Bell Global Emerging Companies Fund

Fund Summary - Period ending 31 December 2021

Bell
ASSET MANAGEMENT

Net Performance^

Returns in AUD	Fund	Index*
1 Month	2.89%	1.30%
3 Months	7.92%	3.05%
6 Months	12.36%	6.16%
1 Year	29.77%	23.90%
2 Years	20.17%	14.31%
3 Years	22.38%	18.40%
5 Year	16.89%	12.67%
Inception^	15.79%	13.62%

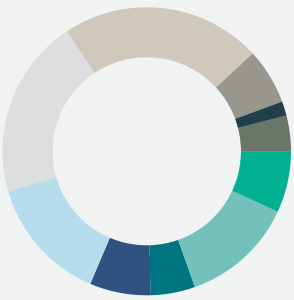
* Index is the MSCI World SMID Cap Index. ^ The Bell Global Emerging Companies Fund was established in November 2012 under a different name and with a different investment strategy. The fund has operated under its current name and strategy since 27 June 2016 (Inception).

Best & Worst Performers - 1 Month

Top 5 - Relative Contribution	
Cerner Corporation	0.65%
Amerisourcebergen	0.24%
Church & Dwight Co.,...	0.23%
ICON Plc	0.23%
Arista Networks, Inc.	0.17%

Bottom 5 - Relative Contribution	
Ritchie Bros Auct	-0.41%
YETI Holdings, Inc.	-0.33%
Enghouse Systems...	-0.28%
Vestas Wind Systems...	-0.22%
Techtronic Industries...	-0.16%

Sector Exposure



Communication Services	6.8%
Consumer Discretionary	12.9%
Consumer Staples	4.9%
Financials	6.7%
Health Care	14.4%
Industrials	20.1%
Information Technology	22.4%
Materials	6.4%
Real Estate	1.5%
[Cash]	4.1%

Geographic Exposure

Africa/Mideast	2.2%
Asia/Pacific Ex Japan	2.1%
Europe	33.7%
North America	58.0%
[Cash]	4.1%

Top 10 Holdings

Company	Sector	Geography	Weight
Fortune Brands Home...	Industrials	US	2.9%
Ritchie Bros Auct	Industrials	CA	2.9%
Electronic Arts Inc.	Communication Services	US	2.7%
Deutsche Borse AG	Financials	DE	2.6%
Booz Allen Hamilton...	Industrials	US	2.6%
CGI Inc.	Information Technology	CA	2.6%
Euronext NV	Financials	FR	2.6%
Genpact Ltd	Information Technology	US	2.5%
Rightmove Plc	Communication Services	GB	2.4%
Amerisourcebergen	Health Care	US	2.4%

Investment Metrics

	Portfolio	Index	Relative
Risk			
Total Risk	9.80	12.08	
Number of Stocks	49	5,041	
Active Share	95.2		
Value			
P/E	24.2	18.3	132%
PEG Ratio	1.9	1.2	158%
EV/EBITDA	15.5	12.5	124%
Growth (%)			
Sales Growth	17.6	18.1	97%
EPS Growth	19.6	28.9	68%
Quality			
Return on Equity	23.2	9.2	252%
Net Debt / EBITDA	1.4	0.7	200%

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Ned Bell CIO / Portfolio Manager

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Performance

Global equity markets closed the year strongly with the MSCI World SMID Cap Index rallying a further 1.3% in AUD terms in December. The Bell Global Emerging Companies Fund rose 2.9%, outperforming the MSCI World SMID Cap Index by 1.6%. For the full year 2021, the MSCI World SMID Cap Index has risen a remarkable 23.9% with the Fund appreciating by 29.8%, a very strong outperformance of 5.9%.

Performance Attribution

The year has ended in a similar way that it began, with equity markets seeing a rotation towards value and a reversion to the mean as previously underperforming companies made up ground.

During the 12-month period, from a sector perspective allocation was a drag of almost 3%, but was more than offset by strong stock picking and a high batting average which drove positive stock selection of over 9%, currency was also a small tailwind of just over 1%. From a regional perspective, allocation was a slight overall positive, the only significant contribution came from the 10.4% underweight to Japan, a market that underperformed significantly, suffering a weakening currency and rallying only 1.5% over the year. The 7% overweight to Canada and 6% underweight to the U.S. were very minor drags. The contribution from the overweight to Europe and underweight to Asia ex-Japan were minimal.

Looking at size, the MSCI SMID Cap Index outperformed MSCI World All-Cap Index strongly over the first half of the year, but then trailed in the second half. Although the MSCI SMID Cap Index underperformed the MSCI World All-Cap Index, alpha generation pushed overall portfolio returns ahead of the MSCI World All-Cap Index. The performance lag of SMID cap equities in the second half and the discount valuation is why we believe there remains a huge SMID opportunity going forward given the fact that in prior market dislocations such as the doc-com bust of 2000 and the GFC which bottomed in 2009, SMID cap equities outperformed all-caps over the following 1, 3 and 5 year timeframes.

Given the backdrop of improving economic conditions, increasing inflation and higher interest rates, the cyclical sectors outperformed relative to the defensives. Looking at the sectors in more detail, the traditionally defensive sectors, such as Consumer Staples and Health Care lagged the market, however were strong contributors to total alpha generation due to excellent stock selection. Consumer Staples had 7.5% exposure, 3.5% overweight, 56 bp allocation drag, +2% total alpha and Health Care had 14.2% exposure, 3.8% overweight, 53 bp allocation drag, +4% total alpha. At an index level, the Energy sector performed the strongest appreciating 58% in tandem with oil prices which have bounced due to supply constraints. Since the portfolio has no exposure to Energy (3.2% underweight), from an allocation perspective, it was the largest drag of around 1%. There was also a meaningful allocation drag from Financials (6.4% exposure, 6.4% underweight, 75 bps drag) which was the second strongest sector rising 34%. The biggest positive contributors from an allocation perspective were Information Technology (23.6% exposure, +8.6% overweight, +27 bps) and Utilities (zero exposure, 3.8% underweight, +28 bps).

At a stock level, it is worthwhile highlighting the strongest contributor in December which was IT health services company Cerner Corporation. It rose nearly 30% (+65 bps alpha contribution) after a takeover bid from Oracle. Cerner is a leading global supplier of healthcare information technology (HCIT) to hospitals, health systems and physician practices. It has a leading market share (around 25%) in electronic health records (EHR's) for US hospitals and is expanding strongly internationally, particularly in Europe. The stock price had lagged for some time so was an attractive target for Oracle who has been investing to grow their own offering of front-end software solutions in specific industry verticals such as healthcare. In the near term this is a great result for us as Cerner shareholders, we also expect to benefit longer term since the deal will provide many synergies to us as Oracle shareholders as well, particularly cross-selling opportunities into Oracle's existing customer base.

Looking over the full year, alpha

generation remained diversified. The largest contributor to outperformance was ICON plc who is a provider of contract clinical research services to the global pharmaceutical industry rose 68% (+1.4% alpha) as spending by clients remained strong. ICON also successfully acquired peer company PRA Health Sciences which will help them gain market share and improve margins. Arista Networks which rallied 110% (+1.2% alpha) as enterprise customers continue to upgrade their data networks, especially the large cloud service providers. Tractor Supply and Zebra Technologies were also significant contributors, each adding over 1% of alpha. It is interesting that in early 2021, all of these top performers were trading at relatively low valuations before ultimately becoming beneficiaries of the rotation trade. Companies that lagged this year include Canadian software provider Enghouse Systems, Danish health and wellness company CHR Hansen, security platform business Checkpoint Software and healthcare device manufacturer Ambu, all of these companies are trading well below their usual valuation levels and we have been adding to these and other laggards in the portfolio since we see good upside in these names.

Market Commentary

Looking back at 2021, the underlying recovery in demand and profitability across the bulk of industries in developed markets has resulted in strong returns for equity investors, even as economies around the globe and the equity markets in general have faced myriad of headwinds.

The strong returns in the market were underpinned by surprisingly strong results. During the year, earnings estimates for 2021 for the MSCI World SMID Cap Index have been upgraded from US$96 to US$116, a 20% increase and nearly 40% growth from 2020. Interestingly, even after the strong rally, the 12 month forward looking P/E valuation of the market has fallen and is now just over 18x earnings versus the MSCI World All-Cap Index trading at around 19x. Small and mid-caps look exceptionally attractive given the asset class usually trades at a premium to all-cap equities.

Looking at some macroeconomic factors, the most notable is the persistence of inflation. Commodity prices have increased, wage inflation is rampant and supply chain bottlenecks have pushed up logistics costs. These conditions are driving interest rates higher from extremely low levels and we expect this trend to persist, especially as central banks reduce the scale of stimulus that has bolstered economies around the world. The main challenge will be how to normalise monetary policy without compromising growth. Fortunately, the overall financial leverage of companies in the portfolio are well below the index, so they are in a relatively strong position in the face of further interest rate increases.

Rising real yields have also eaten into the positive backdrop for riskier assets which is a continued threat to equity valuations. This was evident in 2021 by the fact that value has outperformed growth in all except mega-caps. Additionally, speculative growth names underperformed as the year progressed as we witness this very crowded trade unwinding with companies now beginning to be priced on fundamentals. Since the composition of the portfolio is small and mid-cap companies with strong fundamentals, this should provide ongoing resilience if these conditions persist.

Finally, 2021 brought another year of attention and focus on responsible investing. The increasing number of extreme weather events has kept the issue of climate change front of mind and the release of the European Commission's sustainable finance taxonomy gives an excellent framework for which corporate activities can be labelled climate-friendly as we move forward. Social justice, supply chain disruptions, and support for employees through the pandemic has highlighted the companies that have been able to navigate these challenges in a positive way by balancing profitability and social outcomes. Our investment philosophy incorporates a deep integration of ESG considerations and we continue to see this as a positive tailwind to returns over the long term, especially when investing in SMID cap companies. According to data from Refinitiv Lipper, flows into ESG related strategies grew by over $600 billion and now account for around 10% of all investments.

Research Focus

12 months ago the focus was on engaging with companies around their management of employees, suppliers, customers and the wider community during the depths of the pandemic. The focus shifted towards understanding profitability sensitivity and scenario analysis in the face of rising commodity prices, supply chain bottlenecks, semiconductor shortages and persistent wage inflation. This resulted in various portfolio rebalancing moves and the exit of some individual names where we modelled the outcomes to be detrimental and a risk to underperformance.

As the year progressed and the economy continued to accelerate, our research focus has turned to understanding which companies and which pockets of the markets will provide the winners going in to 2022. Various recent calls with management have focused gaining comfort around demand visibility and capital allocation strategy heading into the new year. Given the increased importance of ESG related considerations, we have put more emphasis on understanding quantifiable targets that companies have put in place and what actions they are implementing to meet these goals. At a portfolio level, we continue to focus on positive outcomes across an array of metrics and maintaining a portfolio ESG score above the MSCI World SMID Cap Index. At the end of December, the portfolio has a strong MSCI ESG rating of AA.

Trade Activity

Aggregating some of the more significant portfolio moves over the year provides helpful insight into the outcomes of our research focus and how we adjusted exposures to keep a balance across style tilts, to reduce valuation risk and volatility, while retaining strong ESG metrics and taking advantage of alpha opportunities and stocks that have strong upside.

Strong consumer spending and excellent small and mid-cap businesses meant that the Consumer Discretionary exposure increased from around 16.3% to over 17% towards the middle of the year. Many companies had done very well including Tractor Supply +82%, Pool Corporation +62, Thule +78% and Fox Factory +70%, so we trimmed back the exposure later in the year to 12.9%. Consumer Staples saw the largest reduction, beginning the year at 9.5% before being reduced to 4.9% due to concerns around increasing headwinds from input prices, logistics and wages.

Industrials saw the largest increase over the year starting underweight at 10.4% and finishing at 20.1%, a 2.5% overweight. Techtronic and Toro did well earlier in the year, plus there we saw good value in companies that continue to attractively valued and have improving revenue outlooks, these include Fortune Brands Home & Security, Ritchie Brothers and Intertek. Later in the year we opportunistically bought Vestas Wind Systems and Assa Abloy after they pulled back.

The Information Technology sector remains the largest absolute sector and the largest overweight in the portfolio ending at 22.4%, which was slightly lower than the start of the year. Exceptional performance from Arista +110% and Zebra Technologies +64% as well as new names such as electronic measurement and calibration company Keysight Technologies +55% drove returns. The Health Care sector has 14.4% exposure and remains overweight, although has been reduced by 3% over the year. Various companies hit their prices targets so we exited, these included Align Technologies and Straumann. We remain 6.3% underweight Financials and 7.5% underweight Real Estate due to excessive gearing and low ROE's.

Outlook

As mentioned in the market commentary, we are mindful that the economy and equities remain sensitive to inflation with the effects already evident in 2021. It will be interesting to see how central banks and politicians thread the needle to manage expectations and engineer a soft landing.

The path is difficult to predict, but is likely to result in increased volatility relative to the last 18 months. Interest rates may rise further, albeit not significantly, and this will result in further valuation compression, especially at the speculative end of the market. Remaining disciplined on valuation will be key to minimising the risk of capital loss.

There are many positive factors that keep us enthusiastic. Supply chain issues will dissipate and we don't expect inflation, rising interest rates or virus variants to cause a market drawdown to the magnitude witnessed early in 2020. Corporate profitability continues to improve, consumer sentiment is stable and households have strong balance sheets. As active stock pickers, we expect small and mid-cap stocks to play 'catch-up' since they have trailed large and mega-cap stocks over the last six months. Many of these businesses look undervalued given the fact that they have navigated well through the last 18 months having accelerated growth, achieved high levels of profitability and are now thriving with an even stronger market position.

On the whole, when we analyse the earnings trajectory of our companies from the bottom up, we continue to believe that profit should outperform consensus expectations and grow faster than the market which gives us confidence that 2022 should be another good year for SMID equity investors.

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).