Roger Altman. Evercore continues to highlight an improving outlook for the M&A market, while also looking to take market share from its key competitors.

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

The Fund remains biased to niche leaders within their industry, like Vertiv (with strong demand tailwinds for their data centre cooling and power equipment), and EMCOR (with its significant exposure to electrical and mechanical construction projects), exposed to strong themes like data centres, AI and onshoring which we expect to deliver positive earnings surprises in the near and mid-term. While we think central banks will maintain restrictive monetary policies during the year, this will be the year of peak rates. The US Federal Reserve has indicated there will be cuts later this year. This peaking of rates and the stabilisation of inflation at these lower levels, combined with attractive valuations for global small caps relative to large caps, should provide a good base for potential relative outperformance. We continue to find unrecognised growth opportunities in our universe of under-researched small caps.



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