

Pengana Australian Equities Fund

PCL0005AU Author: Matthew Freeman Published: 04 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	Pengana Capital Limited
Benchmark	S&P/ASX 300 TR Index AUD
Product structure	Managed Fund
Product size	\$562.96m
Inception date	Jun 2008
Asset class	Australian Equities
Sector	Australian Large Cap
Peer group	Absolute Return
Rated peers	8

Product Characteristics

Business Life Cycle	Mature
Product Wind-Up Risk	Low
Key Person Risk	Medium
Tenure of Decision Makers	High
Complex (RG240)	No
Strategy Remaining Capacity	\$2.2bn
ESG Approach	Risk or Value
Peer Relative Fees and Costs	In line with median

Annual Fees and Costs (% p.a.)

Management fees & costs	1.065
Performance fee costs	0.555
Net Transaction Costs	0.00
Buy/Sell Spread	0.15/0.15
Annual fees and costs	1.62

Source: FE fundinfo, PDS Date: 15/Apr/2024

Product Opinion

The Fund's 'Recommended' rating has been retained. Underpinning the rating is the high regard for Rhett Kessler as lead Portfolio Manager and the intuitive investment philosophy and process behind the strategy, which has historically produced sound absolute return outcomes for investors. That said, the Fund has experienced weaker performance outcomes in recent years, having shown less defensiveness than expected given the Fund's capital preservation focus.

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

Strengths

- The Fund applies a rational investment strategy targeting total returns, with a focus on drawdown risk mitigation.
- Chief Investment Officer and architect of the process, Rhett Kessler, is a highly experienced absolute return portfolio manager.

Weaknesses

- The Fund's ongoing intermittent use of downside protection strategies may result in deeper than expected drawdowns during stressed market environments.
- The Fund is managed by a relatively small investment team, albeit noting the targeted research approach.
- Moderate to high key person risk in Kessler as CIO and lead Portfolio Manager.

Key Facts

Key Objectives

Investment objective	To achieve over the medium to long term, a return in excess of the RBA Cash rate plus a margin associated with the equity market risk premium.
Internal return objective	RBA Cash Rate plus 6% (net of fees) over 5 years
Internal risk objective	Less volatility than the S&P/ASX All Ordinaries Index

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

Australian Equities	83.56
International Equities	4.61
Cash	11.82
Total	100.00

Source: FE fundinfo

Rating History

20-Sep-2023	Recommended
25-Oct-2022	Recommended
11-Oct-2021	Recommended

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

	1 Year	Median	2 Year	Median	3 Year	Median	5 Year	Median
Performance (% p.a)	8.66	7.04	9.34	9.34	1.71	4.85	5.26	7.29
Standard deviation	10.19	8.93	11.18	8.93	11.32	10.40	14.66	12.36
Excess return (% p.a)	-3.27	-0.30	-3.81	0.65	-4.36	-1.16	-1.96	2.48
Outperformance ratio (% p.a)	50.00	50.00	54.17	54.17	47.22	52.78	46.67	58.33
Worst drawdown (%)	-7.52	-5.59	-7.52	-5.59	-14.89	-5.94	-23.12	-16.96
Time to recovery (mths)	2	2	2	2	16	8	8	12
Sharpe ratio	0.42	0.42	0.51	0.67	-0.06	0.49	0.25	0.50
Information ratio	-0.82	-0.03	-0.81	0.09	-0.85	-0.15	-0.38	0.26
Tracking error (% p.a)	3.98	5.73	4.68	4.68	5.11	5.11	5.22	5.33

Lonsec Peer Group: Australian Equities - Australian Large Cap - Absolute Return

Product Benchmark: S&P/ASX 300 TR Index AUD

Cash Benchmark: Bloomberg AusBond Bank Bill Index AUD

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

Product Distribution Profile

Frequency	Semi Annually
Last Missed Distribution	Nil
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 (%)
TELSTRA GROUP LIMITED	6.79
CSL LTD	6.69
RESMED INC	6.18
NATIONAL AUSTRALIA BANK LIMITED	5.88
SG FLEET GRP LTD	5.45
BHP GROUP LIMITED	5.45
NIB HOLDINGS LTD	5.13
WOOLWORTHS GROUP LIMITED	4.22
MEDIBANK PRIVATE LIMITED	3.85
CONTACT ENERGY LIMITED	3.21

Source: FE fundinfo

Target Market Determination

Produced by issuer	Yes
Provided to Lonsec	Yes

Business data is as at 31 December 2023

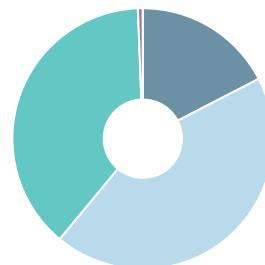
Business



Facts

Investment Manager	Pengana Capital Limited
Ultimate Parent Company	Pengana Capital Group Limited
Headquarters	Sydney, Australia
Inception Date	Feb 2003
% Staff Ownership	20-50%

AUM



Governance

% Independent board members	60
% Female board members	0
Independent chair	Yes
CEO as Chair	No
Separate Audit Committee	Yes

Metrics

Total AUM	A\$3.34b
Investment Management Headcount	57
Investment Professionals	14
Sales & Service	15
Distributor	Internal

Who is the Manager?

Pengana Capital Group Limited ('Pengana' or 'the Manager') is an ASX-listed business owned by staff, directors and private shareholders. All of Pengana's underlying managers are boutique in nature with profit sharing arrangements in place with the responsible portfolio management teams and Pengana. Additionally, key members of the team are aligned to the headline business via the allotment of shares.

Lonsec Opinion

Profitability

Given the Manager's current level of AUM, the firm is considered profitable and well capitalised. Earnings quality of the Fund is aided by the diversity of the AUM within the business across differing strategies and clients.

Business Track record

The firm has a successful track record dating back to its inception. The firm has diversified its business through investment capabilities such as equities, fixed income, property and alternatives. This has led to solid AUM growth across all distribution channels.

Business Ownership

Pengana is a publicly listed company (ASX:PCG), that said, the Manager is considered to have a strong boutique culture among the respective investment teams within the business.

Business Governance

As Pengana is an ASX-listed business, the firm is subject to greater regulatory oversight and governance requirements in comparison to its boutique peers. Notably, the firm has not faced any regulatory findings in recent history. The Firm has a reasonable governance framework, and 3 out of the 5 directors are independent.

Team



Key Decision Makers (KDM)

	Primary function	Dedicated to strategy	Appointed to strategy	Industry/Mgr exp. (yrs)	Exp. in PM roles (yrs)
Rhett Kessler	CIO	Yes	2007	30/17	18
Anton Du Preez	Portfolio management	Yes	2009	33/15	19
Mark Christensen	Research	Yes	2024	24/11	10
David Glasser	Research	Yes	2024	3/3	0

KDM Change*

No changes.

* Last 3 years

Profile

Size	4
Structure	Centralised
Turnover	Low

Alignment

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

Resources

	Number	Average Years Experience
Key decision makers	2	31
Portfolio Managers	1	24
Hybrid portfolio manager/analysts		
Dedicated analysts	1	3
Dedicated dealers		
Quantitative		
ESG/Sustainability		
Macro		
Investment Specialists		

Who is the Team?

The Fund is managed by CIO and Senior Fund Manager Rhett Kessler, who is the architect of the investment philosophy and process, along with Deputy CIO and Fund Manager Anton Du Preez. The key decision makers have an extended track record and are responsible for stock selection, risk management and portfolio construction. The broader investment team consists of four investment professionals in total with Kessler and Du Preez ably supported by Fund Manager Mark Christensen with additional support from Investment Analyst David Glasser.

Team (*continued*)

Lonsec Opinion

Skill

Kessler's investment experience and overall investment acumen is highly regarded, and considered to be a quality investment professional with suitable experience in absolute return style investing. Similarly, du Preez is also considered to be a highly capable and experienced investment professional who has formed an extensive and successful track record working alongside Kessler. The team's investment ability is further enhanced by the contributions of Christensen. The investment team as a collective is considered to be experienced and skilled, underpinned by the three most senior members of the investment team. The teams experience is considered to be well suited to the investment process.

Team Size

The investment team of four is relatively small in the context of the breadth of the Manager's investment universe and subsequent research effort required. That said, the targeted research approach and concentrated, low turnover investment style allows the Manager to operate with a lower headcount than many of its peers. Additionally, the Manager looks opportunistically for investments and does not try to cover the entire universe in the way that a core-styled benchmark aware fund manager would, which allows the Manager to concentrate its research efforts on areas of most interest.

Track Record/Co-Tenure

The long co-tenure and stability of the senior members of the investment team is considered a strength of the offering. Kessler and du Preez have managed the fund together since 2009, whilst Christensen's co-tenure stretched back to 2013 and has had increasing influence through time. Kessler, du Preez and Christensen have notable levels of experience with Kessler and du Preez having extensive portfolio management experience, whilst Christensen had a strong heritage in equity research prior to joining Pengana.

Alignment

Pengana and the Fund's key decision makers (Kessler and du Preez) share in the profits generated by their business unit in a 45/55 proportion, which helps promote the alignment of interests between Pengana and key investment staff. The alignment with end investors is further supported by the performance fee structure and the material investment in the Fund by Kessler. Additional alignment is provided by the retention of key investment staff (Kessler and du Preez) via shares of Pengana under a loan share plan.

Key Person Risk

Key Person Risk for the Fund is considered to be moderate to high and reside largely with Kessler and Du Preez as the key decision-makers. As such, if either were to depart for any reason, this would likely result in a review of the Fund's rating. That said, some alleviating factors include equity ownership, material co-investment, as well as incentive structures such as a profit share arrangement.

Process



What is the Investment Process?

The Manager has a conservative approach to investing and prefers companies with predictable after-tax cash flows with pricing power and resilient business models. The Manager will screen out stocks that are unable to generate an after-tax cash earnings yield of 6-8% p.a. with sustainable growth in the medium term. Stocks that have a short history, such as start-up companies, are typically filtered out. The Manager tends to avoid companies with overly complex corporate structures and financially engineered entities. This approach is considered to be prudent and aligned with the Manager's philosophy of conservatism and capital preservation.

The Fund's performance is expected to be largely driven by its active stock positions and the Fund's allocation to cash, with this being determined via bottom-up research and the Portfolio Manager's qualitative judgement. The Fund generally has a lower level of market exposure compared to more traditional long-only Australian Equity funds and is expected to outperform in down markets, which is in line with its absolute return style and focus on capital preservation. In contrast, the Fund may underperform the broader market index during bullish market conditions.

Lonsec Opinion & Supporting Facts

Philosophy and Universe

Investment Type	Fundamental
Investment Approach	Bottom-up
Investment Style	Core/Style Neutral
Typical market cap	All cap
Minimum market cap	No minimum
Available Universe	0%-100% Australian equity securities; 0%-100% cash and cash equivalents; 0%-20% listed bonds

The Fund's philosophy is well reflected in the investment process, seeking to enhance and preserve investor's wealth with an objective to deliver a total investment return, over the medium to long term, in excess of the risk free rate (RBA Cash Rate target) plus a margin reflecting the 'equity risk premium'. The Manager believes an appropriate equity risk premium is 6-7% p.a., which currently translates to an internal absolute return target in excess of 10% p.a. whilst also seeking a volatility of return less than that of the Australian Equity market.

The Manager primarily invests in listed Australian equities to implement the Fund's strategy, although the Fund can hold up to 100% in cash if no suitable investment opportunities can be found that meet the Fund's investment criteria. The Manager's cash allocation decision is driven by its bottom-up research, with plentiful opportunities reflected by low cash holdings and vice versa. An additional lever the Fund has historically utilised is the use of index put options to reduce downside risks, seen to be a core tenet of the Manager's capital preservation efforts. That said, the use of this protection strategy has been seldom utilised more recently, which may result in less defensive attributes than what the Fund has historically realised.

Research Process

Key screens	Nil
Screened universe	225
Idea generation	Financial market data, Economic data, Newsflow/Events, Expert networks, Financial statements, Direct outreach, Brokers
Stocks researched	225
Annual manager meetings	75
Key research inputs	Financial statements, Company meetings, Company data, Industry data, Economic/Market data, Sell-side reports, Quantitative model, Expert networks
Primary valuation approach	After tax cash earnings yield, DCF, price multiples, dividend yields

The Fund's research process is well aligned to the broader philosophy with the key areas of focus and the aims of the research process including an assessment of Management Competence, Business Model Resilience, Industry Structure, and After-tax Earnings Yield.

Furthermore, the Manager's valuation discipline is considered strong, adopting an after-tax cash earnings yield approach which is required to be at least 6% p.a. with reasonable certainty to grow to 10% plus yield within five years. This measurement of value tends to look for companies for which earnings are predictable and therefore are akin to an increasing annuity. Intrinsic value is also inferred from a number of other financial metrics such as price-to-earnings, return on equity and profit margins.

The Manager's research process overall is considered robust, however unlikely to result in the Fund having meaningful exposure to high growth companies. Additionally, the rigid valuation discipline may result the Fund foregoing exposure to higher quality companies that trade on high valuation multiples.

Process (continued)



Portfolio Construction

Portfolio management structure	Ultimate responsibility with CIO
Approach to benchmark	Benchmark Agnostic
Typical security numbers	35
Typical securities range	20-40
Typical portfolio turnover p.a.	30.00%
Typical active share	70.00%, relative to ASX300

The Fund's portfolio construction process is considered to be relatively unconstrained in comparison to peers, allowing the Manager significant autonomy. Instead of price targets or stock rankings, position sizes are determined according to level of conviction, relative risk/reward profiles and market liquidity. As such, there is more art than science involved. However, the Manager has historically demonstrated a conservative approach to portfolio construction and has used its wide investment mandate, largely to hedge or reduce portfolio risk.

Portfolio construction is considered to be well managed, however the Fund's historical positioning has at times included cyclical industries, mid/small cap stocks, concentrated sector exposures, and more recently the absence of explicit put options typically used for explicit downside protection. Whilst the contribution to overall risk of these positions have not been alarming, this is nonetheless considered to be somewhat conflicting to the Fund's capital preservation focus.

Capacity Management

Capacity guidance	\$2.80b
Strategy AUM	\$562.96m
Portfolio liquidity (1 week)	78.12%

The Manager has stated that the strategy's theoretical maximum capacity is 0.5% of the free float adjusted market capitalisation of the small and mid-cap market. However, the Manager has indicated that a comfortable level of AUM would be approximately \$1bn, which is more conservative than the Fund's stated estimate capacity of \$2.8bn.

There are no capacity concerns as the Manager is operating comfortably below estimated capacity with AUM for the strategy being \$563m (June 2024). The strategy also has flexibility in its mandate, having the ability to hold 100% cash, and potentially invest 20% offshore, whilst the portfolio turnover of the strategy is also typically low at below 30% p.a. which adds further comfort with respect to capacity.

Investment Risk Management

Monitoring external to investment team	Yes
Frequency of monitoring	Daily
Primary risk management system	Factset
Security Limits (Min./Max.)	Soft: Absolute, 0-15%
Sector Limits (Min./Max.)	No limits
Cash Allocation (Typical, Max.)	10%, 100%

The Manager's risk management framework is broadly based on qualitative judgement and can be subjective in nature. Thematic exposures can be material given the Fund's low turnover, concentrated style. That said, risk is almost entirely managed in an absolute sense and systems used are deemed adequate for monitoring portfolio risk.

The Fund is run in a 'benchmark unaware' fashion and does not have any formal tracking error constraints with much of the Fund's risk management process considered to be within its bottom-up stock research process. In particular, the Manager seeks to invest in companies with defensive characteristics. The identification of such companies is largely the result of the bottom-up research process. The Fund may hold ASX 200 Index puts as a downside protection strategy, particularly around events it deems as a potential catalyst for a drawdown event.

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.

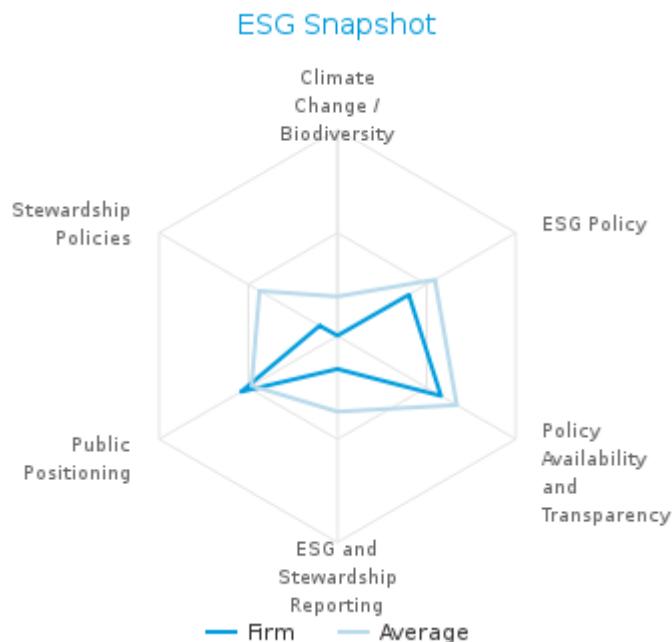
What is the Manager's ESG approach?

The Manager has indicated that their Responsible Investment style is "ESG Integration" and as such that they take Environmental, Social and Governance factors into consideration 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 clients perception of what a strong ESG process would deliver.

Lonsec Opinion & Supporting Facts

Overview

ESG Process Score ModLow



Product Level Approach

The manager sources independent external ESG data through Sustainalytics and collects its own data through company meetings and web sites. This is less robust than peers. There are clear signs of robust ESG elements as a core component of the Manager's research process. Research is undertaken in a structured manner. There are clear links from the Manager's research to the stock selection process through the Managers incorporation of ESG factors in their price targets. While there is monitoring of ESG characteristics of the portfolio across a number of ESG and sustainability dimensions, this plays no clear role in overall portfolio construction. While the Manager tracks 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

Pengana's overall ESG policy framework and disclosure lag behind those of its peers. The ESG policy is publicly available and remains at a high level, weighing down the ESG Policy score. It is noted that ESG assessment and integration happen at the fund level, with separate policies available. There is no separate engagement or stewardship framework, and engagement guidelines and undertakings, if available, are also at the fund level, placing the Stewardship Policies score below their peers. There is also no proxy voting policy or guidelines at the Manager level, voting records for certain funds are publicly available.

Product



Service Providers

Responsible entity	Pengana Capital Limited
Investment manager	Pengana Capital Limited
Custodian	BNP Paribas Fund Services Australasia Pty Limited
Administrator	BNP Paribas Fund Services Australasia Pty Limited
Fund Auditor	Ernst & Young
Change in Key Providers? (Over last 12 months)	No

Product Details

Product size	\$562.96m
Fund 12-month net flows	Negative
Distribution model	Internal
Buy/sell spreads	0.15%/0.15%
Investment structure	Direct
Product type	Registered Managed Investment Scheme (Unitised)
Currency hedged	No
Use of derivatives	Yes
Types of derivatives	Index Options

What is the Product Structure?

The Fund is a long only Australian Equity product consisting of 20-50 stocks with a focus on achieving absolute returns and the preservation of capital. The Fund utilises a 'benchmark unaware' bottom-up fundamental research approach that can generate a sustainable cash earnings yield of 6-7% p.a. with portfolio turnover expected to be between 30%-40% p.a. The Fund can hold high levels of cash, up to 100%, in the absence of attractive investment opportunities. Additionally, the Fund may be able to invest up to 20% of the Fund in International Equities, however, in practice the Fund has not invested overseas to a significant extent to date. The Fund may also invest in listed Australian hybrids, securities in exchange traded funds, listed bonds and derivatives.

Lonsec Opinion

Service Providers

The Manager has engaged large 'tier 1' service providers for functions of custody, administration and broking services. However, Pengana Capital Limited acts as both Responsible Entity ('RE') as well as the Investment Manager which may lead to the perception of conflicts which needs to be managed. That said, this RE relationship has been stable since the inception of the Fund and there have been no prior issues identified.

Operational 'Red Flags'

The Fund is a relatively vanilla Australian-domiciled unit trust and invests in listed Australian equities and as such valuations are determined at arms length from the investment team. There are no structural issues given the Fund invests directly into the underlying securities, with no mismatch apparent in redemption terms relative to underlying assets. The Fund may at times hold index put options, which adds complexity, however, this facet of the fund is not considered to be operationally challenging to implement.

Wind-up Risks

The product has strong support from the retail market with AUM over \$618m, leading there to be minimal wind-up risk. That said, the Fund has had material net outflows over the past year, which is a watchpoint.

Fees



Annual Fees and Costs (% p.a.)

Management fees & costs	1.065
Performance fee costs	0.555
Net Transaction Costs	0.00
Buy/Sell Spread	0.15/0.15
Annual fees and costs	1.62

Source: FE fundinfo, PDS Date: 15/Apr/2024

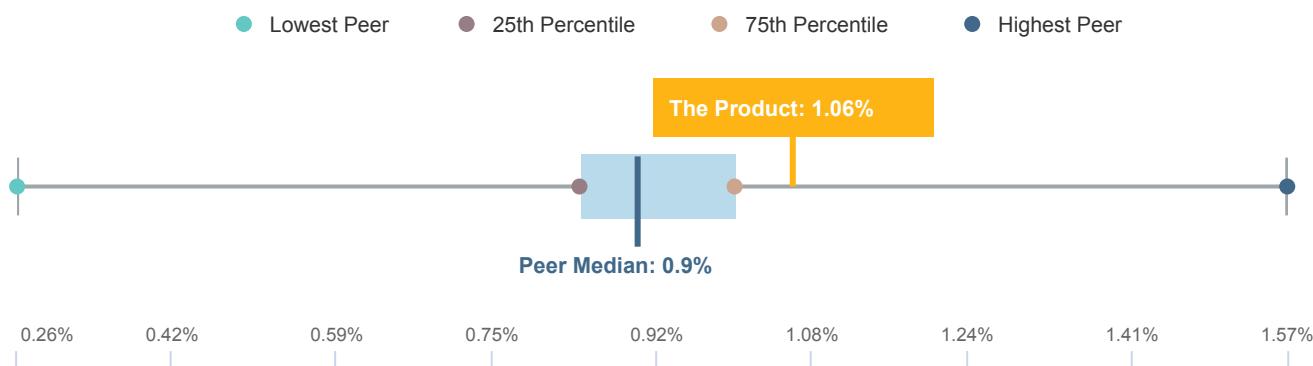
Performance Fees

Applicable	Yes
Hurdle type	Excess Return
Hurdle	RBA Cash + 6% p.a.
Rate	10.25
Fee capping	No
High watermark	Yes
Above high watermark	No
Reset Allowed	No

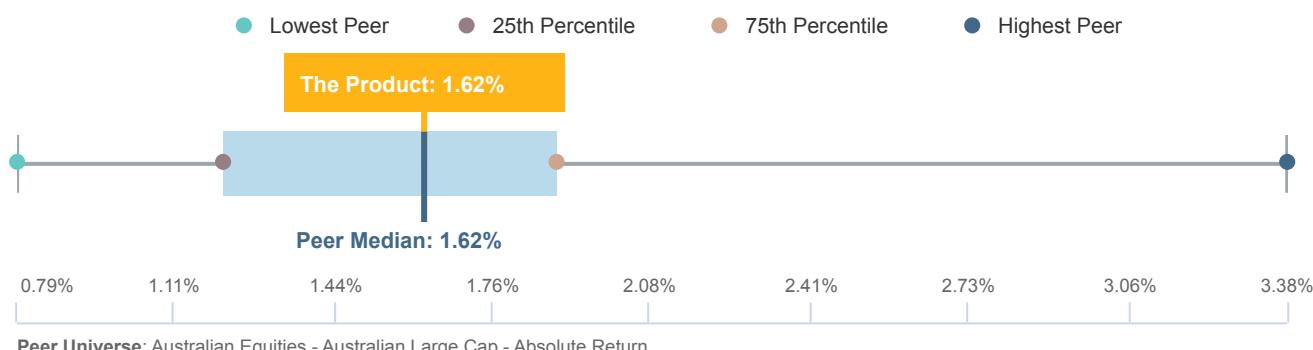
Fees Explained

The Fund's base management fee is 1.025% p.a. with additional expense recoveries of 0.04% p.a. The Fund also charges a performance fee, which is calculated as 10.25% of relative out performance to the RBA Cash Rate +6% p.a., net of management fees, and subject to a high watermark.

Management Fees and Costs Peer Comparison



Annual Fees and Costs Peer Comparison



Lonsec Opinion

Annual Fees and Costs

The Fund's overall Annual Fees and Costs (1.62% p.a.) are in line with peers, albeit the base management fee is above the peer median.

Fairness

Overall fairness is considered reasonable relative to peers, however, the performance fee, whilst having a reasonable hurdle, is not well aligned to the equity risk characteristics of the fund and also provides a low hurdle from a performance fee perspective when risk free rates are low. That said, with the increase in risk free rates more recently, the fee structure has become more attractive.

Performance data is as at 30 June 2024

Performance



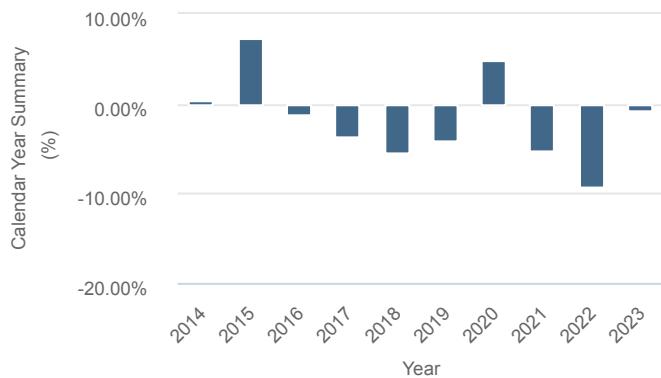
Performance Summary

PDS return objective	To achieve over the medium to long term, a return in excess of the RBA Cash rate plus a margin associated with the equity market risk premium.
Internal return objective	RBA Cash Rate plus 6% (net of fees) over 5 years
Internal risk objective	Less volatility than the S&P/ASX All Ordinaries Index
Product benchmark	S&P/ASX 300 TR Index AUD
Lonsec peer group	Absolute Return

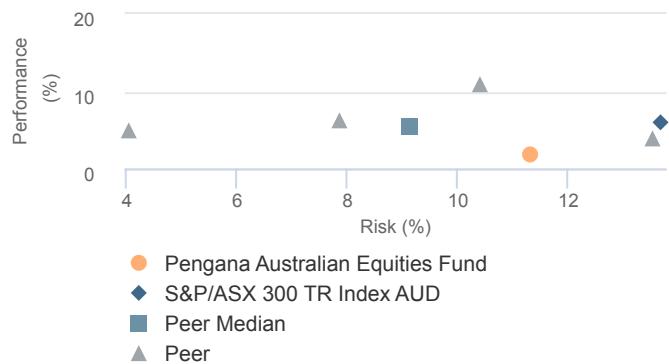
Alpha Generation

The Fund has persistently delivered performance below the Benchmark over all measurement periods as at June 2024, with material underperformance through 2021 and 2022. The Fund does tend to operate with a lower beta to the Benchmark, which has been a head wind over the past 12 months, nonetheless, relative performance over the past three years is considered to have been poor.

Calendar Year Excess Return



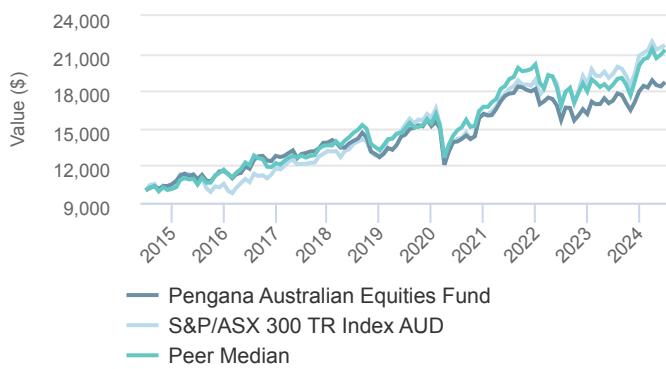
3 Year Risk and Return



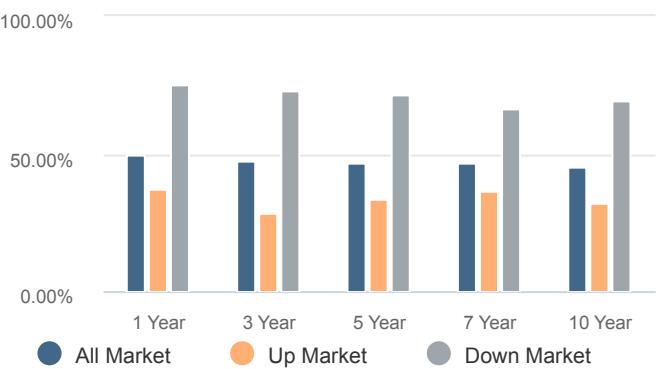
Alpha Consistency

The Fund has underperformed the Benchmark with regular consistency for the past 10 years. That said, the Fund's defensive style has been a headwind for performance.

Growth of \$10,000 Over 10 Years



Returns Consistency



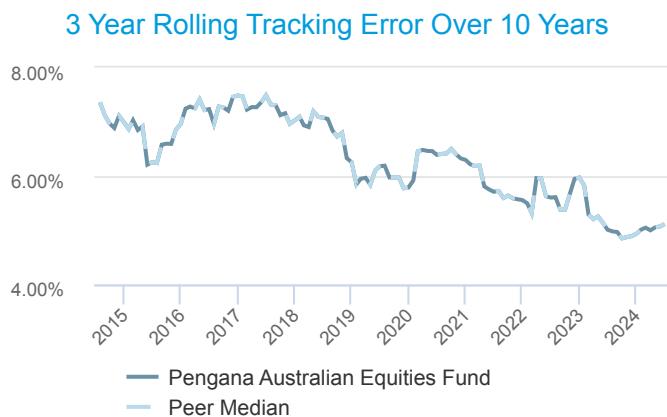
Performance data is as at 30 June 2024

Performance (continued)

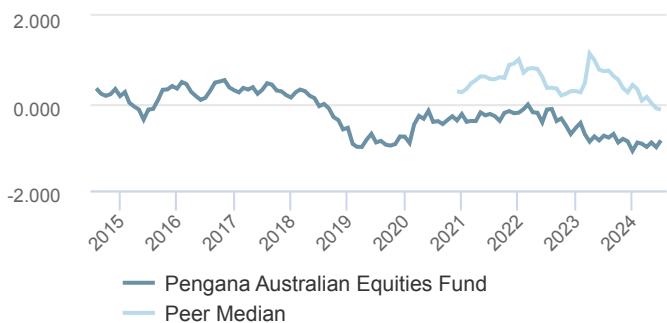


Benchmark Relativity

The Fund has typically delivered an ex-post beta between 0.8 and 0.9, ex-post tracking error between 4-6% p.a., and whilst the Fund may hold up to 100% in cash, in practice this has typically remained below 20%. As such, long term Benchmark relative return outcomes are likely to be largely influenced by the Fund's performance during periods of negative market returns.

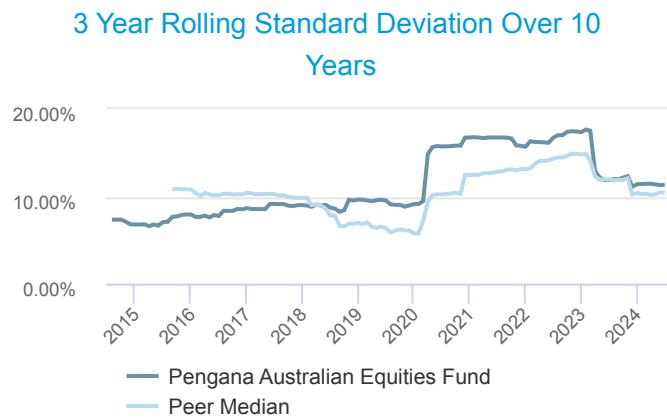


3 Year Rolling Information Ratio Over 10 Years

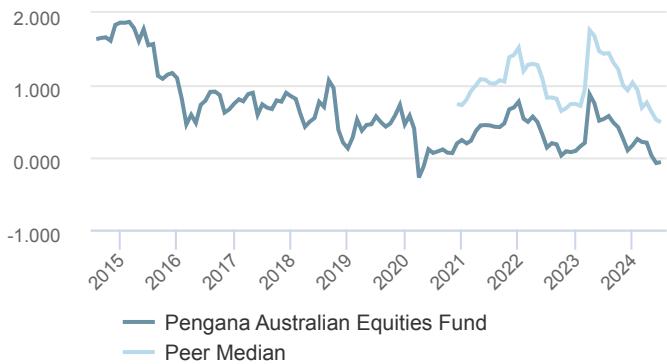


Return Volatility

The Fund has been true to label to its risk objective, delivering beta and volatility 10-20% lower than that of the Benchmark. The Fund's ex-post beta has remained relatively steady at 0.8, albeit has been as low as 0.6 historically. Of note however, is the Fund's diminishing reliance on the use of put options which may result in higher levels of absolute risk.

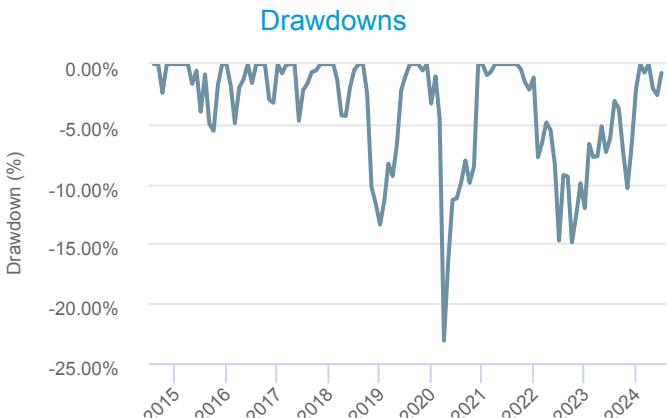


3 Year Rolling Sharpe Over 10 Years



Product Defensiveness

The Fund has outperformed in 78.9% of down markets since inception, with downside capture below 1.0 over all measurement periods, providing validity to the Fund's defensively minded philosophy. However, from a total drawdown perspective, the Fund has produced steeper drawdowns in three of the last four drawdown events since 2018. Additionally, the Fund's downside capture ratio has progressively increased over this period, albeit still below 1.0 which will be watchpoints in future reviews.



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

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).

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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)

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1.6 How do we manage our compensation arrangements?

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

1.7 What should you do if you have a complaint?

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Complaints Manager

Level 39, 25 Martin Place

Sydney NSW 2000

Tel: 1300 826 395

Email: complaints@lonsec.com.au

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

Online: www.afca.org.au

Email: info@afca.org.au

Phone: 1800 931 678

Mail:

Australian Financial Complaints Authority

GPO Box 3

Melbourne, Victoria, 3001.

1.8 Conflicts of Interest

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