



# AIM Global High Conviction Fund

This report has been prepared for financial advisers only



**Favourable**

November 2020

# INTRODUCTION

## Key Principles

SQM Research considers (but is not restricted to) the following key review elements within its assessment:

1. Business profile - product strategies and future direction
2. Marketing strategies and capabilities, market access
3. Executive Management / Oversight of the investment management firm
4. Corporate Governance / fund compliance / risk management
5. Investment team and investment process
6. Fund performance, investment style, market conditions, investment market outlook
7. Recent material portfolio changes
8. Investment liquidity
9. Investment risks
10. Fund/Trust fees and expenses

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**Report Date: 13 November 2020**

Star Rating *	Description	Definition	Investment Grading
4½ stars and above	Outstanding	<b>Highly suitable for inclusion on APLs</b> <i>SQM Research believes the Fund has considerable potential to outperform over the medium-to-long term. Past returns have typically been quite strong. Product disclosure statement (PDS) compliance processes are of a high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.</i>	High Investment grade
4¼ stars	Superior	<b>Suitable for inclusion on most APLs</b> <i>SQM Research considers the Fund has substantial potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.</i>	High Investment grade
4 stars	Superior	<b>Suitable for inclusion on most APLs</b> <i>In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no corporate governance concerns. Management is of a high calibre.</i>	High Investment grade
3¾ stars	Favourable	<b>Consider for APL inclusion</b> <i>SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality. There are no corporate governance concerns, or they are of a minor nature.</i>	Approved
3½ stars	Acceptable	<b>Consider for APL inclusion</b> <i>In SQM Research's view, the potential for future outperformance in the medium-to-long term is somewhat uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and capable. SQM Research has identified weaknesses which need addressing in order to improve confidence in the Manager.</i>	Low Investment grade
3¼ stars	Caution Required	<b>Not suitable for most APLs</b> <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potential substandard. There are possible corporate governance concerns. Management quality is not of investment-grade standard.</i>	Unapproved
3 stars	Strong Caution Required	<b>Not suitable for most APLs</b> <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There may be some material corporate governance concerns. SQM Research has a number of concerns regarding management.</i>	Unapproved
Below 3 stars	Avoid or redeem	<b>Not suitable for most APL inclusion</b>	Unapproved
Event-driven Rating	Definition		
<b>Hold</b>	<i>Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.</i>		
<b>Withdrawn</b>	<i>Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.</i>		

\* The definitions in the table above are not all encompassing and not all individual items mentioned will necessarily be relevant to the rated Fund. Users should read the current rating report for a comprehensive assessment.

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**SQM Rating** 
*Favourable. Consider for APL inclusion.*

<b>Fund Description</b>	
Fund Name	AIM Global High Conviction Fund
APIR code	AIT3081AU
Asset Class	Equities Long Only
<b>Management and Service Providers</b>	
Fund Manager	Aitken Investment Management Pty Ltd
Responsible Entity	The Trust Company (RE Services) Limited
Custodian	Perpetual Services Pty Ltd
<b>Fund Information</b>	
Fund Inception Date	8-Jul-15
Fund Size	\$108,631,778
Return Objective (as per PDS)	To outperform the benchmark while providing sensible downside protection from permanent capital loss over the medium to long term.
Internal Return Objective	-
Risk Level (per PDS)	Medium to High
Internal Risk Objective	-
Benchmark	MSCI World Net Total Return Index (AUD)
Number of stocks/positions	Typically, 15 to 25
Fund Leverage	Zero
Turnover	29% for 2019, 9.2% for 2020 year-to-date (long-term expectation of 20% to 33% p.a.)
Top 10 Holdings Weight	56.0%
<b>Investment Information</b>	
Minimum Application	\$20,000
Redemption Policy	Daily
Distribution Frequency	Annual 30th June
Investment Horizon (per PDS)	3-5 years
Currency Hedging Policy	Unhedged positions
Management Fee	1.43% (Inc of GST)
ICR – latest	1.65%
Buy Spread	0.07%
Sell Spread	0.07%
Performance Fee Rate	15% (inc of GST)

## Fund Summary

### Description

The **AIM Global High Conviction Fund (the "Fund")** is a high conviction, long-only global equities approach that has a long-term return focus. This Fund's strategy is based on the belief that a concentrated portfolio of quality businesses, that can sustain high economic profits due to powerful competitive advantages, will lead to compounding returns when purchased with a margin of safety and held for a long period. Consequently, the Fund aims to deliver a sustained compounding of wealth over time by investing in high quality businesses.

The key elements to success for this strategy are:

- investing in high-quality businesses
- that can compound their cash flows at growth rates much higher than inflation
- over the long-term with low portfolio turnover

The Fund is a high conviction fund, which means the Investment Manager will make concentrated risk-adjusted investments in the strongest ideas. The core goal of the Fund is to compound cash flow and therefore capital at high growth rates over the long term.

### Recent Strategic Review and Streamlining of Fund

Following a year of extremely poor performance in calendar 2018, Charlie Aitken undertook a root-and-branch review of the firm, the aggregate skill set of the staff, the structure of the Fund and its investment process. He concluded that deep systemic changes were required to allow the Fund to optimally reflect AIM's core competency in company analysis and stock selection. Too many peripheral and marginal strategies had been in place. The requirement was for simplification of process and a sharper focus on pure analysis and concentrated stock selection with robust risk management.

Over the course of January through to July 2019 a series of significant changes were introduced that reshaped the Fund and essentially created a new version. Those changes are listed below:

### Administrative

- The Fund's Benchmark has been changed to MSCI World Net Total Return Index (AUD)
- The management fee has been reduced to 1.43% (incl. of GST), and buy/sell spread to 7bp each side

- Unit pricing has been changed from monthly to daily pricing and daily liquidity
- The Fund was changed from a wholesale fund to a retail fund, which lead to the introduction of a Responsible Entity; The Trust Company (RE Services) Limited (a subsidiary of Perpetual Limited)
- The Fund's Administrator has been changed to Mainstream Fund Services Pty Ltd

### Investment Staff

- Departures: Angus Wright and Ed Davies
- Additions: Etienne Vlok, Andrew Strasser

### Investment Process

- removed shorting – the Fund is now long-only
- removed the use of leverage
- removed the use of currency hedging

In SQM's opinion, these changes are extensive enough such that the Fund is now a distinct and different strategy to its previous incarnation. We have identified that point of change as Jul 2019. Consequently, this report will only review and analyse the track record of the Fund from this date (Jul-19) forward.

## Fund Rating

The Fund has achieved the following rating:

Star Rating	Description	Definition	Investment Grading
3.75 stars	Favourable	Consider for APL inclusion	Approved

## SQM Research's Review & Key Observations

### 1. People and Resources

#### About the Manager

Aitken Investment Management ("AIM") is the manager of the AIM Global High Conviction Fund (the "Fund") which is retail fund open to investors via a PDS.

Aitken Investment Management is privately owned by multiple related parties and operates on a small and tight-knit scale. The Fund has \$108 million under management as of July 2020. AIM also manages a further \$15 million in an SMA which is managed pari passu with the Fund.

AIM is structured to focus on one activity: manage client investments. Functions not related to this core purpose are outsourced to prominent asset management service providers. This enables AIM to focus on conducting investment research, managing the portfolio, and engaging with investors.

### Investment Team

The investment team is small and work closely together in the day to day running of the Fund. Mr Aitken is responsible for high-level macro strategy and identifying strong investable structural growth themes. Mr Vlok is primarily responsible for selecting stocks within identified themes whilst also conducting investment research. The team has an additional dedicated investment analyst, Mr Andrew Strasser who provides support to the seniors. Key person risk is deemed to be moderate to high.

AIM has a very flat corporate structure and ideas are shared freely among the team. The portfolio manager is responsible for setting the research agenda and plan for the analysts. There are investment committee and portfolio construction meetings where ideas are presented and debated.

## 2. Investment Process and Philosophy

### Investable Universe

The Fund invests in global listed equities with a filter that reduces the universe based on size and liquidity. The focus is on stocks with a market capitalisation in excess of US\$10 billion and more than US\$100 million average value traded per day over a 90 day period. No countries or sectors are excluded when this screen is conducted.

This screen reduces a global universe of greater than 90,000 actively traded primary equity instruments to a more manageable number of around 1,600 companies. Further screening for high return on invested capital and free cash flow generation reduces the universe substantially to around 100 – 120 companies.

The screen provides confidence in the liquidity of the stocks held by the fund, given the scope of the current assets under management.

### Process / Philosophy / Style

The Fund believes the high returns are generated by investing in quality businesses exposed to structural tailwinds. It selects stocks bottom-up for high quality compounding growth businesses that are optimally exposed to those top-down themes. The Manager identifies top-down broad macroeconomic trends and ensures the portfolio is populated (on a bottom up

basis) with ideas meeting its quality criteria and aligned with the macro view.

Typically, the Manager looks to put 50-70% of the portfolio into the top 10 ideas.

A price-drop review process is employed which is intended to limit the capital drawdown of any underperforming investment. This component draws heavily on the long market experience of the investment team and their networks of market contacts and information sources.

Positions are reviewed following underperformance to evaluate whether the original investment thesis still stands. Normally, a rapid relative drop of 5% would trigger a review of the investment thesis with all members of the Investment Committee providing input.

### Risk Management

To ensure risk is constrained appropriately and capital is preserved, the risk management framework focuses on diversification.

Portfolio diversification is achieved by owning a range of businesses exposed to attractive end-markets with different economic drivers, subject to reasonable concentration limits at a stock, sector and country level.

AIM defines risk as the permanent loss of capital, rather than the near-term underperformance of a benchmark.

Daily risk reports (derived from the risk system Imagine) are distributed to the whole team. Any outlier item is discussed at the portfolio construction meeting. The reports cover Liquidity Risk, Correlation Risk and Stress Tests.

Risk management is embedded in the investment process through the stock selection process. The portfolio construction process caters to various risk priorities regarding exposure limits.

## 3. Portfolio Characteristics

### Portfolio Turnover

The Fund has a medium-to-long term investment horizon which AIM defines as three to five years. It follows from this that annual portfolio turnover should average approximately between **20% and 33%** in the future. Since the re-structure in 2019, portfolio turnover has trended lower but remains above this range.

The monthly and year-to-date turnover is reported to the Investment Committee once a month. Excessive trading is investigated and explained in writing.

### Liquidity

At current AUM levels there are no significant liquidity constraints. The majority of the fund is deployed in large-cap securities and typically small-cap ideas will be sized smaller to account for liquidity. The Fund regularly conducts stress testing under various conditions of average daily volumes and can essentially liquidate the Fund in less than 7 days.

### Leverage

This Fund does **not** employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives). It stopped the use of leverage in early 2019.

## 4. Performance & Risk

### Return Objective & Performance

The return objective stated in the PDS is: "The Fund seeks to outperform the Benchmark, while providing sensible downside protection from permanent capital loss over the medium to long term".

Over the twelve months to Sep-2020, the Fund returned 17.13% (after fees) compared to 3.89% for the benchmark. This is an outperformance of 13.24%.

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



### Length of Track Record

The Fund has a history of 1.3 years (or 15 months) from the time it re-structured the Fund's parameters and process. Any observations and analysis of returns will have very little statistical meaning. SQM Research notes that returns, volatility and other risk measures can be "noisy" and less reliable when quantified using a small sample size of observations.

### Risk Objective

The Fund's PDS states that the risk level of the Fund is "Medium to High".

The Fund's volatility (standard deviation of monthly returns) over the year to Sep-2020 was 11.91% compared to a peer average of 12.30% and 13.90% for the benchmark.

### Drawdown Experience

	Drawdown Size (peak-to-trough)		
	Fund	Bench	Peers
Average	-2.47%	-7.01%	-5.43%
Number	4	2	3

Drawdowns have on average been substantially better than the benchmark and better than the peer average.

**Definition:** A drawdown tracks the path of the Fund's accumulated NAV (with dividends reinvested). It is measured over the period of a peak-to-trough decline and the subsequent recovery back to that previous peak level. The total return over that entire period is, of course, zero. The metric of interest, the drawdown itself, is quoted as the percentage change between the peak and the trough over that period. Funds typically have multiple drawdowns of varying size and length over their lifetime. The table above shows how many drawdowns have occurred and their average peak-to-trough size.

## 5. Other Features

Fees and Costs	Fund	Peer Avg
Management Fee (% p.a.)	1.43%	1.10%
Other Costs (% p.a.)	0.22%	n.a.
Performance Fee (%)	15.00%	15.00%
Buy Spread (%)	0.07%	0.18%
Sell Spread (%)	0.07%	0.18%

### Management Fee

- Expressed as a percentage rate per annum of the Fund's Net Asset Value ("NAV")
- Calculated daily and paid to the Manager monthly
- Including GST and impact of RITC (Reduced Input Tax Credit).

### Performance Fee

There is a performance fee charged as follows:

- 15.0% of the amount by which the Fund's investment returns (**after** base management fees have been deducted) exceed the returns of the Benchmark.

- Including GST and impact of RITC (Reduced Input Tax Credit)
- Fee is calculated and accrued daily and (if applicable) payable to the Investment Manager every six-month period ending 30th June and 31st December each year.
- 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. The performance fee is only paid where the unit price of the relevant class exceeds the High Water Mark increased by the MSCI World Net Total Return (AUD) (Benchmark).
- The High Water Mark in respect of a date, is greater of:
  - o The highest Net Asset Value of the relevant class unit as at the last day of the last period for which a Performance Fee was last paid or payable for the relevant class; and
  - o The initial issue price of the initial units of the class.
- In the event that the return on a Unit in a Class is less than the Benchmark during a Performance Period, no performance fee will be payable for that Performance Period.

### Governance

The Trust Company (RE Services) Limited ("Responsible Entity") is the Responsible Entity for the Fund. The Responsible Entity is a wholly-owned subsidiary of Perpetual Limited, which has been in operation for over 125 years. Perpetual Limited is an Australian public company that has been listed on the Australian Securities Exchange for more than four decades.

The Responsible Entity is bound by the Constitution and the Corporations Act and holds AFSL number 235150 issued by ASIC. This authorises it to operate the Fund. The Responsible Entity has lodged a compliance plan with ASIC, which sets out the key measures which the Responsible Entity will apply to comply with the Constitution and the Corporations Act. The Responsible Entity has established a compliance committee with a majority of external members. The compliance plan is overseen by the compliance committee and is audited annually with the audit report being lodged with ASIC.

### FUM (Funds Under Management) / Capacity

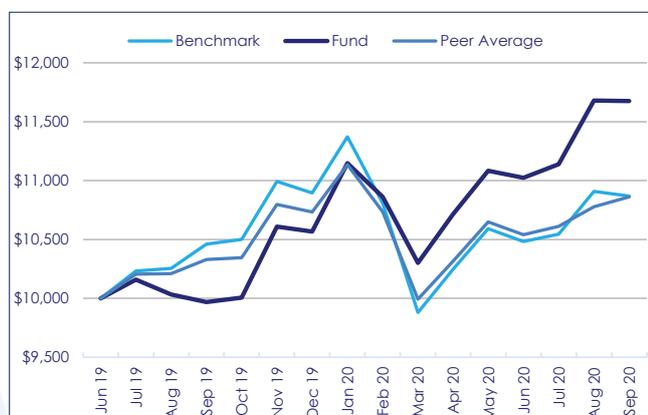
The Fund is approximately \$108 million in size at Jul-2020.

The Manager has not officially detailed a hard of soft capacity for the strategy. Their intention is that a review should take place when the strategy achieves FUM of \$500 million.

Fund Performance to 30 September 2020 (% p.a.)							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund <sup>1</sup>	-0.04	5.90	13.33	17.13	n/a	n/a	13.19
Benchmark <sup>2</sup>	-0.38	3.67	10.00	3.89	n/a	n/a	6.88
Peer Average	0.77	3.07	8.92	5.38	n/a	n/a	6.93
Alpha	0.34	2.23	3.33	13.24	n/a	n/a	6.31

1. With dividends reinvested. Returns beyond one year are annualised. Return history starts Jul-2019

2. Benchmark: MSCI World NR AUD

**Growth of \$10,000****Strengths of the Fund**

- The Fund focuses on concentrated, high-conviction positions as its driver for alpha.
- The Investment team led by Mr Charlie Aitken is very experienced and knowledgeable in financial market analysis and funds management, backed by rigorous research and a strong network of market contacts.
- The Fund applies a rigorous bottom-up approach to its investment strategy, informed by a top-down macro and thematic view.

**Weaknesses of the Fund**

- Poor performance in 2018 has led to a review and re-tooling of the Fund, some aspects of process, staffing and management structure. These changes were complete by mid-2019, giving them a short track record. Early results are encouraging, but it requires more time to appropriately judge the effectiveness of these enhancements.
- Relatively higher fee structure compared to peers.
- The Fund has experienced a sustained run of outflows since Q4 2018 – the rate of outflow has moderated somewhat over the course of 2020. The size of the Fund has more than halved since mid-2018.

**Other Considerations**

- The Fund does not hedge its offshore investments.

**Key Changes since the Last Review**

- Benchmark has been changed to MSCI World Net Total Return Index (AUD)
- Management fee has been reduced to 1.43% (incl. of GST), and buy/sell spread to 7bp each side
- Unit pricing has been changed from monthly to daily pricing and liquidity
- The Fund was changed from a wholesale fund to a retail fund, which led to the introduction of a Responsible Entity; The Trust Company (RE Services) Limited (a subsidiary of Perpetual Limited)
- The Administrator has been changed to Mainstream Fund Services Pty Ltd
- **Investment Staff**
  - Departures: Angus Wright and Ed Davies
  - Additions: Etienne Vlok, Andrew Strasser
- **Process**
  - Investment Process – removed shorting, leverage and currency hedging.

Investment Process Diagram



Process Description

Universe

**Investable Universe** The Fund invests in global listed equities with a filter that reduces the universe based on size and liquidity. The focus is on stocks with a market capitalisation in excess of US\$10 billion and more than US\$100 million average value traded per day over a 90 day period. No countries or sectors are excluded when this screen is conducted.

This screen reduces a global universe of greater than 90,000 actively traded primary equity instruments to a more manageable number of around 1,600 companies. Further screening for high return on invested capital and free cash flow generation reduces the universe substantial to around 100 – 120 companies.

The screen provides confidence in the liquidity of the stocks held by the fund, given the scope of the current assets under management.

Investment Process

**Top-down or bottom-up** The Fund adopts a blended top-down, bottom-up strategy. The Fund believes the best returns are generated by investing in quality businesses exposed to structural tailwinds. It then selects stocks bottom-up for high quality compounding growth businesses that are best exposed to those top-down themes. The Manager identifies top-down broad macroeconomic trends and makes sure the portfolio is populated (on a bottom up basis) with ideas meeting its quality criteria and aligned with the macro view. The fund is biased towards favourable price-to-growth qualities and are prepared to pay a premium to market for structural earnings and dividend growth. Typically, the Manager looks to put 50-70% of the portfolio into the top 10 ideas.

A price-drop review process is employed which is intended to limit the capital drawdown of any underperforming investment. This component draws heavily on the long market experience of the investment team and their networks of market contacts and information sources.

Positions are reviewed following underperformance to evaluate whether the original investment thesis still stands. Normally, a rapid relative drop of 5% would trigger a review of the investment thesis with all members of the Investment Committee providing input.

**Research and Portfolio Construction Process** Idea Generation  
 The Fund is looking for high-quality corporates that will be beneficiaries from structural growth themes identified by the investment team. They search for verification in the financial results and commentary from corporates that should be exposed to these themes.  
 Stock ideas can come from two main sources – top-down screening and bottom-up industry analysis.

## Investment Process

### Research and Portfolio Construction Process ...continued

1. **Fundamental screening** uses financial metrics (from Factset & HOLT-Credit Suisse) that are indicators of a high-quality, cash-generative business.
2. **Bottom-up industry analysis** is performed by the investment team and the areas of focus are guided by the team's evaluation of the broader themes and trends playing out in the real economy.

The search for profitable ideas is broader than the processes described above, and includes interactions with sell-side brokers, industry publications, industry conferences, management meetings, access to global expert networks, and leveraging the accumulated knowledge and contact networks of the experienced investment team.

### Screening

Bottom-up research starts with a detailed analysis of a stock's historical financial records. After screening for size and liquidity, the team screens for fundamental characteristics that are good indicators of quality. The goal is to use long term averages (five-to-seven years) where possible, as well as the most recently reported number. This checks that an attractive long-term average metric is not being inflated by unusual short-term outliers, and that the recent metrics have held up or improved.

Important variables reviewed include:

- Businesses that can compound their free cash flow. The team looks at free cash flow conversion of earnings, reinvestment opportunities within the business and rates of return generated on those investments.
- Return on capital higher than the cost of capital throughout the business cycle - an indicator of a durable competitive advantage.
- Strength of the balance sheet – as measured by historical debt-to-equity and debt-to-asset ratios, current interest cover and cash interest cover. Companies that are over-gearred are excluded.
- Strong cash conversion - the absolute value of cash generated from operations should be higher than 100% of normalised earnings over an extended period of time. Free cash flow as a percentage of normalised earnings should be above 85%. This tends to eliminate businesses that are highly working capital- or capex-intensive.
- Volatility of normalised earnings growth - businesses with more than one year of negative earnings growth over the last five years (or two years over the last seven) are filtered out. This tends to exclude businesses with excessively volatile growth profiles, which is normally an indicator of a business without pricing power.
- Sustainable normalized revenue and earnings growth. Identify businesses that have grown revenues and normalised earnings (before impairments, revaluations, restructuring or other extraordinary charges) greater than 6% p.a. over a five- or seven-year period. This metric is a potential indicator of pricing power, or a market experiencing solid secular growth. Acquisitions can distort these metrics, so the team evaluates whether the drivers of growth have been organic or not.

When applying the strictest version of the screen, the result is around 40 to 50 names, whilst a more "normal" version results in around 100 to 120 names.

## Investment Process

### Research and Portfolio Construction Process ...continued

#### Research / Stock Selection

The Fund aims to employ 50-70% of the portfolio to the top 10 holdings. Research is heavily prioritised towards fully understanding and closely monitoring these existing holdings. All new investment opportunities are assessed on a relative basis against existing core positions, ensuring that there is a healthy competition for the fund's capital.

The core of the teams bottom-up research is conducted in-house and with reliance directly on company statements and interactions.

From a top-down perspective, the Fund engages various external research advisors, including global investment banks and some bespoke macro research houses:

#### AIM Panel of Brokers:

Morgan Stanley  
Bernstein  
Credit Suisse  
Macquarie  
Jefferies

#### Macro external research: Aitken Advisors

The investment team maintains earnings models on all current and previous investment positions and builds models prior to making a new investment as part of the due diligence process. These models provide an input into investment making decision process and help judge the prospective returns from each position.

A range of valuation metrics are used, including free cash flow yield.

#### Portfolio Construction

Once a stock is included on the monitored list, it is considered investable by the Fund. However, before any capital is allocated to a stock, all members of the Investment Committee must agree to its addition to the fund.

The Investment Committee therefore formally reviews the positioning of the fund once per week and will debate changes or recommendations based on the current assessment of risk, reward and conviction.

The Investment Committee debates the various opportunities available as expressed in the monitored list. The Committee weighs up the opportunities through a valuation driven process and then overlays other considerations at a portfolio construction level. These include the portfolio construction limits and any macro-economic inputs.

#### Portfolio Construction Limits

In constructing the portfolio, the following internal guidelines apply:

##### Geographic limits

There are no geographic constraints on where the portfolio may invest, though it is unlikely that any region besides the USA will ever comprise more than 50% of the portfolio by listing domicile.

- Any region/currency that amounts to 10% or greater of NAV is flagged to the Investment Committee.
- No more than 10% of the portfolio is invested in Australian-domiciled stocks - this ensures consistency with the global mandate.

## Investment Process

## Research and Portfolio Construction Process

...continued

**Sector limits**

There is no required minimum weight to any individual sector. However, no more than a 30% of NAV will be concentrated in a single sector as defined by GICS.

**Single stock limits**

- The intent is for the portfolio to be concentrated, and it will therefore own between 15 and 25 stocks.
- The minimum position size for any single equity is 2.5%. Initial investments may take up to 6 months to be built up to this level.
- No position should be below 2.5% for an extended period of time. Should a stock decline to be less than 2.5%, the Portfolio Manager will have to rebalance the position to 2.5% within a reasonable period. This rule helps to avoid the practice of having a long tail of low-conviction stocks.
- The maximum position size for any single equity is 7.5%.
  - Any individual stock greater than 6% of NAV is flagged to the Investment Committee. The portfolio manager will need to justify the reasons for this conviction.
  - If a stock's price increase causes it to be greater than 7.5% of the portfolio, it will be flagged to the Investment Committee, and the portfolio manager will reduce the position to within the acceptable range.
- From time to time, the Fund may invest in businesses that exhibit the quality characteristics it looks for, but is not yet at the stage of its corporate life cycle where the numbers bear this out. These investments therefore require a larger amount of subjective judgment. These businesses are internally referred to as 'future compounders' and are usually defined as businesses that are not yet sustainably free cash flow generative.
  - The fund may have 0% exposure to these kinds of businesses, depending on valuations and opportunity.
  - To manage the risk of investing in these kinds of businesses, no individual 'future compounder' is allowed to exceed 4% of the NAV of the fund. Collectively, 'future compounders' may not exceed 10% of the NAV of the fund.

**Off-benchmark holdings**

- The portfolio should have no more than 20% of NAV invested in companies or regions that are not included in the benchmark.
- Any exposure of 15% or greater to off-benchmark holdings is flagged to the Investment Committee.

**Cash position**

While the fund is practically allowed to go to a maximum of 20% cash during times of extreme market conditions, the preference is to be close to fully invested at most times. As such, the normal cash weight will be between 2.5% and 5% of the portfolio, with agreement from all members of the Investment Committee required to increase cash to greater than 10% of the portfolio.

**Liquidity**

At current AUM levels there are no significant liquidity constraints. The majority of the fund is deployed in large-cap securities and typically small-cap ideas will be sized smaller to account for liquidity. The Fund regularly conducts stress testing under various conditions of average daily volumes and can essentially liquidate the Fund in less than 7 days.

## Investment Process

**Research and  
Portfolio  
Construction  
Process**  
...continued

**Turnover**

The Fund has a medium-to-long term investment horizon which AIM defines as three to five years. It follows from this that annual portfolio turnover should average approximately between **20% and 33%** in the future. Since the re-structure in 2019, portfolio turnover has trended lower but remains above this range.

The monthly and year-to-date turnover is reported to the Investment Committee once a month. Excessive trading is investigated and explained in writing.

**Sell Discipline**

The Manager believes that selling is arguably more important than buying, and therefore dedicates considerable time and effort to this discipline. Empirical evidence shows active managers' sell decisions, on average, tend to perform less well than their buy decisions. The reasons for this include regret (loss aversion), inertia (herding), reluctance to changing one's mind (anchoring) and unwillingness to admit to mistakes.

It follows that a clear and repeatable process is necessary to ensure sell decisions overcome behavioural biases.

If a stock trades above AIM's assessment of its intrinsic value, they will first manage the risk by sizing it accordingly in the portfolio. Should this gap widen to levels judged to be unjustified by the fundamentals, the team may choose to exit such a position, based on the fact that the risk/reward outlook has become extremely unfavourable.

Positions are also reviewed following underperformance to evaluate whether the original investment thesis still stands. Normally, a rapid relative drop of 5% would trigger a review of the investment thesis with all members of the Investment Committee providing input.

The team distinguishes between reducing a holding – which is primarily a risk management duty – and entirely selling out of a holding.

Reductions are driven by the relative opportunity set, assessment of the current valuation, the risk/reward trade-off, and correlation and concentration risk.

A full exit of a position is usually triggered by a deterioration of the investment thesis. Relevant indicators of this include:

- Fundamental changes to the strategy, business model or competitive landscape within an industry
- A temporary (or permanent) deterioration in the business which negatively impacts the return on capital characteristics of the company
- Increased regulatory risk
- Material changes within a company's management profile
- An impaired ability to generate superior cash flows
- Corporate governance concerns
- Adverse capital allocation decisions

Any decision to reduce or sell a stock is debated by the Investment Committee. No stock may be entirely sold without all members of the Investment Committee agreeing.

**Investment Process****Research and Portfolio Construction Process**

...continued

**Risk Management**

To ensure risk is constrained appropriately and capital is preserved, the risk management framework focuses on diversification.

Portfolio diversification is achieved by owning a range of businesses exposed to attractive end-markets with different economic drivers, subject to reasonable concentration limits at a stock, sector and country level.

AIM defines risk as the permanent loss of capital, rather than the near-term under-performance of a benchmark.

Daily risk reports (derived from the risk system Imagine) are distributed to the whole team. Any outlier item is discussed at the portfolio construction meeting. The reports cover Liquidity Risk, Correlation Risk and Stress Tests.

Risk management is embedded in the investment process through the stock selection process and investment process. The portfolio construction process caters to various risk priorities regarding exposure limits.

**Trading/Implementation****Trading Resources & Procedure**

Trading is conducted by PM Etienne Vlok via Bloomberg ESMX.

AIM is cognizant of not overtrading the portfolio to the detriment of client returns. They seek to achieve best execution at all times and will only use the brokers on their Approved Broker List to trade. The Approved Broker List is reviewed at least annually, to ensure maintenance of high standards of execution, service and relevant research to enable the firm to manage the fund.

In general, the Fund looks to deal in increments of no less than 0.3% of the overall assets of the fund for any single trade to ensure trades are cost effective.

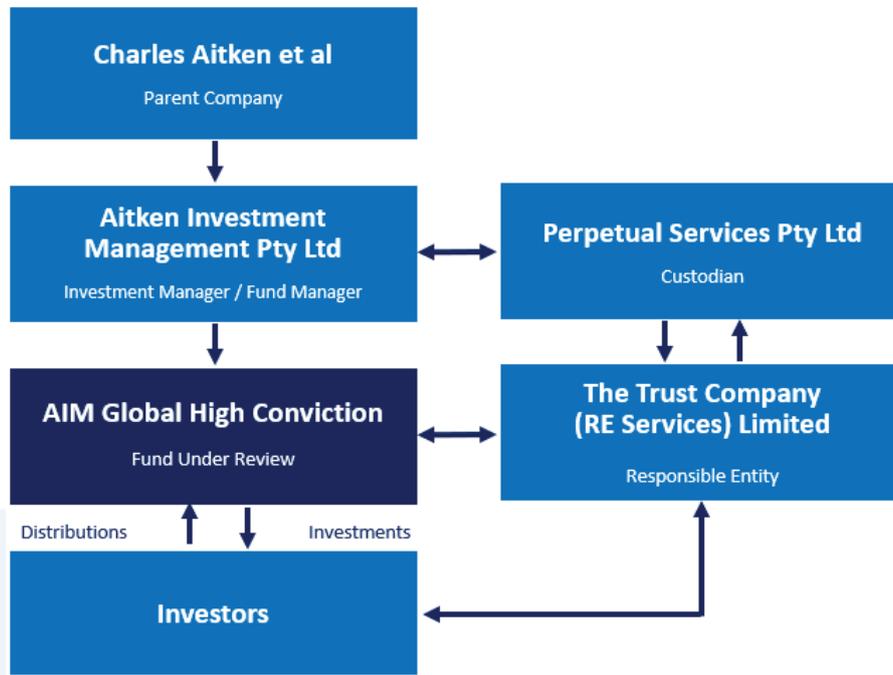
The team monitors brokerage costs and trading activity closely, it is reported each month in the investment committee report to the board.

Given the highly liquid nature of the portfolio market impact costs are negligible.

**Hedging & Derivatives**

The strategy is unhedged in terms of currency risk. Currency trades are placed at the same time as the stock trades. Currency positions are monitored by the COO/Risk officer in the Imagine system.

## Key Counterparties



### Parent Company

Ownership of the Fund is a mix of multiple related parties including Mr Charlie Aitken, Wroxby Pty Ltd, Pacific Point Partners and BCDO Pty Ltd.

### Investment Manager / Fund Manager

Aitken Investment Management is the manager of the AIM Global High Conviction Fund, a retail fund available via a PDS. AIM was founded in 2015 as an independent investment manager. The firm is structured to do one thing only: manage client investments. Activities not related to delivering this outcome are outsourced to leading asset management service providers.

### Responsible Entity

The Trust Company (RE Services) Limited ("Responsible Entity") is the Responsible Entity for the Fund. The Responsible Entity is a wholly owned subsidiary of Perpetual Limited, which has been in operation for over 125 years. Perpetual Limited is an Australian public company that has been listed on the Australian Securities Exchange for more than four decades.

The Responsible Entity is bound by the Constitution and the Corporations Act and holds AFSL number 235150 issued by ASIC. This authorises it to operate the Fund. The Responsible Entity has lodged a compliance plan

with ASIC, which sets out the key measures which the Responsible Entity will apply to comply with the Constitution and the Corporations Act. The Responsible Entity has established a compliance committee with a majority of external members. The compliance plan is overseen by the compliance committee and is audited annually with the audit report being lodged with ASIC.

### Management Risk

Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For any investment fund, there is a risk that a weak financial position or management performance deterioration of key counterparties could temporarily or permanently compromise their performance and competency. This can adversely affect financial or regulatory outcomes for the Fund or associated entities.

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

## Funds under Management (FUM)

The Fund is approximately \$108 million in size at Jul 2020.

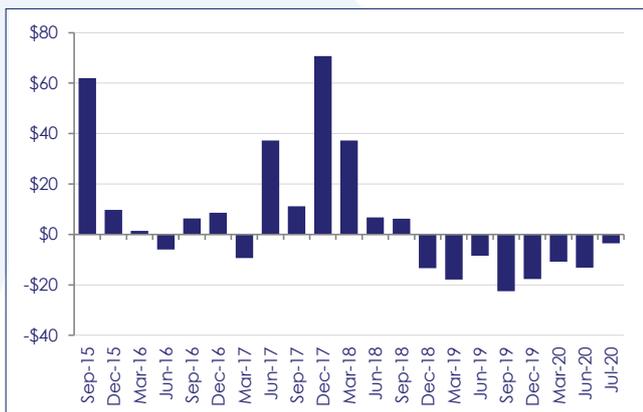
Date	FUM	Net Flows \$m *
Dec-18	\$191.2	-\$13.42
Mar-19	\$184.5	-\$17.87
Jun-19	\$183.6	-\$8.49
Sep-19	\$149.3	-\$22.47
Dec-19	\$134.9	-\$17.72
Mar-20	\$122.1	-\$10.83
Jun-20	\$111.1	-\$13.18
Jul-20	\$108.6	-\$3.51

\*estimated

### FUM for Fund under Review (\$million)



### Quarterly Net Flows (\$million)



## 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.

### Distribution Amount - cents per unit

Distribution Date	Distribution CPU	Unit Price* \$	Distribution %
Jun-17	1,124.78	\$103.932	10.82
Jun-18	71.75	\$105.569	0.68

\* Unit Prices shown are the monthly average of daily unit prices

### 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 or 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 taxable 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 a Fund will make a distribution in any distribution period.

Key Investment Staff				
Name	Responsibility/Position	Location	Years at Firm	Years in Industry
Charles Aitken	CIO / PM	Sydney	5.0	25.0
Etienne Vlok	PM	Sydney	1.0	12.0
Andrew Strasser	Analyst	Sydney	0.9	7.0

### Investment Team

Mr Charlie Aitken is the founder and Managing Director & Chief Investment Officer of Aitken Investment Management. He was instrumental in building and implementing the investment process and is ultimately responsible for the AIM Global High Conviction Fund.

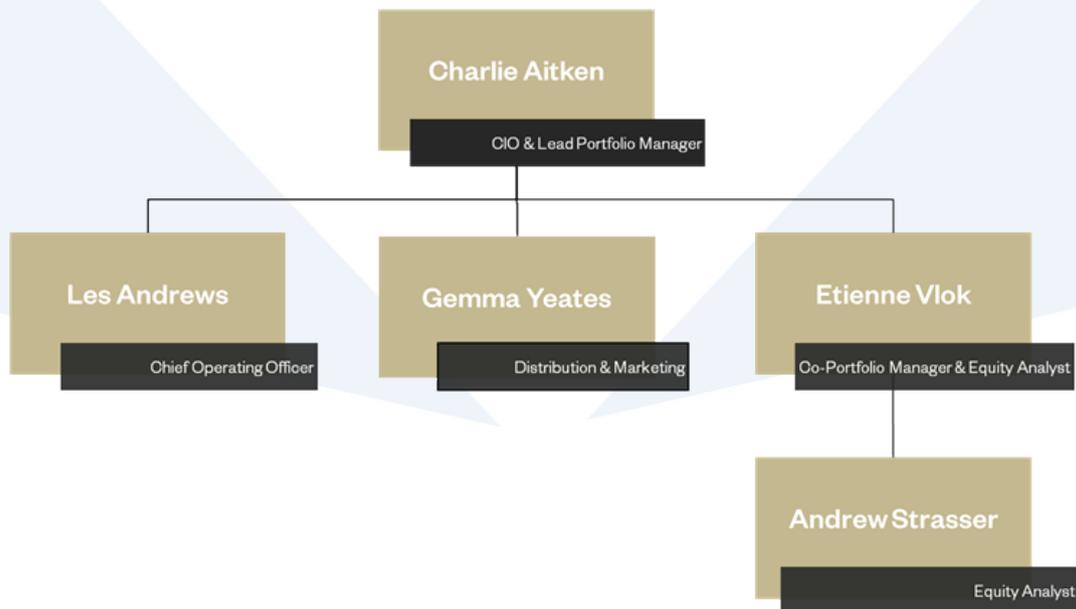
Mr Charlie Aitken (CIO) and Mr Etienne Vlok (Portfolio Manager) run the AIM Global High Conviction Fund together.

The investment team is small and work closely together in the day to day running of the Fund. Mr Aitken is responsible for high-level macro strategy and identifying strong investable structural growth themes. Mr Vlok is primarily responsible for selecting stocks within identified themes. The two are 'back-ups' for each other and are senior enough to act as a sounding board, debate and challenge each other on themes and stocks likely to be included within the portfolio.

The team has an investment analyst, Mr Andrew Strasser who provides support to the seniors. Key person risk is deemed to be moderate to high.

AIM has a very flat corporate structure and ideas are shared freely among the team. The portfolio manager is responsible for setting the research agenda and plan for the analysts. There are investment committee and portfolio construction meetings where ideas are presented and debated.

**SQM Research believes the practice of constant communication and the broad-based inclusion of team members in decision-making is a vital ingredient to the success of the process. Interactive peer review and collaboration across a tightly knit group of experienced investors will likely make the best use of their combined intellectual property and shared history.**



## Meeting Schedule

Formal portfolio construction meeting – once a week. This is the allocated time to review the portfolio, weightings, risks and opportunities within the portfolio and review portfolio limits. The aim is to keep these meetings to one a week to avoid overtrading, however during more volatile periods, these meetings will increase in frequency if required (e.g. daily during the March sell-off). If there is going to be a trade placed, it is after a portfolio construction meeting.

More informal investment meetings – twice a week. Opportunity to discuss market events, macro developments, update the investment team of stocks that have reported, present on new ideas, set research and business tasks.

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

Meeting	Purpose	Frequency	Participants
Portfolio Construction	Review of all positions relative to estimate of valuation, conviction, recent news/developments and flows	Once a week or ad hoc if required	Lead PM, Co PM, Analyst, Risk Officer
Sector/Security Research	Review of recent company specific developments, update on ongoing research, earnings reports	Three times per week (M,W,F)	Lead PM, Co PM, Analyst
Risk Management	Review of portfolio relative to agreed risk metrics	Monthly	Lead PM, Co PM, Risk Officer
Portfolio & Performance Review	Internal review of portfolio drivers & attribution/contribution analysis	Monthly	Lead PM, Co PM, Analyst, Risk Officer

*SQM Research believes the practice of constant communication and the broad-based inclusion of team members in decision-making is a vital ingredient to the success of the process. Interactive peer review and collaboration across a tightly knit group of experienced investors will likely make the best use of their combined intellectual property and shared history.*

## Staffing Changes

Departures			
Date	Name	Responsibility	Reason for Departure
21-May-19	Angus Wright	Portfolio Manager	Change of strategy
18-Dec-18	Edward Davies	Jnr Analyst	International travel

Additions			
Date	Name	New Responsibility	Previous Position / Employer
16-Oct-17	Gemma Yeates	Distribution	FCR
24-Jun-19	Etienne Vlok	Portfolio Manager	Melville Douglas South Africa
25-Nov-19	Andrew Strasser	Analyst	Bank of America Merrill Lynch

*SQM Research observes that the levels of investment experience and company tenure are strong across the investment team. There has been considerable staff turnover over the last 12-18 months as the Fund has essentially been “re-tooled” to align better with a long-only portfolio strategy. While the initial transition has been productive, SQM believes more time is needed to properly judge the overall effectiveness of the newer recruit’s integration into the team and process.*

## Key Investment Staff

### Charlie Aitken – CIO & Lead Portfolio Manager

Mr Aitken has over 25 years of equity and futures market experience. He started his career on the Sydney Futures Exchange floor in 1993 and is a former Director and Head of Sydney Sales Trading for Citigroup, Executive Director and Partner of Southern Cross Equities, and Executive Director and Board Member of the ASX listed Bell Financial Group. His former daily stock market newsletters 'Ringing the Bell' and 'Under the Southern Cross' were widely followed by institutional and private investors alike. Since setting up AIM in July 2015, Mr Aitken and his team have grown to focus on a strategy of finding high-quality cash-generative investments to grow wealth for his investors.

### Etienne Vlok – Co-Portfolio Manager & Equity Analyst

Mr Vlok is an experienced portfolio manager and global analyst who previously worked for Melville Douglas Investment Management in South Africa. Whilst at Melville Douglas, he co-managed the Melville Douglas Global Equity Fund, a Morningstar award-winning, concentrated global equity fund with top decile performance over multiple years. From 2010 onwards, he covered global the Information Technology and Media sectors as an equity analyst.

Mr Vlok holds a Bachelor of Commerce (Honours) from the University of Pretoria in South Africa. He is a CFA Charterholder and a member of the South African Institute of Chartered Accountants.

### Les Andrews – COO

Mr Andrews is a Chief Operating Officer and Operational Risk Manager with over 30 years' experience building businesses in the Australian Financial Markets. He has lectured globally on Operational Risk, Leadership and performance improvements, and market conformity. He has worked in partnership with regulators in Australia to develop sound practices in the Financial Markets. He has been awarded an honorary degree by the Securities Institute of Australia for services rendered to the Australian Financial Markets.

Previously Mr Andrews has held roles at Goldman Sachs. He was employed to facilitate an increase in business activities for the proprietary trading room including reviewing the IT infrastructure and create effective reporting of risk. Les also served as the Chief Operations Officer Asia Pacific – for Dresdner Bank AG from February 1997 to February 2001.

### Andrew Strasser – Equity Analyst

In his previous role at Bank of America Merrill Lynch, Mr Strasser was responsible for modelling and analysing potential leveraged transactions for corporate and private equity clients as part of the bank's credit approval process. He has completed internships at Grant Thornton Australia and Pitcher Partners Brisbane. He holds a Bachelor of Commerce and Economics from the University of Queensland.

### Gemma Yeates – Marketing and Distribution

Ms Yeates started her career in equity sales and trading with Credit Suisse and then Nomura. Before moving to AIM in October 2017, she worked for financial communications firm FCR in investor relations and business development. She holds a Bachelor of Commerce (applied finance)/Business Management (business economics) from the University of Queensland and a Certificate in Business Sustainability Management from the University of Cambridge.

## Remuneration and Incentives

The Manager reviews salaries based on survey information provided the custodian who performs a regional remuneration salary survey annually. The individual's experience and performance are taken into consideration and the value the individual adds to the success and continued growth of the business. Fund performance is taken into consideration regarding the portfolio manager.

All staff are eligible for bonuses except Mr Charlie Aitken. The bonus pool is generally sized at between 20% and 35% of pre bonus and pre-tax distributable income. 50% of bonuses paid are required to be invested in the Fund for a minimum 12-month period.

The CIO is the major shareholder in the fund and consequently is not part of the bonus plan. No other staff currently have equity in the business, but a staff equity plan is being developed. However, all team members are personally invested in the Fund in a meaningful way. This, together with Mr Aitken's equity stake, provides strong alignment of interest between the investment team and the Fund investors.

***SQM Research believes remuneration in the form of 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 and Costs	Fund	Peer Avg
Management Fee (% p.a.)	1.43%	1.11%
Expense Recovery (% p.a.)	Nil	-
Performance Fee (%)	15.00%	15.00%
Indirect Cost Ratio ICR (% p.a.)	no data	1.22%
Buy Spread (%)	0.07%	0.13%
Sell Spread (%)	0.07%	0.13%
Other Features	Fund	Peer Avg
Redemptions	Daily	-
Distributions	Annually	-
Minimum Investment	\$100,000	\$25,000
1-year Investment: Round Trip Cost	1.57%	1.37%

### Buy/Sell Spread

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

The management fee includes GST and is net of any applicable Reduced Input Tax Credits (RITC).

The management fee is calculated daily and deducted from the Fund's assets.

### Performance Fees

There is a performance fee charged as follows:

- 15.0% of the amount by which the Fund's investment returns (after base management fees have been deducted) exceed the returns of the Benchmark.
- Includes GST and impact of RITC (Reduced Input Tax Credit).
- Fee is accrued daily and (if applicable) paid to the Manager every six-month period ending 30th June and 31st December each year.
- 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.

### Overall Fees

#### 1-year Investment: Round Trip Cost.

If held and redeemed within 12 months, total costs would amount to 1.57% of investment in the Fund.

This figure includes the management fee, expense recovery (when disclosed) and the buy/sell spread. It does **not** consider rebates or negotiations or any potential **performance fee**.

#### SQM Research observes that:

- *The Fund management fee is 1.43% p.a., which is 32 basis points higher than the peer group average of 1.11% p.a.*
- *The performance fee accrues at any return above the benchmark.*
- *The performance fee, at 15.00% is the same as the average of peers that charge a performance fee.*
- *The performance fee includes a permanent high-water mark.*

Risk/Return Data to 30 September 2020 (% p.a.)							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund <sup>1</sup>	-0.04	5.90	13.33	17.13	n/a	n/a	13.19
Benchmark <sup>2</sup>	-0.38	3.67	10.00	3.89	n/a	n/a	6.88
Peer Average	0.77	3.07	8.92	5.38	n/a	n/a	6.93
Alpha	0.34	2.23	3.33	13.24	n/a	n/a	6.31

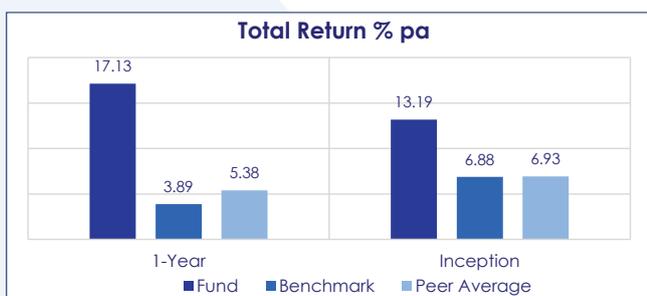
Metrics	1-Year	3-Year	5-Year	Inception
Tracking Error (% p.a.) - Fund	3.59	n/a	n/a	5.07
Tracking Error (% p.a.) - Peer Average	5.99	n/a	n/a	5.79
Information Ratio - Fund	3.69	n/a	n/a	1.24
Information Ratio - Peer Average	0.35	n/a	n/a	0.00
Sharpe Ratio - Fund	1.39	n/a	n/a	1.14
Sharpe Ratio - Peer Average	0.29	n/a	n/a	0.48
Volatility - Fund (% p.a.)	11.91	n/a	n/a	10.94
Volatility - Peer Average (% p.a.)	12.30	n/a	n/a	11.26
Volatility - Benchmark (% p.a.)	13.90	n/a	n/a	12.52
Beta based on stated Benchmark	0.83	n/a	n/a	0.80

1. With dividends reinvested. Returns beyond one year are annualised. Return history starts Jul-2019  
 2. Benchmark: MSCI World NR AUD

### Quantitative Insight<sup>1</sup>

**Note:** Unless stated, all return and risk data reported in this section are **after-fees** and for periods **ending Sep-2020**.

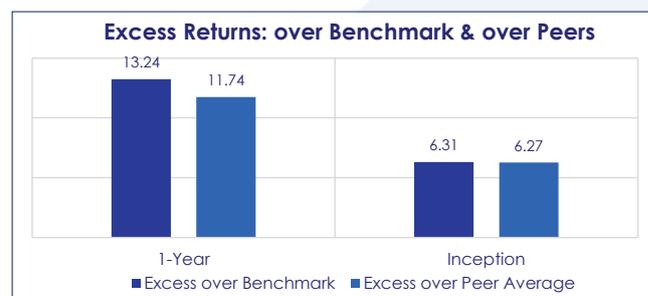
#### Returns



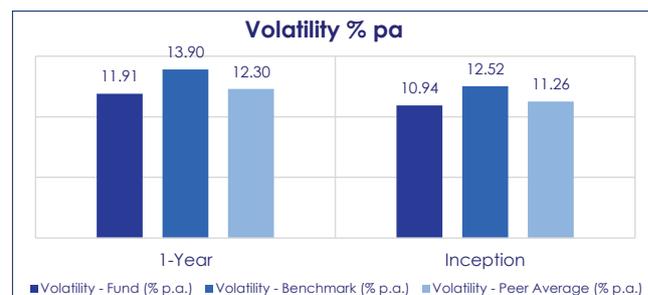
The Fund has displayed strong performance across what are admittedly short time periods when compared with benchmark and peers.

The **return outcomes** as described above are consistent with the PDS objective, and are in line with SQM's expectations for the Fund relative to its fee level and volatility.

#### Excess Returns (Alpha)



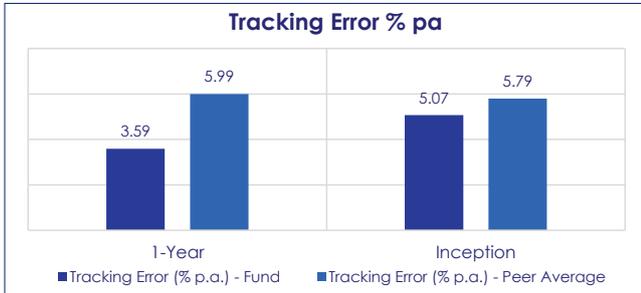
#### Risk



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

QUANTITATIVE ANALYSIS

The Fund's **volatility** (standard deviation of monthly returns) has tended to be modestly lower than benchmark and peers.



The Fund's **tracking error** (standard deviation of monthly excess returns) has been materially lower than peers over one year. On a since inception basis, TE is slightly lower.

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

Drawdowns

Drawdown Summary			
Drawdown Size (peak-to-trough)			
	Fund	Bench	Peers
Average	-2.47%	-7.01%	-5.43%
Number	4	2	3
Best	-0.04%	-0.89%	-0.89%
Worst	-7.59%	-13.12%	-11.48%
Length of Drawdown (in months)			
	Fund	Bench	Peers
Average	4.3	2.0	4.1

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

Drawdowns have **on average** been substantially better than the benchmark and materially better than the peer average.

Snail Trail

The snail trail chart and tables below show the combination of the Fund's rolling 1-year excess returns and rolling 1-year excess volatility.

There are **4 rolling 1-year observations** in total.

The two tables below display the distribution of these observations and their overall frequency across the risk/return quadrants.

Snail Trail Distribution			
Frequency	Lo-Vol	Hi-Vol	Total
Hi-Return	4	0	4
Lo-Return	0	0	0
<b>Total</b>	<b>4</b>	<b>0</b>	<b>4</b>
% of Total	Lo-Vol	Hi-Vol	Total
Hi-Return	100.0%	0.0%	100.0%
Lo-Return	0.0%	0.0%	0.0%
<b>Total</b>	<b>100.0%</b>	<b>0.0%</b>	<b>100.0%</b>

In assessing a snail trail it is important to note the following:

**Q1 upper left-hand quadrant** - higher return than the Fund's market index with lower volatility (less risk). This is the optimal position.

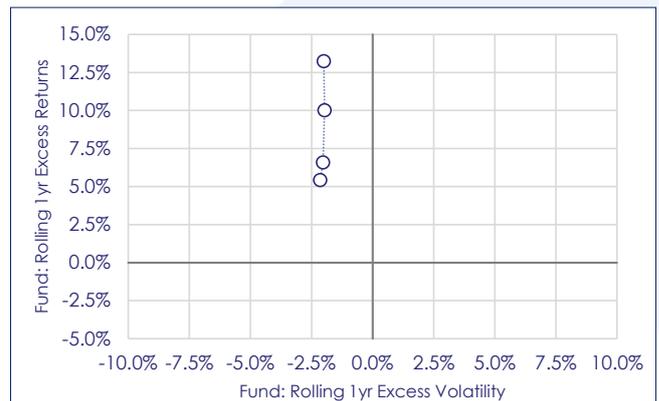
**Q2 upper right-hand quadrant** - higher return than the Fund's market index with higher volatility (more risk). This can often be a desirable position depending on the attractiveness of the Sharpe ratios produced in this zone. It is important to note that in the case of inflation or cash-style benchmarks, the Q1 top left-hand quadrant is unachievable as it is not possible to deliver lower volatility than what is virtually zero for the benchmark. In such cases, the Q2 zone is the optimal position.

**Q3 lower left-hand quadrant** - lower return than the Fund's market index with lower volatility (less risk). Less than ideal, and Sharpe ratios can assist in assessing the risk/return trade-off in this zone.

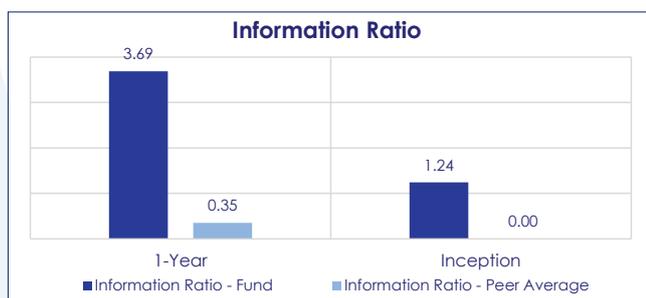
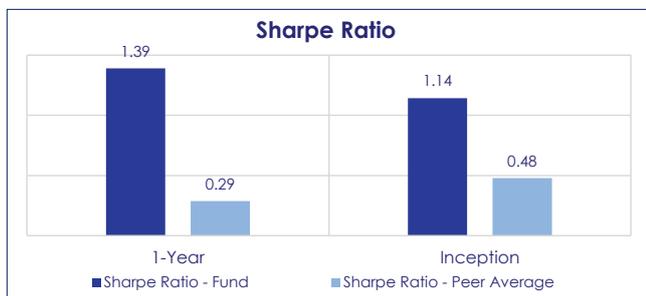
**Q4 lower right-hand quadrant** - lower return than the Fund's market index with higher volatility (more risk). The least desirable outcome.

Consistency

The more "bunched together" the cluster of dots, the more consistent is the performance. A second indicator of consistency is the trail's nomadic nature. Trails that roam across multiple quadrants over time are indicating **low consistency** in the Fund's risk return profile. The quadrant that **contains the bulk** of the Fund's snail trail is likely to be more representative of the Fund's risk/return characteristics and identity.



**Risk-Adjusted Returns**



The Fund's risk-adjusted returns (as measured by Sharpe and Information ratios) have been materially better than the peer average.

**Correlation: Fund v. Asset Classes**

	Market	Jul-17 3 years	Jul-15 Inception
Bloomberg AusBond Composite 0+Y TR AUD	Aust Bonds	no data	23.97%
S&P/ASX 300 TR	Aust Stocks	no data	81.46%
BBgBarc Global Aggregate TR Hdg AUD	Global Bonds	no data	24.01%
MSCI World Ex Australia NR AUD	Global Stocks	no data	91.71%

There is a high correlation of the Fund's returns with the S&P ASX300 index and a strong correlation to global equities, as to be expected from a long-only global equities fund.

**Tail Risk**

*(The analysis in the table below looks at the **tail risk 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.)*

The following table details the **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 months.

**Extreme Market Returns vs Fund Return Same Month**  
Index: S&P/ASX 300 TR From: Jul-19 to Sep-20

Rank	Date	Market	Fund	Difference
1	Mar-20	-20.83%	-5.16%	15.67%
2	Feb-20	-7.76%	-2.56%	5.21%
3	Sep-20	-3.59%	-0.04%	3.56%
4	Aug-19	-2.27%	-1.23%	1.04%
5	Dec-19	-2.02%	-0.38%	1.64%
6	Oct-19	-0.38%	0.37%	0.75%
<b>TOTALS</b>		<b>-36.86%</b>	<b>-9.00%</b>	<b>+27.86%</b>

	No. of Months
<b>Correlation +95.8%</b>	Positive Return 1
<b>Capture +24.4%</b>	Outperform 6

**Tail Risk Observations:**

The correlation of the Fund's returns to the ASX300 returns over the span of tail risk equity market extremes is 95.8%.

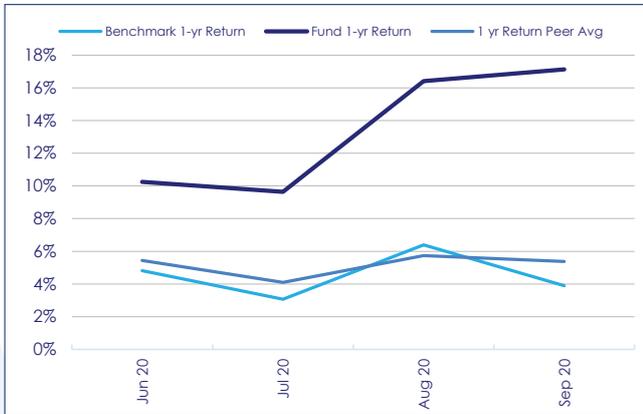
The Fund posted 1 positive returns compared to the 6 negative returns of the Australian stock market.

The sum of returns over those 10 months was -36.9% for the ASX 300 and -9.00% for the Fund, a difference of +27.9%.

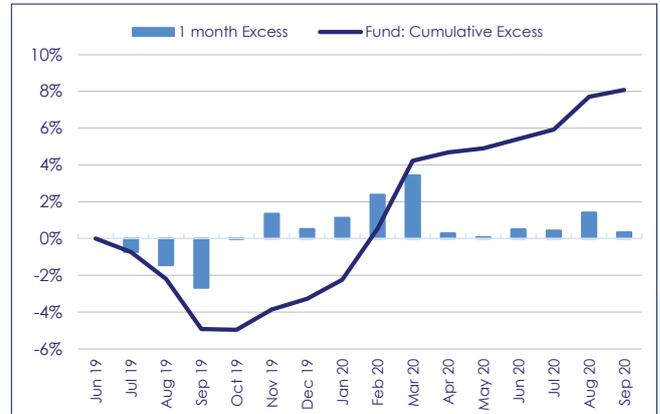
These figures point to a solid, but statistically unreliable, **defensive nature** of the Fund in the face of extreme Australian equity tail risk.

### Return and Risk

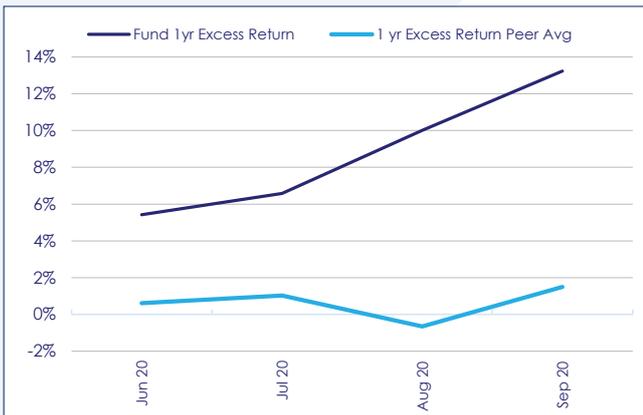
#### Rolling Returns



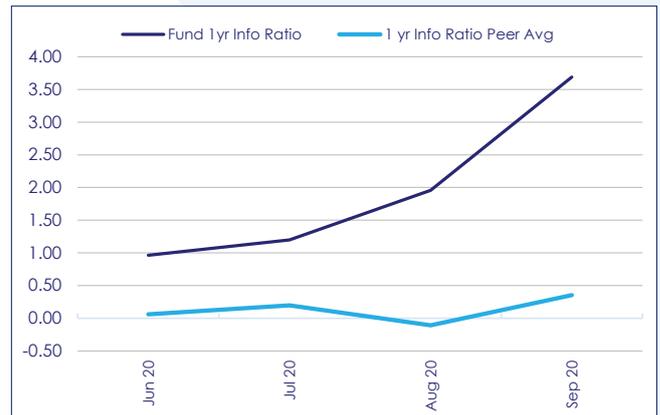
#### Cumulative Excess Returns



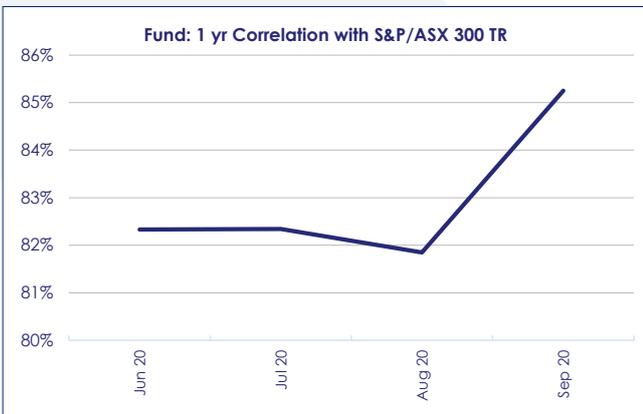
#### Rolling Excess Returns



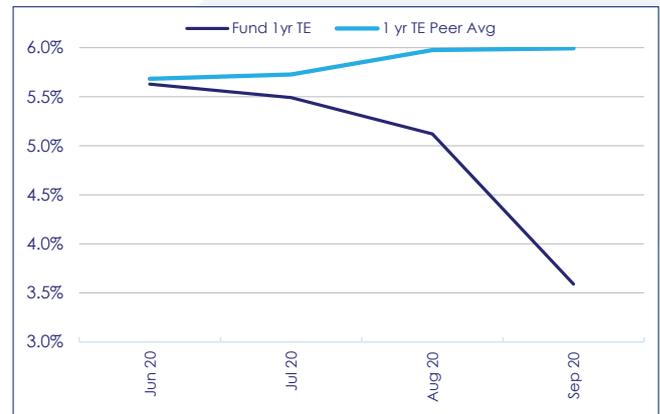
#### Rolling Information Ratio



#### Rolling Correlation



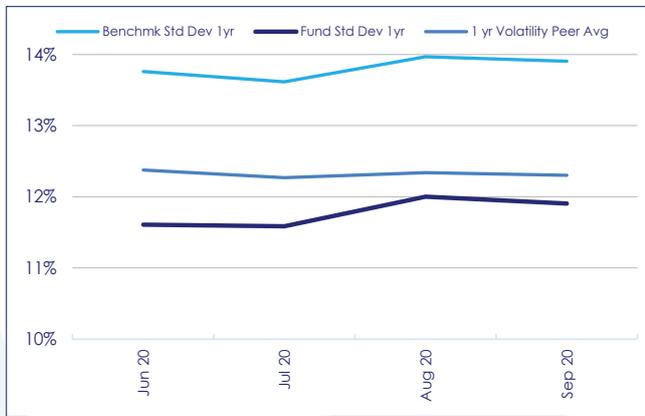
#### Rolling Tracking Error



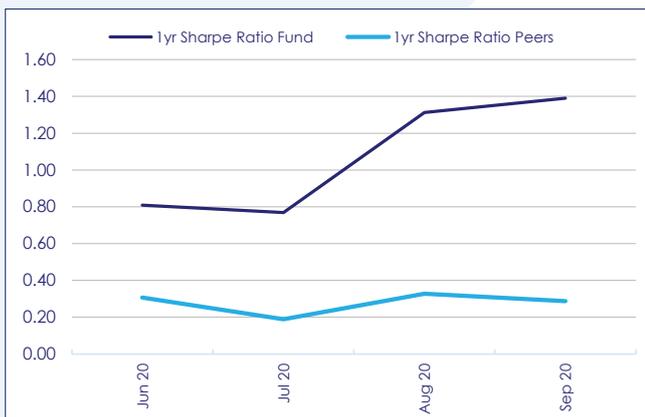
QUANTITATIVE ANALYSIS

Return and Risk

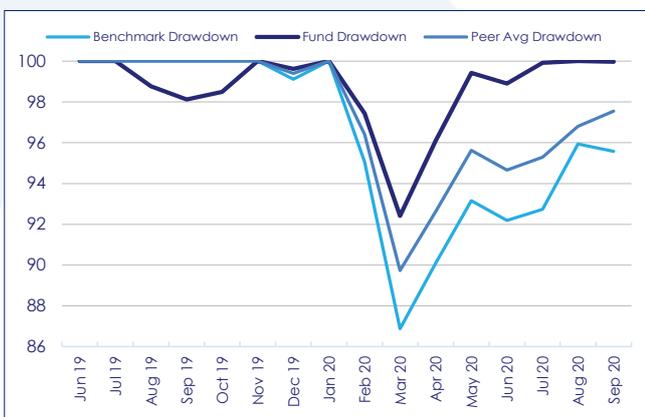
Rolling Volatility



Rolling Sharpe Ratio



Drawdowns



## ASSET ALLOCATION & RISK PARAMETERS

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

Fund Constraints	Range or Limit
<b>Risk Limit 1</b>	Maximum GICS sector exposure: 30%
<b>Risk Limit 2</b>	Stock maximum: 7.5%
<b>Risk Limit 3</b>	Stock minimum: 2.5% (6 months allowed to build up to minimum weight)
<b>Risk Limit 4</b>	Minimum GICS sector exposure: 0%
<b>Risk Limit 5</b>	Minimum # of stocks: 15
<b>Risk Limit 6</b>	Maximum # of stocks: 25
<b>Risk Limit 7</b>	Future compounders (businesses not yet FCF positive): max 10% combined
<b>Risk Limit 8</b>	Future compounders (businesses not yet FCF positive): max 4% individually
Other Constraints	
<b>Maximum exposure to single security</b>	7.50%
<b>Maximum exposure to single company</b>	7.50%
<b>Maximum exposure to single sector</b>	30% of Portfolio
<b>Maximum exposure to a single country</b>	No more than 10% in Australia
<b>Maximum exposure to geographic region</b>	No
<b>Limit for Holdings Not in Benchmark</b>	No

Details of the Fund's historical portfolio allocations and other metrics are detailed below:

### Fund Allocations

Jul-2019 to Dec-2019

Equity Sector	Average Weight	Max Weight	Min Weight	as at Dec-19
Financials	0.6%	3.6%	0.0%	0.0%
Information Technology	25.4%	26.7%	24.4%	25.3%
Health Care	1.1%	3.2%	0.0%	3.2%
Consumer Discretionary	20.5%	24.4%	16.0%	24.4%
Consumer Staples	8.6%	10.5%	4.7%	10.5%
Energy	0.0%	0.0%	0.0%	0.0%
Materials	0.0%	0.0%	0.0%	0.0%
Industrials	1.4%	3.1%	0.0%	0.0%
Communication Services	21.0%	22.6%	19.6%	20.7%
Utilities	0.0%	0.0%	0.0%	0.0%
Real Estate	0.0%	0.0%	0.0%	0.0%
Other	11.7%	14.9%	8.1%	8.4%
Cash	9.7%	14.5%	6.6%	7.5%

Geographic	Average Weight	Max Weight	Min Weight	as at Dec-19
Australia	9.7%	14.5%	6.6%	7.5%
USA	77.8%	81.8%	67.5%	80.3%
Japan	0.0%	0.0%	0.0%	0.0%
UK	0.0%	0.0%	0.0%	0.0%
France	6.1%	6.6%	5.6%	6.5%
Germany	0.0%	0.0%	0.0%	0.0%
Russia	0.0%	0.0%	0.0%	0.0%
Other Europe	1.6%	3.2%	0.0%	3.2%
China	4.8%	12.0%	2.5%	2.5%

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