

Yarra Higher Income Fund

JBW4379AU **Author:** Mike Grdosic **Published:** 21 Nov 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	RBA Cash Rate
Product structure	Managed Fund
Product Size	\$68.00m
Inception date	Oct 2018
Asset class	Fixed Interest
Sector	Specialised High Income
Peer group	Specialised High Income
Rated peers	38

Product Characteristics

Business Life Cycle	Mature
Product Wind-Up Risk	Medium
Key Person Risk	Medium
Tenure of Decision Makers	Medium
Complex (RG240)	No
Strategy Remaining Capacity	Not provided
ESG Approach	Minimum Standards
Peer Relative Fees and Costs	In line with median

Annual Fees and Costs (% p.a.)

Management fees & costs	0.65
Performance fee costs	0.00
Net Transaction Costs	0.00
Buy/Sell Spread	0.10/0.10
Annual fees and costs	0.65

Source: FE fundinfo, PDS Date: 30/Sep/2022

Strengths

- Experienced investment team led by Keenan and Langer, with substantial credit and fixed income experience and proprietary relative value tools.
- Conservatively managed with tight risk constraints and risk integral in portfolio management and investment philosophy.
- Recent performance has been strong but challenged to meet internal objectives over the medium term.

Weaknesses

- With the recent team departures following the acquisition, more time is needed to assess team stability and quality of new hires.
- The Fund can exhibit deep drawdowns and bouts of illiquidity during stressed market conditions, given the nature of higher yielding securities.

Product Opinion

The Fund has been rated '**Recommended**' at its initial review. The rating reflects conviction in the team's ability to implement the investment process, which is similar to the Manager's other rated products but allows for exposure to illiquid and higher yielding securities. Lead Portfolio Manager for the Fund Phil Strano and Portfolio Manager Roy Keenan are held in high regard due to their firm tenure and experience within the asset class. The recent team expansion has further improved resourcing, skillsets and experience of the overall team. It is noted that the Fund's exposure to illiquid and higher yielding securities may be susceptible to larger drawdowns during periods of stressed market conditions.

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	Over the medium-to-long term, the Fund seeks to earn higher returns than traditional fixed income by investing in a highly diversified Floating Rate portfolio of predominantly Australian domiciled credit securities.
Internal return objective	RBA Cash + 4% (gross of fees)
Internal risk objective	Generate returns with realised volatility below equity market volatility.

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

Australian Equities	3.00
Australian Fixed Interest	74.78
Global Fixed Interest	3.92
Alternative Assets	11.74
Cash	6.56
Total	100.00

Source: FE fundinfo

Rating History

This is the initial review of the Product.

Product Distribution Profile

Frequency	Monthly
Last Missed Distribution	None
Number of Missed Distributions in the last 5 years	None
AMIT Election	Yes
TOFA Election	No

Portfolio Profile as at 31/01/2024

Yield to maturity	6.41
Interest rate duration	0.12
Credit spread duration	3.43
Average credit rating	BBB
Sector allocation:	
- Government	0.00
- Government Related	0.00
- Non-government	69.68
- High yield	17.36
- Emerging market debt	0.00
- Cash	9.90
- Non AUD exposure	3.06
Number of issuers	60

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)	9.59	8.20	7.89	6.18	5.21	3.18	3.95	2.89
Standard deviation	0.83	4.46	1.19	5.64	1.49	3.77	3.75	5.66
Excess return (% p.a)	5.22	3.83	4.26	3.29	2.77	0.90	2.31	1.98
Outperformance ratio (% p.a)	100.00	66.67	83.33	66.67	75.00	58.33	78.33	66.67
Worst drawdown (%)	-	-1.78	-	-5.05	-1.04	-5.78	-8.05	-9.05
Time to recovery (mths)	-	2	-	-	5	9	13	-
Sharpe ratio	6.31	1.38	3.59	0.69	1.86	0.13	0.62	0.28
Information ratio	6.41	1.40	3.96	1.12	2.45	0.44	0.63	0.34
Tracking error (% p.a)	0.81	1.84	1.07	3.05	1.13	3.18	3.68	4.42

Lonsec Peer Group: Fixed Interest - Specialised High Income -

Product Benchmark: Bloomberg AusBond Bank Bill Index AUD

Cash Benchmark: Bloomberg AusBond Bank Bill Index AUD

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

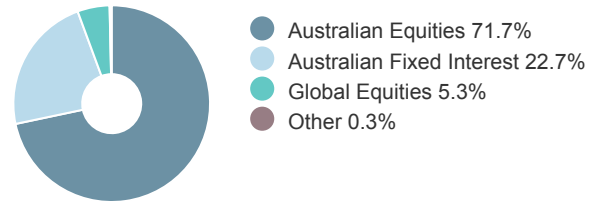
Business data is as at 31 December 2023

Business

Facts

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

AUM



Governance

% Independent board members	60
% Female board members	60
Independent chair	Yes
CEO as Chair	No
Separate Audit Committee	Yes

Metrics

Total AUM	\$20.85b
Investment Management Headcount	82
Investment Professionals	39
Sales & Service	9
Distributor	Internal

Who is the Manager?

Yarra Capital Management ('Yarra') was established in 2017, following the management buyout of Goldman Sachs Asset Management Australia's domestically focused investment capabilities and operating platform, with the backing of TA Associates ('TA'). On 12 April 2021, Yarra completed the acquisition of Nikko Asset Management's ('Nikko AM') Australia business, where Nikko AM retains a 20% stake in the combined business. The total assets under management for the combined business was approximately \$21b as at 31 December 2023. Yarra is now 40% owned by TA, 40% owned by staff, with the remaining 20% owned by Nikko AM.

Lonsec Opinion

Profitability

With over \$5.60b in AUM, the Fixed Interest business is profitable and stable. More broadly the Yarra business has over \$21b of assets under management, which is seen as being sufficiently profitable.

Business Track record

The business has a long track record, being created in 2017 but stretching back over 20 years. With \$21b in AUM, the firm is stable and growing at a moderate pace in terms of asset growth.

Business Ownership

Yarra and its underlying prior ownership/teams (Goldman Sachs and Nikko) founded the business in its current form in 2017, with private equity group TA Associates backing the management buyout. Positively, staff still owns 40% of the business.

Business Governance

The Responsible Entity is Yarra Funds Management Ltd which is not arm's length, however, there have been no major regulatory investigations cited. Yarra has a number of non-executive directors with appropriate qualifications and experience.

Team



Key Decision Makers (KDM)

	Primary function	Dedicated to strategy	Appointed to strategy	Industry/Mgr exp. (yrs)	Exp. in PM roles (yrs)
Roy Keenan	Portfolio management	No	2002	38/32	37
Phil Strano	Portfolio management	Yes	2017	29/7	28

KDM Change*

	Function	Change	Type	Tenure (yrs)	Date of change
Chris Rands	Portfolio Manager	Departed	Exit	11	May 2023

* Last 3 years

Profile

Size	12
Structure	Decentralised
Turnover	Medium

Alignment

KDM equity held in manager	Yes
KDM co-investment in strategy	No
Performance-Based bonus	Yes
Long term incentive plan	Yes

Resources

	Number	Average Years Experience
Key decision makers	2	32.5
Portfolio Managers		
Hybrid portfolio manager/ analysts	4	36
Dedicated analysts	5	7
Dedicated dealers	1	17
Quantitative		
ESG/Sustainability	1	19
Macro	1	30
Investment Specialists		

Who is the Team?

The team is run by Co-Head of Fixed Income Darren Langer and Roy Keenan, who have over 30 years of investment experience each.

Langer manages core government sectors and Keenan manages the larger credit team. Both are located in Sydney and Melbourne respectively. Phil Strano and Leo Leslie are also notable senior portfolio managers who focus on the credit segments. Strano is also the Head of Credit Research and leads the credit research effort. The remainder of the team are largely analysts with varying levels of experience.

Some recent turnover in recent years, has seen a loss of two Deputy Portfolio Managers and two Analysts, but have been replaced with five Analysts, reflecting a desire to grow the team. The debt team are supported by the broader group with Tim Toohey, Head of Macro Strategy and Dr Erin Kuo, Chief Sustainability Officer, are notable resources.



Lonsec Opinion

Team Size

A team of 12 investment professionals managing the firm's \$5.6b of fixed income AUM. The team size is sufficient for the AUM and Manager's process, and is not considered too large relative to some peers, which aids in the efficacy of decision making.

Skill

The Lead Portfolio Managers possess strong skills and experience, although co-tenure is low given the recent Nikko amalgamation in 2021. The private structure and underlying tenure ensures both Lead Portfolio Manager are likely to be stable. Their skill lie mainly in credit analysis and portfolio structure, which are considered solid.

Track Record/Co-Tenure

The team possess a very long underlying track record, however, recent team turnover and consolidation lowers the level of co-tenure amongst the entire team.

Key Person Risk

Key person risk rests with Langer, Keenan and Strano, albeit mitigated somewhat by their alignment.

Alignment

There is good alignment with end investors, particularly amongst senior members of the team. Remuneration follows that of a boutique structure (i.e. base and variable remuneration, with deferred bonus paid in stock and co-investment), but there are some concerns of alignment for junior members of the team given recent departures.



What is the Investment Process?

Investment ideas may be generated from top-down economic and market analysis, as well as bottom-up fundamental credit research. The fundamental macroeconomic analysis helps to set the Fund's top-down strategic positioning. This involves an assessment of economic indicators that tend to lead aggregate economic activity, which provides insights into the movements in monetary policy, inflation expected, international capital flows and the risk appetite of capital markets. This analysis is complemented by quantitative research of economic and market factors, as well as an understanding of local near-term market supply and demand dynamics.

Fundamental credit research aims to screen out investments that present unacceptable credit, sector or liquidity risks. This process is focused on identifying three to five key factors that are expected to determine whether a bond/sector will outperform or underperform, which involves analysing specific credits (e.g., business and financial risks), scenario analysis and synthesising company news. Typically, the team will interact with company management, external sell-side analysts as well as Yarra's own equity analysts to assist in identifying trends and the outlook for individual issues. These findings are further supplemented by the research of external rating agencies, as well as the internal credit risk model. Security valuations are determined using a range of proprietary fundamental models.

Lonsec Opinion & Supporting Facts

Philosophy and Universe

Investment Type	Active
Investment Approach	Top-down and bottom-up
Investment Style	Relative value
Region	Australia
Universe	Australian government, Investment grade credit, High yield credit, Money market, Securitised assets, Loans, Private debt, Derivatives

The Fund is a higher risk profile variant of the Manager's 'Enhanced Income' strategy, with the ability to own larger allocations of higher yielding, less liquid securities. An income and relative valuation approach is the main philosophy with the team focusing on secured, subordinated corporate securities, including Hybrids.

The universe includes corporate debt, both investment grade and high yield, capital structure and asset backed securities. The Fund can buy offshore securities but need to be fully hedged back to the local currency. The Fund also participates in the 'private' or 'bilateral warehouse' loans that can offer attractive yields above the public markets.

The security universe supports the general 'high income' philosophy of the Fund.

Research Process

Key screens	Credit quality, Maturity, Liquidity
Idea generation - macro/top down	Market forecasts, Internal economic resources
Idea generation - security selection	Benchmark constituents, Primary issuance
Issuers researched per analyst	20
Key research inputs	Rating agencies, Company financial statements, Internal economic forecasts, Valuation analysis, Technical analysis
Valuation Approach	Relative value

Investment ideas may be generated from top-down economic and market analysis, as well as bottom-up fundamental credit research. The fundamental macroeconomic analysis helps to set the Fund's top-down strategic risk posture and sector exposures. This involves an assessment of economic indicators that tend to lead aggregate economic activity, which provides insights into the movements in monetary policy, inflation, international capital flows and the risk appetite of capital markets.

Strong fundamental credit research aims to screen out investments that present unacceptable credit, sector or liquidity risks. This process is focused on identifying three to five key factors that are expected to determine whether a bond/sector will outperform or underperform, which involves analysing specific credits (e.g., business and financial risks), scenario analysis and synthesising company news. Typically, the team will interact with company management, external sell-side analysts as well as Yarra's own equity analysts to assist in identifying trends and the outlook for individual issues. These findings are further supplemented by the research of external rating agencies, as well as the internal credit risk model. Security valuations are determined using a range of proprietary models.

Process (continued)



Portfolio Construction

Portfolio management structure	Portfolio Manager
Approach to benchmark	Benchmark Agnostic
Typical number of issuers	60
Key alpha sources	Credit Spread, Yield Curve
Currency management	Yes
Use of derivatives	Yes

The Fund typically holds at least 100 securities, with weights concentrated towards better credits and preferred relative value names. Specifically, position sizes are determined by an individual security's contribution to portfolio risk. That is, smaller (larger) positions are held in riskier (less risky) securities. Further, no single security, issuer, sector or industry is expected to have a material impact on the relative performance of the Fund. Allocations to illiquid but diversified 'private bi-lateral warehouse' mortgage loans are used to enhance portfolio returns but not used excessively. Such loans are short duration with a 'laddered' maturity profile which helps to manage liquidity risk. Portfolio construction also takes into account the team's macro views and taxation considerations (e.g., franking credits).

Capacity Management

Capacity guidance	Not provided
Portfolio liquidity (1 week)	87.30%

No capacity limits have been cited by the Manager, however, recent announcements regarding the winding down of Australian bank hybrids is a watchpoint over the coming years.

Investment Risk Management

Monitoring external to investment team	Yes
Frequency of monitoring	Daily
Primary risk management system	Factset
Portfolio Interest Rate Duration Range	1-7 years
Min Credit Rating (At Purchase)	Hard floor of BB but aim to maintain an IG average
Maximum sub-investment grade/unrated	50%
Single Issuer Limits (Max)	5%
Sector Limits (Min./Max.)	Banks (50%), Insurance (30%), All other sectors (25%)
Leverage permitted	No
Gearing/economic leverage	No

The Fund's risk limits are sufficiently broad and managed without reference to a credit benchmark. As such, risk management is largely the role of the Portfolio Manager. A 50% limit to sub-investment grade securities is present, although the portfolio's exposures are well within this limit with the team targeting a portfolio credit quality of investment grade. Sector, industry limits are broad but sensibly set given the nature of the domestic market. Illiquid allocations to 'private warehouse' loans are moderately set to be no greater than 20-30%. Any offshore securities purchased need to be fully hedged to AUD.

ESG



Manager Positioning - Product

Responsible investment style	ESG Integration
ESG approach	Minimum Standards
Sustainability thematic	Not applicable
Non-financial objective	None

What is the Manager's ESG approach for this product?

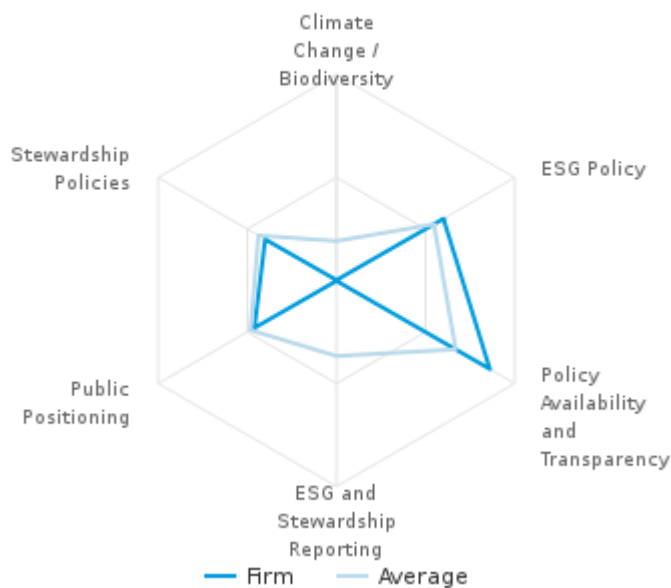
The Manager has indicated that their Responsible Investment style is 'ESG Integration' and as such they take Environmental, Social and Governance factors into consideration when assessing investment opportunities. With a primary ESG style of 'Minimum Standards' the Manager typically use ESG scores (internal proprietary or external provider) to determine a hard threshold below which they will not invest in an issuer. Investors need to be comfortable with this threshold.

Lonsec Opinion & Supporting Facts

Overview

ESG Process Score	Mod
Responsible Investment strategy risk: Clarity, measurability & reporting	Not applicable

ESG Snapshot



Product Level Approach

While the Manager is sourcing data from an external ESG data provider it is less comprehensive than some peers. The Manager performs little internal ESG research for this Fund, relying on largely on external sources for assessment/ratings. The process does, however, deliver a clear proprietary score. There are clear links from the Manager's research to the issuer selection process through adjusting internal credit ratings. This adjustment is applied in a standardised and consistent manner. While ESG risks are reflected at the point of investment, there is no clear portfolio level ESG monitoring or management, with all activity focused on individual issuers. 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 lag behind their peers, with climate change commitment reporting their key weaknesses. They have committed to integrating ESG within their investment process with evidence in their public positioning. Pleasingly, their voting policy is now publicly available but lacks depth compared to peers, which is reflected in their Stewardship Policies score. 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



Product Details

Product size	\$68.00m
Fund 12-month net flows	Positive
Distribution model	External
Buy/sell spreads	0.10%/0.10%
Investment structure	Direct
Product type	Registered Managed Investment Scheme
Currency hedged	Yes

Service Providers

Responsible entity	Yarra Funds Management Limited
Investment manager	Yarra Funds Management Limited
Custodian	Citibank
Administrator	Citibank
Fund Auditor	Deloitte

What is the Product Structure?

The Fund is an Australian registered managed investment scheme.

Lonsec Opinion

Service Providers

The Manager uses high quality service providers, including its counterparties. The Fund uses a related-party Responsible Entity ('RE') which may lead to potential conflicts of interest. While the use of external RE is the preferred operating model, the RE has built experience in operating and managing a number of registered managed investment schemes over an extended period and is expected to have a structured governance framework in place.

Operational 'Red Flags'

The Fund is a diversified debt strategy investing across a range of relatively liquid securities across a range of credit sectors and is not considered operationally challenging to implement.

Wind-up Risks

There is moderate wind-up risk given the fund size of \$68m. However, the positive flows and the overall strategy being closer to \$350m, provides comfort there is no immediate risks.

Fees

Annual Fees and Costs (% p.a.)

Management fees & costs	0.65
Performance fee costs	0.00
Net Transaction Costs	0.00
Buy/Sell Spread	0.10/0.10
Annual fees and costs	0.65

Source: FE fundinfo, PDS Date: 30/Sep/2022

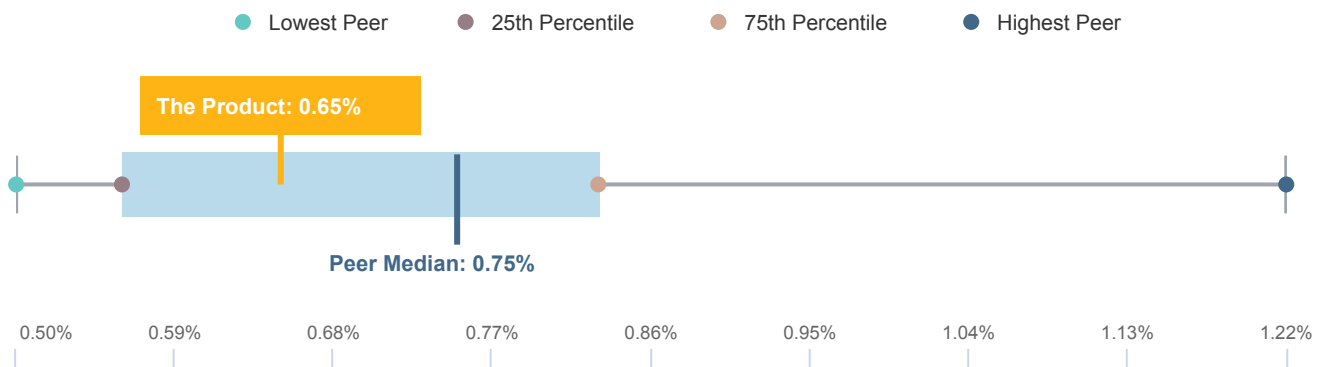
Performance Fees

Applicable	No
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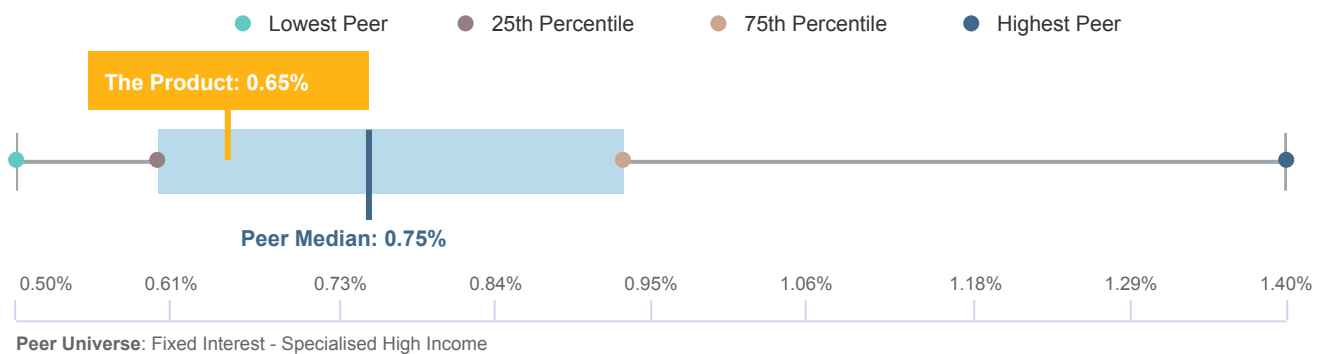
Fees Explained

The Fund's PDS dated 20 March 2023 disclosed Annual Fees and Costs ('AFC') totalling 0.65% p.a. The Fund does not charge a performance fee.

Management Fees and Costs Peer Comparison



Annual Fees and Costs Peer Comparison



Lonsec Opinion

Annual Fees and Costs

The annual fees and costs ('AFC') are considered in line with the peer median.

Fairness

The AFC is considered fair relative to other active peers.

Performance data is as at 30 June 2024

Performance

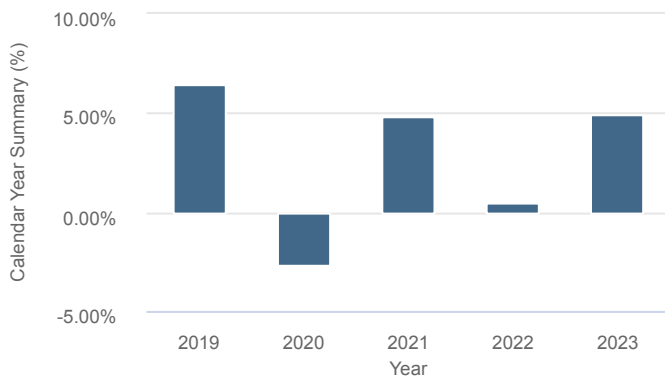
Performance Summary

PDS return objective	To earn higher returns than traditional fixed income by investing in a highly diversified Floating Rate portfolio of predominantly Australian domiciled credit securities.
Internal return objective	RBA Cash + 4.00% (gross of fees)
Internal risk objective	Generate returns with realised volatility below equity market volatility.
Product benchmark	Bloomberg AusBond Bank Bill Index AUD
Lonsec peer group	Specialised High Income

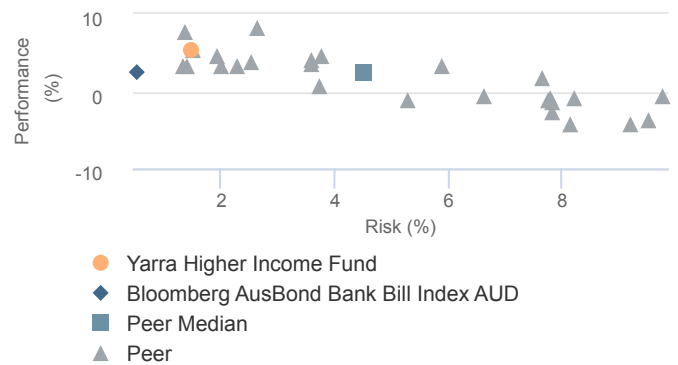
Alpha Generation

The Fund's medium-term returns, from a total, excess and income perspective, are above the peer median. The Fund has not met its internal objectives over the medium term, however over recent years it has been met.

Calendar Year Excess Return



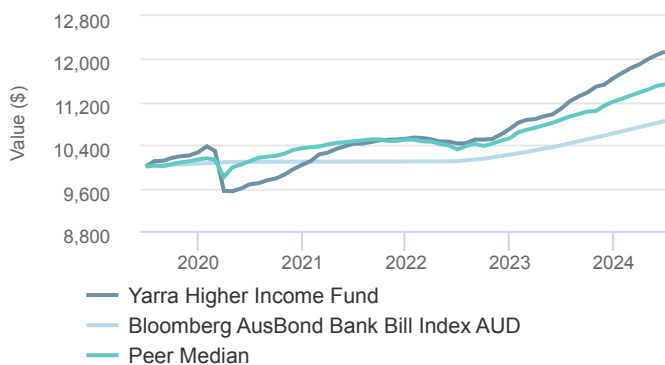
3 Year Risk and Return



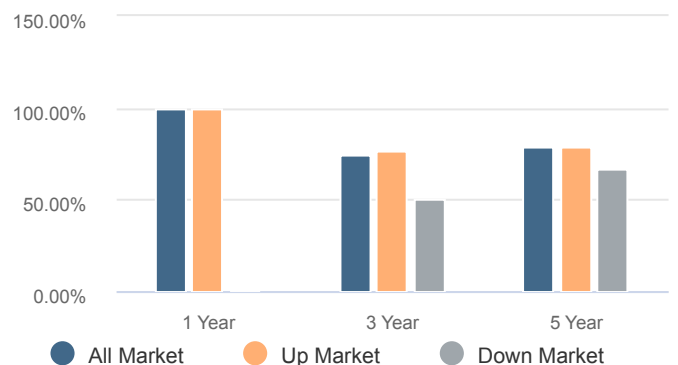
Alpha Consistency

The Fund has exhibited consistency in its alpha generation over most periods, which have been above the peer median and above 50% in all markets. Meeting its internal return objective has been more difficult over the medium term.

Growth of \$10,000 Over 5 Years



Returns Consistency



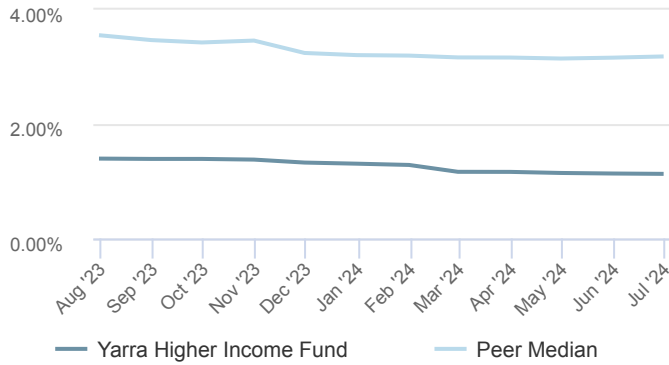
Performance data is as at 30 June 2024

Performance (continued)

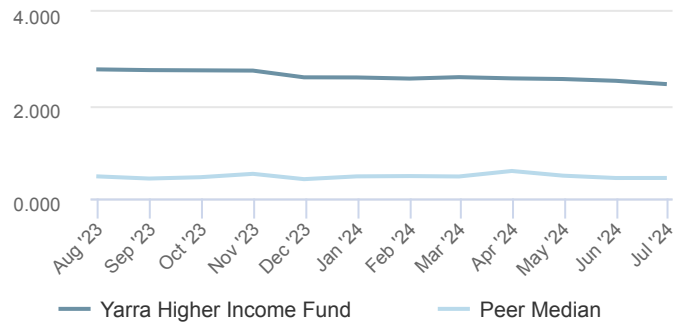
Benchmark Relativity

The Fund is considered moderately active, with a tracking error, above peer median albeit in line with its risk objective. Security selection has been the main contributor to performance. The Fund's information ratio has been relatively high across most timeframes, relative to the peer median, suggesting a positive reward for the risk taken.

3 Year Rolling Tracking Error Over 1 Year



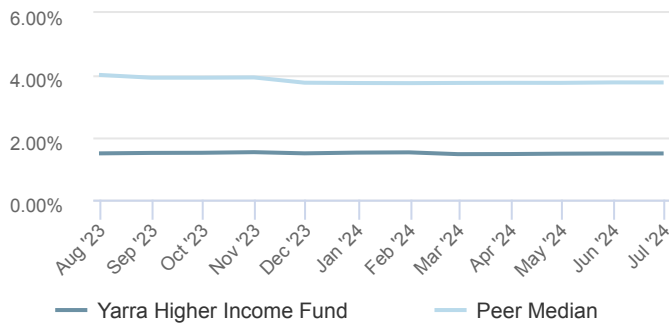
3 Year Rolling Information Ratio Over 1 Year



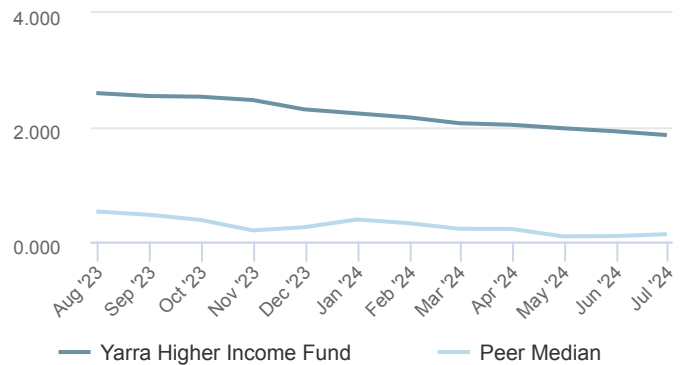
Return Volatility

The Fund's absolute rolling volatility has been below the peer median over the past year, with a high reward to risk (sharpe) ratio.

3 Year Rolling Standard Deviation Over 1 Year



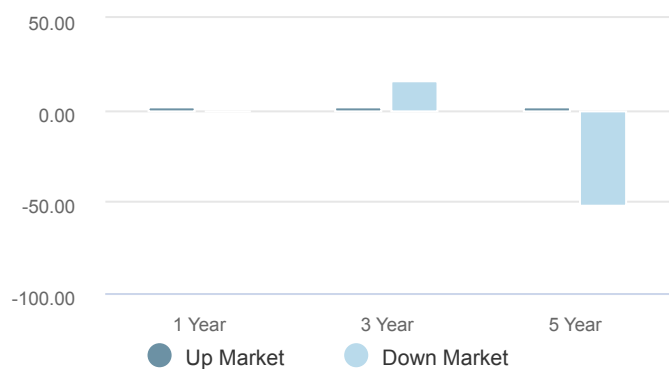
3 Year Rolling Sharpe Over 1 Year



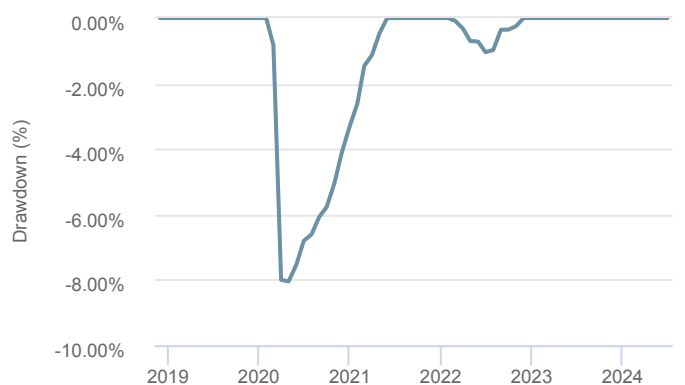
Product Defensiveness

The Fund exhibits materially lower drawdowns than the peer median in recent years, but is expected to be high during periods of market stress.

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

ASX listed Generation Development Group Limited (ABN 90 087 334 370) is the parent company of Lonsec Holdings Pty Ltd (ABN 41 151 235 406) (Lonsec Holdings). Lonsec Research is a wholly owned subsidiary of Lonsec Holdings Pty Ltd (ABN 41 151 235 406) (Lonsec Holdings) and provides in-depth, investigative investment research across a broad range of listed and unlisted investments.

Other subsidiaries of Lonsec Holdings include SuperRatings Pty Ltd (ABN 95 100 192 283), Implemented Portfolios Pty Limited (ABN 36 141 881 147) and Lonsec Investment Solutions Pty Ltd (ABN 95 608 837 583). All employees of the Lonsec group entities, including Lonsec Research, are employed by Lonsec Fiscal Pty Ltd (ABN 94 151 658 534).

Contact Details

Lonsec Research Pty Ltd
Level 39, 25 Martin Place
Sydney NSW 2000
Tel: 1300 826 395
Email: info@lonsec.com.au
www.lonsec.com.au

1.3 What kind of financial services can Lonsec Research provide?

Lonsec Research is authorised under its Australian Financial Services Licence to provide general financial product advice to retail and wholesale clients on the following types of financial products:

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

Lonsec Research is also authorised to deal in a financial product by arranging for another person to apply for, acquire, vary, or dispose the above types of products for or by retail and wholesale clients.

1.4 Provision of general advice

Any advice that Lonsec Research provides is of a general nature and does not take into account your personal financial situation, objectives or needs. You should, before acting on the information, consider its appropriateness having regard to your own financial objectives, situation and needs and if appropriate, obtain personal financial advice on the matter from a financial adviser. Before making a decision regarding any financial product, you should obtain and consider a copy of the relevant Product Disclosure Statement or offer document from the financial product issuer.

1.5 How Lonsec Research is paid

Lonsec Research receives fees from Fund Managers and/or financial product issuers for researching their financial product(s) using comprehensive and objective criteria. Lonsec receives subscriptions fees for providing research content to subscribers including financial advisers, fund managers and financial product issuers. Lonsec Research's fees are not linked to the financial rating outcome of a particular financial product.

Lonsec Research FSG (continued)

Lonsec Research fees are determined by private agreement with its clients depending on a number of criteria including the number of financial advisors who access Lonsec Research publications, the range of publications accessed and the complexity of a specific research assignment. Due to the specific nature of its charges, disclosure of Lonsec Research fees may not be ascertainable when you receive this FSG, but you are able to request this information in writing before a financial service is provided to you. The fees received by Lonsec Research do not have an effect on the inclusion (or otherwise) of a financial product in portfolios managed by Lonsec Investment Solutions; or in approved product lists as a result of Lonsec Investment Solutions consulting activities. We do not have any direct employees as all employees are contracted, for employment purposes, with Lonsec Fiscal, a subsidiary of Lonsec Holdings. All employees of Lonsec are paid a salary and may receive a discretionary bonus which is not guaranteed. Sales employees may have a sales commission plan, relevant for sales to Wholesale clients, as offered by Lonsec Research from time to time at its discretion.

1.6 How do we manage our compensation arrangements?

Lonsec Research has Professional Indemnity insurance arrangements in place to compensate clients for loss or damage because of breaches of any relevant legislative obligations by Lonsec Research or its representatives which satisfy section 912B of the Corporations Act 2001.

1.7 What should you do if you have a complaint?

Lonsec Research's internal complaints handling process is designed to ensure that your concerns are treated seriously, addressed promptly and fairly. A complaint may be lodged either verbally or in writing and will be dealt with in strict confidence. If you have a complaint relating to Lonsec Research's products, services, its employees, the complaint should be addressed to:

Complaints Manager

Level 39, 25 Martin Place
Sydney NSW 2000

Tel: 1300 826 395

Email: complaints@lonsec.com.au

An individual may request further information about Lonsec Research's internal complaints handling procedure at any time. If an individual is not satisfied with the outcome of their complaint or has not received a response within 30 days from Lonsec Research, the individual can complain to the Australian Financial Complaints Authority (AFCA). AFCA provides an independent dispute resolution service and can be contacted on:

Online: www.afca.org.au

Email: info@afca.org.au

Phone: 1800 931 678

Mail:

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

1.8 Conflicts of Interest

Lonsec Research is aware of the inherent potential conflicts of interest associated with the provision of ratings and how we are remunerated for our services.

There are a comprehensive set of policies, and procedures in place at Lonsec Holdings that apply to its subsidiaries including Lonsec Research. Information barriers (both permanent and temporary) consistent with our regulatory obligations under Regulatory Guide 79 are in place to manage either perceived or actual conflicts of interest. Employees of Lonsec also have to abide by Personal Trading and Gifts and Entertainment requirements and are trained on these requirements from time to time.

Lonsec Research review and rate products for Fund and Equity Managers who may from time to time have holdings within Generation Development Group Limited. Lonsec Research manages any potential conflict by disclosing to investors who access the research for these products and by implementing a comprehensive ratings process, information barriers and monitoring program. For further information on how Lonsec manages its conflicts refer to our Conflicts of Interest Statement accessible here <https://www.lonsec.com.au/lonsec-group-conflicts-of-interest-statement/>. For more information refer to Lonsec Research Ratings Methodology available on our platform iRate or by contacting us on 1300 826 395.

Lonsec Holdings has appointed Australian Retirement Trust Pty Ltd ABN 88 010 720 840, AFSL 228975 as the provider of default superannuation services to its Group employees. Lonsec Holdings appointment of Australian Retirement Trust is not an endorsement of, or opinion on, the Fund.

Australian Retirement Trust is a subscriber to our services and pays a fee to us for this subscription service. Australian Retirement Trust rating and report is issued by an analyst who is aware of Australian Retirement Trust's appointment as default superannuation fund provider but who does not have a personal investment in the fund.

This FSG was prepared on 1 August 2024.