

# 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**

\$1,665.4m

**BUY / SELL SPREAD**

+0.15% / -0.15%

**EXIT PRICE**

\$3.0673

**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.
<b>Fund<sup>1</sup></b>	<b>2.23</b>	<b>11.58</b>	<b>10.76</b>	<b>18.84</b>	<b>15.11</b>	<b>15.17</b>	<b>14.59</b>	<b>8.70</b>
Benchmark <sup>2</sup>	3.80	9.08	4.25	12.96	10.98	11.93	13.91	7.38
<i>Active</i>	-1.57	2.50	6.51	5.88	4.13	3.24	0.68	1.31

<sup>1</sup>Fund performance prior to 1 September 2016 is not attributable to the current investment manager, but the previous investment manager. The Royal London composite is presented below to provide a longer-term view of the Fund's current investment strategy.

<b>Royal London Composite<sup>3,4</sup></b>	--	--	--	--	--	<b>15.30</b>	<b>15.34</b>	<b>7.50</b>
Benchmark <sup>4</sup>	--	--	--	--	--	11.93	13.78	5.03
<i>Active</i>	--	--	--	--	--	3.37	1.56	2.47

**Top 5 monthly contributors and detractors**

Contributing stocks	Active weight	Detracting stocks	Active weight
Microsoft Corporation	Overweight	Steel Dynamics	Overweight
Constellation Software	Overweight	Thor Industries	Overweight
HCA Healthcare	Overweight	Shell	Overweight
Eli Lilly and Company	Overweight	Sumitomo Mitsui Financial Group	Overweight
Amazon.com	Overweight	Lithia Motors	Overweight

**Top 5 quarterly contributors and detractors**

Contributing stocks	Active weight	Detracting stocks	Active weight
Reliance Steel & Aluminum	Overweight	Anglo American	Overweight
Constellation Software	Overweight	UnitedHealth Group Incorporated	Overweight
Amazon.com	Overweight	Eli Lilly and Company	Overweight
Steel Dynamics	Overweight	Apple	Underweight
Microsoft Corporation	Overweight	UPM-Kymmene Oyj	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>The inception date of the Royal London Composite is 1 April 2001. Performance periods from 1 April 2001 to 31 August 2016 for the Royal London Composite represent the Royal London Global Select Fund B USD converted to AUD, net of fees. Performance periods from 1 September 2016 to month-to-date for the Royal London Composite represent the net returns of the Ironbark Royal London Concentrated Global Share Fund. Source: Royal London, State Street Australia Limited 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.

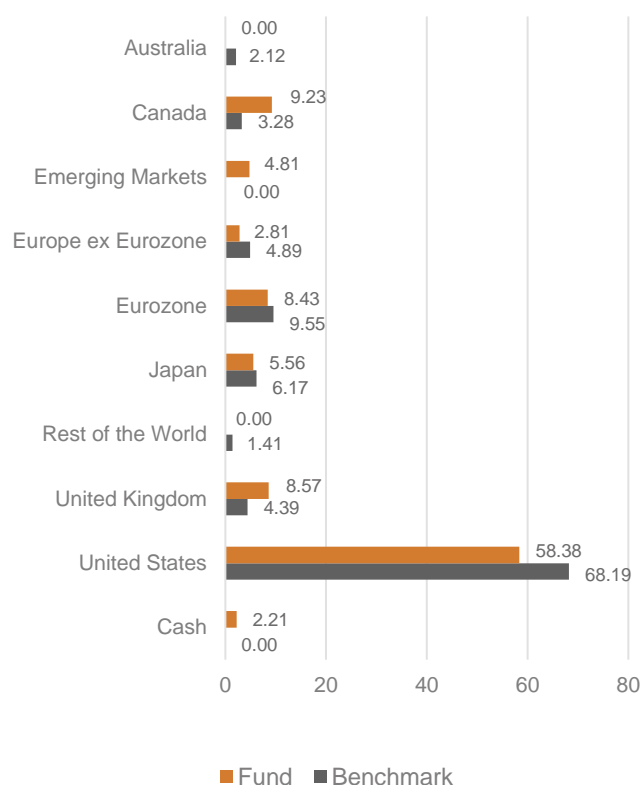
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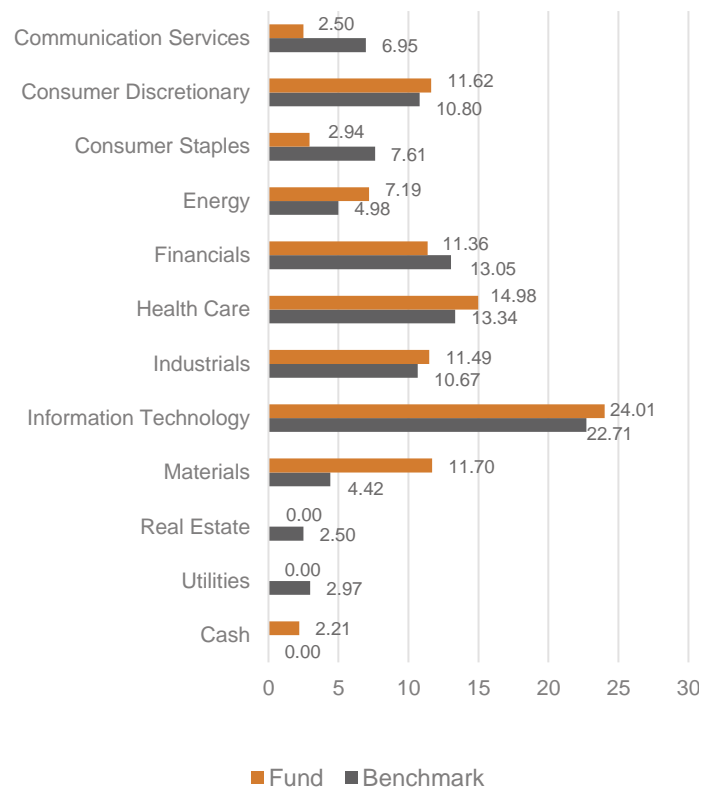
## Top 5 holdings

Stocks	Sector	Country (domicile)
Microsoft Corporation	Information Technology	United States
Amazon.com	Consumer Discretionary	United States
Constellation Software	Information Technology	Canada
UnitedHealth Group Incorporated	Health Care	United States
Steel Dynamics	Materials	United States

## Regional asset allocation (%)



## Sector asset allocation (%)



## Market review

It was an optimistic start to 2023, with a seemingly calmer sentiment as it appeared that the major economies had avoided recession and consumer prices were starting to slide. However, expectations shifted with stronger than expected US job market data, leading to fears that interest rates would have to continue higher. The increased volatility this caused was then exacerbated towards the end of the quarter, with concerns over the health of the global banking sector.

Central banks continued their rate hiking path in the first quarter, continuing to tighten monetary policy in an attempt to bring down stubbornly high inflation. The US Federal Reserve, the European Central Bank, and the Bank of England all pushed rates higher twice in the quarter – with the European Central Bank increasing rates the most, by 0.75% - but with investors growing in confidence that central banks are nearing the end of their tightening cycle.

Since the start of the current cycle the Federal Reserve has increased rates by 4.75% over the course of nine rises since March 2022. The Bank of England started the cycle at 0.1% but has moved rates higher 11 times since the end of 2022, now sitting at 4.25%, while the European Central Bank on the other hand has only increased rates by four times to 3.0%. Consensus forecasts see all three banks nearing or having hit their peak rates and that these will begin to start easing conditions in the second half of this year, but in the investment manager's view, this will continue to be determined by inflation. Headline inflation remains high, and well above central bank targets, but is expected to fall over the next few quarters. This should provide some respite for central banks, but the future path of interest rates will depend on where inflation settles.

## Market review (continued)

In the final few weeks of the quarter, the collapse of Silicon Valley Bank (SVB) and Credit Suisse refocused attention on the strength of the banking sector and dragged returns for equity and bond markets sharply lower. By the end of the quarter, Federal Reserve action following the collapse of SVB and the rescue of Credit Suisse by larger Swiss peer UBS appeared to have calmed markets. However, the crisis may lead to more cautious bank lending and hence accelerate the impacts of policy tightening and therefore have consequences for the pace and magnitude of further interest rate increases, as well as on the prospects of a recession.

In local currency terms, all major stock markets rose. For the first quarter, the FTSE-All Share, MSCI World and MSCI All Countries World Index (ACWI – which also includes 26 emerging markets) all produced positive returns for the quarter in local terms. According to MSCI regional data, the strongest market was Europe, while the weakest region was emerging markets.

Within equity markets, there was a dramatic rotation into ‘growth’ away from ‘value’. This dramatic rotation towards growth stocks came in the aftermath of the fallout of SVB and expectations that central banks globally may be less aggressive in hikes, leading to longer duration assets performing well. The MSCI World Growth Index produced strong returns, while the MSCI World Value Index had smaller returns. This is important because in 2022 and at the start of 2023, rising interest rates led to a significant rotation out of growth stocks and into value stocks. Investors typically use interest rates to determine the discount rate applied to future cashflows back to compute a stock’s present value. Growth stocks typically have a larger proportion of their cash flows derived from future years (due to the growth in profits over the forecast period) and therefore their valuation is more than proportionately, and negatively, affected by higher interest rates.

Sector returns were dispersed for the MSCI World. Information technology and communication services produced strong returns, while energy and healthcare saw negative returns for the quarter.

The price of Brent crude oil fell by another 8.7%, to below \$79 a barrel – this is even below the price level at the time of the Russian invasion of Ukraine in late February. Meanwhile, copper futures recovered to rise by a further 4.5% in dollar terms buoyed by the potential demand to come from China as the country begins the process of reopening its economy after Covid.

The US dollar appreciated by 0.8% against the yen, but depreciated by 1.8% against the euro, and by 2.8% against sterling. On a translational basis, sterling’s 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. The USD outperformed AUD in the first quarter, contributing to absolute returns of AUD based investors.

## Performance review

The Ironbark Royal London Concentrated Global Share Fund returned 11.58% (net) for the quarter, outperforming the MSCI World NR AUD by 2.50% which returned 9.08% over the period.

Reliance Steel & Aluminium Co, Constellation Software and Amazon contributed to performance during the first quarter. Reliance Steel & Aluminium Co, an American metal distributor and processor in the Slowing & Maturing category of the corporate Life Cycle, has been a strong contributor to performance over the quarter. Back in February, the company announced a strong set of results alongside positive forward-looking guidance. The company has been benefitting from strong industrial demand in the US, while the management team have continued to make sensible capital allocation decisions in line with its position in the Life Cycle, with a focus on returning cash to shareholders and an open attitude to wealth-creating M&A. Canadian diversified software company, Constellation Software in the Compounding stage of the corporate Life Cycle performed well over the quarter. The company announced a positive set of results, presenting an uptick in revenue growth and cash generation. Activity this quarter has reiterated the company’s commitment to continuing to compound, doing fewer but larger deals and continuing to decentralise the management functions. The company appears able to deploy large amounts of capital during periods of economic and financial stress which gives us confidence in its ability to continue to scale and compound going into future quarters. Amazon, “Mature”, was a key contributor to performance. Cloud growth has continued to slow but the company continues to deliver solid e-commerce performance and has shown good improvements over previous quarters particularly related to cash flow generation.

Detractors from performance during the period under review included Eli Lilly, UnitedHealth and Anglo American. Global pharmaceutical powerhouse, Eli Lilly in the Compounding stage of the corporate Life Cycle was a pull-on performance during the quarter. The market reacted negatively to weaker-than-expected news flow surrounding new drug Mounjaro. This was a demonstration for investment manager, along with the market, that it will take time for new drugs, even blockbusters, to have a material effect on financial performance, and more patience is advised to counteract some short-termism in markets. The investment manager does, however, maintain a positive view on the stock; as they are confident in Eli Lilly’s world-leading diabetes franchise and promising pipeline with strong ability to compound over a long-term time horizon. The investment manager remains comfortable holders of the company at this attractive valuation. UnitedHealth, “Compounding”, was a detractor this quarter. UnitedHealth delivered some good results at the top of the quarter with growth across its business areas, however, missed expectations for Optum Insight’s profitability was noted; there were headwinds to this business with lower inpatient volumes and delays on technology update and growth projects. The investment manager does not treat this as a structural issue and still maintain a positive view on UnitedHealth’s Compounding ability over the long-term at this valuation. Mining giant Anglo American in the Turnaround part of the corporate Life Cycle has been a detractor for performance over the quarter. While the miner continues to benefit from elevated commodity prices, cost inflation has been an impediment to margins and cash generation.

## Performance review (continued)

This came alongside some mixed results in the middle of the quarter and a write-down on their investment in the Woodside mine, which the company is developing in the UK. Despite this, 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 the remainder of 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 problems in its over-invested property sector and an ongoing drag on growth from Covid-19. However, the outlook for interest rate progression is mixed due to some of the negative impacts of rising rates. Most recently highlighted by the collapse of SVB bank due to duration mismatches causing unrealised losses in held-to-maturity assets on their balance sheet. The Federal Reserve needs to balance the need to curb inflation without causing significant economic pain for the broader economy as all the mechanisms by which interest rate hikes affect businesses aren't immediately understood.

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