

Pengana Global Small Companies Fund

PCL0022AU Author: Matthew Turnbull Published: 13 May 2024

Data is provided by the manager at 31 Jul 2023, and currency in AUD, unless otherwise stated

Refer to glossary for definition of the rating

Product Review

About this Product

Investment manager	Lizard Investors LLC
Benchmark	MSCI World Small Cap NR Index AUD
Product structure	Managed Fund
Product size	\$135.14m
Inception date	Apr 2015
Asset class	Global Equities
Sector	Global Smaller Companies
Peer group	Fundamental
Rated peers	18

Product Characteristics

Business Life Cycle	Growing
Product Wind-Up Risk	Medium
Key Person Risk	Medium
Tenure of Decision Makers	Medium
Complex (RG240)	No
Strategy Remaining Capacity	US\$410m
ESG Approach	Risk or Value
Peer Relative Fees and Costs	Below median

Annual Fees and Costs (% p.a.)

Management fees & costs	1.10
Performance fee costs	0.01
Net Transaction Costs	0.07
Buy/Sell Spread	0.30/0.30
Annual fees and costs	1.18

Source: FE fundinfo

Strengths

- Jonathan Moog is an experienced global small cap investor with significant tenure at the firm.
- The Manager has a well-developed investment philosophy and process with strong buy-in from senior members of the team.
- The investment team owns a large majority equity stake in the Manager, substantially increasing investor-alignment.

Weaknesses

- Key person risk in Moog given his experience and the integral role played throughout the process.
- The investment team is considered small, relative to most peers. Additionally, North American coverage is considered to be under-developed given the size of the US market.
- The Fund can have a significant underweight to the US at times. This introduces country exposure risk which can be a key driver of relative returns and can outweigh the stock-specific returns.

Product Opinion

The Fund's has retained its 'Investment Grade' rating following its recent review. The Manager exhibits a robust investment philosophy and process, led by experienced investor Jonathan Moog. However, the commitment to coverage of the core US segment of its investment universe is less clear given its significant benchmark weight and large source of weak relative performance for the Fund. Further, the analyst support for the portfolio managers is limited compared to peers. That said, the investment team have a strong alignment to longer-term business and performance outcomes.

Lonsec Rating Model

Rating key: ●●● Above ●●● In-line ●●● Below

Factor	Peer Rating	YoY Score Change
Business	●●●	—
Team	●●●	—
Process	●●●	—
ESG	●●●	—
Product	●●●	↑
Fees	●●●	—
Performance	●●●	—

Allocation Profile

Core		
Satellite		
	Low Complexity	High Complexity

Return Profile

Income		
Capital		
	Defensive	Growth

Key Facts

Key Objectives

Investment objective	To obtain returns greater than the MSCI all country world index SMID cap unhedged in Australian dollars over rolling three year periods after fees.
Internal return objective	To outperform the benchmark by 3% p.a. (after fees) over rolling three-year periods.
Internal risk objective	To avoid capital drawdowns.
Non-financial objective	None

Asset Allocation (%)

International Equities	93.62
Cash	6.38
Total	100.00

Source: FE fundinfo

Rating History

22-Mar-2023	Investment Grade
03-May-2022	Investment Grade
08-Apr-2021	Recommended

Product Distribution Profile

Frequency	Semi-Annually
Last Missed Distribution	N/A
Number of Missed Distributions in the last 5 years	Nil
AMIT Election	Yes
TOFA Election	No

Top 10 Holdings (as at 31/07/2023)

	Weight (%)
SOFTWAREONE HOLDING AG	5.190
IRISH CONTINENTAL GROUP	5.140
DINO POLSKA S.A.	4.110
PARKLAND CORP	3.680
TRINET GROUP INC.	3.680
MTY FOOD GROUP INC.	3.570
RAY CO LTD	3.540
ORION ENGINEERED CARBONS SA	3.470
BREMBO S.P.A.	3.470
SENDAS DISTRIBUIDORA S A	3.100

Source: FE fundinfo

Target Market Determination

Produced by issuer	Yes
Provided to Lonsec	Yes

Performance Analysis - annualised after fees at 31/10/2023

	1 Year	Median	2 Year	Median	3 Year	Median	5 Year	Median
Performance (% p.a)	2.72	3.30	-9.17	-8.29	1.75	2.59	3.93	6.21
Standard deviation	10.85	11.92	13.24	15.25	13.30	15.02	15.26	15.27
Excess return (% p.a)	2.70	2.30	-5.02	-4.78	-5.92	-5.08	-2.40	-0.38
Outperformance ratio (% p.a)	50.00	50.00	37.50	37.50	36.11	41.67	45.00	45.00
Worst drawdown (%)	-10.61	-9.73	-23.58	-27.23	-29.04	-28.77	-29.04	-29.04
Time to recovery (mths)	NR	NR	NR	-	NR	NR	NR	NR
Sharpe ratio	-0.09	-0.03	-0.86	-0.72	0.02	0.06	0.17	0.17
Information ratio	0.35	0.35	-0.63	-0.71	-0.78	-0.52	-0.32	-0.32
Tracking error (% p.a)	7.78	6.65	7.97	8.16	7.59	8.29	7.40	7.35

Lonsec Peer Group: Global Equities - Global Smaller Companies - Fundamental

Product Benchmark: MSCI World Small Cap NR Index AUD

Cash Benchmark: Bloomberg AusBond Bank Bill Index AUD

Time to recovery: NR - Not recovered, dash - No drawdown during period

Business



Facts

Investment Manager	Lizard Investors LLC
Ultimate Parent Company	Lizard Investors LLC
Headquarters	Chicago, USA
% Staff Ownership	>50%
Inception Date	Jul 2008

Governance

% Independent board members	0
% Female board members	50
Independent chair	No
CEO as Chair	No
Seperate Audit Committee	No

Who is the Manager?

The Manager is Chicago based firm that is employee-owned asset management firm and specialises in value-oriented international small and mid-cap companies. Lizard Investors LLC ('Lizard') was founded by Leah Zell in 2008.

Lonsec Opinion

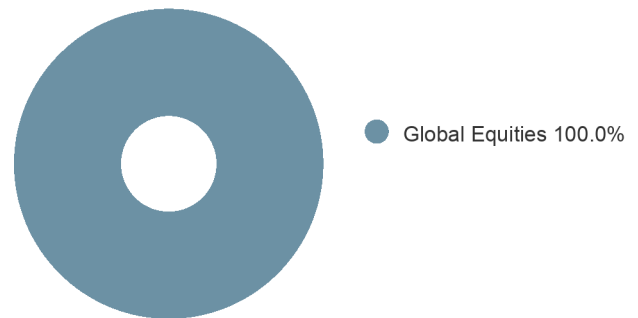
Profitability

Lizard is an established 'boutique' firm with institutional support. Given the Managers current level of FUM, the firm is considered profitable.

Business Track record

Since inception, the Manager has continued to build a stable track record, experiencing modest FUM growth. This has been assisted via the partnership with Pengana providing operational and broader marketing support.

AUM



Metrics

Investment Management Headcount	4
Investment Professionals	4
Sales & Service	0
Distributor	Pengana Capital
Total AUM	\$426M

Business Ownership

The Manager has a strong 'boutique' investment culture aided by the majority of equity in the firm being held by senior members in the investment team. In February 2023, this was bolstered when major shareholders Pengana Capital Group and Leah Zell sold the majority of their equity to the investment team via a management buyout transaction.

Business Governance

Business governance is in line with many 'boutique' peers, with the firm having no regulatory findings. However, the boutique structure in the US is less transparent to Australian investors. The firm has a reasonable governance framework, although the firm's board does not include an independent director. There is a clear segregation of duties between the investment team and operations team, as the US-based firm, 'EAC' provides middle office support to the firm.

Team



Key Decision Makers (KDM)

	Primary function	Dedicated to strategy	Appointed to strategy	Industry/Mgr exp. (yrs)	Exp. in PM roles (yrs)
Jonathan Moog	Portfolio Management	Yes	2015	23/15	14

KDM Change*

No changes.

* Last 3 years

Profile

Size	6
Structure	Centralised
Turnover	Low

Alignment

KDM equity held in manager	Yes
KDM co-investment in strategy	Yes
Performance-Based bonus	Yes
Long Term investment plan	No

Resources

	Number	Average Years Experience
Key decision makers	1	23
Portfolio Managers		
Hybrid portfolio manager/ analysts	1	8
Dedicated analysts	4	2
Dedicated dealers		
Quantitative		
ESG/Sustainability		
Macro		
Investment Specialists		

Who is the Team?

Lizard's investment team is led by CIO, Jonathan Moog, who is also the Portfolio Manager ('PM') for the Fund. Moog has a solid level of investment experience and is responsible for stock selection, risk management and portfolio construction. Moog is supported by Deputy Portfolio Manager, Mickey Ryan who has eight years' experience and was recently promoted to this position. This change is reflective of the team's conviction in Ryan's skillset and contribution to the Fund. Both Moog and Ryan are equity holders and co-invest in the Fund. As Founder and Chairperson, Leah Zell provides oversight to the firm as she has stepped away from investing.

In March 2024, David Li, Head of Research, departed the firm, resulting in a decrease in overall experience within the team. Subsequently, three interns joined the team with the intention of permanently retaining one member. The team now comprises six members, all of whom are considered generalists in stock and sector coverage. While there are areas of expertise, coverage is divided based on competency. Research analysts support Moog and Ryan, assisting with fundamental research tasks such as analysing financial statements and modelling.



Lonsec Opinion

Skill

Moog is considered a capable small-cap investor, providing valuable insights for effective portfolio management. The remaining members of the team hold experience in line with peers in similar roles. However, the departure of Li is considered a material loss and skews the experience of the team. That said, Moog possesses a blend of experience across US equities, as well as a range of industry and country-specific knowledge, which is important given the broad-based nature of this global strategy. Moog has contributed to the development of the investment process and is considered integral to the team, having partnered with Zell at Lizard since 2008.

Team Size

The investment team is small compared to peers and the size of the investment universe. This is considered a weakness given the team's experience continues to be skewed to Moog. The team's workload is considered heavy, as such, analyst resourcing levels will continue to be a focus in future reviews. The team is centrally located in Chicago, which is considered a positive for the team's culture and communication. The Manager has also emphasised the advantage of the location, with numerous small-cap companies visiting weekly. Lizard has noted good access to companies despite their modest levels of FUM.

Track Record/Co-Tenure

Moog's tenure within the team is high having been with the firm since its inception in 2008. The remaining permanent members of the team have moderate levels of co-tenure. However, with the introduction of three interns and Li's departure, the collective tenure of the team has decreased, falling below that of some peers. Additionally, the team's long-to-medium-term track record has been weakened by subpar performance outcomes.

Alignment

The overall alignment of interests between senior team members and end investors is considered strong. The recent management buyout of Lizard Investors has transferred the majority of its equity to the investment team. Zell as the founder and original owner of the firm retains a minor 3.5% equity stake. Given that Moog and the investment team now have substantial equity ownership, this has materially increased their alignment to longer-term business and performance outcomes. This new ownership structure can help mitigate the risk of departures and help attract/retain talented staff going forward. However, there is scope for alignment improvement through the incorporation of deferred remuneration and co-investments into the Fund for the broader team.

Key Person Risk

Key person risk is considered high with Moog due to the disparity of experience between himself and the broader team. This risk is mitigated to some extent by the substantial equity stake he holds in the firm. Nonetheless, if Moog were to leave there would be a review of the Fund's current rating.

From a broader business perspective, key person risk lies with Zell who has long and deep relationships with the firm's investors. Although Zell is not involved in the day to day of the investment process, Lizard's business would be impacted if Zell were to depart, given she is synonymous with the firm.

Process



What is the Investment Process?

Lizard employs a bottom up, fundamental, value-oriented approach to investing in global small and mid-cap companies. This approach is geography, sector and benchmark agnostic and has a focus on capital preservation. The universe is screened on quantitative and qualitative metrics, seeking a sustainable business model, strong balance sheet, disciplined management, strong corporate governance, and compelling valuation. The majority of the team's effort is devoted to analysing financial statements and meeting with management, as well as customers, suppliers, competitors, and industry experts. The team assesses a company's investment thesis, downside protection, track record of management, business ownership, and its key drivers and risks. The Manager's valuation approach is based on a company's long term cash flow generation and the potential to generate 20% annualised returns over a three to five-year timeframe. Moog has ultimate responsibility for decision making for the final portfolio, which is constructed in a concentrated, high conviction manner. Position sizes are based on the team's conviction in the stock, its perceived risk and liquidity.

Lonsec Opinion & Supporting Facts

Philosophy and Universe

Investment Type	Fundamental
Investment Approach	Bottom-up
Investment Style	Value
Typical market cap	Small Mid cap
Minimum market cap	No Guidance
Available Universe	Small and mid cap listed (or soon to be listed) global equities.

The Manager has a robust philosophy that revolves around identifying high-quality, overlooked, or out-of-favour businesses where the team believes it has a clear understanding of the source of their competitive advantage. Overall, the Manager's philosophy is well-entrenched among senior members of the team and is applicable to the Fund's universe and performance objective.

Research Process

Key screens	Balance Sheet Earnings Liquidity Market Cap
Screened universe	5000
Idea generation	Filter universe using using five criteria – sustainable business model, strong balance sheet, disciplined management, strong corporate governance and compelling valuation.
Stocks researched	300
Annual manager meetings	400
Key research inputs	Company Reports and Statements; Meetings with Management, Customers, Suppliers, Competitors and Industry Experts
Primary valuation approach	Free Cash flow multiple

Lizard effectively filters the investable universe to generate a cross section of names. However, the idea generation and coverage from the US has historically remained benchmark underweight (26.6% vs 54.8%, Oct. 2023). While this has been beneficial in the context of the team's resourcing and workflow, there is a risk that relative performance will be largely driven by country exposures as opposed to stock-specific factors.

The Manager's due diligence on companies is considered disciplined and sufficiently detailed. The long-term focus allows the team to be patient and focused on appropriate investment ideas, aided by ongoing discussions. The Manager uses its finite analyst time efficiently with a focus on where value can be added. While having a positive view on such a targeted approach, additional resourcing could provide additional breadth to the process.

The Manager has a 'devil's advocate' element to the process in an effort to challenge the investment thesis of holdings. This is viewed positively, particularly given the Manager's longer holding period. This element of the process promotes great scrutiny, while creating greater ownership of the portfolio among the team.

Process (continued)



Portfolio Construction

Portfolio management structure	Single PM
Approach to benchmark	Benchmark Agnostic
Typical security numbers	40
Typical securities range	30-80
Typical portfolio turnover p.a.	30%
Typical active share	95%

The Fund is typically managed in a moderately concentrated fashion, reflective of the Manager's high conviction investment philosophy. The level of conviction within the Fund is a key point of difference from many peers. Additionally, the single point of accountability in Moog for investment decisions is considered a positive for the Fund.

Previously, concerns have been noted regarding the Manager's sell discipline, however, the Manager has implemented the 'devil's advocate' element with ongoing efforts to challenge the investment thesis of longer-term stock holdings. Pleasingly, signs of improvements in the Manager's sell discipline have been realised, however this will continue to be a watchpoint in future reviews.

Capacity Management

Capacity guidance	US\$500m
Strategy AUM	\$135m
Portfolio liquidity (1 week)	79.76%
Substantial holdings by manager	0
Strategy previously closed	No

There are no capacity concerns given AUM is well below the stated capacity target.

Investment Risk Management

Monitoring external to investment team	Yes
Frequency of monitoring	Daily
Primary risk management system	Bloomberg & Proprietary System
Security Limits (Min./Max.)	Soft limit: 0-10% Absolute
Sector Limits (Min./Max.)	Soft limit: 0-35% Absolute
Country Limits (Min./Max.)	Soft Limit: 0-55% United States, 0-25% Countries ex-US
Non-index Allocation (Typical, Max.)	0%, Unconstrained
Cash Allocation (Typical, Max.)	8%, 20%

The Fund holds a flexible mandate and is permitted to invest in mid-cap stocks. The purchase of mid-cap stocks is considered to be outside the Fund's small cap mandate; however, the Fund's median market capitalisation has remained between US \$2bn and US\$5bn. This will continue to be monitored. The Fund is constructed with broad absolute limits as risk is predominantly managed in an absolute sense during the research process with no reliance on industry risk management systems. This approach is considered outdated in comparison to peers utilising more sophisticated systems.

The risk reporting is pleasingly conducted separate to the investment team with Pengana's risk management team. A monthly risk report for the Fund is prepared and then discussed with Moog at least on a bimonthly basis.

ESG



Manager Positioning

Responsible investment style	ESG Integration
ESG approach	Risk or Value
Sustainability thematic	N/A
Non-financial objective	None

Sustainability Score

No score.

What is the Manager's ESG approach?

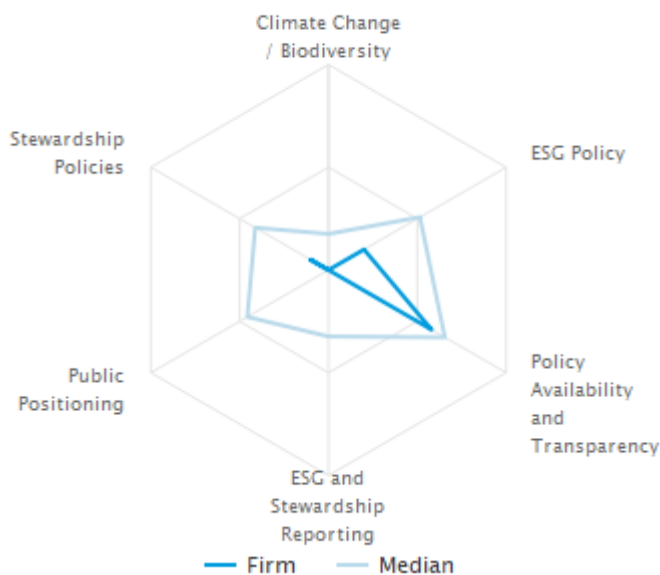
The Manager has indicated that their Responsible Investment style is "ESG Integration" and as such that they take Environmental, Social and Governance factors into consideration when assessing investment opportunities. With a primary ESG style of "Risk or Value" Managers will determine inclusion based on the balance of overall risk (including ESG risk) and potential return. As a result this approach may mean that lower quality ESG companies may be included if the return potential is sufficient and this may conflict with some clients perception of what a strong ESG process would deliver.

Lonsec Opinion & Supporting Facts

Overview

ESG Process Score	Low
Responsible Investment strategy risk: Clarity, measurability & reporting	N/A

ESG Snapshot



Product Level Approach

While the Manager is sourcing data from an external ESG data provider it is less comprehensive than some peers. The Manager performs little internal ESG research for this Fund, relying on largely on external sources for assessment/ratings. Transparency on the transmission from research to portfolio construction is limited. There little in the way of portfolio level ESG risks measurement apparent. There are no Portfolio level ESG based limits or targets in place for the fund. While engagement is a component of the Manager's approach, there is limited structure around overall engagement activities.

Strategy: Clarity, Measurability & Reporting

This product does not make any specific claim to being a sustainable, ethical or impact offering. As such, the alignment review does not apply to the product and thus scores its risk of misalignment as N/A.

Manager Level Approach

The Manager's overall ESG policy framework and disclosure is significantly lagging peers. The Manager has indicated a commitment to integrating ESG within their investment process, however, there limited evidence in their public positioning. While the Manager has a responsible investing policy in place, the policy is Fund specific and only available on the distributor's website. The policy provides details on the engagement approach but remains rather generic compared to peers. No details on their proxy voting policy or voting outcomes are provided.

Product



Service Providers

Responsible entity	Pengana Capital Limited
Investment manager	Lizard Investors LLC
Custodian	BNP
Administrator	BNP
Fund Auditor	EY
Change in Key Providers? (Over last 12 months)	No

Product Details

Product size	\$135.14m
Fund 12-month net flows	Negative
Distribution model	Affiliate
Buy/sell spreads	0.30%/0.30%
Investment structure	Direct
Product type	Unit Trust
Currency hedged	Unhedged
Use of derivatives	No
Types of derivatives	N/A

What is the Product Structure?

The Fund is an Australian unit trust and is currency unhedged. Pengana Capital is the Responsible Entity (RE) and has appointed Lizard Investors LLC as the Investment Manager of the Fund. The Fund is a long only equity product that can only invest in global small caps.

Lonsec Opinion

Service Providers

The Manager has engaged 'tier 1' service providers for critical functions such as custodial, administration, auditing, and broking services. Although the Fund utilises a related party RE, there have been no issues thus far. The RE has built experience in operating and managing several schemes over an extended period, and it is expected to have a governance framework in place to address any perceived conflicts of interest.

Operational 'Red Flags'

The Fund is a relatively straight forward global equities strategy, investing in small cap stocks with no stated minimum market capitalisation. As such, this small cap exposure may pose some operational and liquidity challenges at times of market dislocation.

Wind-up Risks

The wind up risk for the Fund is considered moderately low given the current level of FUM. However, the risk remains elevated given consistent outflows and underperformance in the short term.

Fees

Annual Fees and Costs (% p.a.)

Management fees & costs	1.10
Performance fee costs	0.01
Net Transaction Costs	0.07
Buy/Sell Spread	0.30/0.30
Annual fees and costs	1.18

Source: FE fundinfo

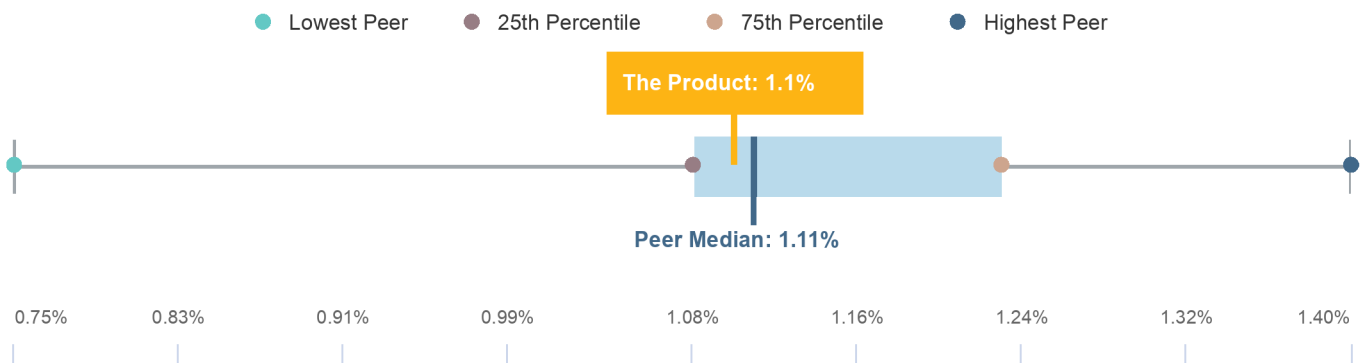
Performance Fees

Applicable	Yes
Hurdle type	Benchmark Relative
Hurdle	MSCI All Country World Index SMID Cap
Rate	20.5%
Fee capping	No
High watermark	Yes
Above high watermark	No
Reset Allowed	No

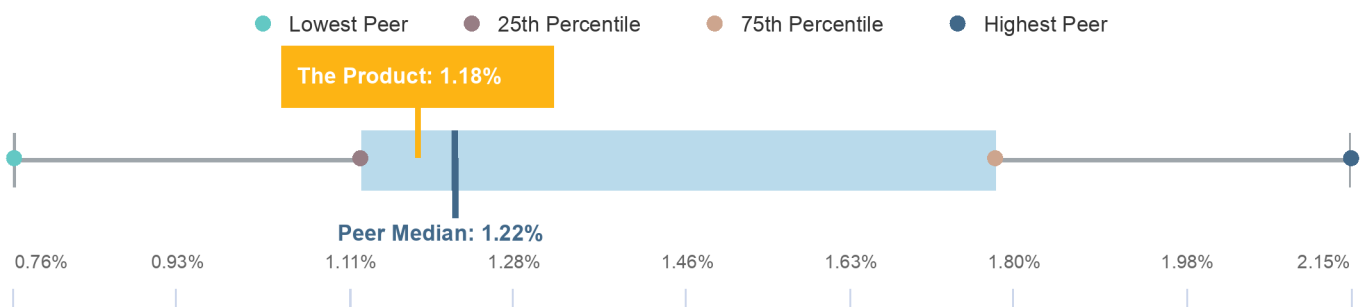
Fees Explained

The Fund charges a performance fee of 20.5% on net outperformance of the Benchmark calculated and accrued daily in the unit price and paid monthly in arrears by the Fund. This fee is subject to a high watermark which cannot be reset by the issuer.

Management Fees and Costs Peer Comparison (31/07/2023)



Annual Fees and Costs Peer Comparison (31/07/2023)



Peer Universe: Global Equities - Global Smaller Companies - Fundamental

Lonsec Opinion

Annual Fees and Costs

The total fee load for the Fund is moderately low for the capability on offer, relative to its peer group. However, this is due to performance fees not being a large contributor to the overall fee load to-date. Moreover, the fee reduction in April 2022 was a positive development for investors.

Fairness

The total fees for the Fund are moderately below peers and while performance fees are uncapped, the capacity constrained nature of the Fund provides an element of justification.

Performance data is as at 31 October 2023

Performance

Performance Summary

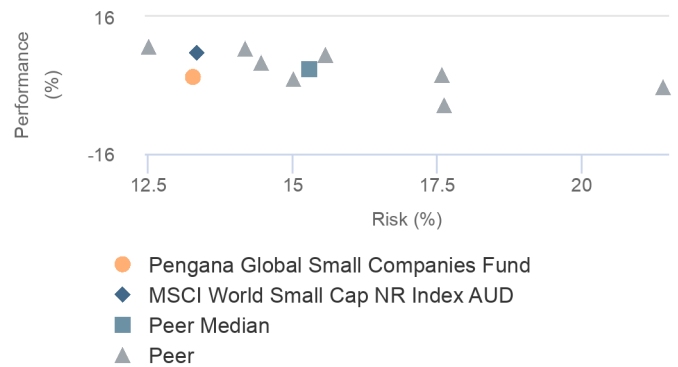
PDS return objective	To obtain returns greater than the MSCI all country world index SMID cap unhedged in Australian dollars over rolling three year periods after fees.
Internal return objective	To outperform the benchmark by 3% p.a. (after fees) over rolling three-year periods.
Internal risk objective	To avoid capital drawdowns
Product benchmark	MSCI World Small Cap NR Index AUD
Lonsec peer group	Fundamental

Alpha Generation

Note: The Fund uses the MSCI AC World SMID Cap Index AUD as its benchmark, while the following commentary and Performance Analysis in the report refer to the MSCI World Small Cap NR Index AUD.

The Manager has disappointingly underperformed both the benchmark and the peer median and over most trailing time periods. As such, the Fund has not met its rolling three-year alpha target.

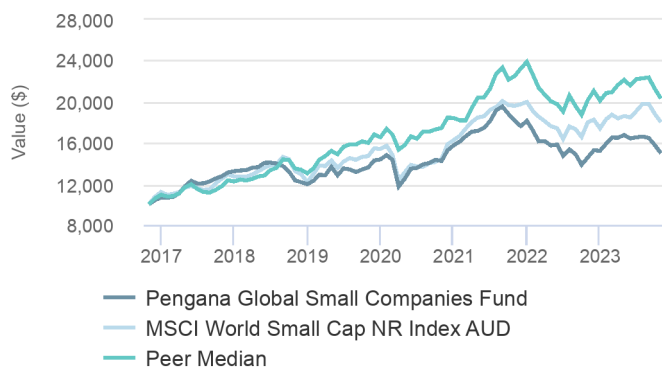
3 Year Risk and Return



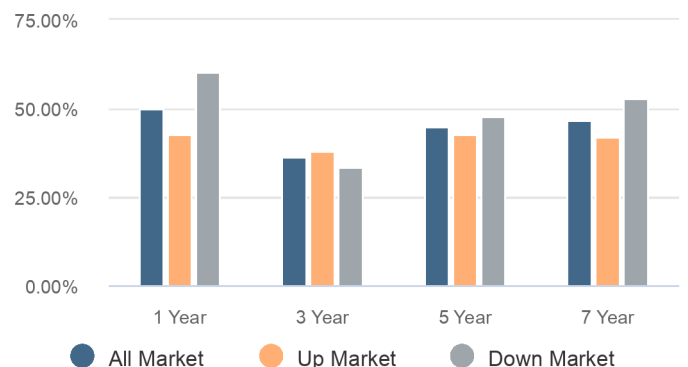
Alpha Consistency

The Fund's weaker relative performance over recent years have been impacted by the Manager's value investment style over a period which has favoured growth-style investing. Additionally, performance was impacted by the Fund's underweight to the US market where the Manager has determined there to be a lack of appropriate value opportunities.

Growth of \$10,000 Over 7 Years



Returns Consistency



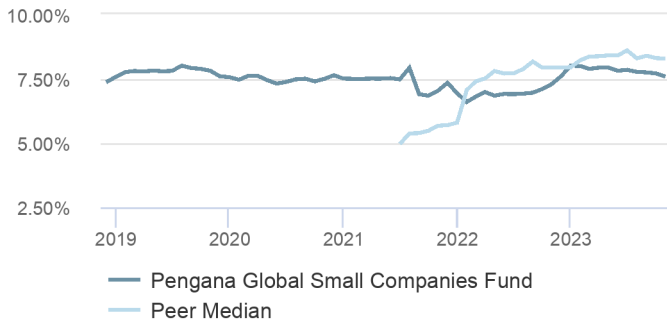
Performance data is as at 31 October 2023

Performance (continued)

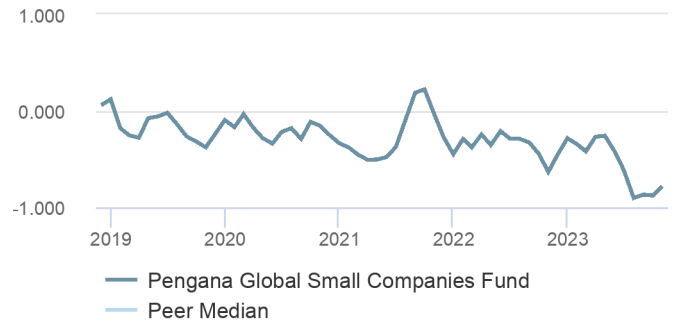
Benchmark Relativity

The Fund's 5 year rolling tracking error of 7% ranks in line with the peer median. However, the information ratio has been lower in comparison to peers. Therefore, the Fund has not been rewarded despite comparable activity with peers.

3 Year Rolling Tracking Error Over 5 Years



3 Year Rolling Information Ratio Over 5 Years



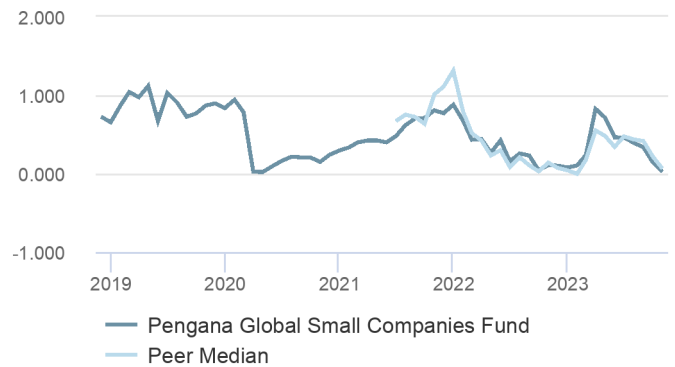
Return Volatility

The Fund has displayed a marginally higher volatility profile than the Benchmark and peer median over five-year rolling periods, however this has lowered in the short term. The Fund's rolling five-year Sharpe ratio tended to be relatively lower than the peer median, therefore demonstrating a relatively weaker risk-adjusted return profile.

3 Year Rolling Standard Deviation Over 5 Years



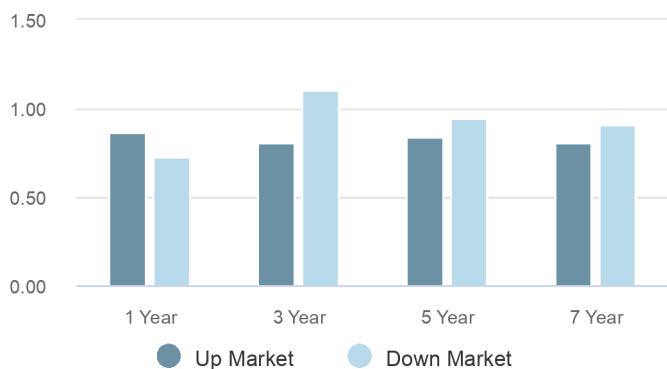
3 Year Rolling Sharpe Over 5 Years



Product Defensiveness

Over the long term, the Fund has displayed reasonable downside protection in line with the benchmark, however, the Fund has experienced larger downturns over the short term.

Market Capture Ratio



Drawdowns



Ratings

'**Highly Recommended**' rating indicates that Lonsec has very strong conviction the product can meet its investment objectives.

'**Recommended**' rating indicates that Lonsec has strong conviction the product can meet its investment objectives.

'**Investment Grade**' rating indicates that Lonsec has conviction the product can meet its investment objectives.

'**Approved**' rating indicates that Lonsec believes the product can meet its investment objectives.

'**Not -Approved**' rating indicates that Lonsec does not believe the product can meet its investment objectives.

'**Closed / Wind Up**' status is applied when the product has been closed.

'**Fund Watch**' status is applied when a rating is under review due to the occurrence of a significant event relating to the product.

The '**Redeem**' rating indicates Lonsec no longer has sufficient conviction that the product can meet its investment objectives.

The '**Screened Out**' rating indicates Lonsec was unable to attain sufficient conviction that the product can meet its investment objectives.

'**Discontinued Review**' status is applied where a product issuer withdraws the product from the review process prior to completion, for any reason other than the product being closed or unavailable to investors.

The '**Ceased Coverage**' status is applied when a rated product is withdrawn from the research process by the product issuer.

General

Climate Change / Biodiversity: the extent to which a manager has a leading climate and biodiversity policies.

ESG and Stewardship Reporting: the transparency, accessibility and usefulness of a manager's reporting.

ESG Policy: the strength of commitment to ESG as ascertained by a review of a manager's ESG policies.

Excess return: Return in excess of the benchmark return.

Information ratio: Relative reward for relative risk taken (Excess Returns / Tracking Error).

Key decision maker (KDM): A nominated investment professional who has portfolio decision making discretion for a Fund, e.g. 'buy' or 'sell' decisions.

Market capture ratio: A product's performance during either 'up' or 'down' market trends relative to an index.

Policy Availability / Transparency: the ease of public access to, and transparency of, a manager's overall ESG policy suite.

Public Positioning: the resolve of a manager's commitment to ESG as ascertained by their public positioning.

Returns consistency: The proportion of a product's monthly outperformance during a period relative to the benchmark when it was rising, falling and in aggregate.

Sharpe ratio: Excess return earned for additional volatility experienced when holding riskier assets versus risk-free asset.

Standard deviation: Volatility of monthly Absolute Returns.

Stewardship Policies: the strength of a manager's proxy voting and engagement policies with respect to ESG.

Time to recovery: The number of months taken to recover the Worst Drawdown.

Total return: 'Top line' actual return, after fees.

Tracking error: Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns).

Worst drawdown: The worst cumulative loss ('peak to trough') experienced over the period assessed.

Lonsec Group Disclaimers

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Lonsec Research FSG

Financial Services Guide

Lonsec Research

9 June 2023

This Financial Services Guide (FSG) has been prepared and issued by Lonsec Research Pty Ltd ABN 11 151 658 561 (Lonsec Research, we, us, our), holder of Australian Financial Services Licence (AFSL) No. 421445, to assist you in determining whether to use our financial services and products. This is an important document, and you should read it carefully. The contents of this FSG are general information only and does not take into account your personal needs or objectives. Lonsec Research provides no warranty as to the suitability of the services of this FSG for any particular person.

1.1 What is a Financial Services Guide?

This FSG's purpose is to provide you with important information regarding services offered by Lonsec Research. You should read this FSG prior to using our services. This document was prepared to inform you about:

- who we are and our contact details;
- the financial services we provide;
- the remuneration that may be paid to us and other persons in relation to the financial services we provide;
- how we deal with conflicts of interest; and
- how we deal with complaints

1.2 About Lonsec Research and its related parties

Lonsec Research provides in-depth, investigative investment research across a broad range of listed and unlisted investments. Lonsec Research is a wholly owned subsidiary of Lonsec Holdings Pty Ltd (ABN 41 151 235 406) (Lonsec Holdings). Other subsidiaries of Lonsec Holdings include SuperRatings Pty Ltd (ABN 95 100 192 283), Implemented Portfolios Pty Limited (ABN 36 141 881 147) and Lonsec Investment Solutions Pty Ltd (ABN 95 608 837 583). All employees of the Lonsec group entities, including Lonsec Research, are employed by Lonsec Fiscal Pty Ltd (ABN 94 151 658 534).

Contact Details

Lonsec Research Pty Ltd
Level 39, 25 Martin Place

Sydney NSW 2000

Tel: 1300 826 395

Email: info@lonsec.com.au

www.lonsec.com.au

1.3 What kind of financial services can Lonsec Research provide?

Lonsec Research is authorised under its Australian Financial Services Licence to provide general financial product advice to retail and wholesale clients on the following types of financial products:

- securities
- deposit and payment products limited to basic product products
- derivatives
- interests in managed investment schemes including investor directed portfolio services
- superannuation
- retirement savings accounts
- foreign exchange products
- life products including:
- investment life insurance products as well as any products issued by a Registered Life Insurance Company that are backed by one or more of its statutory funds; and
- life risk insurance products as well as any products issued by a Registered Life Insurance Company that are backed by one or more of its statutory funds;

Lonsec Research is also authorised to deal in a financial product by arranging for another person to apply for, acquire, vary, or dispose the above types of products for or by retail and wholesale clients.

1.4 Provision of general advice

Any advice that Lonsec Research provides is of a general nature and does not take into account your personal financial situation, objectives or needs. You should, before acting on the information, consider its appropriateness having regard to your own financial objectives, situation and needs and if appropriate, obtain personal financial advice on the matter from a financial adviser. Before making a decision regarding any financial product, you should obtain and consider a copy of the relevant Product Disclosure Statement or offer document from the financial product issuer.

1.5 How Lonsec Research is paid

Lonsec Research receives fees from Fund Managers and/or financial product issuers for researching their financial product(s) using comprehensive and objective criteria. Lonsec receives subscriptions fees for providing research content to subscribers including financial advisers, fund managers and financial product issuers. Lonsec Research's fees are not linked to the financial rating outcome of a particular financial product. Lonsec Research fees are determined by private agreement with its clients depending on a number of criteria including the number of financial advisors who access Lonsec Research publications, the range of publications accessed and the complexity of a specific research assignment.

Lonsec Research FSG (continued)

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1.6 How do we manage our compensation arrangements?

Lonsec Research has Professional Indemnity insurance arrangements in place to compensate clients for loss or damage because of breaches of any relevant legislative obligations by Lonsec Research or its representatives which satisfy section 912B of the Corporations Act 2001.

1.7 What should you do if you have a complaint?

Lonsec Research's internal complaints handling process is designed to ensure that your concerns are treated seriously, addressed promptly and fairly. A complaint may be lodged either verbally or in writing and will be dealt with in strict confidence. If you have a complaint relating to Lonsec Research's products, services, its employees, the complaint should be addressed to:

Complaints Manager

Level 39, 25 Martin Place
Sydney NSW 2000

Tel: 1300 826 395

Email: complaints@lonsec.com.au

An individual may request further information about Lonsec Research's internal complaints handling procedure at any time. If an individual is not satisfied with the outcome of their complaint or has not received a response within 30 days from Lonsec Research, the individual can complain to the Australian Financial Complaints Authority (AFCA). AFCA provides an independent dispute resolution service and can be contacted on:

Online: www.afca.org.au

Email: info@afca.org.au

Phone: 1800 931 678

Mail:

Australian Financial Complaints Authority
GPO Box 3
Melbourne, Victoria, 3001.

1.8 Conflicts of Interest

Lonsec Research is aware of the inherent potential conflicts of interest associated with the provision of ratings and how we are remunerated for our services. There are a comprehensive set of policies, and procedures in place at Lonsec Holdings that apply to its subsidiaries including Lonsec Research.

Information barriers (both permanent and temporary) consistent with our regulatory obligations under Regulatory Guide 79 are in place to manage either perceived or actual conflicts of interest. Employees of Lonsec also have to abide by Personal Trading and Gifts and Entertainment requirements and are trained on these requirements from time to time.

Generation Development Group Limited (ACN 087 334 370), a shareholder of Lonsec Holdings, is the parent company of Generation Life Ltd who issue a series of products rated by Lonsec Research. Lonsec Research manages this potential conflict by disclosing to investors accessing our research of Generation Life related products, and implementing our comprehensive ratings process, information barriers and monitoring program. For more information refer to Lonsec Research Ratings Methodology available on our platform iRate or by contacting us on 1300 826 395.

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Australian Retirement Trust is a subscriber to our services and pays a fee to us for this subscription service. Australian Retirement Trust rating and report is issued by an analyst who is aware of Australian Retirement Trust's appointment as default superannuation fund provider but who does not have a personal investment in the fund.

This FSG was prepared on 9 June 2023.