

### Market Commentary

Global equity markets finished mostly higher in May, with surging inflation, rising interest rates, and COVID-19-related restrictions in China making headlines. In the U.S., the S&P 500 Index returned +0.2% over the month. U.S. real GDP decreased at an annual rate of 1.5% during the first quarter of 2022, mainly attributed to a decrease in net exports and decline in private inventory investment. The Federal Reserve raised the federal funds rate by 50 bps to 0.75-1.00% in May and signalled for further rate hikes of 50 bps in the next couple of meetings. In Europe, the German DAX, Euro STOXX 50, and FTSE 100 indices returned 2.1%, 1.3%, and 1.1% respectively. The Harmonised Index of Consumer Prices (HICP) in the Eurozone accelerated to 8.1% YoY in May, with energy prices recording the biggest increase while the HICP excluding volatile food and fuel prices rose by an annual rate of 4.4%. In the U.K., the Consumer Price Index rose 9.0% YoY in April, the highest increase since 1982, driven by rising energy prices. The Bank of England raised the key Bank Rate by 25bps to 1.0%, marking its fourth consecutive rate hike and a 13-year high. In Australia, the S&P/ASX 300 Index returned -2.8% over May. The Reserve Bank of Australia raised the cash rate by 25 bps to 0.35% – the first rate hike since November 2010. Utilities (-0.2%), Materials (-0.3%), and Energy (-0.7%) were the best performing S&P/ASX 300 sectors while REITs (-8.6%), Information Technology (-8.0%), and Communication Services (-6.7%) were the worst performers.

### Fund Update and Outlook

The Hyperion Australian Growth Companies Fund returned -6.1% for the month of May, underperforming its benchmark (S&P/ASX 300 Accumulation Index) by 3.4%. GQG Partners Inc was a standout contributor to performance for the fund during the month while Seek Limited and Block Inc. were detractors.

As discussed in our latest Webinar (replay [here](#)), inflationary pressures have continued to dominate headlines and put pressure on asset prices. Our view remains unchanged that high levels of inflation will likely be temporary as supply-side disruptions ease, higher oil prices impact demand, and as central banks begin withdrawing monetary policy support. All of these actions act as a tax on the consumer.

There is increasing evidence emerging to suggest that we may be near peak inflation and growth is starting to roll off with signs of a slowing consumer demand profile. For example, retail inventory has been building up that we think is indicative of consumer-demand falling, real wages have been falling in most countries around the world, and government spending has declined significantly which would create a drag on economic growth. Read more on our views [here](#).

We think that the recent selloff does not reflect the robust and improving value of the businesses within the Hyperion portfolios, and we remain confident that the companies we invest in will achieve attractive rates of organic revenue, EPS and DPS growth over the next ten years, well ahead of the broader market.

### Objective

Long-term capital growth by investing in high-calibre Australian companies primarily listed within the S&P/ASX 300 at the time of investment.

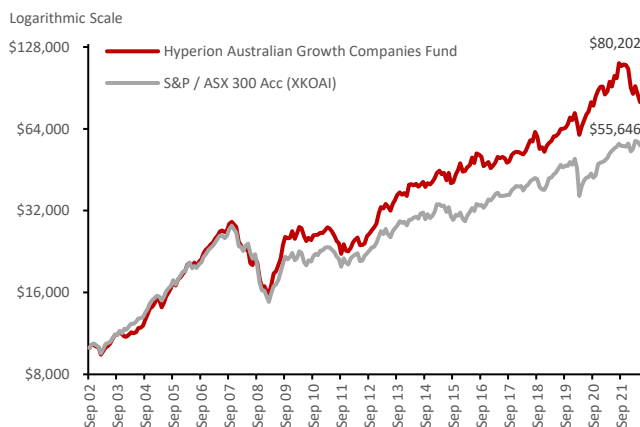
### Our Philosophy

The highest proven quality businesses with the strongest competitive advantages and organic growth opportunities produce superior shareholder returns over the long term.

We believe companies in our portfolio have:

- Predictable earnings
- Low debt
- High interest cover
- Sustainable competitive advantages
- High return on capital
- Strong free cash flow
- Organic growth options
- Experienced and proven management teams

### Performance Chart growth of \$10,000 since inception



Inception date: 30<sup>th</sup> September 2002. Source: Hyperion Asset Management. Past performance is for illustrative purposes only and is not indicative of future performance.

### Fund Performance

	Portfolio – Net (%)	Benchmark <sup>1</sup> (%)	Excess Performance (%)
1 Month	-6.1	-2.8	-3.4
3 Month	-6.8	3.1	-9.9
1 Year	-12.4	4.7	-17.2
3 Year (p.a.)	10.0	8.0	2.0
5 Year (p.a.)	10.0	9.0	1.0
7 Year (p.a.)	8.9	7.6	1.3
10 Years (p.a.)	12.9	10.3	2.6
15 Years (p.a.)	7.6	5.2	2.3
Inception (p.a.)*	11.2	9.1	2.0
Inception (TR)*^A	702.0	456.5	245.6

1. S&P/ASX 300 Accumulation Index. \*Inception date that Hyperion became Investment Manager: 30<sup>th</sup> September 2002. ^Total return. All p.a. returns are annualised. Returns are net of applicable fees, costs and taxes. Past performance is not a reliable indicator of future performance. Data as at 31<sup>st</sup> May 2022. Due to rounding, excess performance figures may not equate perfectly to the difference between Hyperion Australian Growth Companies Performance and the S&P/ASX 300 Accumulation Index Performance.

**Top 5 Holdings**

	Portfolio (%)	Benchmark (%)
Xero Ltd	10.6	0.5
Block Inc.	9.9	0.5
CSL Limited	9.3	5.9
Resmed Inc.	9.0	0.5
Macquarie Group Ltd	7.2	3.0

**Sector Allocation**

	Portfolio (%)	Benchmark (%)
Communication Services	9.2	3.9
Consumer Discretionary	6.5	6.7
Financials	11.7	28.6
Health Care	31.1	9.5
Industrials	2.2	6.0
Information Technology	32.1	3.3
Materials	4.2	24.9
Cash	3.0	--

Portfolio weights may not sum perfectly to 100.0% due to rounding.

**Market Capitalisation (AUD)**

	Pf (%)	Bm (%)	Act. (%)	# Stocks
S&P/ASX 1-20	16.5	56.9	-40.4	2
S&P/ASX 21-50	45.2	18.1	27.1	7
S&P/ASX 51-100	21.2	12.7	8.6	6
S&P/ASX 101-200	11.7	8.5	3.2	6
S&P/ASX 201-300	--	3.4	-3.4	--
Ex S&P/ASX 300	2.4	0.3	2.1	1
Cash	3.0	--	3.0	--
Total	100	100	--	22

Portfolio weights may not sum perfectly to 100.0% due to rounding.  
All data as at 31<sup>st</sup> May 2022

**Top 5 Contributors and Detractors (rolling 12 months)**

Contributors	Price change (%)	Avg Weight (%)	Contribution to return (%)
Wisetech Global Ltd	49.1	6.0	1.4
Resmed Inc.	7.6	9.9	1.1
Macquarie Group Ltd	22.4	6.8	0.9
Cochlear Ltd	-1.8	4.2	0.3
Carsales.com Limited	6.3	1.8	0.2

Detractors	Price change (%)	Avg Weight (%)	Contribution to return (%)
Xero Ltd	-32.7	10.4	-3.5
Block Inc.^	-28.7	3.6	-2.7
Fisher & Paykel Healthcare	-31.9	5.9	-2.2
Afterpay Limited*^	-28.4	7.3	-1.6
Domino's Pizza Enterprises	-37.6	4.2	-1.5

\*Stock not currently held in the portfolio. ^Afterpay Ltd commenced trading as Block Inc. on 20th January 2022

**Fund Characteristics**

<b>Universe</b>	S&P/ASX 300
<b>Launch</b>	Managed by Hyperion since September 2002, launched October 1996
<b>Fees</b>	MER 0.95%
<b>Distribution</b>	AUD 0.6988 CPU at 30 September 2021 AUD 86.6742 CPU at 30 June 2021 AUD 0.4324 CPU at 31 March 2021 AUD 0.7676 CPU at 30 September 2020
<b>Fund Size</b>	\$1,998.9 million
<b>APIR Code</b>	BNT0003AU
The Fund's PDS contains more complete information on risks and fees	

## Portfolio Holdings Update

### Block Inc. (SQ2-AU)

Primary Exchange	ASX
GICS Sector	Information Technology
Market Cap (\$m)	63,290



Block, Inc. (Block) released its results for the first quarter ended March 2022. The business reported net revenue growth excluding Bitcoin of 44% Year-on-Year (YoY) to US\$2.23b and gross profit growth of 34% YoY to \$1.29b. The Cash App ecosystem recorded revenue growth of 38% YoY to US\$731m (excluding Bitcoin) and gross profit growth of 26% to US\$624m. Management noted strength in the Cash App business through its growing active user base and increased engagement. March marked a record month for Monthly Active User engagement with users transacting 21 times per month on average. The Cash Card continues to perform well, with gross profit exceeding 50% growth YoY. The Square ecosystem, previously the Seller ecosystem, recorded revenue growth of 42% YoY to US\$1.44b and gross profit growth of 41% YoY to US\$661m. Management noted Square continues to win larger sellers and improved its product parity with Loans and Delivery launched in Canada. Gross profit from the mid-market sellers grew 47% YoY. Block provided insight into the integration of Afterpay at its Investor Day later in May. Afterpay connects both the Cash App and Square ecosystems, contributing to Block's vertical offering through its highly engaged user base and global reach. Management highlighted their estimated total addressable market at the Investor Day as being a US\$190b gross profit opportunity.

### Xero Limited (XRO-AU)

Primary Exchange	ASX
GICS Sector	Information Technology
Market Cap (\$m)	13,355



Xero Limited (Xero) released its FY22 full-year results ended March 2022, reporting strong revenue growth of 30% in constant currency (CC) to NZ\$1.1b. The company continues to scale, with 530,000 net subscribers added over the year, taking the total number of subscribers to 3.27m (up 19%). Annualised monthly recurring revenue grew 30% in CC to NZ\$1.2b, reflecting strong subscriber growth and increased average revenue per user (up 9% in CC to NZ\$31.36) while Xero's monthly churn remains below pre-COVID levels at 0.9%. All regions performed strongly and saw double-digit revenue growth, with Australia up 27% in CC to NZ\$483m, New Zealand growing 15% to NZ\$149m, the UK expanding 30% in CC to NZ\$292m, North America growing 31% in CC to NZ\$73m, and the Rest of World growing 90% in CC to NZ\$100m (which factored in a large part of the recently acquired Planday revenue). Operating expenses as a percentage of revenue were higher than previous years at 84%, which included an increase in product design and development expenses. While operating expenses as a percentage of revenue will likely remain at the lower end of 80-85% in FY23, management aspire to see this significantly reduce over the long term as the cloud-accounting industry matures.

### Fisher & Paykel Healthcare Corporation Limited (FPH-AU)

Primary Exchange	ASX
GICS Sector	Health Care
Market Cap (\$m)	11,001



Fisher & Paykel Healthcare Corporation Limited (Fisher & Paykel) announced its FY22 full-year results ended March 2022. Fisher & Paykel was a beneficiary throughout the COVID-19 pandemic, where the company sold 10 years of hardware in two years. As expected, FY22 revenues fell 14% in CC to NZ\$1.7b as operations normalised, though compared to FY20, operating revenues were still 33% higher. Divisionally, Hospital operating revenue fell 19% in CC to NZ\$1.2b, of which 27% was from the sale of hardware (including ventilators and humidifiers) and 73% from the sale of consumables. Homecare operating revenue, which includes sales of obstructive sleep apnea and chronic obstructive pulmonary disease treatments increased 2% in CC to NZ\$470m. Management re-affirmed its aspiration to continue to deliver revenue growth above 12% p.a. over the long term. Fisher & Paykel announced the release of three new products including a new generation of their Airvo high-flow device, Airvo 3, and Optiflow Switch & Trace for anaesthesia applications.

**CONTACT US**

**HYPERION DISTRIBUTION**

Jolon Knight  
Mob: 0414 805 862  
Jolon.knight@hyperion.com.au

**INVESTOR SERVICES**

Tel: 1300 497 374  
Investorservices@hyperion.com.au



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**Hyperion named Category Winner  
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**Hyperion named Category Winner,  
DOMESTIC EQUITIES LARGE CAP**  
Morningstar 2020 Awards, Australia.

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