Fiducian Global Smaller Companies and Emerging Markets Equities Fund

Monthly Report - September 2023

Fund description

The Fund provides investors with the opportunity to combine investments in developed market small cap equities with investments in emerging market equities. Smaller companies in developed markets have shown superior long-term growth when compared with their larger peers. Emerging markets funds invest in developing countries and offer investors the opportunity to benefit from the significant growth potential inherent in many of these economies.

It is expected that by diversifying between these two segments of the international share market, investors could be somewhat cushioned against unexpected volatility and loss of capital that any one country's market, industry sector or individual share could generate. However, while this Fund could deliver high returns over the long term, it could also show periods of significant volatility.

The Fund utilises the Fiducian "Manage the Manager" process, selecting funds that provide diversification among different management styles, geographies and sectors.

It is recommended that investment in this Fund be undertaken for at least nine years. International share investment can be volatile over the short-term.

Fund facts

Portfolio manager: Conrad Burge
ARSN: 093 543 849
APIR code: FPS0009AU
Benchmark: 50/50 MSCI EM/MSCI Small Cap
Current fund size: $142 million (September 2023)
Management cost: 1.28%
Total management costs: 1.33%
Application/Exit fee: Nil
Inception Date: February 1999

	Style			Sector	
Manager	Value	Core	Growth	EM	Small
Fidelity	●			●	
Vanguard Emerging		●		●	
Fiducian India			●	●	
Vanguard Global Small Cap		●			●
Royce Global Small Cap		●			●

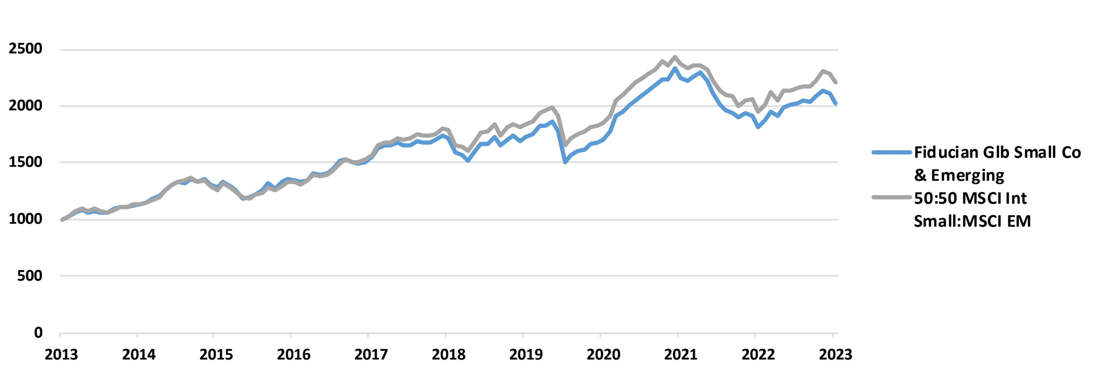
Performance and Risk

After fee returns as at 30 September 2023

	1 Mth	3 Mth	6 Mth	1 Yr	3 Yrs	5 Yrs	7yrs	10 Yrs
Fund	**-3.9%**	**-3.0%**	**-0.4%**	**11.1%**	**5.9%**	**3.4%**	**6.1%**	**7.4%**
Index	-3.6%	-0.6%	2.1%	12.9%	6.0%	4.3%	7.5%	8.2%
Excess	-0.3%	-2.3%	-2.5%	-1.8%	-0.1%	-0.9%	-1.5%	-0.8%

Risk Exposure

	1 Yr	3 Yrs	5 Yrs	10 Yrs
Fund Volatility (Std Dev %)	8.3%	10.3%	12.6%	10.8%
Benchmark (Std Dev %)	9.9%	10.3%	12.3%	10.3%
Beta	0.72	0.91	0.98	0.99
Tracking Error (% pa)	3.5%	3.7%	3.2%	3.1%



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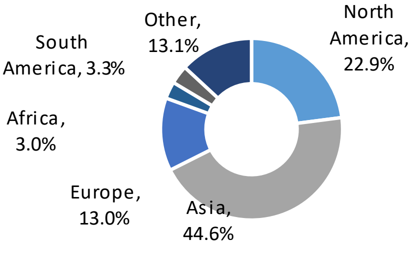
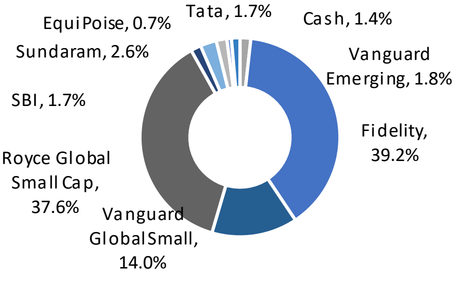
Geographic exposures and current manager weights





Market Commentary and Outlook

The global economy remains sluggish due to severe measures taken by monetary authorities to reduce inflation. While inflation is slowing, manufacturing and service industry activity levels and retail sales point to a general slowdown in activity. However, employment levels remain high and need to come down further and this, along with an uptick in inflation during September could see interest rates rise further and stay higher for longer.

This realisation that inflation has not yet been tamed saw bond yields jump up during the month, with both US and Australian 10-year government bond yields increasing by approximately 0.5%. This had negative flow-on effects on most asset classes. The broad US market (S&P 500 index) declined by 4.9%, and the Australian stock market (ASX 200 index) declined by 2.8%. Interest rate sensitive sectors had the largest falls. Commodity prices, including oil, coal and iron ore rose during the month.

Looking ahead, geopolitical risks, alongside elevated interest rates and slower economic growth this year, represent potential headwinds for markets. The International Monetary Fund (IMF) is forecasting global growth to be 3.0% in 2023 and 2.9% 2024, which is below the long-term trend rate of growth. However, in broad terms, share markets continue to appear more attractive than most other investment opportunities.

Fund Commentary

The Fund declined by 3.9% in September, which was below the composite benchmark return of -3.6%. For the 12 months to the end of September, the Fund rose by 11.1%, which compared to the 12.9% return of the benchmark.

The MSCI Global Small Cap index declined by 5.0% in September (in AUD), which broadly in line with the performance of global large cap stocks, which declined by 4.0% (in AUD). Over the last 12 months, global small caps (+13.8%) have trailed large caps (+21.6%).

The MSCI Emerging Markets Index declined by 3.8% during the month. This was led by declines in the Chinese stock market (-5.2%), with most stock markets in the region also recording falls for the month. The Indian stock market was the main exception to this trend, rising by 2.0%.

Despite a rebound in recent months, global small cap indices have seen broad market valuations (notably 1-year forward price to earnings ratios) decline to levels that are now low in historical terms and appear attractive relative to other investment opportunities.

Currently, the Fund has a modest overweight in global small caps (51%) and emerging markets (47%). Global small caps have underperformed large caps over the previous year, and emerging markets have underperformed developed markets. Regionally, the largest exposures are Asia (largely emerging markets) followed by North America and Europe (predominantly global small caps).