Hyperion Australian Growth Companies Fund

Fund Update May 2023

ARSN: 089 548 443

Market Commentary

Major equity indices were mostly lower through May as the U.S. debt ceiling overhang dominated headlines. In the U.S., the S&P 500 Total Return Index rose 0.4% over the month. With a federal default looming as the U.S. approached its debt ceiling, the last week of May saw a deal finalised that would in principle suspend the U.S. debt ceiling until January 2025 with some restrictions on government spending. The U.S. Federal Reserve raised the Fed funds rate by 25bps at its May meeting though largely removed its forward guidance that additional policy firming may be appropriate instead shifting to a data-dependent approach. In Europe, the FTSE 100, Euro STOXX 50, and Germany DAX total return indices fell by 4.9%, 1.9%, and 1.6%, respectively. Central Banks in Europe continued to raise key interest rates with the European Central Bank hiking its rates by 25bps to 3.25% while the Bank of England raised its bank rate by 25bps to 4.5%. In Australia, the S&P/ASX 300 Total Return Index fell 2.5% over May. The Reserve Bank of Australia raised the cash rate target by 25bps to 3.85% in its May meeting after holding the cash rate target in April. Annual CPI inflation rose to 6.8% in April, re-accelerating from 6.3% in March, largely attributed to faster increases in transport costs.

Fund Update and Outlook

The Hyperion Australian Growth Companies Fund returned -0.7% for May, outperforming its benchmark (S&P/ASX 300 Accumulation Index) by 1.8%. Xero Ltd., James Hardie Industries PLC, and Wisetech Global Ltd. saw the largest positive share price movements, while IDP Education Ltd., Fisher & Paykel Healthcare, and Nanosonics Limited saw the largest share price declines.

As we look forward, there are several positive emerging themes that we believe will continue throughout the year and beyond. The first of which is a shift in corporations focusing more on efficiencies within their businesses, particularly at the bottom line (earnings). The ability to run these businesses harder and achieve earnings leverage may produce considerable upside to margins over the medium term. The second positive has been around artificial intelligence (AI) and machine learning (ML), where we are starting to see inflection points. A key structural theme that Hyperion identified approximately 10 years ago was AI and ML, however the potential upgrades to revenue streams, efficiencies in productivity and eventually earnings are only now starting to be recognised by market participants. We believe the domestic portfolios are well placed to ride this thematic over time through software platforms such as Xero and WiseTech, or online classified portals such as REA Group and Carsales.

In our most recent webinar (watch the replay here), we reminded our investors why we believe investing in high quality structural growth companies is important and discussed why we remain confident in our portfolio companies and their ability to produce excess returns. We believe the long-term return outlook for our portfolios continues to look attractive with robust fundamentals, high and sustainable returns on capital, low financial gearing and the ability to produce positive free cash flows.

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.

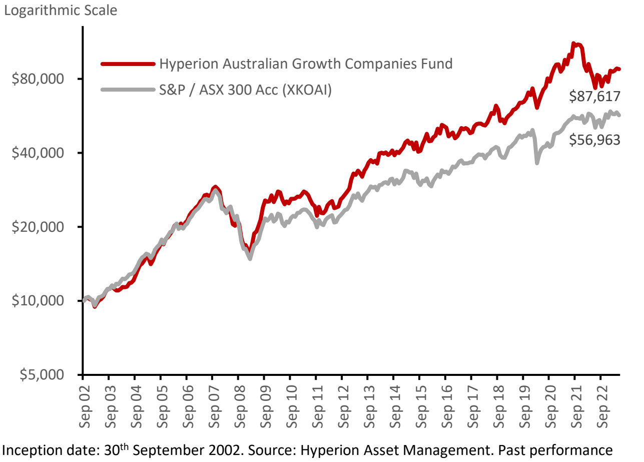
Our Philosophy

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

Growth of $10,000 Since Inception, Post-Fees



Inception date: 30th 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[1] (%)	Excess Performance (%)
1 Month	-0.7	-2.5	1.8
3 Month	2.6	-1.0	3.5
1 Year	9.2	2.4	6.9
3 Year (p.a.)	8.5	11.3	-2.9
5 Year (p.a.)	9.5	7.4	2.1
7 Year (p.a.)	8.3	8.3	0.0
10 Years (p.a.)	10.2	8.1	2.1
15 Years (p.a.)	9.3	5.9	3.5
20 Years (p.a.)	11.4	8.9	2.5
Inception (p.a.)*	11.1	8.8	2.3
Inception (TR)*^	776.2	469.6	306.5

1. S&P/ASX 300 Accumulation Index. *Inception date that Hyperion became Investment Manager: 30th September 2002. ^Total return. All p.a. returns are annualised.
Returns are net of applicable fees and costs.
Past performance is not a reliable indicator of future performance.
Data as at 31st May 2023. 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 (%)
Block, Inc.	10.5	0.1
Resmed Inc.	9.4	0.6
Xero Ltd	9.3	0.7
CSL Limited	8.7	6.9
Wisetech Global Ltd	8.6	0.6

Companies shown are illustrative only and not a recommendation to buy or sell any particular security.

Sector Allocation

	Portfolio (%)	Benchmark (%)
Communication Services	10.0	4.1
Consumer Discretionary	5.5	6.6
Financials	19.9	27.1
Health Care	33.1	10.6
Industrials	3.1	7.3
Information Technology	23.9	2.6
Materials	2.7	23.8
Cash	1.9	--

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

Market Capitalisation (AUD)

	Pf (%)	Bm (%)	Act. (%)	# Stocks
S&P/ASX 1-20	15.1	59.0	-43.9	2
S&P/ASX 21-50	39.1	18.1	20.9	6
S&P/ASX 51-100	31.5	11.8	19.7	8
S&P/ASX 101-200	11.5	7.9	3.6	5
S&P/ASX 201-300	--	2.8	-2.8	--
Ex S&P/ASX 300	0.9	0.3	0.6	1
Cash	1.9	--	1.9	--
Total	100	100	--	22

Portfolio weights may not sum perfectly to 100.0% due to rounding.
All data as at 31st May 2023

Top Contributors and Detractors (rolling 12 months)

Contributors	Price change (%)	Avg Weight (%)	Contribution to return (%)
Wisetech Global Ltd.	77.7	8.4	5.3
Fisher & Paykel Healthcare	16.7	7.6	1.7
Resmed Inc.	11.2	9.7	1.5
CSL Limited	12.7	9.3	1.4
Altium	34.6	3.6	1.2
Detractors	**Price change (%)**	**Avg Weight (%)**	**Contribution to return (%)**
Block, Inc.	-28.5	10.1	-3.5
Domino's Pizza Enterprises	-29.8	4.2	-0.9
GQG Partners, Inc	-21.9	1.6	-0.6
Macquarie Group Ltd	-8.2	6.9	-0.4
James Hardie Industries	5.0	3.2	-0.2

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Fund Characteristics

Universe	**S&P/ASX 300**
Launch	Managed by Hyperion since September 2002, launched October 1996
Risk/Return Profile	The Fund's risk band is 6 (high)
Fees	MER 0.95%
Distribution	AUD 0.2380 CPU at 31 March 2023 AUD 0.2177 CPU at 31 December 2022 AUD 1.2532 CPU at 30 September 2022 AUD 23.7305 CPU at 30 June 2022
Fund Size	$2,044.4 million
APIR Code	BNT0003AU

The Fund's PDS contains more complete information on risks and fees

CERTIFIED BY RIAA

RIAA Certified Fund

The Hyperion Australian Growth Companies Fund has been certified by the Responsible Investment Association Australasia (**RIAA**) according to the strict operational and disclosure practices required under the Responsible Investment Certification Program. See www.responsiblereturns.com.au for details and the last page of this document for disclaimers.

Portfolio Holdings Update

Xero Limited (XRO-AU)

Primary Exchange	**ASX**
GICS Sector	**Information Technology**
Market Cap ($m)	**16,622**

Xero Limited (Xero) released its FY23 full-year results ended March 2023, reporting revenue growth of 25% in constant currency (CC) to NZ$1.4b. Strong subscriber and average revenue per user (ARPU) growth were key revenue drivers. Subscribers increased by 470,000, or 14% to 3.74m, while ARPU grew 8% (CC) to NZ$34.61. Adjusted EBITDA increased 45% to NZ$301.7m, driving free cash flow to increase to NZ$102.3m, a margin of 7.3% compared to 0.2% in FY22. All regions saw double-digit revenue growth, with Australia growing 25% (CC) to NZ$624m, New Zealand growing 16% to NZ$174m, the UK growing 29% (CC) to NZ$371m, North America growing 21% (CC) to NZ$96m, and the Rest of World growing 26% (CC) to NZ$136m. The result also included a NZ$77.9m impairment to Planday, reflecting a reduction in market valuation multiples along with weaker operational performance. Xero reiterated guidance of an operating expense to operating revenue ratio of ~75% in FY24.

Technology One Limited (TNE-AU)

Primary Exchange	**ASX**
GICS Sector	**Information Technology**
Market Cap ($m)	**5,316**

Technology One Limited (TechnologyOne) released its H1 FY23 results ending 31 March 2023, reporting a net profit after tax increase of 24% to $41.3m. Software-as-a-service (SaaS) annual recurring revenue (ARR) increased 40% to $316.3m, with a 27% increase in the number of large-scale enterprise SaaS customers to 903. Group revenue was up 22% to $210.3m. TechnologyOne's SaaS and Continuing Business had revenue of $200.0m, up 18%, representing over 98% of their business. TechnologyOne continued to make significant investments in R&D with R&D expenses up 19% to $19.4m, representing 24% of revenue. The company issued guidance for FY23 Profit Before Tax growth of between 10%-15% and SaaS ARR to grow approximately 40% for the full year. Management expects to surpass a total ARR of $500m by FY26 from their current base of $350.6m. TechnologyOne intends to continue aggressive growth of the SaaS business as they reduce the legacy licence fee business.

Macquarie Group Limited (MQG-AU)

Primary Exchange	**ASX**
GICS Sector	**Financials**
Market Cap ($m)	**65,987**

Macquarie Group Limited (Macquarie) released its full year result for the period ended 31st March 2023. The business reported a net profit after tax of $5,182 million, up 10% on FY22. The increase in profitability was driven by strength across the Commodities and Global Markets (CGM) segment of $6,007m (+54% pcp) and the Banking and Financial Services segment of $1,201m (+20% pcp). Within Macquarie's CGM segment, the contribution from commodities was key, and largely from inventory management and trading and risk management activities. Net profit contribution was down for Macquarie Asset Management (MAM) to $2,342m (-23% pcp) and Macquarie Capital to $801m (-47% pcp). MAM was impacted by the disposition of assets in the Macquarie Infrastructure Corporation in the prior year, while Macquarie Capital was impacted by softer M&A and capital markets fee income compared to a strong prior year. Total Group FY23 net operating income was up 10% on pcp, driven by a 53% increase in net interest and trading income (primarily CGM segment). Operating expenses were roughly comparable up 12% on pcp, notably impacted by higher employment expenses (headcount, wage inflation, and share-based payments). Macquarie regulatory ratios remain above minimum APRA thresholds, with a Bank CET1 Level 2 ratio of 13.7% (11.5% FY22) and an APRA Basel III Group capital surplus of $12.6b as at 31 March 2023 (up from $10.7b at FY22). A FY23 final dividend of $4.50 per share was declared, representing a FY total dividend return of $7.50 per share (+21% pcp) or a payout ratio of 56%. Management maintained a cautious company outlook, with a conservative approach to capital, funding and liquidity in response to the uncertain economic conditions (such as inflation, interest rates, and geopolitical events).

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Hyperion named Category Winner
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Morningstar 2021 Awards, Australia.

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