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Ausbil Australian Emerging Leaders Fund

Quarterly performance update

March 2024

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‘Ausbil believes that we are at the start of a rate cutting cycle, though the quantum and timing remains unknown’

Performance Review

Fund performance for the quarter ending March 2024 was +7.76% (net of fees) versus the benchmark return of +6.90%. The benchmark is a composite, 70% of the S&P/ASX MidCap 50 Accumulation Index and 30% of the S&P/ASX Small Ordinaries Accumulation Index.

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

At a stock level, the overweight positions in Life360, Altium, Paladin Energy, Megaport, NextDC, Boss Energy, Webjet, Light & Wonder and Sandfire Resources contributed to relative performance. The underweight position in Domino’s Pizza also contributed to value. Conversely, the overweight positions in Lynas Rare Earths, Evolution Mining, Aussie Broadband, IGO and Whitehaven Coal detracted from relative performance. The underweight positions in CAR Group, The a2 Milk Company and JB Hi-Fi also detracted value.

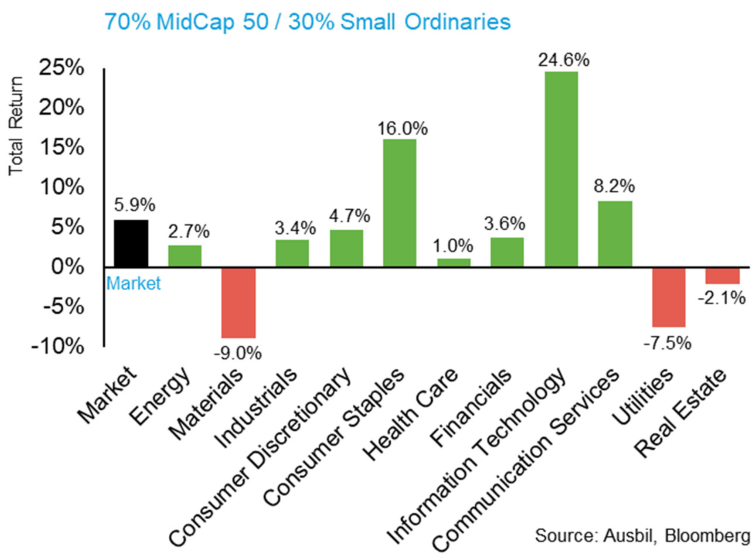
Market Review

The March quarter was buoyant in equities with Composite Benchmark (70% S&P/ASX MidCap 50 and 30% S&P/ASX Small Ordinaries accumulation indices) posting gains of +6.9%, bringing the trailing market 1-year return to +14.6%.

Globally, developed markets (MSCI World) outperformed emerging markets (MSCI EM). Every major market, with the exception of Hong Kong and Singapore, delivered positive returns this quarter, with Japan showing a thumping +20.0% and the S&P 500 delivering +10.2%.

At a sector level, Information Technology was significantly rerated as the cycle turned from a tightening to an easing outlook with falling inflation, as shown in the chart. Materials, Utilities and Real Estate lagged.

Sector returns – March Quarter 2024



Source: Ausbil, Bloomberg

Fund Characteristics

Returns[1] as at 31 March 2024

Period	Fund Return[1] %	Bench-mark[2] %	Out/Under performance %
1 month	5.01	3.85	1.17
3 months	7.76	6.90	0.86
6 months	8.67	13.21	-4.54
1 year	16.42	14.59	1.83
2 years pa	0.96	3.42	-2.46
3 years pa	7.45	7.30	0.15
5 years pa	9.58	9.44	0.15
7 years pa	9.04	9.35	-0.30
10 years pa	8.08	10.16	-2.08
15 years pa	10.79	10.49	0.31
20 years pa	9.85	8.68	1.18
Since inception pa Date: April 2002	10.53	9.10	1.43

Top 10 Stock Holdings

Name	Fund %	Index[2] %	Tilt %
WiseTech Global	5.54	4.14	1.40
NextDC	4.76	2.20	2.56
Block	4.53	1.06	3.47
REA Group	4.11	2.29	1.81
ALS	3.82	1.53	2.30
Whitehaven Coal	3.73	1.43	2.31
Evolution Mining	3.49	1.71	1.78
Life360	3.44	0.30	3.15
AMPOL	3.41	2.28	1.14
Challenger	3.41	0.77	2.64

Sector Tilts

Sector	Fund %	Index[2] %	Tilt %
Energy	21.65	7.58	14.07
Materials	19.68	19.37	0.31
Industrials	9.78	13.70	-3.92
Consumer Discretionary	2.04	9.15	-7.11
Consumer Staples	0.00	2.86	-2.86
Health Care	2.01	4.79	-2.79
Financials	12.31	13.75	-1.44
Information Technology	25.55	17.21	8.33
Communication Services	1.42	1.80	-0.38
Utilities	2.19	1.21	0.98
Real Estate	0.00	8.57	-8.57
Cash	3.37	0.00	3.37
Total	**100.00**	**100.00**	**0.00**

1. Fund returns are net of fees and gross of taxes.
2. The composite benchmark is 70% S&P/ASX Midcap 50 Accumulation Index and 30% S&P/ASX Small Ordinaries Accumulation Index.

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Outlook

The overall macro-economic outlook has stabilised with rates peaking, and inflation falling, and with Australia's excess savings, strong employment market and global demand for our resources, Ausbil expects Australia to avoid recession. Ausbil believes that we are at the start of a rate cutting cycle, though the quantum and timing remains unknown.

In this environment, we believe earnings growth will recover more than the market expects, broadening across sectors, and moving down the market cap spectrum. We think that with a downward bias in rates, cyclicality will return to the market, with more relief for the consumer, supporting housing, consumer, select real estate and other cyclical businesses. Decarbonisation and the energy transition remain significant themes that will drive value across resources, energy, utilities and the mining services sector with respect to critical commodities. 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.

On aggregate, we see earnings growth for FY24 as a little more positive than implied by consensus as companies are now settling into operating in a normalised interest rate environment. Our macro reading of the economy is that rate cuts will come from central banks while economic growth remains positive, though sub-trend, mainly in order to ensure that real interest rates are not a hinderance for longer term business investment. We think this will also see economic growth strengthen, and earnings growth for FY25 exceed consensus expectations, as earnings recover and broaden across sectors, and down the market cap spectrum. We believe dividend yields have peaked and will normalise across FY24 and FY25.

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