

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

\$1232.2m

BUY / SELL SPREAD

+0.15% / -0.15%

EXIT PRICE

\$2.6043

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	-3.67	0.33	-2.08	11.60	13.19	11.25	13.67	8.16
Benchmark ³	-3.29	0.33	-9.71	6.24	9.58	9.25	13.54	7.01
<i>Active</i>	-0.38	0.00	7.63	5.36	3.61	2.00	0.13	1.15

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}	--	--	--	--	--	11.56	14.54	6.83
Benchmark ⁵	--	--	--	--	--	9.28	13.48	4.53
<i>Active</i>	--	--	--	--	--	2.28	1.06	2.30

Top 5 monthly contributors and detractors

Contributing stocks	Active weight	Detracting stocks	Active weight
Eli Lilly and Company	Overweight	Lithia Motors	Overweight
UnitedHealth Group Incorporated	Overweight	KB Financial Group	Overweight
Progressive Corporation	Overweight	Bridgestone Corporation	Overweight
Anglo American	Overweight	Taiwan Semiconductor Manufacturing	Overweight
Reliance Steel & Aluminum	Overweight	Thor Industries	Overweight

Top 5 quarterly contributors and detractors

Contributing stocks	Active weight	Detracting stocks	Active weight
Steel Dynamics	Overweight	Lithia Motors	Overweight
HCA Healthcare	Overweight	Suncor Energy	Overweight
Amazon.com	Overweight	KB Financial Group	Overweight
Reliance Steel & Aluminum	Overweight	Tesla	Underweight
Progressive Corporation	Overweight	Taiwan Semiconductor Manufacturing	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.

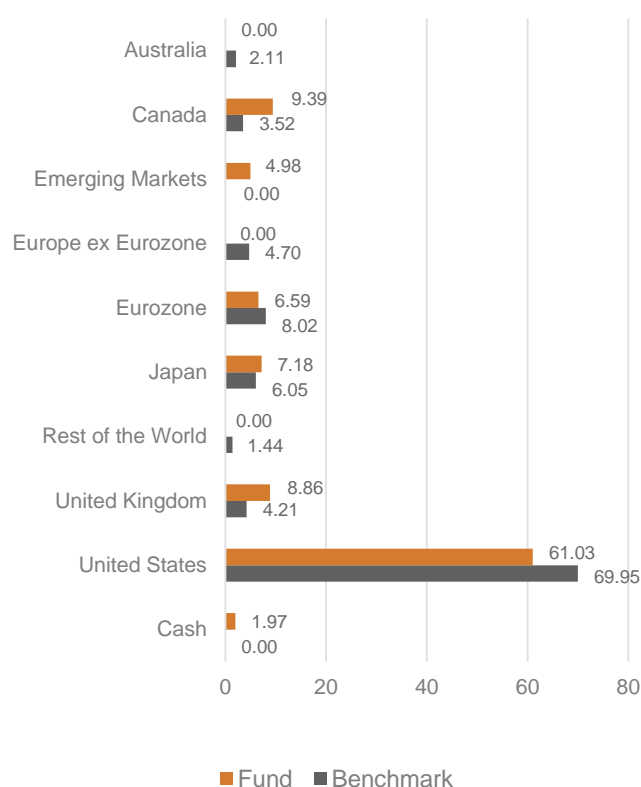
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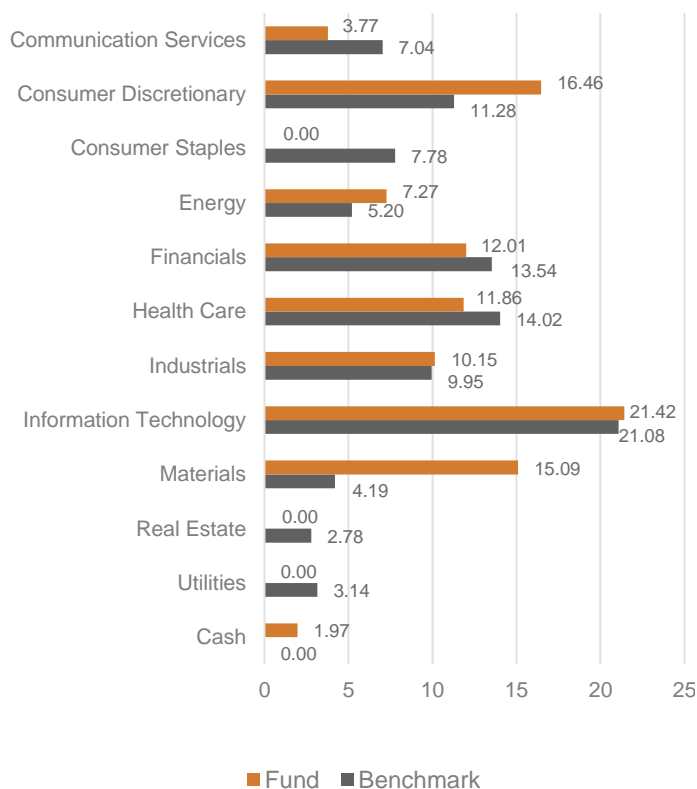
Top 5 holdings

Stocks	Sector	Country (domicile)
Microsoft Corporation	Information Technology	United States
Amazon.com	Consumer Discretionary	United States
Reliance Steel & Aluminum	Materials	United States
Suncor Energy	Energy	Canada
Constellation Software	Information Technology	Canada

Regional asset allocation (%)



Sector asset allocation (%)



Market review

Equities struggled as interest rate expectations rose and investors factored in the possibility of a Federal Reserve-induced recession in the next 6 to 12 months. For the third quarter the FTSE-All Share, MSCI World and MSCI All Countries World Index (ACWI – which also includes 26 emerging markets) returned -3.4%, -3.3% and -3.5%, respectively. Regional returns were again widely dispersed. According to MSCI regional data, MSCI Mexico and MSCI Russia were the best performing regions during the third quarter returning 6.2% and 5.7% respectively. Meanwhile, MSCI Korea and MSCI Norway were the highest detractors at -12.8% and -13.6% respectively.

Within equity markets, the significant inflation-related rotation out of 'growth' and into 'value' that started earlier in the year continued. The MSCI World Value Index returned -2.3% versus -4.1% for the MSCI World Growth Index. For the MSCI World, healthcare, consumer staples and financials were the top performers, while IT and real estate were the biggest drags on performance.

Inflation has continued to surprise to the upside across developed markets. The consensus view implied by bond and equity markets is that the aggressive policies of central banks rising rates to slow the economy and reduce inflationary pressures will most likely cause a recession. For example, rising rates will drive mortgage rates higher which in turn cools the property market, and with it, consumer sentiment and spending appetite. Higher rates on corporate loans and overdrafts cause companies to pay more in interest payments and encourage them to reduce any debt piles ahead of investing in growth projects. Whatever the mechanism, rising rates will slow demand and given the magnitude of rate rises and impacts of inflation already on consumers and companies, economists are finding it hard to see how a recession will not occur.

Market review (continued)

There are two problems to this set up currently. First, central banks and city economists may not have fully factored in the policies of governments who are working very hard to protect voters from the negative impacts of rising inflation. In the process, they are likely staving off recession and driving more long-term inflation. Second, despite it being some months since the start of rate rises and inflationary pressures, the companies the investment manager have spoken to are generally yet to see major slowdowns in customer activity. Granted, some have more recently highlighted a change in behaviour of consumers such as a North American retailer the investment manager had spoke to recently, but this is more at the margin as many other management teams are indicating that demand remains strong and there is a lot of 'pent up' demand in their area of the economy.

Despite this non-immediate transition of central bank activity to slowing the economy, it is challenging to see how a recession is avoidable given the apparent determination of central banks to reduce inflation. The supply of goods and services is hard to increase in the near term – oil fields, fertiliser, Russian gas, skilled labour and so, demand will have to fall to reduce inflation and central banks are determined to make sure this happens. Falling demand without a recession is going to be hard to achieve.

A final point the investment managers has observed despite all of this is many cyclical stocks in global equity markets appear to be pricing in a recession. So even if one were to occur, the relative downside in these stocks from this juncture might not be as severe as people fear. So, counter-intuitively as the recession unfolds it might be a good time to be buying cyclical stocks. Put another way, there is a difference between what happens in the economy and what one might want to do with their investments as it always depends on the price of what one is buying and selling.

Currency movements had a notable impact in the quarter, following the volatility in the first half of the year. The Federal Reserve's more aggressive approach to raising interest rates compared to other central banks has pushed the dollar higher. It was again the strongest major currency, appreciating over 6% against the yen and euro, and over 8% against sterling. On a translational basis, sterling's weakness benefited sterling investors in overseas assets as it boosted returns over the quarter. However, these movements will impact global trade over coming months, and dollar strength will also be a risk for any emerging markets countries and companies that have borrowed in dollars. The price of Brent crude oil fell by 16.9%, however it remains over \$90 a barrel, and copper futures fell another 8.0% in dollar terms on fears of a slowdown in China and recession in the US, UK and Europe.

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.

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-based investors.

Performance review

The Ironbark Royal London Concentrated Global Share Fund returned 0.33% (net) for the quarter, leveling the MSCI World NR AUD which also returned 0.33% over the period.

Steel Dynamics, HCA Healthcare, Reliance Steel and Amazon were strong contributors to returns in the third quarter. Steel Dynamics, in the 'Slowing and Maturing' Life Cycle category, has gained on the back of elevated steel prices which persist well above the pre pandemic average. Margins in the business remain elevated, supported by the fabrication business. Excess cash is being used for a combination of buybacks and investment into a new aluminium rolling mill. HCA Healthcare, the hospital giant in the compounding phase, during the period has actively managed higher labour costs which have increased in recent quarters. However, HCA is ultimately a solid long-term 'Compounder' which benefits from unparalleled scale and high barriers to entry. There should be decent long-term growth opportunities with a focus on share buybacks between physical investments. Reliance Steel, in the 'Slowing & Maturing' Life Cycle category, has seen another quarter of record results with gross profit and cost control well ahead of targets. Cash generation meanwhile also continues to pick up. Reliance Steel has been ploughing cash into share buybacks over the last twelve months this has amounted to almost \$600 million. The board has just given fresh authorisation for \$1 billion of buybacks. Given the company's attractive valuation, the investment manager believes this represents a good use of shareholders' capital. Meanwhile, online retail giant Amazon in the 'Slowing and Maturing' category of the Life Cycle Framework announced a strong set of second quarter results – second quarter net sales were up 7% reported or up 10% at constant currency, which is a solid growth rate given the lockdown comparison. The cloud computing division, AWS, saw second quarter sales up 33% year-on-year and included the following comment in their results, "*We believe we're still in the early stages of enterprise and public sector adoption of the cloud.*" The investment manager continues to see the valuation pay-off as attractive.

Lithia Motors, KB Financial and Tesla and Suncor Energy detracted from returns over the quarter. 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. Competitor Carmax announced poor results and there are concerns that the environment could deteriorate further. The investment manager believes that the challenges are more than reflected in the current market price.

Performance review (continued)

Meanwhile, Korean banking group, KB Financial, in the 'Mature' Life Cycle category detracted as the Korean Won has been weak due to fears of a global cyclical slowdown while banking stocks continue price in the risk of higher credit losses associated with any downturn. The investment manager believes KB has the potential to return significant amounts of capital to shareholders in the coming years. TSMC, in the 'Accelerating' category of the Life Cycle pulled back on geopolitical concerns and feed through from weakness in semiconductor stocks and Apple, their largest customer. Tesla, in the 'Accelerating' phase of the Life Cycle, saw its shares gain during the third quarter however the investment manager chose not to hold the stock on valuation grounds. As a result, this detracted from the Fund's overall performance. Suncor Energy in the 'Turnaround' category of the Life Cycle meanwhile raised guidance of capital spending as inflationary pressures continue to come through. Nevertheless, the company is focused on reducing debt and using strong cash flows to back shares.

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.

Equity markets are unlikely to recover until there is a clearer view of 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 they note they will have to be patient and await proof. The investment manager believes that their approach of building a diversified, liquid portfolio, invested in profitable and cash generative companies with strong balance sheets, is the best way to mitigate some of the risks investors face in this asset class.

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