# Bell Global Equities Fund

Bell ASSET MANAGEMENT

**Platform Class Fund Summary — Period Ending 31 October 2017**

## Net Performance^

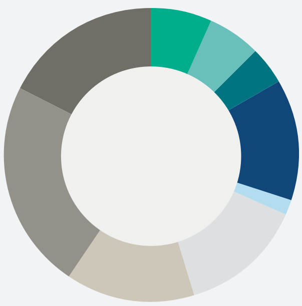
| | Fund | Index* |
|---|---|---|
| **1 Month^** | 3.57% | 4.28% |
| **3 Months^** | 6.30% | 8.73% |
| **6 Months^** | 3.23% | 6.95% |
| **1 Year^** | 19.23% | 22.00% |
| **3 Years (pa)^^** | 11.71% | 13.38% |
| **5 Years (pa)^^** | 17.53% | 18.78% |
| **Strategy Inception (pa)^^** | 7.20% | 6.42% |
| **Strategy Inception - Total Return^^** | 180.57% | 151.73% |

* Index is the MSCI World ex Australia in $A Unhedged with net dividends reinvested.

^ Inception date of the Platform Class is 7 May 2015. Returns are based on the Platform redemption price and are net of fees.

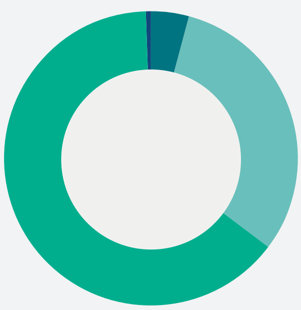
^^ The Bell Global Equities Fund - Platform Class has been operating since May 2015. To give a longer term view of our performance in the asset class, we have shown longer term returns for a representative global equities strategy managed by Bell Asset Management with an inception date of 1 Jan 2003. We have adjusted the returns to reflect fees representative of the Bell Global Equities Fund - Platform Class units.

## Sector Exposure



| | |
|---|---|
| Financials | 6.9% |
| Materials | 5.7% |
| Cash | 4.2% |
| Consumer Staples | 13.5% |
| Telecom Services | 1.6% |
| Industrials | 13.7% |
| Consumer Discretionary | 14.1% |
| Information Technology | 23.0% |
| Health Care | 17.5% |

## Geographic Exposure



| | |
|---|---|
| Cash | 4.2% |
| Europe | 31.2% |
| North America | 64.1% |
| Asia Pacific | 0.5% |

## Top 10 Holdings

| Company | Sector | Geography | Weight |
|---|---|---|---|
| Alphabet Inc | Information Technology | US | 2.8% |
| Apple Inc | Information Technology | US | 2.1% |
| Johnson & Johnson | Health Care | US | 1.8% |
| Oracle Corp | Information Technology | US | 1.6% |
| Roche Holding AG | Health Care | CH | 1.6% |
| Verizon Communications | Telecom Services | US | 1.6% |
| BAE Systems | Industrials | UK | 1.4% |
| Alimentation Couche-Tard | Consumer Staples | CA | 1.4% |
| Siemens AG | Industrials | DE | 1.3% |
| Novo Nordisk | Health Care | DK | 1.3% |

## Best & Worst Performers - Month

| **Top 5** — Relative Contribution | |
|---|---|
| Ambu A/S | 0.14% |
| Croda International Plc | 0.09% |
| Airbus SE | 0.08% |
| Novozymes A/S | 0.07% |
| Huhtamaki OYJ | 0.07% |

| **Bottom 5** — Relative Contribution | |
|---|---|
| Advance Auto Parts Inc | -0.17% |
| Celgene Corp | -0.15% |
| Distribuidora Internacional | -0.11% |
| Omnicom Group | -0.11% |
| Roche Holding AG | -0.10% |

## Investment Metrics

| | Portfolio | Index | Relative |
|---|---|---|---|
| **Risk** | | | |
| Total Risk | 11.4 | 11.0 | |
| Number of Stocks | 99 | 1,563 | |
| Active Share | 79.2 | | |
| **Value** | | | |
| P/E | 17.6 | 16.8 | 105% |
| PEG Ratio | 2 | 2 | 100% |
| EV/EBITDA | 11.3 | 10.1 | 112% |
| **Growth** | | | |
| Sales Growth | 5.4% | 5.3% | 102% |
| EPS Growth | 9.4% | 11.7% | 80% |
| **Quality** | | | |
| Return on Equity | 24.7 | 11.4 | 217% |
| Net Debt / EBITDA | 0.8 | 1.4 | 57% |

# Bell Global Equities Fund

**Commentary — Period Ending 31 October 2017**

Bell ASSET MANAGEMENT

**Ned Bell** CIO / Portfolio Manager

**Adrian Martuccio** Portfolio Manager

### Fund Overview

| | |
|---|---|
| **Asset Allocation** | Long Only Global Equities |
| **Inception Date** | 3 December 2007 |
| **Fund Size** | $33.0mn |
| **Entry Unit Price** | 1.2998 |
| **Index** | MSCI World (ex Aus) Index |

## Performance

The Bell Global Equities Fund continued to rise during October, posting a return of 3.57% for the month. On a relative basis, the portfolio underperformed the MSCI World ex Australia Index by 0.71%.

## Market Activity

Global equity markets posted another strong month in October, helped by positive economic and earnings data across the globe. The MSCI World ex Australia Index rallied 4.3% in AUD terms (+1.8% in USD terms), propelling the market to yet another all-time high. On a regional basis all key markets were up in AUD terms, with the strongest performing market being Japan (+9.6%), helped by Abe's election victory that has now given his party the majority in both the upper and lower houses. Equity markets in Hong Kong (+5.2%), the U.S. (+4.7%) and France (+4.3%) also performed well. At a sector level, 10 of the 11 GICS sectors rose during the month (Telecoms the only laggard -0.6%), with exceptionally strong performance from the IT sector (+9.7%), which is now up 32% on a CYTD basis. Other strong performing sectors in October included Materials, Utilities and Consumer Discretionary.

## Performance Attribution

With regards to performance attribution, the positive drivers included good stock selection within Materials, where our specialty chemical holdings such as Croda, Novozymes and International Flavours & Fragrances all generated solid returns, as did our packaging related names (Huhtamaki and Sealed Air).

Ambu (Healthcare) was the best performing stock during the month, rising more than 20% after releasing very positive long term targets at their capital markets day at the start of October.

On the negative side, stock selection in Consumer Discretionary and IT and our overweight to the Health Care and Consumer Staples sectors were a drag on relative performance. The worst performing names in the portfolio from an attribution perspective were Advance Auto, Celgene, Omnicom, Distribuidora Internacional and Roche.

## Research Focus

In terms of our research agenda, we have been focused on conducting in-depth research on a number of new ideas uncovered during our recent research trips, as well as spending the latter part of the month focused on the September quarter earnings season. During November, three members of our investment team are headed overseas to meet with a range of companies across Asia and the U.S. We look forward to sharing any important takeaways with you in the coming weeks.

## Trade Activity

During October, we initiated positions in two new stocks (Service Corp International and Loomis) and sold three holdings (Verisk, Twenty-First Century Fox, and Stericycle). We also conducted a number of rebalancing trades which were effectively aimed at taking some profits in better performing names that have moved closer to our price target and rotating this cash into names that have either underperformed or which we believe offer greater potential upside.

**Service Corp International (SCI)** is the leading provider of death-care products and services in North America. They own and operate approximately 1,500 funeral homes and 470 cemeteries (60% of which are combination locations). We discovered SCI during one of our recent research trips to the US and we were immediately attracted to their unmatched market position, the increasing trend towards preneed sales, demographic tailwinds and barriers to entry in the cemetery business.

Service Corp have 16% share of the highly fragmented $19bn North American death-care industry with the next two biggest players having approximately 1.5% each. 80% of the market is operated by small independents that lack scale and financial capacity to cater to the preneed market. Service Corp leverages their scale to consolidate the market and aim to add 1-2% growth per year from M&A, on average they pay a post-synergy multiple of 5-7x and generate a 12-22% Internal Rate of Return on acquisitions.

A preneed sale consists of selling funeral and cemetery products and services prior to a death occurring. Preneed sales grow future market share and diversify revenue stream in a low inflation environment.

"We also conducted a number of rebalancing trades which were effectively aimed at taking some profits in better performing names that have moved closer to our price target and rotating this cash into names that have either underperformed or which we believe offer greater potential upside."

Service Corp has a $10bn backlog of preneed sales. The average age of a preneed cemetery customer (buying cemetery plot) is early 60s, the average age of a preneed funeral (purchasing funeral ceremony before need) customer is early 70s. The baby boomer generation is therefore now starting to enter the preneed funnel which should a good tailwind for Service Corp. We have already seen a significant lift in preneed cemetery sales from the baby boomers which will continue and then flow into preneed funeral sales in the years to come.

Service Corp own much larger cemeteries compared to the industry average. Given the zoning restrictions and capital requirements there are high barriers to entry in the cemetery business and in turn there a very few new builds occurring. The average cemetery property sells for $3,800 and carries a 65% incremental margin and Service Corp have 40 years of capacity within their existing footprint.

We view Service Corp as a quality compounder delivering annual EPS growth of 8-12% with potential acceleration as the demographic trends play out.

**Loomis** is a small cap company listed in Sweden which operates Cash in Transit and Cash Management Services in 20 countries around the globe. Two members of our investment team recently met with the company's CEO and CFO at their head office in Stockholm and this meeting helped to strengthen our view that Loomis is a solid non-cyclical compounder which should continue to deliver double digit shareholder returns moving forward.

Loomis is very well placed to generate organic growth of at least 3-4% per year as the company benefits from increased outsourcing of cash management requirements from customers such as banks and retailers. Continued margin expansion from the 3-4x lift from mix effect and SafePoint rollout, plus contribution from M&A as Loomis continues to consolidate a very fragmented cash management industry, should drive high single digit growth in EPS. Management are targeting an 8% revenue CAGR and +200bps of margin improvement from 2018e-2021e. Combining this with a strong balance sheet, 3% dividend yield and valuation (16x P/E) that is trading at a slight discount to the broader market, we expect attractive shareholder returns from this name.

## Portfolio Positioning & Outlook

While our relative returns over the past year have been slightly disappointing we remain very comfortable with how the portfolio is positioned looking forward.

There are many positive drivers that should enable the synchronised global economic recovery to continue and this should help equity markets to grind higher into year-end. Unemployment rates across many key developed markets such as the US, Germany, Canada, Japan and the UK continue to reach new long-term lows, consumer confidence continues to improve, and the October global PMI manufacturing readings edged up to their highest level since 2011.

However, we remain cognisant of the risks posed by the prospect of further interest rate increases and the diminishing support from quantitative easing measures. Other risk factors that we continue to monitor include the impact of the transition to a new Fed Chairperson in the U.S., ongoing Brexit negotiations, geopolitical tensions involving North Korea and the unrest in Spain after Catalonia's declaration of independence. In addition, if the Trump administration fails to enact material changes to the tax policy in the U.S. this could be a setback to the market.

While we are cautiously optimistic about the outlook for equity markets, downside protection for the portfolio remains front of mind and we are constantly re-testing the investment case for every stock in our portfolio to ensure the portfolio is not only well positioned to capture alpha in a rising market but is particularly well placed to outperform during any pullback.

## Key Features

| | |
|---|---|
| **Investment Objectives** | Outperform the index* over rolling three year periods<br>**Index is MSCI ex Australia* |
| **Asset Allocation** | Long only global equities, no gearing, no derivatives |
| **Investment Style** | Fundamental bottom up approach 'quality at a reasonable price' |
| **Investment Highlights** | • Global equity portfolio<br>• 'Quality' focus - consistently high returning companies<br>• Long-term horizon - typically 3-5 year holding periods<br>• Benchmark agnostic<br>• Diversified portfolio structure<br>• Maximum cash position 5%<br>• Fund inception 2007 (strategy inception 2003)<br>• Highly experienced investment team |
| **Benchmark** | MSCI World (ex Australia) Index |
| **Currency Exposure** | Unhedged |
| **Investment Timeframe** | At least 5 years |
| **Number of Holdings** | 90-110 |

## Fund Terms

| | |
|---|---|
| **Fund Inception Date** | December 2007 |
| **Product Structure** | Registered Managed Investment Scheme |
| **Investment Manager** | Bell Asset Management |
| **Responsible Entity** | Bell Asset Management |
| **Custodian** | National Australia Bank |
| **mFund Code** | BLL001 |
| **Unit Pricing & Liquidity** | Daily<br>Published on www.bellasset.com.au & market data services<br>Applications using application form attached to the PDS<br>Redemptions typically paid out within 10 days |
| **Minimum Investment** | Minimum Investment - A$25,000<br>Minimum Transaction - A$1,000 |
| **Indirect Cost Ratio** | 0.90% p.a |
| **Buy / Sell Spread** | +/-0.21% |
| **Reporting** | Transaction confirmations upon transacting, half yearly transaction and valuation statement, annual periodic statement, tax statement, distribution statement & Annual Financial Report |
| **Income** | Annual distribution of taxable income |

## Contact Details

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