

# Bell Global Emerging Companies Fund

Class A Fund Summary - Period ending 30 September 2022

## Net Performance<sup>^</sup>

Returns in AUD	Fund	Index*
<b>1 Month</b>	-4.4%	-4.3%
<b>3 Months</b>	-1.7%	0.7%
<b>6 Months</b>	-9.5%	-8.8%
<b>1 Year</b>	-15.5%	-15.1%
<b>3 Years (pa)</b>	5.1%	4.0%
<b>5 Years (pa)</b>	10.4%	6.8%
<b>Inception (pa)<sup>^</sup></b>	9.4%	8.5%

\* Index is the MSCI World SMID Cap Index. <sup>^</sup> The Bell Global Emerging Companies Fund was established in November 2012 under a different name and with a different investment strategy. The fund has operated under its current name and strategy since 27 June 2016 (Inception).

## Best & Worst Performers - 1 Month

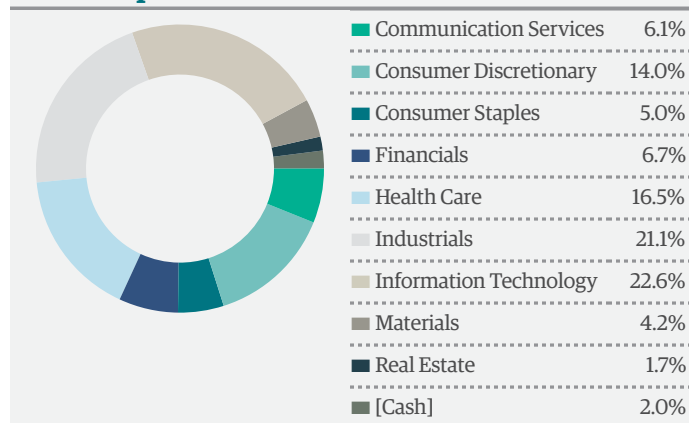
### Top 5 - Relative Contribution

Toro Company	0.35%
Tractor Supply	0.24%
CGI Inc. Class A	0.14%
Booz Allen Hamilton...	0.13%
Deutsche Boerse AG	0.13%

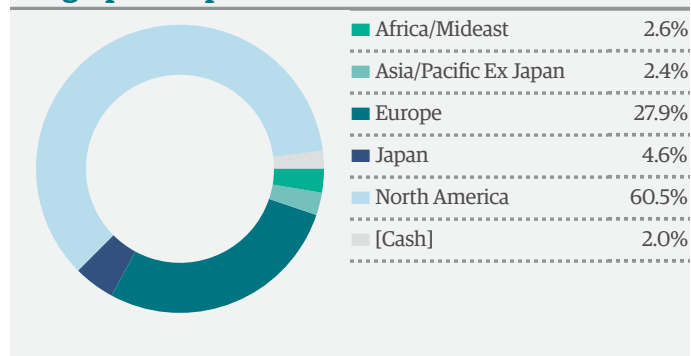
### Bottom 5 - Relative Contribution

GN Store Nord A/S	-0.40%
Vestas Wind Systems...	-0.38%
Rightmove plc	-0.26%
YETI Holdings, Inc.	-0.24%
Techtronic Industries...	-0.24%

## Sector Exposure



## Geographic Exposure



## Top 10 Holdings

Company	Sector	Geography	Weight
Genpact Ltd	Information Technology	US	3.1%
Amerisourcebergen	Health Care	US	3.1%
Kroger Co.	Consumer Staples	US	2.7%
Tractor Supply	Consumer Discretionary	US	2.7%
CGI Inc.	Information Technology	CA	2.7%
ICON plc	Health Care	IE	2.7%
Toro Company	Industrials	US	2.7%
Check Point Software	Information Technology	IL	2.6%
Zebra Technologies...	Information Technology	US	2.6%
Nihon M&A Center...	Industrials	JP	2.5%

## Investment Metrics

	Portfolio	Index	Relative
<b>Risk</b>			
Total Risk	15.91	16.20	
Number of Stocks	61	5357	
Active Share	97.5		
<b>Value</b>			
P/E	16.5	12.8	129%
PEG Ratio	2.1	3.3	63%
EV/EBITDA	11.7	9.7	121%
<b>Growth (%)</b>			
Sales Growth	10.9	10.4	105%
EPS Growth	13.2	13.7	96%
<b>Quality</b>			
Return on Equity	25.2	13.9	181%
Net Debt / EBITDA	1.1	2.2	53%

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**Adrian Martuccio** Portfolio Manager

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## Performance

Equity markets suffered a steep fall in September, however the weaker Australian dollar buffeted some of the decline. The Bell Global Emerging Companies Fund (Class A) declined 4.4%, whilst the MSCI World SMID Cap Index also fell 4.3%, an underperformance of 0.1% for the month. September closed a very volatile quarter, with the MSCI World SMID Cap Index returning 0.7% versus the Fund -1.7%, an underperformance of 2.4%.

## Performance Attribution

During the quarter, sector allocation was a slight positive of around 0.5% primarily driven by the overweight to Information Technology given our more conservative holdings in the sector. The underweight to Real Estate and not holding any Utilities was also a positive. There was some drag from not holding any Energy stocks given the rally in that sector. Regional allocation effects were minimal over the three-month period with the only meaningful drag from Denmark.

Stock selection was negative over the quarter. Looking at some individual names, hearing aid and headphone company GN Store Nord and drinkware and cooler maker Yeti were both weak due to a deteriorating consumer outlook and rising inventory. Specialty ingredient company CHR Hansen was also weak after guiding to a softer customer demand outlook. Equity market volatility was a drag on stock exchanges with pan-European exchange Euronext falling, however it looks like excellent value here. We have added to many of these weaker names as they do look oversold at present and we have conviction in their longer term prospects.

There were also many areas of strength in the portfolio where various niche franchises saw solid demand continuing. Toro, the premier turf machinery maker, reported strong results and rallied over 10% in September and 22% during the quarter. Similarly, networking equipment maker Arista Networks and semiconductor and electronics calibration equipment maker Keysight Technologies also both rallied over 20% during the period. Two

Japanese companies were also strong contributors in the quarter with eyeglass lens and semiconductor product manufacturer Hoya Corp reporting record profits and announced a share buyback. Business broker Nihon M&A also bounced as they reiterated full year guidance and are seeing improved momentum in the number of deals in their pipeline.

## Market Commentary

The decline in global equity markets in September was the steepest monthly fall since the early stages of the COVID-19 pandemic in March 2020 and prior to that, a magnitude of decline that hasn't been seen for over ten years since May 2012.

The market has been trying to discount the negative impact of rising inflation and rising interest rates for the last twelve months. However, volatility has increased as investors have been left wrong-footed, given the priority for policy makers remains the fight against inflation rather than supporting growth and we are currently in the most aggressive period of interest rate hikes since the 1980's.

However, the evidence to take a more measured approach is mounting. The impact on consumers' purchasing power from soaring prices is mounting quickly especially in discretionary areas including apparel and consumer electronics. Nike reported a surge in inventory, a trend that has also been seen at many other retail peers. South Korean chipmaker Samsung reduced semiconductor output for the first time in four years and there are rumours that Apple backed off plans to increase iPhone volumes after an acceleration in demand didn't materialise. FedEx also surprised the market with a warning on delivery volumes due to the economic deceleration. The latest Global PMI survey data reinforced these announcements as new orders rates declined. Even stalwart consumer staples companies such as Unilever, Nestle and Woolworths have said that the consumer is already 'trading down' to better value products.

It will take more time for the full extent of tightening to broadly feed into the economy, but given the effects we are already seeing, there is an argument for

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some patience to avoid a global recession. If central banks do take a more cautious approach, as we recently experienced with a smaller than expected 25 basis point increase by the Reserve Bank of Australia, it will be a strong catalyst for an equity market bounce.

### Research

Over the last 12 months, we have been focused on minimising the negative effects of rising rates and inflation on the portfolio. We continue to do stress testing on our company financial models and by continuing our engagement with company management, it assists in our understanding of the key variables and uncertainties. Similar to last quarter, the investment team continues to ramp up the travel schedule, with team members visiting companies in many countries over the last few months.

The main takeaway was that the outlook and the ability to forecast remains difficult, with many management teams citing limited visibility and a heightened level of concern about the impact that underlying macro conditions will likely have on demand and margins.

Other key high-level messages were that order rates and backlogs are likely worse than headline numbers suggest so there is the continued risk of cancellations and high inventory levels. Labour retention & wage inflation is a significant concern and will remain a headwind well into 2023. The energy crisis was a key topic of conversation across many meetings, particularly in Europe, was the risks posed by energy access and cost. While direct energy costs for many portfolio companies are low (i.e. 1-2% of sales), the potential impact to margins won't be trivial with some companies already citing >100% increases. Fortunately, there are signs of supply chain constraints easing. Logistic costs have come well down from the peak, although are still tracking materially above pre-COVID levels. The other positive is there is some consistency in these key issues and the current downturn has been widely anticipated, so we have confidence that boards and management teams across the globe have been able to implement contingency plans to deal with these conditions and minimise effects should we

see demand trends soften dramatically.

### Trading

Taking into consideration our recent research efforts and also the volatility over the last few months, it has resulted in the bulk of trading being adding and trimming existing positions. Given the drawdown in the market, we added to names that had pulled back sharply and where we saw better upside including handheld inventory computer maker Zebra Technologies, vehicle and bicycle suspension manufacturer Fox Factory and testing and inspection company Intertek. Additionally, with a continued focus on protecting capital, we added to many companies that represent good value including U.S. supermarket retailer Kroger, pharmaceutical distributor AmerisourceBergen and some IT names such as security business Check Point Software and service provider Genpact.

These trades were funded through trimming various better performing positions such as IT services company Booz Allen Hamilton, Deutsche Boerse, heavy machinery auctioneer Ritchie Bros. and distribution group Bunzl. Two names were also exited as their exposure to employee cost inflation was hampering profitability, these were home nursing provider Amedisys and financial IT software company Simcorp. The demand environment at both companies has also become more uncertain, especially at Simcorp where customers can delay investment in new, niche software platforms.

### Outlook

Given the broad sell-down in the market during September, we are cautiously optimistic looking forward. Front of mind is the rhetoric we face driven by the list of risk factors that almost appears endless, from inflation and rising interest rates, to declining consumer confidence, geopolitical concerns and potential energy shortages. As we have mentioned previously, this means the likelihood of material earnings downgrades across the market seems elevated looking into the back-end of 2022 and into 2023.

However, it isn't all doom and gloom since the market is doing a reasonable job of discounting the myriad risk factors. Additionally, employment conditions remain buoyant and there are early signs of inflationary pressures easing providing some light at the end of the tunnel and is putting increased pressure on Central Banks to slow the pace of rate hikes. In addition, investors are already discounting a worsening outlook into forward looking valuations, the MSCI World Index, for example, is trading on a 12-month forward price to earnings ratio of around 13.6x, down from 19x at the start of the year and a 15% discount to the 10-year average. Of course, the 'E' may still have further to fall but the downside risk is arguably in the numbers to some degree already.

At times of uncertainty like these, it is important to remind ourselves that making accurate forecasts about the macro economy is almost impossible, the last three years have made this abundantly clear. So while the outlook may seem bleak at the moment, conditions can change rapidly and good quality companies often find a way to generate excellent outcomes for shareholders regardless of the external environment. In our view, having exposure to a diversified portfolio of good quality companies trading at a reasonable price, is the best way to manage downside risk and capture upside potential over the long term.

## Key Features

<b>Investment Objectives</b>	Outperform the index over rolling three year periods
<b>Asset Allocation</b>	Long only global small and mid cap equities, No gearing, No derivatives
<b>Investment Style</b>	Fundamental bottom up approach "Quality at a reasonable price"
<b>Investment Highlights</b>	<ul style="list-style-type: none"><li>• A diversified portfolio of small and mid cap (SMID) global stocks</li><li>• 'Quality' focus - consistently high returning companies</li><li>• Long-term horizon - typically 3-5 year holding periods</li><li>• Benchmark agnostic</li><li>• Diversified portfolio structure</li><li>• Maximum cash position 10%</li><li>• Highly experienced investment team</li></ul>
<b>Benchmark</b>	MSCI World SMID Cap Index
<b>Currency Exposure</b>	Unhedged
<b>Investment Timeframe</b>	At least 5 years
<b>Number of Holdings</b>	35 - 55

## Fund Terms

<b>Fund Inception Date</b>	November 2012
<b>Strategy Inception Date</b>	27 June 2016
<b>Product Structure</b>	Registered Managed Investment Scheme
<b>Investment Manager</b>	Bell Asset Management
<b>Responsible Entity</b>	Bell Asset Management
<b>Custodian</b>	National Australia Bank
<b>mFund Code</b>	Code: BLM01
<b>Unit Pricing &amp; Liquidity</b>	Daily Published on <a href="http://www.bellasset.com.au">www.bellasset.com.au</a> & market data services Applications using application form attached to the PDS Redemptions typically paid out within 10 days
<b>Minimum Investment</b>	Minimum investment - \$10k Minimum transaction - \$5k
<b>Indirect Cost Ratio</b>	1.34% p.a No performance fees, No entry or exit fees
<b>Buy / Sell Spread</b>	+/-0.10%
<b>Reporting</b>	Transaction confirmations upon transacting, annual periodic statement, tax statement, distribution statement and Annual Financial Report
<b>Income</b>	Annual distribution of taxable income
<b>Target Market</b>	<p>This Fund is likely to be appropriate for a consumer seeking long term capital growth through exposure to a diversified portfolio of global small and mid cap listed securities within a portfolio where the consumer has at least a 5 year investment timeframe, high risk/return profile and needs infrequent access to capital.</p> <p>BAM considers that the risk level of the Fund is high. The likelihood of the value of your investment going up or down over the short term is relatively high compared to investments in funds investing in other types of assets such as fixed interest or cash. However, the Fund has the potential to produce higher or lower returns over the longer term (5 years or longer).</p>

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