

# 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**

\$209.5m

**BUY / SELL SPREAD**

+0.20% / -0.20%

**EXIT PRICE**

\$2.1408

**Net performance (%)**

	1 month	3 months	1 year	3 years p.a.	5 years p.a.	7 years p.a.	Since inception p.a.
<b>Fund<sup>1</sup></b>	<b>-0.49</b>	<b>3.57</b>	<b>5.42</b>	<b>12.11</b>	<b>9.86</b>	<b>11.10</b>	<b>7.62</b>
Benchmark <sup>2</sup>	-0.38	3.67	3.89	11.04	9.98	12.65	6.97
<i>Active</i>	-0.11	-0.10	1.53	1.07	-0.12	-1.55	0.65

<sup>1</sup>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.

<b>Royal London Composite<sup>3,4</sup></b>	<b>-0.49</b>	<b>3.57</b>	<b>5.42</b>	<b>12.11</b>	<b>10.26</b>	<b>11.89</b>	<b>6.04</b>
Benchmark <sup>4</sup>	-0.38	3.67	3.89	11.04	10.02	12.54	4.23
<i>Active</i>	-0.11	-0.10	1.53	1.07	0.23	-0.65	1.81

**Top 5 monthly contributors and detractors**

Contributing stocks	Active weight	Detracting stocks	Active weight
BANDAI NAMCO Holdings	Overweight	Suncor Energy	Overweight
Apple	Underweight	Safran	Overweight
Samsung Electronics Company	Overweight	Svenska Handelsbanken	Overweight
Taiwan Semiconductor Manufacturing	Overweight	Old Dominion Freight Line	Overweight
Verizon Communications	Overweight	Alphabet	Overweight

**Top 5 quarterly contributors and detractors**

Contributing stocks	Active weight	Detracting stocks	Active weight
Taiwan Semiconductor Manufacturing	Overweight	Suncor Energy	Overweight
BANDAI NAMCO Holdings	Overweight	Apple	Underweight
Church & Dwight Company	Overweight	Eli Lilly and Company	Overweight
Progressive Corporation	Overweight	Svenska Handelsbanken	Overweight
Admiral Group	Overweight	Micron Technology	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>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>3</sup>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 inception 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.

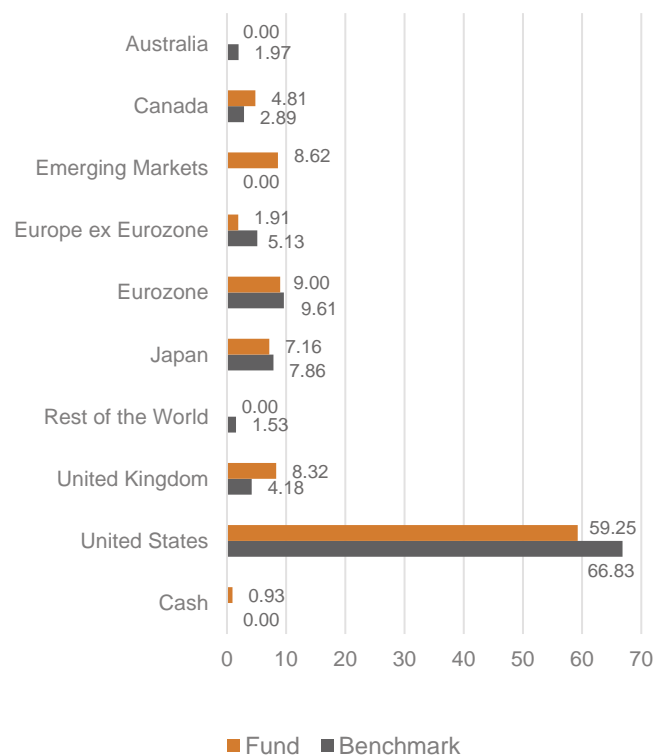
<sup>4</sup>The period from 31 March 2011 to 31 October 2012 was a non-compete for the strategy. Performance of the strategy and benchmark was zeroed during this period.

**CONTACT DETAILS**

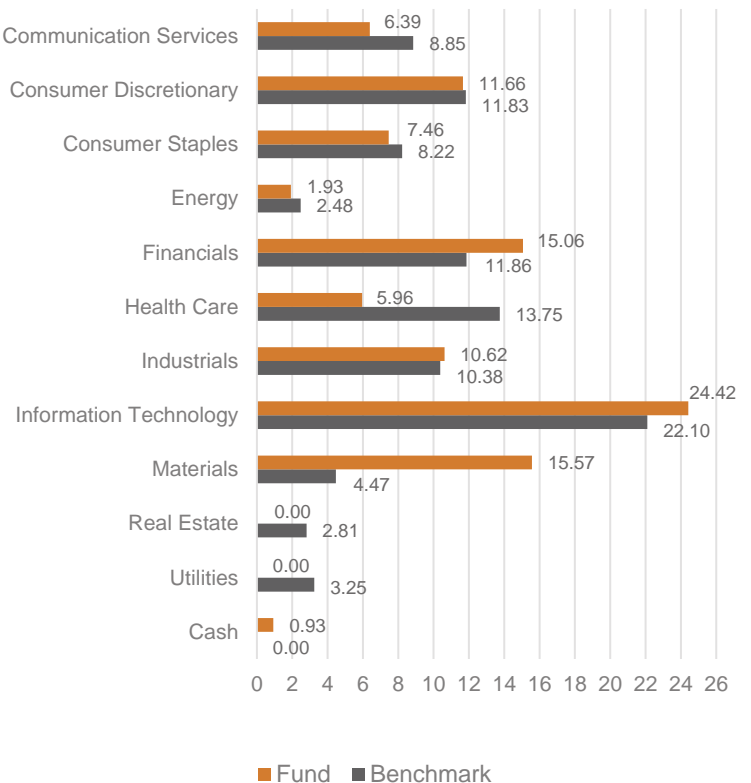
## Top 5 holdings

Stocks	Sector	Country (domicile)
Microsoft Corporation	Information Technology	United States
Amazon.com	Consumer Discretionary	United States
Steel Dynamics	Materials	United States
Visa	Information Technology	United States
Taiwan Semiconductor Manufacturing	Information Technology	Taiwan

## Regional asset allocation (%)



## Sector asset allocation (%)



## Market review

Major global stock markets were more muted in the third quarter after the previous quarter's dramatic recovery, but still posted positive aggregate returns in British pound terms. The MSCI benchmark rose 3.7%. However, within this there was a wide geographical dispersion, with the UK and many European markets falling, and the US once again proving robust (up 5.3%).

As with the last quarter, the market recovery may seem surprising given the ongoing COVID 19 crisis. Indeed, the pandemic has had clear negative impacts on corporate performance, which in some cases look to be structural rather than a shorter, cyclical hit. However, the monetary and fiscal responses have been equally dramatic, and have driven down fixed income yields to very low levels and equity discount rates to over 20-year lows.

As markets have seen in recent years, a falling equity discount rate favours long-duration, highly profitable, idiosyncratic growth businesses and this was again the case in the third quarter. At a sector level, technology is dominated by businesses like this and rose 7.5% in the quarter. As a result, the US, where most of the innovative technology companies are based, performed strongly over the quarter. Some of the best consumer discretionary stocks also have these characteristics and they too performed strongly (up 11.5%). At the opposite end of the spectrum, financials, which are often struggling to grow earnings from traditional loans, fell 2.1% and energy had another difficult quarter (down 19.0%), despite oil prices being relatively stable.

## Market review (continued)

With economic growth slowing and activity remaining below normal levels, and with so much monetary stimulus and government bond issuance, yields on benchmark 10-year government bonds fell over the quarter in nearly all major developed markets (apart from the UK, US and Canada, where they rose slightly from very low levels).

Although the US 10-year treasury yield increased by 0.03% to 0.68% over the quarter, this compares to approximately 1.9% at the start of the year. In corporate bond markets, credit spreads tightened further reflecting increased economic activity and the support of central banks for struggling companies.

The Australian dollar was one of the stronger global currencies over the quarter, up 3.9% against the US dollar ('USD') and strengthening against the yen, although it was modestly weaker than British pound and the euro, which tempered the returns to Australian investors from global equities.

Oil prices were far more stable in the third quarter, having fallen by over 65% in the first quarter and recovered by 81% in the second quarter. Over the quarter, the price of Brent crude oil fell by 0.5%, although it was notably weaker in September, falling by 9.6% to under \$42 a barrel (in USD terms). Copper continued to strengthen as economic activity picked up in China, rising 10.6% over the quarter. Gold rose 6.4% to \$1,900 per ounce (in USD terms), despite weakness in September. It had reached multi-decade highs in early August of nearly \$2,100 per ounce (in USD terms) as some investors sought a safe haven should markets fall.

## Performance review

The Ironbark Royal London Concentrated Global Share Fund returned 3.57% (net) for the quarter, an underperformance of 0.10% when compared with the MSCI World NR AUD return of 3.67%.

Taiwan Semiconductor Manufacturing, Bandai Namco, Church & Dwight and Ocado contributed strongly to returns over the quarter. Semiconductor manufacturer Taiwan Semiconductor Manufacturing, which is in the Compounding category of the investment manager's Corporate Life Cycle, reported strong quarterly results that confirmed that the semiconductor demand remains strong with the company delivering sales growth and market share gains. This confirmed the investment manager's investment thesis. Intel subsequently announced that it is facing delays to its 7nm chip development, pushing large-scale production into 2022 and 2023, and as a result is considering outsourcing production to Taiwan Semiconductor Manufacturing. This would be game-changing and, despite the significant share price rise, the investment manager believes the valuation remains attractive. Japanese toys and gaming company Bandai Namco (Compounding) reported better-than-expected quarterly results. Despite a material impact from COVID 19, there was no change to full-year guidance as poor performance from arcades was offset by strength in home gaming. Its extensive catalogue of intellectual property across a wide range of formats, combined with a focus on new content creation and better monetisation of existing intellectual property, should support steady wealth creation. This does not appear to be priced into the current valuation. US household goods company Church & Dwight (Slowing & Maturing) reported excellent quarterly earnings with organic sales growth, earnings and margins all significantly higher than analysts' forecasts. The high-quality management team continues to deliver in challenging circumstances. Food home delivery platform Ocado (Accelerating) garnered extensive press coverage for its tie-up with Marks & Spencer in the UK, the first time that Marks & Spencer food has been available online. However, the stock outperformed on increased appreciation of its world-leading logistics technology platform. At around \$22 billion (in USD terms), its market capitalisation compares very favourably to US technology companies, particularly if its platform can be rolled out to non-food home deliveries.

Detractors from performance included Suncor Energy, Eli Lilly and Handelsbanken. Suncor Energy (Turnaround), the Canadian oil sands producer, was hit by the weakness in global oil companies. Despite more stable oil prices, the sector was notably weak over the quarter as investors increasingly considered the risk of stranded assets in a carbon-neutral future. Despite strong headline earnings per share, US health care giant Eli Lilly (Compounding) reported disappointing quarterly results. Revenue and operating income were below consensus forecasts, with the shortfall being covered through other income with a rise in the value of the company's investment portfolio. The health care sector has also been affected by an unwinding of speculation about the imminent approval of a vaccine for COVID 19 and some stocking effects as we went into lockdown. The company had been a beneficiary of these earlier in the year. Swedish bank Svenska Handelsbanken (Slowing & Maturing) had interesting quarterly results. While the environment is generally poor for banks, with ultra-low and negative interest rates impacting profitability and higher defaults likely on corporate and personal loans, Handelsbanken asserted that it isn't being affected by loan impairments due to the informational advantage of its decentralised and more personalised approach. The market was less convinced, despite its plan to cut significant costs through branch closures, but the valuation is compelling for an above-average bank with clear competitive advantages.

The considerable disparities in share price and underlying business performance over recent months led to some repositioning of the Fund during the quarter. Notable trades included switching Bayer into the Finnish paper manufacturer UPM-Kymmene, based on its wealth-creating strategy, switching from Raytheon into Reliance Steel, which the investment manager feels isn't properly appreciated by the market and selling TJX Companies, on concerns about its strategy and high valuation, and Lloyds Banking Group. The investment manager initiated a position in Apple, where they consider the compounding wealth-creation opportunity supported by services and wearables to be attractive. Additionally, the investment manager added to holdings in Safran, Berkshire Hathaway and Visa on valuation grounds.

## Market outlook

The remarkable recovery in global equity markets over the second and third quarters means that risk and return are more balanced in the shorter term. Uncertainty remains around both the speed and the shape of any economic recovery and this continues to create market volatility, which could be exacerbated by a failure to agree a post-Brexit trade deal or political and social tension in the US during or after November's elections.

Significant upside from here requires the global economy to make a strong recovery and probably an effective vaccine and treatment regimen for COVID 19. There may be challenging periods over the next 12-18 months driven by any resurgence in cases as lockdown restrictions continue to ease. However, it is clear that governments and central banks are committed to the long haul.

The benefits of the investment manager's disciplined investment approach, a focus on stronger business models combined with robust portfolio risk controls, enable superior stock wealth creation and valuation to drive long-term performance. In the longer term, equities offer significant value against bonds and the equity discount rate is not extended, particularly compared to the dotcom bubble in early 2000, for example.

The investment manager believes that active equity managers, in particular, will perform well in the aftermath of the pandemic. The crisis will result in strong companies (high returns, strong balance sheets and good 'moats') getting stronger as they are better able to take advantage of opportunities, whether through new areas of demand or having better balance sheets to navigate through lower levels of cash generation in most industries.

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