



**SQM**  
RESEARCH

# Allan Gray Australia Balanced Fund

This report has been prepared for financial advisers only



**Superior**

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

## Currency of Reports

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## Star Rating\*

Investment products are awarded a star rating out of a possible five stars and placed on the following website:  
[www.sqmresearch.com.au](http://www.sqmresearch.com.au)

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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**Report Date: 26 June 2023**

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**SQM Rating** ★★★★★

*Superior. Suitable for inclusion on most APLs.*

<b>Fund Description</b>	
Fund Name	Allan Gray Australia Balanced Fund
APIR code	ETL4654AU
Asset Class	Multi-Asset
<b>Management and Service Providers</b>	
Fund Manager	Allan Gray Australia Pty Ltd
Responsible Entity	Equity Trustees Limited
<b>Fund Information</b>	
Fund Inception Date	01 March 2017
Fund Size	AUD 156 million as of Apr 2023
Return Objective (per PDS/IM)	"To seek long-term returns that are higher than the Benchmark. In doing so, the Fund aims to balance capital growth, income generation and risk of loss using a diversified portfolio."
Internal Return Objective	Not Applicable
Risk Level (per PDS/IM)	Medium to high
Internal Risk Objective	Not Applicable
Benchmark	Custom Benchmark: 36% S&P/ASX 300 Accumulation Index 24% S&P/ASX Australian Government Bond Index 24% MSCI World Index (net dividends reinvested) expressed in AUD 16% JPMorgan Global Government Bond Index expressed in AUD
Number of stocks/positions	132
Fund Leverage	Not Applicable
Portfolio Turnover	33.94% - 5-year average ending Dec-22
Top 10 Holdings Weight	41.10%
<b>Investor Information</b>	
Management Fee	0.76%
TCR (Total Cost Ratio)	0.76% as of Jan 2023
Buy Spread	0.20%
Sell Spread	0.20%
Performance Fee Rate	20.3% of the Fund's outperformance
Minimum Application	AUD 10,000 or set up a regular savings plan of at least AUD 500 per month
Redemption Policy	Daily
Distribution Frequency	Annual
Investment Horizon	More than three years
Currency Hedging Policy	The Fund may use OTC derivatives such as currency forwards to manage foreign exchange risk. In using currency derivatives, the Fund may not actively cause net negative currency exposures.

SUMMARY

Fund Summary

Description

The **Allan Gray Australia Balanced Fund (the "Fund")** is a Multi-Asset (Diversified) Fund that invests in all asset classes, including Australian & International Equities, Australian & International Fixed Interest, Cash and Alternatives.

Its return objective is to seek long-term returns that are higher than the benchmark. The Fund aims to balance capital growth, income generation and risk of loss using a diversified portfolio.

The Fund uses **strategic asset allocation (SAA)** and, to a lesser extent, tactical asset allocation (TAA) to achieve its investment objectives. The Fund's neutral **SAA is 60% growth assets & 40% defensive assets**, which is similar to a typical Balanced Fund.

The actual asset allocation can vary somewhat as per the team's assessment of market conditions. The Fund's default position in terms of geographic exposure is **60% Australian and 40% international**. The Fund implements its SAA exposure in a way that is not typical for a Balanced Fund, as it invests in bonds and international shares directly rather than using a sub-fund.

The Fund employs a **"bottom-up"** process geared towards researching individual companies. The balance between equity allocation versus fixed income is most often driven by the bottom-up (abundance or lack thereof) attractive stock ideas rather than a top-down assessment of macroeconomic conditions. The Allan Gray team believes in adding alpha through allocation decisions at the individual security level rather than at the broader asset class level.

Within the equities component, the Fund aims to buy shares at a discount to their intrinsic value, applying a **contrarian** approach in situations where the market looks to be shunning unloved investment ideas.

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

Fund Rating

The Fund has achieved the following rating:

Star Rating	Description	Definition	Investment Grading
4.25 stars	Superior	Suitable for inclusion on most APLs	High Investment Grade

Previous Rating: 4.25 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, 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

The Australian research team of **9** people is autonomous within the broader Orbis/Allan Gray group but has access to research produced by those broader research teams (about **40** analysts). Given that the Australian team is well-resourced for its' investment style, this broader reach enhances its research edge.

Within the broader Orbis/Allan Gray Group, Mr **Alec Cutler** is the leader of the Global Balanced Investment Team and manages the global sleeve of the Australian Balanced Fund, while Mr **Simon Mawhinney** manages the Australian sleeve.

Mr Mawhinney has the ultimate decision-making authority in constructing the split between equities and fixed income. **Mr Mawhinney is the lead PM, while Mr Cutler is the Co-PM.**

Analysts are responsible for producing investment ideas, identifying those that are worth pursuing and providing a thorough report which could take up to several weeks. Allan Gray Australia analysts are expected to provide 2 to 3 portfolio ideas in the year based on rigorous, detailed, high-quality research that conforms to Allan Gray's contrarian value style.

There is an ongoing two-way interchange of ideas and research between Orbis and Allan Gray (and with Allan Gray in South Africa). All research within the Orbis/Allan Gray Group is on a central interactive database system. A global forum is held once a year for all investment leaders to facilitate idea exchange and coordination.

Considering it is a multi-asset fund, the dual PM structure, the investment process and the size of the team, SQM Research believes that **key person risk is low**.

## 1. Investment Philosophy and Process

### Investable Universe

Primarily the Fund will hold actively-selected shares and corporate bonds issued by publicly listed companies which are considered securities that offer attractive value, superior to the Fund's Benchmark. The Fund may invest in Government bonds, cash, and indirectly in commodities like gold through commodity-linked instruments or in unlisted shares.

For the Australian market, the Fund estimates that the primary universe is around 280-300 stocks. For the global component, the primary universe is estimated at around 2800 stocks. The Fund can invest outside of these primary universes.

### Philosophy / Process / Style

The Fund uses strategic asset allocation (SAA) and, to a lesser extent, tactical asset allocation (TAA) to achieve its investment objectives. The Fund's **neutral SAA is 60% growth assets & 40% defensive assets**, which is similar to a typical Balanced Fund. The actual asset allocation can vary somewhat, as per the team's assessment of market conditions.

The Fund's default position in terms of geographic exposure is 60% Australian and 40% international. The Fund implements its SAA exposure in a way that is not typical for a Balanced Fund, as it invests in bonds and international shares directly rather than using a sub-fund.

The Fund employs a "**bottom-up**" process geared towards researching individual companies. The balance between equity allocation versus fixed income is most often driven by the bottom-up (abundance or lack thereof) attractive stock ideas rather than a top-down assessment of macroeconomic conditions. The Allan Gray team believes in adding alpha predominantly through allocation decisions at the individual security level rather than at the broader asset class level.

Within the equities component, the investment team focuses its efforts on assessing the intrinsic value of

companies based on the fundamental research of Allan Gray and Orbis analysts.

The Fund 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 risk exposure to any single underlying variable. This diversification strategy aims to mitigate downside risk.

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

- **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

## 2. Performance & Risk

### Return Objective

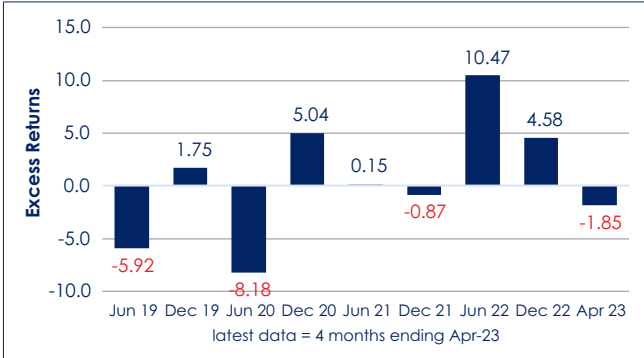
The return objective stated in the PDS is: "The Fund aims to seek long-term returns that are higher than the Benchmark. In doing so, the Fund aims to balance capital growth, income generation and risk of loss using a diversified portfolio."

The Fund's benchmark, as stated in the PDS, is a custom benchmark comprising of the following:

- 36% S&P/ASX 300 Accumulation Index
- 24% S&P/ASX Australian Government Bond Index
- 24% MSCI World Index (net dividends reinvested) expressed in AUD
- 16% JPMorgan Global Government Bond Index expressed in AUD

SUMMARY

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



Length of Track Record

The Fund has a history of 6.1 years (or 73 months).

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

Risk Objective

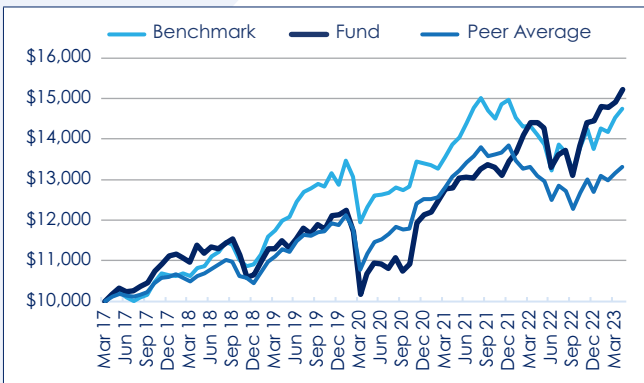
The Fund's PDS states that the risk level of the Fund is "medium to high".

Fund Performance to 30 April 2023 (% p.a.)							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	2.04	2.76	10.08	5.59	12.55	5.97	7.15
Benchmark	1.60	3.41	6.91	4.59	6.17	6.40	6.60
Peer Average	1.23	1.66	5.15	1.64	5.96	4.57	4.79
Alpha	0.44	-0.65	3.18	0.99	6.38	-0.43	0.55

With dividends reinvested. Returns beyond one year are annualised. Return history starts Apr-2017.

Benchmark: Custom benchmark: 36% S&P/ASX 300 Accumulation Index; 24% S&P/ASX Australian Government Bond Index; 24% MSCI World Index (net dividends reinvested) expressed in AUD; 16% JPMorgan Global Government Bond Index expressed in AUD

Growth of \$10,000



Strengths of the Fund

- Allan Gray is a well-known and reputable fund manager. Its contrarian investment philosophy has proven itself over the long term, not just in the Australian firm's products but also in its South African and Orbis Global equities strategies
- Focused and in-depth fundamental equities research approach implemented via a centralised group meeting, with accountability resting clearly with the portfolio managers

- The investment team is well-resourced with the additional human capital of the global Orbis team. The Fund invests heavily in its staff and development, reducing key person risk
- The Fund is a high-conviction blend of the strong competencies of the Australian investment team, combined with the complementary skills of the Orbis Global Balanced Fund team, which have a long and credible track record in multi-asset investing. There is an ongoing two-way interchange of ideas and research between Orbis and Allan Gray (and with Allan Gray in South Africa)
- The Fund has outperformed its peers in all periods and the benchmark in most periods (except 3-month and 5-years)
- The management fee is competitive when compared to the peer average
- The FUM has recovered since the drop in Mar 2020 due to the pandemic and has experienced material growth since then

**Weaknesses of the Fund**

- Based on Allan Gray's contrarian/value investing style, the equity component of the Fund has a significant style & sector bias and may underperform in certain market conditions, including when the markets are focused on strongly bullish sentiment/speculation/ momentum. The drawdown or relative underperformance may be quite pronounced depending on the nature of the cycle. A good example of this was the boom in technology stocks in the late nineties. At that time, Allan Gray and Orbis were buying troubled resource companies and avoiding the tech sector, which was viewed as grossly overvalued. While this persisted, investors experienced underperformance
- Whilst Mr Alec Cutler (Co-PM, based in Bermuda) has significant multi-asset experience, and Mr Simon Mawhinney has significant experience in managing the Allan Gray Stable Fund, the Australian team has relatively limited experience in managing a multi-asset Balanced Fund, including the Asset Allocation and Fixed Interest (Bonds) aspects of the portfolio
- The volatility is higher than the benchmark and peers
- The Fund has underperformed against the benchmark in 3-month and 5-year periods.

**Other Considerations**

- The strategy, as offered in Australia, has a limited track record
- The Fund employs a "bottom-up" process geared towards researching individual companies. The balance between equity allocation versus fixed income is most often driven by the bottom-up (abundance or lack thereof) attractive stock ideas rather than a top-down assessment of macroeconomic conditions. The Allan Gray team believes in adding alpha predominantly through allocation decisions at the individual security level rather than at the broader asset class level. This is a relatively uncommon approach in the Balanced Funds space
- There are 5 derivative positions in the Fund, representing -6.80% of the portfolio (weight) – mainly index futures and currency forwards
- Key Portfolio Metrics: Asset allocation averages over the last 1-year are Australian Equities at 31.7%, Global Equities at 40.3%, Fixed Interest at 22.7%, Commodities (Gold) at 4.3% and Cash at 1.0%

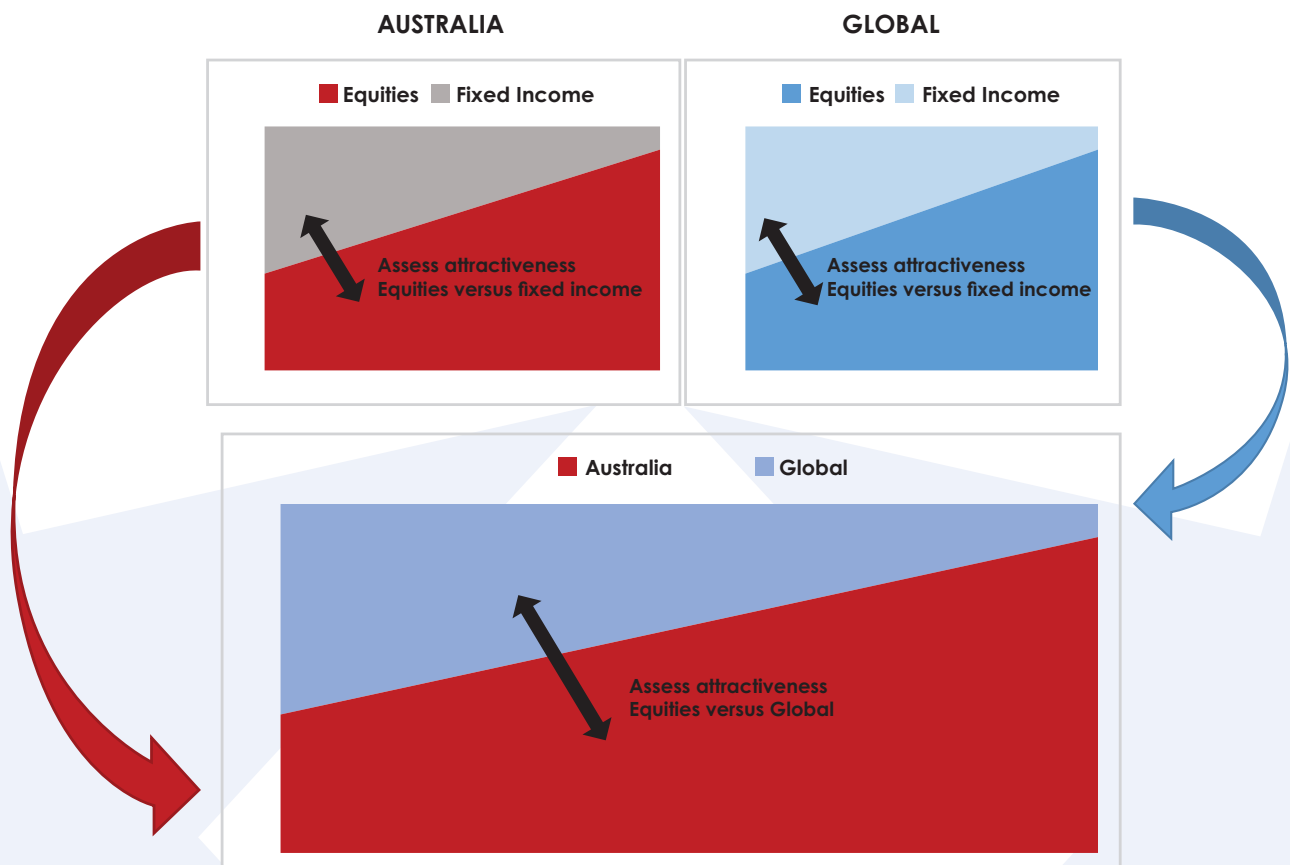
- The overall asset allocation has been relatively steady around the neutral SAA of 60/40 (over the last 2 years), with some small variations
- The Fund implements its SAA exposure in a way that is not typical for a Balanced Fund, as it invests in bonds and international shares directly rather than using a sub-fund

**Key Changes Since the Last Review**

- No changes since the previous review



Investment Process Diagram



Process Description

Investment Process	
<p><b>Research and Portfolio Construction Process</b></p>	<p><b>Idea Generation</b></p> <p>The Fund is built 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 downside risk exposure to an acceptable level consistent with the long-term objective of high reward to risk ratios. This diversification strategy aims to mitigate downside risk.</p> <p>Ideas are generated through various avenues:</p> <ol style="list-style-type: none"> <li>1. Fundamental 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</li> <li>2. Companies whose share prices have fallen significantly and who are unpopular with the research and broking community in general</li> <li>3. Assessment of corporate bonds: As with equities, if a bond appears attractive, the Fund examines whether it trades significantly below its intrinsic value. It is done by comparing the yield on the bond to internal assessments of risk, leveraging the research on the company alongside an analysis of the individual structure of each fixed-income security.</li> </ol>

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

The Fund considers all pay-out scenarios when assessing a bond. The Fund may be willing to invest in a bond with high default risk if it is comfortable with receiving equity or other assets in lieu of scheduled cash payments. Bonds are selected with a long-term view. The Fund prefers to invest in bonds that would ideally be held to maturity/ redemption/ conversion

**Research**

The investment team focuses its efforts on assessing the intrinsic value of companies based on the fundamental research of Allan Gray and Orbis analysts. The team can draw on the extensive technology developed by Orbis and Allan Gray Limited over many years and the insights of the global team of analysts.

The investment approach relies heavily on bottom-up company-specific research by Investment Analysts. Every stock in the portfolio is researched and valued internally. The research, valuation methods and factors considered may vary depending on the type of company. The Fund aims to thoroughly understand the industry in which the company operates, the competitive landscape and sustainable margins for the industry.

For portfolio candidates under selling pressure, the team aims to understand the motivations and emotions in the market that are driving the selling. The focus is on identifying the negative factors and whether the share price reflects these appropriately or excessively.

The Fund can source research materials widely from industry publications, company visits, a proprietary database that has historical accounting and price data going back more than 30 years, consultant reviews and roughly 20 brokerage houses globally.

The Manager receives information from brokers who may provide useful input (for example, information on the layout of a particular industry or for collating data) but does not follow their buy or sell recommendations.

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.

The Fund relies heavily on the internal Policy Group Meetings to have investment ideas challenged by the internal peer group and subjected to detailed scrutiny. Analysts are responsible for calling the PGM and submitting their reports to other team members for review. The PGM provides portfolio managers with an avenue for formally considering potential securities to include within the portfolio.

Portfolio Managers have the ultimate decision as to whether ideas are implemented. External consultants may be used on an ad hoc basis for very specific purposes.

**Screening**

Potential investment opportunities are typically subjected to computerised screening through the internal Quant system. Orbis' proprietary database contains prices and company fundamental data of more than 13,000 companies globally going back over 30 years.

All analysts have access to the database to search for attractive opportunities. Key criteria routinely examined at this level include long-term ROE, long-term TNAV (tangible net asset value) growth, long-term Revenue and Earnings growth, Debt/ TNAV and Cash/ TNAV.

## Investment Process

### Research and Portfolio Construction Process

The criteria are not limited to these, and ultimately it is part of the analytical task to determine which are most relevant to a particular situation. Shortlisted equities that show promise are then analysed further in a structured and intensive process to encourage a focus on the most prospective opportunities.

### *...continued*

### Portfolio Construction

The portfolio managers 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 and fixed-income securities. The Fund sees fixed income investments primarily as a risk diversifier rather than a return maximiser. Positions are not weighted according to a quantitative, formulaic approach.

Each investment is assessed based on the detailed research process for its payoff profile, with a focus on the potential downside. Position sizing will reflect the portfolio-level objective of balancing capital growth, income generation and risk of loss.

The Fund's default position is 60% Australian assets and 40% international assets. Within each of those, the default position is 60% equity and 40% fixed income. Exposures will be driven by the attractiveness of investment opportunities based on an assessed discount to intrinsic value. Exposures may differ meaningfully from the benchmark. Incremental positions have to compete with each other and existing portfolio holdings for a place. In instances where alpha is seen to be difficult to extract due to a lack of opportunities, the portfolio would become more defensively positioned, and vice versa.

The balance between equity allocation versus fixed income is most often driven by the bottom-up abundance or otherwise of attractive stock ideas rather than a top-down assessment of macroeconomic conditions.

### Sell Discipline

The portfolio managers continually monitor the gap between a stock's current trading price and their assessment of the stock's intrinsic value. The investment philosophy encourages the Manager to start selling a stock once the share price begins to move through the assessment of intrinsic value.

The Manager will likely decide to sell shares where there is a negative development that impairs the investment thesis. This may be an unforeseen negative development, or it may be that the Fund underestimated a negative aspect that was already prevailing. It is an idiosyncratic, case-by-case assessment.

Often with a negative development, the share price will fall by an equal or greater amount than the likely value impairment. In these situations, the Fund may purchase more of the share rather than sell it. In such cases, the Manager believes that it is important to set aside what was previously paid for the share and focus on the present situation. Focus on 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 portfolio manager places great weight on managing the risk of permanent loss of capital. The first and primary source of protection against this is having a strong and disciplined approach to valuation and only making investments where there is a significant margin of safety between price and value.

The first component in risk management is the detailed research that is performed on each of the stocks held. 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. This system can run scenarios to assess the potential performance of the strategy in extreme market events based on a large number of prior extreme events.

The Fund does not operate stop-losses. Analysts covering stocks are responsible for maintaining their assessment of valuation and monitoring changes over time. Any changes in assessed value versus price will be monitored, and the portfolio managers will have the ultimate decision and responsibility concerning the maintenance or adjustment of positions.

At the end of each trading day, compliance reports are generated from the compliance checker system indicating whether any restrictions have been breached or are close to being breached. The first report is produced shortly after the Australian market closes (which is roughly before the European and American markets open), with another report being produced before the Australian market opens (which is roughly after the close of the European and American markets).

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

In the event of a breach, the compliance officer makes an initial assessment of its cause and whether the breach is significant, considering the factors outlined in the Corporations Act. All breaches that are identified are discussed with the relevant business units to consider reporting them to the responsible entity as soon as possible. Such reports contain background information on the breach, how it occurred and an action plan to mitigate against the breach re-occurring.

**Hedging & Derivatives**

**Hedging:** Currency risk is monitored and advised upon by a dedicated currency team within Orbis. For the global section of the portfolio, positions in underlying securities are taken based on a bottom-up fundamental assessment. The resulting currency exposures may then be adjusted depending on the views of Orbis' dedicated currency team.

Where the currency team determines there are significant deviations from long-term fair value, currency exposures may be adjusted to reduce exposure to currencies deemed overvalued in favour of undervalued currencies.

**Derivatives:** The Fund may use derivatives such as index futures and options in regions in which the Fund is invested, for example, to reduce the risk of loss in the event of a significant decline in the markets.

The Fund also uses OTC derivatives such as currency forwards to manage foreign exchange risk. Trading in various derivatives exposes the Fund to additional risks. For example, it may not be possible to readily liquidate OTC derivatives given the absence of a market, changes in derivative values may not correlate perfectly with the underlying assets, and unexpected movements in market conditions or exchange rates may lead to losses.

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

Liquidity is not considered a constraining issue at the current fund size.

In the normal course of trading (buying and selling) for investment purposes, the Manager is assisted somewhat by the contrarian nature of the investment philosophy.

Allan Gray often finds themselves buying when the rest of the market wants to sell and selling when the market wants to buy (and may even be in the grip of irrational exuberance). In these cases, the market is a willing liquidity provider to the Manager's actions.

The Fund generally invests in fixed income securities that are to be held to maturity.

**Portfolio Turnover and Active Share**

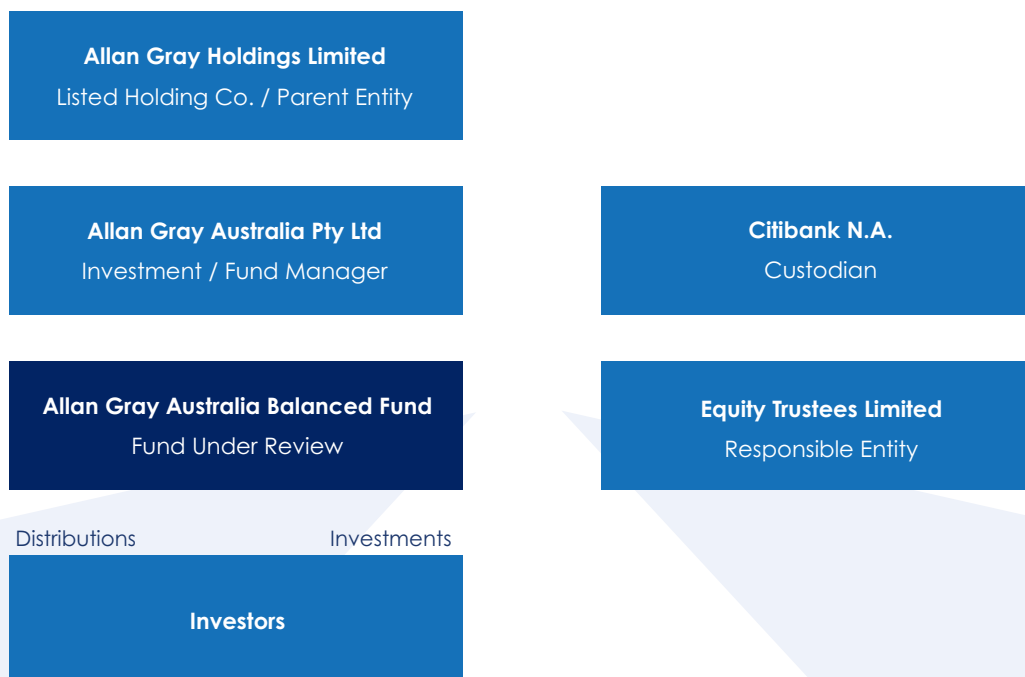
The turnover of the Allan Gray Australia Balanced Fund has been around 30-35% (average). This would be within the normal expected range. Allan Gray Australia analysts are expected to provide 2 to 3 portfolio ideas in the year of high quality and medium to long-term time horizon. As a result, portfolio turnover is relatively low.

The 12-month portfolio turnover as of Dec 2022 for the Allan Gray Australia Balanced Fund was 44%, and 5 yr average is 33.94%.

**Leverage**

This Fund does not employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives).

## 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

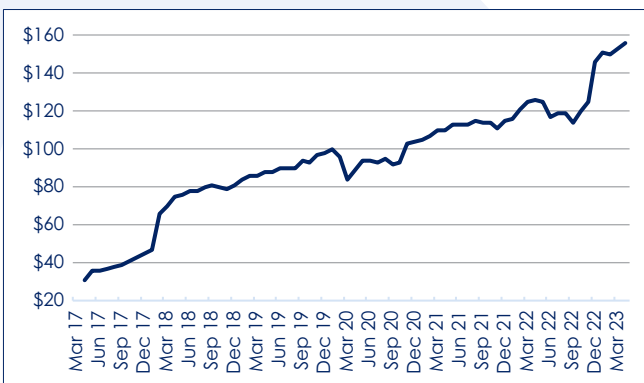
**Management Risk**

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 an annual 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
Jun-17	0.52
Jun-18	3.84
Jun-19	3.56
Jun-20	3.35
Jun-21	0.56
Jun-22	10.01

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
Alec Cutler	Portfolio Manager	Bermuda	18	30	Alec previously worked for 10 years at Brandywine Global managing the Relative Value strategy, co-managing the Large Cap Value area and co-managing the firm as a member of the Executive Committee.	Bachelor of Science (Honours) in Naval Architecture (United States Naval Academy), Master of Business Administration (The Wharton School of the University of Pennsylvania), Chartered Financial Analyst.



Name	Responsibility / Position	Location	Years at Firm	Years in Industry	Previous Employers	Qualifications
Mark Dunley-Owen	Portfolio Manager	Bermuda	14	22	Mark joined the Orbis Allan Gray Group in 2009. He previously worked as a portfolio manager at Allan Gray Proprietary Limited.	Bachelor of Business Science (Honours) in Finance and Information Systems (University of Cape Town), Chartered Financial Analyst.
Timo Smuts	Analyst, Head of Fixed Income	Bermuda	10	10	Timo previously worked as an Investment Banking Analyst at Goldman Sachs and Attaché (Press) to the South African Ambassador to Japan.	Bachelor of Law (Tsukuba University), Master of Finance (University of Cambridge).
Ashley Lynn	Analyst	Bermuda	10	10	Prior to joining Orbis in 2013, Ashley worked as an attorney at Boyden Gray & Associates in Washington, DC and a policy role at the Office of the Secretary of Defense at the United States Department of Defense.	Bachelor and Master of Arts (Magna cum Laude, Phi Beta Kappa) (Yale University), Juris Doctor (Yale Law School), Chartered Financial Analyst.
Jeffrey Miyamoto	Analyst	Bermuda	5	5	Jeffrey previously worked as a research associate at the Asian Development Bank Institute.	Bachelor of Arts (University of Nevada, Las Vegas), Master of Public Policy (University of Tokyo), Master of Business Administration (Yale School of Management), Juris Doctor (Yale Law School).
Robyn Carroll	Analyst	Bermuda	<1	18	Robyn previously worked as a Portfolio Manager at Capital Management Advisors Limited and HSBC Private Bank in Bermuda, and most recently, as a Senior Portfolio Manager with Butterfield Asset Management Limited.	Bachelor of Business Administration (Acadia University), Master of Business Administration (Dalhousie University), Chartered Financial Analyst.
Romari Tucker	Analyst	Bermuda	<1	<1	Romari previously worked as an Investment Analyst at Enstar Group and as an Investment Counsellor and Investment Risk Manager with HSBC Private Bank in Bermuda.	Honours Bachelor of Commerce (McMaster University), Chartered Financial Analyst, Chartered Alternative Investments Analyst.

**Investment Team**

The Australian research team of 9 people is autonomous within the broader Orbis/Allan Gray group but has access to research produced by those broader research teams. Given that the Australian team is well-resourced for its investment style, this broader reach enhances its research edge.

Within the broader Orbis/Allan Gray Group, Mr **Alec Cutler** is the leader of the Global Balanced Investment Team and manages the global sleeve of the Australian Balanced Fund, while Mr **Simon Mawhinney** manages the Australian sleeve. **Mr Mawhinney is the lead PM, while Mr Cutler is the Co-PM.**

**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

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

**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
<b>Board Meetings</b>	The local AGA board members have oversight of the entire business	Typically, once every 6 months	Board of Members

**Quality and experience of the Australian research team**

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.

There is an ongoing two-way interchange of ideas and research between Orbis and Allan Gray (and with Allan Gray in South Africa). All research within the Orbis/Allan Gray Group is on a central interactive database system. A global forum is held once a year for all investment leaders to facilitate idea exchange and coordination.

**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 the ultimate decision-making authority in constructing the split between equities and fixed income.

Meeting	Purpose	Frequency	Participants
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 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.	0.76%	0.90%
Expense Recovery/Other Costs % p.a.	–	–
Performance Fee %	20.30%	12.50%
Total Cost Ratio TCR % p.a.	0.76%	1.02%
Buy Spread %*	0.20%	0.14%
Sell Spread %*	0.20%	0.14%

\* 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:

- 20.3% of the amount by which the Fund's investment returns (**after** base management fees have been deducted) exceed the returns of the Benchmark (Fund's custom benchmark\*\*)
- 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

**\*\*Fund's custom benchmark is comprised of:**

- 36% S&P/ASX 300 Accumulation Index
- 24% S&P/ASX Australian Government Bond Index
- 24% MSCI World Index (net dividends reinvested) expressed in AUD
- 16% JPMorgan Global Government Bond Index expressed in AUD

**SQM Research observes that:**

- *The Fund management fee is 0.76% p.a., which is 14.0 basis points lower than the peer group average of 0.90% p.a.*
- *The Total Cost Ratio (TCR) is 0.76% p.a., which is 26 basis points lower than the peer group average of 1.02 % 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	2.04	2.76	10.08	5.59	12.55	5.97	7.15
Benchmark	1.60	3.41	6.91	4.59	6.17	6.40	6.60
Peer Average	1.23	1.66	5.15	1.64	5.96	4.57	4.79
Alpha	0.44	-0.65	3.18	0.99	6.38	-0.43	0.55
Metrics				1-Year	3-Year	5-Year	Inception
Tracking Error (% p.a.) - Fund				6.47	7.57	7.25	6.72
Tracking Error (% p.a.) - Peer Average				4.19	3.82	3.86	3.67
Information Ratio - Fund				0.15	0.84	-0.06	0.08
Information Ratio - Peer Average				-0.86	-0.12	-0.53	-0.09
Sharpe Ratio - Fund				0.27	1.25	0.45	0.59
Sharpe Ratio - Peer Average				-0.07	0.75	0.45	0.50
Volatility - Fund (% p.a.)				11.96	9.36	10.89	10.08
Volatility - Peer Average (% p.a.)				9.32	7.24	7.89	7.27
Volatility - Benchmark (% p.a.)				11.46	8.22	8.78	8.16
Beta based on stated Benchmark				0.89	0.73	0.93	0.92

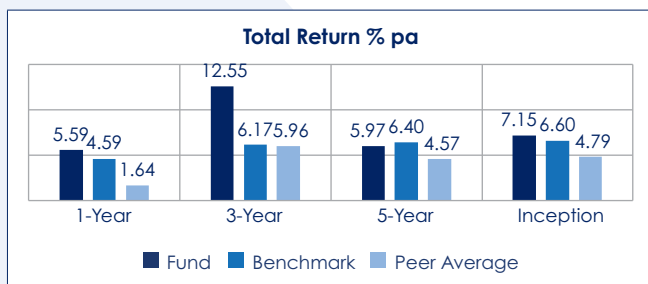
Distributions reinvested. Returns beyond one year are annualised. Return history starts Apr-2017.

Benchmark: Custom benchmark: 36% S&P/ASX 300 Accumulation Index; 24% S&P/ASX Australian Government Bond Index; 24% MSCI World Index (net dividends reinvested) expressed in AUD; 16% JPMorgan Global Government Bond Index expressed in AUD

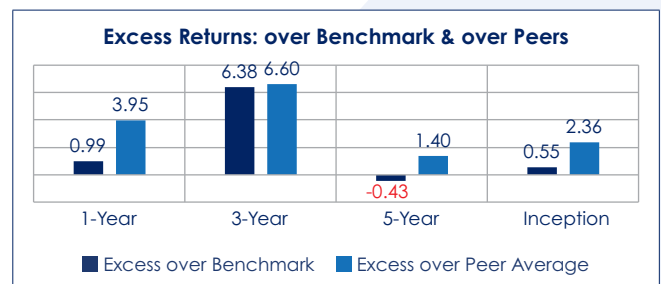
### Quantitative Insight<sup>1</sup>

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

#### Returns



#### Excess Returns (Alpha)



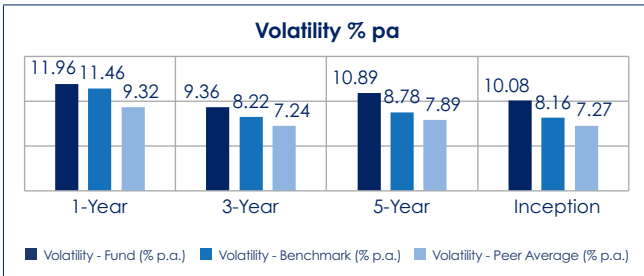
The Fund has displayed strong performance across all periods when compared with peers.

The Fund has materially outperformed its peers in all periods.

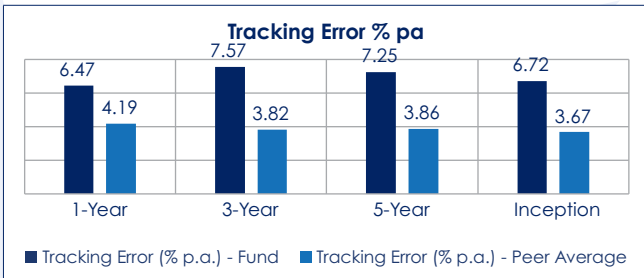
The Fund has outperformed the benchmark in most periods (except 3-month and 3-year periods).

<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 moderately higher than benchmark and peers in all periods.



The Fund's **tracking error** (standard deviation of monthly excess returns) has tended to be moderately higher than peers.

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

**Drawdowns**

Drawdown Summary			
Drawdown Size (peak-to-trough)			
	Fund	Bench	Peers
Average	-3.90%	-4.27%	-3.82%
Number	11	8	9
Smallest	-0.12%	-0.50%	-0.17%
Largest	-16.91%	-11.89%	-12.32%
Length of Drawdown (in months)			
	Fund	Bench	Peers
Average	4.7	4.9	5.8

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

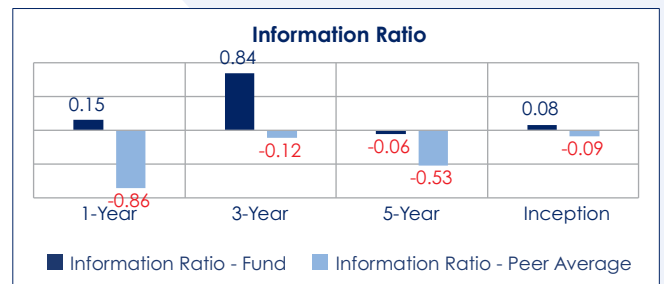
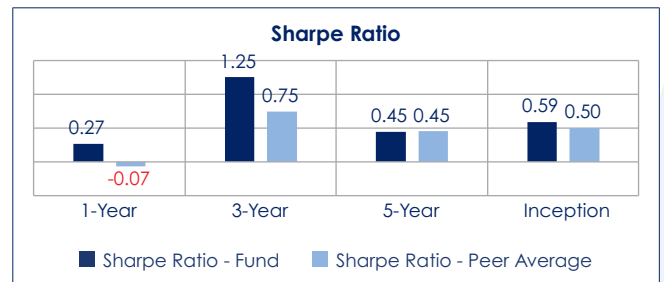
**Average** drawdowns have been modestly worse than the benchmark and the peer average.

**Upside/Downside Capture**

	Downside Capture		Upside Capture	
	3 years	Inception	3 years	Inception
<b>Fund</b>	18.4%	61.1%	92.2%	83.6%
<b>Peer Average</b>	71.5%	71.7%	81.6%	72.6%

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 modestly better than the peer average.

**Correlation of Fund to Asset Classes**

Market	3 years	Inception	Market Indexes
Aust Bonds	+15.2%	+7.5%	Bloomberg AusBond Composite 0+Y TR
Aust Equity	+81.9%	+87.1%	S&P/ASX 300 TR
Global Bonds	+29.0%	+22.2%	Bloomberg Global Aggregate Hdg AUD
Global Equity	+51.8%	+65.6%	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

## QUANTITATIVE ANALYSIS

### 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 Apr-17 to Apr-23		
Rank	Date	Market	Fund	Difference
1	Mar-20	-20.83%	-13.13%	+7.70%
2	Jun-22	-8.97%	-6.78%	+2.19%
3	Feb-20	-7.76%	-4.35%	+3.41%
4	Jan-22	-6.45%	+1.57%	+8.02%
5	Sep-22	-6.29%	-4.57%	+1.72%
6	Oct-18	-6.16%	-3.56%	+2.59%
7	Mar-18	-3.73%	-0.93%	+2.79%
8	Sep-20	-3.59%	-2.90%	+0.69%
9	Dec-22	-3.29%	+0.24%	+3.53%
10	May-22	-2.76%	-1.03%	+1.73%
<b>Totals</b>		<b>-69.84%</b>	<b>-35.45%</b>	<b>+34.38%</b>

	No. of Months		
<b>Correlation</b>	+88.8%	Positive Return	2
<b>Capture</b>	+50.8%	Outperform	10

### Tail Risk Observations:

The data in the table above indicate that the Fund displays moderate **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 38 observations in total.

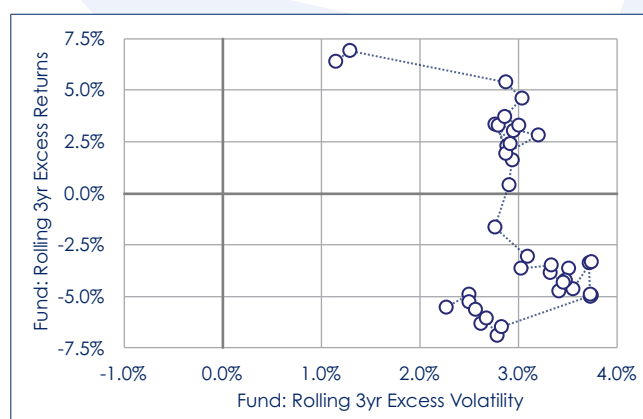
The two tables below display the distribution of these observations and their overall frequency across the risk/return quadrants.

#### Snail Trail Distribution

Frequency	Lo-Vol	Hi-Vol	Total
<b>Hi-Return</b>	0	15	15
<b>Lo-Return</b>	0	23	23
<b>Total</b>	<b>0</b>	<b>38</b>	<b>38</b>

#### 38 rolling 3-year observations

% of Total	Lo-Vol	Hi-Vol	Total
<b>Hi-Return</b>	<b>0.0%</b>	39.5%	39.5%
<b>Lo-Return</b>	0.0%	60.5%	60.5%
<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.

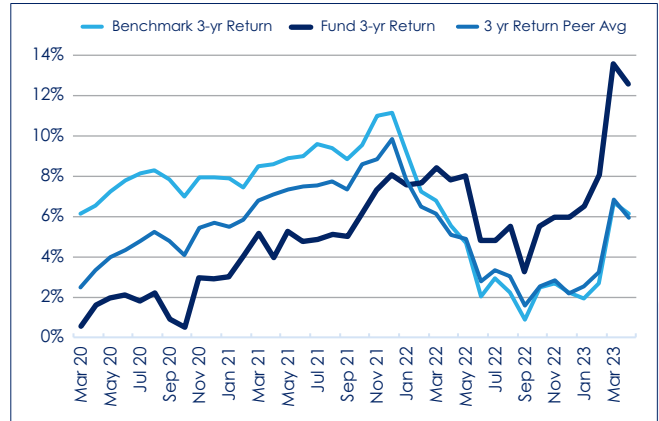
Annual Returns

Year	Fund	Benchmark	Peer Avg	vs. Bench	vs. Peers
2018	-4.09	+2.39	-1.52	-6.48	-2.57
2019	+13.88	+18.10	+13.68	-4.22	+0.20
2020	-0.10	+4.05	+5.49	-4.15	-5.59
2021	+10.96	+11.74	+10.55	-0.78	+0.41
2022	+7.30	-8.12	-8.33	+15.42	+15.62
Apr-23	+5.39	+7.24	+4.90	-1.85	+0.49

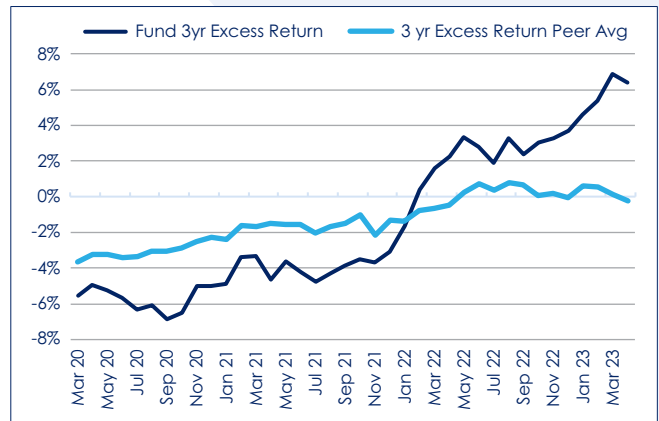
2023 data = 4 months ending Apr-23

Return and Risk

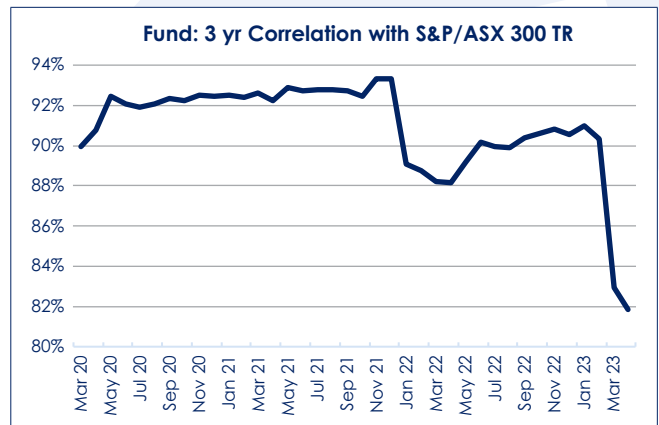
Rolling Returns



Rolling Excess Returns



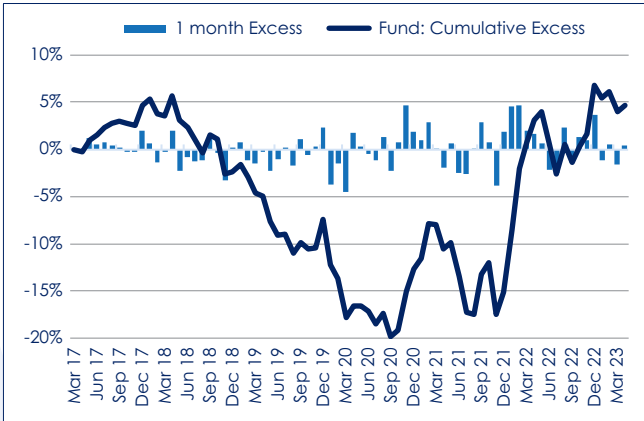
Rolling Correlation



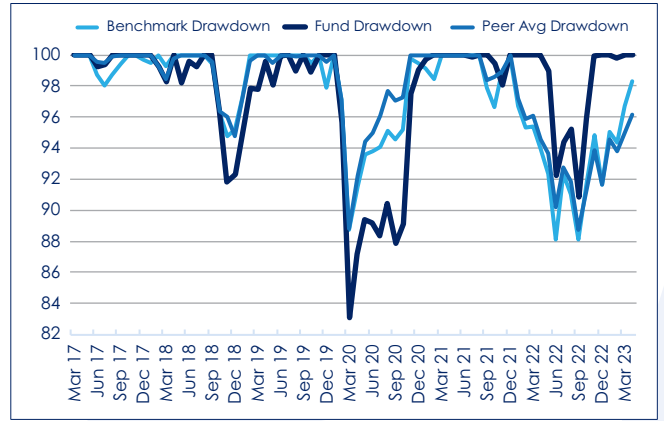


Return and Risk

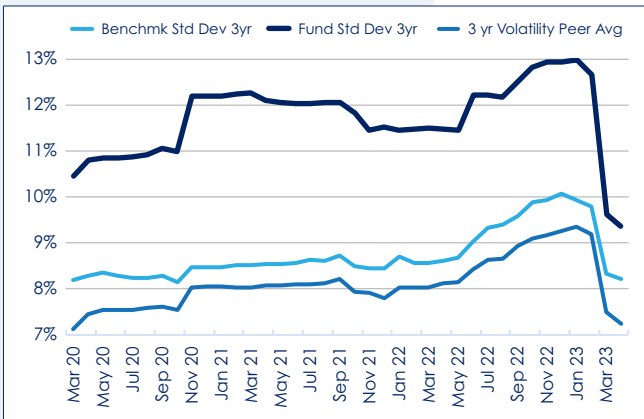
Cumulative Excess Returns



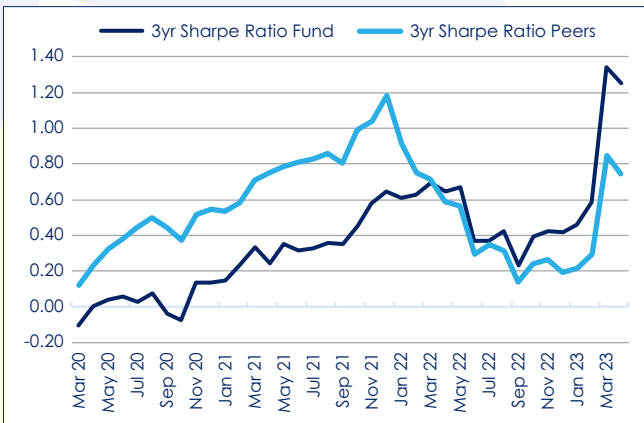
Drawdowns



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>Constraint or Risk Limit 1</b>	No more than 20% of the Fund's NAV may be invested in securities and instruments issued by a single issuer
<b>Constraint or Risk Limit 2</b>	No more than 10% of the Fund's NAV may be invested in shares or equity-linked securities which are not listed or dealt with on a stock exchange or stock market
<b>Constraint or Risk Limit 3</b>	The Fund must not engage in short selling of securities
<b>Constraint or Risk Limit 4</b>	The Fund may hold no more than 10% of its NAV in listed (exchange-traded) derivatives and only if the underlying exposure is fully covered by cash or money market instruments. The Fund must not hold over-the-counter (OTC) derivatives other than for the dominant purpose of managing foreign exchange risk or interest rate risk. In using currency derivatives, the Fund may not actively cause net negative currency exposures
<b>Constraint or Risk Limit 5</b>	The Fund may not borrow
<b>Constraint or Risk Limit 6</b>	The Fund must not invest in unlisted collective investment schemes. No more than 35% of the Fund's NAV may be invested in listed collective investment schemes managed by the same group
Other Constraints	
<b>Maximum weight: single security</b>	No more than 20% of the Fund's NAV may be invested in securities and instruments issued by a single issuer
<b>Maximum weight: single stock/manager</b>	No more than 20% of the Fund's NAV may be invested in securities and instruments issued by a single issuer

#### Top 5 Holdings\*

Name	Weight	Currency	Asset Class	Country/Region	Listed/OTC	Sector/Industry	Ticker / ID
<b>Australia (Govt Of) (1 - 3 Years)</b>	13.90%	AUD	Fixed Income	Australia	Listed	n/a	1525Z AT Equity
<b>SPDR® Gold Trust</b>	4.30%	USD	Commodities	n/a	Listed	Materials	GLD UP Equity
<b>Newcrest Mining</b>	3.50%	AUD	Fixed Income	Australia	Listed	Materials	NCM AT Equity
<b>Alumina</b>	3.30%	AUD	Equity	Australia	Listed	Materials	AWC AT Equity
<b>United States (Govt Of) (3 - 5 Years) (inflation-linked)</b>	3.10%	USD	Equity	USA	Listed	n/a	3352Z US 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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