

Bell Global Emerging Companies Fund

Class A Fund Summary - Period ending 31 May 2023

Net Performance[^]

Returns in AUD	Fund	Index*
1 Month	-2.5%	-1.0%
3 Months	3.1%	-0.5%
6 Months	2.5%	1.5%
1 Year	9.1%	6.0%
3 Years (pa)	9.1%	9.5%
5 Years (pa)	11.0%	6.9%
Inception (pa)[^]	10.7%	9.4%

* Index is the MSCI World SMID Cap Index. [^] 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

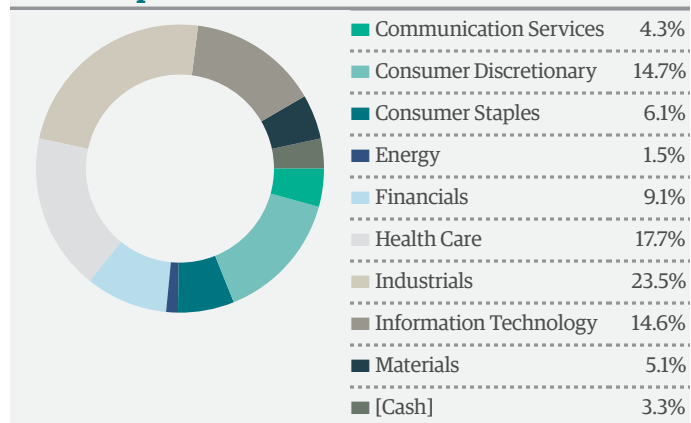
Top 5 - Relative Contribution

HOYA CORPORATION	0.48%
ICON Plc	0.37%
Keysight	0.34%
Advanced Drainage	0.29%
Cognizant Tech	0.21%

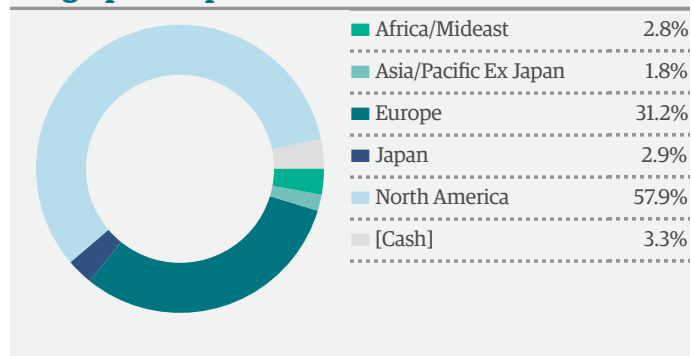
Bottom 5 - Relative Contribution

Genpact Ltd	-0.37%
Neste Corporation	-0.31%
Fox Factory Holding	-0.27%
Euronext NV	-0.21%
Croda International Plc	-0.20%

Sector Exposure



Geographic Exposure



Top 10 Holdings

Company	Sector	Geography	Weight
Broadridge Financial	Industrials	US	3.3%
ICON plc	Health Care	US	3.1%
Keysight Technologies...	Information Technology	US	2.8%
Check Point Software	Information Technology	IL	2.8%
Cognizant Tech Solutions	Information Technology	US	2.8%
Genpact Ltd	Industrials	US	2.8%
Amerisourcebergen	Health Care	US	2.8%
Kroger Co.	Consumer Staples	US	2.6%
Partners Group	Financials	CH	2.6%
Zebra Technologies	Information Technology	US	2.5%

Investment Metrics[#]

	Portfolio	Index	Relative
Risk			
Total Risk	12.72	12.91	
Number of Stocks	48	5,206	
Active Share	98.3		
Value			
P/E (Fwd 12M)	19.5	14.5	135%
EV/EBITDA	15.0	11.7	128%
Growth (%)			
Sales Growth	10.4	12.3	85%
EPS Growth	13.3	13.8	96%
Quality			
Return on Equity	24.7	9.9	249%
Net Debt / EBITDA	1.3	2.5	52%
ESG			
MSCI ESG Overall Score	7.4	6.4	116%
Carbon Emissions*	23.4	179.7	13%

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

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Performance

The rally in global equity markets paused in May, as the MSCI World SMID Cap Index declined by 1.0% in AUD terms. The Bell Global Emerging Companies Fund (Class A) declined by 2.5% over the same time period. Despite the difficult month of relative performance, over the last 12 months, the Fund (Class A) has rallied 9.1%, outperforming the index by over 3.1%.

Performance Attribution

The relative performance outcomes for May were relatively poor partly due to the overweight to Europe (around 33% allocation, or 12% overweight). The region underperformed by more than 4%, however, we continue to see better value in the region. The market has been concerned about the contraction of the manufacturing sector and also higher interest rates and sticky inflationary environment, especially with respect to wages and in particular food, where prices have increased 13.5% year on year across the eurozone.

Our relative sector positioning was close to neutral, IT (14.1% weight) contributed the most to absolute returns as it was the best performing sector in the month, however, those holdings did lag the index which benefited from more momentum than the portfolio holdings. Looking at the Health Care sector (17% weight, nearly 8% overweight) although the sector declined during the month, good stock selection meant that it was the second best performing sector after IT. Other large allocations were to Industrials (22% weight) where the overweight positioning was a drag this month since the sector underperformed.

Highlighting some individual names, on the positive side, the portfolio did benefit from a number of names which were

perceived to have some upside from the AI thematic including semiconductor related names Hoya, Arista Networks and Keysight. Other solid performers were ICON and Advanced Drainage Systems. The names that lagged the most included services company Genpact, Neste which declined after Sweden announced the reduction of renewable fuel subsidies and suspension manufacturer Fox Factory.

Market Commentary

The strength in equity markets this year has seemingly defied belief, against a backdrop of ever-increasing interest rates and stubbornly high inflation, markets have kept pushing higher. Under the surface, what has become increasingly evident is that markets are being driven by a handful of gigantic companies. On a year to date basis, the collective of Apple, Amazon, Alphabet, Microsoft, Meta and NVIDIA (14.6% of the MSCI World Index) have accounted for 75% of the index return. Much of the recent spectacular returns in these names can be attributed to valuation expansion, since for many of these companies, earnings growth has waned relative to recent periods. As at the end of May, those six names trade on an average P/E of 32x which represents a 25% premium to their 10 year averages.

Interestingly, the rest of the global equity market doesn't look overly expensive and is arguably pricing in a more realistic macro outlook. The balance of the market is trading on an average trailing P/E of 19.2x which is a 6% discount to the five year average. Hence, while valuation risk has reared its head as a common concern after the recent AI fuelled rally, we would argue that valuation risk is somewhat concentrated. In some areas of the market, valuations look very compelling, especially in Small & Mid Cap stocks. The MSCI World SMID Cap Index trades on a current P/E of 14.7x which represents a 40% discount to the MSCI World Growth Index.

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As far as our macro views are concerned, we feel that markets are still underestimating the ramifications of the ~5% increase in US interest rates over the last 12 months. The inflation battle faced by central banks around the world has proved considerably more challenging than many observers have anticipated. While we may well be near peak interest rates, the reality is there is a lag effect on economic growth from rate rises, and we are arguably in the early stages of economic weakness. The US economy as a case in point has actually held up quite well this year, and labour markets have been very tight, however at a company level we are seeing some consumer pain being felt.

Research

The investment team is currently undertaking an intense international research agenda, visiting companies across Europe and the U.S. As always we focus on meeting portfolio companies, but the team has also had many fruitful conversations with companies on our watchlist that have reinforced their quality nature. The team has been very cautious around understanding expectations and guidance, since equity markets have favoured momentum where companies that disappoint are severely penalised and those that can consistently meet investor expectations rally. Fortunately given this dispersion and bifurcation in the market, we now have the opportunity to add some of these companies to the portfolio.

Trading

Some key activity in May included the purchase of BJ's Wholesale and MSCI. BJ's Wholesale is a club membership based warehouse grocery retailer similar to Costco, but selling at an extremely discounted valuation, with a P/E of around

14x their 12-month forward earnings. With a more discerning consumer looking for better value in their shopping trolley, we expect BJ's subscription retention rates to remain strong and their overall grocery sales to grow in the mid single digits, with the additional growth catalyst of further store rollouts. Revenue predictability driven by a subscription model is an excellent attribute in these more uncertain economic times. This was also a reason we bought MSCI into the portfolio since the majority of its revenue comes from subscriptions to their index product suite and analytic platforms as well as fees tied to ETFs. In addition to that, their growing ESG franchise provides another growth avenue in a newer segment. The 80%+ gross margins and dominant market share are reflective of their franchise strength, but in terms of timing, the stock has lagged the market more recently underperforming by around 15% over the last two months which made for a good opportunity to build a position. MSCI has an excellent track record of delivering strong compound returns which we model in the double digits on an annual basis over the next few years.

Other companies that were added to included medical research organisation ICON plc, testing company SGS and one of America's largest users of recycled plastic, Advanced Drainage Systems whose products such as storm water and sewage pipes are taking share from concrete pipes, due to their good value, ease of installation and eco-friendly nature.

These opportunities were funded by the sale of some stocks including property management company CBRE, software gaming maker Electronic Arts and heavy machinery auctioneer RB Global (Ritchie Bros Auctioneers). Various names that had rallied strongly were also trimmed including Arista Networks, Coloplast, HCA Healthcare and AmerisourceBergen.

Outlook

As we look forward, we remain very constructive about markets and our portfolio positioning. While we feel the recent AI fuelled rally is somewhat overdone, as active managers remain an abundance of opportunities to generate strong absolute returns over the next 12-24 months. We also feel that the pivot back to Quality, after a poor year in 2022, is still in its very early stages, and will continue to play out for some time. It's also important to note where we are in the global earnings cycle. One of our primary concerns late last year were the unrealistic earnings estimates in markets. Since then, we have seen steady earnings downgrades across markets and now feel they are far more realistic and are arguably close to trough levels. Expectations for 2023 earnings growth for the MSCI World SMID Cap Index are now only a few percent relative to 2022. Importantly, Global SMID cap earnings growth is just above 10% for 2024, which is higher than the broader all-cap MSCI World growth expectation of around 8%. Our view is that stocks tend to kick higher when earnings growth ticks higher - as we expect they will in the second half of 2024. As such, notwithstanding the aforementioned short and medium term risks, we can still see a scenario where equities perform very well over 12-24 months. The current P/E of the MSCI SMID cap index is at a 7% discount to the broader World benchmark versus a premium valuation they would typically trade on. If, for example, we were to assume that the overall P/E of SMID cap stocks expanded from the current level at least back in line with the broader World benchmark, plus the companies do achieve double-digit earnings growth, there could be strong upside from current levels, and that is before making assumptions for 'Quality' rebounding.

Key Features

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

Fund Terms

Fund Inception Date	November 2012
Strategy Inception Date	27 June 2016
Product Structure	Registered Managed Investment Scheme
Investment Manager	Bell Asset Management
Responsible Entity	Bell Asset Management
Custodian	National Australia Bank
mFund Code	Code: BLM01
Unit Pricing & Liquidity	Daily Published on www.bellasset.com.au & market data services Applications using application form attached to the PDS Redemptions typically paid out within 10 days
Minimum Investment	Minimum investment - \$10k Minimum transaction - \$5k
Indirect Cost Ratio	1.34% p.a No performance fees, No entry or exit fees
Buy / Sell Spread	+/-0.10%
Reporting	Transaction confirmations upon transacting, annual periodic statement, tax statement, distribution statement and Annual Financial Report
Income	Annual distribution of taxable income
Target Market	<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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