

Ausbil Australian Active Equity Fund

Ausbil Investment
Management Limited
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Monthly Investment report

June 2017

Australian equities

Performance Review

Fund performance for June 2017 was -0.20% versus the benchmark return of 0.22%, as measured by the S&P/ASX 300 Accumulation Index.

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

At a stock level, the overweight positions in BlueScope Steel, Suncorp, Link Administration, Fortescue Metals and Aristocrat Leisure added to relative performance. The underweight positions in Wesfarmers, Woodside Petroleum, Scentre Group, Westfield and Goodman Group also added value. Conversely, the overweight positions in QBE Insurance, Fairfax Media, Santos, Independence Group, Brambles, Origin Energy, BHP and Ardent Leisure detracted from relative performance. The underweight positions in ANZ Bank and Qantas also detracted value.

Equity Market Review

The Australian equity market (represented by the S&P/ASX 300 Accumulation Index) had a volatile month in June, nevertheless, it managed to gain a modest 0.22% on the back of strong performance in the Health Care (+6.1%) and Diversified Financials (+2.6%) sectors. The domestic market outperformed European and UK equity markets (EURO STOXX: -2.5%, FTSE 100: -2.4%) and underperformed the rest of the international equity markets (MSCI World: +0.4%, MSCI: Emerging: +1.1%, MSCI Frontier: +0.6%, S&P500: +0.6%).

Domestically, mid-cap stocks (S&P/ASX MidCap 50 Accumulation Index: +1.7%) and small-cap stocks (S&P/ASX Small Ordinaries Accumulation Index: +2.0%) outperformed their larger-cap counterparts (S&P/ASX 20 Accumulation Index: -0.1%).

Commodity markets were mixed during the month. Energy was generally weaker (WTI Oil: -4.7%, Brent Oil: -3.7%, U.S Natural Gas: -1.8%) with the exception of Thermal Coal (+10.9%). The majority of base, bulk and industrial commodities strengthened (Iron Ore: +13.9%, Lead: +8.3%, Zinc: +6.4%, Copper and Nickel: +4.8%) following continued growth in China. The precious metals were all weaker over the period (Gold: -2.2%, Silver: -4.3% and Platinum: -2.4%).

Within the Australian equity market, outperformance in the Health Care (+6.8%), Information Technology (+2.0%) and Financials (+1.7%) sectors was offset by underperformance in the Energy (-6.8%), Real Estate (-4.1%), Utilities (-2.7%) and Telecommunication Services (-1.7%) sectors.

Equity Market Outlook

As we move closer to the August 2017 full-year reporting period, companies are expected to enforce their blackout periods and fewer company news announcements are expected. Valuations remain relatively attractive in the Resources sector as the S&P/ASX 300 Resources Index trades at FY2017 PE of 14.4x compared to the overall market FY2017 PE of 16.3x. With valuations at the upper end, there are expectations of strong earnings growth, especially from the Resources sector and companies deriving earnings from overseas. Ongoing geopolitical risks remain a key catalyst for a sell-off in bond yields, which could provide further support for the bond-proxy sectors (REITs, Utilities, Telecommunication Services and Transportation Infrastructure).

For the S&P/ASX 300 Index, consensus EPS forecasts are now at +13.8% for FY2017 with +6.2% for FY2018, which delivers PE valuations of 16.3x and 15.3x for 2017 and 2018 respectively, with a dividend yield of 4.4%.

Australian equities

Fund Strategy

During the month, the Fund reduced its positions in the Consumer Staples and Insurance sectors. The proceeds were used to increase weights in Paper & Packaging, Transportation and the Diversified Financial Services sector via the Link Administration capital raising. Overall positioning continues to favour a growth tilt with overweight positions in Materials and offshore earners, while maintaining underweight tilts to interest rate sensitive sectors such as Real Estate Investment Trusts and Utilities.

Economic Review

The **US Federal Reserve** (Fed) hiked the cash rate to 1.25% as widely expected and announced its balance sheet exit plan. Chair Yellen noted the run of soft inflation was due to transitory factors, but expected unemployment at a 16 year low of 4.3% to help reaccelerate inflation. The **European Central Bank** (ECB) left policy unchanged as GDP expectations were upgraded and inflation forecasts lowered.

Despite the slowdown to 1.7% in Q1 GDP, **Australia** recorded the longest period of economic growth in the developed world. The Reserve Bank of Australia left the cash rate unchanged with a positive outlook, forecasting GDP of 3% and a gradual rise in inflation. Similarly to Ausbil, the OECD is forecasting a rate hike towards the end of 2017.

Economic Outlook

Global growth is accelerating and synchronised, with US GDP forecast at 2.3% for 2017 and 2018. The Eurozone is expanding at 1.8-2%, Japan is at its best levels since 2006 and China is committed to its 6.5% growth target.

The US Fed is expected to continue hiking rates, while the ECB tapering should start this quarter, with a rate hike likely in 1H2018. The Bank of Japan is expected to lift its target rate in 2018. Australia's economy is strengthening, GDP is forecast at 2.5-2.75% in 2017 and at 3-3.25% in 2018. Core inflation should return to 2% in 1H2018. The sustained rise in national income should lead to modest rate hikes, starting on Melbourne Cup day. We see the domestic currency at US72 cents this year and at US75c next year.

Fund overview

Fund Returns

Period	Fund Return %		Bench- mark ¹ %	Out/Under Performance %	
	Gross	Net		Gross	Net
1 month	-0.20	-0.27	0.22	-0.42	-0.49
3 months	-1.04	-1.24	-1.57	0.53	0.33
6 months	4.21	3.78	3.07	1.14	0.72
FYTD	14.89	13.96	13.82	1.06	0.14
CYTD	4.21	3.78	3.07	1.14	0.72
1 year	14.89	13.96	13.82	1.06	0.14
3 years pa	7.22	6.34	6.64	0.58	-0.29
5 years pa	13.51	12.59	11.63	1.89	0.97
7 years pa	9.85	8.96	8.79	1.06	0.18
10 years pa	5.16	4.29	3.44	1.73	0.85
15 years pa	10.82	9.86	8.48	2.33	1.38
Since inception pa Date: July 1997	11.11	10.12	8.10	3.01	2.02

Top Ten Stock Holdings

Name	Fund %	Index %	Tilt %
Westpac	8.17	6.62	1.55
Commonwealth Bank	7.80	9.25	-1.45
BHP	7.49	4.83	2.66
National Australia Bank	7.41	5.12	2.30
BlueScope Steel	5.08	0.49	4.59
CSL	4.66	4.05	0.61
QBE Insurance	4.38	1.04	3.34
Treasury Wine Estates	3.47	0.63	2.84
Suncorp	3.19	1.23	1.96
Boral	3.06	0.53	2.53

Fund Sector Tilts

Name	Fund %	Index %	Tilt %
Energy	5.62	4.04	1.57
Materials	27.21	15.82	11.40
Industrials	5.76	7.81	-2.05
Consumer Discretionary	6.05	5.25	0.80
Consumer Staples	6.20	6.98	-0.78
Health Care	4.66	7.56	-2.90
Financials	35.45	36.81	-1.37
Information Technology	5.14	1.42	3.72
Telecommunication Services	2.35	3.82	-1.47
Utilities	0.00	2.28	-2.28
Real Estate	0.00	8.21	-8.21
Cash	1.58	0.00	1.58
Total	100.00	100.00	0.00

¹ S&P/ASX 300 Accumulation Index.

Fund overview

Fund Activity

Major purchases and sales

Purchases	Sales
Nil	Nil

The Fund made no purchases during June. No positions were sold during the period.

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