Fund Review
Eley Griffiths Group Small Companies Fund

About this Review
ASSET CLASS REVIEWED AUSTRALIAN EQUITIES
SECTOR REVIEWED SMALLER COMPANIES - SMALL CAP
TOTAL FUNDS RATED 30

About this Fund
ASIC RG240 CLASSIFIED NO
FUND REVIEWED ELEY GRIFFITHS GROUP SMALL COMPANIES FUND
APR CODE EGG001AU
PDS OBJECTIVE OUTPERFORM THE S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX OVER A ROLLING 3 YEAR PERIOD.
INTERNAL OBJECTIVE TO OUTPERFORM THE S&P / ASX SMALL ORDINARIES ACCUMULATION INDEX BY 6% PA (PRE FEES) OVER ROLLING THREE YEAR PERIODS.
STATE RISK OBJECTIVE TRACKING ERROR 6-12% PA.
DISTRIBUTION FREQUENCY ANNUAL
FUND SIZE $480M
FUND INCEPTION 17-09-2003
MANAGEMENT FEE 1.24% P.A.
PERFORMANCE 15% OF FUND RETURN ABOVE INDEX (SUBJECT TO A FEE HIGH WATERMARK).
RESPONSIBLE ENTITY FUNDHOST LIMITED

About the Fund Manager
FUND MANAGER ELEYGRIFFITHS GROUP
OWNERSHIP 100% KEY EXECUTIVES
ASSETS MANAGED IN THIS SECTOR $1.2B
YEARS MANAGING THIS ASSET CLASS 11

Investment Team
PORTFOLIO MANAGER BEN GRIFFITHS
INVESTMENT TEAM SIZE 4
INVESTMENT TEAM Turnover LOW
STRUCTURE / LOCATION PM/ANALYST, SYDNEY

Investment process
STYLE STYLE NEUTRAL
BENCHMARK S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX
TYPICAL STOCK NUMBERS 35-55
TYPICAL CAPITALISATION SMALL CAP (50-80%), MICRO CAP (10-30%), BIAS LARGE/MID CAP (0-10%),CASH (0-10%)
MAXIMUM OF PORTFOLIO IN ANY ONE STOCK INDEX *5%
MAXIMUM OF PORTFOLIO IN ANY ONE SECTOR NO HARD LIMIT
MAXIMUM OF ISSUED CAPITAL OF ANY ONE STOCK 10%
MAXIMUM CASH ALLOCATION 20%
MINIMUM CAPITALISATION $50M (SOFT LIMIT)
CAPACITY 1.25% OF THE SMALL CAP INDEX

Fund rating history
FEBRUARY 2015 RECOMMENDED
FEBRUARY 2014 RECOMMENDED
JANUARY 2013 RECOMMENDED

What this Rating means
The ‘Recommended’ rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

Strengths
• A highly experienced small cap investment team housed within a specialist small cap boutique.
• The Manager’s stable investment process has added alpha over a full investment cycle.
• The team’s work ethic includes a healthy appetite for small cap tyre kicking resulting in a broad range of investment ideas.

Weaknesses
• The Manager has reached capacity.
• After an enduring period of personnel stability, the Manager is undergoing a reshuffle of roles.
• The Fund attracts a high fee load.

Fund risk characteristics
LOW MODERATE HIGH
CAPITAL VOLATILITY
CORPORATE RISK •
CONCENTRATION RISK •

Risk categories are based on Lonsec’s qualitative opinion of the risks inherent in the financial product’s asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

What is this Fund?
• Although Eley Griffiths Group Pty Ltd (‘the Manager’ or ‘EGG’) style is described as ‘style neutral’, the Fund may exhibit a bias towards either growth or value at certain points in the cycle. The investment philosophy has been consistent since the inception of the Fund in 2003.
• EGG aims to outperform the S&P/ASX Small Ordinaries Index, but holds an internal objective to beat the index by 6% p.a. (pre fees) over rolling three-year periods. While the Fund is run in a largely ‘benchmark unaware’ fashion, the Manager monitors the ex ante tracking error of the portfolio, which is expected to be 6-12% p.a. over the long term.
• The Manager demonstrates a major focus on both industry and management quality. This quality focus generally leads the Fund to being underweight the resources/mining sector, which presently makes up around 20% of the small cap market. This style also means that the Fund will typically outperform in down markets.
• The portfolio is reasonably well diversified, generally including between 35 and 55 stocks. Lonsec observes that portfolio stock holdings have been towards the upper end of this range in recent years with EGG generally more diversified in stock numbers than the average small cap peer group fund. Lonsec believes

We strongly recommend that potential investors read the product disclosure statement or investment statement. Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL No. 421445. This information must be read in conjunction with the warning, disclaimer and disclosure at the end of this document. This report supersedes all prior reports.
Eley Griffiths Group Small Companies Fund

diversification is important given the higher level of risk associated with individual small companies.
• The Fund’s portfolio turnover is expected to be 60-80% p.a., which is around average for the peer group. This point is of relevance to investors given that funds exhibiting lower portfolio turnover are typically both more cost and tax efficient.
• The Manager enjoys solid institutional support and brings a strong risk-adjusted mindset to portfolio construction, in part reflecting previous experience as an institutional manager. Lonsec believes the Manager to be slightly more benchmark aware than some others in the Lonsec Small Cap Peer Group.
• The Fund charges a base fee of 1.24% plus a performance fee of 15% of any outperformance over the benchmark S&P/ASX 300 Accumulation Index (subject to a high watermark). This makes the fee load toward the higher end of the Lonsec Peer Group. Pleasingly, the Manager has not instigated a reset on the performance fee.

Using this Fund
This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

• Small cap funds invest in a market that is less liquid and more volatile than the large cap Australian equity market. This Fund should be used to complement large cap exposure in clients’ portfolios, rather than replace it, with up to Australian equities component of a portfolio being invested in small caps. Lonsec’s model portfolio asset allocation (traditional assets only) is limited to ‘Growth’ and ‘High Growth’ risk profiles.
• The Fund is subject to equity market risk and movements (both positive and negative) in the share prices of the underlying securities in the portfolio. Investors should therefore be aware that the Fund may experience periods of negative returns and that there is a risk of potential capital losses being incurred on their investment.

Suggested Lonsec risk profile suitability
SECURE DEFENSIVE CONSERVATIVE BALANCED GROWTH HIGH GROWTH

For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on the Lonsec website (lonsec.com.au).

Changes Since Previous Lonsec Review
• There have been no material changes to the investment process since Lonsec’s last review of the Fund.
• The Manager has advised that Brian Eley, portfolio manager and founding member of the firm, has decided to retire from the firm due to a serious health concern. Eley remains an active contributor to the Fund at present, albeit on considerably reduced duties. The timing of his eventual completion of tenure is unclear and fluid, although Lonsec expects this to be within the current review cycle.
• As an owner of the firm and an experienced small cap investor, Lonsec views this development as a setback for the firm and a material event. Nevertheless, the Manager has known of this situation for some time and prepared an appropriate succession plan. Ben Griffiths, co-founder of EGG, has assumed responsibility for the lead portfolio manager of the Fund while David Allingham has been promoted to a co-portfolio manager role. Eley’s stock coverage has largely been transitioned to analysts Allingham and Tim Serjeant.
• There has been no change to the equity ownership of the firm, although Lonsec expects this to evolve in line with the changing team structure.

Lonsec Opinion of this Fund
People and resources
• The EGG investment team currently consists of five members including two portfolio managers (Brian Eley and Ben Griffiths), one portfolio manager/analyst (David Allingham), one analyst (Tim Serjeant) and a dedicated dealer (Lachlan Ridhalgh). EGG’s team has been historically stable and while it is currently undergoing some change, Lonsec still believes this to be a good sized team in the context of the Lonsec small cap peer group.
• Lonsec has for a long period commented positively on the considerable experience of Eley and Griffiths as small cap specialist investors with both viewed as key strengths of the Fund. Eley and Griffiths, co-founded the firm and both have extensive industry experience as portfolio managers, previously working together in other funds management organisations prior to establishing EGG. Lonsec believes this team’s experience managing money within various investment cycles has been a key advantage of the Fund.
• While a key asset for Fund, it also results in high key person risk. Succession planning is an operational hazard for experienced investment teams, and can particularly challenge boutique investors such as EGG. This issue has materialised over the past twelve months with Eley’s pending retirement. While a significant loss of investment experience, Lonsec believes the Manager has responded to the situation well and has effectively enacted an appropriate succession plan.

• Undoubtedly, a greater weight of responsibility for investment outcomes now rests on Ben Griffiths. Pleasingly, Griffiths displays no signs of a loss of resolve despite a challenging period for him personally and the firm. Lonsec’s discussions with Griffiths indicate he remains highly engaged with the Fund with no thoughts of stepping back from the industry for the foreseeable future. Griffiths becomes the lead portfolio manager and, accordingly, has assumed increased responsibility (eg. stock coverage, business matters). While Lonsec believes Griffiths is a highly capable investor and holds few concerns about his ability to meet the increased burden, Lonsec will monitor his workload and responsibility in coming reviews.
• Griffiths is supported by David Allingham who has been promoted to co-portfolio manager. Lonsec has had good contact with Allingham in recent years and holds increased conviction in his contribution to the team. Lonsec is pleased to see the firm reward Allingham for his growing tenure at the firm (nearly a decade). Pleasingly, he is also a business owner with a 5% equity stake, which improves his alignment...
with investors and may serve to increase his buy-in to the firm. Lonsec would not be surprised if this stake were to increase in line with his increased responsibilities. While supportive of his promotion, Lonsec regards this as a significant step up in responsibility and in this regard takes comfort from Allingham’s familiarity with the investment approach, and, importantly, Griffiths role as lead portfolio manager with oversight status.

- Analyst Tim Serjeant remains at an earlier stage of his career, but appears to have cemented his place at EGG with his stock coverage increasing in line with growing tenure.
- The Manager indicates it does not intend to make any hires with Eley’s responsibilities absorbed internally. While this appears a sensible approach, Lonsec understands the Manager is open to bolstering resources should it be necessary. Lonsec notes the quantitative aspect of the Manager’s investment approach does some of the heavy lifting in the research process.
- Key Person Risk has substantially increased in Griffiths. Key person risk is mitigated by the 47.5% equity ownership in the business (which may increase in future). Lonsec believes there is a strong alignment of interests between the business, the investment staff and the investors. Griffiths alignment is further increased by personal investment in the Fund and the Fund’s performance fee arrangement. Nevertheless, the departure of Griffiths would lead to a loss of conviction in the Fund resulting in Lonsec most likely downgrading the rating.
- Unlike some other small cap fund managers reviewed by Lonsec, the EGG team does not form part of a larger Australian equity team. EGG is therefore unable to draw on the additional insights of a team of analysts or other resources such as in-house economists. However, Lonsec believes this factor is mitigated by the considerable experience of EGG’s investment team. In addition, Lonsec believes EGG has well-developed information systems and financial models from which to leverage in its investment process.

Research and portfolio construction

- Lonsec regards the Manager’s scoring-based investment approach as one of the clearest investment approaches reviewed. While only a tool, it serves to provide a systematic, consistent and tangible translation of company research into portfolio construction.
- EGG’s bottom-up process is supported by detailed fundamental research. Over the course of the last year the team has been involved in approximately 725 company meetings and members of the team continue to travel globally to further enhance their understanding of factors driving Australian companies.
- Griffiths, Allingham and Serjeant each cover between 40 and 50 stocks. The approach used to value and model stocks is fairly consistent and straightforward, with the key valuation metrics being Price to Earnings Ratio and Earnings Per Share growth.
- An algorithm called Small Companies Optimal Portfolio Evaluation (SCOPE) is used as the backbone of portfolio construction. While the portfolio managers have the discretion to position the Fund in whichever way they choose, the portfolio has historically tended to be closely in line with the portfolio weightings suggested by SCOPE. Typically the key differences between SCOPE and the actual portfolio will be tactical positions. These are predominantly where the Manager anticipates there will be a sharp movement in the share price of a company as a result of a near term catalyst. Given their nature, these positions also tend to be more actively traded.

Risk management

- EGG’s risk management regime is primarily tilted towards managing risk at the individual stock level, with intensive qualitative analysis of a company’s management, industry position, business franchise, cashflows and balance sheet strength. Portfolio level risk controls remain focused on ensuring that the Fund is adequately diversified. Lonsec believes that EGG has adequate parameters and tools to manage stock and sector specific risk.

Funds Under Management

- EGG’s FUM was around $1.2b as at 31 December 2014. EGG’s stated capacity limit is 1.25% of the capitalisation of the S&P/ASX Small Ordinaries Index and, thus, is currently close to the Manager’s stated capacity limit. EGG has ‘hard’ closed the Fund to wholesale mandates in order to preserve capacity for retail allocations. The Manager has enjoyed stable institutional support over the past year and will continue to monitor the overall mix of retail and institutional support in future reviews.
- Capacity differs from manager to manager due to differences in investment styles and biases. Lower portfolio turnover and a preference for larger stocks will likely mean that a manager has a greater capacity limit. In saying this, Lonsec believes that FUM is likely to become a material disadvantage for most small cap managers when it exceeds 1.0% to 1.5% of the total market capitalisation of the S&P/ASX Small Ordinaries Index. Lonsec’s view is that high FUM makes it more difficult to trade in and out of less liquid stock positions without material market impact.
- In addition to disadvantages in terms of trading, larger FUM may also result in a number of substantial shareholder positions. These occur when a shareholders position is greater than 5% of a total company’s shares. For substantial holdings, shareholders must quickly notify the market of any trading activity in the stock.

Performance

- The internal objective of the Fund is to outperform the S&P/ASX 300 Accumulation Index by 6% p.a. (pre-fees) over rolling three year periods. Pleasingly, the Fund has achieved this over the three, five and seven year periods to 31 December 2014. Over the three timeframes, the Fund returned 10.69% p.a., 5.45% p.a. and 1.68% p.a. outperforming the benchmark by 10.11%, 7.45% and 7.32% p.a. after fees.
- Shorter term performance remains positive but has been less impressive with the Fund returning 0.9%
Eley Griffiths Group Small Companies Fund

over 12 months to 31 December 2014 outperforming the benchmark by 4.71%. Key contributors to performance over the year included positions in Ardent Leisure Group, Domino’s Pizza and Sirius Resources; whilst key detractors to performance included overweight positions in Silex Systems and the Reject Shop, as well as not holding Fairfax, TPG and G8 Education.

• Fund returns across all time periods have been in line with or just below the Lonsec small cap peer group average.

• The Outperformance Ratio, which indicates the consistency of performance, exceeds 60% across every time period assessed.

• Lonsec notes the Fund’s Tracking Error has been below the target range over the 1 and 3 year period.

Overall

• Lonsec has maintained the Fund’s “Recommended” rating at this review. This past year has not been a smooth period for Eley Griffiths with a serious health issue triggering a reshuffle of responsibilities among the team. Nevertheless, Lonsec believes the Manager has responded proactively to succession planning and believes the revised arrangements have been well considered. Lonsec commends the team for continuing to deliver good performance over the past year despite the distraction. With no change to the stable, proven investment process, Lonsec has confidence the investment team is well placed to continue to deliver performance outcomes in line with historical trends for investors in this Fund. Nevertheless, Lonsec will continue to monitor developments as the Manager negotiates this transition period.

• The rating continues to be underpinned by Lonsec’s high regard for the quality and experience of the lead portfolio manager, Ben Griffiths. Additionally, as a long standing small cap boutique, Lonsec recognises a strong alignment of interest between the firm and investors in the Fund.

• Lonsec cautions that EGG’s level of FUM remains at the upper end of the Lonsec peer group and may act as a headwind for potential outperformance.

People and Resources

Corporate overview

Eley Griffiths Group (EGG) is a boutique fund manager specialising in Australian small companies. It is jointly owned by Brian Eley (47.5%) and Ben Griffiths (47.5%) – who were former portfolio managers at BT Funds Management and ING Investment Management – and David Allingham (5%).

Fundhost Limited (Fundhost) is the Responsible Entity for the EGG Small Companies Fund. Fundhost is a key resource for EGG, undertaking a range of non-investment functions including product development, back-office, fund reporting and product marketing. Fundhost does not manage money in its own right.

Size and experience

<table>
<thead>
<tr>
<th>NAME</th>
<th>POSITION</th>
<th>EXPERIENCE</th>
<th>INDUSTRY / FIRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRIAN ELEY</td>
<td>CO-PORTFOLIO MANAGER</td>
<td>23 / 13</td>
<td></td>
</tr>
<tr>
<td>BEN GRIFFITHS</td>
<td>CO-PORTFOLIO MANAGER</td>
<td>27 / 13</td>
<td></td>
</tr>
<tr>
<td>DAVID ALLINGHAM</td>
<td>ANALYST</td>
<td>10 / 10</td>
<td></td>
</tr>
<tr>
<td>TIM SERJEANT</td>
<td>ANALYST</td>
<td>8 / 2</td>
<td></td>
</tr>
<tr>
<td>LACHLAN RIDHALGH</td>
<td>DEALER</td>
<td>13 / 10</td>
<td></td>
</tr>
<tr>
<td>AVERAGE</td>
<td></td>
<td>-</td>
<td>17 / 10</td>
</tr>
</tbody>
</table>

* Currently on reduced duties and likely to retire from the firm.

The EGG team consists of five members including two portfolio managers, two analysts, and a dedicated dealer.

Eley and Griffiths have a relatively long tenure together, beginning at ING where they were joint Head of Small Companies and later joining BT in the same capacity, before leaving to begin their own boutique business. Griffiths has 27 years experience in financial markets and was with ING for nine years prior to establishing EGG with Eley. He gained experience as a dealer, large cap analyst and portfolio manager for ING’s Emerging Companies Trust. Prior to this he gained experience in bullion banking at MASE Westpac and Institutional trading at Roach, Tilley Grice & Company and CL-May Mellor.

Eley has 23 years of industry experience and has a strong technical background gained from analyst and research roles. He also shared small cap portfolio management responsibilities at ING. Prior to this he was an executive director of Paterson Ord Minnett Limited and an associate consultant with LEK consulting.

David Allingham is an Analyst and has ten years of investment management experience, all gained at EGG. Allingham started his career with EGG as a dealer. Tim Serjeant is a more recent addition to the team, having joined from Perth based Argonaut securities where he was a sell-side analyst.

Team structure

The investment team operates under a relatively flat structure. Griffiths and Allingham share research and portfolio management responsibilities while Serjeant serves as a research analyst. Eley continues to provide research support functions to the team. Griffiths is ultimately accountable for the Fund.

Industry sectors are not permanently allocated with EGG employing more of a generalist structure.

On average each team member is responsible for approximately 40-50 stocks.

Turnover

EGG has displayed a high level of team stability, having experienced only one departure since inception in December 2002 and none in the past seven years. Likewise, Tim Serjeant (Investment Analyst) is the only addition to the investment team in the past seven years.

Remuneration / alignment of interests

Given the ownership structure, remuneration for Eley and Griffiths is based entirely on the profitability of the Manager. In addition to this, the portfolio managers are co-invested into the Fund and the Fund has a
Eley Griffiths Group Small Companies Fund

performance fee structure based on outperformance of the benchmark. Lonsec believes these factors lead to a high alignment of interest between the team and investors.

Research Approach

Overview

<table>
<thead>
<tr>
<th>INVESTMENT STYLE</th>
<th>STYLE NEUTRAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>NO. OF STOCKS IN UNIVERSE</td>
<td>230</td>
</tr>
<tr>
<td>NO. OF STOCKS FULLY MODELLED</td>
<td>140</td>
</tr>
<tr>
<td>NO. OF STOCKS PARTIALLY MODELLED</td>
<td>40 (BROKER MODELS)</td>
</tr>
<tr>
<td>KEY</td>
<td>MARKET CAP: MINIMUM $50M, PROFITABILITY, EARNINGS</td>
</tr>
<tr>
<td>SCREENS</td>
<td>GROWTH, QUALITY OF MANAGEMENT</td>
</tr>
<tr>
<td>TOP-DOWN</td>
<td>0%</td>
</tr>
<tr>
<td>BOTTOM-UP</td>
<td>100%</td>
</tr>
<tr>
<td>QUALITATIVE ANALYSIS</td>
<td>STRUCTURED</td>
</tr>
<tr>
<td>RESEARCH INPUTS</td>
<td>SITE VISITS – COMPANIES, SUPPLIERS AND COMPETITORS</td>
</tr>
<tr>
<td>USE OF BROKER RESEARCH</td>
<td>BROKER MODELS FOR SOME STOCKS</td>
</tr>
</tbody>
</table>

EGG seeks to add value by investing in mispriced stocks; companies whose fundamental value is not reflected in the current market price. The Manager believes that the small caps market is inherently inefficient and therefore provides investment opportunities that are profitable in the long term.

EGG’s fundamental assessment of a company’s management, industry structure and valuation tends to bias the Fund towards well managed companies with good industry structures that are attractively priced relative to the market. The Manager believes that companies exhibiting these characteristics will deliver above average returns over the medium term.

EGG’s research centres on the following key areas:

• Qualitative assessment of industry structure and management quality, using a Porter-style analysis; and
• Quantitative assessment of company valuation.

Valuation approach

Primary

• Price to Earning Ratio

Earnings Per Share growth

EGG has developed a proprietary valuation methodology, which is based on specific financial data from a company’s annual report and appendix 4E statements. The financial models include reconciliation of the company’s profit & loss, balance sheet and cash flows to ensure consistency across income and capital items.

Key assumptions on revenue streams and margins are input into the model, based on bottom up research. The models project the balance sheet, earnings per share (EPS) and cash flow generation for the next three reporting periods. From this, the model derives a time-weighted EPS growth rate and the forecast price earnings ratio in the current year for each company.

These models are then factored into a database, which then derives a relative valuation score for each stock based on the following two factors:

• earnings per share growth profile
• price earnings ratio.

The financial models are updated when interim and yearly results are announced and are also updated throughout the year based on any change in the fundamental outlook. The models are dynamically linked to market pricing to produce quantitative valuation scores on a real time basis.

Qualitative assessment

A qualitative score is assigned to each stock by rating industry structure and management quality on a relative basis.

Assessing industry structure

To develop an understanding of the quality of the industry structure, EGG’s analysis considers both the outlook for a business sector and a company’s relative position within its sector. This assessment focuses on the following factors:

• Long-term industry growth outlook relative to GDP
• Barriers to entry
• Risk of changes in the regulatory environment
• Actual and potential competition
• Substitutes available to customers
• Supply and demand outlook
• Depth and breadth of customer base
• Pricing power

Assessing management quality

EGG’s assessment of management quality is based on five key criteria:

• track record of management execution in improving the value of the business and generating returns for shareholders
• ability to articulate and execute business strategies
• ability to appropriately manage the capital within the business
• clarity of the strategic planning process (e.g. our confidence in the company’s communication of business strategy and operating conditions)
• alignment of management with shareholders.

Portfolio Construction

Overview

<table>
<thead>
<tr>
<th>FUND</th>
<th>S&amp;P ASX SMALL ORDINARIES ACCUMULATION INDEX</th>
</tr>
</thead>
<tbody>
<tr>
<td>BENCHMARK</td>
<td></td>
</tr>
<tr>
<td>RETURN OBJECTIVE (INTERNAL)</td>
<td>6% ABOVE INDEX (PRE-FEES)</td>
</tr>
<tr>
<td>RISK OBJECTIVE (INTERNAL)</td>
<td>6-12% PA ABOVE THE INDEX OVER ROLLING THREE YEAR PERIOD</td>
</tr>
<tr>
<td>PORTFOLIO APPROACH</td>
<td>BOTTOM UP</td>
</tr>
<tr>
<td>INVESTMENT STYLE</td>
<td>GARP</td>
</tr>
<tr>
<td>TOP-DOWN INFLUENCE</td>
<td>10%</td>
</tr>
<tr>
<td>TYPICAL NUMBER OF HOLDINGS</td>
<td>35-55</td>
</tr>
<tr>
<td>MARKET CAPITALISATION BIAS</td>
<td>SMALL CAP</td>
</tr>
<tr>
<td>EXPECTED PORTFOLIO TURNOVER</td>
<td>30%</td>
</tr>
</tbody>
</table>

The Manager uses an algorithm as the primary tool in constructing the portfolio. The algorithm is a sophisticated model called Small Companies Optimal Portfolio Evaluation (SCOPE), which translates the quantitative and qualitative scores for each stock into a recommended active portfolio position. While the algorithm suggests a target weighting of stocks in the portfolio, the final weighting is also influenced by other considerations, including liquidity risk, portfolio diversity and minimum active bets.
Eley Griffiths Group Small Companies Fund

The algorithm explicitly ties each portfolio position to the qualitative and quantitative scores assigned during the research process. This allows a consistent translation of research into portfolio construction.

While SCOPE is used as the primary tool to select stocks, portfolio managers have a 1% trading range to allow short-term tactical trading positions. This is to take account of any short-term issue that cannot be modelled, such as a potential merger or cyclical influences.

The buy and sell discipline is implicit in the modelling process. Changes to a stock’s qualitative or quantitative assessment will affect the total score of the company. In turn, this will influence its recommended position in the portfolio as determined by SCOPE.

**Risk Management**

<table>
<thead>
<tr>
<th>Risk limits</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>MAXIMUM OF PORTFOLIO IN ANY ONE STOCK</td>
<td>INDEX + 5%</td>
</tr>
<tr>
<td>MAXIMUM OF PORTFOLIO IN ANY ONE SECTOR</td>
<td>NO HARD LIMIT</td>
</tr>
<tr>
<td>MAXIMUM OF ISSUED CAPITAL OF ANY ONE STOCK</td>
<td>10%</td>
</tr>
<tr>
<td>MAXIMUM CASH ALLOCATION</td>
<td>20%</td>
</tr>
<tr>
<td>MINIMUM CAPITALISATION</td>
<td>$50M (SOFT LIMIT)</td>
</tr>
</tbody>
</table>

**Risk monitoring**

Risk is managed mainly through fundamental research of companies and the implementation of risk limits at the portfolio construction stage. Stocks that enter the ASX 100 have a two year period in which to be sold down.

**Risks**

An investment in the Fund carries a number of standard investment risks associated with investment markets. These include performance, liquidity, counterparty, market and tax risks. These and other risks are outlined in the PDS and should be read in full and understood by potential investors. Lonsec considers the following to be the major risks:

**Equity market**

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.
Eley Griffiths Group Small Companies Fund

Quantitative performance analysis — annualised after-fee % returns (at 31-12-2014)

<table>
<thead>
<tr>
<th></th>
<th>FUND 1 YR</th>
<th>Peer Group 1 YR</th>
<th>FUND 3 YR</th>
<th>Peer Group 3 YR</th>
<th>FUND 5 YR</th>
<th>Peer Group 5 YR</th>
<th>FUND 7 YR</th>
<th>Peer Group 7 YR</th>
</tr>
</thead>
<tbody>
<tr>
<td>PERFORMANCE ( % PA)</td>
<td>0.9</td>
<td>0.87</td>
<td>10.66</td>
<td>12.93</td>
<td>11.85</td>
<td>14.23</td>
<td>7.15</td>
<td>1.68</td>
</tr>
<tr>
<td>STANDARD DEVIATION ( % PA)</td>
<td>10.64</td>
<td>8.75</td>
<td>10.11</td>
<td>11.27</td>
<td>7.45</td>
<td>9.16</td>
<td>7.32</td>
<td>7.52</td>
</tr>
<tr>
<td>EXCESS RETURN ( % PA)</td>
<td>4.71</td>
<td>6.88</td>
<td>10.11</td>
<td>11.27</td>
<td>7.45</td>
<td>9.16</td>
<td>7.32</td>
<td>7.52</td>
</tr>
<tr>
<td>OUT PERFORMANCE RATIO ( % PA)</td>
<td>75</td>
<td>68.67</td>
<td>69.44</td>
<td>77.78</td>
<td>83.33</td>
<td>70</td>
<td>61.9</td>
<td>64.29</td>
</tr>
<tr>
<td>WORST DRAWDOWN ( % )</td>
<td>-7.32</td>
<td>-6.66</td>
<td>-11.46</td>
<td>-10.45</td>
<td>-17.79</td>
<td>-15.72</td>
<td>-50.39</td>
<td>-54.33</td>
</tr>
<tr>
<td>TIME TO RECOVERY ( MTHS )</td>
<td>-</td>
<td>-</td>
<td>7</td>
<td>2</td>
<td>16</td>
<td>12</td>
<td>47</td>
<td>47</td>
</tr>
<tr>
<td>SHARPE RATIO</td>
<td>-0.17</td>
<td>-0.21</td>
<td>0.58</td>
<td>0.71</td>
<td>0.11</td>
<td>0.25</td>
<td>-0.13</td>
<td>-0.13</td>
</tr>
<tr>
<td>INFORMATION RATIO</td>
<td>1.98</td>
<td>1.53</td>
<td>1.84</td>
<td>2.5</td>
<td>1.4</td>
<td>2.09</td>
<td>1.15</td>
<td>1.27</td>
</tr>
<tr>
<td>TRACKING ERROR ( % PA)</td>
<td>2.38</td>
<td>3.05</td>
<td>5.5</td>
<td>4.5</td>
<td>5.33</td>
<td>4.38</td>
<td>8.38</td>
<td>5.93</td>
</tr>
</tbody>
</table>

FUND: ELEY GRIFFITHS GROUP SMALL COMPANIES FUND
LONSEC PEER GROUP: SMALLER COMPANIES - SMALL CAP
BENCHMARK USED: S&P/ASX SMALL ORDINARIES ACCUM INDEX
CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX

Growth of $10,000 over seven years

Snail trail

Outperformance consistency across periods
**Glossary**

**Absolute return** 'Top line' actual return, after fees

**Excess return** Return in excess of the benchmark return

**Standard deviation** Volatility of monthly Absolute Returns

**Tracking error** Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)

**Sharpe ratio** Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)

**Information ratio** Relative reward for relative risk taken (Excess Returns / Tracking Error)

**Worst drawdown** The worst cumulative loss (‘peak to trough’) experienced over the period assessed

**Time to recovery** The number of months taken to recover the Worst Drawdown

**Snail Trail** A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period.

**About Lonsec**

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned and independent entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

LONSEC STRONGLY RECOMMENDS THIS DOCUMENT BE READ IN CONJUNCTION WITH THE RELEVANT PRODUCT DISCLOSURE STATEMENT OR INFORMATION STATEMENT:

**Important Notice:** This document is published by Lonsec Research Pty Ltd ABN 11 151 658 561, AFSL No.421445 (Lonsec). Please read the following before making any investment decision about any financial product mentioned in this document. Disclosure at the date of publication: Lonsec receives a fee from the fund manager or product issuer(s) for researching the financial product(s) set out in this document, using comprehensive and objective criteria. Lonsec may also receive a fee from the fund manager or product issuer(s) for subscribing to research content and other Lonsec services. Lonsec’s fee is not linked to the rating(s) outcome. Lonsec does not hold the product(s) referred to in this document. Lonsec’s representatives and/or their associates may hold the product(s) referred to in this document, but details of these holdings are not known to the Analyst(s).

DISCLOSURE OF INVESTMENT CONSULTING SERVICES

Lonsec receives fees for providing investment consulting advice to clients, which includes model portfolios, approved product lists and other financial advice and may receive fees from this fund manager or product issuer for providing investment consulting services. The investment consulting services are carried out under separate arrangements and processes to the research process adopted for the review of this financial product. For an explanation of the process by which Lonsec manages conflicts of interest please refer to the Conflicts of Interest Policy which is found at: [http://secure.lonsec.com.au/aspx/Public/Documents/ConflictsOfInterestResearch.pdf](http://secure.lonsec.com.au/aspx/Public/Documents/ConflictsOfInterestResearch.pdf)

**WARNINGS:** Past performance is not a reliable indicator of future performance. Any express or implied rating or advice presented in this document is a “class service” (as defined in the Financial Advisers Act 2008 (NZ)) or limited to “General Advice” (as defined in the Corporations Act 2001 (Cth)) and based solely on consideration of the investment merits of the financial product(s) alone, without taking into account the investment objectives, financial situation and particular needs (financial circumstances) of any particular person. It is not a “personalised service” (as defined in the Financial Advertisers Act 2008 (NZ)) and does not constitute a recommendation to purchase, redeem or sell the relevant financial product(s). Before making an investment decision based on the rating(s) or advice, the reader must consider whether it is personally appropriate in light of his or her financial circumstances, or should seek independent financial advice on its appropriateness. If our advice relates to the acquisition or possible acquisition of a particular financial product(s), the reader should obtain and consider the Investment Statement or Product Disclosure Statement for each financial product before making any decision about whether to acquire a financial product. Lonsec’s research process relies on the participation of the fund manager or product issuer(s). Should the fund manager or product issuer(s) no longer be an active participant in Lonsec’s research process, Lonsec reserves the right to withdraw the document at any time and discontinue future coverage of the financial product(s). The rating in this publication relates to the fund outlined in the publication which may have related funds or be associated with other funds and platforms. The rating may only be applied to the fund outlined in this publication at first instance and whether it applies to related or associated funds and platforms should be investigated by your financial adviser before you make an investment decision.

**Analyst Disclosure and Certification**

Analyst remuneration is not linked to the research or rating outcome. Where financial products are mentioned, the Analyst(s) may hold the financial product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the matters and financial product(s) to which this document refers.

Copyright ©2015 Lonsec Research Pty Ltd (ABN 11 151 658 561, AFSL No. 421445) (Lonsec). This report is subject to copyright of Lonsec. Except for the temporary copy held in a computer's cache and a single permanent copy for your personal reference or other than as permitted under the Copyright Act 1968 (Cth), no part of this report may, in any form or by any means (electronic, mechanical, microcopying, photocopying, recording or otherwise), be reproduced, stored or transmitted without the prior written permission of Lonsec. This report may also contain third party supplied material that is subject to copyright. Any such material is the intellectual property of that third party or its content providers. The same restrictions applying above to Lonsec copyrighted material, applies to such third party content.