



# Allan Gray Australia Stable Fund

This report has been prepared for financial advisers only



**Outstanding**

June 2023

# INTRODUCTION

## Key Principles

SQM Research considers (but is not restricted to) the following key review elements within its assessment:

1. Business profile - product strategies and future direction
2. Marketing strategies and capabilities, market access
3. Executive Management / Oversight of the investment management firm
4. Corporate Governance / fund compliance / risk management
5. Investment team and investment process
6. Fund performance, investment style, market conditions, investment market outlook
7. Recent material portfolio changes
8. Investment liquidity
9. Investment risks
10. Fund/Trust fees and expenses

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**Report Date: 26 June 2023**

Star Rating*	Description	Definition	
4½ stars and above	Outstanding	<b>Highly suitable for inclusion on APLs</b> <i>SQM Research believes the Fund has considerable potential to outperform over the medium-to-long term. Past returns have typically been quite strong. Product disclosure statement (PDS) compliance processes are of a high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.</i>	High Investment grade
4¼ stars	Superior	<b>Suitable for inclusion on most APLs</b> <i>SQM Research considers the Fund has substantial potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.</i>	High Investment grade
4 stars	Superior	<b>Suitable for inclusion on most APLs</b> <i>In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no corporate governance concerns. Management is of a high calibre.</i>	High Investment grade
3¾ stars	Favourable	<b>Consider for APL inclusion</b> <i>SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality. There are no corporate governance concerns, or they are of a minor nature.</i>	Approved
3½ stars	Acceptable	<b>Consider for APL inclusion</b> <i>In SQM Research's view, the potential for future outperformance in the medium-to-long term is somewhat uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and capable. SQM Research has identified weaknesses which need addressing in order to improve confidence in the Manager.</i>	Low Investment grade
3¼ stars	Caution Required	<b>Not suitable for most APLs</b> <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potential substandard. There are possible corporate governance concerns. Management quality is not of investment-grade standard.</i>	Unapproved
3 stars	Strong Caution Required	<b>Not suitable for most APLs</b> <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There may be some material corporate governance concerns. SQM Research has a number of concerns regarding management.</i>	Unapproved
Below 3 stars	Avoid or redeem	<b>Not suitable for most APL inclusion</b>	Unapproved
Event-driven Rating		Definition	
<b>Hold</b>		<i>Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.</i>	
<b>Withdrawn</b>		<i>Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.</i>	

\* The definitions in the table above are not all encompassing and not all individual items mentioned will necessarily be relevant to the rated Fund. Users should read the current rating report for a comprehensive assessment.

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**SQM Rating** ★★★★★

*Outstanding. Highly suitable for inclusion on APLs.*

Fund Description	
Fund Name	Allan Gray Australia Stable Fund
APIR code	ETL0273AU
Asset Class	Multi-Asset
Management and Service Providers	
Fund Manager	Allan Gray Australia Pty Ltd
Responsible Entity	Equity Trustees Limited
Fund Information	
Fund Inception Date	1-Jul-11
Fund Size	\$350.0 m as of Apr 2023
Return Objective (per PDS/IM)	"To provide a long-term return that exceeds the RBA cash rate, with less volatility than the Australian share market."
Internal Return Objective	Not Applicable
Risk Level (per PDS/IM)	Low to Medium
Internal Risk Objective	Not Applicable
Benchmark	RBA Cash Rate
Number of stocks/positions	23
Fund Leverage	Not Applicable
Portfolio Turnover	37.58% - 9-year average ending Dec 2022
Top 10 Holdings Weight	17.90%
Investor Information	
Management Fee	0.26% of the Fund's net asset value
TCR (Total Cost Ratio)	1.08% as of Jan 2023
Buy Spread	0.10%
Sell Spread	0.10%
Performance Fee Rate	20.5% of the Fund's outperformance
Minimum Application	\$10,000
Redemption Policy	Daily
Distribution Frequency	Quarterly
Investment Horizon	Two years or longer
Currency Hedging Policy	Not Applicable

## SUMMARY

### Fund Summary

#### Description

The **Allan Gray Australia Stable Fund (the "Fund")** is a differentiated Australian investment fund that, by default, invests 100% of its assets in cash and money market instruments with a flexible ability to allocate to Australian shares when deemed attractive and appropriate.

Over time the Fund will include ASX-listed securities, which Allan Gray believes will:

- Offer a significantly **better total return** than cash and money market instruments
- Have some attributes that may **limit their downsides**, such as tangible asset backing or high yield

When share markets fall to levels that Allan Gray believes offer compelling long-term value, the ASX-listed securities component of the Fund's assets can be increased to a maximum of 50% of the Fund's assets.

The Fund follows a **long-term, fundamental, bottom-up and contrarian** investment approach and avoids the most "popular" areas of the market where the risk of overpaying is higher.

The Fund is structured as an open-ended unlisted registered managed investment scheme or unit trust.

### Fund Rating

The Fund has achieved the following rating:

Star Rating	Description	Definition	Investment Grading
4.50 stars	Outstanding	Highly suitable for inclusion on APLs	High Investment Grade

Previous Rating: 4.50 stars (Issued Jun 2022)

### SQM Research's Review & Key Observations

#### About the Manager

**Allan Gray Australia** is a privately-owned Australian incorporated investment management company that has been managing wealth for Australian investors since 2005, as has been done by the broader Group globally since 1973.

Allan Gray Australia's (AGA) ultimate owners are current senior staff, Dr Simon Marais' family interests, and the Allan & Gill Gray Foundation via Orbis Allan Gray Ltd.



Dr Marais was the former Managing Director of AGA and one of its initial shareholders.

The **Orbis Group** is a global fund manager established in 1989 and founded by Dr Allan WB Gray, who also founded Allan Gray Proprietary Limited in South Africa (AGL). Allan Gray in Australia, the Orbis Group and AGL all share the same investment approach and philosophy.

Allan Gray Australia is based in Sydney, with smaller offices in Melbourne and Brisbane. As of Jan 2023, the firm's FUM was AUD 10.1 billion across Australian Equity, Balanced and Stable strategies. The firm's clients include individuals, trusts, companies, superannuation funds, family offices and government entities.

#### Investment Team

**Simon Mawhinney** and **Suhas Nayak** are Portfolio Managers for the Allan Gray Australia Stable Fund.

The Australian research team of nine people is autonomous within the broader Orbis/Allan Gray group but has access to research produced by the offshore research teams. This includes conferencing into Policy Group Meetings (stock discussions) held overseas.

Analysts are responsible for looking for ideas, identifying those that are worth pursuing and providing a thorough analytical report which can take several weeks or longer to prepare. Allan Gray Australia analysts are expected to provide 2 to 3 portfolio ideas in the year, supported by high-quality research pieces.

The **key person risk** of the Fund is deemed to be low.

### 1. Investment Philosophy and Process

#### Investable Universe

Regarding cash allocations, the manager states that it must limit allowable issuers/deposit takers to Australian Commonwealth or State Governments or the 'Big Four Banks' and securities with maturity of not more than 12 months.

For equities, the universe is the same as the Australia Equity Fund. This means all Australian listed stocks (an 'all-cap approach') are subject to an assessment of size and liquidity being sufficient to allow the stock to contribute meaningfully to the portfolio.

#### Philosophy / Process / Style

The investment philosophy and approach of the Stable Fund are coherent and clearly stated. Essentially, the strategy is an opportunistic cash/term deposit fund where the investor has delegated to the manager

the decision to invest in equities at what are assessed to be cheap valuations. It is an unusual structure in the Australian market – compared to the more typical situation where investors allocate separately to asset-class specialists and hold term deposits directly.

Equities are selected by the portfolio manager (CIO Simon Mawhinney) in accordance with Allan Gray's tested contrarian value style that rests on three principles: contrarian, long-term and fundamental. This is articulated by the manager as follows:

- **Contrarian:** When buying shares that analysts, market commentators and other investors dislike, it is important to understand why the sellers are selling
- **Long Term:** Evaluate investment opportunities as a long-term owner of a business. The Manager adopts a five to ten-year horizon when they decide to invest in a share. The Manager focuses on understanding the intrinsic value of a company rather than trying to forecast the next share price move
- **Fundamental:** Focus on company fundamentals (margins, competitive dynamics and long-term averages) rather than economic variables, currency rates and economic growth rates

The Manager believes (as stated in the PDS) that the Fund is an alternative to the money market and income-generating investments. Though the Fund has no specific income objective regarding distributions, the distribution frequency is set to quarterly.

The unique cash/term deposit "plus" approach in the Stable Fund offers a **lower-volatility** alternative to the Allan Gray Australia Equity Fund – likely to appeal to investors with lower risk tolerance or shorter time horizons. Investors are effectively delegating the decision to invest in Australian equities in a simple 'barbell' multi-asset structure.

The strategy is described as "...the Fund's default position will be investments in cash and money market instruments. The only time the Fund will move out of cash and money market instruments is if Allan Gray identifies an investment opportunity that offers long-term value. Such investments can only comprise up to 50% of the Fund's net asset value at any one time. No single share exposure may be greater than 5% of the Fund".

The selection of cash and term deposits is conservative and straightforward. The approach is aimed at safeguarding investors' holding in this asset class in the Fund by managing risk cautiously.

The Manager states that the primary tools to manage the risk of the cash/term deposit allocation are:

- 1) Limiting allowable issuers/deposit takers to Australian Commonwealth or State Governments or the "Big Four Banks"
- 2) Limiting exposure to any single bank
- 3) Limiting the maximum maturity for TDs to 12 months
- 4) Ensuring there is appropriate liquidity at the shorter end of the allowable spectrum

The process is dependent on intensive proprietary investment research focusing on understanding the underlying business of the company. The Manager prefers companies that they deem are "**out of favour**" with the broader investment community. Often these companies will have experienced substantial falls in their share price and will be poorly rated by sell-side research analysts.

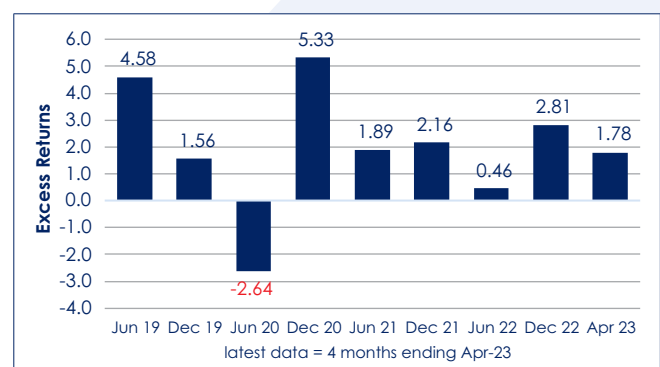
## 2. Performance & Risk

### Return Objective

The return objective stated in the PDS is: "The Fund aims to provide a long-term return that exceeds the RBA cash rate, with less volatility than the Australian share market."

The Fund's benchmark, as stated in the PDS, is RBA Cash Rate Index.

### Fund Excess Returns %: Half-yearly (net of fees)



### Length of Track Record

The Fund has a history of 11.8 years (or 141 months).

Observations and analysis of returns will have a significant statistical meaning as a result of the sample size of observations.

### Risk Objective

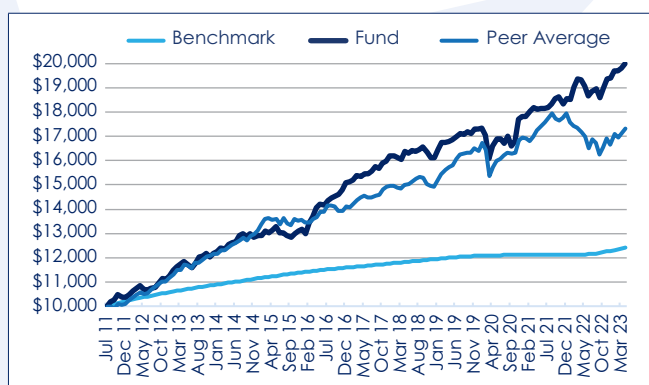
The Fund's PDS states that the risk level of the Fund is "Low to Medium".

Fund Performance to 30 April 2023 (% p.a.)							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	0.92	1.50	5.27	3.36	6.40	4.03	6.06
Benchmark	0.30	0.86	1.64	2.42	0.89	1.00	1.87
Peer Average	0.99	1.29	4.58	0.88	3.24	2.92	4.77
Alpha	0.62	0.64	3.62	0.94	5.51	3.03	4.20

With dividends reinvested. Returns beyond one year are annualised. Return history starts Aug-2011.

Benchmark: RBA Cash Rate

### Growth of \$10,000



- The compensation structure for the Stable Fund portfolio manager and analysts is in alignment with investor objectives
- The Fund has significantly outperformed the benchmark in all periods
- The FUM of the Fund has been recovered and steady since the drawdown in Mar 2020
- The Fund has outperformed the peer group in all periods (except 1-month)
- The management fee is competitive when compared with the peer average

### Strengths of the Fund

- The unique cash/term deposit "plus" approach in the Stable Fund, which offers a lower-volatility alternative to the Allan Gray Australia Equity Fund - is likely to appeal to investors with lower risk tolerance or shorter time horizons. Investors are effectively delegating the decision to invest in Australian equities in a simple 'barbell' multi-asset structure
- Clear and rigorous contrarian Australian equities investment philosophy that has proven itself over the long term in Allan Gray's South African and Orbis Global equities strategies
- A straightforward and conservative approach to investing in cash/term deposits which can account for 50% to 100% of the Fund. Note that the manager does not have a specialist fixed interest capability in Australia
- Focused and in-depth fundamental Australian equities research approach, implemented via a centralised group meeting with accountability resting clearly with the portfolio manager

### Weaknesses of the Fund

- Significant sector biases and contrarian position taking in the Australian equities portion of the portfolio lead to the potential for some short-term performance volatility. Despite this, the Fund's overall volatility is likely to be materially lower than standard Australian equity benchmarks
- SQM has assessed the fee structure and key parameters (including the high watermark) and has concluded that the structure is generally fair for investors. However, in certain market conditions that favour equities (and assuming the Manager is positioned as such), the overall fee may rise considerably as the benchmark used is the RBA Cash Rate and not a weighted benchmark that includes an equities index component

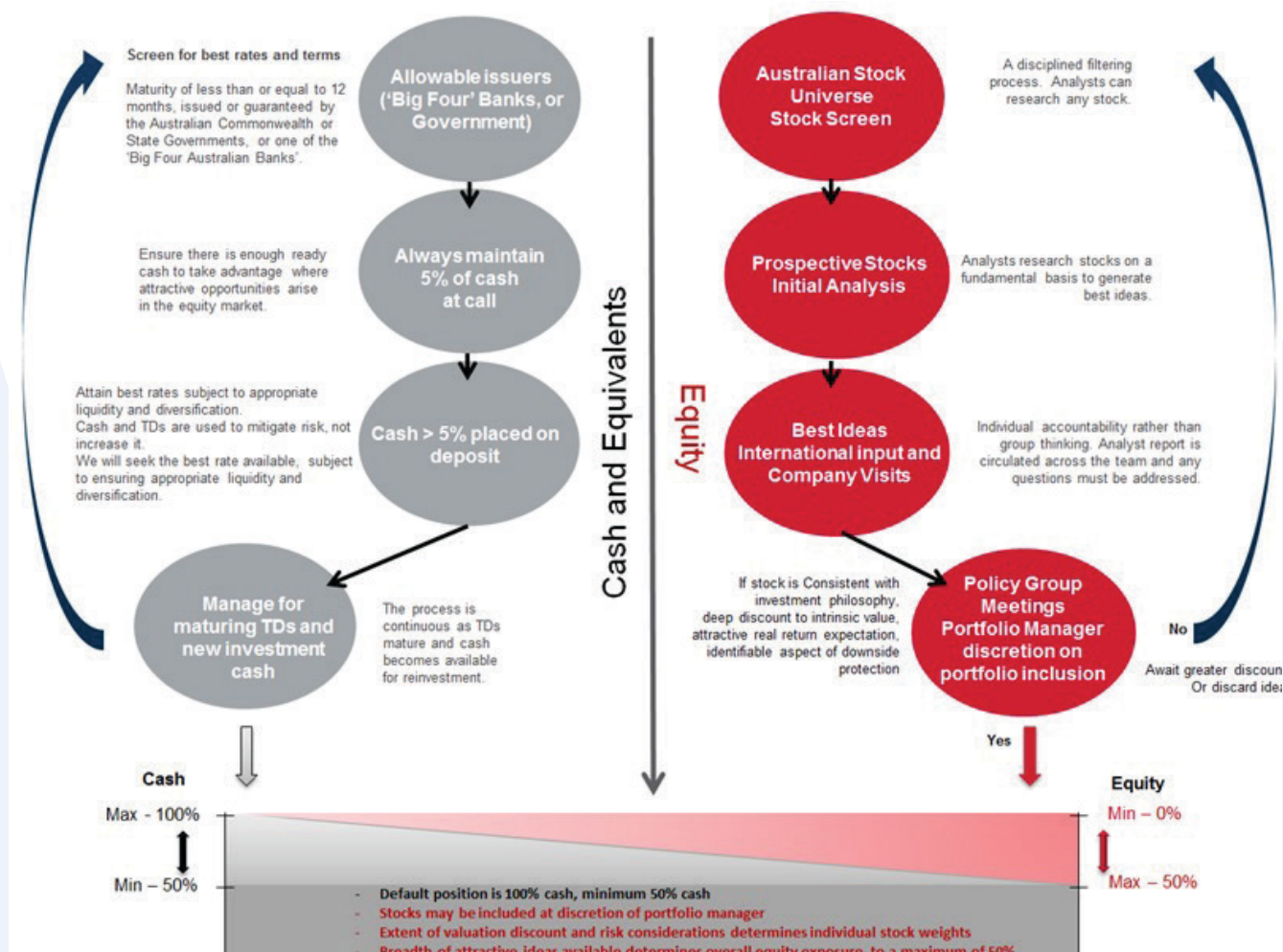
**Other Considerations**

- The Funds' Australian equities component is more concentrated compared to the Growth component in traditional 30/70 multi-asset funds (funds with a 70% Defensive and 30% Growth asset allocation). Consequently, the Fund may occasionally experience higher volatility compared to those traditional 30/70 multi-asset funds
- The Fund offers allocations to cash-style investments and an allocation to Australian equities run to the same structure as its Australian Equity Fund
- The Fund uses a benchmark that accurately captures the cash-style allocations of the fund, not so much the equity allocation

**Key Changes Since the Last Review**

- No major changes in the last 12 months

## Investment Process Diagram



## Process Description

Overall, the Stable Fund has a default position of 100% cash and term deposits. This can reduce to as low as 50% if the portfolio manager decides that there are better opportunities in equities, which are managed in the same style as Allan Gray's Australia Equity Fund. These shares are held directly (it is not a 'funds of funds' construct). The two investment processes (for cash/term deposits and equities) are summarised below.

The decision to switch from the default position (holding cash and term deposits) is essentially "bottom-up". There is no quantitative metric that drives the decision made by the portfolio manager. That is based on his experience in identifying a compelling investment opportunity. In turn, this is derived from Allan Gray's contrarian value-based approach, which is based on rigorous research. That research identifies how much a stock is trading at relative to intrinsic value.

## A. Term Deposits and Cash

Universe	
<b>Investable Universe</b>	<p>Allowable issuers are term deposits (TDs) with a maturity of less than or equal to 12 months, issued or guaranteed by the Australian Commonwealth or State Governments or one of the 'Big Four Australian Banks'.</p> <p>Within the minimum 50% required to be held in TDs and cash combined, the Manager will always keep up to 5% of the Fund's net asset value (NAV) in at-call cash to provide flexibility in liquidity management and trading opportunities.</p>
Investment Process	
<b>Top-down or bottom-up</b>	The process is bottom-up, with the manager seeking to attain the best rates subject to appropriate liquidity and diversification.
<b>Research and Portfolio Construction Process</b>	<p><b><u>Idea Generation</u></b></p> <p>The portfolio manager Simon Mawhinney is responsible for identifying the best term deposits and takes account of analyst research on the banks (though note that this is generally from an equities perspective).</p> <p>While the Manager does not have a specialised fixed-income capability, cash and term deposits are basic investments in this asset class.</p> <p><b><u>Portfolio Construction</u></b></p> <p>The portfolio construction process is straightforward, given the tight parameters for the screening of term deposits. Essentially, the Manager conducts a quantitative assessment comparing rates and terms offered by the favoured banks.</p> <p><b><u>Liquidity</u></b></p> <p>The liquidity of the Fund is expected to be high at all times, given the cash exposure being a minimum of 50% and, on average, much higher than this.</p> <p><b><u>Turnover</u></b></p> <p>A reasonable estimate for the average holding period of stocks would be 3 to 5 years at the portfolio level. However, this may vary over time.</p> <p><b><u>Sell Discipline</u></b></p> <p>Term Deposits are generally held to maturity when the proceeds are reinvested.</p> <p><b><u>Risk Management</u></b></p> <p>The manager states that the primary tools to manage the risk of the cash / TD allocation are:</p> <ul style="list-style-type: none"> <li>• Limiting allowable issuers/deposit takers to Australian Commonwealth or State Governments or the "Big Four Banks."</li> <li>• Limiting exposure to any single bank</li> <li>• Limiting the maximum maturity for TDs to 12 months</li> <li>• Ensuring there is appropriate liquidity at the shorter end of the allowable spectrum</li> </ul>

## Investment Process

**Research  
and Portfolio  
Construction  
Process**

The manager notes that the Fund does not benefit meaningfully from the Financial Claims Scheme (FCS). The FCS provides a guarantee of deposit balances at Australia ADIs, up to a cap of \$250,000 per depositor per institution, based on the aggregated deposits held in the name of each account holder.

***...continued***

A managed fund has a single Responsible Entity – which is effectively the account holder regarding the cash holdings. The protection provided by the FCS is, therefore, negligible for the cash holding in the Allan Gray Australia Stable Fund. However, during the Financial Crisis in 2008, the Government operated a Guarantee Scheme for Large Deposits and Wholesale Funding. In the event of a similar situation in future, the Manager would consider participating in such a scheme where it is made available.

**Trading Resources & Procedure**

Allan Gray uses term deposits placed with the big four Australian banks to derive a return on the cash component of the Fund. The Manager works within the parameters of the Fund's investment restrictions, which define counterparties as Government, state or big four banks. They restrict the term to a maximum of 12 months and single counterparty exposure to a maximum of 50% of the fund's net asset value.

The portfolio manager aims to consistently achieve a higher rate than the overnight deposit rate. In deciding where to invest, the manager first looks for the best rates on offer across the range of maturities up to 12 months (rates quotations are received upon request to the banks).

Having found the best rate, the manager checks to ensure the duration of the term deposit provides the fund with a fair spread of liquidity across the maturity brackets and does not breach the counterparty exposure rule. Upon deciding to enter into a term deposit, an instruction is placed with the bank. At least 5% of cash remains in the call account to provide short-term liquidity for daily settlements.

The Execution of term deposits is delegated by the portfolio manager to the Allan Gray Australia fund operations team. They will consult with the portfolio manager to confirm daily liquidity requirements and will instruct the bank counterparty to set up term deposits.

Once set up, electronic confirmation from the bank is uploaded into AGA systems and reviewed to ensure the TD matches the confirmation received. Electronic confirmations and daily reporting on the overall cash portfolio are received by the portfolio manager and the fund operations team.

**Hedging & Derivatives**

Not applicable as it deals with only AUD currency deposits.

According to the PDS, the Fund is not allowed to purchase any derivatives. This does not preclude the Fund from investing in ASX-listed convertible instruments.

The PDS states that 'there will be no gearing or borrowing in the Fund.'

## B. Australian Equities

Universe	
<b>Investable Universe</b>	The Manager defines the investable universe as all Australian listed stocks (that is an 'all-cap approach'), subject to an assessment of the size and liquidity, allowing any stock to contribute meaningfully to the portfolio.
Investment Process	
<b>Top-down or bottom-up</b>	<p>There is a clear and coherent investment philosophy that means while the Manager tends to have a value bias, at times, it can be opportunistic.</p> <p>The Manager seeks to profit from the divergence between share prices and the intrinsic value of individual companies and therefore employs a "<b>bottom-up</b>" process geared towards researching individual companies.</p> <p>This approach is based on the manager's three key principles: contrarian, long-term and fundamental. The manager articulates this as follows:</p> <ul style="list-style-type: none"> <li>• <b>Contrarian:</b> When buying shares that analysts, market commentators and other investors dislike, it is important to understand why the sellers are selling</li> <li>• <b>Long Term:</b> Evaluate investment opportunities as a long-term owner of a business. The Manager typically adopts a five to ten-year horizon when they decide to invest in a share. The focus is on understanding the intrinsic value of a company rather than trying to forecast the next share price move</li> <li>• <b>Fundamental:</b> Focus on company fundamentals (margins, competitive dynamics, and long-term averages) rather than economic variables, currency rates and economic growth rates</li> </ul>
<b>Research and Portfolio Construction Process</b>	<p><u><b>Research</b></u></p> <p>The Fund sources research materials widely from industry publications, company visits, the database that has historical accounting and price data going back more than 30 years, consultant reviews and roughly 20 brokerage houses globally.</p> <p>The Manager does receive information from brokers where it may provide useful input (for example, information on the layout of a particular industry or collating data) but does not follow their buy or sell recommendations.</p> <p>The Manager also has a global database whereby analysts can search and compare stocks globally. Local analysts can communicate with global analysts to compare similar industries across different markets.</p> <p><u><b>Screening</b></u></p> <p>The initial stock screen criteria are applied in selecting stocks for further research. It aims to identify stocks that may be priced significantly below their intrinsic value. Key criteria routinely examined at this level include long-term ROE (return on equity), long-term TNAV (tangible net asset value) growth, long-term Revenue and Earnings Growth, Debt/ TNAV and Cash/ TNAV. The criteria are not limited to this Group of ratios, though, and ultimately it is the responsibility of individual analysts (under the guidance of the portfolio managers) to determine which are most relevant to a particular stock situation.</p>

## Investment Process

Research  
and Portfolio  
Construction  
Process*...continued*

The proprietary 'Quant' system is a key research tool for the selection of research ideas. Simple ratios such as price-to-book or price-to-average earnings are supplemented with more sophisticated dividend discounts, discounted cash flow and whole enterprise valuation models to provide a list of prospective stocks for the analysts to examine. In line with the contrarian approach, other indicators of potentially interesting research ideas include companies where the share price has fallen significantly and where the shares are unpopular with the research and broking community in general.

**Stock Selection**

Shortlisted securities are analysed further in-depth by investment analysts in an intensive process to focus on the most likely opportunities. They are expected to produce 2-3 unique stock recommendations each year.

Company meetings are strongly encouraged, especially during the final phase of fundamental research and ongoing coverage of existing holdings. The final step in the process is a presentation of the idea and supporting research at the policy group meeting (PGM).

**Portfolio Construction**

The portfolio managers (PMs) are responsible for constructing and managing the portfolio. In doing so, the PMs look at each idea's perceived risk and reward and its correlation with the rest of the portfolio. Proprietary analytical tools are used to assess the incremental impact of changing individual positions on the characteristics of the overall portfolio.

The portfolio may hold both large and small companies, cash, and money market instruments. The Fund takes meaningful positions in securities that they believe are the best available ideas. The Fund is comfortable being significantly different from the benchmark.

The PGM (policy group meeting) is held as and when analysts are looking to promote their ideas into the portfolio. Analysts are responsible for calling the PGM and submitting their reports to other team members for review. The PGM is attended by all analysts and portfolio managers. The PGM provides portfolio managers with an avenue for formally considering potential securities to include within the portfolio. The PMs retain overall responsibility. If the investment idea is approved, the PM will determine the respective position size and send instructions to the trading team to start buying the stock.

The Fund relies heavily on internal Policy Group Meetings to have investment ideas challenged by the internal peer group and subjected to scrutiny. External consultants may be used on an ad hoc basis for very specific purposes.

The portfolio is constructed by taking all the best ideas (i.e., where the gap between assessed value and the stock market price is the largest) and combining them in a way that limits the exposure to any single underlying variable. This diversification strategy aims to mitigate downside risk.

A standard single-weight position in the Allan Gray Australia Equity Fund is 2.5% of the portfolio. The expectation is that the portfolio will have around 30-40 "primary positions" (1% or greater), with a tail of smaller positions that are either being built or reduced or held for portfolio management reasons.

**Investment Process****Research  
and Portfolio  
Construction  
Process***...continued*

Hence positions in the Allan Gray Australia Stable Fund will be proportionately smaller, given the allowable allocation to equities of 0-50%. The PMs may determine to hold positions of a standard single weight, a smaller fraction or a multiple of that. Examples of factors affecting the decision on weighting would include downside risk and the extent to which that is mitigated. This may be via a large discount to intrinsic value and fundamental considerations such as competitive advantage, tangible assets and balance sheet strength, size and liquidity of the stock, and investment restrictions of the Fund.

**Liquidity**

The liquidity of the equity component of the Fund may vary over time depending on where the Manager sees the most attractive opportunities.

The Fund is mindful of liquidity, particularly when allocating to smaller capitalisation companies. They believe that liquidity concerns are at least somewhat offset by the contrarian nature of the strategy. That is, the Fund typically will buy 'early' – when others are selling and sell 'early' – when others are buying. So, taking an opposing view to the majority can often alleviate liquidity issues. This has historically been demonstrated in the monitoring of market impact for trading activities. The strategy is designed for long-term investors who the Manager believes will not attempt to trade around with high frequency.

The Fund nevertheless continually monitors portfolio liquidity on a day-to-day basis.

**Turnover**

The 12-month portfolio turnover as of Dec 2022 for the Allan Gray Australia Equity Fund was 43%, and the 9-yr average ending Dec-22 is 37.58%

A reasonable estimate for the average holding period would be 3 to 5 years at the portfolio level. However, this may vary over time.

**Sell Discipline**

The PMs continually monitor the gap between a stock's current trading price and their assessment of the stock's intrinsic value (which is updated by the responsible analysts). The investment philosophy seeks to start selling a stock once the share price begins to move through the assessment of intrinsic value.

Other situations where the portfolio manager may decide to sell shares would include a negative development that impairs the investment thesis. This may be an unforeseen negative development for the company, which impairs the value, or it may be that they have underestimated a negative aspect that was already prevailing. However, this is very much an idiosyncratic, case-by-case assessment.

Often with a negative development where the value is impaired, the share price will fall by an equal or greater amount. In these situations, the manager may well purchase more of the shares rather than sell them. In these situations, they believe that it is important to set aside what they previously paid for the share and focus on the present situation – whether or not they would be a buyer of this company if they did not own it already, based on the present price and assessment of value.

**Investment Process****Research  
and Portfolio  
Construction  
Process***...continued***Risk Management**

The Fund has a well-structured and resourced risk management framework, as would be expected in a large value manager. The framework is multi-layered with "checks and balances", which means it would be difficult for the portfolio managers to take extreme positions.

The first component in risk management is the detailed stock research performed on each of the stocks in the portfolio. If a risk is defined as a permanent loss of capital or the probability of achieving poor returns over the long run, then this is the most important aspect of risk management.

Where risk is defined as the probability of the portfolio performing poorly over the short run, the Fund uses an in-house risk management system called the FolioTool to monitor portfolio-level risks. This system examines the marginal contribution to both volatility and tracking error, beta, sector risk, style risk and liquidity risk. A separate analyst examines sensitivities to extreme scenarios (both actual historical scenarios and simulated ones). The Manager also has in-house proprietary systems to monitor risk from a compliance and operational perspective.

Investment restrictions are monitored from a pre and post-trade perspective. Before a trade occurs, the trade is processed through an independent trading and proprietary compliance system to investigate whether the trade will breach any of the investment restrictions. This system is also designed to provide an initial guide as to the proposed ownership interest level of a particular stock if the trade is executed. From a post-trade perspective, the trade is reviewed before settlement to ensure everything is in place for settlement. From a regulatory perspective, the relevant substantial holding notice is prepared (if required).

At the end of each trading day, compliance reports are generated from the risk system. The first report is produced shortly after the Australian market closes. Another report is produced before the Australian market opens the next day (which is generally after the close of the European and American markets).

A designated member of the compliance team undertakes a review twice a day on these reports to investigate any breaches of the investment restrictions.

The independent trading and proprietary compliance system can block trading based on certain limits to ensure that investment restrictions are adhered to. As such, any potential trade that may result in a breach of the trading block is immediately notified to the Australian Compliance Officer for resolution and discussion. A potential trade that is the subject of a trading block can only be overridden with prior permission from the Australian Compliance officer. Only compliance personnel can change the relevant investment restrictions that are coded into the proprietary compliance system.

**Trading Resources & Procedure**

The portfolio managers are solely responsible for determining the weighting of stocks in the portfolio and use this as a basis for instructing the traders to buy or sell. The trading team operates on an execution-only model and will only buy or sell based on the instruction from the portfolio manager.

Portfolio manager targets are stored in a proprietary system integrated with the trading system, and orders to buy or sell are created based on under or overweight positions relative to the target. Trades loaded in the trading system run through a series of pre-trade compliance checks (including mandate restrictions) before being placed in the market. At the end of each day, the traders use an allocation algorithm to allocate broker fills across the portfolios which have orders for a certain stock. The allocated trades are sent to the portfolio manager daily, and allocations are reviewed. Trade orders are closed out at the end of each day and reloaded on the next day.

## Investment Process

**Research  
and Portfolio  
Construction  
Process***...continued*

Best Execution is achieving the “best” possible outcome for clients regarding particular execution factors on a case-by-case basis. For retail clients, this outcome is purely based on price. For wholesale clients, however, several factors can be taken into consideration when determining whether the Best Execution has been achieved.

These include:

- Costs of the transaction
- Liquidity
- Price
- The execution venue
- Counterparty selection
- Speed (timeliness) of Execution
- Likelihood of Execution and settlement
- Size of the order relative to normal market transaction size
- Nature of the transaction
- Any other factors considered to be pertinent to the Execution of the order (such as confidentiality)

Currently, the trading team monitor their executions against common metrics, such as comparing the price received against the interval weighted average price against the actual price received for the day.

The Trading, Reporting Governance Team is responsible for measuring and monitoring transactions and brokers used. The Group maintains an “approved broker list”, which consists of brokers who have been reviewed based on criteria such as commission rates, clearance and settlement capabilities, quality of service, access to market and business opportunities, creditworthiness, reputation, and financial stability, amongst other criteria. Furthermore, on a weekly and monthly basis, the compliance team reviews the transaction metrics for all trades conducted within that time frame for any potential issues.

The Fund uses several “no service” brokers who maintain a low-cost nature of the trades. In terms of market impact, the Fund monitors this on an ongoing basis, and the avoidance of market impact is a key measure when assessing the trading team's success.

**Hedging & Derivatives**

The Allan Gray Australia Stable Fund invests in Australian listed shares, so it does not need to hedge currency exposure.

The Fund will not purchase any derivatives. This does not preclude the Fund from investing in ASX-listed convertible instruments (being instruments that, at some point in the future, may convert into shares).

## Key Counterparties



## Parent Company

Allan Gray Australia's (AGA) ultimate owners are current **senior staff, Dr Simon Marais' family interests, and the Allan & Gill Gray Foundation** via Orbis Allan Gray Ltd. Dr Marais was the former Managing Director of AGA and one of its initial shareholders.

The Orbis Group is a global fund manager established in 1989 and founded by Dr Allan WB Gray, who also founded Allan Gray Proprietary Limited in South Africa (AGL). As such, Allan Gray in Australia, the Orbis Group and AGL all share the same investment approach and philosophy.

## Investment Manager / Fund Manager

Allan Gray Australia is a privately-owned Australian incorporated investment management company, managing wealth for Australian investors since 2005, as has been done by the broader Group globally since 1973.

Allan Gray Australia is based in Sydney, with smaller offices in Melbourne and Brisbane. As of Jan 2023, the firm's FUM was AUD 10.1 billion across Australian Equity, Balanced and Stable strategies. The firm's clients include individuals, trusts, companies, superannuation funds, family offices and government entities.

## Governance

### Responsible Entity

The Responsible Entity is Equity Trustees Limited (EQT) which was established in 1888. EQT is a wholly owned subsidiary of EQT Holdings Limited (EQTHL), a financial services company, which is headquartered in Melbourne and has been listed on the Australian Securities Exchange (ASX) since 1985. EQTHL provides a range of products and services to a diverse client base, including fund managers, managed funds, superannuation funds, and financial planning. EQT acts as a Responsible Entity or Trustee for over 100 Australian and international investment managers.

The Board of Directors of the Responsible Entity (RE) consists of **eight** directors, **seven** of whom are **independent** of the Fund Manager.

The Board's principal responsibility regarding EQT's Responsible Entity activities is to ensure the company has adequate systems of internal controls and appropriate monitoring of compliance activities.

The EQTHL Board Charter (June 2020) mandates that the Board adhere to the following principles:

- The Board will comprise an appropriate number of directors, of whom a majority are independent non-executive directors and ordinarily reside in Australia

- The Board will be led by an independent chair who is not the same person as the Managing Director
- Directors, collectively, are to have the appropriate balance of skills, knowledge, experience, independence, and diversity to enable them to discharge their duties and responsibilities effectively
- The Board assesses at least annually whether its directors are independent
- Board meetings are to take place at least quarterly
- Two members of the Board form a quorum

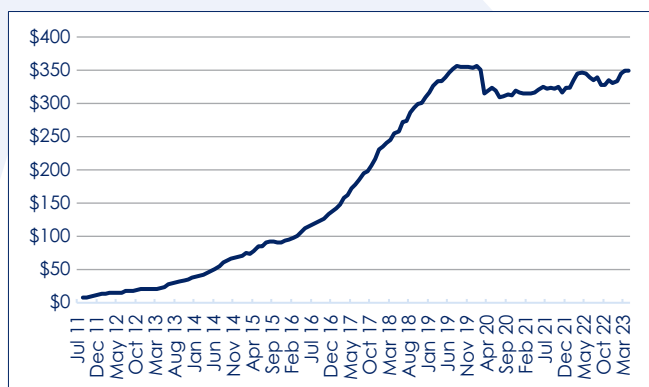
## Management Risk

Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For any investment fund, there is a risk that a weak financial position or management performance deterioration of key counterparties could temporarily or permanently compromise their performance and competency. This can adversely affect financial or regulatory outcomes for the Fund or associated entities.

*Based on the materials reviewed, SQM Research believes that Allan Gray and associated key counterparties are highly qualified to carry out their assigned responsibilities. Management risk is rated as low.*

## Funds under Management (FUM)

FUM for Fund under Review (\$mill)



## Distributions

Distributions occur on a quarterly basis, subject to the availability of distributable income. In a scenario where the Fund's realised losses and expenses exceed income in a distribution period, the Fund may elect not to make a distribution during that time.

Distribution Date	Distribution CPU
Mar-21	0.06
Jun-21	1.47
Sep-21	0.06
Dec-21	0.06
Mar-22	0.06
Jun-22	6.27
Sep-22	0.53
Dec-22	0.91
Mar-23	1.10

Name	Responsibility / Position	Location	Years at Firm	Years in Industry	Previous Employers	Qualifications
Simon Mawhinney	Managing Director and Chief Investment Officer	Sydney	16.5	21.5	Alliance Bernstein, Macquarie Bank, Deloitte Touche Tohmatsu	Bachelor of Business Science (First Class Honours) with majors in Finance and Business Strategy and a Postgraduate Diploma in Accounting (University of Cape Town). Simon qualified as a chartered accountant in 1998 and is a CFA charter holder
Dr Suhas Nayak	Analyst and Portfolio Manager	Sydney	10.5	10.5	McKinsey & Company	Bachelor of Science from the California Institute of Technology and a Doctor of Philosophy in Mathematics from Stanford University
Tim Hillier	Analyst	Sydney	8.5	8.5	Origin Energy, Ernst & Young, PwC	Bachelor of Business Science and a Post Graduate Diploma in Accounting from the University of Cape Town, and is a Chartered Financial Analyst and Chartered Accountant
Tim Morrison	Analyst	Sydney	6.5	11.5	Dakota Capital	Bachelor of Commerce/ Laws from the University of Queensland (Dean's Honour Roll for Commerce) and is a CFA Charter holder
Dr Justin Koonin	Analyst	Sydney	6.5	6.5	PwC	Bachelor of Science (Hons) and Doctor of Philosophy in mathematics, both from the University of Sydney
Dr James (Yi Chan) Lee	Analyst	Sydney	4.5	4.5	Postdoctoral researcher at National Tsing-Hua University in Taiwan, Professional staff member of the University of Sydney	Doctor of Philosophy, Masters, and Bachelor of Science (Physics) from the National Chung-Cheng University, Taiwan. Prior to joining Allan Gray Australia, Dr Lee was a visiting scholar at the University of Technology Sydney (2013/14), University of Sydney (2014/15 and 2016) and more recently was a professional staff member of the University of Sydney
Sudhir Kissun	Analyst	Sydney	4.5	5.5	Mutual & Federal, Development Bank of Southern Africa, Monitor Group	Master of Science (Chemical Engineering) from the University of Natal, Durban
Yipeng Liu	Analyst	Sydney	2.2	12.2	McKinsey, GLG	Master of Science (Computer Science) from Purdue University, USA, while on a Fulbright Scholarship
Stephanie Derrington	ESG Analyst	Brisbane	0.9	0.9	HWL Ebsworth, Clayton Utz, Minter Ellison	Master of Science in Law and Finance (with Distinction) from the University of Oxford and a Bachelor of Laws (Hons I) from the Queensland University of Technology

## Investment Team

**Simon Mawhinney** and **Suhas Nayak** are both Portfolio Managers for the Allan Gray Australia Stable Fund.

The Australian research team of nine people is autonomous within the broader Orbis/Allan Gray group but has access to research produced by the offshore research teams. This includes conferencing into Policy Group Meetings (stock discussions) held overseas.

### Business leadership structure

The lead portfolio manager **Simon Mawhinney** has significant management responsibilities, but these are largely delegated to the Chief Operating Officer (**JD de Lange**) so that he can focus on investments.

Both Simon Mawhinney and JD de Lange are Directors on the Board of Allan Gray Australia. The other Directors are **William Gray (President of the Orbis Group)** and **John Collis (non-executive director)**.

Mr Mawhinney is both the Managing Director and Chief Investment Officer. His primary role is managing the investment strategy and the process via which investment ideas are included or removed. All areas of the business are accountable to Mr Mawhinney, though decision-making authority on operational matters is delegated to JD de Lange.

JD de Lange's role is Chief Operating Officer for Allan Gray Australia. He oversees the operational functioning of the business, much of which is outsourced internally to Orbis. Some functions are outsourced externally to providers such as OneVue, which provides fund registry services. Internal functions outsourced to Orbis include:

- Fund Operations
- Client Services
- IT
- Legal and Compliance

## Meeting Schedule

The table below shows regular meetings that form an essential part of the overall process.

Meeting	Purpose	Frequency	Participants
<b>Policy Group Meetings</b>	To determine potential investment decisions	As and when required	Investment Team
<b>Global Risk Committee (GRC)</b>	To ensure that key risks and compliance issues facing the Group are discussed and a risk management framework is in place. The GRC provides periodic reports to the relevant Board of directors	Quarterly	Compliance, Legal, Risk and Directors

Whether functions are run internally or externally, JD de Lange manages the operational strategy, delegating where appropriate to the heads of each internal function.

### Quality and experience of the Australian research team

As listed below, the Allan Gray research team is academically highly qualified, with three members holding doctorates and relevant technical qualifications held across the team.

Analysts are responsible for looking for ideas, identifying those that are worth pursuing and providing a thorough analytical report which can take several weeks or longer to prepare. Allan Gray Australia analysts are expected to provide 2 to 3 portfolio ideas in the year, supported by high-quality research pieces.

### Investment decision-making structure

The team's key meeting is the Policy Group meeting (PGM). There is no Head of Research. The research agenda is set by the analysts in consultation with the portfolio managers. Newer members of the team may receive more guidance about areas for research.

After passing through the rigour of the PGM, stocks can be invested by portfolio managers.

Mr Mawhinney has **100% control** and responsibility for the Allan Gray Australia Stable Fund.

Meeting	Purpose	Frequency	Participants
Board Meetings	The local AGA board members have oversight of the entire business	Typically, once every 6 months	Board of Members
Company research	Meetings with the management of potential investments as part of the fundamental research process	As and when required	Investment Team
Portfolio construction	Discuss positioning and intentions for positioning between portfolio managers. Formal closed meetings on this front are infrequent. This is more typically ad hoc informal discussion as required	As and when required	Portfolio managers

*SQM Research believes the practice of constant communication and the broad-based inclusion of team members in decision-making is a vital ingredient to the success of the process. Interactive peer review and collaboration across a tightly knit group of experienced investors will likely make the best use of their combined intellectual property and shared history.*

## Staffing Changes

Departures			
Date	Name	Responsibility	Reason for Departure
No departure			

Additions / Hires			
Date	Name	New Responsibility	Previous Position / Employer
2022	Stephanie Derrington	ESG Analyst	HWL Ebsworth, Clayton Utz, Minter Ellison

*SQM Research observes that the levels of investment experience and company tenure are strong across the investment team. The size and nature of staff turnover are not an issue of concern, in SQM's view.*

## Remuneration and Incentives

The compensation structure is appropriately designed with sufficient transparency for analysts to be rewarded for their stock-picking ideas in the portfolio, and senior executives benefit through performance fees.

### Base salary

The analyst's base salary can be best described as an industry average or below. AGA investment personnel are paid the same base salary and, after that, a bonus dependent upon the stock performance of their ideas that have been included in the funds.

### Variable compensation

Analysts' remuneration is directly linked to their contribution to investment performance. The variable component of remuneration can potentially be multiples of the bases, with the largest weight placed on the analyst's calls on securities in the final portfolio, with other key categories being financial product outperformance and qualitative assessment of individual performance.

### Long-term incentives

Senior executives are owners of the business, and remuneration is driven by performance and the growth of the business as a whole. The fee structure is such that the payment of dividends to owners of the business is largely dependent on performance fees.

The portfolio managers are not allowed to invest directly in listed Australian shares and thus are encouraged to use the Allan Gray funds for any Australian equity exposure.

*SQM Research believes remuneration in the form of firm equity and client-focused performance bonuses act as strong incentives for optimising staff engagement, retention, and productivity. The intention (and SQM believes the effect) is to align staff performance with client and shareholder objectives. It focuses on the customers' needs and medium to long-term results.*

Fees and Costs	Fund	Peer Avg
Management Fee % p.a.	0.26%	0.76%
Expense Recovery/Other Costs % p.a.	–	–
Performance Fee %	20.50%	–
Total Cost Ratio TCR % p.a.	1.08%	0.76%
Buy Spread %*	0.10%	0.13%
Sell Spread %*	0.10%	0.13%

\* This spread is the difference between the Fund's application price and withdrawal price and reflects transaction costs relating to the underlying assets.

## Management Fee

The management fee includes GST and is net of any applicable Reduced Input Tax Credits (RITC).

## Performance Fee

There is a performance fee charged as follows:

- 20.5% of the amount by which the Fund's investment returns (after base management fees have been deducted) exceed the returns of the Benchmark (RBA Cash Rate)
- Including GST and the impact of RITC (Reduced Input Tax Credit)
- The fee is accrued daily and (if applicable) paid to the Manager monthly
- The fee is adjusted for any prior accumulated negative performance fee. Underperformance in a previous performance period is required to be made up for before a performance fee is payable. This creates a permanent high-water mark

SQM Research observes that the hurdle rate for performance fee entitlement is low, being **any** outperformance of the RBA Cash Rate, with no alpha hurdle to be first achieved, except for the base fee.

That is, the Fund must outperform the benchmark net of the base fee before any performance fee can be applied, and it must also exceed the high water mark.

### *SQM Research observes that:*

- *The Fund management fee is 0.26% p.a., which is 50.0 basis points lower than the peer group average of 0.76% p.a.*
- *The Total Cost Ratio (TCR) is 1.08% p.a., which is 32.0 basis points higher than the peer group average of 0.76% p.a.*

Risk/Return Data to 30 April 2023							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	0.92	1.50	5.27	3.36	6.40	4.03	6.06
Benchmark	0.30	0.86	1.64	2.42	0.89	1.00	1.87
Peer Average	0.99	1.29	4.58	0.88	3.24	2.92	4.77
Alpha	0.62	0.64	3.62	0.94	5.51	3.03	4.20
Metrics	1-Year	3-Year	5-Year	Inception			
Tracking Error (% p.a.) - Fund	4.82	5.12	5.34	4.39			
Tracking Error (% p.a.) - Peer Average	7.10	5.26	5.69	4.39			
Information Ratio - Fund	0.19	1.07	0.57	0.96			
Information Ratio - Peer Average	-0.20	0.46	0.36	0.06			
Sharpe Ratio - Fund	0.20	1.09	0.55	0.91			
Sharpe Ratio - Peer Average	-0.19	0.48	0.33	0.63			
Volatility - Fund (% p.a.)	5.00	5.13	5.34	4.41			
Volatility - Peer Average (% p.a.)	7.22	5.28	5.71	4.43			
Volatility - Benchmark (% p.a.)	0.32	0.36	0.29	0.35			
Beta based on stated Benchmark	8.77	0.64	0.92	1.35			

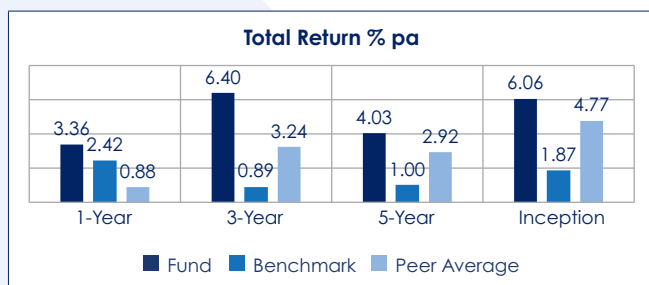
Distributions reinvested. Returns beyond one year are annualised. Return history starts Aug-2011.

Benchmark: RBA Cash Rate

## Quantitative Insight<sup>1</sup>

**Note:** Unless otherwise stated, all return and risk data reported in this section are after-fees and for **periods ending Apr-2023**.

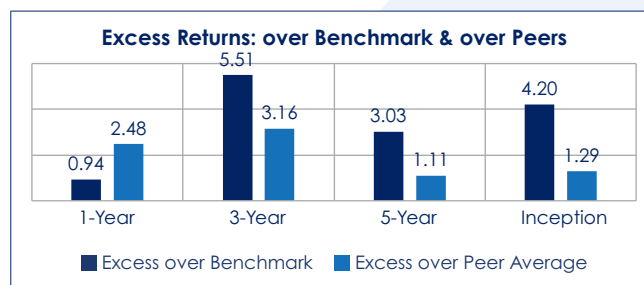
### Returns



The Fund has displayed strong performance across all periods when compared with the benchmark.

The Fund has outperformed the peer average in all periods (except 1-month).

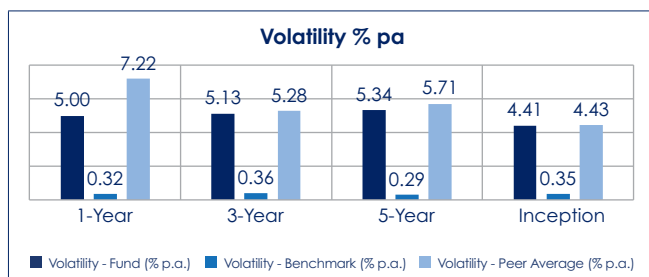
### Excess Returns (Alpha)



The **return outcomes** as described above are consistent with the PDS objective and are in line with SQM's expectations for the Fund relative to its fee level and volatility.

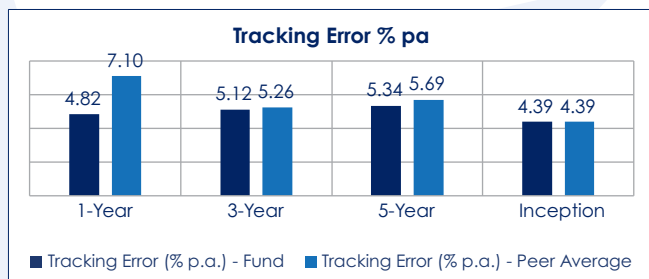
<sup>1</sup> **Note:** Sharpe and Information Ratios are not reliable comparison tools in periods where both the Fund and its peers/benchmark record a negative result

## Risk



The Fund's **volatility** (standard deviation of monthly returns) has tended to be lower or around the peers.

The benchmark, being a cash index, has zero volatility.



The **risk outcomes** as described above regarding volatility and tracking error are consistent with the PDS statements about risk and are in line with SQM's expectations for this Fund.

SQM has measured and reported tracking errors in the tables above. Since the Fund's benchmark has almost no volatility, the tracking error readings add no new information to observations gained from studying volatility. The tracking error of the Fund is virtually identical to its volatility (standard deviation).

## Drawdowns

Drawdown Summary			
Drawdown Size (peak-to-trough)			
	Fund	Bench	Peers
Average	-1.08%	-	-1.79%
Number	20	0	19
Smallest	-0.11%	-	-0.04%
Largest	-4.11%	-	-10.99%
Length of Drawdown (in months)			
	Fund	Bench	Peers
Average	3.2	-	4.8

Length of Drawdown = time from peak to trough and back to the previous peak level

**Average** drawdowns have been modestly better than the peer average.

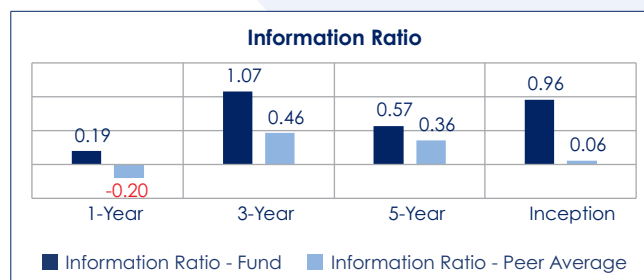
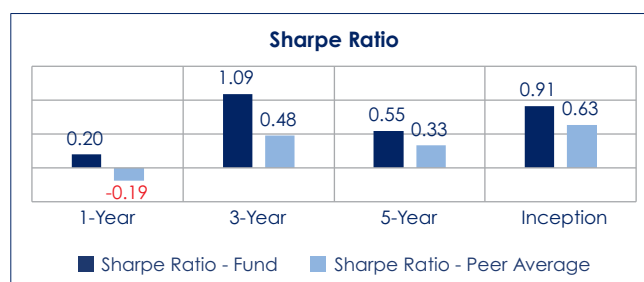
The benchmark has had zero drawdowns, as expected from inflation or cash-based indexes.

## Upside/Downside Capture

	Downside Capture		Upside Capture	
	3 years	Inception	3 years	Inception
Fund	.	.	713.4%	324.2%
Peer Average	.	.	373.2%	257.8%

for a cash benchmark, downside capture is not valid

## Risk-Adjusted Returns



The Fund's risk-adjusted returns (as measured by Sharpe and Information ratios) have been moderately better than the peer average in all periods.

## Correlation of Fund to Asset Classes

Market	3 years	Inception	Market Indexes
Aust Bonds	-0.9%	-2.6%	Bloomberg AusBond Composite 0+Y TR
Aust Equity	+78.0%	+77.4%	S&P/ASX 300 TR
Global Bonds	+17.7%	+16.9%	Bloomberg Global Aggregate Hdq AUD
Global Equity	+37.8%	+36.5%	MSCI World Ex Australia NR AUD

## Correlation Key

Low	High	Description
0%	20%	low, weak
20%	40%	modest, moderate
40%	70%	significant, material
70%	90%	strong, high
90%	100%	substantial

### Tail Risk

*(The analysis in the table below looks at the **tail risk performance relationship of the Fund to the ASX300**, a practice that SQM has set as common across asset classes in Fund reviews. This approach recognises that for the large bulk of financial planner clients, their key traditional asset class **risk** regarding **size** and **volatility** is to Australian equities. Exploring that relationship is useful regardless of the asset class of the Fund itself, as it is helpful to understand how a Fund has acted in times of Australian equity market stress in terms of softening or exaggerating the negative performance experienced at such times.)*

The table below details the **largest negative monthly returns** for the ASX 300 **since the inception of the Fund**. This is compared to the Fund's performance over the same months.

#### Extreme Market Returns vs Fund Return Same Month

Index: S&P/ASX 300 TR		From Aug-11 to Apr-23		
Rank	Date	Market	Fund	Difference
1	Mar-20	-20.83%	-5.67%	+15.16%
2	Jun-22	-8.97%	-2.03%	+6.94%
3	Feb-20	-7.76%	-1.71%	+6.05%
4	Aug-15	-7.70%	-0.87%	+6.83%
5	May-12	-6.74%	-1.12%	+5.62%
6	Jan-22	-6.45%	-0.17%	+6.28%
7	Sep-22	-6.29%	-2.10%	+4.20%
8	Sep-11	-6.28%	+0.88%	+7.15%
9	Oct-18	-6.16%	-1.23%	+4.93%
10	Jan-16	-5.45%	-1.40%	+4.05%
<b>Totals</b>		<b>-82.63%</b>	<b>-15.41%</b>	<b>+67.21%</b>

No. of Months			
<b>Correlation</b>	+87.0%	Positive Return	1
<b>Capture</b>	+18.7%	Outperform	10

### Tail Risk Observations:

The data in the table above indicate that the Fund displays material **defensive characteristics** in the face of extreme Australian equity tail risk.

### Snail Trail

The snail trail chart and tables below show the combination of the Fund's rolling 3-year excess returns and rolling 3-year excess volatility.

There are 106 observations in total.

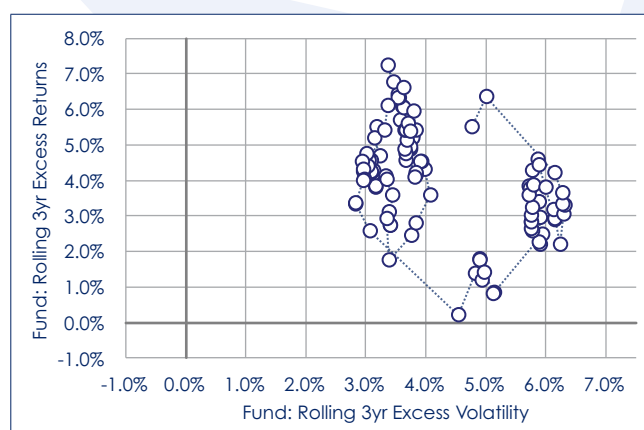
The two tables below display the distribution of these observations and their overall frequency across the risk/return quadrants.

#### Snail Trail Distribution

Frequency	Lo-Vol	Hi-Vol	Total
<b>Hi-Return</b>	<b>0</b>	<b>106</b>	<b>106</b>
<b>Lo-Return</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>0</b>	<b>106</b>	<b>106</b>

#### 106 rolling 3-year observations

% of Total	Lo-Vol	Hi-Vol	Total
<b>Hi-Return</b>	<b>0.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Lo-Return</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>
<b>Total</b>	<b>0.0%</b>	<b>100.0%</b>	<b>100.0%</b>



In assessing a snail trail it is important to note the following:

**Q1 upper left-hand quadrant** - higher return than the Fund's market index with lower volatility (less risk). This is the optimal position.

**Q2 upper right-hand quadrant** - higher return than the Fund's market index with higher volatility (more risk). This can often be a desirable position depending on the attractiveness of the Sharpe ratios produced in this zone. It is important to note that in the case of inflation or cash-style benchmarks, the Q1 top left-hand quadrant is unachievable as it is not possible to deliver lower volatility than what is virtually zero for the benchmark. In such cases, the Q2 zone is the optimal position.

**Q3 lower left-hand quadrant** - lower return than the Fund's market index with lower volatility (less risk). Less than ideal, and Sharpe ratios can assist in assessing the risk/return trade-off in this zone.

**Q4 lower right-hand quadrant** - lower return than the Fund's market index with higher volatility (more risk). The least desirable outcome.

### Consistency

The more "bunched together" the cluster of dots, the more consistent is the performance. A second indicator of consistency is the trail's nomadic nature. Trails that roam across multiple quadrants over time are indicating **low consistency** in the Fund's risk-return profile. The quadrant that **contains the bulk** of the Fund's snail trail is likely to be more representative of the Fund's risk/return characteristics and identity.

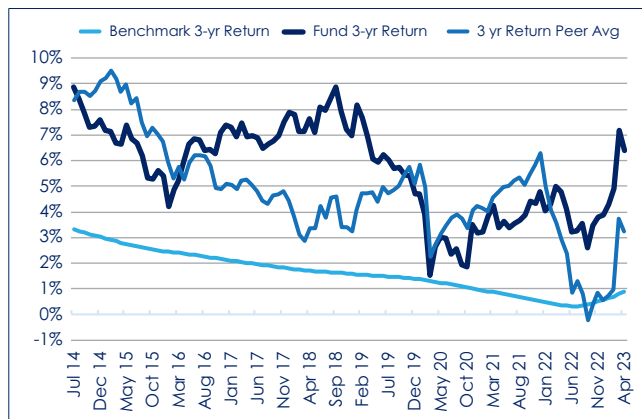
## Annual Returns

Year	Fund	Benchmark	Peer Avg	vs. Bench	vs. Peers
2012	+8.57	+3.79	+10.40	<b>+4.78</b>	<b>-1.83</b>
2013	+8.16	+2.78	+8.97	<b>+5.39</b>	<b>-0.80</b>
2014	+6.05	+2.53	+7.95	<b>+3.52</b>	<b>-1.89</b>
2015	+2.06	+2.13	+3.37	<b>-0.07</b>	<b>-1.31</b>
2016	+14.43	+1.75	+4.08	<b>+12.68</b>	<b>+10.35</b>
2017	+7.49	+1.50	+5.90	<b>+5.99</b>	<b>+1.59</b>
2018	<b>-0.53</b>	+1.50	<b>-0.18</b>	<b>-2.03</b>	<b>-0.35</b>
2019	+7.41	+1.17	+9.76	<b>+6.25</b>	<b>-2.35</b>
2020	+2.87	+0.31	+3.41	<b>+2.56</b>	<b>-0.54</b>
2021	+4.20	+0.10	+5.80	<b>+4.10</b>	<b>-1.60</b>
2022	+4.60	+1.31	<b>-7.05</b>	<b>+3.29</b>	<b>+11.65</b>
Apr-23	+2.92	+1.13	+3.90	<b>+1.78</b>	<b>-0.98</b>

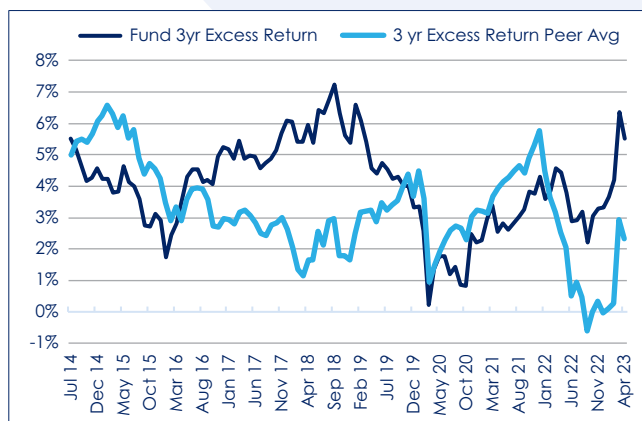
2023 data = 4 months ending Apr-23

## Return and Risk

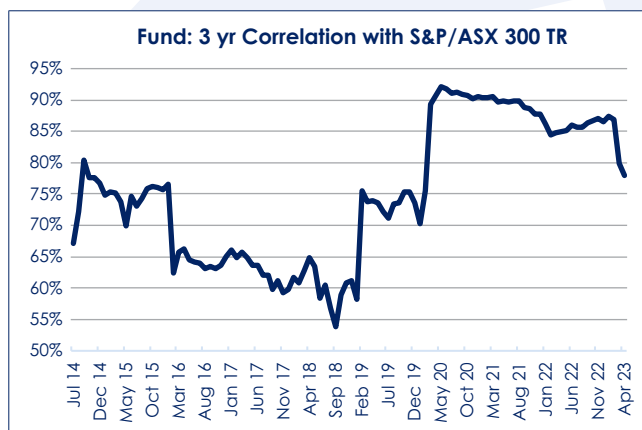
## Rolling Returns



## Rolling Excess Returns

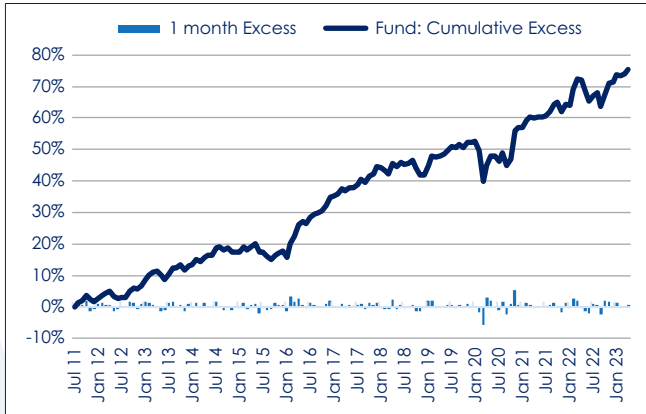


## Rolling Correlation

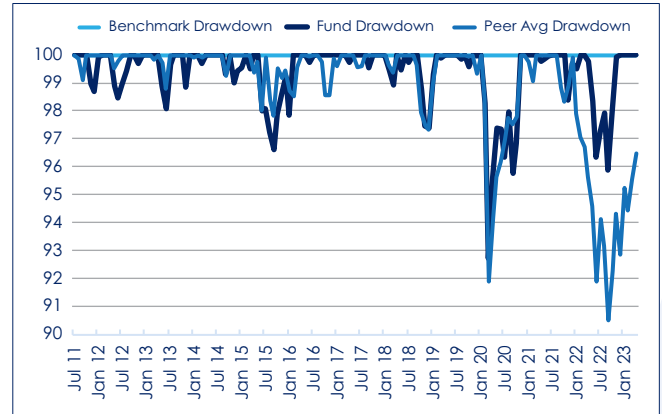


## Return and Risk

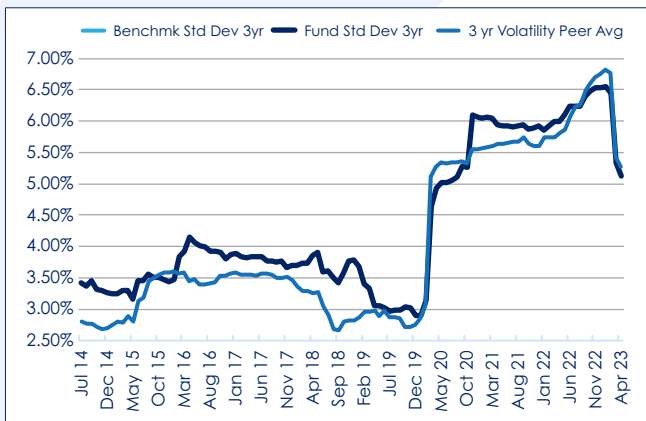
### Cumulative Excess Returns



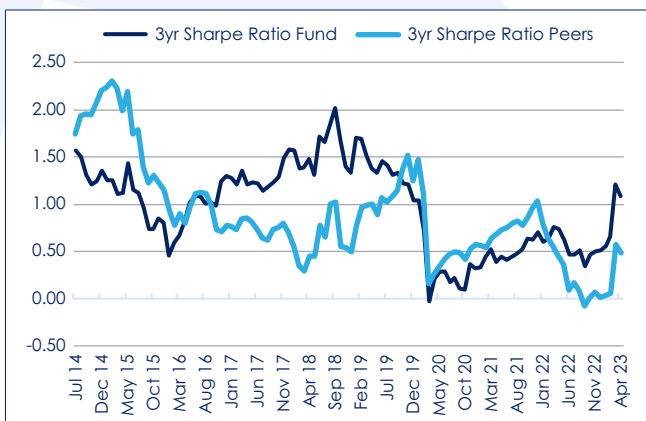
### Drawdowns



### Rolling Volatility



### Rolling Sharpe Ratio



The table below outlines limits on the Fund's asset allocation and other risk parameters:

Fund Constraints and Risk Limits	Permitted Range or Limit
<b>1. Cash and money market instruments</b>	These investments must have a term of maturity of less than, or equal to, 12 months, issued or guaranteed by the Australian Commonwealth or State Governments or one of the 'Big Four Australian Banks' - Westpac, Commonwealth, NAB and ANZ banks or their subsidiaries. Examples of such instruments are term deposits and short-term bonds (treasury bills). Also, no more than 50% of the Fund's net asset value shall be held with any one of these issuers
<b>2. ASX securities</b>	Included in this category are securities purchased pursuant to an initial public offering on the ASX. Also, no single ASX security can exceed 5% of the Fund's net asset value
<b>3. Derivatives</b>	The Fund will not purchase any derivatives. This does not preclude the Fund from investing in ASX-listed convertible instruments (being instruments that, at some point in the future, may convert into shares)
<b>4. Borrowing</b>	There will be no gearing or borrowing in the Fund
<b>Other Constraints</b>	
<b>Maximum weight: single security</b>	No single ASX security can exceed 5% of the Fund's net asset value
<b>Maximum weight: single stock/manager</b>	No single ASX security can exceed 5% of the Fund's net asset value

**Top 5 Holdings\***

Name	Weight	Currency	Asset Class	Country/Region	Listed/OTC	Sector/Industry	Ticker / ID
<b>Alumina</b>	4.80%	AUD	Equity	Australia	Listed	Materials	AWC AT Equity
<b>Newcrest Mining</b>	4.70%	AUD	Equity	Australia	Listed	Materials	NCM AT Equity
<b>Woodside Energy Group</b>	4.40%	AUD	Equity	Australia	Listed	Energy	WDS AT Equity
<b>QBE Insurance Group</b>	2.10%	AUD	Equity	Australia	Listed	Financials	QBE AT Equity
<b>Ansell</b>	1.50%	AUD	Equity	Australia	Listed	Health Care	ANN AT Equity

\* As reported to SQM on the return of the RFI – holdings will change over time.

**Drawdown**

A drawdown tracks the path of the Fund's accumulated NAV (with dividends reinvested). It is measured over the period of a peak-to-trough decline and the subsequent recovery back to that previous peak level. The total return over that entire period is, of course, zero. The metric of interest, the drawdown itself, is quoted as the percentage change between the peak and the trough over that period. Funds typically have multiple drawdowns of varying size and length over their lifetime. The table above shows how many drawdowns have occurred and their average peak-to-trough size.

**Alpha**

SQM defines **Alpha** as the excess return compared to the Benchmark and is calculated as

$$\text{Alpha} = \text{Fund Return} - \text{Benchmark Return}$$

**A General Note on Distributions for Managed Funds**

The Responsible Entity of a Managed Fund will provide for a regular schedule of distributions, such as monthly/quarterly/semi-annual or annual. This is subject to the Fund having a sufficient distributable income. The official total distributable income available to pay to investors is determined for the period of that Fund's financial year. By distributing the net taxable income of the Fund to investors each year, a Fund itself should not be liable for tax on its net earnings.

If a Fund makes distributions more frequently than once over the financial year, those distributions will be based on estimates of the distributable income for that distribution period. The final total amount of distributable income available for passing on to investors can only be calculated after the close of the financial year, based on the Fund's taxable income for that year.

If the total distributions a Fund pays out exceed total taxable income for that particular financial year, the excess amount may be treated as a return of capital rather than income. This will possibly have tax implications for the investor.

Due to the considerations outlined above, there may be periods in which no distributions are made, or a Fund may make additional distributions.

A Fund's ability to distribute income is determined by the performance of the Fund and general market conditions. Accordingly, there is no guarantee that a Fund will make a distribution in any distribution period.

**Total Cost Ratio (TCR)**

Managed Investment Schemes: The TCR for Managed Investment Schemes, Exchange Traded Products, and Investment Bond funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, and the impact of dollar-based fees.

Superannuation funds: The TCR for Superannuation and Pension funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, Administration Fees and Costs, the impact of dollar-based fees and a deduction of Super OTC Derivative Costs.

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**Address:**

Level 16, 275 Alfred Street  
North Sydney, New South Wales, 2060

**Contacts:**

Louis Christopher 02 9220 4666  
Rob da Silva 02 9220 4606

**Analyst:**

Smita Bhakat

**Central Contacts:**

Phone: 1800 766 651  
Email: [info@sqmresearch.com.au](mailto:info@sqmresearch.com.au)  
Web: [www.sqmresearch.com.au](http://www.sqmresearch.com.au)