

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

\$640.4m

BUY / SELL SPREAD

+0.20% / -0.20%

EXIT PRICE

\$2.9789

Net performance (%)

	1 month	3 months	1 year	3 years p.a.	5 years p.a.	7 years p.a.	Since inception p.a.
Fund¹	2.98	8.06	34.59	21.98	16.81	13.43	8.84
Benchmark ²	1.69	7.07	29.29	20.40	14.94	13.46	7.95
<i>Active</i>	1.29	0.99	5.30	1.58	1.87	-0.03	0.89

¹Shaded 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}	2.98	8.06	34.59	21.98	16.81	13.74	7.60
Benchmark ⁴	1.69	7.07	29.29	20.40	14.94	13.43	5.56
<i>Active</i>	1.29	0.99	5.30	1.58	1.87	0.31	2.04

Top 5 monthly contributors and detractors

Contributing stocks	Active weight	Detracting stocks	Active weight
Anglo American	Overweight	Amazon.com	Overweight
HCA Healthcare	Overweight	NVIDIA Corporation	Overweight
UnitedHealth Group	Overweight	Ocado Group	Overweight
Progressive Corporation	Overweight	Microsoft Corporation	Overweight
Reliance Steel & Aluminum	Overweight	Old Dominion Freight Line	Overweight

Top 5 quarterly contributors and detractors

Contributing stocks	Active weight	Detracting stocks	Active weight
UnitedHealth Group	Overweight	Bridgestone Corporation	Overweight
Old Dominion Freight Line	Overweight	Safran S.A.	Overweight
Microsoft Corporation	Overweight	Apple	Underweight
Suncor Energy	Overweight	Tesla	Underweight
Eli Lilly and Company	Overweight	Sumitomo Mitsui Financial 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.

²The 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.

³For 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.

⁴The 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.

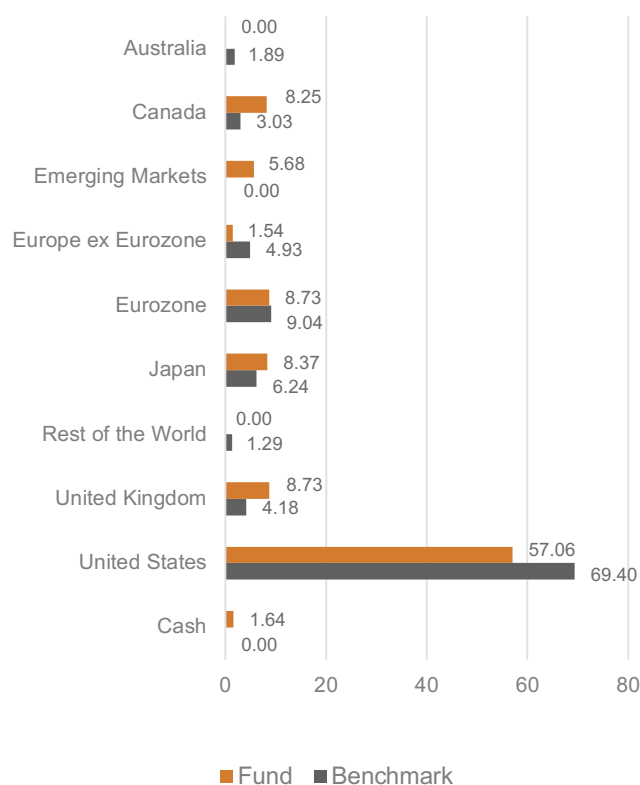
CONTACT DETAILS

T.1800 034 402 | E. Client.Services@ironbarkam.com | W. www.ironbarkam.com

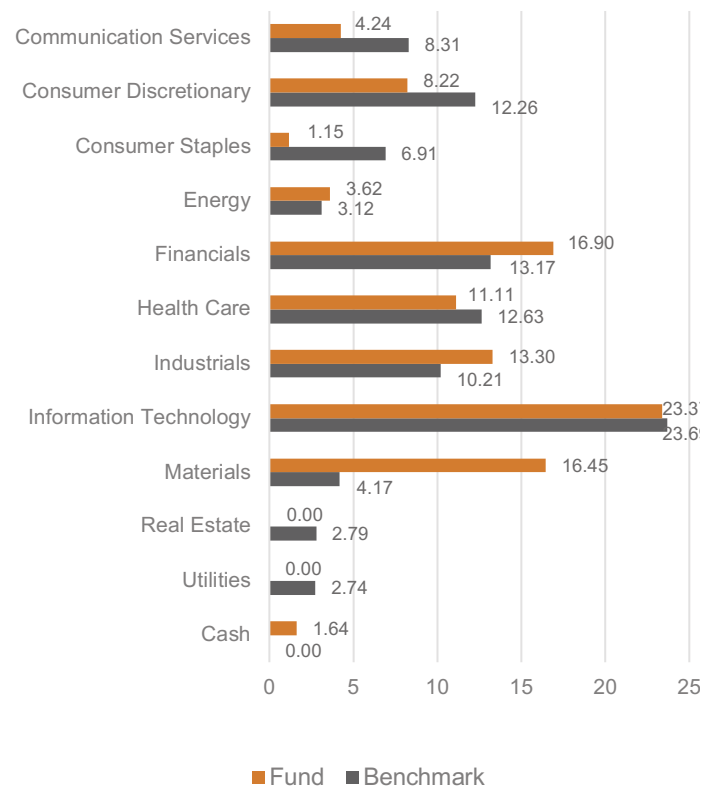
Top 5 holdings

Stocks	Sector	Country (domicile)
Microsoft Corporation	Information Technology	United States
Amazon.com	Consumer Discretionary	United States
Anglo American	Materials	United Kingdom
Reliance Steel & Aluminum	Materials	United States
Steel Dynamics, Inc.	Materials	United States

Regional asset allocation (%)



Sector asset allocation (%)



Market review

The quarter was somewhat mixed for global equities, with increased volatility in November leading to more pedestrian returns (the FTSE All-Share returned -2.2% in November, while the MSCI ACWI still delivered a positive return of 1.1% to sterling investors); however, the strong positive returns in October and December more than compensated. As a result, for the fourth quarter the FTSE-All Share, MSCI World and MSCI All Countries World Index (ACWI – which also includes 26 emerging markets) returned 4.2%, 7.3% and 6.2% to sterling investors, respectively. For the year, these indices returned 18.3%, 23.4%, and 20.0%, respectively.

The themes that influenced the market throughout 2021 continued in the fourth quarter: periods of volatility – arising from new strains of COVID 19 and renewed travel restrictions and lockdown measures, as well as concern about inflation and the implications for quantitative easing and interest rates – may have taken the headlines, yet corporate earnings continued to surprise on the upside and push equity markets to new highs.

Whereas the third quarter started with the spread of the Delta variant of COVID 19, the fourth quarter began with some confidence about vaccine programmes and the rollout of booster jabs. There was initial concern about the rapid spread of the Omicron variant as the holiday season loomed however, while there are ongoing fears about the ability of healthcare systems to cope with the huge numbers of new cases and the impact of staff shortages on key services, investors took comfort from early data from South Africa that suggested that, while highly contagious, this variant is less deadly, and vaccines remain effective in mitigating its effects.

Market review (continued)

Currency movements were muted in the fourth quarter. Sterling was one of the stronger global currencies, strengthening against the US dollar and euro as the Bank of England raised the UK base rate. The yen was a notable outlier, weakening 3.3% against the US dollar.

Commodities delivered mixed returns after rising strongly earlier in the year. Brent crude oil fell back to below US\$80 a barrel after weakness in November. However, it still enjoyed a remarkable year after being particularly weak in the initial aftermath of COVID 19 – for 2021, the price of Brent crude increased by over 50%. Copper futures resumed their upward trend (+7.7%) after retrenching in the third quarter: prices rose nearly 27% for the full year. The gold spot price rose 2.2% to just below US\$1,800/oz.

Global government bonds were mixed in the fourth quarter, a period notable for its volatility. The quarter also saw very definite hawkish tilt from a number of central banks under pressure from persistently high global inflation data. Regional government bond returns differed in the period: the UK provided positive returns to investors with the 10-year gilt yield falling by 0.05%; in Germany and the US, 10-year bond and treasury yields both crept higher – by 0.02% – providing slightly negative returns.

In the US, messaging from the Federal Reserve (Fed) saw the removal of the term “transitory” from its inflation commentary. Fed Chair Powell gave very clear messaging regarding the likely future path of monetary policy, including a likely increase in the pace of the tapering (an increase in pace of quantitative easing, which in turn brought forward expectations of the first rate hike in the US. The Fed’s December policy announcements delivered on its messaging, causing US yields to rise during the December, having previously sold off in response to fears over Omicron.

In Europe, the European Central Bank (ECB) met in December and announced what was perceived as a hawkish set of measures. It announced that the end of the Pandemic Emergency Purchase Programme (PEPP) in March will be accompanied by a doubling of its Asset Purchase Programme (APP) to €40 billion a month for the second quarter, reducing to €30bn and €20bn in the third and fourth quarters. Despite assurances of flexibility in the re-investment of maturing PEPP proceeds, the market viewed the policy as less supportive for peripheral European bonds – European yields rose into year-end as a result, and periphery market spreads widened.

The new Omicron variant of COVID 19 injected uncertainty into markets at the end of November – a stark reminder that coronavirus risks are far from behind us – leading to volatility in global equity markets.

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 in the northern hemisphere autumn, 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 managers 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. No single model or analysis is a magic bullet for investing, but the investment managers Corporate Life Cycle model helps them to understand the world as management teams see it and identify those that are actively responding to the crisis. Owning companies that merely survive the pandemic won’t deliver significant outperformance. 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 8.06% (net) for the quarter, an outperformance of 0.99% when compared with the MSCI World NR AUD return of 7.07%.

UnitedHealthcare, Old Dominion Freight Line and Nvidia were strong contributors to returns in the fourth quarter. UnitedHealthcare in the ‘Slow & Maturing’ category of the Corporate Life Cycle gained during the period as the Optum healthcare arm of the business continued to grow at a fast trajectory. The company’s third quarter results highlighted the continued evidence of the better integration of UnitedHealthcare (focused on health insurance) and Optum (focused on health services) to deliver superior outcomes at cheaper costs and an associated ability to share in that benefit. Old Dominion Freight Line the less than truck load freight delivery company that is in the ‘Accelerating’ category of the Corporate Life Cycle performed strongly amid the current shortage of truckers.

The US has been grappling with a chronic lack of drivers for years, but the shortage reached crisis levels during the pandemic, which also sent demand for shipped goods soaring. In November, Old Dominion Freight Line’s revenue per day soared by 29.9% year-on-year, signalling ongoing strong demand. Old Dominion Freight Line’s premium service offering focusing on delivering on time and undamaged meant that the company announced in December a general rate increase of 4.9% for certain tariffs, effective January 3. Meanwhile, Nvidia ‘Accelerating’ contributed to returns amid strong third quarter results. The company had a strong quarter with milestones positive almost across the board. It is difficult to imagine how things could be going any better for Nvidia; it is benefiting from a refresh cycle in gaming & crypto as well as huge demand growth for its computer chips used in data centres.

Performance review (continued)

Bridgestone, Safran and Sanwa detracted from returns over the period. Bridgestone in the 'Turnaround' category of the Corporate Life Cycle detracted amid higher input energy costs and raw material costs which created a headwind to improving margins. French aircraft engine manufacturer Safran, which is in the 'Slowing & Maturing' category of the Corporate Life Cycle, detracted as Omicron travel restrictions reduced demand for air travel and created further uncertainty for international travel. Still, the company's valuation stays attractive, and it is well placed to benefit from a recovery in the airline industry. Sanwa 'Mature', the Japanese listed manufacture of steel shutters, took a hit amid parts shortages in their North American operations, labour shortages, and production constraints, meaning it was unable to fulfil certain customer orders. However, many of these issues are affecting the industry overall and are widely cyclical in nature, the valuation pay-off is still incredibly attractive.

Market outlook

Omicron looks set to dent growth and after a bounce, slower and more 'normal' quarter-on-quarter rates of growth look likely over the rest of 2022. Fiscal policy is already less supportive, monetary policy is on a tightening path and households are seeing a hit to real income growth given still high rates of inflation. Healthy aggregate household and firm balance sheets will help though, and significant vaccination coverage in developed economies should help keep economies on a smoother (and less inflationary) track as the year goes on. Inflation is expected to fall in 2022, but strong short-term inflationary pressure looks set to persist well into 2022 as supply chain problems and labour market shortages linger. Given the general uncertainty, the investment manager feels that their approach of investing in a broad range of companies from different sectors and stages of their lifecycle has never been more appropriate and will allow performance to continue to be driven more by the success of their hunting for undervalued long term cashflows than by the prevailing winds of the macroeconomy, or factors such as growth or value styles being in vogue.

The benefits of the Fund's disciplined investment approach – a focus on superior wealth creating business models combined with robust portfolio risk controls – enable superior stock wealth creation and valuation to drive long-term performance. As vaccination programmes roll out and economic conditions normalise, the investment manager see's opportunities for the underlying stability of many of the businesses to be better reflected in valuations. 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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CONTACT DETAILS

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