Bell Global Emerging Companies Fund

Class A Fund Summary - Period ending 30 June 2023

Net Performance^

Returns in AUD	Fund	Index*
1 Month	3.0%	3.3%
3 Months	2.6%	3.8%
6 Months	10.5%	9.7%
1 Year	16.6%	16.5%
3 Years (pa)	10.6%	11.1%
5 Years (pa)	10.7%	7.2%
Inception (pa)^	11.0%	9.8%

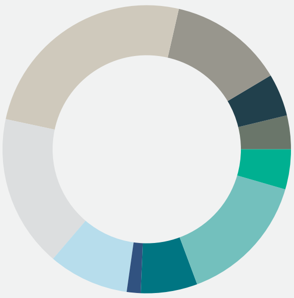
* Index is the MSCI World SMID Cap Index. ^ The Bell Global Emerging Companies Fund was established in November 2012 under a different name and with a different investment strategy. The fund has operated under its current name and strategy since 27 June 2016 (Inception).

Best & Worst Performers - 1 Month

Top 5 - Relative Contribution	
ICON Plc	0.31%
Pool Corporation	0.27%
Fox Factory Holding…	0.26%
Fortune Brands…	0.25%
Techtronic Industries…	0.24%

Bottom 5 - Relative Contribution	
Croda International Plc	-0.20%
Vestas Wind Systems…	-0.20%
Chr. Hansen Holding A/S	-0.16%
HOYA CORPORATION	-0.16%
Bunzl plc	-0.16%

Sector Exposure



Communication Services	4.4%
Consumer Discretionary	14.9%
Consumer Staples	6.4%
Energy	1.4%
Financials	9.1%
Health Care	17.2%
Industrials	25.2%
Information Technology	12.9%
Materials	4.7%
[Cash]	3.8%

Geographic Exposure

Africa/Mideast	2.2%
Asia/Pacific Ex Japan	2.4%
Europe	30.3%
Japan	2.3%
North America	59.0%
[Cash]	3.8%

Top 10 Holdings

Company	Sector	Geography	Weight
Broadridge Financial…	Industrials	US	3.2%
ICON plc	Health Care	US	3.1%
Genpact Ltd	Industrials	US	2.7%
Charles River…	Health Care	US	2.6%
Zebra Technologies…	Information Technology	US	2.6%
Pool Corporation	Consumer Discretionary	US	2.6%
Keysight Technologies,…	Information Technology	US	2.6%
Cognizant Tech Solutions	Information Technology	US	2.6%
Kroger Co.	Consumer Staples	US	2.6%
Partners Group…	Financials	CH	2.5%

Investment Metrics#

	Portfolio	Index	Relative
Risk			
Total Risk	11.99	12.16	
Number of Stocks	49	5,178	
Active Share	98.1		
Value			
P/E (Fwd 12M)	20.2	15.3	132%
EV/EBITDA	15.3	18.2	84%
Growth (%)			
Sales Growth	10.8	12.5	87%
EPS Growth	14.1	14.1	100%
Quality			
Return on Equity	24.4	9.9	246%
Net Debt / EBITDA	1.4	2.9	48%
ESG			
MSCI ESG Overall Score	7.4	6.4	117%
Carbon Emissions*	22.3	178.4	13%

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

Bell Global Emerging Companies Fund

Bell ASSET MANAGEMENT

Class A Fund Summary - Period ending 30 June 2023

Ned Bell CIO / Portfolio Manager

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Performance

Global equity markets performed well during June with the MSCI World SMID Cap Index up 3.3% for the month and +3.8% for the quarter. The Bell Global Emerging Companies Fund (Class A) also posted a solid return in the June quarter (+2.6%), although underperformed the MSCI World SMID Cap Index marginally by 1.2%. Over longer time periods, the Fund (Class A) has outperformed the MSCI World SMID Cap Index by 0.1% over one year and by 3.5% per annum over 5 years.

Performance Attribution

The modest underperformance during the quarter was mostly attributable to stock selection factors, with the number of portfolio holdings that declined slightly outweighing the positive performers.

The best individual stock performer during the June quarter from an alpha perspective was Advanced Drainage Systems (+36%), which was introduced to the portfolio in February this year. Advanced Drainage is a leading manufacturer of thermoplastic corrugated pipe and other water management products, serving a range of end markets across non-residential, residential, agriculture and infrastructure, predominantly in the United States. The stock rallied on the back of a reassuring set of Q1 results. Other top performers during the quarter included Fortune Brands (+24%), AmerisourceBergen (+21%) and Icon (+18%).

The largest alpha detractor from a stock perspective was Genpact (-18%). Genpact provides consulting, digital transformation and BPO services to many of the world's largest and most well-known companies. Recent weakness in the stock has been driven by concern that we could see a slowdown in demand due to the uncertain macro environment and also broader uncertainty around the impacts of AI. We met with management during our recent research trip and retained confidence in the long-term investment case, thus have used the recent pullback to add to our position. Other weak stock performers during the quarter included Neste (-22%), Mettler Toledo (-14%), BJ's Wholesale Club (-15%) and Croda (-10%).

At a sector level our overweight to more defensive sectors such as Consumer Staples and Healthcare was a drag from an allocation standpoint, partially offset by positive impact of being overweight to Industrials and IT and underweight Real Estate, Materials and Utilities. On a regional basis, our overweight allocation to Western Europe and underweight to North America detracted from relative performance. The slight depreciation of the Australian dollar during the quarter was a modest positive to returns in AUD terms, while Quality as a style was a tailwind.

Market Commentary

Looking at the broader market, the 'narrowness' of the rally in equities this year has been unprecedented, given that there has been a handful of mega-cap names that have driven the broader cap indices higher. This has arguably come at the expense of many SMID cap names which have been left behind as the focus has been firmly at the larger end of town. To put this in perspective, while the MSCI World Index has appreciated by 15% this year (USD terms), Apple, Microsoft, NVIDIA, Meta, Amazon, Tesla & Alphabet (16% of the index) have collectively accounted for 49% of the index return. Of the remaining index constituents, only 34% managed to outperform the index in the first half. In some ways, it feels as though the bulk of the market is accurately reflecting the precarious macro conditions we currently face, while the mega-cap tech names have marched to their own beat as the AI theme has taken hold.

This divergence in performance has also created considerable divergence in valuations within the index, which has arguably had the effect of exaggerating valuation concerns in the market. While the MSCI World Index rose by 15% in the first half, the Small & Mid Cap Index appreciated by 8% while Large Cap stocks rose by 17%. The average forward P/E ratio of the aforementioned mega-cap tech names stands at 36.6x, which is more than double the MSCI World Index P/E of 17.0x and at a meaningful premium to their recent history, all at a time when EPS growth for many of these names is moderating. The positive side of this discussion lies in the fact that there is still excellent relative value to be found through the rest of the market, particularly in the small and mid-cap segment where this strategy is focused. More specifically, the MSCI World SMID Cap Index now trades on a forward P/E ratio of 15.5x vs. the 5-year average of 18.1x.

The first half divergences do not end there, as we also saw materially different outcomes at a sector level within the MSCI World SMID Cap Index, where the IT and Industrials sectors delivered returns of greater than 15% (USD terms), while Energy, Financials, Real Estate, Utilities, Health Care and Consumer Staples all posted returns less than 5%.

When turning to the current macro environment, while inflation is showing signs of abating, at this point most central banks are still leaning towards additional interest rate increases before the end of the year. We would argue that the lag effect of the material interest rate increases is yet to be fully absorbed by the global economy, as such we are maintaining a relatively cautious posture.

Research

Our research agenda has been very active recently, with four members of our investment team travelling overseas to meet with companies across North America and Europe over the past couple of months. In total, we saw over 150 companies across a broad range of different industries, including a mix of 1x1 meetings at company headquarters, along with attendance at a number of broker conferences. Our meetings included a combination of 'discovery research' in order to find new ideas for the portfolio and 'maintenance research' meetings with a number of companies that we know very well, many of which are currently held in client portfolios.

We outline below some of the higher-level takeaways:

Consumer – from a consumer standpoint, the general takeaway is that the consumer has been holding up much better than many anticipated, although some cracks are starting to appear. The lower end US consumer in particular is becoming increasingly challenged due to the impacts of high inflation, reduced SNAP (food stamp) benefits, reduction in the Child Tax Credit, and depletion of savings that were built up during the pandemic. However, these pressures have been partially offset by the largest increase (+8.7%) in social security benefits since 1981. Many retailers are seeing increased trade down activity and a slowdown in bigger ticket or more discretionary purchases. Looking forward, the potential for the return of student loan repayments, which have been paused since March 2020, poses an additional risk to the consumer given that the average monthly repayment is close to $400. While there is clearly a range of pressures on the consumer to be cognisant of, perhaps the most important factor holding everything together for the moment is the strong employment market. While people still have a job and are also benefitting from wage increases, the consumer should hold up okay and continue to spend.

Banking – the banking failures earlier this year have obviously garnered a lot of attention but the general view from our engagement with many industry participants is that these were largely isolated incidents and the broader banking sector remains in reasonable shape, albeit with some pockets of concern. A number of financial institutions noted they have been gradually tightening lending standards and assuming a deterioration in loss rates looking forward. There has also been some irrational behaviour with respect to competition for deposits, as no bank wants to report a material decline in deposits, thus risk this leading to a 'run on the bank'. From a credit quality perspective, the main area of concern has been in commercial real estate, in particular office buildings. The risk of additional regulatory reforms also remains an ongoing overhang for the industry. We have no direct banking exposure in the portfolio but monitor the sector closely given ramifications to the broader market.

Health Care – a key takeaway sighted by a number of firms was the pick-up in healthcare utilisation levels, particularly in the outpatient surgical setting, with some benefit likely attributable to pent up demand associated with procedures or physician visits that were put off over the past few years. In terms of headwinds, there were a number of companies that flagged ongoing pressures related to reductions in biotech funding and also a few noting more elongated decision making or recalibration of capital/R&D budgets as the demand environment and supply chains normalise in a post-COVID world. Overall, we are still finding plenty of good alpha generating opportunities in the Health Care space.

Wage / cost inflation – wage inflation is still a challenge for many companies, although the magnitude of the pressure is generally easing. While labour markets remain tight, many companies flagged they are now finding it a little easier to attract and retain staff than they were 6-12 months ago. Broader input cost inflation and supply chain pressures have also eased, providing some margin and inventory relief for a number of firms.

Artificial Intelligence (AI) – unsurprisingly, 'AI' was mentioned in most meetings, with the vast majority of companies claiming to either be already utilising AI in some way or investigating use cases. While there are a small number of the obvious technology companies which will see tangible financial benefits from AI in the short term, the focus for most companies is understanding how they can utilise AI to improve efficiencies or continue to compete effectively in the future, rather than directly monetising it.

On the ground, based on our travels to key cities such as New York, London and Paris, tourists are well and truly back in force, labour shortages in service industries are very noticeable and inflation is crazy across categories such as food, beverages and accommodation, especially for us Aussies suffering from a weak AUD!

Trading

We initiated a new position in Paylocity during June. Paylocity is a US based provider of cloud-based payroll and HR software that has been growing rapidly and gaining market share due its high-quality product and service offering. Looking forward, strong earnings growth should continue driven by a combination of further penetrating its large addressable market, expansion of ARPU with existing clients through cross selling additional tools & solutions, and market share gains. Additionally, Paylocity is currently getting a nice tailwind from interest income it receives on its client float as interest rates rise. While there is some broader concern around the macro environment and potential risks to SMB's and employment, we believe these risks are reflected in the current share price, with the stock having pulled back approx. 40% from the 2021 peak and valuation de-rated significantly. We had a positive meeting with management recently which helped to reinforce our conviction in the strength of the franchise and growth prospects, while also giving us comfort around some of the external risk factors.

Outside of this purchase, we added to a range of existing holdings which we view as having an attractive risk/reward profile including Mettler Toledo, Tractor Supply, BJ's Wholesale Club, Deutsche Boerse and Croda. These adds were funded by small trims to a number of holdings, many of which have been recent outperformers, including Amadeus, Arista Networks, AmerisourceBergen, Hoya and Broadridge Financial Solutions.

Outlook

While we have been pleased with first half performance in both absolute and relative terms, we see good opportunity for the SMID cap segment of the market to deliver outperformance moving forward. Our portfolio is positioned to benefit from a) Quality outperformance, b) SMID Cap stocks rebounding, and c) 'Quality laggards' rebounding. Most importantly, we remain very confident in the names that we own, not only have we seen very solid fundamental performance but in many cases we still see valuation disconnects, thereby making the alpha opportunities all the more attractive. At this point, we believe the portfolio is well positioned for the environment we expect to play out over the next 12-18 months.

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	• 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	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. 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).