

Ironbark Royal London Concentrated Global Share Fund

BENCHMARK	OBJECTIVE		
MSCI World NR AUD	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	\$1,452.0m
BUY / SELL SPREAD	+0.15% / -0.15%	EXIT PRICE	\$2.7489

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. ²
Fund¹	-5.30	6.18	-3.78	12.28	13.27	12.42	13.80	8.33
Benchmark ³	-5.44	4.07	-12.24	6.21	9.21	9.60	13.72	7.10
<i>Active</i>	<i>0.14</i>	<i>2.11</i>	<i>8.46</i>	<i>6.07</i>	<i>4.06</i>	<i>2.82</i>	<i>0.08</i>	<i>1.23</i>

¹Fund 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.

Royal London Composite^{4,5}	--	--	--	--	--	12.91	14.81	7.05
Benchmark ⁵	--	--	--	--	--	9.62	13.59	4.66
<i>Active</i>	--	--	--	--	--	<i>3.29</i>	<i>1.22</i>	<i>2.39</i>

Top 5 monthly contributors and detractors

Contributing stocks	Active weight	Detracting stocks	Active weight
Sumitomo Mitsui Financial Group	Overweight	Amazon.com	Overweight
Tesla	Underweight	Lithia Motors	Overweight
Safran S.A.	Overweight	Thor Industries	Overweight
Admiral Group	Overweight	Ollie's Bargain Outlet Holdings	Overweight
UPM-Kymmene Oyj	Overweight	Taiwan Semiconductor Manufacturing Co.	Overweight

Top 5 quarterly contributors and detractors

Contributing stocks	Active weight	Detracting stocks	Active weight
Steel Dynamics	Overweight	Amazon.com	Overweight
Tesla	Underweight	Lithia Motors	Overweight
Sumitomo Mitsui Financial Group	Overweight	Alphabet	Overweight
HCA Healthcare	Overweight	Microsoft Corporation	Overweight
Anglo American	Overweight	UnitedHealth 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.

²Returns since inception represent the annualised performance from the first full month of operation.

³The 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.

⁴The 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.

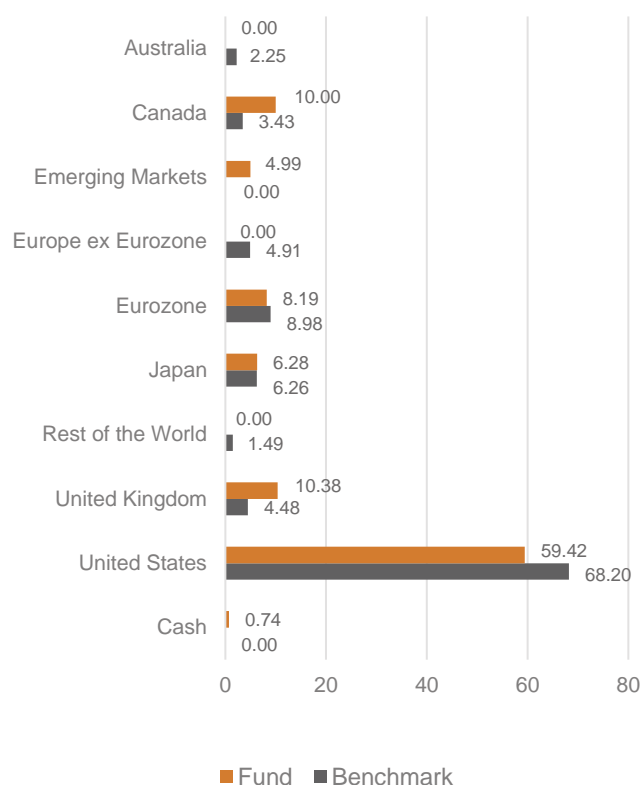
⁵The period from 31 March 2011 to 31 October 2012 was a non-compete for the strategy. Performance of the strategy and benchmark was zeroed during this period.

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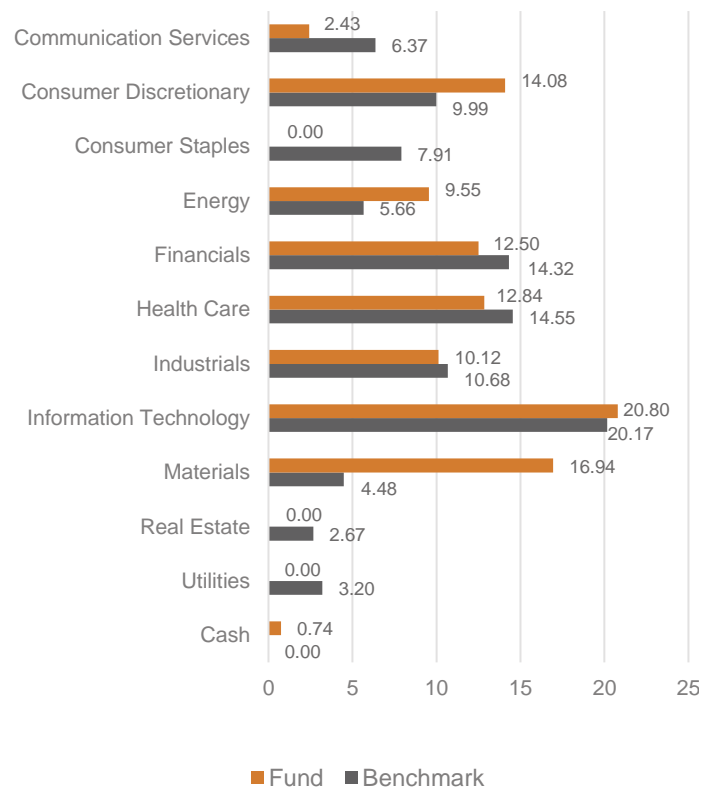
Top 5 holdings

Stocks	Sector	Country (domicile)
Microsoft Corporation	Information Technology	United States
Amazon.com	Consumer Discretionary	United States
Reliance Steel & Aluminum Co.	Materials	United States
Steel Dynamics	Materials	United States
UnitedHealth Group Incorporated	Health Care	United States

Regional asset allocation (%)



Sector asset allocation (%)



Market review

Central banks responded to the continued strength of inflation by further tightening monetary policy and reiterating that they will do whatever it takes to suppress rising prices. The Federal Reserve, European Central Bank and Bank of England each raised rates by 1.25% in aggregate over the quarter. Since March, the Federal Reserve has raised rates seven times by 4.25% in total – its 0.75% increases in June, July, September and November were the biggest single increases for nearly 30 years. Investors expect further hikes in 2023 as the services sector of the US economy has remained notably strong. The European Central Bank was slower to react, partly due to a more fragmented backdrop with a gap between Germany and ‘peripheral’ economies. However, it ended its bond buying programme in July and increased rates by 0.75% (its first hike for 11 years and a bigger increase than the 0.50% expected by economists). Further increases followed in September, October and December with a clear commitment to raise rates further in 2023. The Bank of England increased rates to 3.5% over the quarter, taking its tally to eight increases in 2022 and nine so far in this cycle.

Despite these increases in interest rates, the quarter saw equities regaining some of the territory lost earlier in the year as investors started to anticipate falls in inflation and the peak of the interest rate cycle early in 2023. For the quarter, the MSCI World and MSCI All Countries World Index (ACWI – which also includes 26 emerging markets) both returned +4.2% in AUD. Regional returns were dispersed: according to MSCI regional data, the strongest markets were Denmark and Austria, which returned +24.8% and +24.2%, respectively. The US meanwhile delivered 1.56%.

Market review (continued)

Within equity markets, the significant inflation-related rotation out of 'growth' and into 'value' that dominated the first half of 2022 was again evident. The MSCI World Growth Index returned -0.7% versus +9.0% for the MSCI World Value Index. Sector returns in AUD were widely dispersed for the MSCI World: despite weakness in oil prices, energy was again the strongest sector, returning +13.6%, while industrials and materials returned +11.8% and +11.2%, respectively. Conversely, consumer discretionary and communication services delivered negative returns of -7.4% and -4.7%.

After weakness in the third quarter, the price of Brent crude oil fell by another 4.0%, to below \$86 a barrel (in USD terms) – this is below the price level at the time of the Russian invasion of Ukraine in late February. Meanwhile, natural gas prices fell over 50% in the quarter as the weather in Europe remained relatively warm. Meanwhile, copper futures recovered to rise by 3.5% in dollar terms despite the evident slowdown in China.

Currency movements had a notable impact in the quarter, following the volatility in the first three quarters of the year. The Federal Reserve's apparently softer approach to raising interest rates pushed the dollar sharply lower and it was the weakest major currency: it depreciated by nearly 10% against the yen and euro, and by over 7% against sterling. On a translational basis, sterling's recent strength against the dollar impacts sterling investors in overseas assets as it lowers the returns over the quarter. However, the weaker dollar will benefit any emerging markets countries and companies that have borrowed in dollars.

Performance review

The Ironbark Royal London Concentrated Global Share Fund returned 6.18% (net) for the quarter, outperforming the MSCI World NR AUD by 2.11% which returned 4.07% over the period.

Steel Dynamics, Sumitomo Mitsui Financial Group and HCA Healthcare were strong contributors to performance during the quarter of 2022. Steel Dynamics, the US steel manufacturing and fabrication business in the 'Accelerating' category of the Corporate Life Cycle, performed strongly from an operational perspective. Facilities were running at high utilisation levels. Beyond the commodity steel business value add is generated through offering customers coatings and painting of the raw steel, and an increasingly significant fabrication business. The company has reinvested in a new steel mill in Texas and is planning an aluminium mill. The shares joined the US S&P 500 Index on 22 December. Japanese financial group Sumitomo Mitsui Financial Group ('Mature') – posted earnings that exceeded expectations this year, helping to drive strong performance from the shares. There is a focus on improving returns on capital and managing costs. The company has several initiatives to execute on especially in overseas markets, though key is the consistency of the attractive returns in the domestic market. The company continues to offer an attractive valuation pay-off. US hospital operator HCA ('Compounding') benefited from the additional healthcare spending during the pandemic and then from the catchup of procedures that were postponed due to the pandemic. Labour availability and costs were a challenge earlier on in the year though the company is managing this and passing costs on through higher fees, demonstrating its pricing power.

Amazon, Lithia Motors and Alphabet detracted from returns over the period. Online retail giant Amazon in the 'Slowing & Maturing' category underperformed as a slowdown in the AWS cloud business growth was a notable concern as was guidance for the quarter. The investment manager continues to view the business as having strong competitive advantages and an attractive valuation pay-off. Lithia Motors in the 'Slowing and Maturing' category of the Life Cycle has faced concerns about declining second hand car values and the continued shortage of new cars associated with supply chain disruption. The North American car dealership network had a challenging quarter for earnings. Having enjoyed high prices for used cars in recent years, supply chains are normalising and putting downward pressure on sales and margins. The investment manager's analysis suggests that the valuation pay-off remains attractive as while short term trends are negative, the shares are pricing in an excessively negative scenario. Alphabet Inc, the parent company of Google 'Compounding' has been impacted by falling advertising rates as competition for space from other online companies has reduced pricing. There are concerns over the impact of AI products such as OpenGPT and what impact they might have on the search business. This is unclear now though the investment manager believes that there is increasing financial discipline at the company and the valuation pay-off remains attractive.

Market outlook

Consumers are facing a significant cost of living squeeze, as inflation is currently at its highest level for decades. Likewise, companies are battling to defend margins, as their own input costs increase significantly. The investment manager believes their approach of investing in a broad range of companies who are in control of their own fates, irrespective of market conditions is the right one. As well as looking for durable businesses, a willingness to look through short-term extremes of sentiment and buy stocks when they are out of favour, or take profits when sentiment becomes exuberant should drive longer-term performance.

There is considerable uncertainty about the outlook for 2023. The Federal Reserve has continued to raise interest rates and many investors fear that this could tip the US into a hard-landing recession, although the hard data remain mixed at this stage. The picture is only marginally different in the UK and Europe, with energy prices remaining high in absolute terms and geopolitical events continuing to affect sentiment. Meanwhile, China is experiencing a slowdown in growth with particular problems in its over-invested property sector and an ongoing drag on growth from COVID.

Market outlook (continued)

Nonetheless, the near-term outlook improved over the quarter from an economic perspective with signs that inflation is close to its peak, yet without a collapse in economic activity. Investors have scrutinised every comment from the Federal Reserve to try to anticipate the pivot away from higher interest rates. To an extent, however, the rate of economic slowdown and/or recession is somewhat irrelevant as these have already been discounted by asset prices. More important, is whether inflation continues to fall back towards the Federal Reserve's and Bank of England's targets of 2.0% or whether it sticks at around 4-5% (which might lead to further increases in interest rates); secondly, the relative valuation of equities compared to bonds looks 'wrong', and it will be interesting to see how this is resolved over the coming months.

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