

# Bell Global Emerging Companies Fund

# Bell

ASSET MANAGEMENT

Class A Fund Summary - Period ending 31 December 2022

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

Returns in AUD	Fund	Index*
<b>1 Month</b>	-4.5%	-4.5%
<b>3 Months</b>	7.4%	5.4%
<b>6 Months</b>	5.6%	6.2%
<b>1 Year</b>	-15.9%	-13.1%
<b>3 Years (pa)</b>	6.7%	4.3%
<b>5 Years (pa)</b>	10.4%	6.7%
<b>Inception (pa)<sup>^</sup></b>	10.2%	9.0%

\* 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

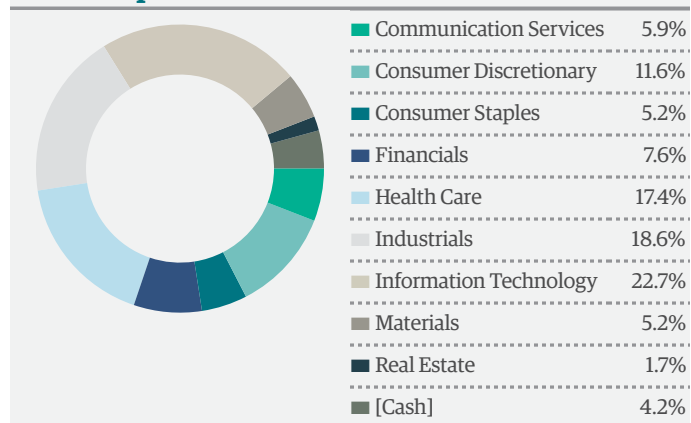
### Top 5 - Relative Contribution

Vestas Wind Systems	0.40%
Chr. Hansen Holding A/S	0.37%
Ritchie Bros Auct	0.20%
Hong Kong Exchanges	0.16%
Rogers Comms	0.14%

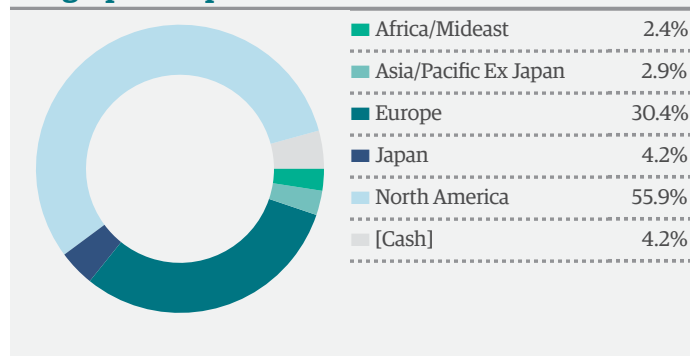
### Bottom 5 - Relative Contribution

Kroger Co.	-0.19%
Fox Factory Holding	-0.18%
Broadridge Financial	-0.18%
Arista Networks, Inc.	-0.17%
Veeva Systems Inc	-0.14%

## Sector Exposure



## Geographic Exposure



## Top 10 Holdings

Company	Sector	Geography	Weight
Amerisourcebergen	Health Care	US	3.1%
Kroger Co.	Consumer Staples	US	2.9%
Broadridge Financial	Information Technology	US	2.8%
ICON plc	Health Care	IE	2.8%
Genpact Ltd	Information Technology	US	2.6%
Cognizant Tech Solutions	Information Technology	US	2.6%
Ritchie Bros Auct	Industrials	CA	2.5%
Vestas Wind Systems A/S	Industrials	DK	2.5%
CGI Inc.	Information Technology	CA	2.4%
Nihon M&A Center	Industrials	JP	2.4%

## Investment Metrics<sup>#</sup>

	Portfolio	Index	Relative
<b>Risk</b>			
Total Risk	14.50	14.63	
Number of Stocks	61	5276	
Active Share	97.5		
<b>Value</b>			
P/E (Fwd 12M)	20.4	14.2	143%
EV/EBITDA	13.3	9.4	142%
<b>Growth (%)</b>			
Sales Growth	10.4	11.4	91%
EPS Growth	12.1	13.1	92%
<b>Quality</b>			
Return on Equity	24.5	14.3	172%
Net Debt / EBITDA	0.6	2.2	27%
<b>ESG</b>			
MSCI ESG Overall Score	7.3	6.2	116%
Carbon Emissions*	21.1	197.5	11%

# Investment Metrics calculated using FactSet database  
\* Scope 1+2 CO2 and equivalents per US\$ mil. of revenue

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## Class A Fund Summary - Period ending 31 December 2022



**Ned Bell** CIO / Portfolio Manager



**Adrian Martuccio** Portfolio Manager

### Contact Details

Bell Asset Management: Investment Manager  
www.bellasset.com.au  
Level 30, 101 Collins Street, Melbourne Victoria 3000.

Unitholder Enquiries Telephone: 03 9616 8619  
Email: bellasset@unitregistry.com.au

Xanthe Virtue: Head of Wholesale & Platforms  
T: +61 2 8000 8872. M: +61 413 450 163.  
Email: xvirtue@bellasset.com.au

Channel Capital: Distribution Partner  
www.channelcapital.com.au

Byron Slessar: Head of Key Accounts and Platforms  
M: +61 400 592 592  
Email: byron.slessar@channelcapital.com.au

Luke Mandekic: Head of Research and Consulting  
M: +61 466 772 444  
Email: luke.mandekic@channelcapital.com.au

Phelim O'Neill: Distribution Director  
ACT | NSW  
M: +61 436 029 775  
Email: phelim.oneill@channelcapital.com.au

James Biggins: Distribution Director  
VIC | SA | WA | TAS  
M: +61 419 093 082  
Email: james.biggins@channelcapital.com.au

Sam Miris: Distribution Director  
QLD  
M: +61 422 777 909  
Email: sam.miris@channelcapital.com.au

### Performance

Global equity markets gave back some recent gains in December as the MSCI World SMID Cap Index declined by 4.5% in AUD terms. The Bell Global Emerging Companies Fund (Class A) declined by 4.5% in December, thereby matching the broader market.

As the year has drawn to a close, we should also reflect on our returns for the full calendar year. The Bell Global Emerging Companies Fund (Class A) declined by 15.9% for 2022, which was weaker than the MSCI World SMID Cap Index return of -13.1%.

In a year when we saw extreme variations in 'style' returns it would remiss of us not to reference our relative returns against the popular 'style' benchmarks using MSCI Indices as an imperfect proxy as they are All Cap indices.

- MSCI World Style Index: Quality, AUD Returns (2022): -17.0%, BAM SMID vs Style Index: +2.5%.
- MSCI World Style Index: Growth, AUD Returns (2022): -24.3%, BAM SMID vs Style Index: +9.8%.
- MSCI World Style Index: Value, AUD Returns (2022): +0.6%, BAM SMID vs Style Index: -15.1%.

As a manager with a "Quality at a Reasonable Price" investment approach, the MSCI Quality Index is the closest (albeit imperfect) reference to measure our relative returns.

While we don't consider the Growth or Value indices to be remotely representative of our approach, we do feel the considerable variances in style performance are worth highlighting. We also feel that during the low interest rate fuelled equity boom of recent years, the perceived lines between Quality & Growth were somewhat blurred. If there was one lesson that 2022 taught us is that Quality & Growth are very different animals and occasionally they perform as such.

### Performance Attribution

Our relative performance over the calendar

year 2022 was disappointing but in line with our overall expectations given market conditions. Against the backdrop of material volatility driven by numerous macroeconomic and geopolitical drivers, we managed to finish the year marginally behind the MSCI World SMID Cap Index to the tune of 1.4%, at a time when our comparable style benchmark ("Quality") lagged MSCI World by 4.8%.

At a more granular level, we would highlight some of the key puts and takes regarding our relative returns over the year:

- Our relative sector weightings were collectively a meaningful headwind. Our lack of exposure to Energy outperformed by 60% being the main culprit.
- The Information Technology sector was actually our strongest source of alpha in 2022. Despite maintaining an average overweight of 10.2% and the sector lagging by 12.5%, we managed to generate strong alpha by way of good stock selection.
- The likes of Check Point Software, Jack Henry, CGI, Genpact, Keysight and Arista were our strongest performers.
- One of the common themes amongst our better performers in 2022 was that for the most part they lagged in 2021, hence our conviction in them. The likes of Booz Allen Hamilton, Toro, Check Point Software, Jack Henry, Deutsche Boerse, Electronic Arts, Ritchie Bros, CGI and Vestas all fit the bill.
- The common theme amongst our laggards was they predominantly had a degree of consumer exposure. After two strong years of post-COVID consumer spending, market expectations for the consumer sector retraced markedly notwithstanding a stubbornly tight labour market.

### Market Commentary

As we look into 2023, we feel that equity markets remain somewhat vulnerable to an overly aggressive US federal reserve.

## Class A Fund Summary - Period ending 31 December 2022

The current inflation conundrum facing all central banks will arguably be the most important influence on equity markets for at least the first half of 2023. The structurally tight labour market in the U.S. is seemingly at the core of the dilemma Jerome Powell. Having repeatedly referenced the number of people that have come out of the workforce due to COVID early retirement, death, and lack of immigration, labour costs would appear likely to stay higher for longer. The biggest near-term risk for equities being that investors are seemingly discounting the Fed's resolve to stop inflation through more aggressive rate hikes.

Our biggest concern for 2023 is that the Fed does overreach with rate hikes in an attempt to fight a 'structural' employment imbalance. Our 'hope' is that some heat comes out of the labour market as corporates rebase for a more subdued macro environment and consumer behaviour softens. Pleasingly for markets we started to see signs of both in November and December.

On the bright side, much of the valuation risk that was abundant this time last year has dissipated. We start 2023 with the MSCI World Index P/E at 15x fwd earnings which compares to 19.3x a year ago. If valuation risk was one of the primary investor concerns in 2022, then earnings risk should arguably be the biggest concern for 2023.

While market valuations don't look overly demanding, they are only marginally below 10 year averages at a time when interest rates and inflation are at levels seen in many years. Unfortunately, earnings estimates for 2023 still appear to be unrealistically high. Current consensus forecasts imply (for the MSCI World Index) that global corporates will grow revenue by 5% and earnings by 10% in 2023. As much as we hope 'the market' is right we suspect it is off the mark. In the event that global developed markets GDP growth is sub 0.5% in 2023 (current forecasts indicate 0.4% GDP growth for developed markets) it seems fanciful that global corporates will defy gravity.

### Research

Our immediate research focus across the team comes back to retesting our models, expectations and theses for names in the portfolio. Specifically, we are collectively looking to ensure we are incorporating realistic macro assumptions in what is a quickly changing environment.

2023 will also be a big travel year for the BAM research team. As has been the case every year, except for COVID interruptions we would expect to be conducting at least 10 research trips across the team. While there is no particular thematic directing our research efforts, we will be focusing on refreshing theses on names that we rate highly but do not own for valuation reasons. If we do in fact see another leg down in markets, want to ensure that we are prepared to initiate / re-initiate positions in names we have long admired.

### Portfolio Positioning / Trading

Our overall portfolio turnover in Q4 and 2022 as a whole was fairly subdued. Our turnover levels in 2021 were higher as we adopted a more cautious stance. As for 2022, the main trend to highlight was us adopting an increasingly defensive stance. In doing so we built up our Health Care exposure, reduced our Consumer Discretionary exposure and exited some of our smaller cap positions we felt could suffer in more turbulent market conditions. In the last quarter of 2022, we exited our positions in Booz Allen Hamilton and GN Store Nord, and opportunistically established positions in Coloplast and Hong Kong Exchanges and Clearing.

### Outlook

While the current outlook for markets and the global economy is somewhat dour at this point, we feel very optimistic about our ability to generate alpha in this environment. The low interest rate / risk-on environment is clearly well behind us now and 2022 was the first year of 'indigestion' when markets began the process of pricing in the new norm for markets.

As we reflect on the last couple of years, we would argue that in some ways our Quality and Valuation disciplines were a hindrance

to strong alpha generation. Essentially, valuations and profitability were an afterthought for 2019 - 2021 as Growth ripped higher. 2022 saw Growth retrace and Value bounce meaningfully, while Quality uncharacteristically lagged against an inflationary backdrop. Over the last 40 years, the Quality factor has outperformed by an average of 9.0% in years when US CPI has exceeded 4.0% with the exception of 1988 and 2022. While the macro environment is somewhat different in the late 1990's, the Quality factor outperformed by more than 10% in 3 consecutive years (1989 - 1991) as inflation remained above 4%. When looking at the more recent performance of the Quality factor we would make the point that in the last 3 years, it has marginally outperformed to the tune of 1% annually vs its 3.3% annual outperformance since 1994.

We feel that Quality is poised for a period of strong outperformance in the next few years. As macro conditions soften, inflation remains high and interest rates creep higher, companies with strong balance sheets and pricing power will collectively deliver superior earnings outcomes which should drive better relative returns. We also feel that the 'Reasonable Price' part of our 'Quality at a Reasonable Price' approach will be an important driver for our strategy. 2022 gave us a glimpse of how painful multiple contraction can be and how important valuation discipline can be.

In regard to the Global SMID Cap asset class, we remain very constructive notwithstanding the macro environment. Despite being a strong performing sub-asset class over many years, the last 5 years has been an exception. SMID cap equities have lagged by 2.5% annually over 5 years and arguably look attractive in terms of relative valuation, now trading at a 33% discount to the MSCI World Growth Index. The forward P/E of Global SMID Cap equities have also retraced from 18.2x to 14.8x, thereby discounting much of the current macro concerns. For opportunistic long-term investors we feel that 2023 will be a unique opportunity to gain exposure to a sub-asset class of global equities that is both inexpensive and under owned.

## 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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