

# Bell Global Emerging Companies Fund

Class A Fund Summary - Period ending 30 September 2023

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

Returns in AUD	Fund	Index*
<b>1 Month</b>	-4.9%	-4.6%
<b>3 Months</b>	-4.3%	-1.2%
<b>6 Months</b>	-1.8%	2.6%
<b>1 Year</b>	13.6%	14.3%
<b>3 Years (pa)</b>	7.1%	9.5%
<b>5 Years (pa)</b>	8.2%	6.0%
<b>Inception (pa)<sup>^</sup></b>	10.0%	9.2%

\* 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

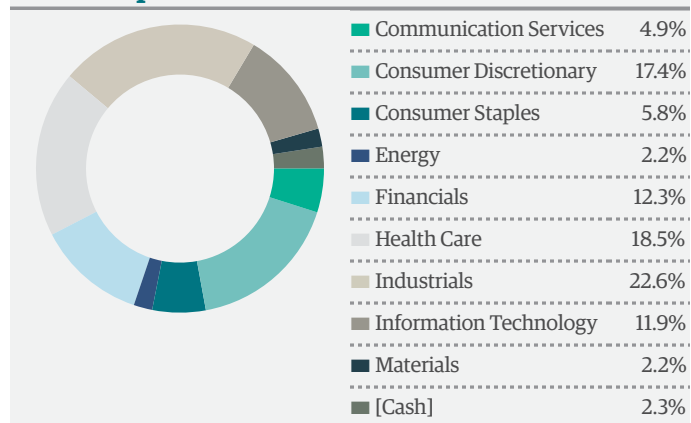
### Top 5 - Relative Contribution

Partners Group...	0.27%
BJ's Wholesale Club...	0.23%
Cencora, Inc.	0.18%
Bunzl plc	0.11%
Check Point Software	0.10%

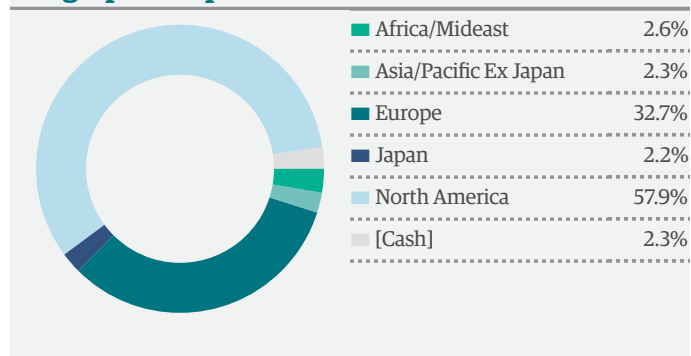
### Bottom 5 - Relative Contribution

Masimo Corporation	-0.33%
Toro Company	-0.25%
Zebra Technologies...	-0.22%
Croda International Plc	-0.21%
Amadeus IT Group SA...	-0.20%

## Sector Exposure



## Geographic Exposure



## Top 10 Holdings

Company	Sector	Geography	Weight
Genpact Ltd	Industrials	US	3.0%
Amadeus IT Group SA	Consumer Discretionary	ES	2.9%
Cencora, Inc.	Health Care	US	2.8%
Partners Group...	Financials	CH	2.8%
Assa Abloy AB	Industrials	SE	2.7%
ICON plc	Health Care	US	2.7%
Rightmove plc	Communication Services	GB	2.7%
Charles River...	Health Care	US	2.7%
Keysight Technologies...	Information Technology	US	2.6%
Bunzl plc	Industrials	GB	2.6%

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

	Portfolio	Index	Relative
<b>Risk</b>			
Total Risk	10.41	10.21	
Number of Stocks	47	5,139	
Active Share	98.1		
<b>Value</b>			
P/E (Fwd 12M)	19.0	14.5	131%
EV / EBITDA	14.3	10.8	132%
<b>Growth (%)</b>			
Sales Growth	11.7	12.5	94%
EPS Growth	15.4	13.8	111%
<b>Quality</b>			
Return on Equity	24.3	9.5	255%
Net Debt / EBITDA	0.7	2.2	30%
<b>ESG</b>			
MSCI ESG Overall Score	7.6	6.4	119%
Carbon Emissions*	21.4	171.0	12%

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

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### Performance

Global equity markets were weak across the globe in September, with the MSCI World SMID Cap Index falling 4.6% in AUD terms. The Bell Global Emerging Companies Fund (Class A) fell 4.9%, modestly underperforming by 0.3% during the month. Returns have been strong over one year, with the Fund (Class A) up 13.6%, although lagging the MSCI World SMID Cap Index return of 14.3%, an underperformance of 0.7%.

### Performance Attribution

The modest underperformance during September was attributable to a combination of sector allocation and stock selection factors. At a sector level, our underweight to Energy was a significant detractor to performance, with Energy being the only sector in positive territory during September and easily the best performing sector during the quarter (+19% AUD terms). The sector rallied as the oil price jumped over 25% in the quarter as major producers Saudi Arabia and Russia reduced output. The portfolio's overweight to Health Care, Industrials and Consumer Discretionary was also a drag, partially offset by the positive impact of having no exposure to the Real Estate sector, which has been negatively impacted by the prospect of interest rates remaining higher for longer. On a regional basis, our underweight to Asia Pacific, mainly Japan, detracted from performance. Currency had a limited impact on returns during the month of September but the depreciation of the Australian dollar over the quarter was a material positive for returns in AUD terms.

The best stock contributor to performance during the month was Swiss private asset manager, Partners Group, which rose 8% and was up more than 20% for the quarter. The company reported better than expected first half results on the back of strong performance fees, particularly from the company's infrastructure investments. The company has grown AUM every year since 2010 at an average rate of close to 15% per annum and we believe they remain well placed to continue growing well into the future, helped by increasing allocations to private markets and Partners

Group's strong reputation and business model.

The worst performer in the portfolio was health care company, Masimo, which dropped sharply after issuing weak Q2 results and a material full year guidance reduction. Masimo is a med-tech company that produces non-invasive patient monitoring and sensor technologies and is also pursuing an expansion into consumer wearables following the acquisition of an audio equipment company in 2022. The weak outlook issued by management was disappointing, especially in the core healthcare business, which makes up the majority of profits and has typically been a consistent performer over time. Management attributed the weakness to a number of factors including softer than expected inpatient admissions, timing of closing some larger orders and inventory destocking at customers combined with softer end market demand. One positive is that the company has continued to sign new health care contracts at a record pace, which potentially bodes well for future revenue. Additionally, with earnings expectations now materially re-based and the valuation trading at a significant discount to the long-term average, the set-up for the stock is arguably looking quite attractive at current levels. Having said this, there are still some aspects of the investment case where we have concern, so will likely require more data points to regain further conviction. Our research and engagement with the company is ongoing. Other weak stock performers during the quarter included equipment manufacturer, Toro (-19%), and global leader in mobile computing and data capture, Zebra Technologies (-14%).

### Market Commentary

Global equity markets had a more subdued Q3, as investors seemingly accepted the 'higher for longer' interest rate mantra that has been pushed by the U.S. Federal Reserve. Stubbornly high inflation and a particularly resilient US economy saw US 10yr bond yields jump 0.73% over the quarter, putting a dampener on the 'hope' that the US Federal Reserve would start reducing rates any time soon.

The net result being the MSCI World Index giving back 3.4% (USD terms) having

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peaked at the end of July which was led by the three largest index constituents, Apple, Microsoft and Amazon that all posted negative returns. This quarter was also interesting in that it was the first time the IT sector had lagged for quite some time.

While markets have been relatively strong in 2023, we would highlight some interesting anomalies. The first one being the dominance of what has come to be known as the 'Magnificent Seven' that have driven markets almost single-handedly this year. While the dominance of these names has become well understood, what is maybe a little less appreciated is the longevity of their dominance. One interesting case in point is to compare the MSCI World Index with that of its equally weighted equivalent over the last 5 years. Over that time period the Top 10 weighting in the MSCI World Index has increased from 12.7% to 20.1%, while the same index has outperformed the equally weighted index by 4.06% p.a. which in our view represents a material differential in performance. Another interesting anomaly to emerge relates to valuation, in which the 12-month forward P/E ratio of the equally weighted index is now 14.1x vs 16.1x for the World Index. Not only is the differential between the two quite meaningful, but in our view, it underpins the notion that equities are generally quite attractively valued.

Another interesting anomaly relates to the performance of the 'Quality' factor and its related indices. At the time of writing, August data suggested that while the MSCI World Quality Index has outperformed so far in 2023, the Quality factor itself has actually lagged. The MSCI methodology doesn't do much by way of distinguishing between Growth & Quality, as 8 of the top 10 names in each index are the same. Another interpretation of the Quality factor (according to Citigroup) defines Quality by various earnings quality, profitability & balance sheet strength. This definition of the factor actually suggests that 'Quality' has lagged YTD by 3.2% and stocks considered as 'Low Risk' have lagged by 11%. Upon digging deeper into the MSCI World Quality index constituents, only 20% of the constituents have outperformed the MSCI World Quality Index, and 36% have outperformed the MSCI World Index.

Probably the most interesting observation we would make is that 'Quality' has actually lagged this year after a difficult year in 2022, making it one of the longest periods of underperformance in recent years. We believe that the narrow rally we have seen year to date will normalise and become more balanced as we head into 2024.

### Research

Over recent weeks various investment team members have been travelling overseas to meet companies. The tone was cautious, but optimistic. A common theme coming out of many conversations was that since we have been in an uncertain environment for some time, it has given management teams time to adjust their cost base. While some companies said that it has become more difficult to predict demand and harder to push through pricing given the inflationary price rises over the last twelve months, overall, companies look to be in a good position to maintain strong margins and benefit from operational leverage to grow earnings strongly if demand remains stable.

The inflationary environment and pricing trends was a key topic with food companies. While a more frugal shopper has meant volume growth has been subdued, the industry has benefited from price rises, less discounting and importantly, 'shrinkflation' or reducing package sizes. This trend can't continue indefinitely, so it will be more difficult to grow profits while maintaining brand loyalty over the next year. Thankfully, membership retailers such as Costco and BJ's Wholesale should benefit.

Travel was intertwined into a number of conversations and was broadly positive with strong travel trends continuing to drive the recovery in air travel and hotel stays. There is still room to grow as international travel has not fully recovered to pre-pandemic levels, especially outbound travel from China.

This brings us to the China rebound which was repeatedly mentioned as being somewhat underwhelming, but given the economic difficulties domestically in China, this is understandable. The fallout

was commented on by luxury companies who highlighted the fact that Chinese luxury shopper bus tours are still well below previous levels. This fact as well as a more uncertain outlook in the US, meant that luxury companies were more sanguine in their views of the consumer, however they did highlight that spend by high net worth and VIP customers remains strong and the addressable market of upper luxury customers continues to grow, so longer term prospects are still very attractive.

Looking at more detail on the US consumer, while the job market remains strong, companies were cautious since the personal savings rate has recently fallen to well below the 10-year average and excess household savings built up through the pandemic could be diminished in the next few months.

The European autos sector was another big topic, the US has been defending their market with huge import tariffs, while the EU is being flooded with Chinese EV's. This could easily destroy volumes, profitability and market share of major European OEM's in what is already a weakening environment and is contributing to the weakness in the German industrial sector. High end auto OEM's look more defensible as they are much more profitable, can manage much smaller volume numbers and have good order visibility driven by a much more affluent buyer.

ESG was also a common engagement point with many companies. While we see more companies committing to a key goal of the Paris Agreement to reach net zero by 2050, a lot needs to be done to understand the credibility of these claims. This journey is ongoing as more needs to be done in terms setting interim targets (e.g. a 2030 or 2035 reduction target on the way to net zero 2050) as well as further disclosure to see if they are on track to meet their interim targets and ultimately, the goal of net zero, without being overly dependent on carbon offsets.

### Trading

The volatility in the market continues to result in many stocks falling out of favour, providing great opportunities for active

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managers. One company that was recently added to the portfolio is Agilent Technologies. The company is a global manufacturer of analytical instrumentation and related consumables and services. Its customers are diagnostic and pharmaceutical labs, academic and government institutions, as well as industrial, environmental, and food companies. With growth in some end markets slowing down in the near term, the stock has fallen 25% this year. However, we believe investors are overly discounting the strong industry tailwinds which drive Agilent's longer-term growth algorithm of high single-digit sales growth and low double-digit EPS growth. This has created a disconnect between the quality of the company and the current valuation providing an excellent entry point into the stock. FactSet Research Systems was also added to the portfolio, the company provides data and analytical applications to investment professionals and has a high level of recurring revenue with compound growth around 8% over the last 5 years. In what is a very consolidated industry, we expect the company to be able continue to grow consistently with a high level of visibility providing excellent risk-adjusted returns over time. Lastly, Houlihan Lokey was also bought during the month, the company specialises in M&A advisory, strategic consulting and financial restructuring. The company has increased the number of advisers in recent years which has helped grow revenue and the number of deals they advise. In the coming quarters, one key catalyst we see is an uptick in financial restructuring as companies with stressed balance sheets find it more difficult to survive in a higher interest rate environment.

Other names that were added to include travel and hotel booking system operator Amadeus, lock and door system company Assa Abloy and Danish healthcare product company Coloplast. Coloplast is the market leader globally in ostomy and incontinence as well as having a very established wound care division. They have recently acquired Kerecis (specialises in fish skin for skin grafts) which is taking share from established players (generally pig skin or human tissue). The business generated around 510 million Danish Krone of revenue in 2022, which is around 6% of Coloplast's total revenue and is growing above 30% p.a. The integration of

Kerecis should be straight forward and low risk, this has meant that Coloplast has been able to reiterate their 30% EBIT margin target which should give the stock great upside over the medium term.

We funded the new positions through a combination of some outright sales and by reducing some other names. During the month we exited the remaining position in Vestas Wind Systems. While the long-term trends for wind power generation are strong, the volatility in profitability and cash conversion has become a concern. We don't expect recent headwinds to abate in the near term as there is continued margin uncertainty in the industry as onshore wind becomes more mature and offshore wind opportunities are not as prevalent as expected. Due to ongoing uncertainties and reduced conviction, we decided that the capital would be better allocated to other new ideas. Additionally, with the approval of the merger between Novozymes and CHR Hansen, the final position in CHR Hansen was sold.

Various names were also trimmed during the month including Partners Group which has been an excellent performer recently after reporting strong results, European stock exchange group Euronext and also Canadian based Rogers Communications where their recently completed merger with Shaw, has meant that leverage levels and interest costs have increased, before synergy benefits can be realised. The changes over the last few months have improved the overall quality of the portfolio which have put it in a strong position going forward.

### Outlook

Notwithstanding the recent negative turn in market sentiment, we remain very optimistic as we look into 2024. More generally, we regard the aforementioned market 'anomalies' as a precursor to a strong period of alpha generation. The reality is that we are finding numerous opportunities to improve the quality of the portfolio and buy names that are out of favour and mispriced. Moreso, when we look at the TER (total expected return) of our portfolios over the next 12-24 months, we currently see more upside than we have in the last 12 months.

As far as our portfolio biases are concerned, as always we skew to where we see the best opportunities, whether that be at a size, sector, geographical or factor level. To that end, the key biases from a sector perspectives are the overweight to Health Care, Consumer Staples and Consumer Discretionary while being underweight Energy, IT and Materials. Additionally, while the large and mega-cap stocks have been favoured this year, from an asset allocation perspective, we believe that the small and mid-cap asset class should generate faster profit growth over the next twelve months.

Overall, we feel that 2024 will be a strong year for our strategies as the strong fundamentals that underpin the portfolio biases play out.

## 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>	30 - 60

## 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>

**Important Information:** Bell Asset Management Limited ABN 84 092 278 647, AFSL 231091 (BAM) is the responsible entity for the Bell Global Emerging Companies Fund (the Fund) ARSN 160079541. This report has been prepared by BAM for information purposes only and does not take into consideration the investment objectives, financial circumstances or needs of any particular recipient and it contains general information only. Before making any decision in relation to the Fund, you should consider your needs and objectives, consult with a licensed financial adviser and obtain a copy of the product disclosure statement, additional information and application form, which are available by calling our Client Services Team on (03) 9616 8619 or visiting [www.bellasset.com.au](http://www.bellasset.com.au). BAM has issued a Target Market Determination for the Fund and it is available at [www.bellasset.com.au](http://www.bellasset.com.au). No representation or warranty, express or implied, is made as to the accuracy, completeness or reasonableness of any assumption contained in this report and none of BAM and its directors, employees or agents accepts any liability for any loss arising, including from negligence, from the use of this document. Past performance is not necessarily indicative of expected future performance.