

## Yarra Emerging Leaders Fund

JBW0010AU Author: Harrison Sayer Published: 22 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	50% S&P/ASX MidCap 50 TR Index AUD / 50% S&P/ASX Small Ordinaries TR Index AUD
Product structure	Managed Fund
Product size	\$218.00m
Inception date	Sep 1997
Asset class	Australian Equities
Sector	Australian Mid Cap
Peer group	Australian Mid Cap
Rated peers	19

#### Product Characteristics

Business Life Cycle	Mature
Product Wind-Up Risk	Low
Key Person Risk	High
Tenure of Decision Makers	High
Complex (RG240)	No
Strategy Remaining Capacity	Capacity is 0.6% of the benchmark.
ESG Approach	Risk or Value
Peer Relative Fees and Costs	Above median

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

Management fees & costs	1.25
Performance fee costs	0.00
Net Transaction Costs	0.15
Buy/Sell Spread	0.20/0.20
<b>Annual fees and costs</b>	<b>1.40</b>

Source: FE fundinfo, PDS Date: 20/Mar/2023

#### Strengths

- The investment team is well-resourced and led by experienced co-PM Dion Hershman and Katie Hudson.
- The investment process is logical and well-structured.
- The investment team's key members hold a strong alignment of interest given the privately owned structure of the business.

#### Weaknesses

- The co-PM structure results in diminished accountability, albeit notes the long tenure of the co-PMs.
- The Fund's management fee of 1.25% p.a. is higher than the peer median, although there is no performance fee.

### Product Opinion

The Fund has retained a 'Recommended' rating, underpinned by conviction in the experience and capabilities of the Fund's co-Portfolio Managers ('co-PMs') of Katie Hudson and Dion Hershman. In addition, the investment process is well-established and rigorous. Nevertheless, the Fund's AFC is higher than its peers. Additionally, the co-PM structure results in diminished accountability, albeit the co-PMs hold a long tenure. Furthermore, the Fund has not met its internal investment objective over three years to 30 June 2024.

#### 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	Achieve medium to long-term capital growth through exposure to small and medium sized Australian companies that possess strong capital growth potential.
Internal return objective	Outperform a composite of 50% S&P/ASX Midcap Acc. Index and 50% S&P/ASX small ords acc. Index by 4-6% p.a. (gross fees) over rolling three-year periods.
Internal risk objective	Targeted tracking error of 5-9% p.a. over rolling three-year periods.
Non-financial objective	None

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

Australian Equities	98.61
Cash	1.39
<b>Total</b>	<b>100.00</b>

Source: FE fundinfo

#### Rating History

28-Sep-2023	Recommended
16-Sep-2022	Recommended
22-Oct-2021	Recommended

#### Product Distribution Profile

Frequency	Semi Annually
Last Missed Distribution	N/A
Number of Missed Distributions in the last 5 years	0
AMIT Election	Yes
TOFA Election	No

#### Top 10 Holdings (as at 28/06/2024)

	Weight (%)
CARSALES.COM LIMITED	6.880
NEXTDC LIMITED	6.670
WORLEY LTD	4.850
EVOLUTION MINING LTD	4.390
RELIANCE WORLDWIDE CORP LTD	4.300
NETWEALTH GROUP LTD	4.150
PINNACLE INVESTMENT MGMT GRP LTD	3.700
ILUKA RESOURCES LIMITED	3.510
SANDFIRE RESOURCES LIMITED	3.500
AUB GROUP LIMITED	3.090

Source: FE fundinfo

#### Target Market Determination

Produced by issuer	Yes
Provided to Lonsec	No

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

	1 Year	Median	2 Year	Median	3 Year	Median	5 Year	Median
Performance (% p.a)	2.61	8.88	10.39	10.19	2.96	2.31	6.69	6.83
Standard deviation	15.23	13.33	16.19	14.53	16.65	15.30	20.86	19.77
Excess return (% p.a)	-5.37	1.00	-0.16	-0.99	1.37	0.63	0.12	0.12
Outperformance ratio (% p.a)	25.00	50.00	45.83	50.00	52.78	52.78	51.67	50.00
Worst drawdown (%)	-13.00	-10.80	-13.00	-10.89	-18.67	-19.73	-32.28	-30.53
Time to recovery (mths)	4	4	4	4	13	21	9	12
Sharpe ratio	-0.12	0.34	0.42	0.43	0.03	-0.01	0.24	0.25
Information ratio	-3.21	0.19	-0.04	-0.18	0.37	0.11	0.02	0.02
Tracking error (% p.a)	1.67	4.94	4.05	5.72	3.65	5.59	5.01	6.31

**Lonsec Peer Group:** Australian Equities - Australian Mid Cap -

**Product Benchmark:** 50% S&P/ASX MidCap 50 TR Index AUD / 50% S&P/ASX Small Ordinaries 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

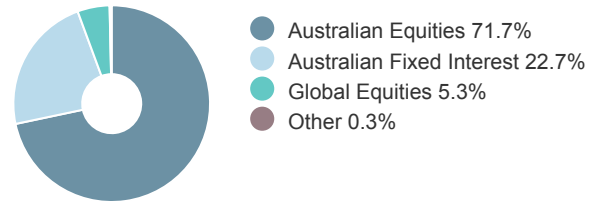
#### Profitability

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	18
Katie Hudson	Portfolio management	No	2017	29/16	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 management of this Fund is overseen by co-Portfolio Managers ('co-PMs') Dion Hershan and Katie Hudson. Hershan is the Head of Australian Equities, providing strong investment leadership and is an experienced PM of Australian equities. Similarly, Hudson has extensive experience and is the Head of Research for the YCM Australian Equities team, with both PMs having relinquished their specific stock coverage responsibilities. Both Hershan and Hudson are ultimately responsible for the overall portfolio management and performance of the Fund.

The investment team, including Hershan and Hudson, comprises five PMs, one Head of Macro and Strategy, one Chief Sustainability Officer, two deputy PMs, three investment managers, and four analysts. The team holds designated sector coverage responsibilities on an 'all cap' basis, with a priority system in place to allocate resources to stocks of critical interest. Additionally, the team benefits from access to a domestic fixed interest and multi-sector team led by Co-Heads of Fixed Income, Roy Keenan and Darren Langer.



## Lonsec Opinion

### Skill

The Fund's portfolio managers of Hershman and Hudson are well regarded investors, with combined experience of more than 50 years and have deep knowledge of the investment process, that was founded at GSAM. They work collegiately in managing the portfolio. Hershman co-founded YCM and transitioned across with the equities team at GSAM. Hershman is highly experienced in leadership roles, taking the role of Head of Australian Equities at GSAM in 2007. Further, Hudson is a highly experienced investment professional with an impressive knowledge of the small to mid-cap sector. We view positively YCM's dedicated ESG resources, with Erin Kuo as Chief Sustainability Officer. 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 Hershman, 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 Hershman 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 Hershman 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	\$500m - \$10b
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	Portfolio team
Approach to benchmark	Benchmark Agnostic
Typical security numbers	39
Typical securities range	30-55
Typical portfolio turnover p.a.	24.16%
Typical active share	83.04%

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 Hershan, Hudson, the analyst, and one additional analyst, challenges the revised thesis. This committee is a positive addition to the process.

#### Capacity Management

Capacity guidance	0.5% - 0.6% of the benchmark.
Strategy AUM	\$1.5b
Portfolio liquidity (1 week)	100.00%
Substantial holdings by manager	16
Strategy previously closed	No

Given the current level of assets within the underlying strategy, there are no capacity concerns at present. That said, the Manager holds a high level of substantial holdings. The management of these holdings will remain a watchpoint for future reviews.

#### 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, -7-7%
Sector Limits (Min./Max.)	Soft: Benchmark Relative, 0-7%
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.

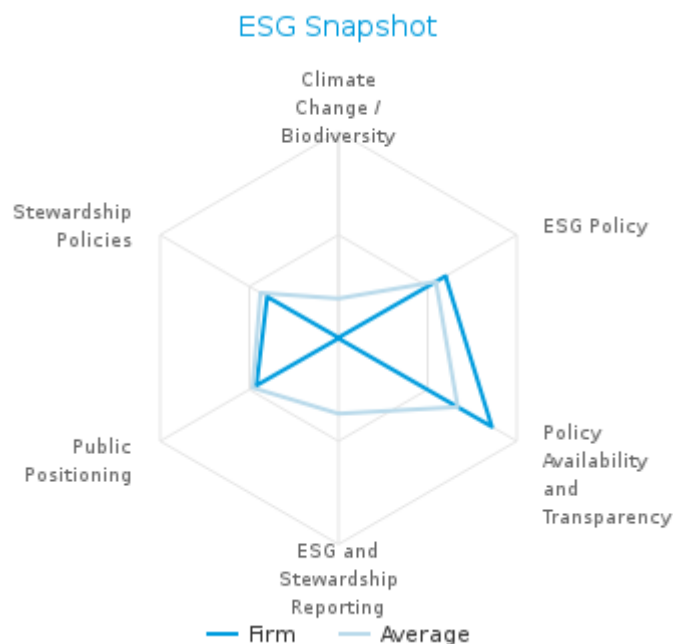
#### What is the Manager's ESG approach?

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



#### 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	\$218.00m
Fund 12-month net flows	Positive
Distribution model	Internal
Buy/sell spreads	0.20%/0.20%
Investment structure	Underlying product
Product type	Registered Managed Investment Scheme
Currency hedged	N/A
Use of derivatives	Yes - Active risk management
Types of derivatives	Futures

#### What is the Product Structure?

The Fund is a Australian unit trust. The Manager also acts as the Fund's Responsible Entity ('RE') and has its own AFSL. The Fund is a long only Australian Equity product that primarily invests in mid cap stocks. The Manager applies a predominately 'bottom-up' fundamental approach. The portfolio is managed in a 'benchmark unaware' manner with an expected tracking error of between 5% to 9% p.a. The Manager has a reasonably long-term investment approach, which is reflected in the relatively low portfolio turnover. The Fund will typically be near fully invested over the cycle.

### 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 relatively straight forward Australian equity strategy investing in mid cap stocks. As such, this may pose some operational and liquidity challenges at times of market dislocation.

#### Wind-up Risks

The wind-up risk for the Fund is low given the current level of assets. Further, the distribution support received from the internal team reduces this risk.

### Fees

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

Management fees & costs	1.25
Performance fee costs	0.00
Net Transaction Costs	0.15
Buy/Sell Spread	0.20/0.20
<b>Annual fees and costs</b>	<b>1.40</b>

Source: FE fundinfo, PDS Date: 20/Mar/2023

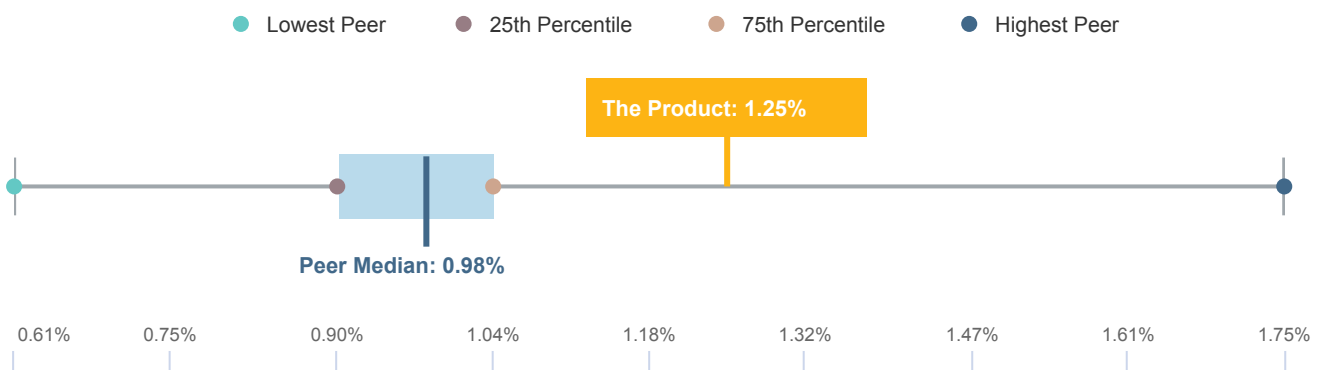
#### Performance Fees

Applicable	No
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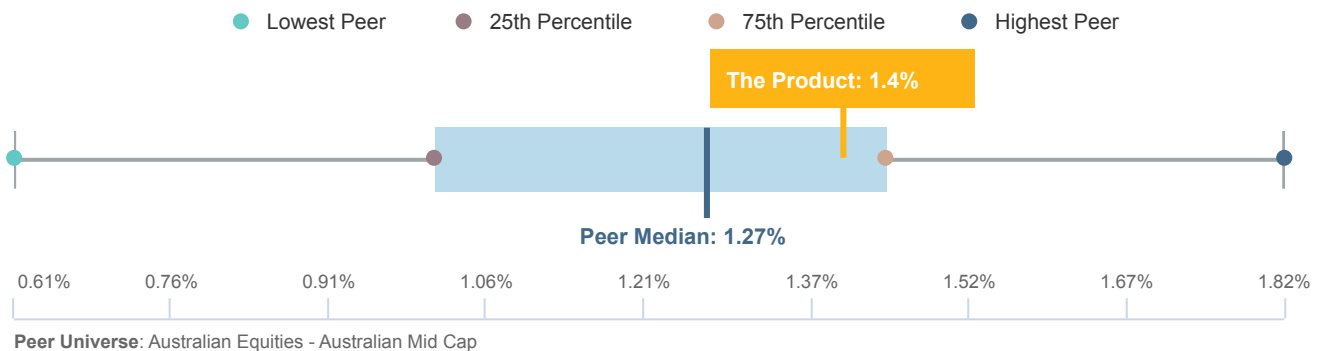
#### Fees Explained

The Fund charges a management fee of 1.25% p.a. with no performance fee.

#### Management Fees and Costs Peer Comparison



#### Annual Fees and Costs Peer Comparison



### Lonsec Opinion

#### Annual Fees and Costs

The Fund's total fee load is moderately above the peer median.

#### Fairness

Given the absence of a performance fee, total fees and costs are capped which provides certainty. Overall the Fee is considered moderately expensive when comparing to peers.

Performance data is as at 30 June 2024

### Performance

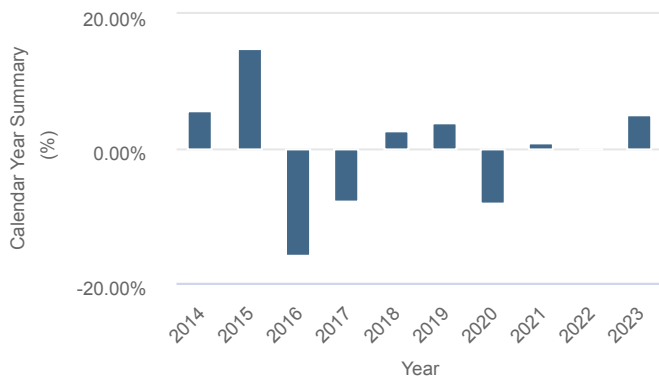
#### Performance Summary

PDS return objective	Achieve medium to long-term capital growth through exposure to small and medium sized Australian companies that possess strong capital growth potential.
Internal return objective	Outperform a composite of 50% S&P/ASX Midcap Acc. Index and 50% S&P/ASX Small Ords Acc. Index by 4-6% p.a. (gross fees) over rolling three-year periods.
Internal risk objective	Targeted tracking error of 5-9% p.a. over rolling three-year periods.
Product benchmark	50% S&P/ASX MidCap 50 TR Index AUD / 50% S&P/ASX Small Ordinaries TR Index AUD
Lonsec peer group	Australian Mid Cap

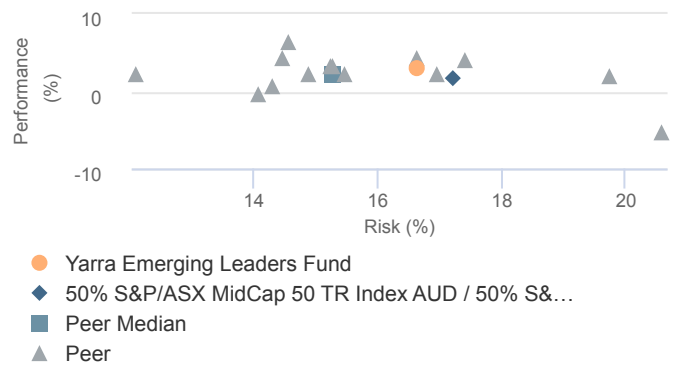
#### Alpha Generation

The Fund has disappointingly underperformed both the benchmark and the peer median over one and five year trailing time periods assessed. However, the Fund outperformed both the benchmark and peer median over three years. The Fund has not achieved its internal return objective.

#### Calendar Year Excess Return



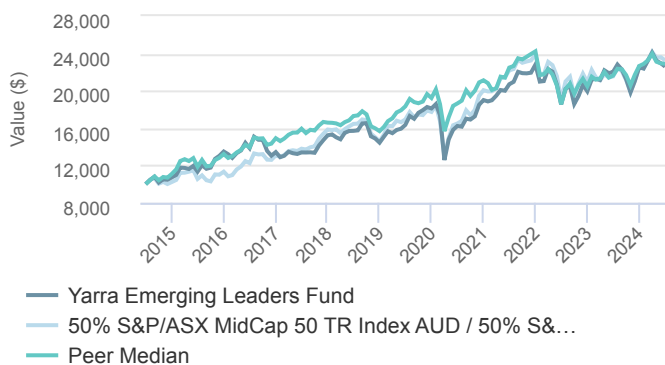
#### 3 Year Risk and Return



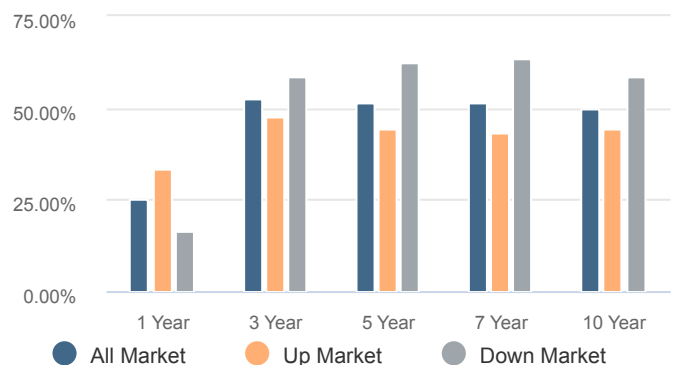
#### Alpha Consistency

The Fund's long-term alpha has been partially eroded due to the short-term under-performance. In the short term, the Fund has ranked in the lower quartile of peers and has underperformed against the benchmark.

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



#### Returns Consistency



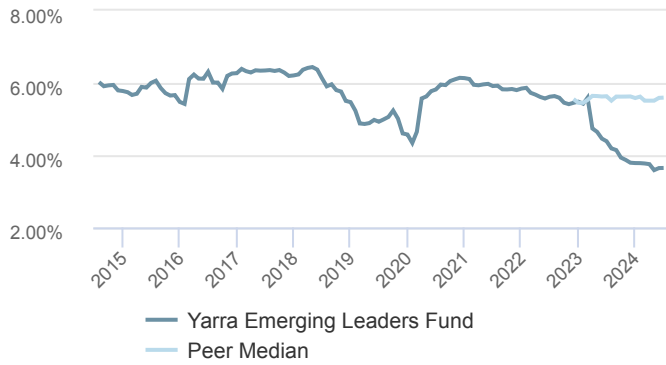
Performance data is as at 30 June 2024

### Performance (continued)

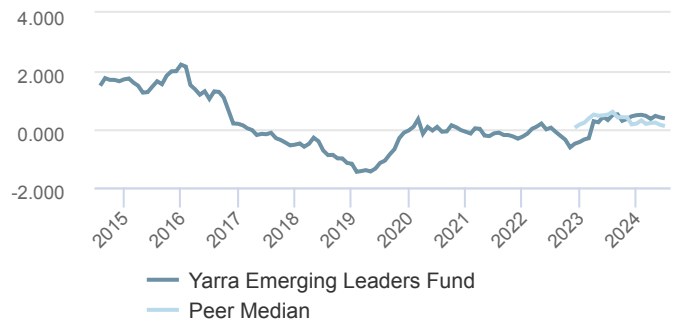
#### Benchmark Relativity

The Fund's tracking error has typically been below the peer median over assessed time periods. The Fund's information ratio being in line with the peer median indicates a risk return efficiency in line with peers.

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



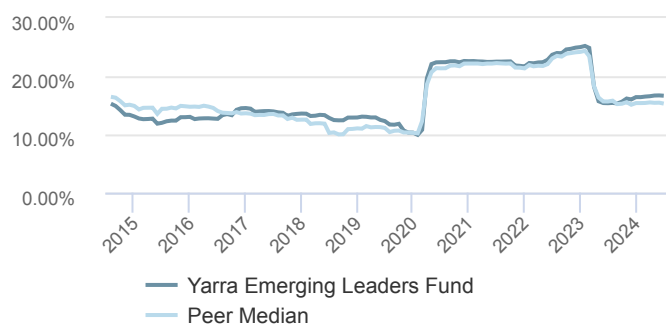
#### 3 Year Rolling Information Ratio Over 10 Years



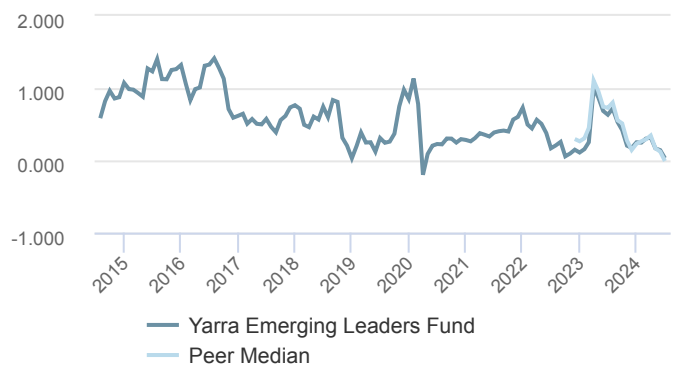
#### Return Volatility

The Fund has displayed a volatility profile marginally above the peer median. The Fund's rolling three-year Sharpe ratio is in line with peers.

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



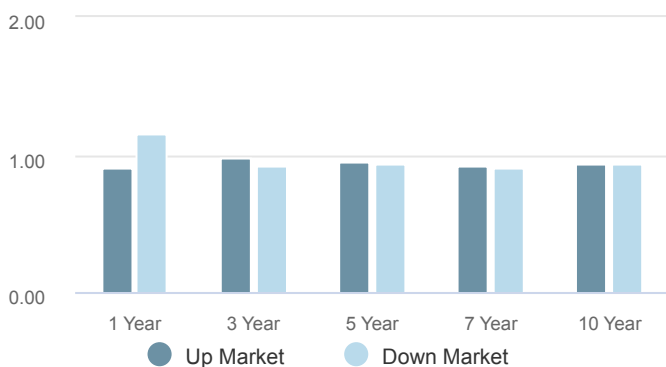
#### 3 Year Rolling Sharpe Over 10 Years



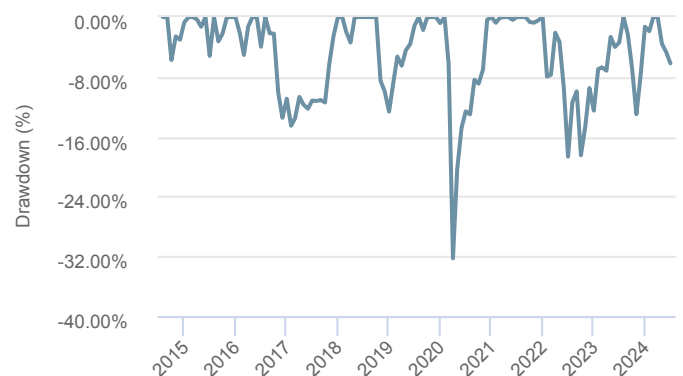
#### Product Defensiveness

The Fund has provided reasonable downside protection in line with its peers. This is evident as the Fund's worst drawdown across the majority of assessable time periods are in line with the peer median.

#### 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

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

### 1.1 What is a Financial Services Guide?

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

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

### 1.2 About Lonsec Research and its related parties

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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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### 1.3 What kind of financial services can Lonsec Research provide?

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

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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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