

# Lonsec Research Process Document

Research Approach

02 | 2025

# Contents

<b>Why Lonsec?</b>	<b>4</b>
<b>Managing Conflicts of Interest</b>	<b>6</b>
Business Model	6
Management of Conflicts	6
In Cycle	7
Out of Cycle	7
Ongoing Monitoring	7
<b>Research workflow sequence</b>	<b>9</b>
<b>Pre-requisites to Research Commencing</b>	<b>10</b>
Operational Check	10
Scope of Research Universe and Filters	10
Research agreement issued and executed	10
<b>Data Collection</b>	<b>11</b>
<b>Due Diligence</b>	<b>12</b>
Data Review and Analysis	12
Manager Meeting	12
Assessment and Scoring	12
Standard Inputs	12
Additional inputs for Private Real Assets Funds	12
Additional Inputs for Structured Products	13
Product Rating Model	13
<b>Research Philosophy, Key Beliefs and Factors Assessed</b>	<b>15</b>
Actively Managed Funds	15
Passively Managed Funds	19
Separately Managed Accounts	21
Listed Products	22
Private Real Assets Funds	25
Structured Products	28
Super Option Research	30
Retirement Solutions	31
Investment Bonds	33
<b>Peer Review</b>	<b>35</b>

<b>Report drafts.....</b>	<b>36</b>
<b>Fund Review Published .....</b>	<b>37</b>
<b>Findings published in Sector Review .....</b>	<b>38</b>
<b>Lonsec Ratings.....</b>	<b>39</b>
<b>Investment Bond Ratings .....</b>	<b>40</b>
<b>Financial Products Withdrawn from Research Process .....</b>	<b>42</b>
<b>Rating Review Process .....</b>	<b>43</b>
<b>Direct Equities Research .....</b>	<b>44</b>
Listed Income (Hybrids) Securities Research.....	50
<b>Research Leadership Team.....</b>	<b>54</b>
Lorraine Robinson.....	54
Peter Green.....	54
Robyn Bayliss .....	54
Rui Fernandes.....	55
Darrell Clark .....	55
Tony Adams .....	55
Chad Troja .....	56
<b>Sector Managers .....</b>	<b>57</b>
Michael Elsworth.....	57
Hong Hon.....	57
Matthew Turnbull .....	57
Nathan Umapathy.....	58
Payal Vasa.....	58

# Why Lonsec?

Lonsec Research Pty Ltd ('Lonsec'), and its predecessors Lonsec and Lonsdale Securities, has been a provider of investment research to Australian financial planners since 1993.

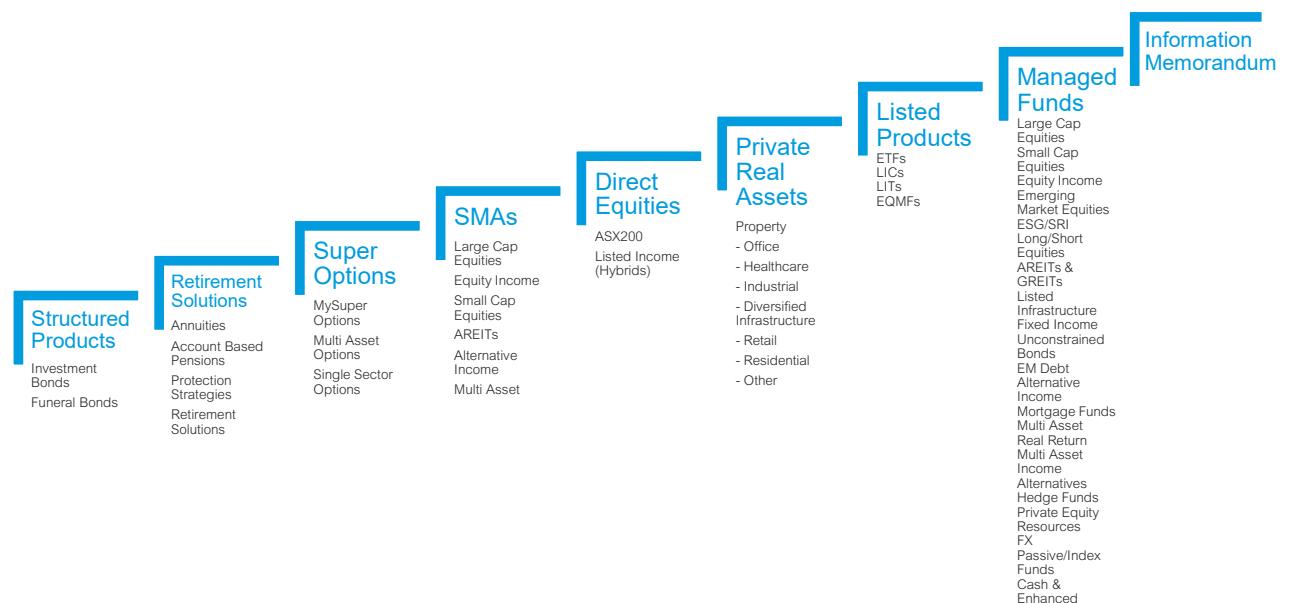
Lonsec's research enables licensees and investment committees to understand investment products and incorporate them into their Approved Product List, a pre-requisite for inclusion in model portfolios and investment recommendations by advisers.

Lonsec's seasoned research professionals can have deeper conversations with fund managers, to look behind the numbers and provide meaningful investment insights; we cut through the noise so that you don't have to, with Lonsec's analysts available and accessible if further information is required. Analysts take pride in their incisive and penetrating style of financial product analysis. Each team member has extensive experience in the financial services industry, with backgrounds spanning a variety of well-regarded funds management, banking and investment research houses. For more information about our team see Appendix A – Lonsec Research Team.

Lonsec's iRate research portal enables an adviser to filter the investment universe and construct portfolios aligned with client goals and preferences, enabling them to demonstrate how they're meeting their best interest duty.

Lonsec's iRate provides an unparalleled breadth and depth of qualitative research, including managed fund, listed product, super fund and super fund investment option research, accessible through a single portal, enabling an adviser to efficiently build a complete picture of a client's investment portfolio, to aid understanding and facilitate more informed and insightful conversations with clients.

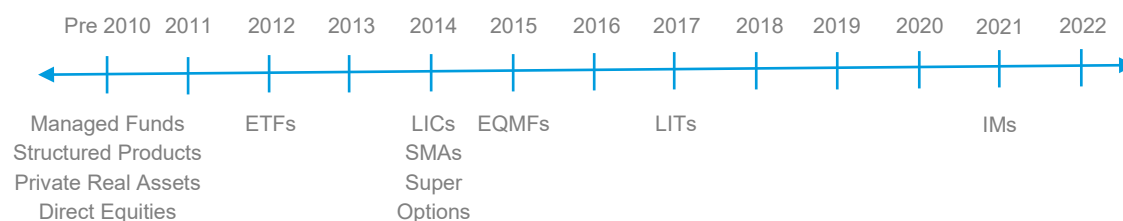
Figure 1. Lonsec Research Offering



Lonsec has in-built breadth and flexibility that has allowed us to re-position our research offering in line with emerging trends in the market.

In recent times the increase in listed products has seen Lonsec initiate coverage on a range of Exchange Traded Funds (ETFs), Listed Investment Companies (LICs), Listed Investment Trusts (LITs) and Exchange Quoted Managed Funds (EQMF) that are listed on the ASX, Separately Managed Accounts (SMA) that are listed on technology platforms and products that have been issued under an Information Memorandum (IM).

**Figure 2. Evolution in our Research offering**



In addition, superannuation is a major component of many investors' wealth. Advisers are increasingly looking to independent research to assist clients wanting to manage or transition their superannuation savings. Further, as the baby boomers move from accumulation to decumulation, adviser interest in Retirement Solutions has grown. Lonsec has researched annuities products since 2011 and we continue to expand our coverage into new and innovative solutions for retirees and those transitioning to retirement. Lonsec remains committed to meeting the changing needs of advisers as they seek to solve a range of complex life stage problems for their clients.

# Managing Conflicts of Interest

## Business Model

Financial Advisors access Lonsec's content under a 'pay for research' library model via its iRate platform or through feeds into financial planning software. Advisers may also engage Lonsec Investment Solutions for a range of portfolio construction services from managed account solutions through to Investment Committee participation. The fee charged for these services is dependent on the level of engagement and service required.

Lonsec is transparent with its business model, with financial advisers, fund managers and superannuation funds being the main sources of company revenue. Fund managers and product providers pay a fee to include their products in the Lonsec research agenda.

## Management of Conflicts

Lonsec is aware of the inherent potential conflicts of interest associated with the provision of ratings and how it is remunerated for its services. Lonsec has a comprehensive set of policies, procedures and information barriers (both permanent and temporary) consistent with its regulatory obligations under Regulatory Guide 79, to manage either perceived or actual conflicts of interest.

These policies and procedures are designed to manage and control conflicts including commercial, contractual and commissioning party relationships, fee structures, cross subsidisation and transparency in the ratings process.

Lonsec maintains a separate fund manager relationship team that deals exclusively with fund manager commercial contract negotiations. Lonsec's accounting team is responsible for invoicing of fund manager clients. **This commercial team is not involved in any aspect of the research process which determines a product rating.**

The Research Team is operationally separate from this commercial team, has no visibility of the commercial arrangements, and takes pride in, and stands behind, the team's opinions and ratings. Fund Managers are not to email or discuss any aspect of the commercial arrangements with any member of the Research Team.

Research Team remuneration is not directly linked to growth in product coverage, or company pricing strategies. There is, however, the industry standard 'group profitability' component to variable remuneration.

The Research Team is likewise operationally separate from Lonsec's Investment Consulting and managed account portfolio construction business which is housed in the Lonsec Investment Solutions business unit. Lonsec Investment Solutions has its own executive and management structure. Lonsec's Investment Consulting team is treated as a client and is not privy to rating changes until they are published.

Research analysts covering ASX 200 stocks and hybrids are also operationally separate from the Managed Funds Research team, who will in the course of their fund research, be privy to portfolio holdings. Lonsec Research staff also receive training in procedures that include gifts and entertainment, conflicted remuneration, personal conflicts and personal trading.

# Timing of Rating Reviews

## In Cycle

All financial products are reviewed at least annually and generally according to internal asset class definitions. The Lonsec Research Team publishes an annual sector review calendar.

For new products, Lonsec will undertake a desktop review to determine the most appropriate peer asset class group. This will determine when the product first becomes eligible for consideration in the regular annual cycle.

## Out of Cycle

Out-of-cycle reviews may be undertaken for financial products that Fund Managers want expedited outside of the regular sector timetable. Timing of out-of-cycle reviews is subject to the level of demand from Managers and analyst availability and are generally accommodated on a first come, first served basis. Indicative expectations of turnaround times are:

- 4-6 weeks – Lonsec knows the investment management team and there is an established portfolio track record in place.
- 6-8 weeks – Manager and investment management team is new to Lonsec and product is lower in complexity or does not meet the definition of a hedge fund. LICs or LITs where Lonsec does not already have a high degree of familiarity.
- 8-12 weeks – Manager and investment team is new to Lonsec and is a hedge fund, private equity or private debt fund. LICs or LITs where Lonsec does not already have a high degree of familiarity.

## Ongoing Monitoring

The rating of each financial product<sup>1</sup> is also monitored on an ongoing basis as part of Lonsec's continual contact and information exchange with Fund Managers. Fund Managers are required to inform Lonsec of any changes to factors including team additions or departures, changes to portfolio constraints and parameters, significant regulatory changes or changes to product fees or charges. Lonsec's analysts will consider changes in circumstance for materiality and monitor the situation closely as well as keep clients informed. Material changes will be formally reviewed immediately (at the time of the change) and any subsequent ratings updates communicated as required and notified in the Daily Bulletin email.

Certain 'closed-end' products may be reviewed on a one-off basis only with the rating applying for the initial capital raising period. These products will not be subject to ongoing monitoring.

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<sup>1</sup> Excluding Structured Products. Structured product research reports are point-in-time reviews. Lonsec assumes no obligation to update its structured product research reports or provide ongoing research coverage or performance reporting.

## Fund Watch

A 'Fund Watch' rating action is applied where changes in circumstances for a product is considered to potentially be material to a Fund's rating by the research team. Such an action is event specific and hence could be implemented throughout the year. Examples of such material events are unexpected turnover in a key role for an investment team that actively manages a product or a change in index being tracked by a passive product.

'Fund Watch' resolutions are situation dependent although Lonsec aims to finalise rating guidance within a month during most circumstances. Timing will generally depend on the complexity of the asset class and the nature of the change itself. There may likely be instances where ratings cannot be resolved within a month and Lonsec will communicate updates as needed.



# Research workflow sequence

The following diagram illustrates the workflow sequence for fund research.

Figure 3. Research Workflow Sequence



# Pre-requisites to Research Commencing

## Operational Check

New financial products must pass an operational check before being contracted to participate in the research process.

A Fund Manager must provide:

- The product's Offer Document (or for a Listed Investment Trust or Listed Investment Company raising a 'pathfinder' or substantially complete [typeset ready] prospectus or offer document).
- A due diligence document (in the Financial Services Council format or similar acceptable global standard) or Alternative Investment Management Association (AIMA) due diligence questionnaire (for hedge funds).
- Evidence that the product is seeded (except for products launching with a capital raise such as, but not limited to, IPOs for listed vehicles or a 'seeding' round) so that performance and product data can be provided to FE Fund Info.
- New manager questionnaire (if a new Fund Manager).

## Scope of Research Universe and Filters

Lonsec considers Funds which pass the following filters.

### Managed Funds

Lonsec seeks to provide research opinions on a wide range of financial products and has expanded its coverage list as the market for financial products has evolved.

There are, however, certain products that we are less likely to consider for rating either due to product features or where we believe that we do not have the requisite expertise.

For example:

- Initial offerings for funds with capital fully drawn down which may take more than six months to deploy capital ('Cash Boxes') where there is no applicable track record of similar products delivered by the manager/investment team.
- Non-financial products including, but not limited to, art, collectibles, coins, cars or antiques.

### Private Real Assets Funds

Lonsec is less likely to consider for its review process:

- Projects that are not Managed Investment Schemes (MIS).
- 'Cash Boxes' (with no identifiable assets).
- Short-term property development projects (especially high-density residential apartments).
- Funds with a large portion of assets earmarked for re-positioning and / or having substantial vacancy (even if covered by vendor guarantees).

## Research agreement issued and executed

The research agreement must be executed, and the Fund Manager invoiced, before the research process commences.

# Data Collection

Qualitative information is mostly collected in questionnaire format via the web-based application DiligenceVault. Completion of the questionnaires is a prerequisite, and Lonsec reserves the right to postpone the review meeting if a questionnaire has not been completed and submitted.

In addition to the questionnaire, Lonsec utilises other data sources including the offer document, the Financial Services Council (FSC) Questionnaire or similar RFP due diligence process document, and Manager presentation material.

Quantitative information is also sourced from Fund Managers via DiligenceVault questionnaires and from FE Fund Info for Managed Funds. Other sources include Bloomberg or SuperRatings.

Managers must comply with information requirements for unit pricing, distributions and other product data.

# Due Diligence

## Data Review and Analysis

Initial due diligence is conducted by the analysts on the data collected in the form of a desktop review.

## Manager Meeting

For each review, Lonsec meets with Fund Managers focusing on key areas for investigation – those that are material to the rating process and issues identified as a result of the data review and analysis.

The meeting is held with key investment team members and a range of operational personnel (risk, legal, compliance, trading & execution).

There may be a series of follow up meetings or information requests.

## Assessment and Scoring

Key points from the Manager meeting are documented in a Fund Investment Thesis ('FIT'). Collaboration among the review team occurs when completing the FIT to ensure that relevant observations across factors assessed are reflected and captured within Lonsec's formal scoring framework. The FIT, along with rating recommendation, is assessed by a Rating Committee ('RC'). The RC will at least comprise members of the review team, a third-party senior investment analyst, in addition to the Chair of the meeting (typically the Sector Manager).

## Standard Inputs

Standard inputs to the Research Process across most products include but are not limited to:

- Offer Document, inc. Product Disclosure Statement (PDS), Prospectus or Information Memorandum (IM).
- Financial Services Council (FSC) Questionnaire or similar RFP due diligence process document.
- Lonsec's DiligenceVault data survey (some typical items include but are not limited to team changes, historical portfolio holdings and attribution, historical exposures, and distribution history).
- New Manager Questionnaire.
- Analyst notes from the review or other meetings.
- Manager presentation material.
- Manager responses to follow-up questions.
- Performance and other quantitative data.

## Additional inputs for Private Real Assets Funds

- Fund Manager financial models.
- Asset valuation reports.
- Technical and due diligence reports.

- Gearing level; terms of bank debt, covenants and hedging.
- Constitution and Compliance Plan.

## Additional Inputs for Structured Products

- Term sheets (if applicable).
- Loan agreements (if applicable).
- Fund Manager structure models.
- Internal modelling (if applicable).

## Product Rating Model

Lonsec applies a 7-Factor rating model, with a range of sub-factors across most products researched and rated. A numeric scoring scheme for each sub-factor is used with varied weights being applied. There is a small number of sub-factors referred to as 'red flags' which are considered especially important. Weak scores for these 'red flags' have the potential to detract from a product's total rating score.

### Red Flags

A penalty will be applied, reducing the score for the relevant key factor, and the product's overall score where a 'red flag' is triggered. The penalty score applied for active funds will differ from that applied to passive funds due differences in sub-factor composition. Non-financial investment objectives will also be considered where necessary.

FACTOR	RED FLAGS	
	'Active' Research Process	'Passive' Research Process
Business	Business governance	Business governance
Product	Operational red flags	Fund operations
People	Key person risk	
Process	Philosophy & investment objectives	Index efficiency
	Risk management process	

### Non-Financial Investment Objectives

Lonsec applies a framework to systematically assess non-financial investment objectives (the NFIO Framework). The NFIO Framework is separate from traditional financial performance investment objectives, e.g. performance aim of index + x% p.a.

Specifically, it is designed to consider the risk of misalignment between products' promises, as detailed in their offer documents, and associated Manager actions that may detract from their fulfilment. The NFIO Framework will primarily be applied to the cohort of products self-identifying as 'sustainable', 'ethical' or otherwise making a related and explicit claim.

General items considered under the NFIO Framework include:

1. Offer document
2. Naming conventions
3. Fund Manager mission & NFIO alignment
4. NFIO and benchmark reporting
5. Exclusionary screening
6. Compliance framework

The NFIO Framework interlinks with the Red Flags protocol and has the potential to reduce total scores and prospective ratings where a high risk of misalignment is identified. Risk findings will be disclosed in product reports.

# Research Philosophy, Key Beliefs and Factors Assessed

## Actively Managed Funds

### Key Beliefs

Our research process is premised on the belief that managing money is a combination of 'art' and 'science'. We also believe that investment research should be forward-looking and qualitatively skewed. While we understand that there is more than one way to manage money, we believe there are several critical ingredients that combine to produce a quality financial product, most of which can be broadly categorised under 4P's; people, philosophy, process and performance.

We believe skilled active managers can add value over and above a benchmark where fees and costs are appropriate.

We seek to identify skilled fund managers that can add value across all stages of the investment process; research, portfolio construction, risk management and execution.

Fund managers must be accountable for the performance of their products and the investment team aligned to the end investor.

Additionally, we believe that:

- A financial product's risk and return objectives should be transparent, realistic and stated over an appropriate timeframe.
- Fees and hidden transaction costs can have a significant impact on investor outcomes and are an important consideration.
- A financial product should be investor focused and designed to meet the needs and challenges facing retail investors.
- The incorporation of Environmental, Social and Governance (ESG) considerations into investment analysis by fund managers is likely to improve risk or return outcomes and should ultimately translate into a higher potential for a manager to achieve their investment objective.

### Process

Lonsec's research process follows a structured framework to assess a range of qualitative and quantitative factors. These factors are scored relative to the financial product's stated objective and other financial products within the same sector. The research process we apply accommodates a range of investment approaches and styles.

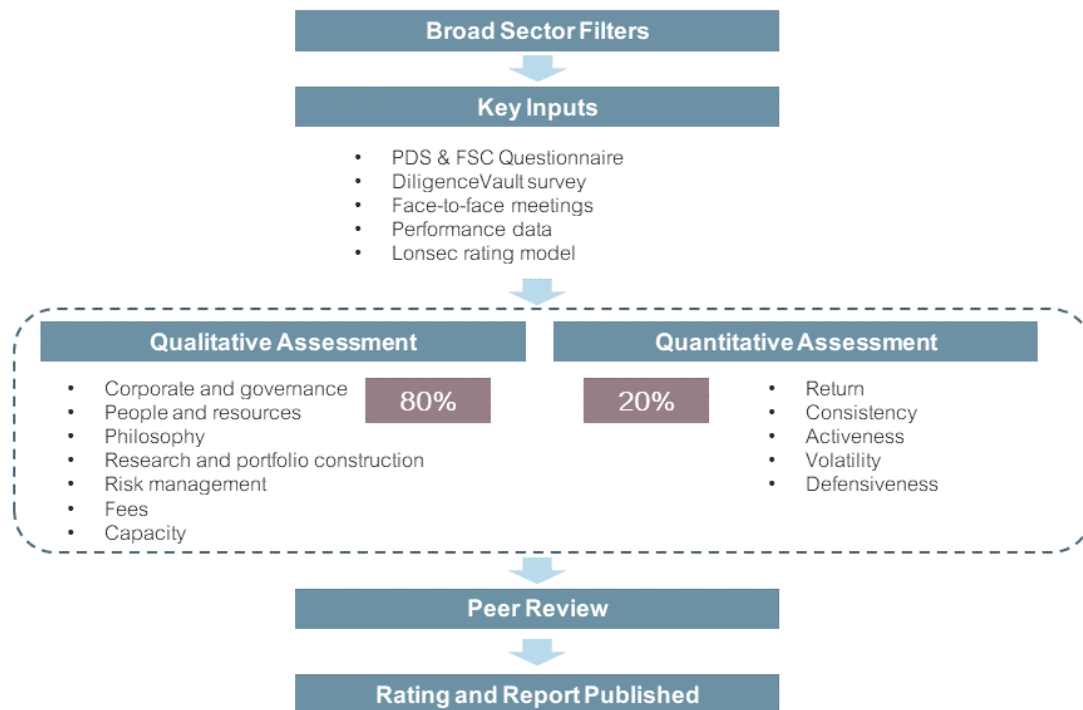
Qualitative factors generally account for 80 percent of the rating for most mainstream asset classes, with Lonsec's assessment of people and process having the greatest impact on the research outcome. The qualitative assessment stage of the research process spans the range of inputs, including contact with the fund manager and key investment professionals.

Within the quantitative component, generally contributing 20 percent of the research outcome, there is an emphasis on the quantum and consistency of returns, the degree of 'activeness' to deliver

alpha, the volatility of returns and the defensiveness of a financial product over three years and beyond.

In specialised sectors and where relevant quantitative data or a peer group is unavailable, the research process may be 100% qualitative.

Figure 4. Managed Funds Process Overview





## Factors Assessed

Lonsec has identified seven key factors it believes improve the chances of a financial product delivering on its objectives. Each factor is assigned a proprietary weight and analysts will formally score the financial product against each of the criteria. Factors and weights are tailored to suit particular asset classes and are scored in the proprietary rating model by analysts who attend the manager meeting.

Below are some examples of the factors but the list is by no means exhaustive:

Factor	Description
Business	<ul style="list-style-type: none"><li>• Profitability, business ownership structure, business governance and track record.</li></ul>
People	<ul style="list-style-type: none"><li>• Experience, team size, quality, stability, management of key person, risk, qualifications, track record, co-tenure, investment 'culture', key person risk and alignment of interests.</li></ul>
Process	<p><b>Philosophy &amp; Investment Objectives</b></p> <ul style="list-style-type: none"><li>• Is the overall investment philosophy aligned with the end investors best interests?</li><li>• Does it tie in closely with the product and the investment objective?</li><li>• Is it consistently applied? Is the fund 'true to label'?</li></ul> <p><b>Research Process</b></p> <ul style="list-style-type: none"><li>• Idea generation.</li><li>• Intellectual property.</li><li>• Breadth and edge.</li><li>• Investment tools - screening process, fundamental analysis, valuation methodology, efficacy of analysts' models.</li></ul> <p>Lonsec typically requests that managers explain multiple investment theses as a means of demonstrating the investment process at work and gauging consistency with the fund manager's stated investment style and objectives.</p> <p><b>Portfolio construction</b></p> <ul style="list-style-type: none"><li>• Buy and sell discipline.</li><li>• Management of unintended bets.</li><li>• Alignment with investment objectives.</li></ul> <p><b>Risk Management</b></p> <ul style="list-style-type: none"><li>• Risk management process – properly embedded in the investment process supported by best-in-class risk management tools.</li><li>• Risk limits.</li></ul>

## Fees

- Fees — management fees and any performance fees (balance of base and performance fee, appropriateness of hurdle rate).
- Fees relative to investment objectives, alignment and fairness (both in sector relative and relative to portfolio management).

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## ESG Integration

- ESG, Proxy voting and Engagement Policies and frameworks.
- ESG integration into the investment process.
- Active ownership including Engagement and Proxy voting activities.
- Transparency and reporting on ESG related factors and implementation.

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## Product

- Responsible entity & service providers, operational red flags (e.g. valuation, liquidity, capacity management) and wind-up risk.

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## Performance / Quantitative

Within the quantitative component, generally contributing 20 percent of the research outcome, there is an emphasis on the quantum and consistency of returns, the degree of 'activeness' to deliver alpha, the volatility of returns and the defensiveness of the financial product over three years and beyond.

### *Factors assessed in Actively Managed ETFs*

Within the Product factor, additional consideration is given to the following aspects:

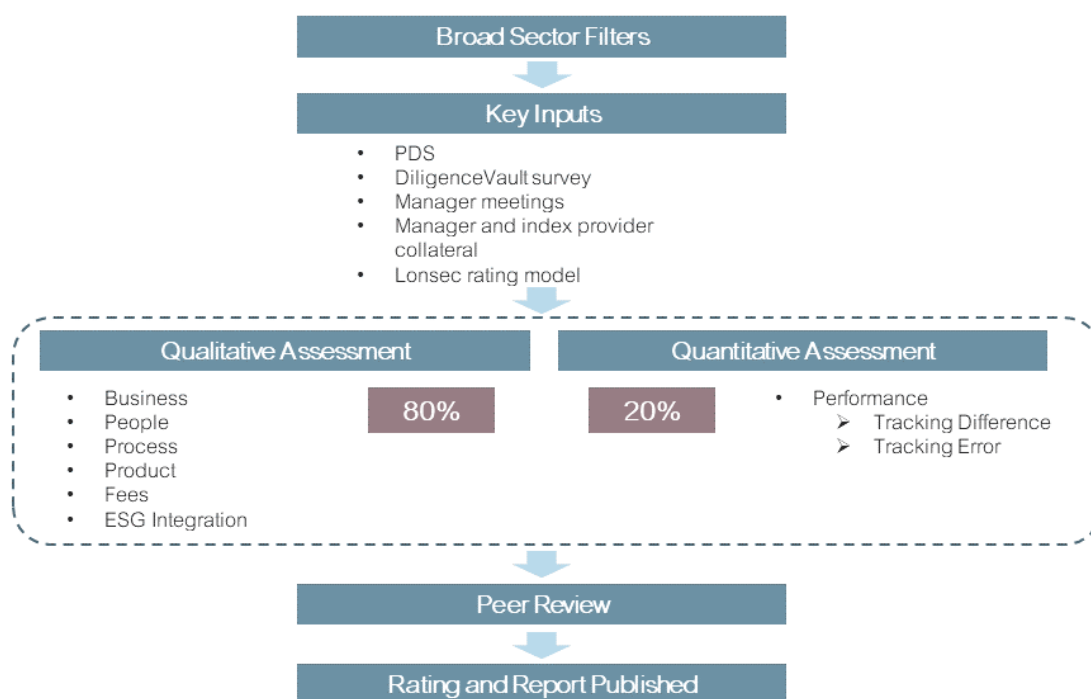
- Trading at premium or discount.
- Market making mechanism.
- Liquidity.

## Passively Managed Funds

Lonsec retains discretion to determine whether a financial product is to be rated as an 'active' or 'passive' product. Whether there is some level of oversight or governance by the fund manager, or if the index / investment process is completely rules-based and non-discretionary, is very important in determining whether a financial product is active or passive. Some 'smart beta' approaches may be considered under a process which leverages off the expertise of analysts covering active managed funds if there is a level of discretion or judgement. Also, the efficacy of the index being tracked will form a key consideration of our research effort especially in an environment of ever-increasing index proliferation and complexity.

The following research process is undertaken for passive funds, both ETFs and unlisted index managed funds.

Figure 5. Passive Funds Process Overview



### Factors Assessed

Lonsec has identified seven key factors it believes improve the chances of a financial product delivering on its objectives. Each factor is assigned a proprietary weight and analysts will formally score the financial product against each of the criteria. Factors and weights are tailored to suit particular asset classes and are scored in the proprietary rating model by analysts who attend the product review.

Factor	Description
Business	<ul style="list-style-type: none"> <li>Profitability, business ownership structure, business governance and track record.</li> </ul>
People	<ul style="list-style-type: none"> <li>Experience and track record managing asset class.</li> <li>Adequate and suitably experienced resourcing to successfully implement and provide risk management oversight for passive funds.</li> </ul>
Process	<p>Index Provider and Methodology Assessment</p> <ul style="list-style-type: none"> <li>Index Provider and the track record of the index</li> <li>Principles underpinning the index methodology</li> <li>Index methodology and risk management</li> </ul>
Fees	<ul style="list-style-type: none"> <li>Headline management and other costs.</li> <li>Bid / offer spread on a relative basis and any other costs associated with investing in the product (Listed / ETF).</li> <li>Fairness (holistic assessment, both in absolute and sector relative terms).</li> </ul>
ESG Integration	<ul style="list-style-type: none"> <li>ESG, Proxy voting and Engagement Policies and frameworks.</li> <li>ESG integration into the investment process.</li> <li>Active ownership including Engagement and Proxy voting activities.</li> <li>Transparency and reporting on ESG related factors and implementation.</li> </ul>
Product	<ul style="list-style-type: none"> <li>Investment approach (e.g. full replication, stratified sampling or synthetic).</li> <li>Market capitalisation and traded liquidity (Listed / ETF).</li> <li>Market-making (Listed / ETF)</li> <li>Distribution frequency vs. expectations and assessment of peer group</li> <li>Transparency of product and index information</li> <li>Operational red flags and wind-up risk.</li> </ul>
Performance / Quantitative	<ul style="list-style-type: none"> <li>Tracking Error and Tracking Difference considerations</li> </ul>

#### *Factors specific to Passively Managed ETFs*

- Trading at premium or discount.
- Market making mechanism.
- Liquidity.

## Separately Managed Accounts

### Key Beliefs

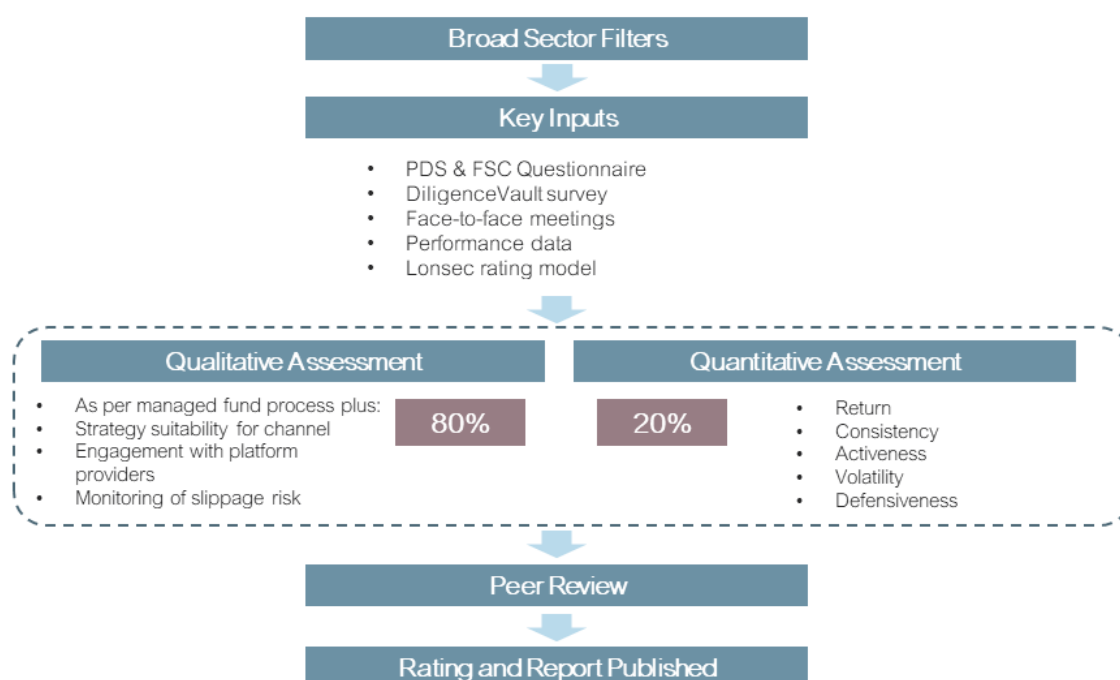
Lonsec recognises that Separately Managed Accounts ('SMAs') are professionally managed portfolios. Similarly, to managed funds, SMAs seek to deliver on benchmark relative or objectives-based investment objectives over an investment cycle. Lonsec is also aware that these non-unitised products are delivered via different structures and platforms than a managed fund, creating nuances which need to be incorporated in the ratings process.

Lonsec has a tailored methodology for SMAs that builds on the active managed funds process. For example, the review process for SMAs includes an assessment of both the Model Portfolio manager's approach to engagement with various platform providers and its ability to monitor and manage slippage risk.

We also consider the suitability of a particular strategy to be offered as an SMA. For instance, SMAs that are managed with high conviction and low turnover are generally viewed more favourably as these characteristics can lead to lower slippage risk in implementation. We believe that considering SMA nuances is a direct source of value-add for clients.

### Process

Figure 6. SMAs Process Overview



### Factors Assessed

In addition to the considerations noted in the Active Managed Funds Research Approach, there are additional SMA specific factors:

- Strategy suitability for platform delivery.
- Engagement with platform providers.
- Monitoring of slippage risk.

## Listed Products

### Key Beliefs

Listed Investment Companies (LICs), Listed Investment Trusts (LITs) and Active ETFs that are listed on the ASX are professionally managed portfolios seeking to deliver on benchmark relative or objectives-based investment objectives over an investment cycle. These products are, however, delivered via different structures which creates research nuances which need to be incorporated in the ratings process.

Figure 7. Listed Product Channels

	LICs	LITs	ETFs	Active ETFs
Management	Active	Active	Passive / Index	Active
Corporate Structure	Company	Trust	Trust	Trust
Liquidity	Closed-ended	Closed-ended	Open-ended Market makers	Open-ended Market makers
Pricing	Can trade at premium or discount to NAV	Can trade at premium or discount to NAV	Trade at a relatively tight spread around NAV	Trade at a relatively tight spread around NAV
Execution	Live pricing on ASX	Live pricing on ASX AQUA	Live pricing on ASX AQUA	Live pricing on ASX AQUA
Disclosure	Only required to disclose NAV monthly. Not required to provide portfolio information	iNAV <sup>2</sup> and full portfolio quarterly within 2 months of quarter end	iNAV (some) and daily portfolio holdings	Daily NAV, iNAV Full portfolio quarterly within 2 months of quarter end
Retain Profits?	Yes	No	No	No
Premium / Discount to NAV?	Yes	Yes	No <sup>3</sup>	No <sup>4</sup>

<sup>2</sup> Indicative Net Asset Value. The iNAV calculation is normally provided by a third-party calculation agent, who has access to the prices of the ETF's underlying securities and assets. The calculation agent uses market data feeds to determine the current market value of the assets of the ETF. This provides an investor with an independent indication of the 'fair value' of the ETF – in real time.

<sup>3</sup> While ETFs, can trade at premiums/discounts to NAV especially in dislocated markets, they are not as pronounced as in the case for LICs/LITs.

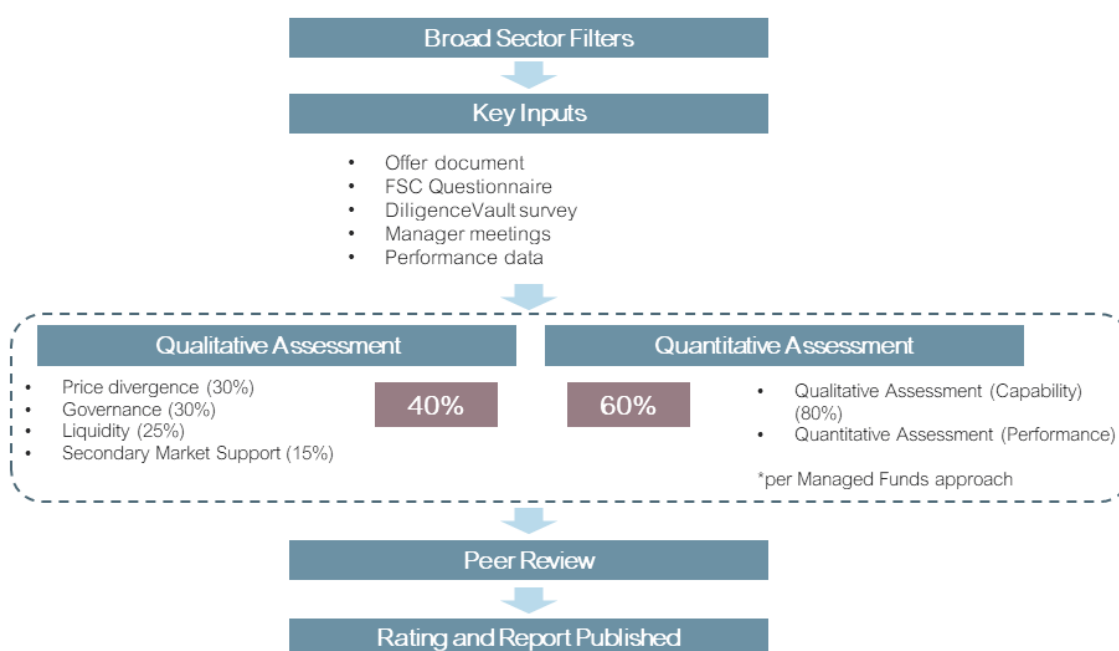
<sup>4</sup> While ETFs, can trade at premiums/discounts to NAV especially in dislocated markets, they are not as pronounced as in the case for LICs/LITs.

Actively managed listed products are assessed using a tailored methodology that is built on the Active Managed Funds Research Approach. The tailoring is to deal with the nuances of product structure. For LICs and LITs, this involves a recognition that such products are listed and trade at either a premium or discount to their net asset value over time. It also includes a recognition that LICs are companies which requires a separate assessment of their Board of Directors and governance framework. The structural differences with these vehicles are captured in the Product factor

Active ETFs have the benefit of a market-making mechanism which means that an assessment of the efficacy of this is critical. This assessment includes whether the market making function is internal or external. Additionally, for active ETFs, there is a recognition that the efficacy of market-making is not uniform across all underlying asset classes or strategies. We believe that encapsulating this in our research process is a direct source of value add for clients.

We also look at the suitability of a particular strategy for the chosen channel. For example, for LICs there is an inherent recognition that the liquidity of the underlying strategy, reliance on trading gains for funding dividends, track record of the Board of Directors in capital management and size / liquidity of the 'head stock' are predictors in the likely trading profile for each LIC. This is factored into the evaluation of the 'structure.'

**Figure 8. Listed Investment Vehicle (LIC and LIT) Process Overview**



## Factors Assessed

### *Factors assessed in Actively and Passively Managed Listed Products*

The qualitative and quantitative factors considered in assessing actively managed listed products are outlined in the respective Active and Passive Managed Funds sections earlier in this document.

*Product Sub-Factors specific to Listed Investment Companies and Trusts*

Sub-Factor	Description
Price divergence	Price divergence is designed to compare how closely the traded price (i.e. share or unit price) of a product has matched its underlying asset value (i.e. net tangible assets or net asset value) per security outstanding. Notably, this is not used as a measure of forward-looking value or a mean reversion signal. A closer tracking experience will be rewarded by this factor.
Governance	This considers the composition of the vehicle's governance structure. Specifically, analysts score the suitability and composition of the board (or responsible entity) and its relative alignment with investors.
Liquidity	This is designed to evaluate factors that are considered to influence an investor's ability to efficiently trade in the product. For instance, greater market caps are expected to improve the liquidity of a vehicle.
Secondary market support	Discretionary views on issues that can impact the success and relative trading performance of a product such as the distribution strategy and broker support.

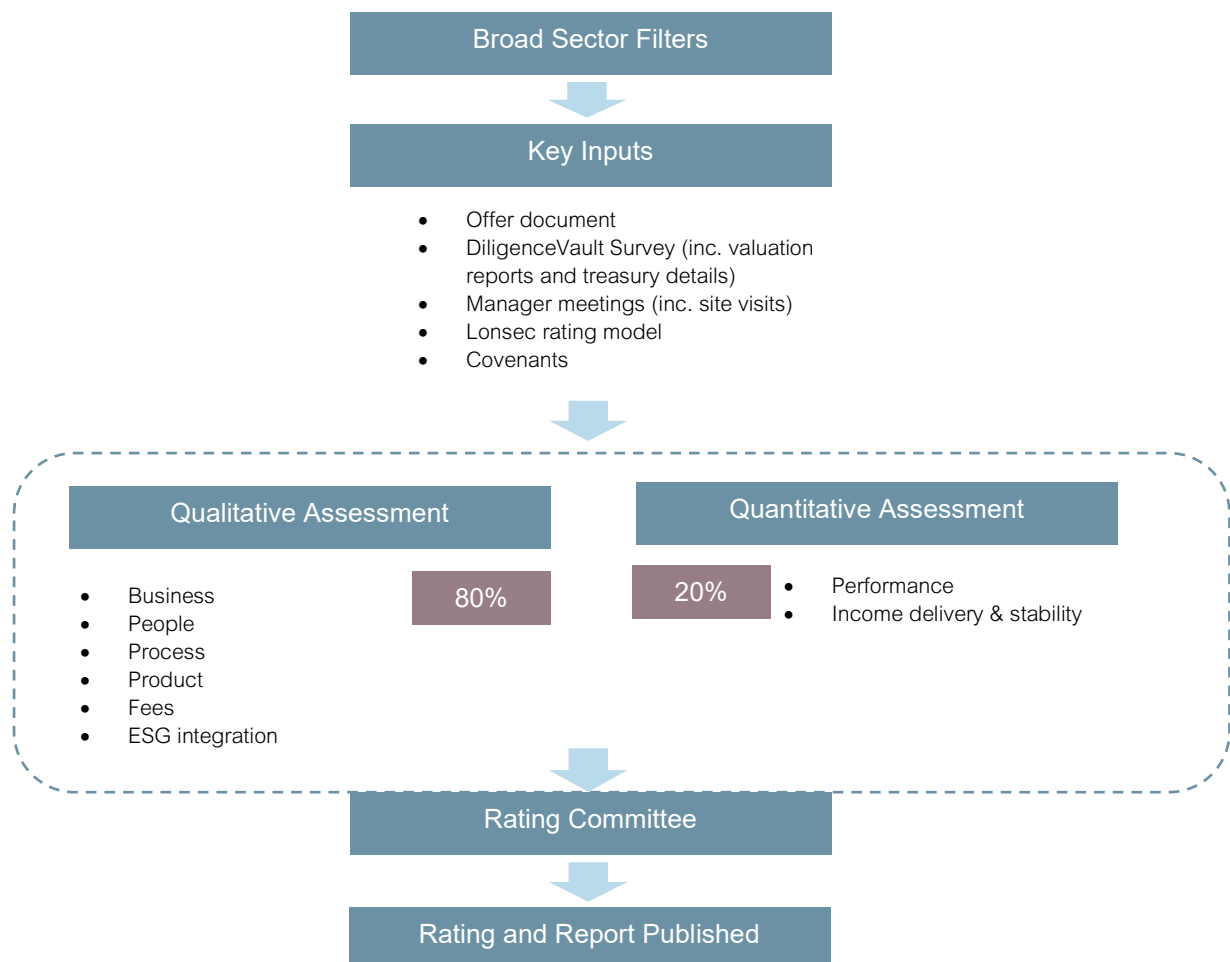


## Private Real Assets Funds

### Key Beliefs

Products investing in private real assets, such as property and infrastructure, are viewed in broadly similar terms to those investing in listed equities or bonds. The research process, as an overview, considers the quality of the asset manager, its people and the investment process used to identify and manage the assets, as well as the income profile. Additional consideration will be given to the reasonableness of the redemption terms and leverage management within the structure.

Figure 9. Direct Assets Process Overview



## Key Factors

Private real assets products are assessed under a tailored 7-Factor framework:

Factor	Description
Business	<ul style="list-style-type: none"> <li>Profitability, business ownership structure, business governance and track record.</li> </ul>
People	<ul style="list-style-type: none"> <li>Experience, team size, quality, stability, management of key person, risk, qualifications, track record, co-tenure, investment 'culture', key person risk and alignment of interests.</li> </ul>
Process	<p>Philosophy &amp; Investment Objectives</p> <ul style="list-style-type: none"> <li>Is the overall investment philosophy aligned with the end investors best interests?</li> <li>Does it tie in closely with the product and the investment objective?</li> <li>Is it consistently applied? Is the fund 'true to label'?</li> </ul> <p>Research Process</p> <ul style="list-style-type: none"> <li>Idea generation.</li> <li>Intellectual property.</li> <li>Breadth and edge.</li> </ul> <p>Treasury</p> <ul style="list-style-type: none"> <li>Leverage and debt management</li> </ul> <p>Portfolio construction</p> <ul style="list-style-type: none"> <li>Management of unintended bets.</li> <li>Alignment with investment objectives.</li> </ul> <p>Risk Management</p> <ul style="list-style-type: none"> <li>Risk management process Risk limits.</li> </ul>
Fees	<ul style="list-style-type: none"> <li>Fees — management fees and any performance fees (balance of base and performance fee, appropriateness of hurdle rate).</li> <li>Fees relative to investment objectives, alignment and fairness (both in sector relative and relative to portfolio management).</li> </ul>
ESG Integration	<ul style="list-style-type: none"> <li>ESG, Proxy voting and Engagement Policies and frameworks at firm level.</li> </ul>
Product	<ul style="list-style-type: none"> <li>Responsible entity (or Trustee) &amp; service providers, operational red flags (e.g. valuation, liquidity, capacity management), redemption terms and wind-up risk.</li> </ul>

## Performance / Quantitative

- Performance considerations include income delivery, income stability, capital growth and peer relative returns.

### *Closed-end financial products*

A common process is applied for evergreen and closed-end or fixed term private real asset products, e.g. syndicates. Ratings for closed-end products will typically only apply when they're in a capital raising mode and lapsing when these periods close.

# Structured Products

## Key beliefs

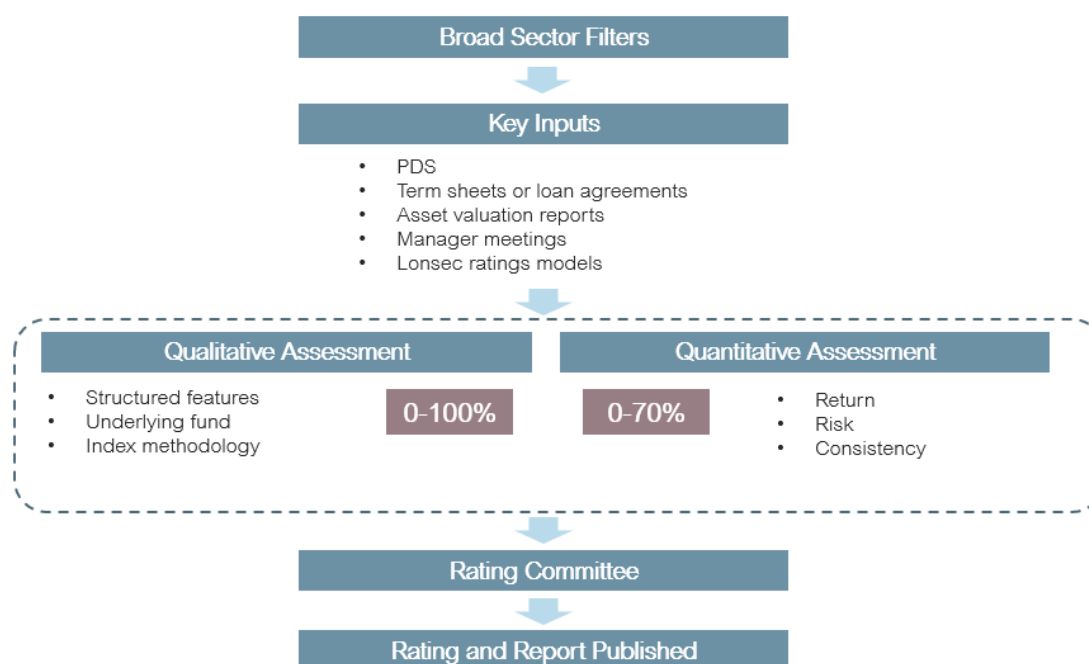
The structured product needs to make investment sense — there must be a clear link between the structured product's objectives, expected risk and return, and the investor's risk profile.

Structured product managers should provide research supporting the logic and investment rationale of the structure and features of the structured product. It is preferable that this research be generated internally and be driven by a clear investment thesis.

A structured product's return, risk and correlation objectives should be transparent, realistic and stated over a timeframe appropriate for the underlying asset class / investment strategy.

The financial product structure needs to be efficient and in investors' best interests and be supported within the PDS by appropriate accounting, taxation and legal opinions.

Figure 10. Structured Products Process Overview



## Factors assessed

- Structural features.
- Fund Manager experience — track record in structuring investments in the relevant asset class or strategy.
- Fees and costs — appropriateness in an absolute or peer relative sense.
- Transparency — investor pay-off during the investment term and maturity, fees, structure and capital protection.

- Liquidity — consistency with product objectives. Structured products with a long-term time horizon are not necessarily penalised for illiquidity.
- Lonsec view — likelihood of achieving the structured product objectives, given the risks involved.

#### *Underlying fund*

- The qualitative and quantitative factors considered in assessing an actively managed fund are outlined in Lonsec's Active Managed Funds Research Approach.

#### *Index*

Where an index or indices are used to generate the returns for a structured product, the rating will be determined by a qualitative assessment of the following factors:

- Methodology — rules relating to index construction (inclusion/exclusion of constituents) should be clear.
- Representative — index components should have a meaningful coverage of the relevant sector or market being targeted.
- Tradability — index components should be freely available or have potential for use as the basis for participants.
- Transparency — index calculation method should be clearly outlined and available for market participants.
- Independence of index provider — to avoid potential for conflicts over securities selection or methodology between structured product issuer and index provider.
- Active management (if applicable) — the level of discretion and alignment of interests with investors.

### **Point-in-time reviews**

Lonsec's structured product research reports are point-in-time reviews. Lonsec assumes no obligation to update its structured product research reports or provide ongoing research coverage or performance reporting.

### **Structured product classification**

Lonsec classifies structured products as active or passive.

#### *Active*

Managed fund — where the return is generated by actively managed underlying funds.

Managed index — where the return is generated by a discretionary overlay, such as security selection, leverage, volatility targeting and / or shorting, applied to one or more indices or ETFs.

#### *Passive*

Index — where the return is generated by exposure to one or more indices or ETFs.

Derivative — where the return is generated by exposure to one or more derivatives, such as option, futures or swap contracts.

Loan — funding structures providing investors with access to an investment loan and a menu of investments.

#### *Active / Passive*

Investment platform — structures providing investors with the ability to select from a menu of underlying funds or other assets.

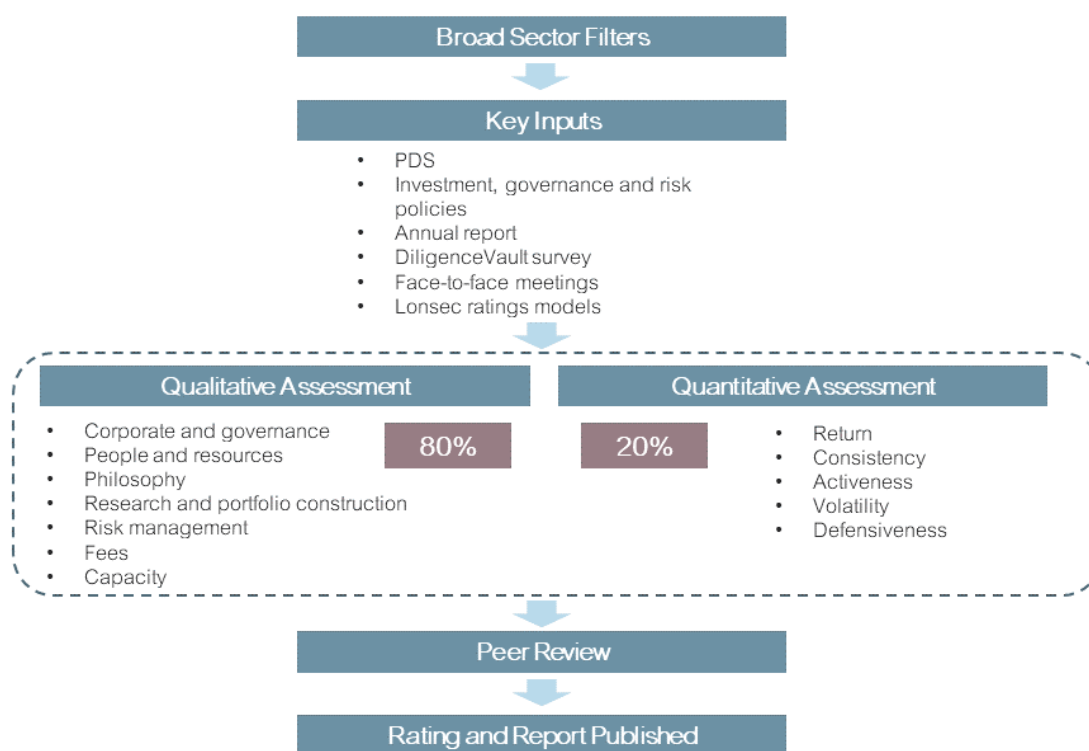
# Super Option Research

## Key Beliefs

We seek to identify skilled managers that can add value across all stages of the investment process; research, portfolio construction, risk management and execution. The investment strategy needs to make investment sense — there must be a clear link between the option's objectives, expected risk and return, and the investor's risk profile. The investment strategy should be designed to suit the size and scale of the fund as well as the member demographic. The investment thesis should be clear and supported from the Board down. Appropriate governance structures should be in place. Key decision makers should be experienced, and appropriate delegation of responsibilities made.

The Active Managed Funds research approach, used to evaluate a range of multi-asset products (inc. multi-manager), forms the basis for Super Option assessments.

Figure 11. Super Options Process Overview



Additional considerations for Super Option research include:

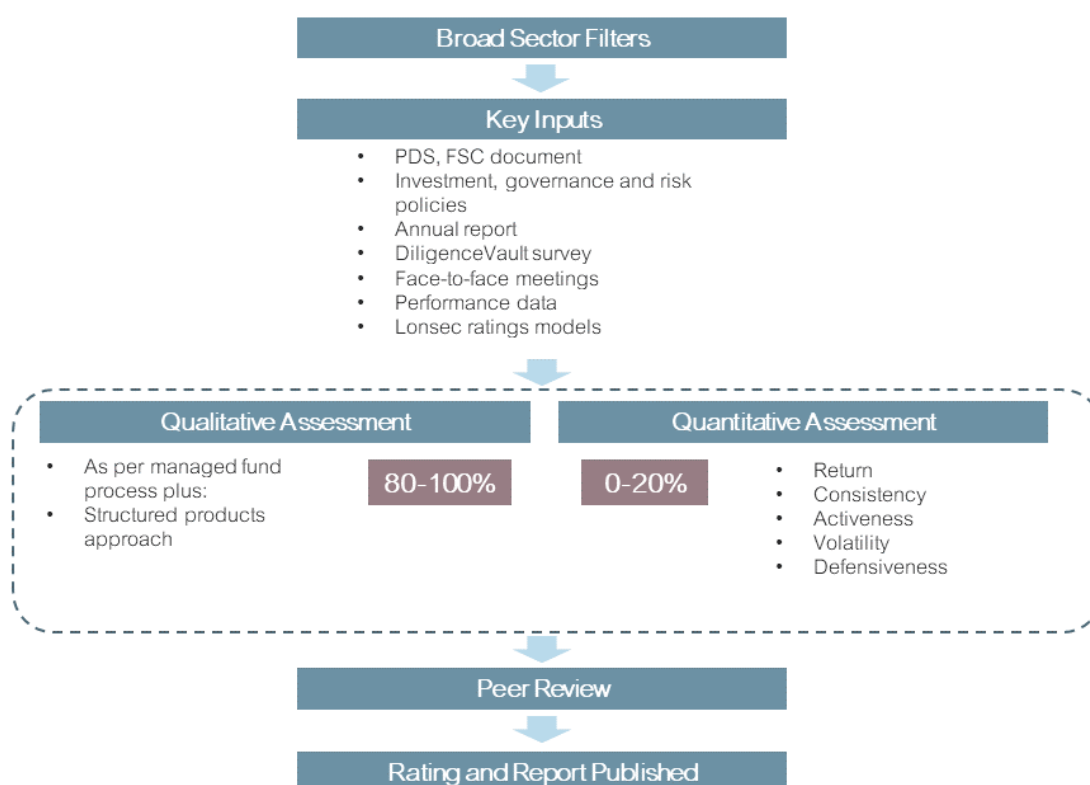
- Product – quality and strength of Governance Structures and decision-making delegations.
- Process – investment philosophy and whether this is suited to the size, scale of the Fund and member demographic.

## Retirement Solutions

### Key Beliefs

The investment strategy should be designed to overcome one or more of the common challenges facing investors in the decumulation phase; deliver consistent and reliable income, manage longevity risk and/or manage sequencing risk. The strategy should avoid being overly complex. The manager should be as transparent as possible in explaining the end cost to investors (including indirect costs). A strategy's, risk and return objectives should be transparent, realistic and stated over an appropriate timeframe.

Figure 12. Retirement Solutions Process Overview



### Factors assessed

Lonsec's core research approach for Retirement Solutions has been to use its wider managed funds or structured products methodologies as the building blocks for the research process.

Typically speaking, the Structured Product Approach (and binary rating scale of Approved / Not Approved) will be used where any of the following applies:

- The lack of a meaningful peer group (as defined by Lonsec) renders a tiered rating scale less relevant. If a peer group subsequently develops, then Lonsec may adopt a tiered rating scale.
- The product pricing is subject to continual change.
- Lonsec's review is confined to the product structure and investment returns are dependent on an investor's selection from an underlying menu, such as range of ASX listed securities.

- The pay-off to investors is defined at the outset and requires investors to have a definitive view.

### **Factors assessed in Retirement Solutions**

Lonsec has identified a range of key factors it believes improve the chances of a financial product delivering on its objectives. Each factor is assigned a proprietary weight, and analysts will formally score the financial product against each of the criteria.

The 7-Factor model will form a foundation for the assessment of Retirement Solutions. The factors are outlined in Active Managed Funds Research Approach. Additionally, as appropriate, this will also be combined with the Structured Products Research Approach.



## Investment Bonds

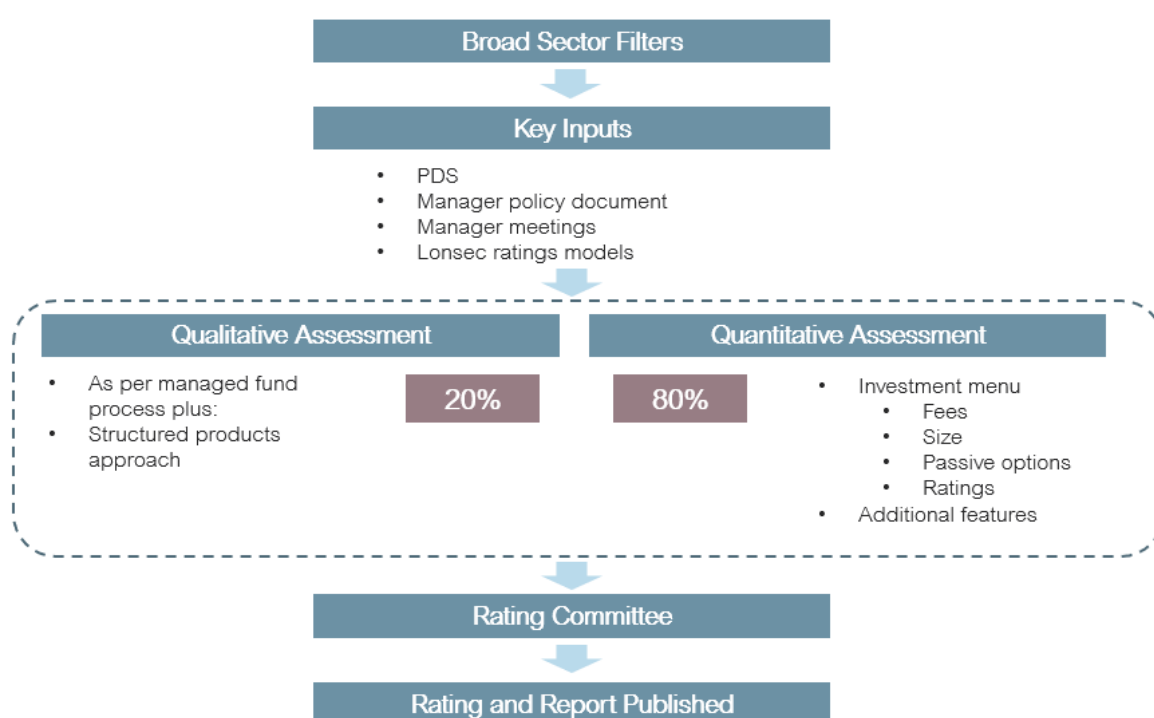
### Key beliefs

We favour issuers with a proven track history in operating investment bonds, and who have shown the ability to innovate and differentiate their offering. For investment options that invest into externally managed strategies, we look for issuers with adequately resourced, skilled and experienced teams to select and monitor these strategies effectively. We believe issuers who insource management of the options require adequately resourced, skilled and experienced teams to manage these strategies effectively. In both cases, the investment process (including the framework for approving investment menu changes) should be well-defined, sensible and robust.

We believe larger investment menus that include low-cost passive strategies, as well as active strategies of differing investment styles across major asset classes give investors the scope and flexibility to express their investment preferences (e.g. passive vs. active) and assists with constructing diversified portfolios inside the investment bond structure.

We believe quality investment options contribute to the strength of the overall product offering.

Figure 13. Investment Bonds Overview



In addition to the standard inputs to the research process we also require provision of the Manager Policy Document.

## Factors Assessed

The rating process described refers to our view on the issuer, look-and-feel of the investment menu and any additional features. This is separate to the rating that applies to the individual investment options that appear on the investment menu. The Investment Bonds rating approach is designed to assist investors in investment bond selection.

Factor	Description
Issuer Experience	<ul style="list-style-type: none"><li>• The Issuer's experience in managing investment bonds.</li><li>• Process for selecting the underlying managed funds.</li><li>• Framework for approving (e.g. investment committee) and monitoring the underlying managed funds.</li></ul>
Investment Menu	<ul style="list-style-type: none"><li>• Average administration fee.</li><li>• Size of investment menu.</li><li>• Passive options.</li><li>• Quality of underlying options (Lonsec Ratings).</li></ul>
Additional Features	Not an exhaustive list but may include: <ul style="list-style-type: none"><li>• Capital guarantee.</li><li>• Loan facility.</li><li>• Death benefit guarantee.</li><li>• Child advancement policy.</li></ul>
Fees	<ul style="list-style-type: none"><li>• Investment bond.</li><li>• Underlying investment options.</li></ul>

# Peer Review

Lonsec's uses its own proprietary 'Fund Investment Thesis' ('FIT') model to assess each financial product's rating on an absolute and peer relative basis. The FIT models are housed on the Diligence Vault platform and provide a consistent scoring framework for all financial products within each sector. Analyst teams who are tasked with reviewing a group of products will score the key ratings factors in the FIT to present to the relevant Ratings Committee ('RC').

Ratings Committees are convened following the review of each broad sector cycle or individual financial product as required (e.g. Out of Cycle and Fund Watch scenarios). A teams-based approach has been implemented for all sectors where a sub-team of analysts reviews a group of products within a sub-sector(s). This sub-team along with the Sector Manager and an additional Senior Analyst will form the RC to finalise the ratings for each sub-team's universe. The FITs form the basis of all ratings discussions and are produced for consideration during an RC. Final ratings are a mix of absolute and relative assessment and there is no forced ranking of ratings.

At the RC, qualified members with sufficient seniority will determine the final rating outcome, inc. blind voting. Lonsec has strict attendance and quorum requirements for each RC. Voting rights are also clearly established to ensure analysts voting are suitably experienced and understand the issues at hand. All eligible voting members of the RC have one equal vote, and all voting matters are decided by simple majority vote. The Chairperson of the RC or their delegate may cast the deciding vote in the event of a deadlock. Circumstances where a proposed rating differs to that suggested by the FIT model scoring will be noted and subject to additional consideration prior to finalising the rating outcome.

# Report drafts

A report will be drafted following Peer Review. Draft reports need to be approved by a Senior Analyst before they can be provided to a Fund Manager for fact checking. In accordance with ASIC guidance, this draft report for fact checking expressly excludes the rating outcome and summary view. The Fund Manager is afforded five business days to confirm no factual errors or omissions exist or to provide factual corrections. Lonsec notes that rebuttal of Lonsec opinion will not necessarily result in amendment of the Draft Report.

Substantial changes to the facts presented in pre-meeting due diligence and at site visits may result in reconvening the Rating Committee.

# Fund Review Published

Once the report has been verified by another senior member of the team (Senior Analyst or Sector Manager), the financial product rating and the report (for investable products) is available to the Fund Manager, all iRate subscribers and other stakeholders.

Advisers are alerted to rating updates and changes via the Daily Bulletin and alert functionality in iRate®.

# Findings published in Sector Review

At the completion of each sector, a Sector Review document is published. The Sector Review incorporates all the respective financial products researched within the respective asset class or sector and compares the peer group.

# Lonsec Ratings

The rating system designates financial products under the categories of Highly Recommended, Recommended, Investment Grade, Fund Watch, Redeem and Screened Out. Lonsec may also use the Approved and Not Approved rating scale depending on the product, e.g. structured products. These ratings reflect Lonsec's degree of conviction in the financial products' ability to generate risk adjusted returns in line with relevant objectives.

Highly Recommended	The ' <b>Highly Recommended</b> ' rating indicates that Lonsec has very strong conviction the product can meet its investment objectives.
Recommended	The ' <b>Recommended</b> ' rating indicates that Lonsec has strong conviction the product can meet its investment objectives.
Investment Grade	The ' <b>Investment Grade</b> ' rating indicates that Lonsec has conviction the product can meet its investment objectives.
Fund Watch	The ' <b>Fund Watch</b> ' status is applied when a rating is under review due to the occurrence of a significant event relating to the product.
Screened Out	The ' <b>Screened Out</b> ' rating indicates Lonsec was unable to attain sufficient conviction that the product can meet its investment objectives.
Redeem	The ' <b>Redeem</b> ' rating indicates Lonsec no longer has sufficient conviction that the product can meet its investment objectives.
Approved	The ' <b>Approved</b> ' rating indicates that Lonsec believes the product can meet its investment objectives.
Not Approved	The ' <b>Not Approved</b> ' rating indicates that Lonsec does not believe the product can meet its investment objectives.

# Investment Bond Ratings

The rating system definitions for Investment Bonds has been modified to accommodate the nuances of the sector.

Highly Recommended	The 'Highly Recommended' rating indicates that Lonsac considers the investment bond to be the preferred entry point to the sector. The issuer or structure of the investment bond has competitive advantages in most areas of assessment in people, process and design, with no areas of material weakness.
Recommended	The 'Recommended' rating indicates that Lonsac considers the investment bond to be a recommended entry point to this sector. The issuer or structure of the investment bond has competitive advantages in several areas of assessment in people, process and design.
Investment Grade	The 'Investment Grade' rating indicates that Lonsac considers the investment bond to be an adequate entry point to the sector. The issuer or structure of the investment has fewer competitive advantages in areas of assessment in people, process and design compared to peers with higher ratings.
Fund Watch	The Fund Watch rating indicates that no new investment into this financial product is recommended. A significant change has occurred with the financial product and a detailed assessment of the change is needed and / or series of rectifying actions required prior to this rating being changed.
Screened Out	The Screened Out rating indicates that Lonsac currently does not have conviction that the financial product can generate risk adjusted returns in line with relevant objectives. The financial product currently has insufficient competitive advantages relative to its review peer group (if applicable).
Redeem	The Redeem rating indicates the financial product is no longer considered worthy of investment for any time period and investors should immediately redeem units from the financial product, subject to seeking financial advice. An adverse development has taken place that is considered detrimental to the interests of investors.
Approved	The ' <b>Approved</b> ' rating indicates that Lonsac believes the product can meet its investment objectives.
Not Approved	The ' <b>Not Approved</b> ' rating indicates that Lonsac does not believe the product can meet its investment objectives.



## Screened out

ASIC's Regulatory Guidance to Research Houses (ASIC RG79) requires that Lonsec publishes a rating for those financial products considered sub-investment grade. This applies to financial products that are new to Lonsec's research process and have undergone the full due diligence process. Fund Reviews and Fund Viewpoints will not be published for financial products rated as 'Screened Out'. Only Fund Profiles containing factual information and the Screened Out rating will be published. A confidential draft rating report summarising how the financial product was assessed against each of Lonsec's rating criteria will be provided to the Fund Manager, for internal use only.

# Financial Products Withdrawn from Research Process

The following are statuses, not ratings. They articulate the circumstances under which a financial product was withdrawn from Lonsec's researched universe.

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## Discontinued Review

The '**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.

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## Ceased Coverage

The '**Ceased Coverage**' status is applied when a rated product is withdrawn from the research process by the product issuer.

The timing of when coverage will cease depends on whether the Fund Manager is willing to continue to meet its contractual obligations to inform Lonsec of material changes or provide access to Investment Management personnel.

1. Where a Fund Manager agrees continue to meet its obligations (access to staff and keep Lonsec informed of material changes) coverage will Cease on the anniversary of the last Fund report.
2. Where a Fund Manager is not willing to participate in review meetings or commit to keeping Lonsec informed, coverage will cease immediately.

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## Closed / Wind Up

The '**Closed / Wind Up**' status is applied when the product has been closed.

## Rating downgrades

Rating downgrades are an integral part of Lonsec's product maintenance research process. Each sector is reviewed annually during which the investment rating for participating funds are re-assessed using Lonsec's Fund Investment Thesis or FIT model. The FIT model assesses each fund on 7 key factors, with 80% of the assessment weight being qualitative and 20% quantitative. The 6 qualitative factors are 'Business', 'Team', 'Process', 'ESG', 'Product' and 'Fees' while the single quantitative factor is 'Performance'.

Once completed by the relevant review team, the FIT model will generate a rating, with a loss of conviction of individual factors year-on-year assessment potentially leading to a proposed ratings downgrade. This is then deliberated by the Ratings Committee, with ratification of the FIT rating leading to a downgrade being issue. Hence, such rating downgrades occur when Lonsec has reduced conviction compared to the previous review that the Manager can generate superior risk adjusted returns relative to its peers and investment objectives.

# Rating Review Process

While the incidence is rare, a Fund Manager may formally request a review of a published rating. In this circumstance, Lonsec will initiate its Rating Review Process. A request for review must be made in writing, outlining the basis for the request and addressed to a member of Lonsec Research's senior leadership team. This review process will test whether the Lonsec research process has been adhered to in the production of the final report and rating. Where necessary, further research may be commissioned depending on the technicality and complexity of the areas identified for review. Rating outcomes may only be subject to revision under this process where it is established that there has been some material non-compliance with Lonsec's research process, albeit subject to the nature and materiality of the non-compliance. More details on the Rating Review Process can be provided on request.

# Direct Equities Research

Lonsec's equities research coverage spans:

- All constituents of the S&P / ASX200 index.
- ASX-listed hybrid / debt securities (Listed Income Securities).

Lonsec will from time to time cease coverage of securities that drop out of the ASX200 index and initiate coverage on all securities that enter the ASX200 index. Lonsec will also from time-to-time initiate coverage on new hybrids either when they list or immediately after.

Lonsec will generally maintain research coverage of all Listed Income Securities until the call / maturity date for each respective security.

Report Type	Summary	Release frequency
<b>Equities — Stock Viewpoint</b>	A two-page equity research report inclusive of a stock rating, investment risk profile, company valuation, business snapshot, investment view, financial forecasts, bull & bear points and key trends and charts.	Updated for all material company announcements.  Daily updates to capture impacts of 'live' pricing and changes in consensus data.
<b>Equities — Corporate Action Reports</b>	Lonsec provides corporate actions reports (including recommendation) on a broad range of corporate actions for all ASX200 stocks under coverage. The corporate actions covered include, capital raisings and mergers & acquisitions. We also provide corporate actions reports for LICs and LITs.	As required. Usually within five business days of announcement.
<b>Equities — IPO Reports &amp; Initiations</b>	Lonsec will initiate coverage on all stocks that enter the ASX200 index. Lonsec will also provide research reports on major IPOs on an ad-hoc basis.	Quarterly, post the announcement of S&P / ASX200 Index changes.
<b>Listed Income — Viewpoint</b>	A two-page research report inclusive of issue rating, key financial metrics and an overview of the key risks associated with the issue.	Updated post the payment of distributions.
<b>Listed Income — Corporate Action Reports</b>	Lonsec provides corporate actions reports (including recommendation) on a broad range of corporate actions for all Listed Income Securities under coverage.	As required. Usually with five business days of announcement
<b>Listed Income — Yield Update</b>	The weekly Yield Update table provides a summary of the structure, trading metrics and distribution details of the listed income securities within Lonsec's universe. In addition, this document shows Lonsec's current preferred securities and an overview of topical fixed income news during the week	Monthly

## Research Philosophy

Lonsec considers the primary purpose of investing in equities is to generate dividend income, capital growth or a combination of both and it is this risk versus reward relationship that determines the attractiveness of an investment. For any given company, the level of risk to capital and the level of risk to income are not necessarily the same. In order to differentiate between these inherent risks, Lonsec's equity research sets out to capture and highlight the various characteristics of each stock in a systematic manner. This approach has been tailor made for the financial advice channel and sets out to assist financial advisers in selecting the right stock for the right client.

## Research Approach

Lonsec's approach to equities research departs from the traditional 'Buy-Hold-Sell' broker that focuses more on the valuation upside potential of a stock. Rather, Lonsec's approach utilises a combination of qualitative and quantitative analysis methods to provide answers to the key investment question at an individual stock level:

- Which stock to buy? (Rating: Approved / Not Approved).

In answering that question, Lonsec considers:

- What are the investment risks of each stock? (Risk Profile: Income / Growth).
- Is the stock trading at a reasonable price? (Action Signal: Undervalued / Overvalued).

ASX200 research is performed by Lonsec's Direct Equities team. This is a team of six equity investment specialists, with three of the team being senior analysts with extensive market experience. Stock responsibilities are delegated along sectoral lines, with Lonsec believing this approach is optimal from an intellectual property and efficiency point of view.

### Which stock to buy?

Lonsec's proprietary quantitative models utilise a database comprising a wide range of historical and forecast data points to determine and classify the Income and Growth risk profile for each security in the ASX200. The quantitative model will derive a suggested **Approved or Not Approved** rating by combining the Income and Growth Risk ratings for each stock. The outcome of this model is then peer reviewed by the Direct Equity team to ensure that the team agrees with the assessment. There is the ability for the Direct Equity team to provide a qualitative overlay to the rating at this point.

In terms of the mechanics of the overall rating, where the risk ratings in both categories are above Lonsec's stated risk threshold, the security is deemed as being high risk and will be classified as Not Approved.

### What are the investment risks of each stock?

As well as an overall research rating, Lonsec's quantitative model will derive a risk profile based on the risk to Income or Growth. This is achieved quantitatively by screening each stock by a bespoke set of factors relevant to each risk factor, resulting in stocks being allocated to four distinct 'buckets' for each of income and growth – Low, Attractive, At Risk or Inferior.

### Income Risk

Lonsec's assessment of a company's Income Risk profile follows a structured framework of assessing key financial metrics to arrive at an overall income risk rating for the company. This risk rating is combined with the expected dividend yield of the company, over the medium term, to classify the company into one of the following categories:

**Low Income** — reflecting a below-market dividend yield, whilst exhibiting lower dividend volatility and a relatively lower risk profile than the broader market;

**Attractive Income** — reflecting an above-market dividend yield, whilst exhibiting lower dividend volatility and a relatively lower risk profile than the broader market;

**Income at Risk** — reflecting an above-market dividend yield, whilst exhibiting higher dividend volatility and a relatively higher risk profile than the broader market; and

**Inferior Income** — reflecting a below-market dividend yield, whilst exhibiting higher dividend volatility and a relatively higher risk profile than the broader market.

### *Growth Risk*

Lonsec's assessment of a company's Growth Risk profile follows a structured framework of assessing key financial metrics to arrive at an overall growth risk rating for the company. This risk rating is combined with the expected earnings growth of the company, over the medium term, to classify the company into one of the following categories:

**Low Growth** — reflecting a below-market growth rate, whilst exhibiting lower earnings volatility and a relatively lower risk profile than the broader market;

**Attractive Growth** — reflecting an above-market growth rate, whilst exhibiting lower earnings volatility and a relatively lower risk profile than the broader market;

**Growth at Risk** — reflecting an above-market growth rate, whilst exhibiting higher earnings volatility and a relatively higher risk profile than the broader market; and

**Inferior Growth** — reflecting a below-market growth rate, whilst exhibiting higher earnings volatility and a relatively higher risk profile than the broader market.

Lonsec notes that these risk profile assessments are not static and will be updated as this data set 'rolls' over time as one year is dropped and another year is added. In addition, the consensus data itself can also change with analyst forecasts. Accordingly, the income and growth risk profiles for each stock will gradually change over time as the data changes.

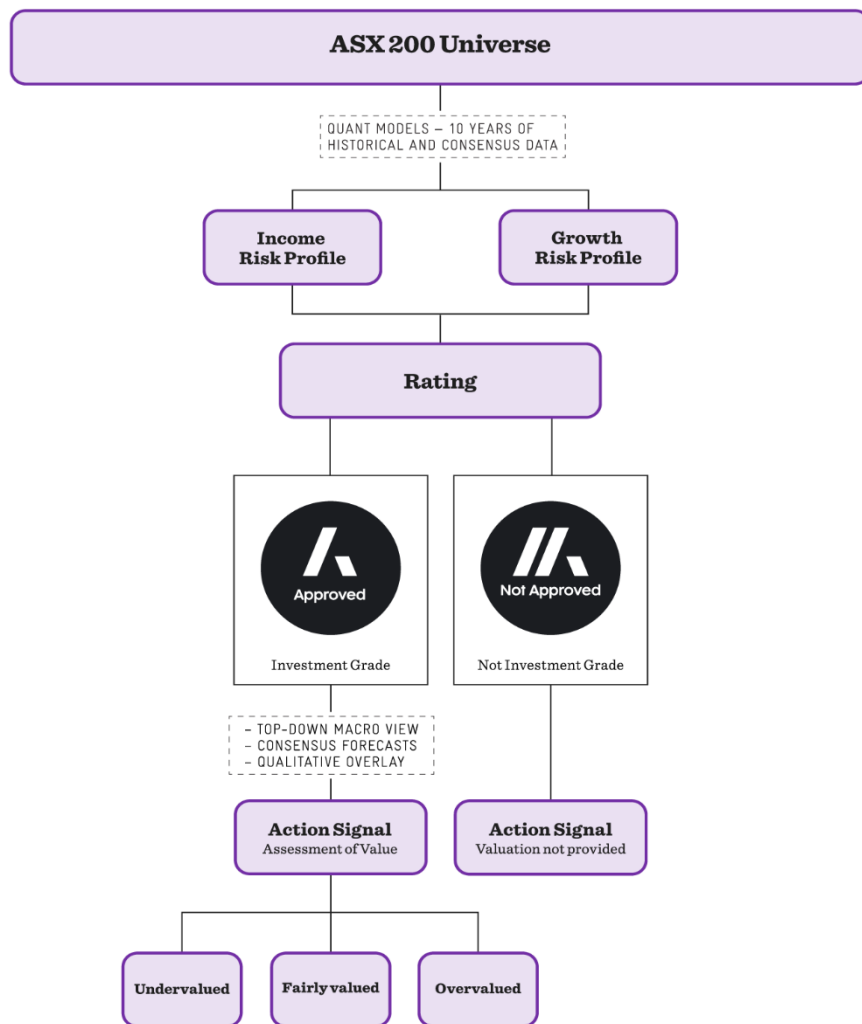
### Is the stock trading at a reasonable price?

A key part of Lonsec's investment process is to use the research process to create a bespoke set of earnings forecasts to both ratify the investment view and derive and maintain bespoke valuations for each of the ASX200 constituents. This valuation is the bedrock of an Action Signal for each stock which highlights whether the current share price represents an attractive entry point for each stock based on valuation upside.

The Action Signal will oscillate between Undervalued, Fairly Valued and Overvalued depending whether a share price is above, in-line or below Lonsec's assessment of fair value. Lonsec's fair value will be reasonably stable in the short term but will change over the medium to long term, in-line with analyst views based on the company and industry outlook and macro-economic conditions. Lonsec's ASX200 valuation methodology is largely dependent on the sector in which a stock resides.

In circumstances where the Company's valuation requires an urgent review due to a material event, Lonsec will place the fair value under review. In this situation, Lonsec will remove the fair value for the stock and advise that its valuation is currently under review in the 'Action Signal' section. This status will usually only apply for short period of time. When a valuation is under review, the rating is not affected as only the fair value is being reviewed.

Figure 14. Direct Equities Overview



Once assigned, the rating of '**Approved**' or '**Not Approved**' should be relatively stable for each stock as it is an assessment of the medium to long term prospects of a stock. Lonsec considers this to be a key attraction of its rating process. However, a small number of stocks may change rating, particularly when a material change (positive or negative) occurs and Lonsec adjusts its return and risk ratings on the stock.

### Ratings Outcome

Lonsec's research process allows it to classify its investment universe constituents as either Approved or Not Approved investments. The rating definitions are presented below.





An **Approved** rating indicates that Lonsec believes the stock is of 'Investment Grade' quality, meaning we believe the long-term income and / or growth potential of the company outweighs the potential risks



The **Not Approved** rating indicates that Lonsec believes the stock is not of 'Investment Grade' quality, meaning we believe the potential risks outweigh the long-term income and / or growth potential of the company



A **Ceased Coverage** rating indicates that the stock is no longer included in the S&P/ASX 200 and hence Lonsec has ceased coverage of the stock. New stocks coming into the S&P/ASX 200 will be initiated with an Approved or Not Approved rating within 20 business days of inclusion in the index

## Listed Income (Hybrids) Securities Research

Lonsec's listed income research follows a structured framework to derive an investment rating and risk assessment. The investment rating is a long-term assessment which remains relatively static. The risk assessment is more dynamic and may vary more frequently throughout the term of the issue. In forming our investment rating, we have assumed that positions are held to maturity and therefore will continue investment coverage through to maturity.

### Investment recommendation

Each listed income investment under coverage is assigned either an 'Approved' or 'Not Approved' rating:

#### Approved

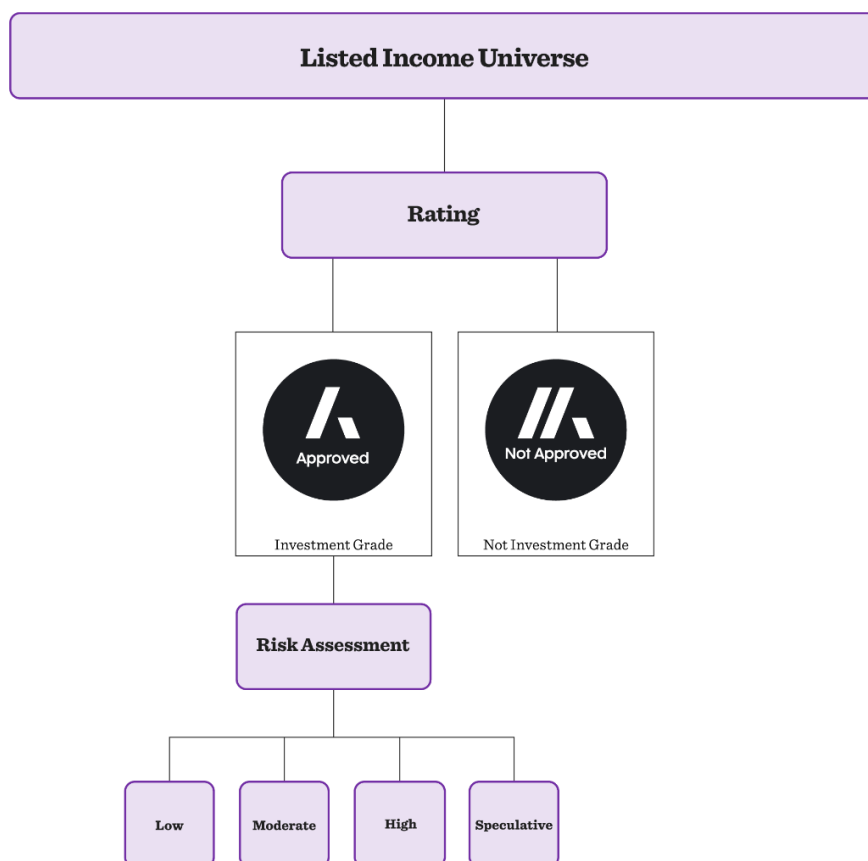
The 'Approved' rating indicates that Lonsec believes the security is of 'Investment Grade' quality, meaning we believe the security will pay all distributions in the term to call and holders will receive face value on maturity, such that the income potential outweighs the potential risks.

#### Not Approved

The 'Not Approved' rating indicates that Lonsec believes the security is not of 'Investment Grade' quality, meaning we believe the potential risks outweigh the long-term income potential of the security.

These recommendations are made with reference to the Lonsec risk assessment, which is discussed below, and with consideration to the relative attractiveness of the expected return. The potential return refers to the interest margin on offer over the relevant benchmark rate and any other investment return which may include conversion discounts, in-built call options, entitlements to IPOs and future step-ups in the margin.

Figure 16. Listed Income Overview



### Risk assessment

The six risk categories, identified and assessed and scored (in order of importance) are:

#### Financial

The financial strength of the financial product issuer is examined according to the sector in which the company operates. This is primarily designed to ensure the analysis represents a true reflection of the financial product issuer's financial strength and to take account of the fact that banks and insurance companies have very different financial structures to traditional industrial companies. Specifically, the key indicators analysed include balance sheet strength, wholesale credit rating, capital adequacy ratios, interest cover, asset quality, liquidity, net tangible assets, gearing and earnings quality.

#### Structure

The risks inherent in any listed income security can vary significantly based on the security structure. To assess structure risk, Lonsec examines subordination / capital classification, distribution payment tests, distribution restriction conditions and conversion conditions.

#### Maturity

The risks associated with the maturity structure of the issue are examined in detail and a relevant risk rating assigned. One of the key factors in the market's pricing of a listed income security is the maturity terms and conditions, as these determine the 'how' and 'when' the invested capital is returned to the investor. Lonsec forms a view on the expected maturity date of each security, having considered the maturity and / or conversion terms, the financial capacity of the financial product

issuer, the ascribed equity credit and the significance of the size of the issue to the financial product issuer.

### **Liquidity**

Liquidity risk is the risk that an investment may not be easily converted into cash with little or no discount to the last traded market value, and at minimum delay. A liquidity premium should be required by investors to compensate for lack of liquidity. Low liquidity can also result in higher than desired volatility. Key attributes analysed to rate liquidity include issue size and average weekly turnover.

### **Industry**

Structural and operational risks associated with the industry in which the company operates can impact the financial position and prospects of the financial product issuer, and hence the performance of the listed income security. Industry analysis involves consideration of the following factors: current and forecast industry conditions, domestic and global economic outlook and its expected impact on the industry, regulatory risks, the company's positioning and pricing power within its industry, the power of suppliers and buyers, as well as the life cycle stage of the industry.

### **Volatility**

Volatility measures how much the market value of an issue fluctuates with respect to its face value over the life of the issue. Volatility is often viewed negatively in that it represents uncertainty. It can, however, also provide the potential for higher returns. Both capital and income will contain some degree of volatility depending on the nature of the underlying investment. Our assessment of expected volatility takes into consideration a number of metrics including financial product issuer strength, economic and credit market conditions, investor sentiment, equity market conditions, the perception of or likely occurrence of distribution deferral or a conversion trigger, capital ranking / structure, liquidity, conversion terms, maturity risk and the volatility of listed peers.

### **Risk rating**

Once the risks outlined above have been assessed and scored, each risk is assigned a rating of low, moderate, high or speculative, depending on the score. In addition, the results are aggregated into an overall risk score, with the risks that Lonsac determines to be the most important, having the greatest weight. This score is used to determine the overall risk rating. If the overall risk score results in a Speculative rating, this indicates the issue is below investment grade and has speculative qualities.

Lonsac also advises on the Lonsac client risk profiles that each security is suited to.

# Lonsec Research Team

Appendix A to the Lonsec Research Process

02 | 2025

# Research Leadership Team

## Lorraine Robinson

**BCom (Hons), GradDipAppFin**

**Executive Director, Research**

Lorraine joined Lonsec in December 2019 to lead the Lonsec Research team. She has extensive experience in financial markets, across investment research, funds management and investor relations.

She joined Lonsec from Evans & Partners, where she was most recently the Chief Operating Officer of the Corporate and Institutional business. Her 10 year tenure included time as Head of Research and as a Senior Investment Analyst. Previously she developed her own investor relations and consulting practice, gaining experience across a number of different industries including financial services, media and communications and technology. She was a successful Research Analyst at JBWere and gained experience in both funds management and investment banking at Macquarie Bank.

## Peter Green

**BCom, BA, CA**

**Director of Research**

Peter joined Lonsec in 2008 and is responsible for the Managed Fund Research team. He also has responsibility for the Australian Equities sector. Peter has held a number of roles within Lonsec, having developed and managed Lonsec's ASX 200 research and been responsible for all managed funds equities research across a range of sectors with a primary focus on the Australian equities market. He also has experience in the direct property sector.

Before his career at Lonsec Research, Peter worked as a Development Analyst/Senior Property Accountant for an Australian REIT, where his main role was providing investment analysis and budgeting/forecasting capabilities to the Australian retail property team. He originally worked for Andersen/Ernst & Young as an external audit senior as well as spending two years in the United Kingdom in various accounting roles.

## Robyn Bayliss

**Director of Delivery**

Robyn joined Lonsec in January 2019 to lead the Operations and Data Analytics Team responsible for the management and ongoing development of Lonsec's quantitative tools and data processes. She was recently promoted to Director of Delivery, responsible in conjunction with Peter Green for the delivery of the research schedule. Robyn is also charged with driving continuous improvement and managing change across the Lonsec Research business, working closely with IT and other Lonsec business units as a business partner to ensure that all process, data and product initiatives are aligned with the strategic aims of the group.

Prior to joining Lonsec, Robyn implemented and managed the PMO for Victorian Funds Management Corporation (VFMC) and was responsible for the delivery of the 2020 Strategic Plan and transition of

custodian. Robyn's background includes roles as Project Manager, Senior Business Analyst and Operations Manager in the finance and superannuation industry.

## Rui Fernandes

**BEc, GradDipAppFin, CFA**

### **Head of Product Development**

Rui joined Lonsec in January 2008 and is responsible for the firm's research product development including new products or services, process quality and enhancement. Prior to this current appointment in February 2020, Rui has held roles such as co-leading the research team as well as being the lead analyst for global equities strategies. During his tenure he has also worked across a range of asset classes and sectors.

Before joining Lonsec, Rui had a variety of investment research and analytical roles in the finance industry at firms such as Aviva Research, the Australian Prudential Regulation Authority and the Commonwealth Bank of Australia. Rui has worked in the finance industry since 2001.

## Darrell Clark

**BAEcon (Hons), MAppFin**

### **Deputy Head of Research & Manager, Alternatives**

Darrell joined Lonsec in January 2019 and is the Deputy Head of Research and the Manager for the Alternatives sector. Darrell has previously held responsibility for leading the research effort on multi-asset funds and superannuation options. Prior to joining Lonsec, Darrell was the Head of Qualitative Analysis at Evergreen Consultants responsible for manager selection within the Evergreen SMA portfolios. Darrell also spent several years as a Senior Investment Analyst within the Advice Research team at BT Financial Group where he was responsible for manager research across a number of sectors. Darrell's other work history includes client relationship roles at Skandia and Gartmore Investment Management (London).

## Tony Adams

**BCom, MBA, DipSustainability**

### **Head of Sustainable Investment Research**

Tony joined Lonsec in March 2019 and is currently responsible for the responsible investment subsectors across various equity teams as well broad oversight of the assessment of ethical, ESG and impact capabilities across managers.

Prior to joining Lonsec, Tony has had 30 years' experience in global fixed interest markets, most recently as Head of Global Fixed Interest and Credit at Colonial First State Global Asset Management, where he developed the firm's global credit capability and oversaw the implementation of ESG across portfolios. Previous roles included Senior Portfolio Manager at Westpac Investment Management and Balance Sheet Manager at NSW Treasury Corporation.

## Chad Troja

### **Blntl Trade, MAppFin**

#### **Head of Direct Equities**

Chad joined Lonsec at the end of 2017 from Catholic Church Asset Mgt where he was an Investment Analyst covering Australian Equities and Global Fund Manager research. Prior to this Chad spent 9 years at Perennial Investments Partners where he was part of the Global Equities team covering Consumers, Industrials and Health, whilst also involved in FX execution.

With over 15 years funds management experience previous organisations include Invesco, Equity Trustees and Foreign & Colonial (UK). Chad covers Communications, Financials, Health and Tech.



# Sector Managers

## Michael Elsworth

**BCom, MBA, GradDipAppFin**

**Manager, Fixed Income**

Michael joined Lonsec in 2006 as part of the research team and at various times had responsibility for sectors including structured and exchange traded products, fixed income and alternatives. He has also worked in the Investment Consulting team, providing advice and input into model portfolio construction and asset allocation decisions.

Prior to Lonsec, Michael worked at Westpac in both retail and institutional financial markets, and structured product development roles where he was responsible for sourcing, repackaging and marketing financial markets products. Michael spent three years in Hong Kong and two years in New York where he acted as Westpac's senior financial markets representative, helping expand the bank's reach in structured credit products. Michael spent over 2 years at Resolution Life as part of a team responsible for insourcing investment management capabilities from AMP Capital, before re-joining the Lonsec research team in 2023.

## Hong Hon

**CIMA, MAppFin, BCom, AdvDipFS(FP), FFin**

**Manager, Global Equities**

Hong is responsible for leading and the overall delivery of the Global Equities sector review. Hong joined Lonsec in April 2019 as a Senior Investment Analyst within the managed funds research team and was responsible for undertaking research across a range of asset classes, primarily Australian Equities, Global Equities and Fixed Income.

Hong has over 18 years of experience working in a range of analytical, investment research and portfolio management roles within the financial services industry. Hong has completed a Master of Applied Finance, holds the Certified Investment Management Analyst (CIMA) designation and is a Fellow of the Financial Services Institute of Australasia (FINSIA).

## Matthew Turnbull

**BIntFin, DipFP, CIMA**

**Manager, Australian Equities**

Matt joined Lonsec in February 2021 as a Senior Investment Analyst within the managed funds research team. In his role, Matt is responsible for managed funds research across a range of different sectors, with primary focus on Australian and global equities. Matt has 17 years of experience working in a variety of analytical, investment research and financial planning roles within the wealth management industry.

Prior to Lonsec, Matt worked as a Senior Investment Analyst at MLC where he was responsible for conducting sector reviews across managed funds and listed investment companies, as well as providing ancillary investment research services to the aligned dealer groups. Prior to MLC, Matt was Investment Research Manager at Suncorp and Investment Analyst at AMP.

## Nathan Umapathy

### **BCom**

#### **Manager, Passives**

Nathan joined Lonsec in June 2018 and is primarily responsible for research efforts with listed products on both the ASX and Chi-X. He previously worked as a Research Analyst at Bell Potter, covering both the Listed Investment Company/Trust and the Exchange Traded Fund Sector. Specific to that role, he was responsible for authoring the highly regarded LIC Weekly and Quarterly reports and has been involved in several capital raisings within the sector. Prior to that role, he worked as an Assistant Analyst to the Head of Research at Bell Potter. Nathan holds a Bachelor of Commerce from the University of Melbourne.

## Payal Vasa

### **MCom, PGDBM(Finance)**

#### **Manager, Real Assets**

Payal is responsible for leading the Real Assets sector at Lonsec, bringing over 15 years of experience in the financial industry. She joined Lonsec in December 2023 as a Senior Investment Analyst. Before joining Lonsec, Payal managed equity portfolios in the superannuation industry, where she was actively involved in researching and selecting investment managers, constructing portfolios, and implementing investment strategies. Her expertise spans across asset allocation, manager due diligence, and portfolio risk management.

Payal holds a Master of Commerce and a Diploma in Business Management with a specialisation in finance.