

Allan Gray Equity Fund (Class A)

This report has been prepared for financial advisers only



Outstanding

INTRODUCTION

Key Principles

The underlying principles of the assessment process are to:

- identify the long term commercial potential of the Responsible Entity/Investment Manager;
- evaluate management's capabilities, previous performance in the specific industry and the stability of the organisation;
- evaluate identified markets (domestic and international existence, stability and growth potential);
- benchmark key performance assumptions and variables against industry peers;
- weigh up the relevant risks of the Responsible Entity/Investment Manager;
- assess structure and ownership;
- determine if the Responsible Entity/Investment Manager is structured in such a way as to protect investor's interests; and
- allow an opinion to be formed regarding the investment quality of the Responsible Entity/Investment Manager.

Assessment

SQM Research conducts a detailed site inspection of the projects/properties within the Responsible Entity's/Investment Manager's managed funds.

- The site assessment considers the following areas:
- sustainability of the site for the purpose intended;
- management skills, qualifications, capabilities and experience; and
- associated property risks and their management.

Star Rating*

Investment products are awarded a star rating out of a possible five stars and placed on the following websites: www.sqmresearch.com.au

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This advice will not take into account your, or your clients, objectives, financial situation or needs and will not be provided in respect of any other financial products. Accordingly, it is up to you and your clients to consider whether specific financial products are suitable for your objectives, financial situations or needs.

Report Date: 15 May 2019

Star Rating	Description	Definition	Investment Grading
4½ stars and above	Outstanding	Highly suitable for inclusion on APLs <i>The fund most often outperforms its peers and benchmark. In all cases the fund is operating to its mandate and product disclosure statement (PDS). There are no corporate governance issues. Management is extremely experienced and skilled and has access to significant resources.</i>	High Investment grade rating
4 stars to 4¼ stars	Superior	Suitable for inclusion on most APLs <i>The fund outperforms (or is likely to) its peers and benchmark the majority of the time. The fund most of the time has been operating within its mandate and PDS. There are very little to no corporate governance concerns. Management is of a very high calibre.</i>	High Investment grade rating
3¾ stars	Favourable	Consider for APL inclusion <i>The fund may outperform its peers and benchmark the majority of the time or SQM believes this is a fund that has potential to be an outperforming fund over the medium term. Management is of a quality calibre but may not yet be fully tested. There are no corporate governance concerns or they are of a minor nature.</i>	Approved
3½ stars	Acceptable	Consider for APL inclusion, subject to advice restrictions <i>There is some degree of additional risk attached to the fund by way of performance. The fund may periodically underperform its peers and benchmark or it has not been fully tested. There may be some additional concentration risk. Management is generally experienced and capable. There might be corporate governance issues of a mid-level or concerns over the Responsible Entities/Parent Entities financial position/performance.</i>	Low investment grade rating
3¼ stars	Caution required	Not suitable for most APLs <i>Performance has been significantly under-benchmark and peers. There is a greater than average risk of underperformance over the medium term. There is a risk of the fund not operating to mandate or to its PDS. There could be corporate governance concerns. Management has been operating in an average manner.</i>	Unapproved
3 stars	Strong Caution Required	Not suitable for most APLs <i>The fund is unlikely to perform to its mandate over the near term. There might be some greater than average corporate governance concerns. SQM has a number of concerns of management.</i>	Unapproved
Below 3 stars	Avoid or redeem	Not suitable for most APL inclusion	Unapproved

Hold – The rating is currently suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.

Withdrawn – The rating is no longer applicable. Significant issues have arisen since the last report was issued, and investors should avoid or redeem units in the fund.

Not rated – The fund has not been rated by SQM.

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SQM Rating 
Outstanding. Highly suitable for inclusion on APLs.

Fund Details	
Fund Name	Allan Gray Equity Fund (Class A)
APIR code	ETL0060AU
Asset Class	Australian Equity
Management and Service Providers	
Fund Manager	Allan Gray Australia Pty Ltd
Responsible Entity	Equity Trustees Limited
Custodian	Citibank N.A.
Fund Information	
Fund Inception Date	4-May-06
Fund Size	\$1,812 million
Return Objective (as per PDS)	The Fund aims to achieve long-term returns that are higher than the Benchmark
Internal Return Objective	n/a
Risk Level (as per PDS)	High risk
Internal Risk Objective	n/a
Benchmark	S&P/ASX 300 Accumulation Index
Number of stocks/positions	53
Fund Leverage	n/a
Turnover	37% (As at 31/03/2019 12 month turnover was 30%. Name turnover was 27%). The long term average is 30% (adjusted for earlier movements of large mandates from fund to separate accounts)
Top 10 Holdings Weight	62%
Investor Information	
Minimum Application	Minimum of AUD 1,000 or at least AUD 500 per month through the regular savings plan.
Redemption Policy	Redemption frequency is daily. There is no minimum, except for redemptions through a regular redemption plan, where a minimum of AUD 500 per month applies. Redemption proceeds are normally paid within seven Business days after receipt of a valid redemption request
Distribution Frequency	Annually
Investment Horizon (as per PDS)	More than five years
Currency Hedging Policy	n/a
Management Fee	Base fee: 0.75% (0.77% including GST net of RITC) of the Fund's net asset value.
ICR – latest	2.16% for year ended Jun-2018 (class A was 0.77% as at 30/04/2019)
Buy Spread	0.20%
Sell Spread	0.20%
Performance Fee Rate	Performance fee: 20% (20.5% including GST net of RITC) of the Fund's out-performance, net of the base fee, in comparison to its Benchmark. A permanent high-water mark is observed before performance fees can be earned.

SUMMARY

Fund Summary

Description

The **Allan Gray Australia Equity Fund (the “Fund”)** invests in Australian equities and seeks higher returns than its benchmark, the S&P/ASX 300 Accumulation index, without greater risk of loss over the long term. The fund is an all-cap long-only strategy. Generally, the manager’s process results in a value style as measured by metrics such as beta, but at times, given its’ deep contrarian approach, the strategy can look more like a high growth portfolio as was the case in 2009 when the portfolio manager capitalised on the market rebound during the GFC (global financial crisis). The Fund is structured as an open-ended unlisted registered managed investment scheme.

About the Manager

Allan Gray Australia is a privately-owned Australian incorporated investment management company managing wealth for Australian investors since 2005, as has been done by the broader group globally since 1973. Allan Gray Australia’s (AGA) ultimate owners are current senior staff, Dr Simon Marais’ family interests and the Allan & Gill Gray Foundation, via Orbis Allan Gray Ltd. Dr Marais was the former Managing Director of AGA and one of its’ initial shareholders.

The Orbis Group is a global fund manager established in 1989 and founded by Dr Allan WB Gray, who also founded Allan Gray Proprietary Limited in South Africa (AGL). As such, Allan Gray in Australia, the Orbis Group, and AGL all share the same investment approach and philosophy.

Globally, the group manages approximately AUD 110 billion, of which Allan Gray (Global) manages about AUD 55 billion, Orbis (the global equities arm) manages about AUD 49 billion and Allan Gray Australia about AUD 5.7 billion. Allan Gray (Global) has about 1311 staff members, Allan Gray Australia has 68, and Orbis Global has approximately 400 people.

Allan Gray Australia is primarily based in Sydney, with smaller offices in Melbourne and Brisbane. As of 30 November 2018, the firm’s FUM was AUD 5.7 billion. Allan Gray’s Australian equity strategy is based on the three key principles: contrarian, long-term and fundamental.

Fund Rating

The two Fund variants have achieved the following ratings:

Star Rating	Description	Definition	Investment Grading
4.50 stars	Outstanding	Highly suitable for inclusion on APLs	High Investment Grade Rating

SQM Research’s Review and Key Observations

1. People and Resources

Size and Resources of the Fund Management Company

Allan Gray Australia is primarily based in Sydney, with smaller offices in Melbourne and Brisbane.

On 30 November 2018, the firm’s (Allan Gray Australia) FUM was AUD 5.7 billion across Australian Equity, Balanced & Stable strategies. Their clients include individuals, trusts, companies, superannuation funds, family offices and government entities.

Investment Team

A highly qualified, experienced and knowledgeable investment team work together in a merit and performance-based culture.

The Sydney-based research team of nine people is autonomous within the broader Orbis / Allan Gray group but has access to research produced by those research teams. Given that the Australian team is well resourced, this broader reach enhances its’ research edge. It is clear that the lead portfolio manager Simon Mawhinney has material management responsibilities, but these are largely delegated to the Chief Operating Officer (JD de Lange) so that he can focus on investments.

Portfolio managers have been with the firm an average of 9.5 years and in the industry 12 years. Analysts have been with the firm an average of 5.1 years and in the industry 7.9 years. The Analysts figure has been skewed lower by new hires in the last two years. Key person risk is medium.

The decision-making process underpinning the investment management and asset allocation functions of the Allan Gray Equity Fund can be described as collaborative, but with a major focus on individual accountability. Continuous communication between team members is encouraged and crucial for the team’s risk assessment process. As part of a communication model characterised by both recurring meetings and frequent ad-hoc discussions, colleagues engage in continuous dialogue, exchanging ideas and challenging each other’s investment conclusions. While the final investment decisions reflect multiple points of view, accountability and responsibility for all portfolio decisions lie with the designated Portfolio Managers, Simon Mawhinney and Dr Suhas Nayak. Once a stock is added to the portfolio, the performance of that individual stock is linked directly to the responsible analyst via remuneration structures that focus on individual accountability.

2. Investment Process and Philosophy

Investable Universe

The manager defines the investable universe as all Australian listed stocks (that is an 'all-cap approach'), subject to an assessment of size and liquidity allowing any stock to contribute meaningfully to the portfolio.

Process / Philosophy / Style

The manager's investment philosophy is clear and coherent. It is based on three principles – Contrarian, Long Term, and Fundamental:

- **Contrarian:** When buying shares that analysts, market commentators, and other investors dislike, it is important to fully understand why the sellers are selling.
- **Long Term:** Evaluate investment opportunities as a long-term owner of a business. The manager typically adopts a five to ten-year horizon when they decide to invest in a share. They focus all their efforts on understanding the intrinsic value of a company, rather than trying to forecast the next share price move.
- **Fundamental:** Focus on company fundamentals (margins, competitive dynamics, and long-term averages) rather than economic variables, currency rates, and economic growth rates.

The process depends on intensive proprietary investment research focusing on understanding the underlying business of the company. The Manager prefers companies that they deem are 'out of favour' with the broader investment community. Often these companies will have experienced substantial falls in their share price and will be poorly rated by sell-side research analysts. In order to reduce the stock universe (that includes all stocks in the ASX 300 Accumulation Index), the manager utilises straightforward financial ratio screens and ideas generated by the local and global research teams.

There is strong consistency within the manager's investment research process and emphasis on highly skilled staff (four team members have doctorates) with compensation linked to performance. As would be expected, the manager places great weight on peer review at the PGM (policy group meeting), underpinned by rigorous stock analysis. However, this can be over-riden by the portfolio managers who have final accountability for portfolio performance.

There is clarity on the rules for both buy (e.g., a discount to valuation) and sell decisions which take place within boundaries

set by the portfolio risk limits. The portfolio is not overly concentrated and allows the portfolio managers some flexibility to take account of market opportunities and ideas generated by the research process. Simon Mawhinney manages 80% of the portfolio, and Suhas Nayak manages the remaining 20%. Both of them select stocks that have been taken through the rigorous Policy Group Meeting process, so there is a high degree of overlap in their portfolios within the Allan Gray Australia Equity Fund. Their performance is monitored by Allan Gray senior management, so their allocations can change. This structure is used elsewhere in Allan Gray and the Australian equities market, where it is observed that it tends to foster healthy internal competition and portfolio management skill development.

Risk Management

The manager has a well-structured and resourced risk management framework as would be expected in a large value manager. The framework is multi-layered, with 'checks and balances' that mean it would be difficult for the portfolio managers to take extreme positions.

3. Portfolio Characteristics

Portfolio Turnover

Annual turnover has averaged approximately 30% over the last decade, and a little lower than that in recent years

Liquidity

The Fund is large and is an all-cap strategy. It is also a conviction portfolio that seeks to hold large positions in stocks where their confidence is high. This means that for some of the smaller cap holdings, liquidity may be a material challenge if the Fund were to sell for non-investment reasons.

In the normal course of trading (buying and selling) for investment purposes, the Manager's size is somewhat diluted as a headwind to trading efficiency by the contrarian nature of their investment philosophy. Allan Gray often find themselves buying when the rest of the market wants to sell and selling when the market wants to buy (and may even be in the grip of irrational exuberance). In these cases, the market is a willing liquidity provider to the Manager's actions.

Leverage

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

SUMMARY

4. Performance & Risk

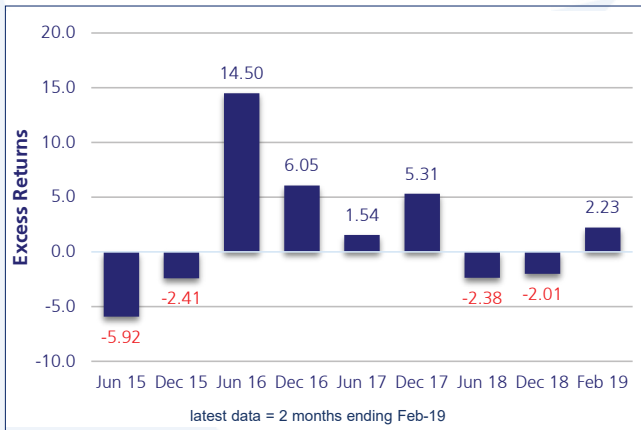
Return Objective & Performance

The return objective stated in the PDS is that the Fund aims to “seek long-term returns that are higher than the Benchmark”.

The formal benchmark is the S&P/ASX 300 Accumulation Index.

Over the twelve months to **Feb-19**, the Fund returned 6.97% (after fees) compared to 6.80% for the benchmark. This is an outperformance of 0.17%.

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



Length of Track Record

The Fund has a history of 13.1 years (or 157 months). Observations and analysis of returns will have a very significant statistical meaning as a result of the sample size of observations.

Risk Objective

The Fund's PDS formally states that the risk level of the Fund is considered to be “high”.

The Fund's **volatility** (standard deviation of monthly returns) over the **year to Feb-19** was 14.06% p.a. compared to a peer average of 11.68% p.a. and 12.10% p.a. for the benchmark.

Drawdown Experience

The Fund's downside capture ratio over the **three years to Feb-19** was 55.19% compared to 81.06% for the peer average.

	Drawdown Size (peak-to-trough)		
	Fund	Bench	Peers
Average	-6.74%	-8.19%	-6.56%
Number	19	12	16

Drawdowns have on average been less severe than the benchmark, and similar to the peer average.

Correlation to Australian Equities

The Fund's rolling three-year correlation with the ASX300 has been displaying a *moderate but consistent downtrend* over the last three years.

Over the life of the Fund, the rolling three-year correlation has averaged 82.3%, with a low of 72.5% and a high of 89.0%. These patterns and levels are *reasonably similar* to the peer group average.

Over the same time frame, the peer group's rolling 3-year rolling correlation has ranged from a low of 81.0% to a high of 94.4% and averaged 90.0%.

5. Other Features

Fees - Class A units

Fees and Costs	Fund	Peer Avg	Difference
Management Fee (% p.a)	0.77%	0.78%	-0.01%
Expense Recovery (% p.a)	Nil	-	-
Performance Fee (%)	20.00%	6.77%	+13.23%
Buy Spread (%)	0.20%	0.25%	-0.05%
Sell Spread (%)	0.20%	0.25%	-0.05%

Management Fee

- 0.77% per annum of the Fund's Net Asset Value (“NAV”)
- Calculated daily and paid monthly
- Including GST and impact of RITC (Reduced Input Tax Credit)

Performance Fee:

There is a performance fee charged as follows:

- 20.0% (20.5% including GST net of RITC) of the amount by which the Fund's investment returns (**after** base management fees have been deducted) exceed the returns of the Benchmark (S&P/ASX 300 Accumulation Index).
- The fee is accrued daily and (if applicable) paid to the Manager monthly.
- The fee is adjusted for any prior accumulated negative performance fee. Underperformance in a previous performance period is required to be made-up for before a performance fee is payable. This creates a permanent high-water mark.

SUMMARY

The fee description above applies to **Class A** units. **Class B** units are available and carry a management fee of 0.00% (nil), and a performance fee of 35% (35.88% including GST net of RITC) of Fund outperformance, net of the base fee, in comparison to its Benchmark. Permanent high water mark applies.

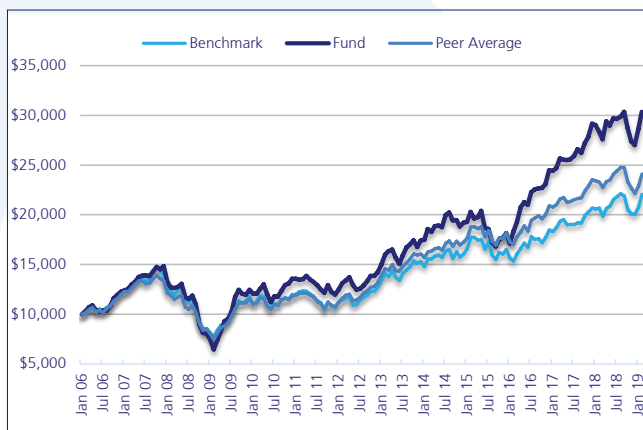
Governance

The Board of Directors of the Responsible Entity, Equity Trustees (EQT) consists of **six independent directors (including the Chairman)** from a total of **seven** members. SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance oversight. EQT's Compliance Committee Charter requires that the Committee shall comprise at least three members **all of whom (including the Chairman) are independent non-executive directors** of EQT, with a quorum of two members required to attend a meeting. SQM Research views independence in an RE oversight body such as the Compliance Committee as a strong and favourable factor in Fund governance.

Fund Performance to 28 February 2019 (% p.a.)							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	6.09	10.84	1.67	6.97	18.42	10.34	8.86
Benchmark	6.01	9.86	-0.35	6.80	12.86	7.27	6.24
Peer Average	5.26	6.41	-2.67	3.55	12.17	8.13	6.44
Alpha	0.08	0.98	2.02	0.17	5.56	3.06	2.62

- Assumes dividend reinvestment. Returns one year and longer are annualised. Return history starts Feb-2006
- Benchmark: S&P/ASX 300 TR

Growth of \$10,000



FUM (Funds under Management) / Capacity

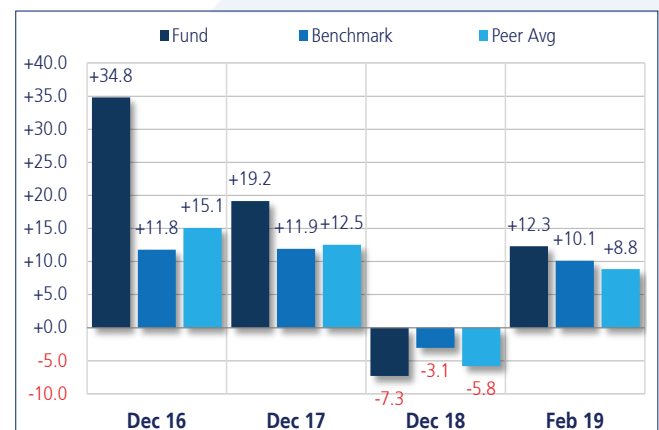
The Fund currently has FUM of \$1,812 million (1.812 billion). The overall Strategy FUM is currently \$6 billion.

The Manager believes that the capacity for this strategy is in the order of \$9 billion.

	FUM	Net Flows \$m*
Jun-17	\$1,267.0	\$32.88
Sep-17	\$1,327.0	\$28.97
Dec-17	\$1,533.0	\$56.13
Mar-18	\$1,453.0	\$2.37
Jun-18	\$1,616.0	\$51.24
Sep-18	\$1,694.0	\$42.32
Dec-18	\$1,568.0	\$62.29
Feb-19	\$1,812.0	\$50.07

* estimated

Annual Returns



Strengths of the Fund

- Clear and rigorous contrarian long-term investment philosophy.
- Focused and in-depth fundamental research approach implemented via a centralised group meeting with accountability resting clearly with the portfolio managers.
- Flexible portfolio construction with a range of stocks across the all-cap spectrum, including significant non-index positions.
- Highly qualified staff with strong industry and business management experience, who are expected to develop two to three unique investment ideas each year.
- Compensation structure for portfolio manager and analysts is in strong alignment with investor objectives.
- The strategy has succeeded in Global Equities and South Africa over a long period, with the result that the Manager (including Orbis) has AUD 110 billion in funds under management, and is integrated globally with significant staff and resources.

Weaknesses of the Fund

- Significant sector biases at times lead to short-term performance volatility. Style can drift from value to growth (as measured by metrics such as beta) given the contrarian and opportunistic nature of the strategy.
- Reliance on performance fees means manager underperformance can test staff loyalty during periods of sustained underperformance with regard to payment of bonuses.
- No clear common valuation methodology and financial statement analysis that lags some peers, though this is somewhat offset by a more creative approach using higher than average qualified research staff.

Other Considerations

- The Fund generally has a higher allocation to the mid-cap & small-cap stocks, as compared to the index/benchmark. Therefore, at times, the Fund may experience higher volatility compared to the index/benchmark. Nevertheless, SQM notes the Fund displays strong risk-adjusted returns across most periods for both Sharpe and Information ratios when compared to benchmark and peers.
- Risk reporting and performance measurement tools are sophisticated and detailed.
- Correlation and performance patterns relative to domestic equity market returns (particularly in “down” months) are very much aligned, following similar trends and magnitudes.

Key Changes Since the Last Review

- No changes to the investment process since the previous review.

Investment Process Diagram



Process Description

Universe

Investable Universe The manager defines the investable universe as all Australian listed stocks (that is an ‘all-cap approach’), subject to an assessment of size and liquidity allowing any stock to contribute meaningfully to the portfolio.

The Fund’s benchmark is the S&P/ASX 300 Accumulation Index. For an investor seeking broad Australian equity market exposure, this represents an exposure they could obtain cheaply in a passive way, and therefore any active manager needs to be able to outperform this benchmark by an appropriate margin after fees. Also, the manager can take significant non-benchmark positions (it was close to 40% in 2011).

Investment Process

Top-down or bottom-up

There is a clear and coherent investment philosophy that means while the manager tends to have a value bias, at times, it can be opportunistic.

The manager seeks to profit from the divergence between share prices and intrinsic value of individual companies, and therefore employs a “bottom-up” process geared towards researching individual companies.

This approach is based on the manager’s three key principles: contrarian, long-term and fundamental. The manager articulates this as follows:

- **Contrarian:** When buying shares that analysts, market commentators, and other investors dislike, it is important to understand why the sellers are selling.
- **Long Term:** Evaluate investment opportunities as a long-term owner of a business. The manager typically adopts a five to ten-year horizon when they decide to invest in a share. They focus all their efforts on understanding the intrinsic value of a company, rather than trying to forecast the next share price move.
- **Fundamental:** Focus on company fundamentals (margins, competitive dynamics, and long-term averages) rather than economic variables, currency rates, and economic growth rates.

**Top-down or bottom-up
...continued**

The process is, therefore, dependent on intensive proprietary investment research focusing on understanding the underlying business of the company. Thus, the manager prefers companies that they deem are 'out of favour' with the broader investment community. Often these companies will have experienced substantial falls in their share price and will be poorly rated by sell-side research analysts.

The initial stock screen criteria are applied in selecting stocks for further research. It aims to identify stocks which may be priced significantly below their intrinsic value. Key criteria routinely examined at this level include long-term ROE (return on equity), long-term TNAV (tangible net asset value) growth, long-term Revenue and Earnings Growth, Debt/ TNAV and Cash/ TNAV. The criteria are not limited to this group of ratios though, and ultimately it is the responsibility of individual analysts (under the guidance of the portfolio managers) to determine which are most relevant to a particular stock situation.

Simple ratios such as price to book or price to average earnings are supplemented with more sophisticated dividend discount, discounted cash flow and whole enterprise valuation models, to provide a list of prospective stocks for the analysts to examine. In line with the manager's contrarian approach, other indicators of potentially interesting research ideas include companies where the share price has fallen significantly, and where the shares are unpopular with the research and broking community in general.

Research and Portfolio Construction Process

Idea Generation and Stock Selection

Shortlisted securities are analysed further in depth by the manager's investment analysts, in an intensive process to encourage a focus on the most likely opportunities. They are expected to come up with 2-3 unique stock recommendations each per year. Company meetings are strongly encouraged, especially during the final phase of fundamental research and in ongoing coverage of existing holdings. The final step in the process is a presentation of the idea and supporting research at the policy group meeting (PGM).

The manager also has a global database whereby analysts can search and compare stocks globally. Local analysts can communicate with global analysts to compare similar industries across different markets. The intense nature of the local research process is shown by the investment team's more selective and curated use of meetings with company management.

SQM has reviewed a number of these stock reports, and it is evident that they cover a range of relevant valuation metrics and financial statement analysis. There is no template as such since it is up to the analyst to justify the appropriate metrics to the peer group.

Portfolio Construction

The PGM (policy group meeting) is held as and when analysts are looking to promote their ideas into the portfolio. Analysts are responsible for calling the PGM and submitting their report to other team members for review. The PGM is attended by all analysts and portfolio managers. The PGM provides portfolio managers with an avenue for formally considering potential securities to include within the portfolio. The portfolio manager retains overall responsibility. If the investment idea is approved, the portfolio manager will determine the respective position size and send instructions to the Trading team to start buying the stock.

The Fund is constructed by taking all the best ideas (i.e. where the gap between assessed value and the stock market price is the largest) and combining them in a way that limits the exposure to any single underlying variable. This diversification strategy aims to mitigate downside risk.

A standard single weight position is 2.5% of the portfolio, and a reasonable expectation is that the manager will have around 30-40 "primary positions" (1% or greater), with a tail of smaller positions that are either being built or reduced or held for portfolio management reasons. The portfolio managers may determine to hold positions of a standard single weight, a smaller fraction or a multiple of that. Examples of factors affecting the decision on weighting would include downside risk and the extent to which that is mitigated. This may be via a large discount to intrinsic value, as well as fundamental considerations such as competitive advantage, tangible assets and balance sheet strength, size and liquidity of the stock, and investment restrictions of the Fund.

Sell Discipline

The manager has a very 'purist' value manager approach which is re-assuring from an investment philosophy and authentic style perspective but can lead to short-term fund performance volatility. The sell discipline is summarised below.

The sell discipline originates from the portfolio managers who continually monitor the gap between a stock's current trading price and their assessment of the stock's intrinsic value (which is updated by the responsible analysts). The investment philosophy seeks to start selling a stock once the share price begins to move through the assessment of intrinsic value.

Other situations where the portfolio manager may decide to sell shares would include a negative development which impairs the manager's investment thesis. This may be an unforeseen negative development for the company which impairs the value, or it may be that they have underestimated a negative aspect which was already prevailing. However, this is very much an idiosyncratic, case-by-case assessment.

Often with a negative development where the value is impaired, the share price will fall by an equal or greater amount. In these situations, the manager may well purchase more of the shares rather than sell it. In these situations, they believe that it is important to set aside what they previously paid for the share and focus on the present situation – whether or not they would be a buyer of this company if they did not own it already, based on the present price and assessment of value.

Risk Management

The manager has a well-structured and resourced risk management framework as would be expected in a large value manager. As summarised below, the framework is multi-layered with 'checks and balances' that mean it would be difficult for the portfolio managers to take extreme positions.

The first component in risk management is the detailed stock research the manager performs on each of the stocks in the portfolio. If a risk is defined as permanent loss of capital or the probability of achieving poor returns over the long run, then this is the most important aspect of risk management.

Where risk is defined as the probability of the portfolio performing poorly over the short run, the manager uses an in-house risk management system called the FolioTool to monitor portfolio level risks. This system examines the marginal contribution to both volatility and tracking error, beta, sector risk, style risk, and liquidity risk. A separate analyst examines sensitivities to extreme scenarios (both actual historical scenarios and simulated ones). The manager also has in-house proprietary systems to monitor risk from a compliance and operational perspective.

Investment restrictions are monitored from a pre and post-trade perspective. Prior to a trade occurring, the trade is processed through an independent trading and proprietary compliance system to investigate whether the trade will breach any of the investment restrictions. This system is also designed to provide an initial guide as to the proposed ownership interest level of a particular stock if the trade is executed. From a post-trade perspective, the trade is reviewed before settlement to ensure everything is in place for settlement. From a regulatory perspective, the relevant substantial holding notice is prepared (if required).

Of further note is that the independent trading and proprietary compliance system can block trading based on certain limits to ensure that investment restrictions are adhered to. As such, any potential trade that may result in a breach of the trading block is immediately notified to the Australian Compliance Officer for resolution and discussion. A potential trade which is the subject of a trading block can only be overridden with prior permission from the Australian Compliance officer. Only compliance personnel can change the relevant investment restrictions that are coded into the proprietary compliance system. Given the pre-trading compliance check, a breach is usually identified before it occurs. In the instances where this does not occur, once a breach is identified, a proper solution will be discussed with Compliance Officer, Portfolio Manager/ Managing Director with the aim for the breach to be resolved as soon as reasonably practicable.

Trading/Implementation**Trading Resources & Procedure**

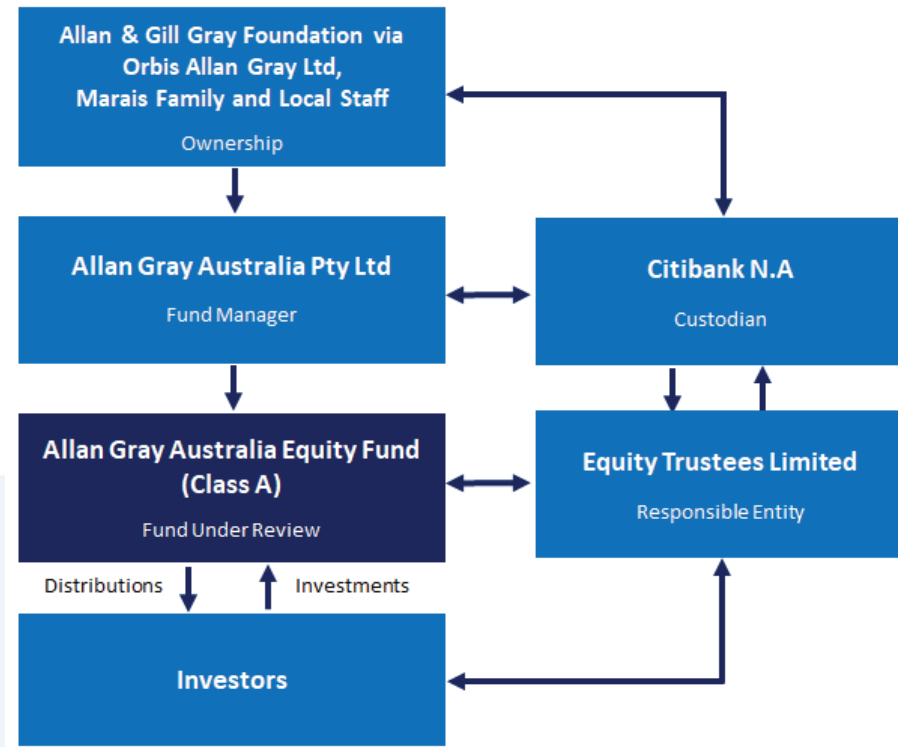
The manager is aware of both liquidity and tax implications of its portfolio decisions. Note that the manager has several substantial shareholdings, and it is an active investor with regard to voting. Portfolio turnover is relatively low on average (24% in the 12 months to February 2018, for example) but can spike dramatically (over 50% on an adjusted basis) as in 2008-09 as the manager sought to exploit market opportunities.

The manager states that they are 'fully cognisant' of the requirement to manage portfolios in a tax efficient manner and considers tax consequences in both the initial stock selection and on-going portfolio management decisions. Dividend yields and franking rates are an important factor in initial stock selection, and pre-trade warnings have been implemented which will trigger an alert on any sell trades which potentially prejudice a portfolio's entitlement to franking credits. The manager is also conscious of the 12-month holding rule and looks to maximise the potential for discounting capital gains where appropriate. Restrictions are enforced in the system to prevent portfolio managers from selling securities which will result in a loss of franking credits (breach the 45-day rule) and to ensure portfolio managers make an informed decision about realising undiscounted capital gains when selling securities to trim or exit a position. Portfolio managers are highly unlikely to push sell transactions in the case of the 45-day rule but will make a subjective decision regarding the realisation of capital gains.

Hedging & Derivatives

The Allan Gray Australia Equity Fund invests in Australian listed shares, so does not need to hedge currency exposure. Furthermore, the fund does not employ OTC derivatives for the purposes of stock market hedging. The Fund may invest no more than 10% of its net asset value in listed futures contracts for the primary purpose of managing liquidity and only if the underlying exposure is fully covered by cash or money market instruments. Further, no more than 5% of the Fund's net asset value may be invested in call options. The manager states that this restriction regarding options allows them to own options that are offered on favourable terms (e.g., in the context of a corporate action/restructure). It is not their intention to seek to buy or sell options outside of this type of event.

Key Counterparties



Parent Company

Allan Gray Australia's (AGA) ultimate owners are current senior staff, Dr Simon Marais' family interests and the Allan & Gill Gray Foundation, via Orbis Allan Gray Ltd, as illustrated in the chart above. Dr Marais was the former Managing Director of AGA and one of its initial shareholders. The Orbis Group is a global fund manager established in 1989 and founded by Dr Allan WB Gray, who also founded Allan Gray Proprietary Limited in South Africa (AGL). As such, Allan Gray in Australia, the Orbis Group, and AGL all share the same investment approach and philosophy.

Investment Manager / Fund Manager

Allan Gray Australia is a privately owned Australian incorporated investment management company, helping individual and institutional investors in Australia build their wealth since 2005 as has been done by the broader group globally since 1973. Allan Gray's Australian equity strategy invests in Australian equities and seeks higher returns than its benchmark, the S&P/ASX 300 Accumulation Index, without greater risk of loss over the long term. Allan Gray Australia is primarily based in Sydney, with smaller offices in Melbourne and Brisbane. The manager states that they are profitable. As at November 2018, the firm's FUM was AUD 5.7 billion.

Clients are well diversified and include individuals, trusts, companies, superannuation funds, family offices and government entities.

Responsible Entity

Equity Trustees (EQT) is a financial services company headquartered in Melbourne. Established in 1888 and listed on the Australian Securities Exchange (ASX) in 1985, EQT provides a range of products and services to a diverse client base including fund managers, managed funds, superannuation funds, and financial planning. Equity Trustees acts as Responsible Entity or Trustee for over 80 major Australian and international investment managers.

The Board of Directors of the Responsible Entity (RE) consists of **seven** directors, **six** of whom are independent, including the Chairman.

The Board's key responsibility regarding EQT's Responsible Entity activities is to ensure the company has adequate systems of internal controls and appropriate monitoring of compliance activities.

The Equity Trustees Board Charter (Apr-2016) mandates that the Board adheres to the following principles:

- The Board will comprise an appropriate number of directors of whom a majority are independent non-executive directors and ordinarily reside in Australia.
- The Board will be led by an independent chair who is not the same person as the Managing Director.
- Directors, collectively, are to have the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.
- The Board assesses at least annually whether its Directors are independent
- Board meetings are to take place at least quarterly.
- Two members of the Board form a quorum.

Management Risk

Funds management encompasses not only the operational capabilities of key counterparties but also the corporate ability of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For all investment funds, there is a risk that a weak financial position and management performance deterioration of key counterparties may temporarily or permanently compromise their performance and competency. This can also adversely affect financial or regulatory outcomes for the Fund or associated entities.

Based on the materials reviewed, SQM Research believes that Allan Gray and associated key counterparties are well qualified to carry out their assigned responsibilities. Management risk is rated as being low.

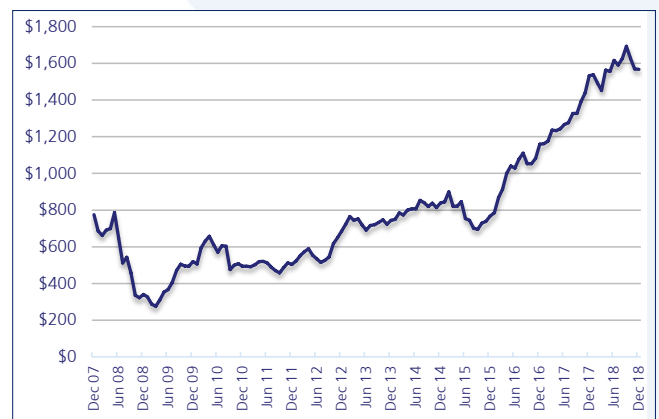
Funds under Management (FUM)

The Fund is approximately \$1,812 million in size as of February 2019.

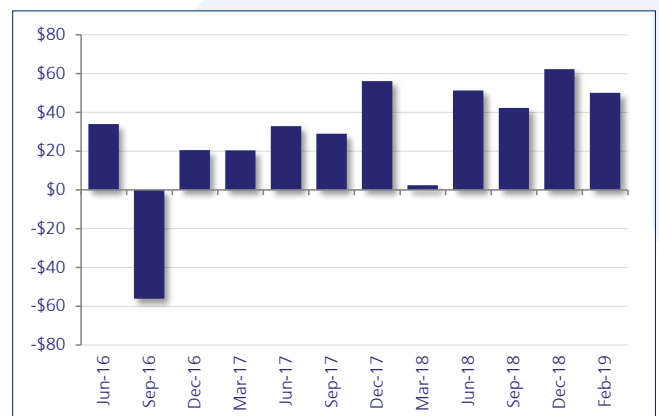
	FUM	Net Flows \$m*
Jun-17	\$1,267.0	\$32.88
Sep-17	\$1,327.0	\$28.97
Dec-17	\$1,533.0	\$56.13
Mar-18	\$1,453.0	\$2.37
Jun-18	\$1,616.0	\$51.24
Sep-18	\$1,694.0	\$42.32
Dec-18	\$1,568.0	\$62.29
Feb-19	\$1,812.0	\$50.07

*estimated

FUM for Fund under Review (\$mill)



Quarterly Net Flows (\$million)



Distributions

The Fund has discretion in choosing the frequency of distributions. Distributions occur on an annual basis, subject to the availability of distributable income. In a scenario where the Fund's realised losses and expenses exceed income in a distribution period, the Fund may elect not to make a distribution during that time.

Dividend yields and franking rates are an important factor in initial stock selection, and also for on-going portfolio management decisions.

Distribution Date	Distribution CPU	Unit Price \$	Distribution %
30-Jun-10	1.9100	\$1.08981	1.75
30-Jun-11	5.1500	\$1.28922	3.99
30-Jun-12	5.2400	\$1.21361	4.32
30-Jun-13	5.9900	\$1.46749	4.08
30-Jun-14	4.1100	\$1.82457	2.25
30-Jun-15	11.3800	\$1.81596	6.27
30-Jun-16	3.9200	\$2.04369	1.92
30-Jun-17	5.8500	\$2.49023	2.35
29-Jun-18	12.0200	\$2.81945	4.26

A General Note on Distributions for Managed Funds

The Responsible Entity of a Managed Fund will provide for a regular schedule of distributions, such as monthly/quarterly/semi-annual or annual. This is subject to the Fund having sufficient distributable income. The official total distributable income available to pay to investors is determined for the period of that Fund's financial year. By distributing the net taxable income of the Fund to investors each year, a Fund itself should not be liable for tax on its net earnings.

If a Fund makes distributions more frequently than once over the financial year, those distributions will be based on estimates of the distributable income for that distribution period. The final total amount of distributable income available for passing on to investors can only be calculated after the close of the financial year, based on the Funds taxable income for that year.

If the total distributions a Fund pays out exceeds total tax income for that particular financial year, the excess amount may be treated as a return of capital rather than income. This will possibly have tax implications for the investor.

Due to the considerations outlined above, there may be periods in which no distributions are made, or a Fund may make additional distributions

A Fund's ability to distribute income is determined by the performance of the Fund and general market conditions. Accordingly, there is no guarantee that a Fund will make a distribution in any distribution period.

Key Investment Staff				
Name	Responsibility / Position	Location	Years at Firm	Years in Industry
Simon Mawhinney	Managing Director & Chief Investment Officer	Sydney	12.0	17.0
Dr Suhas Nayak	Analyst and Portfolio Manager	Sydney	7.0	7.0
Dr Graeme Shaw	Analyst for Allan Gray, Investment Counsellor for Orbis	Sydney	21.0	21.0
Tim Hillier	Analyst	Sydney	4.0	4.0
Tim Morrison	Analyst	Sydney	3.0	8.0
Dr Justin Koonin	Analyst	Sydney	3.0	3.0
Dr James (Yi Chan) Lee	Analyst	Sydney	1.0	1.0
Gitendra Pradhananga	Analyst	Sydney	1.0	1.0
Sudhir Kissun	Analyst	Sydney	1.0	18.0
Average			5.9	8.9

Investment Team

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

Globally, the group manages approximately AUD 110 billion, of which Allan Gray (Global) manages about AUD 55 billion, Orbis (the global equities arm) manages about AUD 49 billion and Allan Gray Australia about AUD 5.7 billion. Allan Gray (Global) has about 1311 staff members, Allan Gray Australia has 68, and Orbis Global has approximately 400 people.

Business leadership structure

The lead portfolio manager Simon Mawhinney has significant management responsibilities, but these are largely delegated to the Chief Operating Officer (JD de Lange) so that he can focus on investments.

Both Simon Mawhinney and JD de Lange are Directors on the Board of Allan Gray Australia. The other Directors are William Gray (President of the Orbis Group) and Hugh Gillespie (Orbis Group's Head of Compliance and Assistant Group General Counsel).

Mawhinney is both the Managing Director and Chief Investment Officer. His primary role is managing the investment strategy and the process via which investment ideas are included or removed. All areas of the business are accountable to Mawhinney, though decision-making authority on operational matters is delegated to JD de Lange.

JD de Lange's role is Chief Operating Officer for Allan Gray Australia. He oversees the operational functioning of the business, much of which is outsourced internally to Orbis. Some functions are outsourced externally to providers such as OneVue, which provides fund registry services. Internal functions outsourced to Orbis include:

- Fund operations
- Client services
- IT
- Legal and compliance
- Retail distribution and marketing

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

Quality and experience of the Australian research team

As listed below, the Allan Gray research team is academically highly qualified with four members holding doctorates and relevant technical qualifications held across the team. Members also tend to have had experience in elite management consultancies and industry, which provides a solid foundation for the requirement for team members to generate 2-3 unique stock ideas per year.

Investment decision-making structure

The team key meeting is the Policy Group meeting (PGM): There is no Head of Research. The research agenda is set by the analysts in consultation with the portfolio managers. Newer members of the team may receive more guidance about areas for research. After passing through the rigour of the PGM,

stocks can be invested in by the portfolio managers. For the Australia Equity Fund, lead portfolio manager Simon Mawhinney has responsibility for 80% of the fund, and Suhas Nayak has responsibility for 20% of the fund. The manager states that the biggest differences between these two parts of the portfolio usually relate to stock weightings rather than stock names.

Meeting Schedule

The table below shows regular meetings that form an important part of the overall process.

Meeting	Issues covered	Frequency
Policy Group Meetings	To determine potential investment decisions	As and when required
Global Risk Committee (GRC)	To ensure that key risks and compliance issues facing the Group are discussed, and a risk management framework is in place. The GRC provides periodic reports to the relevant board of directors	Quarterly
Board Meetings	The local AGA board members have oversight of the entire business	Typically, once every six months
Company Research	Meetings with the management of potential investments as part of the fundamental research process	As and when required
Portfolio Construction	Discuss positioning and intentions for positioning between portfolio managers. Formal closed meetings on this front are infrequent. This is more typically ad hoc informal discussion as required	As and when required

Allan Gray has a highly qualified and experienced research team in Australia that is supplemented by the global resources of Orbis and Allan Gray South Africa. There is an effective peer review process to test stock recommendations which are critical for a contrarian investment manager. It is a positive feature of the process that accountability clearly rests with the portfolio managers who make the final decisions on stock portfolio holdings.

Staffing Changes

No change since the last year's review.

Departures		
Date	Name	Responsibility
Date	Name	Responsibility
16/6/2017	Dan Abeshouse	Portfolio Manager
1/01/2016	Richard Whiteoak	Analyst
1/07/2017	Anna Lopatnikova	Analyst

Additions / Hires			
Date	Name	New Responsibility	Previous Position / Employer
2017	James (Yi Chan) Lee	Analyst	Post-doctoral researcher at National Tsing-Hua University in Taiwan, Professional staff member of the University of Sydney
2017	Gitendra Pradhananga	Analyst	Fulton Hogan Constructions
2017	Sudhir Kissun	Analyst	Mutual & Federal, Development Bank of Southern Africa, Monitor Group

SQM Research observes that the levels of investment experience and company tenure are strong across the entire investment team. The levels and nature of staff turnover are not an issue of concern, in SQM's view.

Key Investment Staff

Simon Mawhinney – Managing Director, Portfolio Manager and Head of the Australia Equity team

Simon Mawhinney joined Allan Gray in 2006 as an analyst. He joined Allan Gray from Alliance Bernstein, where he held a role in Finance from 2004 to 2005. From 2001 to 2003, he worked in the Equity Markets group at Macquarie Bank. He also worked at Deloitte and Touche in the Financial Institutions Services team from 1998 to 2001.

Mr Mawhinney holds a Bachelor of Business Science (First Class Honours) with majors in Finance and Business Strategy and a Postgraduate Diploma in Accounting (University of Cape Town). He qualified as a chartered accountant in 1998 and is a CFA Charter holder.

Dr Graeme Shaw – Investment Counsellor for the Orbis Investment Counsellor Group and Analyst

Dr Shaw joined Orbis in 1997 as an analyst and has worked in the areas of risk management, quantitative analysis, and Australian equities. Before joining Orbis, he was a junior research fellow at Oxford University and completed a PhD at Cambridge University. He is an investment counsellor for the Orbis Investment Counsellor Group and has some stock research responsibility within the Allan Gray Australian equity portfolios.

Dr Shaw holds a Bachelor of Science (Auckland), Master of Science (Hons) (Auckland), Doctor of Philosophy (Cambridge) and is a CFA Charter holder.

Dr Suhas Nayak – Analyst

Dr Nayak joined Allan Gray in 2011 as an analyst. He was previously an engagement manager at McKinsey & Company where he worked from 2006 to 2011. Suhas has held summer internships at Barclays Global Investors and Morgan Stanley.

Dr Nayak holds a Bachelor of Science from the California Institute of Technology and a Doctor of Philosophy in Mathematics from Stanford University.

Tim Hillier – Analyst

Tim Hillier joined Allan Gray in 2014 as an analyst. He was previously at Origin Energy from 2009 to 2013, where he occupied roles in corporate transactions, strategy, and planning. From 2006 to 2009, Tim worked for Ernst & Young in their Valuations & Modelling group, having commenced his career at PricewaterhouseCoopers in 2003.

Mr Hillier holds a Bachelor of Business Science and a Post-Graduate Diploma in Accounting from the University of Cape Town and is a Chartered Financial Analyst and Chartered Accountant

Tim Morrison – Analyst

Tim Morrison joined Allan Gray in 2015 as an analyst. From 2011 to 2015, he was an analyst at Dakota Capital, a Sydney-based fund manager.

Mr Morrison holds a Bachelors of Commerce/Laws from the University of Queensland (Dean's Honour Roll) and is a CFA Charter holder.

Dr Justin Koonin – Analyst

Justin Koonin joined Allan Gray in 2015 as an analyst. He joined Allan Gray from PwC, where he was part of the Insight Analytics team, consulting to clients in government, healthcare and industry on matters relating to data science and predictive analytics. Before joining PwC, Justin was a postdoctoral research associate in pure mathematics at the University of Sydney.

Dr Koonin holds a Bachelor of Science (Hons) and Doctor of Philosophy in mathematics, both from the University of Sydney.

Dr Yi Chan Lee – Analyst

Yi Chan holds a Doctor of Philosophy, Masters and Bachelor of Science (Physics) from the National Chung-Cheng University, Taiwan. Before joining Allan Gray Australia, Dr Lee was a visiting scholar at the University of Technology Sydney (2013/14), University of Sydney (2014/15 and 2016) and more recently was a professional staff member of the University of Sydney.

Gitendra Pradhananga – Analyst

Gitendra holds a Master of Science (Geotechnical Engineering and Engineering Geology) and Bachelor of Engineering (Civil), First Class Honours from the University of New South Wales. Before joining Allan Gray, Gitendra spent two years working at Fulton Hogan Constructions as a site and project engineer.

Sudhir Kissun – Analyst

Sudhir holds a Master of Science (Chemical Engineering) from the University of Natal, Durban. Before joining Allan Gray, Sudhir spent five years in senior corporate roles – as head of strategy at Mutual & Federal and principal investment officer at the Development Bank of Southern Africa. Sudhir started his career as a strategy consultant at Monitor Group for 11 years, co-founded a boutique consulting firm, and spent a year as an investment analyst at Stanlib Asset Management.

Remuneration and Incentives

The compensation structure is appropriately designed with sufficient transparency for analysts to be rewarded for their stock picking ideas in the portfolio and senior executives benefit through performance fees.

Base salary

The analyst's base salary can be best described as industry average or below. AGA investment personnel are paid the same base salary and after that a bonus dependent upon the stock performance of their ideas that have been included in the funds

Variable Compensation

Analysts' remuneration is directly linked to their contribution to investment performance. The variable component of remuneration can potentially be multiples of the base, with the largest weight placed on the analyst's calls on securities in the final portfolio with other key categories being financial product outperformance and qualitative assessment of individual performance.

Long-term Incentives

Senior executives are owners of the business and remuneration is driven by performance and the growth of the business as a whole. The fee structure is such that the payment of dividends to owners of the business is largely dependent on performance fees.

The portfolio managers are not allowed to invest directly in listed Australian shares and thus are encouraged to use the Allan Gray funds for any Australian equity exposure.

SQM Research believes access to firm equity, and client-focused performance bonuses act as strong incentives for optimising staff engagement, retention and productivity. The intention (and SQM believes, the effect) is to align staff performance with client and shareholder objectives. It focuses on the customers' needs and medium to long-term results.

Fees

	Class A units: Entry/Exit Fees	Class B units: Entry/Exit Fees
Buy Spread (%)	0.20%	0.20%
Sell Spread (%)	0.20%	0.20%
	Class A units: Ongoing Fees	Class B units: Ongoing Fees
Management fee (% p.a.)	0.75% (0.77% incl. GST net of RITC)	0.00% (nil)
Expense recoveries (% p.a.)	Nil	Nil
Cost of Fund ¹ (% p.a.)	0.75% (0.77% incl. GST net of RITC)	0.00% (nil)
ICR ² (% p.a.)	2.16% (last 12 months)	
Performance Fee	20.0% (20.5% incl. GST net of RITC)	35.0% (35.88% incl. GST net of RITC)

1. Management fee and expected expense recoveries.

2. Indirect costs ratio

Other Features	Fund	Peer Avg
Redemptions	Daily	-
Distributions	Annually	-
Minimum Investment	\$1,000	\$22,222
1 Year Investment: round Trip Cost	1.17%	1.28%

Buy/Sell Spread

A buy/sell spread is applicable and has been set at a total of 0.40% (0.20% buy / 0.20% sell). This spread represents the difference between the application price and the withdrawal price of the Fund, a reflection of transaction costs relating to the underlying assets.

Ongoing Fees

Class A units: The annual management fee of the Fund is 0.75% (0.77% including GST net of RITC) p.a. of the Fund's net assets. No additional charge is applied for expense recoveries.

Class B units: The annual management fee of the Fund is 0.00% (nil) p.a. of the Fund's net assets. No additional charge is applied for expense recoveries.

Performance Fees

Class A units: Performance fee is 20% (20.5% including GST net of RITC) of the Fund's outperformance, net of the base fee, in comparison to its Benchmark. A performance fee is only payable where the Fund's outperformance exceeds the high-water mark, which represents the highest level of outperformance, net of base fees, since the Fund's inception.

Class B units: Performance fee is 35% (35.88% including GST net of RITC) of the Fund's outperformance, net of the base fee, in comparison to its Benchmark. A performance fee is only payable where the Fund's outperformance exceeds the high-water mark, which represents the highest level of outperformance, net of base fees, since the Fund's inception.

Overall Fees

If held and redeemed within 12 months total transaction costs would amount to 1.17% of investment in the Fund. This figure includes the MER, expense recovery and the buy/sell spread. It does **not** consider rebates, negotiations, or any potential performance fee.

SQM Research observes that the Fund management fee (including expense reimbursement) is 0.75%, which is similar to the peer group average of 0.78%. The performance fee, at 20% (20.5% including GST net of RITC), includes a permanent high-water mark.

QUANTITATIVE ANALYSIS

Risk/Return Data to 28 February 2019							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund ¹	6.09	10.84	1.67	6.97	18.42	10.34	8.86
Benchmark ²	6.01	9.86	-0.35	6.80	12.86	7.27	6.24
Peer Average	5.26	6.41	-2.67	3.55	12.17	8.13	6.44
Alpha	0.08	0.98	2.02	0.17	5.56	3.06	2.62

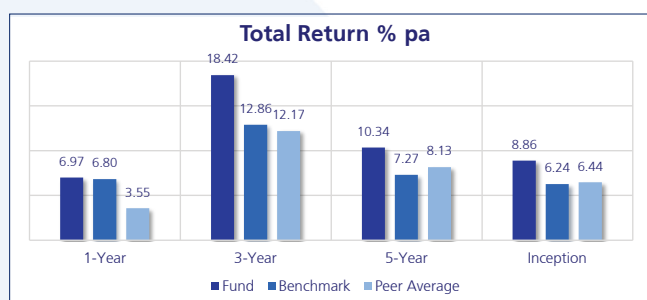
Metrics	1-Year	3-Year	5-Year	Inception
Tracking Error (% p.a.) - Fund	6.56	5.97	7.53	9.03
Tracking Error (% p.a.) - Peer Average	5.04	4.93	4.78	5.48
Information Ratio - Fund	0.03	0.93	0.41	0.29
Information Ratio - Peer Average	-0.74	-0.20	-0.01	-0.00
Sharpe Ratio - Fund	0.35	1.49	0.66	0.31
Sharpe Ratio - Peer Average	0.15	1.08	0.63	0.21
Volatility - Fund (% p.a.)	14.06	11.07	12.41	16.29
Volatility - Peer Average (% p.a.)	11.68	9.73	10.56	12.63
Volatility - Benchmark (% p.a.)	12.10	9.64	11.13	13.38
Beta based on stated Benchmark	1.03	0.97	0.89	1.01

1. Assumes dividend reinvestment. Returns one year and longer are annualised. Return history starts Feb-2006
2. Benchmark: S&P/ASX 300 TR

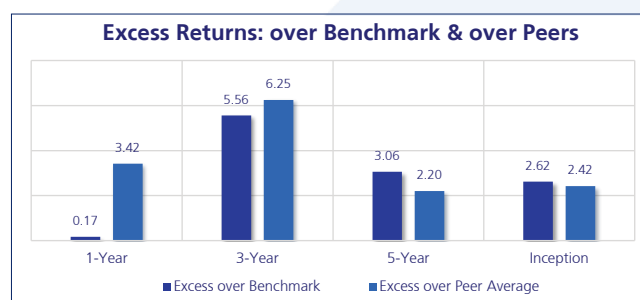
Quantitative Insight¹

Note: Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for periods **ending Feb-2019**.

Returns



Excess Returns (Alpha)



The Fund has displayed strong performance across all periods against both benchmark and peers. These returns exceed the PDS objective and are impressive relative to the Manager's internal targets, and SQM's expectations for the Fund relative to its fee level and volatility.

1. Note: Sharpe and Information Ratios are not reliable comparison tools in periods where both the Fund and its peers/benchmark record a negative result

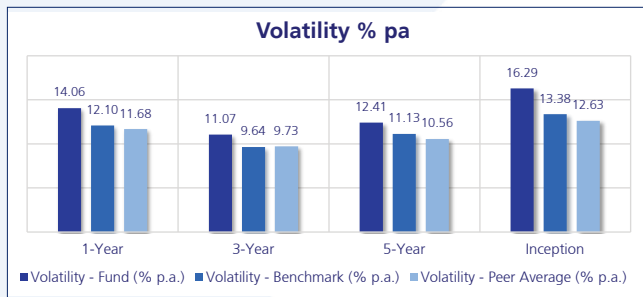
Return Analysis

	Last 12 Years to Dec-18	Last 12 Half-Years to Dec-18	Last 157 Months to Feb-19
	v. Bench	v. Bench	v. Bench
Average outperformance	9.59	4.96	2.04
Average underperformance	-4.23	-2.55	-1.73
No. of Periods of positive alpha	7	7	82
No. of Periods of negative alpha	5	5	75
Hit Rate	58.3%	58.3%	52.2%

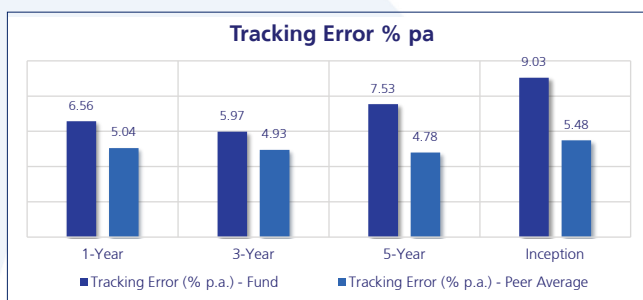
Benchmark: S&P/ASX 300 TR

The Fund has outperformed its benchmark on **86%** of rolling three year periods since its inception. As the table above shows, the quantum of outperformance has been consistently greater than that of underperformance. The Fund’s hit rate is also sound at **52%** for monthly observations.

Risk



The Fund’s **volatility** (standard deviation of monthly returns) has tended to be higher than the benchmark and peers.



The Fund’s **tracking error** (standard deviation of monthly excess returns) has been considerably higher than benchmark and peers. This is consistent with their contrarian and high-conviction investing style.

As another perspective, the Fund’s rolling 3-year **volatility** (of monthly returns) has varied from a low of **10.30%** p.a. to a high of **26.48%** and averaged **16.47%** over the rolling observations of the Fund’s lifespan. Over this same timeframe, the peer group rolling volatility ranged from a low of 9.02% per annum to a high of 18.65% and averaged 12.97%.

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

Drawdowns

Drawdown Summary			
Drawdown Size (peak-to-trough)			
	Simulation	Bench	Peers
Average	-6.74%	-8.19%	-6.56%
Number	19	12	16
Best	-0.20%	-8.50%	-6.06%
Worst	-56.34%	-47.55%	-38.29%
Length of Drawdown (in months)			
	Simulation	Bench	Peers
Average	6.7	11.5	8.2

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

The Fund’s downside capture ratio over the three years was 55% compared to 81% for the peer average. Drawdowns have on average been much better than the benchmark and moderately worse than the peer average.

Snail Trail

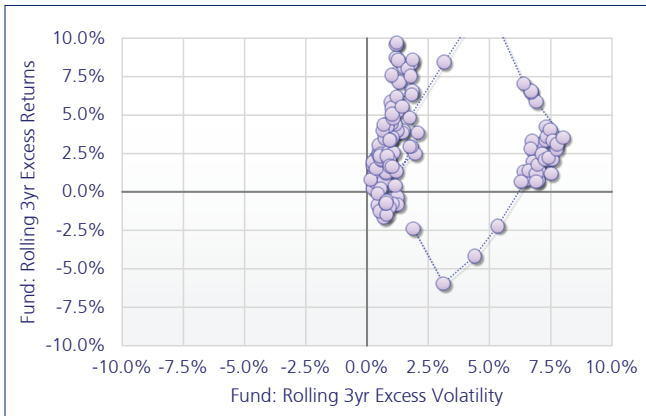
The snail trail chart and tables below depict the combination of the Fund’s rolling **3-year** excess returns and rolling **3-year** excess volatility. There are **122** observations in total.

The tables below display the distribution of these observations across the risk/return quadrants as well as the overall frequency of Outperformance v. Underperformance, and of High-Vol v. Low-Vol.

As shown in the last table entry, the Fund is in the optimal **upper left-hand quadrant** (higher return, lower volatility) **0%** of the time.

Snail Trail Distribution by Quadrant		
122 datapoints	Lower Vol	Higher Vol
Higher Return	0	105
Lower Return	0	17
Q1 (Optimal)		
Hi-Return, Low-Volatility	0%	
Single Factor		
Single Factor	Frequency	
Higher Return	86%	
Lower Return	14%	
Higher Volatility	100%	
Lower Volatility	0%	

QUANTITATIVE ANALYSIS

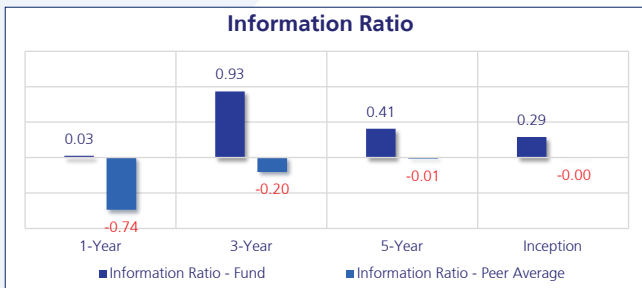
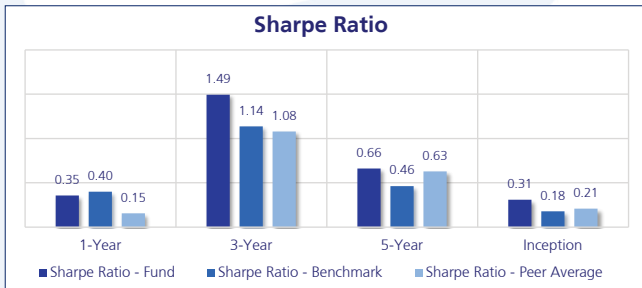


Tail Risk

The tail risk chart below shows a **strong positive** correlation with the ASX300 in times of equity market extremes.

*(The analysis in the paragraph below looks at the performance relationship of the Fund to the ASX300, a practice that SQM has set as common across asset classes in Fund reviews. This approach recognises that for the large bulk of financial planner clients, their key traditional asset class **risk** regarding **size** and **volatility** is to Australian equities. Exploring that relationship is useful regardless of the asset class of the Fund itself, as it is helpful to understand how a Fund has acted in times of Australian equity market stress in terms softening or exaggerating the negative performance experienced at such times.)*

Risk-Adjusted Returns



The Fund displays strong risk-adjusted returns across most periods for both Sharpe and Information ratios when compared to benchmark and peers. The Sharpe ratio for five year period and since inception is similar to the peer average.

Correlation

	Correlation	Min	Max	Avg
3 yr. rolling S&P/ASX 300		72.51%	89.02%	82.29%
3 yr. rolling MSCI World		-6.20%	66.34%	37.45%

122 datapoints

There is a moderate correlation of the Fund's returns with the S&P ASX300 index, and a low to modest correlation to Global Equities.

The table below details the **ten largest negative monthly returns** for the ASX 300 since the inception of the Fund. This is compared to the Fund's performance over the same ten months. The correlation of the Fund's returns to the ASX300 returns over this period is **+81%**.

The sum of returns over those ten months was **-82.1%** for the ASX 300 and **-82.9%** for the Fund, a difference of **-0.9%**. These figures point to **virtually no defensive characteristics** for the Fund in the face of extreme equity tail risk.

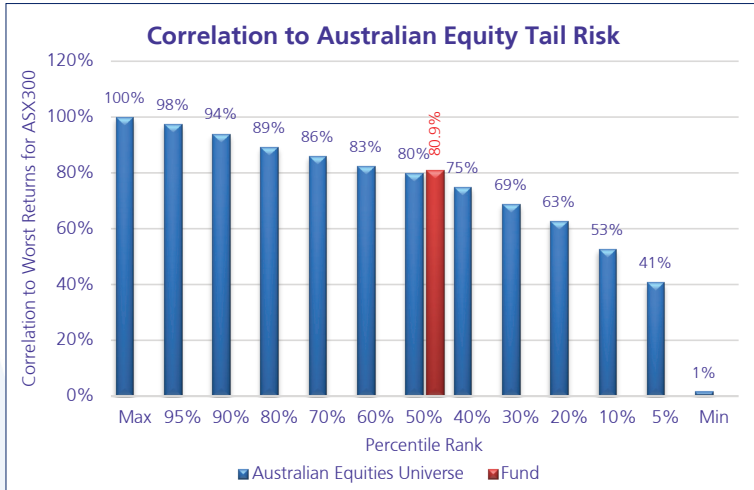
Worst Market Returns vs Fund Return Same Month
Index: S&P/ASX 300 TR Timeframe: from Feb-06 to Feb-19

Rank	Date	Market	Fund	Difference
1	Oct-08	-12.88%	-18.34%	-5.45%
2	Jan-08	-11.00%	-10.89%	0.10%
3	Sep-08	-9.94%	-7.39%	2.55%
4	Aug-15	-7.70%	-7.24%	0.46%
5	Jun-08	-7.57%	-10.57%	-3.00%
6	May-10	-7.54%	-7.79%	-0.25%
7	May-12	-6.74%	-5.76%	0.97%
8	Nov-08	-6.30%	-9.41%	-3.11%
9	Sep-11	-6.28%	-2.51%	3.77%
10	Jan-10	-6.17%	-3.08%	3.09%
TOTALS		-82.10%	-82.96%	-0.86%

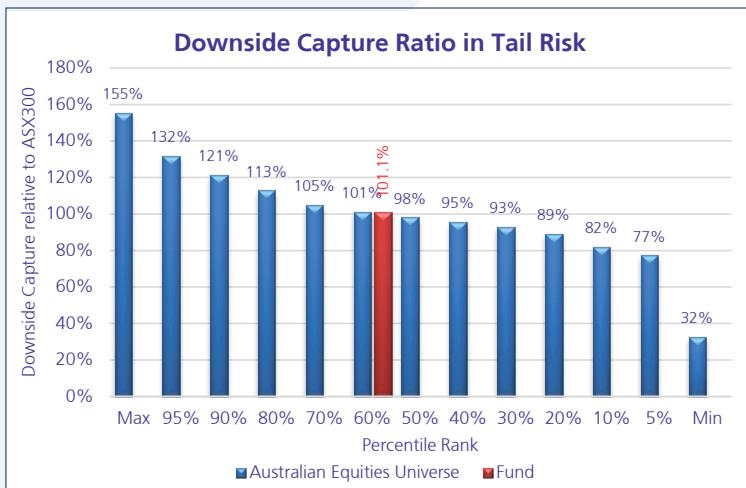
Correlation **+80.9%** Positive 0 out of 10
Outperform 6 out of 10

QUANTITATIVE ANALYSIS

The chart below shows how the Fund's tail risk correlation ranks relative to the broader universe of funds in its asset class.



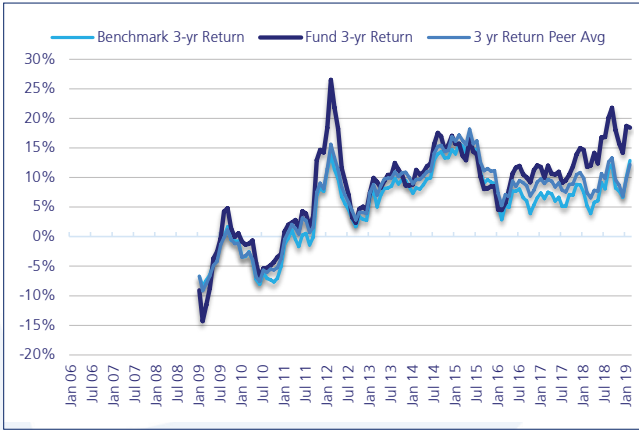
Similarly, the chart below ranks the Fund's downside capture of these extreme ten months of equity tail risk, against its asset class universe.



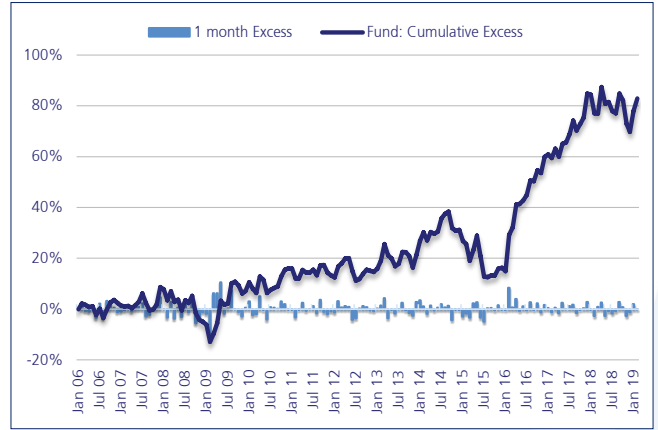
QUANTITATIVE ANALYSIS

Return and Risk

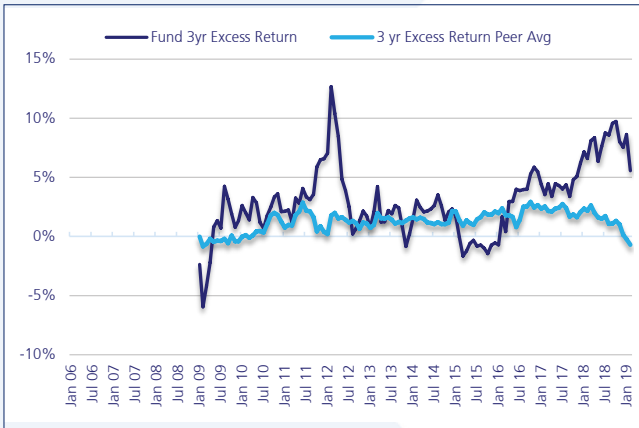
Rolling Returns



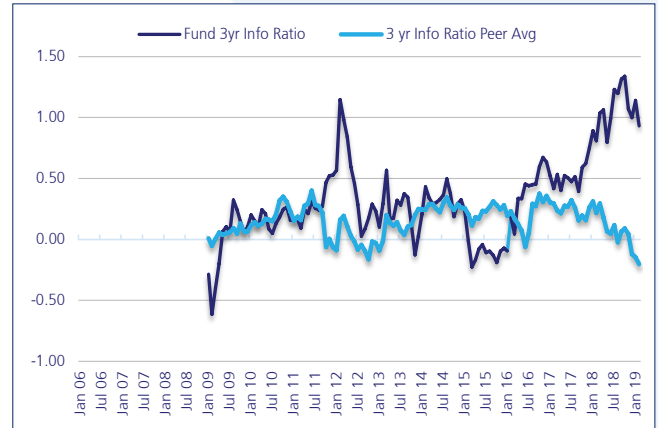
Cumulative Excess Returns



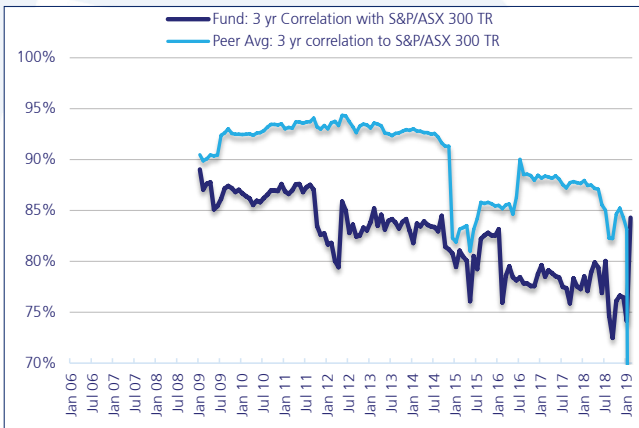
Rolling Excess Returns



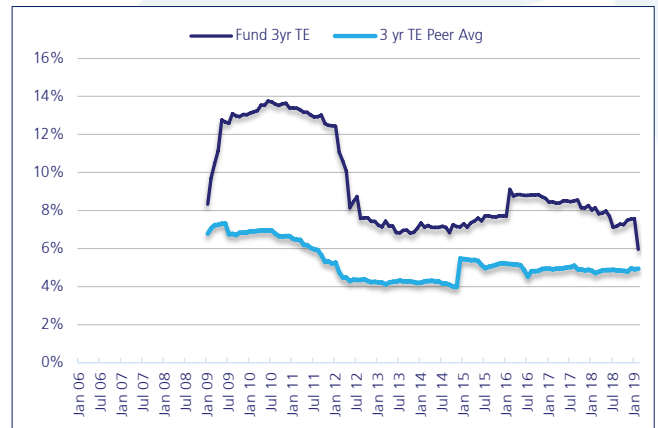
Rolling Information Ratio



Rolling Correlation to ASX 300



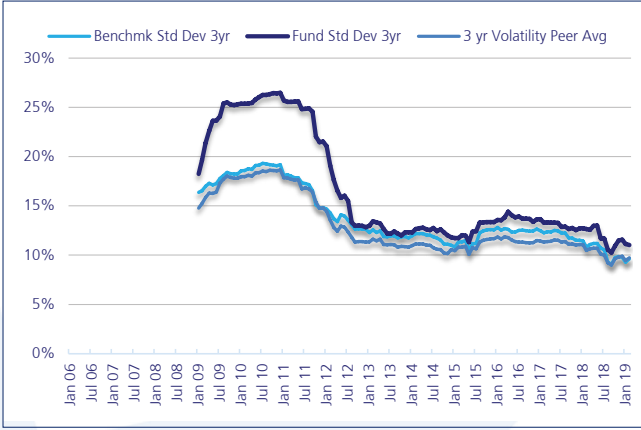
Rolling Tracking Error



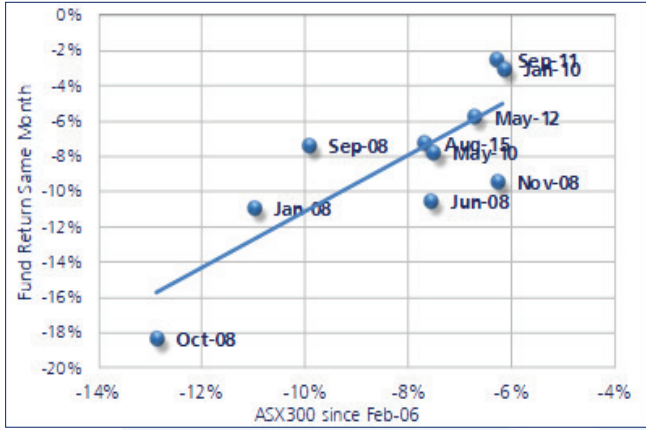
QUANTITATIVE ANALYSIS

Return and Risk

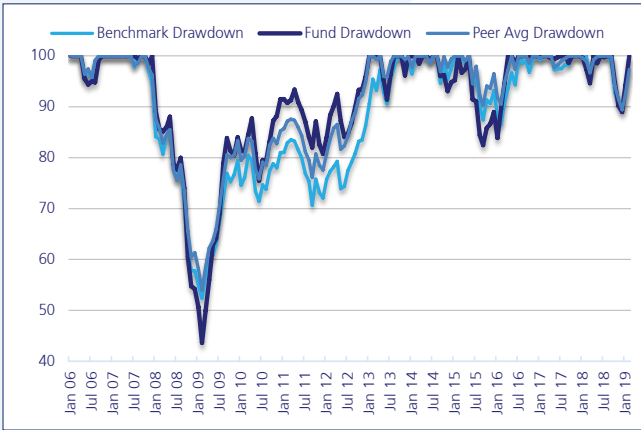
Rolling Volatility



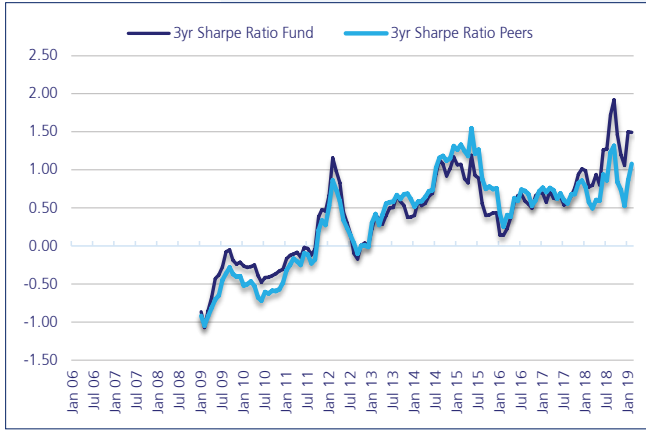
Tail Risk - Returns in Worst Australian Equity Down Markets over the Fund's Lifespan



Drawdowns



Rolling Sharpe Ratio



ASSET ALLOCATION & RISK PARAMETERS

The table below outline limits on the Fund's asset allocation and other risk parameters:

Fund Constraints	Permitted Range or Limit
Maximum exposure to a single security	The Fund will not hold more than 10% of a company's issued voting shares.
Maximum exposure to a single stock/company	The Fund will not hold more than 10% of a company's issued voting shares.
Listed Securities Type	No more than 10% of the Fund's net asset value may be invested in securities which are not traded on or under the rules of a share market, and only where there is an expectation that the securities will be listed or convertible into listed securities within 12 months of acquisition.
Exposure to shares	Allan Gray may not actively reduce the effective share exposure to below 90% of the Fund's net asset value.
No leverage	The effective share exposure shall not exceed 100% of the Fund's net asset value.
Options	No more than 5% of the Fund's net asset value may be invested in call options.
Derivatives	The Fund may invest no more than 10% of its net asset value in listed futures contracts for the primary purpose of managing liquidity and only if the underlying exposure is fully covered by cash or money market instruments.
Borrowings	The Fund has never borrowed and cannot borrow unless it is to meet unexpected large redemptions. Borrowing is limited to 10% of the Fund's net asset value and must be repaid within 90 days.
Investment Grade Credit Quality	Any investment by the Fund in interest-bearing non-equity linked securities is restricted to Investment Grade Securities.
Holdings outside benchmark	The Fund's weight for a specific share shall not exceed that share's weight in the Benchmark by more than ten percentage points.
Estimated Capacity Limit for Fund/Strategy	Approximately AUD 9 billion

Recent Positioning / Composition (as at Nov.2018)

Sector Profile	Current	Benchmark	Active
Communication Services	13.40%	3.66%	+9.74%
Consumer Discretionary	4.11%	6.46%	-2.35%
Consumer Staples	9.97%	5.65%	+4.32%
Energy	19.08%	5.39%	+13.69%
Financials	15.06%	32.80%	-17.74%
Health Care	3.86%	8.40%	-4.54%
Industrials	5.58%	7.99%	-2.41%
Information Technology	0.06%	2.26%	-2.20%
Materials	22.43%	17.54%	+4.90%
Utilities	2.77%	1.93%	+0.84%

Top 5 Holdings

Name	% of Fund	GICS Sector
Newcrest Mining	10.48%	Materials
Woodside Petroleum	8.96%	Energy
QBE Insurance Group	7.10%	Financials
Origin Energy	7.07%	Energy
Alumina	6.41%	Materials

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