



# Fund Review

## Eley Griffiths Group Small Companies Fund

ISSUE DATE 21-02-2017

### About this Review

ASSET CLASS REVIEWED	AUSTRALIAN EQUITIES
SECTOR REVIEWED	AUSTRALIAN SMALLER COMPANIES
SUB SECTOR REVIEWED	SMALL CAP
TOTAL FUNDS RATED	33

### About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	ELEY GRIFFITHS GROUP SMALL COMPANIES FUND
APIR CODE	EGG0001AU
PDS OBJECTIVE	OUTPERFORM THE S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX OVER A ROLLING 3-YR PERIOD
INTERNAL OBJECTIVE	TO OUTPERFORM THE BENCHMARK BY 6% P.A. (PRE FEES) OVER ROLLING 3-YR PERIODS
STATED RISK OBJECTIVE	TRACKING ERROR 6-12% P.A.
DISTRIBUTION FREQUENCY	ANNUALLY
FUND SIZE	\$460M
FUND INCEPTION	17-09-2003
MANAGEMENT FEE	1.25% P.A (1.23% MANAGEMENT FEE + 0.02% EXPENSE RECOVERY)
PERFORMANCE FEE	15% OF FUND RETURN ABOVE INDEX (SUBJECT TO A HIGH WATERMARK).
RESPONSIBLE ENTITY	PERPETUAL TRUST SERVICES LIMITED

### About the Fund Manager

FUND MANAGER	ELEY GRIFFITHS GROUP
OWNERSHIP	100% KEY EXECUTIVES
ASSETS MANAGED IN THIS SECTOR	\$1.5B
YEARS MANAGING THIS ASSET CLASS	13

### Investment Team

PORTFOLIO MANAGER	BEN GRIFFITHS
INVESTMENT TEAM SIZE	5
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 (60-80%); 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 2017	RECOMMENDED
JANUARY 2016	RECOMMENDED
FEBRUARY 2015	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 is close to its capacity limit.
- The inception of the Manager's new micro cap Emerging Companies Fund would potentially increase the investment team's workload and could draw some of the team's attention away from this Fund.
- Key person risk in Griffiths is increased.
- The Fund attracts a high fee load.

### Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY			●
SECURITY CONCENTRATION RISK		●	
SECURITY LIQUIDITY 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.

### BIometrics

#### Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE						●	

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with AFSA/FSC guidelines.

#### Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG AWARENESS	●		

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.

ANALYST: GERALDINE GOH | APPROVED BY: SHAILESH JAIN

# Eley Griffiths Group Small Companies Fund

ISSUE DATE 21-02-2017

## Fee profile

	LOW	MODERATE	HIGH
FEES VS LONSEC UNIVERSE			●
FEES VS ASSET CLASS			●
FEES VS SUB-SECTOR		●	

Fee BIometrics are a function of expected total fee as a percentage of expected total return.

## 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 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 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 1.25% plus a performance fee of 15% of any outperformance over the benchmark S&P/ASX Small Ordinaries Accumulation Index (subject to a high watermark and positive absolute return). 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 one-fifth of the 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 our website.

## 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 launched a new Micro cap strategy, the Eley Griffiths Emerging Companies Fund, which will launch in March 2017. Lonsec understands that the same investment team will apply a similar investment process and approach as this Fund.
- Nick Guidera joined the Manager as a Trainee Analyst and will provide support on stock and sector coverage for this Fund and the new Emerging Companies Fund.
- Brian Eley, co-founder of the firm and co-portfolio manager of the EGG Small Companies Fund, retired from the business in November 2015 due to ill health. Consequently, the Manager informed Lonsec in the recent review that Eley has since resigned from the firm's Board of Directors, leaving Ben Griffiths and David Allingham with oversight. Importantly, the Manager has been preparing for this eventuality for some time and the remaining members of the investment team have increased their investment responsibilities, in addition to Guidera's appointment, to compensate for the revised working arrangements. Lonsec holds a high regard for Eley's contribution to Australian small caps investment and is saddened by his departure from the firm.
- There has been a significant change to the equity ownership of the firm since the last review. Despite Eley's departure, the Manager remains 100% internally owned, with the rest of the investment team buying into Eley's share of equity.

ANALYST: GERALDINE GOH | APPROVED BY: SHAILESH JAIN

## Eley Griffiths Group Small Companies Fund

ISSUE DATE 21-02-2017

### Lonsec Opinion of this Fund

#### People and resources

- The EGG investment team consists of five members including two portfolio managers (Ben Griffiths and David Allingham), two analysts (Tim Serjeant and Nick Guidera) and a dedicated dealer (Lachlan Ridhalgh). The team of five is responsible for managing both the Small Companies Fund and the newly incepted Emerging Companies Fund.
- EGG's team has been historically stable but has undergone a material development in the past year with the retirement of portfolio manager Eley. As a co-founder of the firm and highly experienced small cap investor, his departure is a disappointing development for investors and the remaining investment team – particularly so for Griffiths who shared a long working life with Eley at EGG and previous investment firms. Nevertheless, under Griffiths leadership, EGG has responded well to the setback and in Lonsec's view has effectively enacted an appropriate succession plan.
- Succession planning is an operational hazard for experienced investment teams, and can particularly challenge boutique investors such as EGG. Eley's retirement places a greater weight of responsibility for investment outcomes on Griffiths. Pleasingly, throughout the past 18 months, Griffiths has displayed no loss of resolve despite a challenging period for him personally and the firm. Griffiths has assumed greater responsibility for the business and investment outcomes, with no discernible loss of focus or professionalism. 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. Lonsec believes Griffiths is a highly capable investor and holds few concerns about his ability to meet the increased burden.
- Griffiths is supported by Allingham as co-portfolio manager of the Fund. 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. Pleasingly, he is also a business owner with a 30% equity stake since the equity ownership restructure, which improves his alignment with investors.
- Despite his growing investment experience, Allingham has less portfolio management experience than many small cap manager peers, and in this regard, Lonsec takes comfort from Allingham's familiarity with the investment approach, and, importantly, Griffiths role as lead portfolio manager with oversight status.
- Analyst 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. Notably, Serjeant has committed to undertaking more stock coverage responsibility since Eley's departure. He has become a key contributor to the EGG investment team, and provides strong support to Griffiths and Allingham.
- EGG has increased resourcing with the most recent appointment of Nick Guidera, who joined the Manager in September 2016 as a Trainee Analyst.

Guidera possesses significant sell-side experience within small caps from a prior work engagement with CLSA, and Lonsec is keen to observe how Guidera settles into the investment team, and looks forward to monitoring his contributions to the research output in future reviews.

- Lonsec believes that Key Person Risk has substantially increased in Griffiths with the recent inception of the Emerging Companies Fund, which could place a greater strain on Griffiths. Lonsec will continue to observe Griffith's multiple responsibilities in the coming reviews. Key person risk is mitigated by the 51% 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 842 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. At the time of review, Lonsec was informed that Guidera was still in the process of gaining familiarity with EGG's modelling system and approach, and had yet to be allocated any stock coverage responsibilities. Lonsec understands from the Manager that Guidera will be assisting with stock and sector coverage of this Fund and EGG's new Emerging Companies Fund. Nevertheless, Lonsec seeks to monitor Guidera's workload and responsibilities going forward.
- 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

ANALYST: GERALDINE GOH | APPROVED BY: SHAILESH JAIN

## Eley Griffiths Group Small Companies Fund

ISSUE DATE 21-02-2017

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 (\$1.5b) as at 31 December 2016. 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 investors. That said, in the context of other strategies within this peer group, Lonsec considers EGG's relatively high FUM to be a less appealing aspect compared to some peers.
- 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 Small Ordinaries Accumulation Index by 6% p.a. (pre-fees) over rolling three year periods. Pleasingly, the Fund has achieved this over the three, five and ten year periods to 31 December 2016. Over the three timeframes, the Fund returned 9.6% p.a., 12.1% p.a. and 5.5% p.a. outperforming the benchmark by 3.4% p.a., 7.2% p.a. and 5.8% p.a. (after fees) respectively.
- Shorter term performance lagged the benchmark, with the Fund returning 8.8% p.a. over the one year

period, underperforming the benchmark by 4.3%. However, the Fund marginally outperformed the peer group median by 0.9% p.a. Key contributors to performance over the year included positions in Saracen Mineral Holdings, Mayne Pharma, and Fletcher Building; whilst key detractors to performance included overweight positions in Sundance Energy, Northern Star and Nufarm.

- The Outperformance Ratio, which indicates the consistency of performance, was above 50% p.a. for the three, five and ten year time frames.

### Overall

- Lonsec has maintained the Fund's 'Recommended' rating at this review. EGG has had to navigate succession planning issues in the time following Brian Eley's deteriorating health condition and recent retirement. Despite the challenge, Lonsec believes the Manager has responded well with key investors taking on increased responsibilities to ensure a smoother transition. Lonsec notes the team has continued to deliver good performance over the past two years despite the distraction. Lonsec maintains confidence the investment team is well placed to continue to deliver performance outcomes in line with historical trends for investors in this Fund.
- The rating continues to be underpinned by Lonsec's high regard for the quality and experience of the lead portfolio manager, Ben Griffiths. 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 Ben Griffiths (51%) – a former portfolio manager at BT Funds Management and ING Investment Management, David Allingham (30%), Tim Serjeant (14%) and Lachlan Ridhalgh (5%).

Perpetual Trustees is the Responsible Entity for the EGG Small Companies Fund.

### Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
BEN GRIFFITHS	CO-PORTFOLIO MANAGER	28 / 14
DAVID ALLINGHAM	CO-PORTFOLIO MANAGER / ANALYST	11 / 11
TIM SERJEANT	ANALYST	9 / 3
NICK GUIDERA	ANALYST	6 / <1
LACHLAN RIDHALGH	DEALER	14 / 11

The EGG team consists of five members comprising two portfolio managers, two analyst, and a dedicated dealer. Griffiths has 28 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

ANALYST: GERALDINE GOH | APPROVED BY: SHAILESH JAIN



## Eley Griffiths Group Small Companies Fund

ISSUE DATE 21-02-2017

trading at Roach, Tilley Grice & Company and CL-May Mellor.

David Allingham is a Co-Portfolio Manager / Analyst and has 11 years of investment management experience, all gained at EGG. Allingham started his career with EGG as a dealer.

Tim Serjeant supports Griffiths and Allingham as Senior Analyst. Serjeant began his tenure at EGG with nine years of industry experience having joined from Perth based Argonaut securities where he was a sell-side analyst.

Nick Guidera is the most recent addition to the team, and joined EGG in September 2016 with six years of industry experience. Guidera was formerly Head of Equity Sales in CLSA's sell-side small caps team, and will begin his tenure at EGG as a Trainee 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. 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 with minimal departures since its establishment. Likewise, Serjeant and Guidera are the only additional hires to the investment team in the past seven years.

### Remuneration / alignment of interests

Given the ownership structure, remuneration for 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 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

INVESTMENT STYLE	STYLE NEUTRAL
NO. OF STOCKS IN UNIVERSE	250
NO. OF STOCKS FULLY MODELLED	150
NO. OF STOCKS PARTIALLY MODELLED	120 (BLOOMBERG CONSENSUS)
KEY SCREENS	MARKET CAP: MINIMUM \$50M, PROFITABILITY, EARNINGS GROWTH, QUALITY OF MANAGEMENT
TOP-DOWN	0%
BOTTOM-UP	100%
QUALITATIVE ANALYSIS	STRUCTURED
RESEARCH INPUTS	SITE VISITS - COMPANIES, SUPPLIERS AND COMPETITORS
USE OF BROKER RESEARCH	BROKER MODELS FOR SOME STOCKS

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:

ANALYST: GERALDINE GOH | APPROVED BY: SHAILESH JAIN

## Eley Griffiths Group Small Companies Fund

ISSUE DATE 21-02-2017

- 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

FUND BENCHMARK	S&P ASX SMALL ORDINARIES ACCUMULATION INDEX
RETURN OBJECTIVE (INTERNAL)	6% ABOVE INDEX (PRE-FEES)
RISK OBJECTIVE (INTERNAL)	6-12% P.A. ABOVE THE INDEX OVER ROLLING THREE YEAR PERIOD
PORTFOLIO APPROACH	BOTTOM UP
INVESTMENT STYLE	GARP
TOP-DOWN INFLUENCE	10%
TYPICAL NUMBER OF HOLDINGS	35-55
MARKET CAPITALISATION BIAS	SMALL CAP
EXPECTED PORTFOLIO TURNOVER	60%
% OF PORTFOLIO IN TOP 10 HOLDINGS	30%

The Manager uses an algorithm as the primary tool in constructing the portfolio. The algorithm is a sophisticated model called 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.

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

#### Risk limits

SEPARATE RISK MONITORING	NO
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)

#### 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.

ANALYST: GERALDINE GOH | APPROVED BY: SHAILESH JAIN

# Eley Griffiths Group Small Companies Fund

ISSUE DATE 21-02-2017

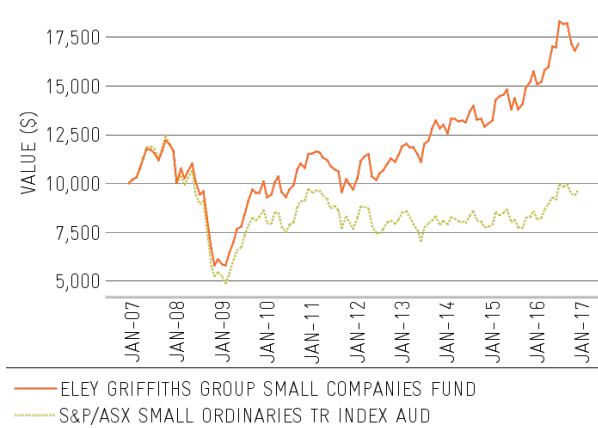
## Quantitative Performance Analysis - annualised after-fee % returns (at 31-12-2016)

### Performance metrics

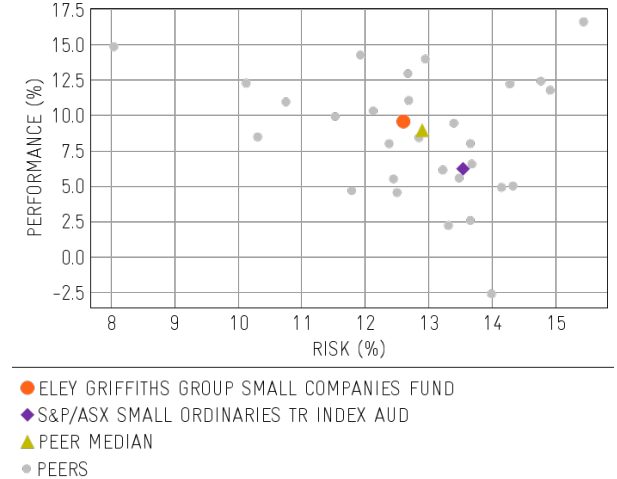
	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	8.84	7.94	9.59	8.98	12.08	12.17	5.54	6.16
STANDARD DEVIATION (% PA)	13.88	14.41	12.60	12.90	13.06	13.60	17.86	17.77
EXCESS RETURN (% PA)	-4.34	-5.24	3.35	2.74	7.21	7.30	5.82	6.44
OUTPERFORMANCE RATIO (% PA)	33.33	33.33	55.56	50.00	60.00	60.00	57.50	58.33
WORST DRAWDOWN (%)	-8.28	-8.07	-8.28	-10.28	-11.46	-12.45	-52.57	-52.22
TIME TO RECOVERY (MTHS)	NR	NR	NR	5	7	8	55	38
SHARPE RATIO	0.49	0.43	0.57	0.55	0.71	0.71	0.08	0.12
INFORMATION RATIO	-0.88	-0.87	0.73	0.45	1.31	1.22	0.98	0.85
TRACKING ERROR (% PA)	4.91	6.34	4.61	5.98	5.52	6.43	5.93	8.51

FUND: ELEY GRIFFITHS GROUP SMALL COMPANIES FUND  
 LONSEC PEER GROUP: AUSTRALIAN EQUITIES - AUSTRALIAN SMALLER COMPANIES - SMALL CAP  
 BENCHMARK USED: S&P/ASX SMALL ORDINARIES TR INDEX AUD  
 CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD  
 TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

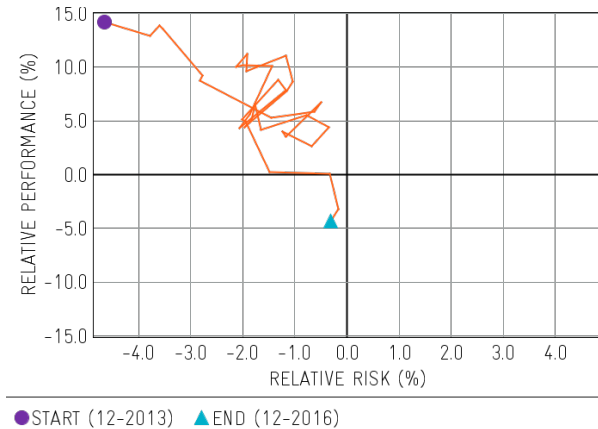
### Growth of \$10,000 over 10 years



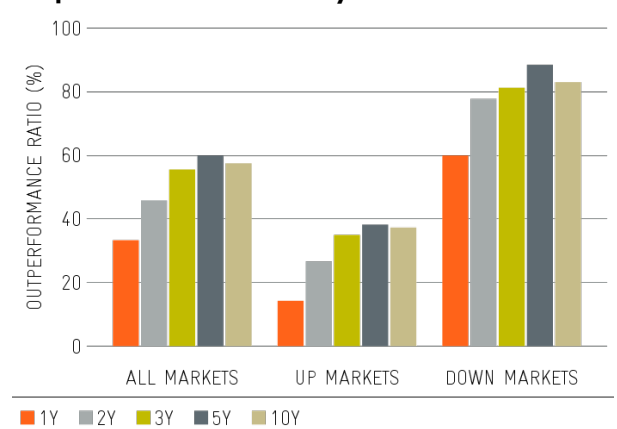
### Risk-return chart over three years



### Snail trail



### Outperformance consistency



ANALYST: GERALDINE GOH | APPROVED BY: SHAILESH JAIN

## Eley Griffiths Group Small Companies Fund

### Glossary

**Total 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 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.

### 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.

### LONGSEC 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 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://www.lonsec.com.au/asp/IndexedDocs/general/LonsecResearchConflictsOfInterestPolicy.pdf>

**Warnings:** Past performance is not a reliable indicator of future performance. Any express or implied rating or advice presented in this document is 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 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 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 upon 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 in relation to the related or associated funds and platforms. You should be aware that the mandate, fees, underlying investments, the issuers of the related and associated funds and platforms may be different from the fund specified in this publication. You should satisfy yourself that the related and associated funds and platforms meet your financial circumstances, needs and objectives before making an investment decision. **Disclaimer:** This document is for the exclusive use of the person to whom it is provided by Lonsec and must not be used or relied upon by any other person. No representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented in this document, which is drawn from public information not verified by Lonsec. Financial conclusions, ratings and advice are reasonably held at the time of completion but subject to change without notice. Lonsec assumes no obligation to update this document following publication. Except for any liability which cannot be excluded, Lonsec, its directors, officers, employees and agents disclaim all liability for any error or inaccuracy in, misstatement or omission from, this document or any loss or damage suffered by the reader or any other person as a consequence of relying upon it.

Copyright ©2017 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, micro-copying, 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.