

Orbis Global Equity Fund — Australia Registered Retail

ETL0463AU Author: Richard Dalidowicz Published: 07 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	Orbis Investment Management Limited
Benchmark	MSCI AC World NR Index AUD
Product structure	Managed Fund
Product size	\$3250.00m
Inception date	Dec 2015
Asset class	Global Equities
Sector	Global Large Cap
Peer group	Fundamental Value
Rated peers	10

Product Characteristics

Business Life Cycle	Mature
Product Wind-Up Risk	Low
Key Person Risk	Low
Tenure of Decision Makers	High
Complex (RG240)	No
Strategy Remaining Capacity	Not specified
ESG Approach	Risk or Value
Peer Relative Fees and Costs	In line with median

Annual Fees and Costs (% p.a.)

Management fees & costs	1.07
Performance fee costs	0.00
Net Transaction Costs	0.04
Buy/Sell Spread	0.25/0.25
Annual fees and costs	1.11

Source: FE fundinfo

Strengths

- Collegiate three portfolio manager structure increases scrutiny of individual stock decisions.
- Consistent application of the disciplined Investment process to identify contrarian opportunities.
- Continuity of private ownership supports the investment approach of long term decision making.
- Strong alignment with investors via the refundable performance fee structure.

Weaknesses

- Performance has been lack lustre relative to the benchmark over the last five years.
- High level of analyst turnover can be a distraction for the senior investors.
- The significant asset base can hinder investment in 'best ideas' mid and small cap stocks.

Product Opinion

The Fund's rating has been maintained as Recommended. The transition to a three portfolio manager decision-making structure was seamless and the contrarian investment approach is well regarded. The research process is based on a high degree of analyst accountability, to identify unpopular stocks with strong upside potential. Performance relative to the benchmark has been lack lustre over the last five years, although has been strong over the last year. Investment in mid and small-cap stocks, which traditionally have been a source of alpha, may be hampered by the firm's significant asset base.

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 seek higher returns than the average of the world's equity markets, without greater risk of loss over the long term.
Internal return objective	Outperform the benchmark (net) over five years or more
Internal risk objective	Avoid the risk of permanent capital loss over the medium term
Non-financial objective	None

Asset Allocation (%)

Australian Equities	1.0
International Equities	98.0
Cash	1.0
Total	100.0

Source: FE fundinfo

Rating History

26-Apr-2023	Recommended
20-May-2022	Recommended
12-Mar-2021	Recommended

Product Distribution Profile

Frequency	Annual
Last Missed Distribution	None
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 (%)
FLEETCOR TECHNOLOGIES	5.5
GXO LOGISTICS	4.4
SUMITOMO MITSU FIN.	4.3
GLOBAL PAYMENTS	4.0
INTERACTIVE BROKERS GROUP	3.4
BRITISH AMERICAN TOBACCO	3.0
SAMSUNG ELECTRONICS CO., LTD	2.9
MITSUBISHI UFJ FINANCIAL GROUP, INC.	2.7
BAYERISCHE MOTOREN WERKE	2.6
XPO, INC.	2.5

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)	15.02	11.39	4.73	5.83	11.06	15.82	8.43	8.78
Standard deviation	9.24	9.08	11.73	11.73	11.61	11.78	12.44	12.44
Excess return (% p.a)	3.42	-0.32	2.30	2.96	0.62	3.61	-1.49	-1.95
Outperformance ratio (% p.a)	75.00	66.67	62.50	62.50	58.33	58.33	56.67	53.33
Worst drawdown (%)	-4.54	-4.11	-13.03	-10.78	-13.39	-9.78	-14.83	-14.97
Time to recovery (mths)	NR	-	10	2	10	-	8	6
Sharpe ratio	1.23	0.86	0.22	0.36	0.83	1.11	0.57	0.57
Information ratio	0.52	-0.04	0.32	0.35	0.09	0.42	-0.23	-0.23
Tracking error (% p.a)	6.64	6.70	7.23	8.16	7.20	8.53	6.51	7.70

Lonsec Peer Group: Global Equities - Global Large Cap - Fundamental Value

Product Benchmark: MSCI AC World 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	Orbis Investment Management Limited
Ultimate Parent Company	Allan & Gill Gray Foundation
Headquarters	Bermuda
% Staff Ownership	0-10%
Inception Date	Nov 1989

Governance

% Independent board members	0
% Female board members	29
Independent chair	No
CEO as Chair	No
Separate Audit Committee	No

Who is the Manager?

Orbis Investment Management Limited (Orbis) forms part of the Orbis Group which was established in 1989 by Dr. Allan Gray. Orbis managed US\$43.5b in assets under management, of which the vast majority of US\$31.3b was in the flagship global equities strategy, as of 31 July 2023. Orbis is a boutique with a global footprint, having investment offices in London, Hong Kong, Tokyo, San Francisco, Sydney and Bermuda.

Lonsec Opinion

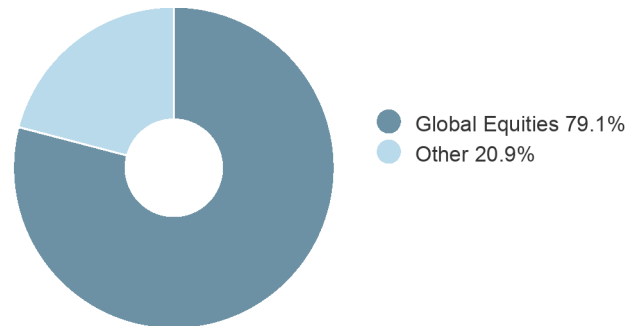
Profitability

The Manager is well-capitalised and is a profitable stand-alone global asset management business, with a well diversified client base and a successful track record of growing funds under management.

Business Track record

The firm has a long and successful track record of steady business growth across multiple equities strategies, since the firm's launch in 1989. The Fund is supported by a well-resourced internal marketing and distribution team, with intimate product knowledge.

AUM



Metrics

Investment Management Headcount	451
Investment Professionals	58
Sales & Service	6
Distributor	Internal
Total AUM	US\$43.5b

Business Ownership

Orbis continues to be 100% privately owned by The Allan and Gill Gray Foundation which has a majority ownership stake. The Foundation was established to promote the commercial success and continuity of the Orbis and Allan Gray groups and for philanthropic causes. A privately owned funds management business is a positive feature of Orbis, as it creates a strong boutique culture that aligns staff well with performance outcomes and enhances team stability.

Business Governance

Day-to-day management of the business has been vested in Orbis Allan Gray Limited, a holding company whose board consists of a majority of present executives and includes non-executive directors. The governance structure is fit for purpose and is in line with similar boutiques. There have not been any notable governance issues over time and no adverse regulatory findings.

Team



Key Decision Makers (KDM)

	Primary function	Dedicated to strategy	Appointed to strategy	Industry/Mgr exp. (yrs)	Exp. in PM roles (yrs)
Adam Karr	CIO	No	2008	31/22	16
Benjamin Preston	Portfolio management	No	2008	25/24	16
Graeme Forster	Portfolio management	No	2022	17/17	12

KDM Change*

No changes.

* Last 3 years

Profile

Size	53
Structure	Decentralised
Turnover	High

Alignment

KDM equity held in manager	Yes
KDM co-investment in strategy	Yes
Performance-Based bonus	Yes
Long Term investment plan	Yes

Resources

	Number	Average Years Experience
Key decision makers	3	24
Portfolio Managers		
Hybrid portfolio manager/ analysts		
Dedicated analysts	42	11
Dedicated dealers		
Quantitative	6	11
ESG/Sustainability	4	8
Macro	2	19
Investment Specialists	2	13

Who is the Team?

The firm underwent a generational transition with Adam Karr, 31 years of investment experience and 22 years of tenure, assuming the day-to-day leadership of the investment team from his predecessor, William Gray, in December 2021. Karr is now ultimately accountable for portfolio construction and the performance of the global equities strategy and is a highly experienced and capable investor. The leadership transition to Karr has been smooth, whilst maintaining team cohesion. The Fund comprises three standalone global sub-portfolios, weighted equally, and is the responsibility of a dedicated portfolio manager. The portfolio managers for these sub-portfolios are Karr, Ben Preston, and Graeme Forster. The trio are suitably experienced and well-credentialed investors displaying a strong buy-in to the firm's contrarian investment philosophy. Although, the portfolio management structure is relatively new as it was implemented in May 2022, it is a positive development to improve decision-making and accountability. Positively, the trio work collegiately, recommending stocks they consider appropriate for the overall portfolio, rather than just managing their slice as a standalone portfolio.



Lonsec Opinion

Skill

The three portfolio managers are suitably qualified to manage the global equities portfolio. Karr, as President and portfolio manager, is ultimately accountable for the Fund's performance. Karr has 31 years of industry experience and joined the Manager in 2002. Karr also is responsible for US equity investments. Similarly, Preston and Forster are highly experienced investment professionals with 25 and 17 years of experience, respectively and with long tenures, which was all gained with the Manager. Long tenure means the trio have strong knowledge of the investment process and have developed a strong collegiate working relationship about sharing stock ideas and challenging each other's views.

Team Size

The Manager has a well-resourced analyst team of 42 that are based across Europe, Asia, and the Americas, to gain on-the-ground company coverage. A matrix-structured investment team is maintained, in contrast to many peers, and 26 analysts are organised by major regions, and 16 are organised by global sectors. Orbis has a strong focus on ensuring a high degree of individual accountability and discretion at the analyst level, which is a strength compared to peers. Analysts have full discretion over their research and remuneration is tied to their Analyst Recommended List (ARL), or 'paper portfolio'. Recruitment is stringent and results in high analyst turnover at the lower levels. The Fund also includes an active currency overlay of two currency professionals and six quantitative analysts.

Track Record/Co-Tenure

The Fund's three senior portfolio managers have a strong working relationship, having significant tenure at the firm of 22 years on average and reflecting the firm's private ownership culture. Turnover within the senior ranks has tended to be reasonably low. Personnel who reach the five-year milestone are considered to be good performers and may be offered participation in Orbis' equity program, further locking in the team's most talented and experienced members. The average senior analyst tenure is 13 years, for those who have been with Orbis for more than than five years.

Alignment

The portfolio managers are strongly aligned with the performance outcomes of end investors by being granted participating units of the firm's profits. This is a prudent measure ensuring that variable remuneration is more closely tied to the performance of the aggregate strategy rather than an individual's regional sleeve. Industry best practice is to directly align variable remuneration with strategy performance rather than firm profits, albeit, the strategy represents the bulk of Orbis' assets. The participation units are subject to a 12-year participation period or 'tail' on departure with no cash buy-out, to ensure that departing portfolio managers remain incentivised and aligned to make decisions that benefit the long-term prosperity of investors and the firm.

Key Person Risk

Key person risk is considered to be low given the team-based decision-making process and rests amongst the three portfolio managers. However, there is a risk that the loss of any individual portfolio manager will materially impact team dynamics, culture, and the Fund's rating.

Process



What is the Investment Process?

Orbis Investment Management employs a long-term, fundamental bottom-up investment process to identify undervalued companies. This style is contrarian in nature, buying stocks when they have fallen out of favour with the wider market. Such processes can underperform during bull markets and in periods of short-term market stress, as Orbis tends to buy falling stocks early. The Manager does not identify with any particular style and the style bias can deviate through market cycles. Analysts have their view on what constitutes contrarian opportunities, which can be influenced by their sector or region of coverage. The Fund can feature a blend of 'deep value' stocks that are trading at heavily discounted prices and stocks that are GARP, which have solid longer-term growth prospects although trade at a discount to 'intrinsic value'. This diversity tends to impact on conventional style analysis characteristics.

We also have research coverage of the Orbis Global Equity LE Fund (Australia Registered) Retail Class, which is identical to the Fund but has certain ESG exclusion screens. There is a very high degree of crossover of holdings across both portfolios.

Lonsec Opinion & Supporting Facts

Philosophy and Universe

Investment Type	Fundamental
Investment Approach	Bottom-up
Investment Style	Value
Typical market cap	Large, mid cap
Minimum market cap	At least US\$5b
Available Universe	The Fund can invest in any listed equity in any market across the globe.

Orbis implements a disciplined, analyst-driven and highly detailed fundamental bottom-up research process. The contrarian-based investment process attempts to exploit market misunderstandings and heavy share price discounts to intrinsic value. Orbis employs an opportunistic approach to research where each analyst has the discretion to investigate any idea within their universe. Quantitative screens assist in the discovery process, helping to narrow and prioritise opportunities. These screens are customisable by analysts but typically include return on equity, net asset value, sustainability of earnings growth and working capital adequacy metrics. The Fund's investment style is fluid. Orbis do not conclusively prescribe with any particular style and the Fund can deviate significantly from the benchmark through market cycles. This is a function of the degree of flexibility and individualism implicit in the process. That is, reflecting the investing bias of each portfolio manager and the emphasis on determining their own view of 'intrinsic value' when assessing investments. At times, this can lead to a mixed portfolio of 'value' and 'growth' names, challenging performance outcomes.

Research Process

Key screens	At least US\$15m daily liquidity
Screened universe	6000
Idea generation	A structured research process allows analysts to quickly eliminate unattractive ideas in the early stages and concentrate their efforts on a handful of their most promising undervalued ideas using a variety of qualitative and quantitative tools.
Stocks researched	426
Annual manager meetings	550
Key research inputs	Various fundamental - company documents, industry reports, competitor analysis
Primary valuation approach	IRR, DCF & Sum of Parts

The research process involves three layers of self vetting by analysts, with each stage progressively requiring deeper analysis. This promotes a high level of individual accountability and conviction. Analysts are considered to have sufficient time to conduct due diligence as they may only generate three to seven new ideas annually. The experience of the portfolio managers is critical in guiding the development of the team and quality of research output. This is particularly important given the risk of inexperienced analysts pursuing poor quality ideas. The bottom-up research emphasises internal financial models and valuations, although broker research can be used to gauge market and consensus views. The primary valuation metrics are DCF and IRR models, although analysts are free to select their own methodology and input their own assumptions. Albeit, a more standardised approach to valuation and financial assumptions can improve consistency and comparability, the flexible approach is well aligned with the analyst ownership of their research. Notably, the valuation techniques and assumptions adopted are critically assessed at the Policy Group Meeting (PGM).

Process (continued)



Portfolio Construction

Portfolio management structure	Team, Co-PM
Approach to benchmark	Benchmark Agnostic
Typical security numbers	80
Typical securities range	50-100
Typical portfolio turnover p.a.	40-60%
Typical active share	>90%

Once a stock idea has been developed by an analyst, they are required to make a presentation to the PGM. The PGM is a peer review forum and does not involve any formal stock approvals. All stock ideas are evaluated in a PGM before being added to an analyst's ARL. This is a valuable feature, ensuring all stocks have been consistently evaluated given the team's varied experience. High stock ownership and significant FUM, may challenge the sell discipline if there is a need to swiftly liquidate the holding. Portfolio construction of the sub-portfolios is the responsibility of each portfolio manager and pleasingly the capital allocations have been stable. Portfolio construction is designed to ensure capital flows to the best risk-adjusted opportunities, enhancing the Fund's appeal.

Capacity Management

Capacity guidance	Not specified
Strategy AUM	US\$31.3b
Portfolio liquidity (1 week)	97.8%
Substantial holdings by manager	None
Strategy previously closed	No

The Manager does not have a formal capacity limit. The Manager invests in stocks when they are out of favour with the market and coupled with elevated AUM levels, this could add to liquidity concerns when trading stocks, particularly in heightened sell-offs. A formal capacity study and definitive capacity figure would be a positive development.

Investment Risk Management

Monitoring external to investment team	Yes
Frequency of monitoring	Daily
Primary risk management system	Internally developed
Security Limits (Min./Max.)	10% absolute, provided not more than 40% in total is invested in positions >5%.
Sector Limits (Min./Max.)	Unconstrained
Country Limits (Min./Max.)	Unconstrained
Non-index Allocation (Typical, Max.)	0%, 0%
Cash Allocation (Typical, Max.)	<5%, Unconstrained

The evaluation of risk is well featured in the bottom-up process. A stock's 'margin of safety' is a key element of the research and each investment thesis is thoroughly tested at the PGM. There is less emphasis on benchmark risk management compared to peers. Quantitative risk models are employed to measure risk exposures and this process aims to review the risk-return trade-offs of large exposures and reduce exposures that do not offer commensurate returns. Currency management is considered both a risk management and alpha generating function by weighting towards currencies that are expected to better preserve value over time, while also having a lower expected risk of capital loss. The currency team estimates the fair value of a currency using the commonly applied PPP method.

ESG



Manager Positioning

Responsible investment style	ESG Integration
ESG approach	Risk or Value
Sustainability thematic	No Sustainability Thematic
Non-financial objective	None

Sustainability Score

No score.

What is the Manager's ESG approach?

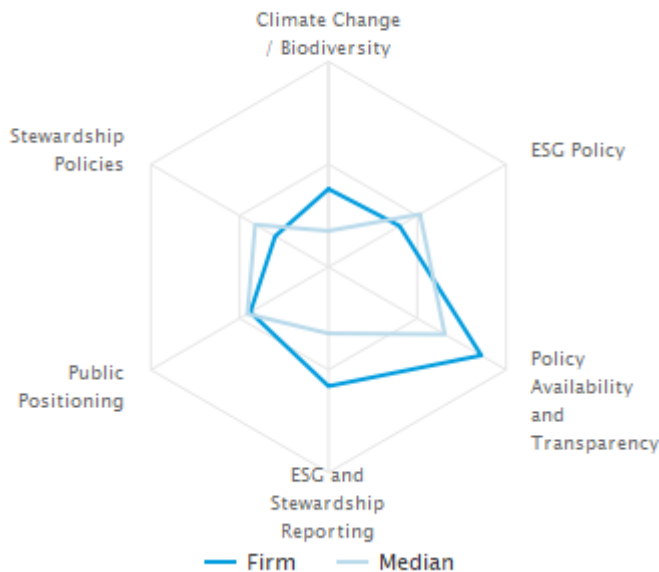
The Manager has indicated that their Responsible Investment ('RI') style is "ESG Integration" and as such they take Environmental, Social, and Governance factors into consideration when assessing investment opportunities. A dedicated RI team helps the investment team execute its responsible investing principles. 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	ModLow
Responsible Investment strategy risk: Clarity, measurability & reporting	N/A

ESG Snapshot



Product Level Approach

The Manager uses ESG data within their investment process in a structured and thorough manner. Multiple providers are accessed. There are clear signs of defined ESG elements within the research process for the Fund, however, there is less structure to the Manager's approach than in leading managers. There are clear links from the Manager's research to the stock selection process through an unstructured adjustment of a company's cash flows based on, among other factors, ESG scores. ESG risks are focused on individual stocks and are reflected in position sizing. At the total portfolio level, ESG monitoring is limited to climate-related risks in the portfolio. There is a clear system for prioritising engagements and for measuring success. The RI team developed processes to identify, prioritise, execute and monitor engagement activity and provide input ahead of votes at shareholder meetings.

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 the risk score of misalignment is N/A.

Manager Level Approach

The Manager's overall ESG policy framework and disclosure is aligned with peers. The Manager has an articulated commitment to the integration of ESG within their investment process with evidence of public positioning. While relevant policies are published on the firm's website, the proxy voting and engagement policy frameworks remain rather generic and lack depth compared to peers. Reporting on voting and engagement outcomes is publicly available, although further disclosure at the company level for engagement outcomes would be welcomed.

Product



Service Providers

Responsible entity	Equity Trustees Limited
Investment manager	Orbis Investment Management Limited
Sub-investment manager	No
Custodian	Citibank N.A. Sydney and Hong Kong Branches
Administrator	Citibank Pty Ltd
Fund Auditor	Ernst & Young
Change in Key Providers? (Over last 12 months)	No

Product Details

Product size	\$3250.00m
Fund 12-month net flows	Positive
Distribution model	Internal
Buy/sell spreads	0.25%/0.25%
Investment structure	Direct
Product type	Unit trust
Currency hedged	Unhedged
Use of derivatives	Yes
Types of derivatives	Foreign currency forward contracts

What is the Product Structure?

The Orbis Global Equity Fund – Australia Registered Retail ('the Fund') is an actively managed long only, benchmark unaware global equities product. The overall portfolio typically contains 50-100 stock positions and portfolio turnover is expected to range between 40-60% p.a. The Fund is a vanilla Australian-domiciled unit trust and is unhedged. The Orbis Global Equity LE (Australian Registered) Retail Class version has exclusions on companies directly involved in tobacco production and controversial weapons.

Lonsec Opinion

Service Providers

The Manager has engaged large 'tier 1' service providers for functions of custody, administration and broking services. The Fund's responsible entity is Equity Trustees and is independent from the firm and the custodian and administrator is Citibank.

Operational 'Red Flags'

The Fund is a long only, value styled global equities product that will typically have a tilt toward larger, liquid global companies that are listed on recognised stock exchanges. This strategy is not operationally challenging to implement and there are no known operational issues.

Wind-up Risks

The Manager has a strong business commitment to grow the Fund in Australia, with an on-the-ground presence in Sydney and Melbourne and the broader capability is well supported by the market. Wind-up risk for the Fund is considered to be minimal.

Fees

Annual Fees and Costs (% p.a.)

Management fees & costs	1.07
Performance fee costs	0.00
Net Transaction Costs	0.04
Buy/Sell Spread	0.25/0.25
Annual fees and costs	1.11

Source: FE fundinfo

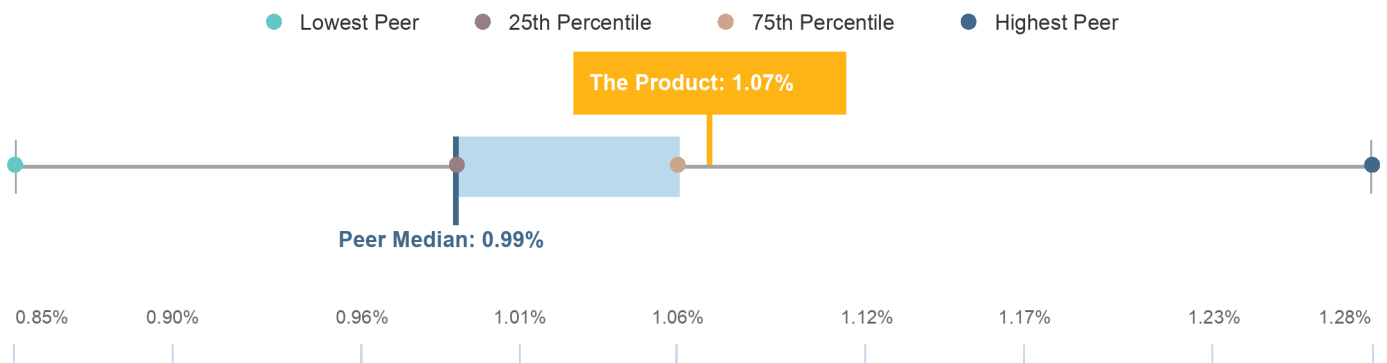
Performance Fees

Applicable	Yes
Hurdle type	Benchmark relative
Hurdle	25% of outperformance above benchmark is paid into a refundable reserve. If the Fund underperforms, refunds are issued at the same rate. Orbis receives payment from the reserve only where the reserve has positive value, capped at 2.5%, with a HWM.
Rate	25%
Fee capping	Yes
High watermark	Yes
Above high watermark	No
Reset Allowed	No

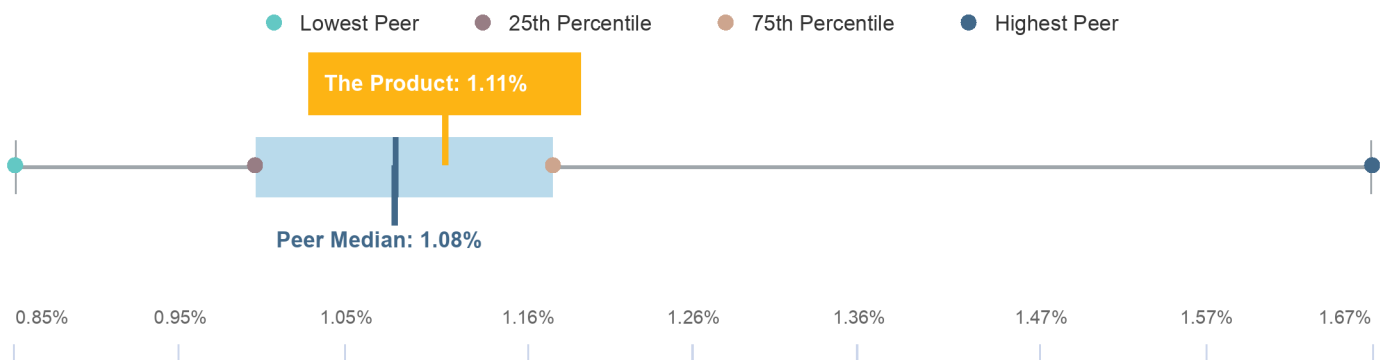
Fees Explained

The Fund's Management Fees and Costs component of its Annual Fees and Costs ('AFC') totals 1.07% p.a.

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



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



Lonsec Opinion

Annual Fees and Costs

The Fund's AFC of 1.11% p.a. is in line with peers and attractive given the Manager's pedigree.

Fairness

The fee structure is well-suited to the Fund's style and is a fairer outcome relative to traditional performance fees.

Performance data is as at 31 October 2023

Performance

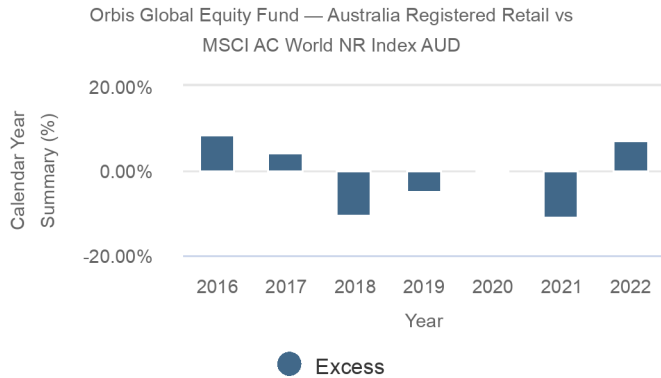
Performance Summary

PDS return objective	To seek higher returns than the average of the world's equity markets, without greater risk of loss over the long term.
Internal return objective	Outperform the benchmark (net) over five years or more
Internal risk objective	Avoid the risk of permanent capital loss over the medium term
Product benchmark	MSCI AC World NR Index AUD
Lonsec peer group	Fundamental Value

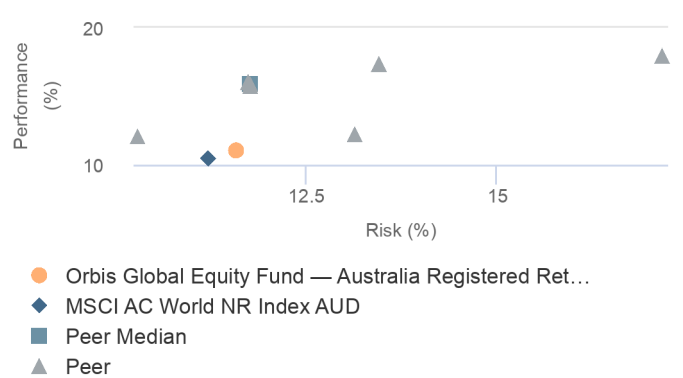
Alpha Generation

Over five years to 31 October 2023, the Fund delivered a return of 8.4% p.a. (after fees), underperforming its Benchmark by 1.5% p.a. and the peer median modestly by 0.4%. Over the shorter 12-month period, the Fund returned a solid 15.0% (after fees), outperforming the Benchmark by 3.4% and the peer median by a healthy 3.6%.

Calendar Year Excess Return



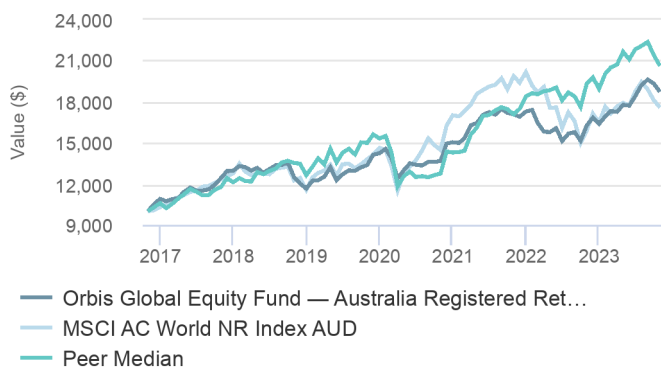
3 Year Risk and Return



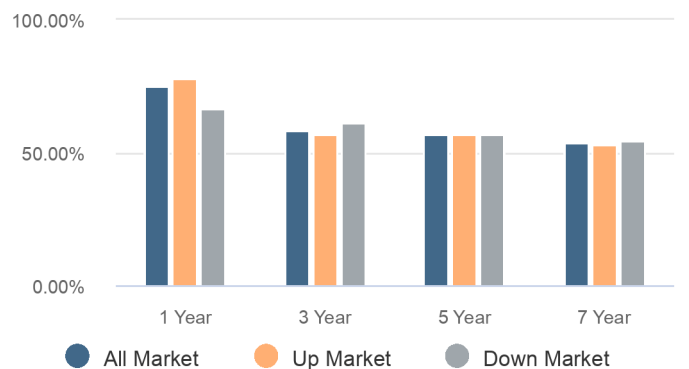
Alpha Consistency

The Fund has underperformed its Benchmark by meaningful amounts, specifically over the last five and seven years to 31 October 2023. The Manager's underlying strategy has a long-term track record of outperformance but it can deviate meaningfully from the Benchmark over short-term periods due to the Manager's long-term and contrarian approach.

Growth of \$10,000 Over 7 Years



Returns Consistency



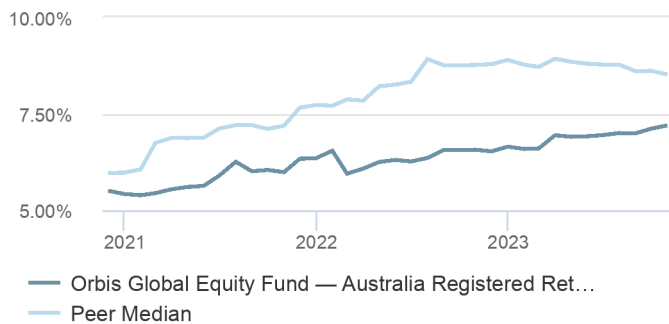
Performance data is as at 31 October 2023

Performance (continued)

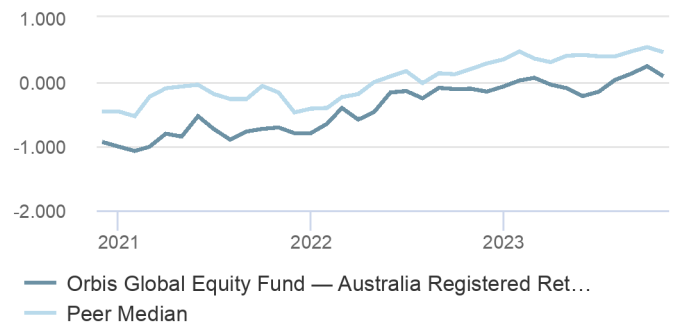
Benchmark Relativity

The Fund's active risk-taking relative to the Benchmark as measured by Tracking Error has been high at 6.5% p.a. over the last five years to 31 October 2023, and has been lower than the peer median of 7.7% p.a., reflecting the Manager's process of building well-diversified investment portfolios. Notably, tracking error is not targeted and is an outcome of the process.

3 Year Rolling Tracking Error Over 3 Years



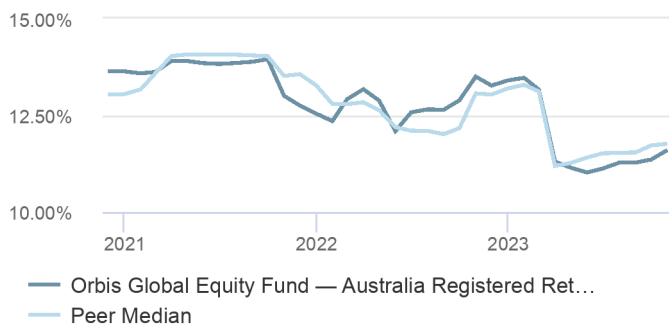
3 Year Rolling Information Ratio Over 3 Years



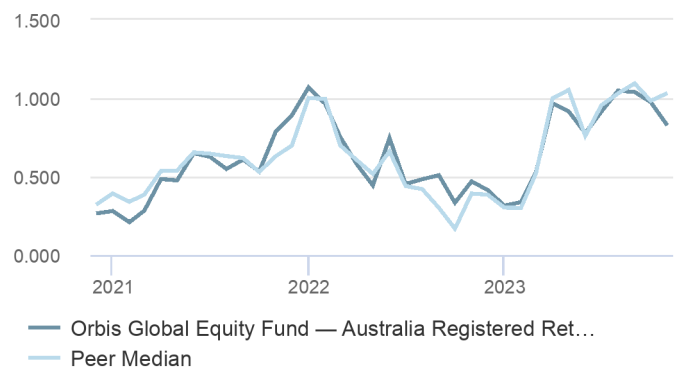
Return Volatility

The Fund's volatility, as measured by Standard Deviation of returns, of 12.4% p.a. over the last five years to 31 October 2023 was in line with the peer median. This reflects the Manager's approach of concentrating the portfolio in the top 10 holdings. The Fund's risk-to-reward, as measured by the Information Ratio, has also been in line with the peer median over this period.

3 Year Rolling Standard Deviation Over 3 Years



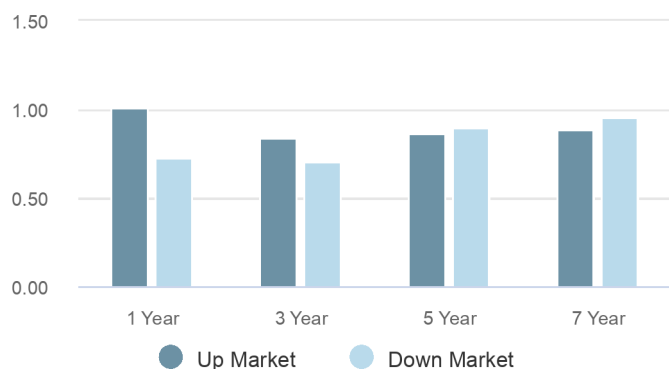
3 Year Rolling Sharpe Over 3 Years



Product Defensiveness

The Fund's worst performance drawdown of -14.8% p.a., over the Fund's five-year track to 31 October 2023, was in line with the peer median. Over the same period, the Fund has outperformed close to 60% of the time in down markets.

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.

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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

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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 of 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

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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

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This FSG was prepared on 9 June 2023.