



## Yarra Australian Equities Fund

JBW0009AU Author: Richard Dalidowicz Published: 14 Oct 2024

Data is provided by the manager at 31 Jan 2024, and currency in AUD, unless otherwise stated

Refer to glossary for definition of the rating

### Product Review

#### About this Product

Investment manager	Yarra Funds Management Limited
Benchmark	S&P/ASX 200 TR Index AUD
Product structure	Managed Fund
Product size	\$118m
Inception date	Jul 1996
Asset class	Australian Equities
Sector	Australian Large Cap
Peer group	Core / Style Neutral
Rated peers	50

#### Product Characteristics

Business Life Cycle	Mature
Product Wind-Up Risk	Low
Key Person Risk	High
Tenure of Decision Makers	Medium
Complex (RG240)	No
Strategy Remaining Capacity	\$10bn
ESG Approach	Risk or Value
Peer Relative Fees and Costs	In line with median

#### Annual Fees and Costs (% p.a.)

Management fees & costs	0.80
Performance fee costs	0.00
Net Transaction Costs	0.06
Buy/Sell Spread	0.15/0.15
<b>Annual fees and costs</b>	<b>0.86</b>

Source: FE fundinfo, PDS Date: Not Provided

#### Strengths

- The investment team is well-resourced and capably led by experienced Portfolio Manager, Dion Hershman.
- The investment team's key members hold a strong alignment with the firm given the privately owned structure of the business.
- The investment process is logical and well-structured.

#### Weaknesses

- The portfolio manager has multiple investment and leadership responsibilities that may impact his focus on the Fund.
- The Fund's benchmark relative performance has been lack lustre over multiple periods.

### Product Opinion

The Fund's rating has been maintained as **Recommended**. This reflects the strong regard for portfolio manager, Dion Hershman and his investment leadership of the well-resourced and stable investment team. The Manager's investment process is logical and structured appropriately to cover the full market. However, the rating is negatively impacted by persistent underperformance over several periods, primarily due to stock selection. Hershman holds multiple investment and leadership roles, which may leave him overextended, and there is a high key-person risk associated with his position.

#### 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 achieve medium-to-long term capital growth and to outperform the S&P/ASX 200 Accumulation Index over rolling three-year periods
Internal return objective	To outperform the benchmark by 2.5% p.a., before fees, over rolling three-year periods
Internal risk objective	Expected tracking error of 2.5-4% p.a.
Non-financial objective	None

#### Asset Allocation (%) (as at 30/06/2024)

Australian Equities	96.19
Alternative Assets	0.02
Cash	3.79
<b>Total</b>	<b>100.00</b>

Source: FE fundinfo

#### Rating History

28-Sep-2023	Recommended
20-Oct-2022	Recommended
11-Oct-2021	Investment Grade

#### Product Distribution Profile

Frequency	Semi Annually
Last Missed Distribution	Not applicable
Number of Missed Distributions in the last 5 years	0
AMIT Election	Yes
TOFA Election	No

#### Top 10 Holdings (as at 30/06/2024)

	Weight (%)
BHP GROUP LIMITED	10.470
COMMONWEALTH BANK OF AUSTRALIA	6.950
WESTPAC BANKING CORPORATION	5.460
WOODSIDE ENERGY GROUP LTD	5.350
TRANSURBAN GROUP	3.950
XERO LTD	3.420
RESMED INC	3.320
ORIGIN ENERGY LTD	3.300
CARSALES.COM LIMITED	3.090
QBE INSURANCE GROUP	3.080

Source: FE fundinfo

#### Target Market Determination

Produced by issuer	Yes
Provided to Lonsec	Yes

#### Performance Analysis - annualised after fees at 30/06/2024

	1 Year	Median	2 Year	Median	3 Year	Median	5 Year	Median
Performance (% p.a)	4.87	11.33	12.80	12.13	5.62	6.06	6.44	7.37
Standard deviation	11.79	11.24	13.23	12.43	13.11	12.94	18.48	16.28
Excess return (% p.a)	-7.23	-0.78	-0.64	-1.06	-0.75	-0.07	-0.83	-0.06
Outperformance ratio (% p.a)	33.33	50.00	45.83	45.83	38.89	47.22	46.67	48.33
Worst drawdown (%)	-9.81	-7.00	-9.81	-7.38	-12.28	-11.92	-32.77	-26.43
Time to recovery (mths)	3	2	3	2	5	5	13	10
Sharpe ratio	0.04	0.63	0.69	0.66	0.24	0.29	0.26	0.35
Information ratio	-2.60	-0.42	-0.19	-0.42	-0.23	-0.08	-0.18	-0.02
Tracking error (% p.a)	2.78	2.37	3.40	3.04	3.26	3.06	4.53	3.07

**Lonsec Peer Group:** Australian Equities - Australian Large Cap - Core / Style Neutral

**Product Benchmark:** S&P/ASX 200 TR Index AUD

**Cash Benchmark:** Bloomberg AusBond Bank Bill Index AUD

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

Business data is as at 31 December 2023

### Business

#### Facts

Investment Manager	Yarra Funds Management Limited
Ultimate Parent Company	Yarra Capital Management Limited
Headquarters	Melbourne
Inception Date	Apr 2017
% Staff Ownership	20-50%

#### Governance

% Independent board members	50
% Female board members	50
Independent chair	Yes
CEO as Chair	No
Separate Audit Committee	Yes

#### Who is the Manager?

Yarra Capital Management ('Yarra' or 'YCM') was founded in 2017 after Dion Hershman and senior staff completed a management buyout of Goldman Sachs Asset Management ('GSAM') Australia's domestic investment operations, with the support of TA Associates ('TA'). Founded in 1968, TA is a global growth private equity firm, headquartered in the USA. In April 2021, YCM acquired Nikko Asset Management ('Nikko AM') Australia. The enlarged entity manages assets across equities, fixed income and multi-asset strategies. TA has a long history of co-investing in active fund managers and Yarra is considered to have a solid long-term partner.

## Lonsec Opinion

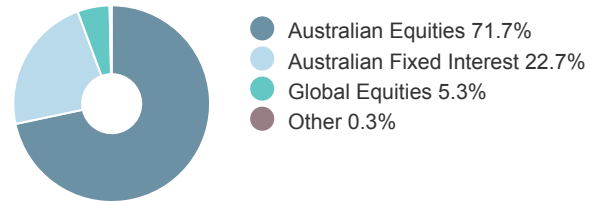
#### Profitability

The business is highly profitable, driven by strong growth in funds under management across a diverse range of investment products. A broad product offering is positive, as it reduces the company's dependence on any single product to sustain its operations.

#### Business Track record

The firm has a successful track record of strong business growth and client retention across its multiple investment strategies.

#### AUM



#### Metrics

Total AUM	\$20.9bn
Investment Management Headcount	82
Investment Professionals	39
Sales & Service	9
Distributor	Self

#### Business Ownership

Yarra is 40% owned by TA, 40% owned by members of Yarra staff, and 20% owned by Nikko AM. A staff-owned funds management business is a positive feature of Yarra, as it creates a strong boutique culture that aligns staff well with performance outcomes and aids in staff retention.

#### Business Governance

Yarra Capital Management is led by a board and senior management team with a long track record in the funds management industry. The firm has no regulatory findings in its recent history.

### Team



#### Key Decision Makers (KDM)

	Primary function	Dedicated to strategy	Appointed to strategy	Industry/Mgr exp. (yrs)	Exp. in PM roles (yrs)
Dion Hershan	Portfolio management	No	2017	22/18	22
Marcus Ryan	Portfolio management	Yes	2017	18/18	18

#### KDM Change\*

No changes.

\* Last 3 years

#### Profile

Size	28
Structure	Centralised
Turnover	Medium

#### Alignment

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

#### Resources

	Number	Average Years Experience
Key decision makers	2	20
Portfolio Managers		
Hybrid portfolio manager/ analysts	7	22
Dedicated analysts	6	8
Dedicated dealers	1	24
Quantitative		
ESG/Sustainability	1	19
Macro	2	27
Investment Specialists		

#### Who is the Team?

The Fund is managed by Dion Hershan, who provides strong investment leadership and is an experienced Australian equities portfolio manager ('PM'). He is supported by Deputy PM, Marcus Ryan, and Head of Australian Equities Research, Katie Hudson, who are well-qualified for their roles. Hershan has multiple portfolio management responsibilities that may leave him stretched; in addition to his PM duties, he is Head of Australian Equities, where he leads the analyst team and has coverage of stocks within the ASX top 100. His PM responsibilities include the UBS Yarra Australian Share Fund (mirrors the Fund) and the Yarra Ex-20 Australian Equities Fund. He is also co-PM, with Hudson of the Yarra Emerging Leaders Fund. Overall, this represents a significant portfolio management workload, although there are many commonalities of stock ideas across large/ mid-cap funds. Adding to Hershan's breadth of responsibilities is his role as Executive Chair of YCM Group.



## Lonsec Opinion

### Skill

Hershan and Ryan are well-regarded investors, with a combined experience of more than 50 years and deep knowledge of the investment process founded originally at GSAM. They work collegiately in managing the portfolio, although Hershan is ultimately responsible for the performance of the Fund. Hershan co-founded YCM and transitioned across with the equities team at GSAM. Hershan is highly experienced in leadership roles, having served in the role as Head of Australian Equities at GSAM from 2007. Ryan was appointed Deputy PM of the Fund in 2020 and all of his portfolio management experience was gained at GSAM and YCM. YCM's dedicated ESG resources are viewed positively, with Erin Kuo serving as Chief Sustainability Officer, with more than 15 years of experience. The ESG resources have benefitted the Fund, as well as demonstrated YCM's commitment to enhancing its ESG credentials.

### Team Size

The investment team of 19, including Hershan, is well-resourced and experienced relative to most peers. The team includes 14 portfolio managers/research analysts, a portfolio construction/risk analyst and two macro strategists. The average experience of the team is 16 years and 10 years YCM average tenure. There is a good balance of experience within the investment team and the analysts are well-ingrained in the Yarra philosophy and process. The breadth of resourcing is impressive and provides full coverage of the market. There is a high level of interaction and oversight of analysts' research activities by Hershan and Ryan. This practice promotes higher-quality research and assists with the development of less experienced analysts.

### Track Record/Co-Tenure

The Fund's senior portfolio managers have significant co-tenure at YCM and this extends to their time at GSAM of close to 20 years on average. All hold equity in the firm which supports team stability and camaraderie. Tenure amongst the broader investment team is strong with no departures over the last three years, reflecting the firm's independent boutique culture. The team operates in a relatively flat structure and demonstrates a team-oriented approach to decision-making. Despite each analyst having defined sector research responsibilities, the sharing of ideas and the peer review process are a strength of the Manager, allowing for greater alignment with potential investment proposals and 'buy-in' from the whole team.

### Alignment

There is a solid level of alignment of the investment team with end investors through the team's remuneration structure which comprises both base and variable components. Annual performance bonuses are a function of an individual's performance and their contribution to the overall performance of the team. Further alignment is bolstered by the Manager's equity structure wherein a majority of the equities investment team are equity holders in Yarra.

### Key Person Risk

There is a high level of key person risk which resides mainly with Hershan and moderately with Hudson as Head of Australian Equities Research. However, Lonsec believes the risk of either departing is partially mitigated by their equity tie-in, albeit the rating would be reviewed in the event either investor departed the firm.

### Process



#### What is the Investment Process?

The Fund is a 'long only', relatively concentrated Australian equities product that adopts a long-term approach, focusing on structural and cyclical changes in industries and companies to generate outperformance. The investment process is predominately driven by 'bottom-up' fundamental research and is supplemented by 'top-down' analysis. The Manager's investment style is not expected to display any persistent bias towards 'growth' or 'value' through a market cycle, thus its style is best described as 'core' / style-neutral. The 'bottom-up' process incorporates the analysis of industry structure – outlook for the industry going forward, competitive position – barriers to entry, the behaviour of competitors, regulation, the company's asset base, value chain dynamics – products, brands, technology, infrastructure, Management – the quality of management and its ability to create shareholder value, and company track record and outlook – financial position, quality of free cash flow generation. The process is rigorous and the final output of the bottom-up research is an investment thesis that forms the foundation for peer review.

### Lonsec Opinion & Supporting Facts

#### Philosophy and Universe

Investment Type	Fundamental
Investment Approach	Bottom-up
Investment Style	Core/Style Neutral
Typical market cap	Large and mid cap
Minimum market cap	\$500m
Available Universe	All listed companies in the S&P/ASX 300 index

The philosophy is straightforward and is centred on a high-conviction stock selection process which is dictated by rigorous fundamental research and proprietary analysis to identify and test distinguished, non-consensus insights to identify mis-priced companies relative to their business models and earnings power. The investment team maintains broad research coverage of the investment universe, which includes all stocks within the S&P/ASX 300 Index. The universe is filtered via a tiered system which broadly classifies the team's stock coverage into three categories: 'high priority', 'high interest' or 'watchlist'. This aids in prioritising the investment research agenda and ensures improved timeliness and accountability of research outcomes. Across these categories, the Manager 'actively' researches and models 180 stocks. This is considered a pragmatic allocation of effort and resources. Analysts are assigned specific sectors for research and are meant to be 'specialists' in their sectors. Hershman and Hudson have 'generalist' roles and work alongside 'specialists' throughout the research process to enable them to focus on portfolio management.

#### Research Process

Key screens	Liquidity, Valuation, Debt levels
Screened universe	180
Idea generation	Financial market data, Economic data, Newsflow/Events, Expert networks, Financial statements.
Stocks researched	120
Annual manager meetings	2500
Key research inputs	Financial statements, Company meetings, Company data, Industry data, Economic/Market data, Expert networks
Primary valuation approach	DCF

The research process is well-structured and is driven mainly by 'bottom-up' fundamental research. It is considered adequately detailed and consistently implemented across the research universe. Idea generation is the responsibility of all team members. The process has solid breadth, and the investment team's all-cap coverage structure affords each analyst the flexibility to source ideas from both the large and small-cap market sectors. YCM's stock analysis prioritises identifying quality companies by evaluating their ability to generate strong free cash flow. This approach emphasises a deep understanding of a company's management, industry structure, and organisational assets to accurately forecast sales, profit margins, and capital expenditures. Research is distilled into a standardised one-page investment thesis, serving as the foundation for comparison and peer review. Proprietary models are developed and maintained, incorporating methods such as DCF, free cash flow yields, and other industry-specific valuation techniques, which analysts can apply at their discretion. While this flexibility may reduce comparability across the research universe, analysts express their conviction through a valuation ranking from zero to five, with five indicating the most attractive risk-adjusted upside. This system helps portfolio managers easily identify the most compelling opportunities across sectors.



### Process (continued)



#### Portfolio Construction

Portfolio management structure	Co-PM
Approach to benchmark	Benchmark Aware
Typical security numbers	35
Typical securities range	30-40
Typical portfolio turnover p.a.	47.21%
Typical active share	62.64%

The portfolio construction process is systematic and well-structured, with a clear link between the research effort and the size of active stock positions. It is risk-aware, avoiding significant style factor biases while balancing short- and long-term investment themes. However, there is some tension between the sell discipline and the PMs' preference for maintaining a low-turnover portfolio. This often leads to holding onto 'cheap' stocks for extended periods, even as their quality deteriorates, introducing unintended idiosyncratic risks. To address this, Yarra established the Supplementary Review Committee ('SRC') to improve the process by addressing issues with portfolio companies more swiftly. For example, when a company announces a significant earnings downgrade or a large acquisition, the covering analyst updates the investment thesis. The SRC, which includes Hershman, Hudson, the analyst, and one additional analyst, challenges the revised thesis. This committee is a positive addition to the process.

#### Capacity Management

Capacity guidance	\$10bn
Strategy AUM	\$6.3bn
Portfolio liquidity (1 week)	100.00%
Substantial holdings by manager	None
Strategy previously closed	No

The Manager is considered a large-sized Australian equities fund manager within the peer group. The Manager's overall capacity limit is 0.6% of the market cap of the index, which equates to circa \$10bn. This allows the Manager ample headroom versus current FUM for growth. There are positives and negatives to low or high levels of FUM, however, on balance, managers with smaller FUM are believed better placed to add value. While there are no hard rules on capacity limits, Managers with significant FUM are believed to typically operate at a competitive disadvantage to smaller peers who can trade with less market impact. Albeit, there are some positives to high FUM levels, including improved access to company management and analyst resourcing. Overall, there are no immediate concerns regarding YCM's FUM.

#### Investment Risk Management

Monitoring external to investment team	Yes
Frequency of monitoring	Daily
Primary risk management system	Factset
Security Limits (Min./Max.)	Soft: Benchmark Relative, +/-5%
Sector Limits (Min./Max.)	Soft: Benchmark Relative, +/-10%
Country Limits (Min./Max.)	Australia(100.00%)
Non-index Allocation (Typical, Max.)	0%, 0%
Cash Allocation (Typical, Max.)	5%, 20%

Risk management is integral to the investment process. The position-sizing matrix ensures that active stock positions align with the team's assessment of their risk and return profiles. Additionally, risk models are employed to keep the contribution of each stock's active risk within internal limits, while maintaining the portfolio's overall beta around one. The use of multiple risk systems and internal portfolio construction resources is a positive feature, enabling the team to reconcile different outputs and better understand each position's risk contribution to the Fund. This approach helps mitigate unintended exposures. Mark O'Neill, the Portfolio Construction Analyst, is responsible for monitoring active stock positions and risk attribution. As a separate resource from Yarra's compliance team, he provides an additional layer of oversight.

### 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?

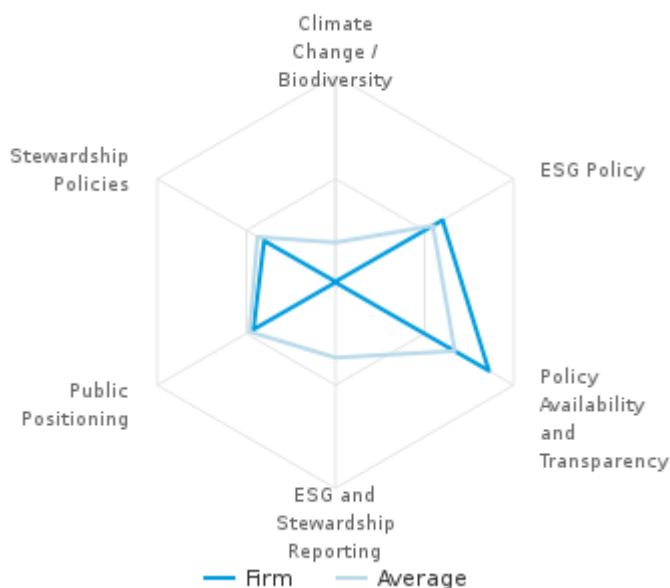
The Manager has indicated that their Responsible Investment style is 'ESG integration' and as such they consider environmental, social and governance factors when assessing investment opportunities. With a primary ESG style of 'risk or value', managers will determine inclusion based on the balance of overall risk (including ESG risk) and potential return. As a result, this approach may mean that lower-quality ESG companies may be included if the return potential is sufficient and this may conflict with some client's perception of what a strong ESG process would deliver.

## Lonsec Opinion & Supporting Facts

#### Overview

ESG Process Score Mod

#### ESG Snapshot



#### Product Level Approach

While the Manager is sourcing data from an external ESG data provider it is less comprehensive than some peers. There are clear signs of defined ESG elements within the research process for the Fund. Yarra has recently hired Dr. Erin Kuo as Chief Sustainability Officer, to provide thought leadership on ESG issues and to enhance ESG frameworks. There are clear links from the Manager's research to the stock selection process through the Managers incorporation of ESG factors in the discount rates used in their models. Portfolio monitoring is appropriate with the Manager using proprietary scores to monitor the overall ESG risk in the portfolio. There are clear portfolio-level ESG-based targets in place. While the Manager has systems in place to track and record engagements, there is no clear system for prioritising engagements or for measuring success.

#### Strategy: Clarity, Measurability & Reporting

This product does not make any specific claim to being a sustainable, ethical or impact offering. As such, an alignment review for the product is not required thus the product's risk of misalignment has been assessed as not applicable.

#### Manager Level Approach

The Manager's overall ESG policy framework and disclosure are aligned with peers, with reporting being their key weakness. They have committed to integrating ESG within their investment process and there is evidence in their public positioning. Pleasingly, their voting policy is now publicly available but lacks depth compared to peers. Reporting on voting outcomes is publicly available and aligned with peers, although rationales for dissenting votes are not provided. There is no reporting on engagement activities.



### Product



#### Service Providers

Responsible entity	Yarra Funds Management Limited
Investment manager	Yarra Funds Management Limited
Custodian	Citibank
Administrator	Citibank
Fund Auditor	Deloitte
Change in Key Providers? (Over last 12 months )	No

#### Product Details

Product size	\$118.00m
Fund 12-month net flows	Positive
Distribution model	Self
Buy/sell spreads	0.15%/0.15%
Investment structure	Direct
Product type	Registered Managed Investment Scheme
Currency hedged	N/A
Use of derivatives	No
Types of derivatives	None

#### What is the Product Structure?

The Fund is a long-only, actively managed Australian equities product that will typically invest in larger companies listed on the ASX. The Fund is a vanilla Australian-domiciled unit trust and it is not considered operationally challenging to implement.

### Lonsec Opinion

#### Service Providers

The Manager has engaged large 'tier 1' service providers for functions of custody, administration and broking services. Yarra Funds Management Limited is the Responsible Entity ('RE') of the Fund and thus is a related entity. The RE is responsible for operating and managing the MIS, holds an AFSL and as such is required to comply with its AFSL and RE obligations as outlined under the Corporations Act. The RE is experienced and has a governance framework in place to deal with any perceived conflicts of interest. The RE relationship has been stable since the inception of the Fund and there have been no issues.

#### Operational 'Red Flags'

The Fund is a long-only, Australian equities product that will typically have a tilt toward larger ASX-listed companies. There are no known operational issues.

#### Wind-up Risks

The Manager has a strong business commitment to grow the Fund and 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	0.80
Performance fee costs	0.00
Net Transaction Costs	0.06
Buy/Sell Spread	0.15/0.15
<b>Annual fees and costs</b>	<b>0.86</b>

Source: FE fundinfo, PDS Date: Not Provided

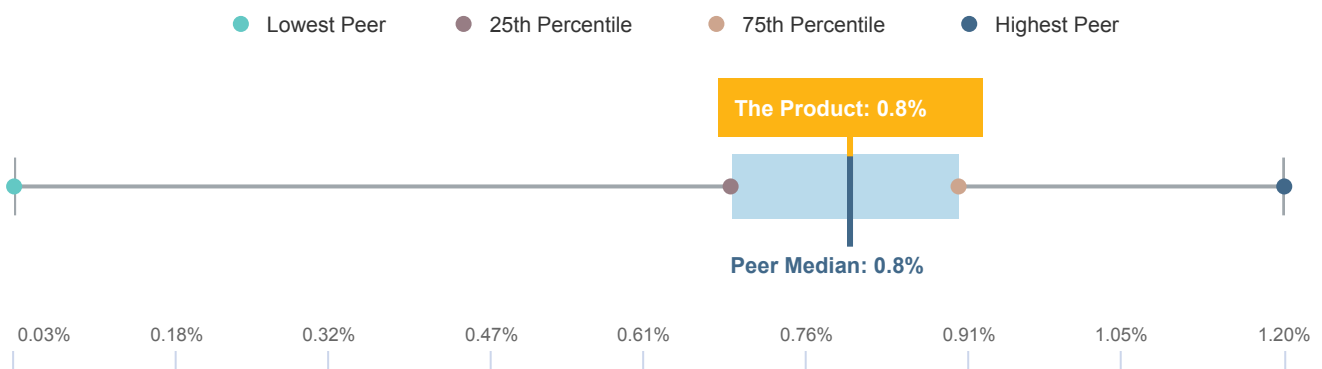
#### Performance Fees

Applicable	No
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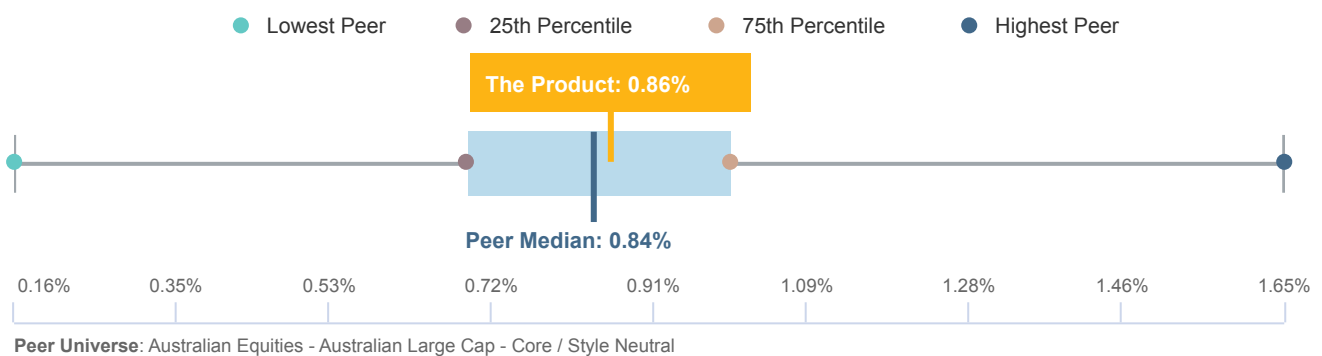
#### Fees Explained

The Fund's Annual Fees and Costs ('AFC') total 0.86% p.a. Pleasingly, there is no performance fee and transaction costs are 0.06% p.a.

#### Management Fees and Costs Peer Comparison



#### Annual Fees and Costs Peer Comparison



### Lonsec Opinion

#### Annual Fees and Costs

The Fund's total AFC of 0.86% p.a. is in line with the peer group median.

#### Fairness

The overall fee structure is considered to be attractive given the Manager's investment pedigree. The lack of a performance fee provides investors with additional certainty.

Performance data is as at 30 June 2024

### Performance

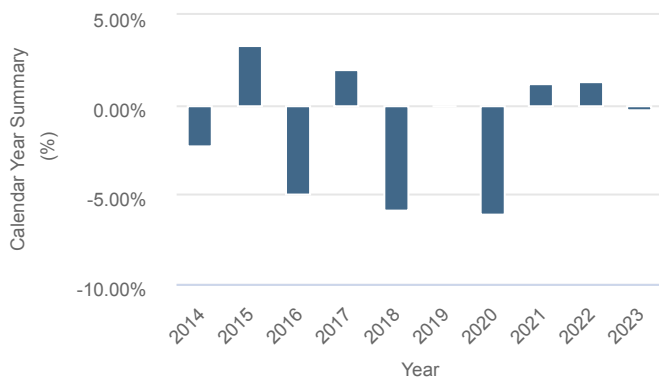
#### Performance Summary

PDS return objective	To achieve medium-to-long term capital growth and to outperform the S&P/ASX 200 Accumulation Index over rolling three year periods.
Internal return objective	To outperform the benchmark by 2.5% p.a., before fees, over rolling three year periods.
Internal risk objective	Expected tracking error of 2.5-4% p.a.
Product benchmark	S&P/ASX 200 TR Index AUD
Lonsec peer group	Core / Style Neutral

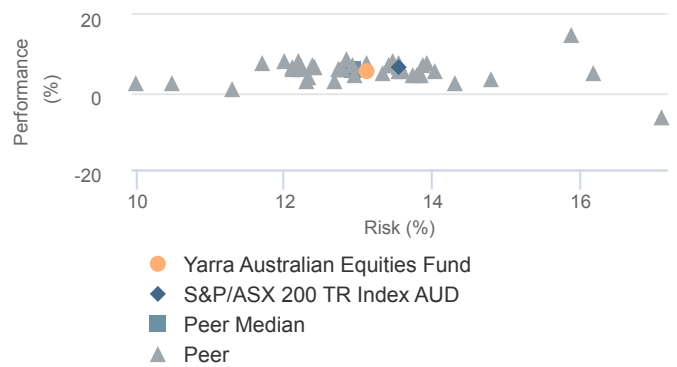
#### Alpha Generation

The Fund's performance, after fees, has generally been below the Benchmark and peer returns over all assessed periods, although the level of underperformance has typically been modest. The Fund has not achieved its stated performance investment objective over the three years to June 2024.

##### Calendar Year Excess Return



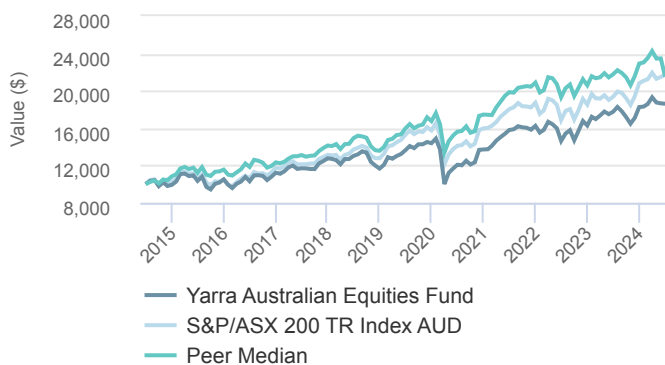
##### 3 Year Risk and Return



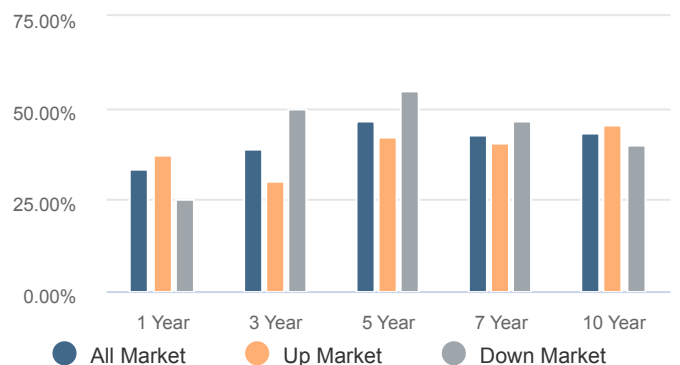
#### Alpha Consistency

The Fund has consistently underperformed the Benchmark over the past five years to June 2024. The Fund's investment strategy is suited to 'broad' market conditions, where a large number of stocks are outperforming and not just a few 'growth' names as observed over the past year.

##### Growth of \$10,000 Over 10 Years



##### Returns Consistency



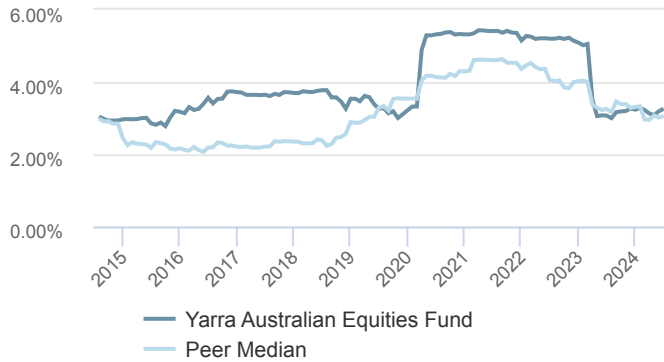
Performance data is as at 30 June 2024

### Performance (continued)

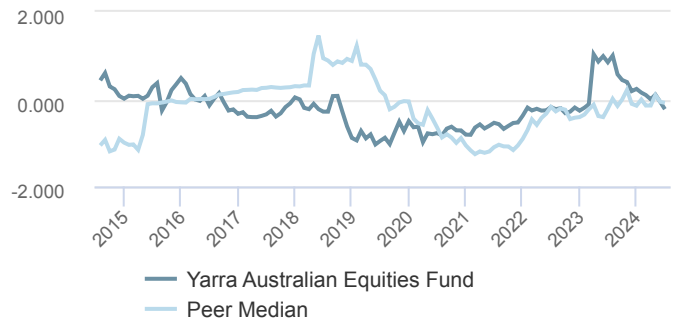
#### Benchmark Relativity

The Fund's active risk-taking relative to the Benchmark, as indicated by a Tracking Error of 3.3% p.a., aligned with the peer median over the three years ending June 2024. This reflects the Manager's conservative, risk-controlled portfolio construction approach, designed to avoid unintended biases. Over this period, the Fund's Information Ratio of -0.23 trailed the peer median of -0.08.

#### 3 Year Rolling Tracking Error Over 10 Years



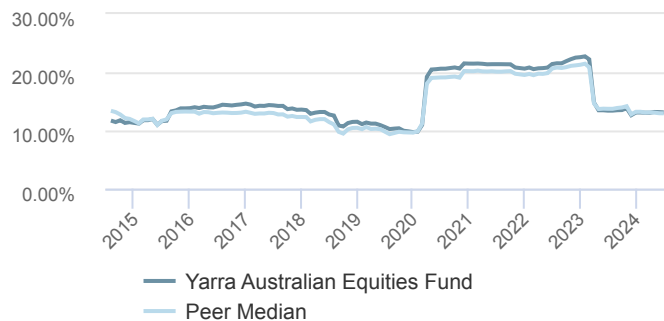
#### 3 Year Rolling Information Ratio Over 10 Years



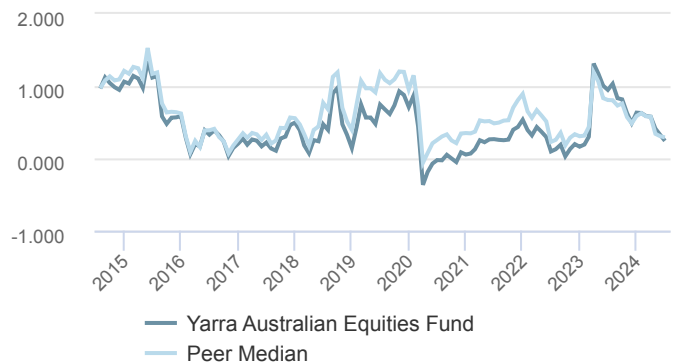
#### Return Volatility

The Fund has displayed moderately higher volatility relative to the Benchmark and peers across all periods. This is largely due to the relatively high conviction approach. The Fund's volatility of 13.1% p.a. over the three years to June 2024 was modestly higher than the peer median. The Fund's Sharpe Ratio was in line with peers, however, indicating similar risk-adjusted outcomes.

#### 3 Year Rolling Standard Deviation Over 10 Years



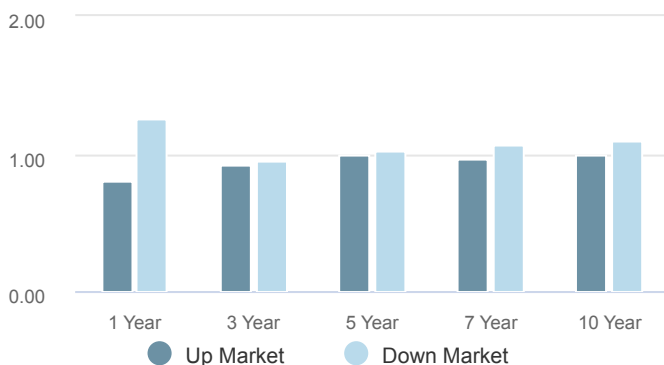
#### 3 Year Rolling Sharpe Over 10 Years



#### Product Defensiveness

The Fund has exhibited moderate defensiveness through time. The Fund's worst performance drawdown of -12.3% over the three years to June 2024 was modestly worse than the peer median of -11.9%. Over this period, outperformance in down markets has averaged 50%.

#### 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

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### 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

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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).

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- 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;

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## Lonsec Research FSG (continued)

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#### Complaints Manager

Level 39, 25 Martin Place  
Sydney NSW 2000

Tel: 1300 826 395

Email: [complaints@lonsec.com.au](mailto:complaints@lonsec.com.au)

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Online: [www.afca.org.au](http://www.afca.org.au)

Email: [info@afca.org.au](mailto:info@afca.org.au)

Phone: 1800 931 678

#### Mail:

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

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