

# 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.

**CLASS SIZE**

\$986.2m

**BUY / SELL SPREAD**

+0.15% / -0.15%

**EXIT PRICE**

\$2.5938

**Net performance (%)**

	1 month	3 months	1 year	3 years p.a.	5 years p.a.	7 years p.a.	10 years p.a.	Since inception p.a. <sup>2</sup>
<b>Fund<sup>1</sup></b>	<b>-5.42</b>	<b>-6.82</b>	<b>0.92</b>	<b>13.07</b>	<b>13.79</b>	<b>10.10</b>	<b>14.24</b>	<b>8.23</b>
Benchmark <sup>3</sup>	-4.72	-8.47	-6.48	7.72	10.05	9.26	14.07	7.07
<i>Active</i>	-0.70	1.65	7.40	5.35	3.74	0.84	0.17	1.16

<sup>1</sup>Fund performance prior to 1 September 2016 is not attributable to the current investment manager, but the previous investment manager. Presented below is the longer-term track record of the current investment manager's strategy since its inception.

<b>Royal London Composite<sup>4,5</sup></b>	--	--	--	--	--	<b>11.59</b>	<b>14.50</b>	<b>6.90</b>
Benchmark <sup>5</sup>	--	--	--	--	--	9.26	13.44	4.56
<i>Active</i>	--	--	--	--	--	2.33	<b>1.06</b>	2.34

**Top 5 monthly contributors and detractors**

Contributing stocks	Active weight	Detracting stocks	Active weight
Ollie's Bargain Outlet	Overweight	Anglo American	Overweight
Eli Lilly and Company	Overweight	Steel Dynamics	Overweight
UnitedHealth Group	Overweight	KB Financial Group	Overweight
Old Dominion Freight Line	Overweight	HCA Healthcare	Overweight
Progressive Corporation	Overweight	Suncor Energy	Overweight

**Top 5 quarterly contributors and detractors**

Contributing stocks	Active weight	Detracting stocks	Active weight
Suncor Energy	Overweight	Anglo American	Overweight
Eli Lilly and Company	Overweight	HCA Healthcare	Overweight
Progressive Corporation	Overweight	Amazon	Overweight
Ollie's Bargain Outlet	Overweight	NVIDIA	Overweight
UnitedHealth Group	Overweight	Shell	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.

<sup>2</sup>Returns since inception represent the annualised performance from the first full month of operation.

<sup>3</sup>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.

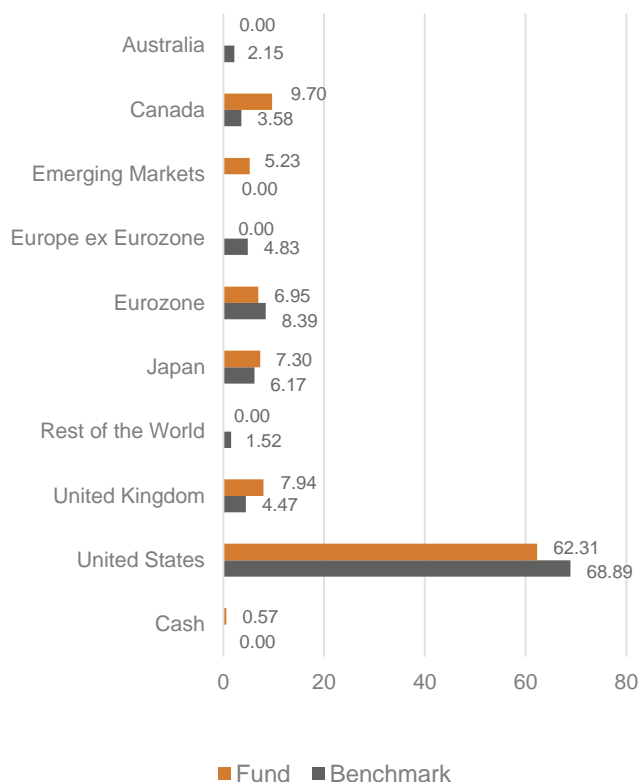
<sup>4</sup>The inception date of the Royal London Composite is 1 April 2001. Performance periods from 1 April 2001 to 31 August 2016 represent the Royal London Global Select Fund B USD (the 'strategy') converted to AUD, net of fees. Performance periods from 1 September 2016 to month-to-date represents the actual net returns of the Ironbark Royal London Concentrated Global Share Fund. Source: Royal London and Morningstar Direct.

<sup>5</sup>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.

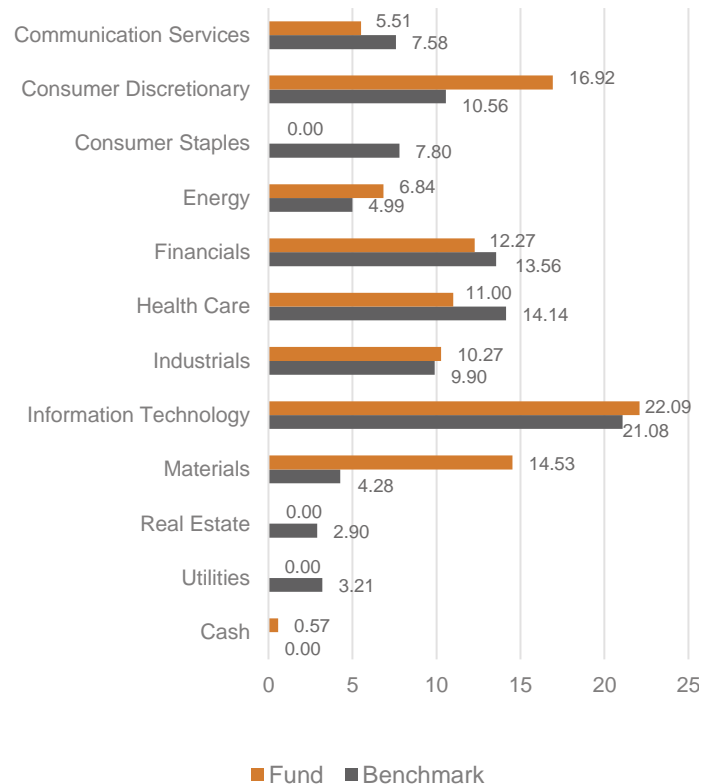
## Top 5 holdings

Stocks	Sector	Country (domicile)
Microsoft	Information Technology	United States
Amazon	Consumer Discretionary	United States
Reliance Steel & Aluminum	Materials	United States
Suncor Energy	Energy	Canada
Progressive Corporation	Financials	United States

## Regional asset allocation (%)



## Sector asset allocation (%)



## Market review

Equities struggled as interest rate expectations rose and investors factored in the possibility of a US Federal Reserve induced recession in the next 6-12 months. As a result, the first half of 2022 was the worst start to a year for US equities since 1970. For the second quarter, the MSCI World and MSCI All Countries World Index (ACWI – which also includes 26 emerging markets) returned -8.47% and -7.90% (in AUD terms), respectively. Regional returns were again widely dispersed. According to MSCI regional data, Asia-Pacific (ex-Japan) was the best-performing region, returning -0.9%. Otherwise, the UK and emerging markets returned -3.0% and -4.4%, respectively, while the returns for Japan, Europe (ex-UK) and the US lagged at -7.7%, -8.1% and -10.2%, respectively.

Within equity markets, the significant inflation-related rotation out of 'growth' and into 'value' that started in the first quarter continued. The MSCI World Value Index returned -4.4% versus -14.9% for the MSCI World Growth Index, outperformance of 10.5%. Energy again led the MSCI World sector returns (+2.6%), with consumer staples, healthcare, and utilities the only other sectors with positive returns (+1.2%, +0.3% and +0.1%, respectively). Consumer discretionary (-17.7%), technology (-15.5%) and materials (-13.25%) were the weakest sectors.

## Market review (continued)

We are at what appears to be an important fork in the road for the global economy and financial markets. It all comes back to the ever-looming question: Is inflation transient or here to stay? Much like the bowls of porridge from the story of Goldilocks, is the economy 'too hot' with inflation unabated by central bank action and becoming structurally embedded, or is it – as Jamie Dimon, CEO JPMorgan Chase, recently predicted – about to get very cold and hit the buffers with interest rate rises, inflationary pressure and consumers running out of the COVID-19 savings surplus leading to a big slow down or economic 'hurricane'? Some (including central banks) are predicting that things will be 'just right' with rising interest rates, quantitative tightening and rising bond yields helping to bring inflation and the economy into a soft landing. It's one of three scenarios; too hot and entrenched inflation, about to get very cold with a recession, or just right. As you can imagine, each of these environments could lead to very different financial market outcomes increasing the importance of asset allocation and equity portfolio construction (style risk).

What can investors do in the meantime? The investment manager focuses on three things. First, balanced portfolios that cover the different scenarios (unless you have a strong view on which one will emerge); second, look to pick up individual stocks in the volatility where their long-term fundamentals are mispriced in a moment of extreme sentiment; and third, be fleet of foot reacting to the incoming data and evidence. The next six months will see a lot more data and evidence emerge as to which outcome is correct – a hot economy and entrenched inflation, an ice bath of a recession slowing the economy and inflationary pressures, or the soft landing down the middle with central banks bringing inflation down without ushering in a recession.

Currency swings were notable in the quarter, following the volatility of the first quarter. The sharp rise in US interest rate expectations meant that the US dollar was the strongest global currency, it appreciated significantly against the Swiss franc, euro and sterling, and rose over 11% against the yen. These movements will impact global trade and overseas earnings over coming months, and dollar strength will also be a risk for any emerging markets countries and companies that have borrowed in US dollars. The price of Brent crude oil rose by another 6.4% to nearly \$112 a barrel (in USD terms), but copper futures fell 21.9% on fears of recession and renewed COVID-19 restrictions in China during the quarter.

The Australian dollar weakened against the US dollar over the period. Thus, the value of US stocks was positively impacted by this, when translated back for Australian domiciled clients.

Technology and consumer discretionary shares remained under derating pressure amid rising yields. UK equity outperformance persisted through the quarter, with Japanese stocks – boosted by a weak yen and higher export demand – following suit.

The macroeconomy is currently volatile and very difficult to predict. Inflation is currently rife in all parts of society, enhanced by Russia's war with Ukraine, and is causing consumers to lower their discretionary spend on goods. The impact it will have on corporate capex is still hard to assess, given that balance sheets are strong, and many required investments are structural in areas like technology or climate transition. Meanwhile, long term underinvestment in commodities provides potential for continued elevated prices caused by lack of supply, rather than particular strength in demand.

## Performance review

The Ironbark Royal London Concentrated Global Share Fund returned -6.82% (net) for the quarter, an outperformance of 1.65% when compared to the MSCI World NR AUD which returned -8.47%.

Eli Lilly, Progressive, Ollie's Bargain Outlet, United Health and Reliance Steel were strong contributors to returns in the second quarter. Eli Lilly, the American pharmaceutical company in the 'Compounding' stage of the corporate Life Cycle, gained on the back of a positive reception to its recently FDA-approved drug Mounjaro, having demonstrated market leading efficacy in terms of weight loss. The drug has a strong ability to gain market share from the current GLP-1 drugs in obesity. Progressive, in the 'Slowing & Maturing' category of the Life Cycle, should continue to take share of the US auto insurance market. The investment manager believes this will be driven by higher insurance premiums which help Progressive take market share. High prices are in part due to the cost of used cars and spare parts spurring higher claims costs. Higher interest rates should also improve returns on the investment side for Progressive. Ollie's Bargain outlet, in the 'Slowing & Maturing' category of the corporate Life Cycle, gained in the aftermath of their first-quarter results – in particular, the market reacted well to the guidance the company offered. It is a highly scalable business model delivering consistently strong sales in the past. While there have been challenges, management has acted in a nimble way to ensure it can ride out the current era of uncertainty. United Health, in the 'Slowing & Maturing' category, amid defensive cash flows has held up well in a volatile market. The company also made a number of small acquisitions helping to continue to grow its network. Reliance Steel, in the 'Slowing & Maturing' category, has delivered strong stock performance over the year. Reliance Steel is reaping the benefits of strong demand across key end markets and a diverse product base. The investment manager is optimistic on the outlook of the company for the remainder of the year owing to robust demand in end markets amid continued strong demand in the non-residential construction sector.

Anglo American, HCA Healthcare, Amazon, Nvidia and KB Financial detracted from returns over the quarter. Anglo American, in the 'Slowing & Maturing' category, pulled back as fears mount for weaker commodity prices amid looming fears of a recession. Miners are also vulnerable to higher energy costs as well as navigating the territory of decarbonisation. This has created in turn the perfect storm where various issues are hitting the commodity sector all at once. HCA Healthcare, the hospital giant in the 'Compounding' phase, pulled back owing to ongoing high labour costs amid a realisation that these could continue for some time to come.

## Performance review (continued)

In a recent call with analysts and investors, the company's CFO said the company which runs 182 hospitals and some 2300 ambulatory care sites, saw high contract labour costs trend 1.5% higher than expected. In turn, this will cost the company some USD 400-500 million more of the course of the year. Online retail giant Amazon in the 'Slowing & Maturing' category detracted as customers continued to revert back to pre-pandemic shopping trends. Elevated capex levels have also become an issue. Amazon's CFO Brian Olsavsky noted that Amazon Web Services ('AWS') accounts for just under 40% of total capex, of which the company is a large customer. He added that 30% of capex is also for building warehouses. Nvidia, in the 'Compounding' phase of the Life Cycle, saw losses on the back of the recent woes in cryptocurrency. Nvidia's graphic cards are popular with gaming fans and have benefitted during the crypto boom because they are an essential component of the systems that generate digital coins. Concerns over the level of ongoing data centre capex and unclear level of crypto exposure will need to be monitored. South Korean banking group, KB Financial, in the 'Mature' category detracted as banking stocks declined on growing fears of a recession as well as the magnified risk exposure of their asset viability as rates rise. KB Financial is a steady return mature business and the investment manager believes that it can remain so over the next 3-4 years while returning significant amounts of capital to shareholders.

## Market outlook

Inflation is continuing to rise, reflecting higher raw material costs, energy price increases and tight labour markets. However, central bank interest rate increases are already showing signs of slowing down activity and the investment manager believes that inflation will peak in major economies during the second half of 2022. Weaker GDP growth and recession in some areas will impact the corporate sector.

Equity markets are unlikely to recover until there is a clearer view on the duration and severity of the downturn. In the meantime, the investment manager expects their companies' fundamental attributes should enable them to be more resilient than peers and gain share through a downturn, but the investment manager will have to be patient and await proof. The investment manager believes that their Life Cycle based investment approach can continue to help them identify stock specific investment opportunities. The approach has historically performed well in a rising discount rate environment such as the one that we are currently in.

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