Ironbark Royal London Concentrated Global Share Fund

BENCHMARK
MSCI World NR AUD

OBJECTIVE
Outperform the benchmark by 2-3% after fees, over rolling five year periods through investment in a focused selection of equities on a global basis.

APIR	MGL0004AU	**ARSN**	090 379 105
INCEPTION DATE	4 October 1996	**MANAGER APPOINTED**	1 September 2016
MANAGEMENT FEE	0.9000% p.a.	**FUND SIZE**	$830.3m
BUY / SELL SPREAD	+0.20% / -0.20%	**EXIT PRICE**	$2.8875

Net performance (%)

	1 month	3 months	1 year	3 years p.a.	5 years p.a.	7 years p.a.	Since inception p.a.
Fund[1]	**-1.48**	**-3.07**	**18.55**	**16.82**	**16.37**	**11.48**	**8.62**
Benchmark[2]	-0.72	-8.17	11.69	12.87	12.78	10.63	7.51
Active	*-0.76*	*5.10*	*6.86*	*3.95*	*3.59*	*0.85*	*1.11*
[1]Shaded Fund performance prior to 1 September 2016 is not attributable to Royal London, but the previous investment manager. The Royal London Composite performance track record since strategy inception is presented below.							
Royal London Composite[3,4]	**-1.48**	**-3.07**	**18.55**	**16.82**	**16.37**	**12.34**	**7.34**
Benchmark[4]	-0.72	-8.17	11.69	12.87	12.78	10.60	5.06
Active	*-0.76*	*5.10*	*6.86*	*3.95*	*3.59*	*1.74*	*2.28*

Top 5 monthly contributors and detractors

Contributing stocks	Active weight
Steel Dynamics	Overweight
Eli Lilly and Company	Overweight
Suncor Energy	Overweight
Progressive Corporation	Overweight
UnitedHealth Group	Overweight

Detracting stocks	Active weight
Admiral Group	Overweight
Lithia Motors	Overweight
Sumitomo Mitsui Financial Group	Overweight
Reliance Steel & Aluminum	Overweight
Safran	Overweight

Top 5 quarterly contributors and detractors

Contributing stocks	Active weight
Steel Dynamics	Overweight
Anglo American	Overweight
Suncor Energy	Overweight
Reliance Steel & Aluminum	Overweight
Progressive	Overweight

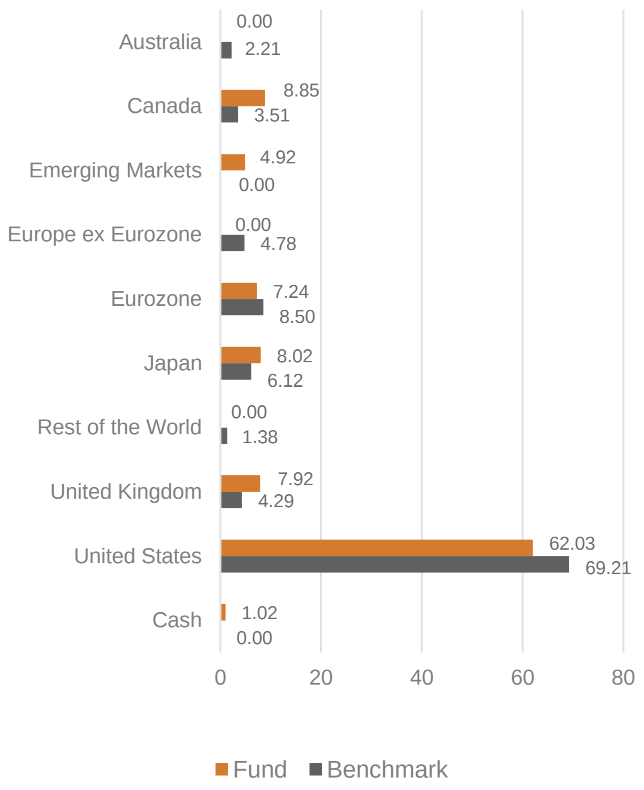
Detracting stocks	Active weight
Meta Platforms	Overweight
Admiral Group	Overweight
Legrand	Overweight
Old Dominion Freight Line	Overweight
Ocado Group	Overweight

Past performance is not indicative of future performance. Net performance figures are calculated using exit prices, net of fees and reflect the annual reinvestment of distribution. Returns are rounded to two decimal places. Slight variations to actual calculations may occur.
[2]The MSCI World NR AUD was adopted as the Fund's benchmark on 1 September 2016, benchmark calculations prior to this date are based on the MSCI World ex Australia in AUD.
[3]For periods from 1 April 2001 to 31 August 2016, the Royal London Composite returns in AUD are based on the Royal London Global Select Fund B USD ('strategy') track record, net of 1.00% p.a. management fee. **The strategy was incepted 1 April 2001**. Performance from 1 September 2016 reflects the actual net returns of the Ironbark Royal London Concentrated Global Share Fund. Data source: Royal London and Morningstar Direct.
[4]The period from 31 March 2011 to 31 October 2012 was a non-compete for the strategy. Performance of the strategy and benchmark was zeroed during this period.

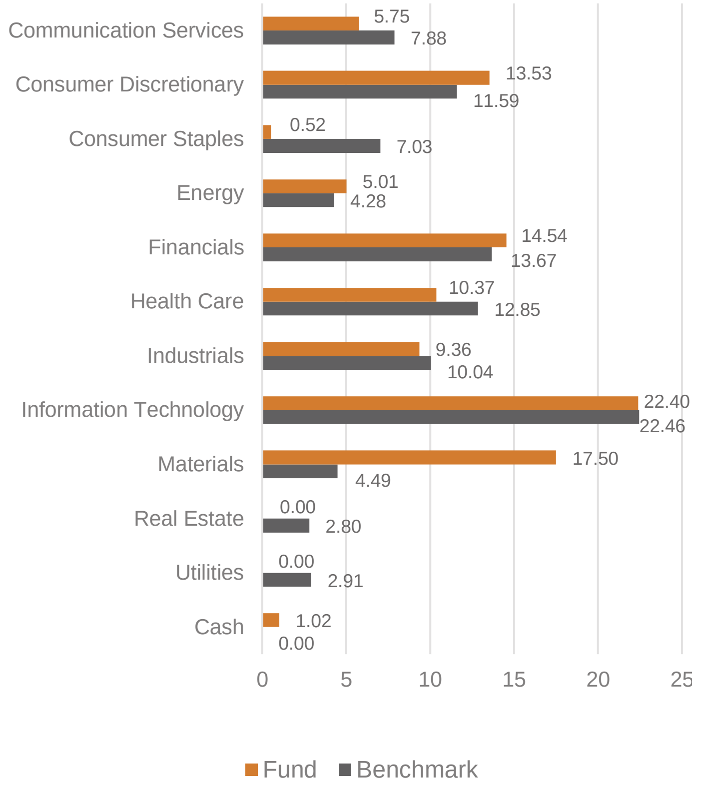
Top 5 holdings

Stocks	Sector	Country (domicile)
Microsoft	Information Technology	United States
Amazon.com	Consumer Discretionary	United States
Anglo American	Materials	United Kingdom
Steel Dynamics	Materials	United States
Suncor Energy	Energy	Canada

Regional asset allocation (%)



Sector asset allocation (%)



Market review

For the first quarter of 2022, the FTSE World Index, MSCI World and MSCI All Countries World Index (ACWI – which also includes 26 emerging markets) returned -7.89%, -7.81% and -8.03%, respectively. The combined impact of Ukraine and concerns over the impact of potentially higher interest rates meant that most sectors produced negative returns, with consumer discretionary, communications and information technology sectors the worst hit, meanwhile energy and materials sectors saw strong gains.

Currency moves were sharp over the period, impacted by geopolitical tensions and the rise in commodity prices. The US dollar demonstrated its traditional role as a safe haven as it rose against other major world currencies, although it was eclipsed by the currencies of countries with significant commodity exports. The Brazilian real appreciated 15% against the US dollar and the South African rand 8.2%.

Brent crude oil soared 38.7% during the quarter as Russia-Ukraine tensions prompted supply concerns, while spot gold and front-month copper futures gained 6.3% and 6.7%, respectively.

In financial markets, inflation was the focus at the turn of the year. After the relatively benign impact of the Omicron variant of COVID-19, central banks globally underwent a hawkish shift in policy to focus on tackling persistently higher-than-expected inflation rates. The war in Ukraine has exacerbated inflationary pressures, especially in Europe, where there is a greater reliance on Russian energy. This has generated some opposing dynamics with respect to monetary policy – given that rising commodity prices are driving up the cost of energy, food, and materials, there is some concern around what potential impact the withdrawal of monetary support might have on general financial conditions and growth.

Market review (continued)

While the Bank of England took a softer tone towards the end of the quarter, the US Federal Reserve doubled down on its hawkish stance on inflation in March, highlighting the potential for a diversion in monetary policy between central banks going forward. The Federal Reserve ended its quantitative easing programme at the end of March as planned and has prepared investors for a strong cycle of rate rises throughout 2022 – markets are predicting seven rate hikes in 2022, raising the Federal Reserve's Funds Rate to 2% or higher by the end of the year.

Going into 2022 investor concerns were focused on inflationary pressures and the likely upward trajectory of interest rates. These concerns are valid, as most companies are reporting upward pressure on costs in almost all areas, for example, wages, commodities, energy and transport. These pressures are being evidenced at an aggregate level through elevated data in official inflation reports while monetary authorities have started raising interest rates. This caused a rotation in the markets, with recent trends reversing. Stocks in the energy and materials, performed strongly, while consumer discretionary and technology stocks fell, especially those with a higher starting valuation.

These concerns about inflation were overtaken by darker worries in February, when Russia sent troops into neighbouring Ukraine. Russia claims this is a special military operation, but it is generally being seen as an invasion. The Ukrainian army has put up extremely resolute resistance and the conflict has seen fierce fighting at an appalling human cost. As well as military casualties on both sides, many civilians have been killed and millions of Ukrainian citizens have been displaced from their homes as they seek safety further west. Which at the time of writing, the conflict shows little sign of resolution.

Russia has been ostracised by most countries and severe economic sanctions have been imposed, and many companies have exited their Russian operations. However, sanctions have yet to extend to Russian energy exports. This situation is complicated in this area by the fact that many countries in Europe are reliant on Russian supplies of commodities – particularly gas. If the supply of gas were cut off countries like Germany would find themselves extremely short of energy. This risk and the high levels of general uncertainty have led to soaring gas and oil prices.

While the Ukraine situation is predominantly a humanitarian crisis, its impact on financial markets is also profound. The key impact is upward pressure on commodity prices, stoking the existing inflationary pressures and leading to the much-discussed cost of living squeeze.

Using some valuation metrics, equities are the most expensive for several decades, and are approaching valuation peaks reached in the dotcom boom in 1999/2000. Nonetheless, relative to bonds, while clearly more expensive than at points in 2020, equity valuations are still not extreme and are actually lower than in 2018. The investment manager also believes earnings momentum will remain favourable. The investment manager believes sectors will be a key point of volatility risk, with the rotation into more cyclical/Covid-recovery stocks showing the potential for positive and negative effects on performance. The investment manager is addressing this risk by limiting factor and sector exposure whilst focusing on stock-specific risk in the portfolios.

The investment manager's preference is to own wealth creating companies with suitable balance sheets for their underlying business and a conservative approach to credit, diversified across regions, countries, industries and Corporate Life Cycle categories. The investment manager is looking for the 'Accelerators' that are increasing investment to take full advantage of the current environment, and 'Slowing & Maturing' or 'Turnaround' companies that pursue the correct strategy for their position in the Corporate Life Cycle, combined with an attractive valuation pay-off opportunity.

Performance review

The Ironbark Royal London Concentrated Global Share Fund returned -3.07% (net) for the quarter, an outperformance of 5.10% when compared with the MSCI World NR AUD return of -8.17%.

Steel Dynamics, Anglo American and Suncor Energy were strong contributors to returns in the first quarter.

Steel Dynamics, the US steel producer that is in the 'Slowing & Maturing' category of the Corporate Life Cycle, has performed strongly as steel prices remained elevated. End-market demand is strong, yet domestic US steel production remains constrained, and the company is benefitting from the upswing in pricing. While Steel Dynamics is currently valued like a 'typical' steel company, it has a far more interesting and resilient business model and has been gaining market share. Its latest results included record earnings for the quarter and calendar year. Anglo-American ('Mature' category of the Corporate Life Cycle) has gained from buoyant commodity prices. The standout divisional performance in the company's latest results was its copper division. The company's Quellaveco copper mine is scheduled to come online in the middle of the year and will further increase capacity at a time of strong demand. Calgary-based oil producer Suncor Energy announced during the period that its fourth quarter revenues surged on the back of soaring crude prices and refined product prices.

Performance review (continued)

Meta Platforms, Admiral Group and Ocado were notable detractors from returns over the period.

Meta Platforms in the 'Slowing & Maturing' category of the Corporate Life Cycle detracted from returns during the period. The company's latest set of results and forward-looking guidance suggested that Meta's family of apps might be 'Slowing and Maturing' more rapidly than expected as a result of:

1) Rising competition from alternative platforms, especially Tik Tok;

2) A more persistent impact on return on investment from Apple's privacy changes and other investments to combat fade. In terms of the investment team's original thesis, these were a negative set of results. However, the investment manager has maintained the position for the following reasons:

- The market seems to have interpreted 2022 headwinds as being entirely structural. There is a chance the impact from Apple's privacy changes and reels investments are more cyclical than what is currently implied;
- The investment manager remains cautiously optimistic about the long-term potential for the Metaverse;
- The investment manager thinks there is strong valuation support for their thesis.

Even with a higher probability applied to the investment manager's bear scenario (on the back of these results) the valuation pay-off is skewed in excess of 2 to 1.

The investment manager believes Admiral Group is a long-term compounder, but the stock is temporarily depressed by investor over-reaction to the post-COVID normalisation in its profitability. Meanwhile, Ocado Group struggled during the quarter as consumers continued to revert to pre-pandemic shopping trends. Furthermore, the business is spending heavily as it develops the next generation of robots. It recently rolled out the 500 series that enables more seamless maintenance.

Market outlook

The financial uncertainty and commodity market disruption is a by-product of the crisis in Ukraine and is rippling across the global economy, manifesting itself in sharp price rises across a wide range of products. Consumers are facing a significant cost of living squeeze, particularly as high gas prices feed through into domestic utility bills. Inflation is currently very high in the UK economy, with the most recent Consumer Price Inflation data at its highest level for 40 years. Higher inflation is not necessarily bad news for equities, but it will be a test of companies' cost control and pricing power as they seek to mitigate or pass on higher costs.

In this tricky background the investment manager believes that their approach of investing in a broad range of companies from different sectors and stages of their life cycle is very appropriate and will allow performance to continue to be driven by the success of their hunt for undervalued long-term cashflows than by the prevailing winds of the macroeconomy, or factors such as growth or value styles being in vogue.

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