

# Bell Global Emerging Companies Fund

Class A Fund Summary - Period ending 31 July 2023

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

Returns in AUD	Fund	Index*
<b>1 Month</b>	0.3%	3.3%
<b>3 Months</b>	0.7%	5.6%
<b>6 Months</b>	6.8%	8.2%
<b>1 Year</b>	8.1%	12.5%
<b>3 Years (pa)</b>	9.2%	12.2%
<b>5 Years (pa)</b>	10.4%	7.7%
<b>Inception (pa)<sup>^</sup></b>	11.0%	10.2%

\* 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

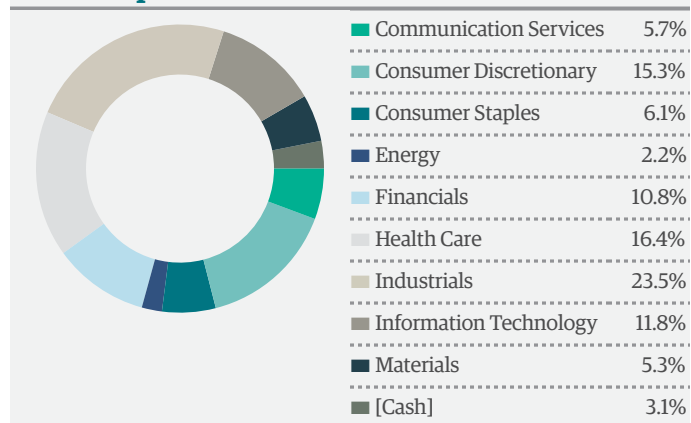
### Top 5 - Relative Contribution

Partners Group...	0.38%
Paylocity Holding Corp.	0.23%
MSCI Inc. Class A	0.16%
Euronext NV	0.15%
Rightmove plc	0.13%

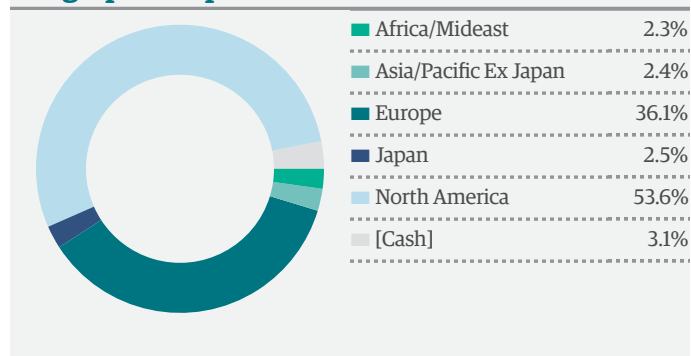
### Bottom 5 - Relative Contribution

Masimo Corporation	-0.70%
Nihon M&A Center...	-0.38%
Genpact Ltd	-0.24%
Mettler-Toledo...	-0.21%
Keysight...	-0.18%

## Sector Exposure



## Geographic Exposure



## Top 10 Holdings

Company	Sector	Geography	Weight
Partners Group...	Financials	CH	3.0%
ICON plc	Health Care	US	2.7%
Zebra Technologies...	Information Technology	US	2.7%
Genpact Ltd	Industrials	US	2.7%
Service Corporation...	Consumer Discretionary	US	2.7%
Broadridge Financial...	Industrials	US	2.6%
Kroger Co.	Consumer Staples	US	2.6%
Rightmove plc	Communication Services	GB	2.6%
Charles River...	Health Care	US	2.6%
Cognizant Tech Solutions	Information Technology	US	2.6%

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

	Portfolio	Index	Relative
<b>Risk</b>			
Total Risk	11.84	11.91	
Number of Stocks	48	5,168	
Active Share	98.2		
<b>Value</b>			
P/E (Fwd 12M)	20.7	15.8	131%
EV/EBITDA	15.7	12.2	129%
<b>Growth (%)</b>			
Sales Growth	11.4	12.6	91%
EPS Growth	13.6	14.2	96%
<b>Quality</b>			
Return on Equity	23.5	10.0	236%
Net Debt / EBITDA	1.4	2.7	52%
<b>ESG</b>			
MSCI ESG Overall Score	7.4	6.4	117%
Carbon Emissions*	22.7	175.3	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 continued in July, as the MSCI World SMID Cap Index gained 3.3% in AUD terms. The Bell Global Emerging Companies Fund (Class A) appreciated by 0.3%, underperforming the MSCI World SMID Cap Index by 3.0%. While the relative performance lagged this month, the absolute returns of the Fund (Class A) have been 10.8% over the first seven months of 2023.

### Performance Attribution

Solid macroeconomic data buoyed investor sentiment and drove the equity markets higher again this month, however given the rally this year, our more conservative portfolio positioning meant the portfolio lagged. The headwinds were a combination of sector allocation and stock selection. From a sector perspective, the two largest allocations and largest overweight sectors were Health Care (16.4% allocation, more than 7% overweight) and Industrials (23.5% allocation, nearly 4% overweight) where a drag since those sectors lagged the benchmark in July. No exposure to Real Estate (7.5% underweight) or Utilities (4.6% underweight) had an immaterial effect, however, lack of exposure to Energy (2.3% underweight) was a headwind as it was the strongest performing sector. Stock selection was strong in Financials, however, negative overall as some positions in Health Care, Information Technology and Industrial lagged. Regional allocation had very little influence on portfolio performance, with the major tilts remaining the underweight to the US (50.4% exposure, 9.4% underweight) and Asia Pacific/Japan (4.8% exposure, 11.4% underweight) and the overweight to the U.K. and Europe (36.4% exposure, 17.3% overweight).

Looking at specific stocks, the key driver was earnings as many companies released their June quarter updates. While most portfolio holdings performed in line with expectations, there were a few surprises. The top five performers were Partners Group, payroll platform provider Paylocity, index provider MSCI, European exchange group Euronext and UK real estate portal Rightmove. Private capital manager Partners Group rallied over 18% after reporting excellent results. The company reported total assets under management of US\$142 billion and reiterated their guidance regarding new fundraising for the calendar year. Additionally, a more stable market environment has improved confidence in their ability to complete various deals before the end of the year. We believe that this will enable Partners to lock in some performance based fees which aren't fully reflected in current market expectations. Therefore, even after the bounce this month, we continue to see good upside in the name. In terms of poorer performers, the five largest relative detractors were remote patient monitoring company Masimo, Japanese business broker Nihon M&A, services company Genpact, analytical equipment maker Mettler-Toledo and calibration company Keysight Technologies all of which lagged due to sluggish results in the recent quarterly reporting period. Nihon M&A has continued to struggle to deal with a more competitive environment causing them to lose share and for their profitability to decline, given these trends will likely persist, the position was sold. Looking at other names, the investment case for each is still strong and we have opportunistically used the recent weakness to add to some of these positions.

### Market Commentary

While the global mega cap growth names pushed higher in July, the rally seems to be poised to rollover. The 'magnificent seven'

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have seen their average earnings multiples grow from 22x in December to 38x at the end of July, while earnings growth has been moderate at best. Our sense is that this unprecedented disconnect has reached a point of exhaustion and a combination of profit taking and rotation will see the gap between 'the best' and 'the rest' close between now and the end of the year.

As far as macro observations are concerned, the most notable point we would highlight is that the U.S. recession that has been talked about for the best part of 12 months has been a no show. Quite incredibly, the U.S. economy has withstood the impact of material interest rate increases over the last 18 months. Furthermore, global corporates have generally not been materially impacted by the rapid rise in interest rates. On this point we would highlight that global corporates carry the lowest leverage ratios in recent history, with the Net Debt/EBITDA ratio for the MSCI World Index a mere 1.4x, half what it was in 2015. The Net Profit margins for the same index sit at 11.6% are at a 20 year high! The average has been 8.7%. This quite remarkable level of global profitability is all the more impressive when we consider the avalanche of inflationary cost pressures that companies have dealt with over the last few years.

So, the U.S. economy is seemingly in good shape and global corporates are more 'match fit' than they have been in a number of years. On top of that, global earnings growth will accelerate into 2024, having been essentially flat for 2023. While the valuation risk associated with 'the best' is clear, what is not as well appreciated are the attractive valuation opportunities in 'the rest' i.e., the other 82% of the MSCI World Index. The vast majority of 'the rest' have actually lagged the broader index the year, 64% to be precise. On average, these companies on average actually trade on a

6% discount to their five-year average.

While it might seem somewhat counter-intuitive to adopt a bullish tone when markets are where they are, however, we find ourselves in a situation where we see quite material upside in specific areas of the market. As an active manager, when we see an abundance of opportunities in names where there is simultaneous valuation support and earnings growth into 2024, it's hard not to be bullish.

### Research

Our research agenda during July was initially focused on building out our knowledge on a number of new names identified during our May/June research trips, in addition to refreshing our models and investment theses for a range of existing names in the portfolio. In the second half of the month, our attention shifted to the June quarter earnings results. As of the time of writing in early August, more than two thirds of companies have reported earnings, with more than 70% of names held in the portfolio beating earnings expectations, by an average of 5%. The percentage of companies delivering earnings beats is broadly similar to the overall index and longer-term averages.

### Trading

We introduced one new position during July: Auto Trader (Communication Services).

Auto Trader (AUTO) is the UK's dominant online used car marketplace, with a similar business model to carsales.com, which many of our Australian clients may be more familiar with. The profitability and financial profile of the company is very strong, with 70% EBIT margins, return on capital over 40%, solid balance sheet and low capital intensity (majority of cash

returned to shareholders via dividends and buybacks). Looking forward, we expect the company can deliver mid-high single digit revenue growth from their core business and incremental growth coming from new products and add-on solutions, and relatively defensive double-digit earnings growth. While we acknowledge some risk associated with the UK macro environment, our view is that this uncertainty is factored into the share price at current levels, and in any case, the company has less macro sensitivity than many believe given the very strong business model and overall value offering for dealership customers. The stock is trading at the same level as mid-2019, having underperformed quite materially in recent years, thus in our view presenting a good entry point for long-term investors.

We exited our positions in IDEXX Labs (Healthcare) and Fortune Brands Innovations (Industrials).

The decision to sell our position in animal health diagnostics leader, IDEXX Labs, was largely made for valuation reasons. Having re-entered the name in May 2022, the stock has rallied 60%+ in the past 14 months, with valuation (>50x P/E) reaching a level where it became a lot harder to justify long term upside, despite fundamentals generally being positive. This was our second holding period in the name in the past 4 years, with the stock appreciating well over 200% during our ownership. While we are long-term focused investors and much prefer to hold names over a longer time horizon, we aim to be 'active long-term owners' whereby we will adjust position sizing to take advantage of any material shorter term market disconnects. In the case of IDEXX Labs, the lofty valuation combined with incremental concerns around the competitive dynamics following recent industry consolidation, led us to exit the position completely. We will continue to watch the name closely for a more

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attractive re-entry point.

We also sold home and security product manufacturer, Fortune Brands Innovations, after a strong recovery in the stock over the past 12 months. We no longer view the overall risk/reward profile as favourable and therefore made the decision to rotate the capital into other higher conviction ideas.

In addition to the buys and sells noted above, we also added to holdings such as BJ's Wholesale Club, Euronext, Croda and Deutsche Boerse, while trimming position sizes in holdings including Church & Dwight, Broadridge, Arista Networks and AmerisourceBergen.

### Outlook

Unsurprisingly, we feel the current positioning of our portfolios sets us up for several years of strong alpha generation. By tilting the portfolios towards parts of our quality universe where we see the biggest valuation disconnects, we feel very confident as we stare down the 2H of 2023 and 2024. At a more granular level, in addition to the attractiveness of SMIDs as an asset class, we have tilted more of our exposures to two other distinct 'buckets' that we find compelling for different reasons, Quality laggards and Timeless franchises. At an overall level, we feel that our Quality bias hasn't been rewarded in the same way that the Growth trade has, however, we see no reason why Quality won't 'course correct' from here and underpin a strong period for our strategy.

## 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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