Lonsec

5 Highly Recommended

Fund Review
Eley Griffiths Group Emerging Companies Fund

About this Review

ASSET CLASS REVIEWED	AUSTRALIAN EQUITIES
SECTOR REVIEWED	AUSTRALIAN SMALLER COMPANIES
SUB SECTOR REVIEWED	MICRO CAP
TOTAL FUNDS RATED	8

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	ELEY GRIFFITHS GROUP EMERGING COMPANIES FUND
APIR CODE	PIM5346AU
PDS OBJECTIVE	TO OUTPERFORM THE S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX OVER A ROLLING FIVE-YEAR PERIOD
INTERNAL OBJECTIVE	TO OUTPERFORM THE BENCHMARK BY 6-12% P.A. (PRE FEES) OVER ROLLING FIVE-YEAR PERIODS
STATED RISK OBJECTIVE	TRACKING ERROR 6-12% P.A.
DISTRIBUTION FREQUENCY	ANNUALLY
FUND SIZE	$23M (DECEMBER 2017)
FUND INCEPTION	01-03-2017
MANAGEMENT COSTS	1.25% P.A. (INCLUDES 0.02% EXPENSE RECOVERY)
PERFORMANCE FEE	15.375% (OF FUND RETURN ABOVE INDEX, SUBJECT TO A HIGH WATER MARK)
RESPONSIBLE ENTITY	PERPETUAL TRUST SERVICES LIMITED

About the Fund Manager

FUND MANAGER	ELEY GRIFFITHS GROUP PTY LIMITED
OWNERSHIP	100% KEY INVESTMENT EXECUTIVES
ASSETS MANAGED IN THIS SECTOR	$1.7B IN SMALL & MICROCAPS (DEC 2017)
YEARS MANAGING THIS ASSET CLASS	14

Investment Team

PORTFOLIO MANAGER	BEN GRIFFITHS & DAVID ALLINGHAM
INVESTMENT TEAM SIZE	5
INVESTMENT TEAM TURNOVER	LOW
STRUCTURE / LOCATION	CENTRALISED, SYDNEY

Investment process

STYLE	STYLE NEUTRAL
BENCHMARK	S&P/ASX SMALL ORDINARIES ACCUMULATION INDEX
TYPICAL STOCK NUMBERS	35-55
TYPICAL CAPITALISATION BIAS	MICRO-CAP / EMERGING COMPANIES (90%), SMALL CAP (10%)
MAXIMUM OF PORTFOLIO IN ANY ONE STOCK	INDEX +7%
MAXIMUM OF PORTFOLIO IN ANY ONE SECTOR	NO HARD LIMIT
MAXIMUM OF ISSUED CAPITAL OF ANY ONE STOCK	10%
MAXIMUM CASH ALLOCATION	50%
MINIMUM CAPITALISATION	$25M (SOFT LIMIT)
FUND CAPACITY	$250M (SOFT LIMIT)

Fund rating history

FEBRUARY 2018	HIGHLY RECOMMENDED
APRIL 2017	RECOMMENDED

What this Rating means

The **'Highly Recommended'** rating indicates that Lonsec has very strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered a preferred entry point to this asset class or strategy.

Strengths

- The Fund is managed by a highly skilled and experienced investment team housed within a specialist small cap boutique.
- The team is aligned to the interest of investors through equity in the Manager.
- The Manager's investment process is logical and stable and has proven successful in managing small caps portfolios.
- The Fund is attractive from a capacity standpoint and can take advantage of the presently low funds under management ('FUM') in the strategy.

Weaknesses

- This microcap strategy combined with the Manager's small cap strategy represents a significant increase in workload for the team.
- The Fund's performance track record in the microcaps sector remains largely untested.
- The Fund's portfolio has so far held an extremely strong style bias towards stocks with price momentum and could suffer a significant drawdown when that style is out of favour.
- The Fund has a reasonably high fee load with an MER of 1.25% p.a. and a Performance Fee of 15.375% of returns over the benchmark (subject to high water mark).

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 7 equates to a Risk Label of 'Very High' and an estimated number of negative annual returns over any 20 year period of 6 or greater. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

ANALYST: SAM MORRIS | APPROVED BY: PETER GREEN

Eley Griffiths Group Emerging Companies Fund

	LOW	MODERATE	HIGH
RISK TO INCOME		●	

Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG AWARENESS	●		

Fee profile

	LOW	MODERATE	HIGH
FEES VS. 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?

- The Eley Griffiths Group Emerging Companies Fund ('the Fund') aims to outperform the S&P/ASX Small Ordinaries Accumulation Index ('the Index') but also holds an internal objective to beat the Index by 6-12% p.a. (pre-fees) over rolling five-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.
- Eley Griffiths Group Pty Ltd ('the Manager' or 'EGG') style is described as 'style neutral', although 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 EGG's small companies' capability in 2003. Lonsec notes that the Fund's portfolio has so far held an extremely strong style bias towards stocks with price momentum.
- 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 25% of the microcap market. This style also means that the Fund may outperform in 'down' markets.
- Despite being a microcap strategy, the Fund is benchmarked against the Small Ordinaries Accumulation Index. The Fund will generally invest in stocks outside the S&P/ASX 200 Index and is reasonably well-diversified holding between 35 and 55 stocks. The Fund's portfolio turnover is expected to be more than 80% p.a., which is around average for the peer group.
- The Fund has the ability to hold up to 50% cash in the portfolio and will typically sell a holding when the ranking of stocks changes due to deviations from its initial qualitative or quantitative assessment. However, Lonsec understands it is the intention of the Fund to be fully invested at most times and highlights that cash holding is an outcome of the investment process.
- The Manager enjoys solid institutional support and brings a strong risk-adjusted mindset to portfolio construction, in part reflecting previous experience of its founders as institutional fund managers. Lonsec believes the Manager to be slightly more benchmark aware than some others in the Lonsec Microcap Peer Group.
- The Fund charges an MER of 1.25% p.a. plus a Performance Fee of 15.375% of any outperformance over the benchmark (subject to a high water mark and positive absolute return). The Manager has indicated that the calculation does not have a reset provision.
- The Fund's PDS dated 11 October 2017 discloses a total management cost of 1.25% p.a., which Lonsec notes is in accordance with the Manager's interpretation of RG97. Lonsec notes that the Fund incurred no Performance Fees and no indirect costs as at the PDS date of issue. Lonsec, however, notes that the total fee load has the potential to be higher (due to the Performance Fee) and considers that the Fund's fee load is toward the upper end of the peer group.

Using this Fund

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

- 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.
- Microcap 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 and microcaps, depending on client risk preferences. Lonsec's model portfolio asset allocation is limited to 'Growth' and 'High Growth' risk profiles.
- The Fund's more 'benchmark unaware' and microcap bias implies that the portfolio will differ materially from the benchmark. In particular, the Fund may have significant exposure to companies which have solid early stage business models but may not yet be profitable on an earnings basis. Investors should note that these stocks tend to display a high level of volatility over time. As a result, the Fund is inclined to deliver returns that are more volatile and could deviate substantially versus its peers and benchmark for prolonged periods of time. Lonsec, therefore considers this Fund to be one of the higher risk options in its peer group and advises that its risk/ return characteristics be well understood before an investment is made in this product.

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.

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Eley Griffiths Group Emerging Companies Fund

Changes Since Previous Lonsec Review

- There have been no material changes since the last review.

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 this microcaps strategy and the Small Companies Fund.
- In November 2015, the firm's co-founder and previous portfolio manager Brian Eley retired from the business due to ill health. This resulted in a change in equity structure in October 2016. Allingham (30%), Serjeant (14%) and Ridhalgh (5%) have acquired out most of Eley's equity and Griffiths now owns 51% of the business.
- EGG's team is led by Griffiths who has over 29 years of investment experience. Prior to EGG, Griffiths was joint Head of Small Companies portfolio management at both BT Financial Group and ING Investment Management. Lonsec considers Griffiths to be a strong and highly experienced Australian small caps investor.
- Griffiths is supported by Allingham as co-portfolio manager of the Fund. Lonsec has met with Allingham in recent years and continues to build conviction in his contribution to the team. Lonsec is pleased to see the firm reward Allingham for his growing tenure at the firm and believes he is well aligned with investors as a result of his equity position in EGG.
- Serjeant is 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 Lonsec believes that he provides strong support to Griffiths and Allingham.
- EGG has increased resourcing in September 2016 with the appointment of Nick Guidera, who joined the Manager as a Trainee Analyst. Guidera possesses significant sell-side experience within small caps from a prior work engagement with CLSA.
- Lonsec has assessed the 'key person risk' for EGG to be very high and to mostly exist in Griffiths. This risk has increased over the last few years due both to Eley's resignation from the firm but also due to the implementation of the Fund. Lonsec highlights that Griffiths has multiple responsibilities at EGG including co-managing both this strategy and the Small Companies Fund as well as wider executive responsibilities. The active marketing of the new microcap capability is also likely to impinge on his time. Having highlighted the risk, Lonsec considers there to be a number of mitigating circumstances. Lonsec notes that Griffiths is a majority shareholder in EGG and also an investor in all the EGG products. EGG has also worked hard at succession planning especially by building Allingham's track record as a co-portfolio manager. Nonetheless, if Griffiths were to depart, Lonsec would review its rating of the Fund.
- Unlike some other microcap 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

- Overall, Lonsec believes EGG's investment process is logical and well suited to managing small and microcap stocks. Moreover, Lonsec regards the Manager's scoring-based investment approach to provide a systematic and consistent link between company research and portfolio construction.
- Lonsec's analysis of the Fund indicates that price momentum is a key factor in the Manager's assessment of microcap stocks. EGG's bottom-up process is also supported by fundamental research. Over the course of the last year, the team has been involved in more than 800 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.
- Lonsec considers the Manager's approach to modelling and valuing stocks to be consistent and straightforward, with the key valuation metrics relied upon being a company's Price to Earnings Ratio and its Earnings per Share growth. However, due to the emerging nature of some microcap companies that may not yet be earnings or cash flow positive, the Manager will choose to place a greater emphasis on more indicative measures such as Revenue Growth and the Enterprise Value to Revenue ratio of these companies within its valuation scoring process. In addition, the Manager will seek to invest in microcap companies that can grow earnings organically as opposed to those that expand via acquired growth. Lonsec considers this emphasis on earnings growth and momentum to be a sensible approach to evaluating companies at an earlier stage of their life-cycle. However, Lonsec notes that a more exclusive focus on earnings growth can lead to increased portfolio volatility and also the risk of buying companies with stretched balance sheets.
- An algorithm called Small Companies Optimal Portfolio Evaluation (SCOPE) is used as the backbone of portfolio construction. While the co-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.

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Eley Griffiths Group Emerging Companies Fund

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, cash flows and balance sheet strength.
- At the portfolio level, risk controls remain focused on ensuring that the Fund is well-diversified. The portfolio typically holds between 35 to 55 stocks, and the Manager adheres to a maximum single stock position limit of Index plus 7%, with no formal sector constraints. The Fund is also permitted to hold a maximum of 50% in cash although this is typically expected to be around 5%. Lonsec believes that EGG has adequate parameters and tools to manage stock and sector specific risk.

Funds Under Management

- Currently, EGG's microcap strategy has limited FUM and therefore capacity is less of a concern at this point in time. Lonsec is pleased to see that EGG has implemented a soft capacity limit of $250m for the Fund.
- Lonsec holds a firm belief that capacity discipline is important for microcap investing, and the capacity of this Fund will be closely monitored going forward.
- However, Lonsec highlights that EGG's small cap capability has FUM of $1.7b, which is at the limit of its capacity range. Lonsec notes that there will be limited cross-holdings between the two strategies, and EGG has indicated that this Fund would have a predominant microcap exposure. However, there will be some overlap in holdings (10-15%), and therefore EGG might encounter some trading issues for the Fund. That said, this is less of a concern for the Fund at this early stage.

Performance

- Lonsec notes that the objective of the Fund is to outperform the S&P/ASX Small Ordinaries Accumulation Index by 6-12% p.a. (before fees) over rolling five-year periods. However, the Manager has not yet attained a meaningful track record on this strategy due to its recent inception.

Overall

- Lonsec has upgraded the Fund to '**Highly Recommended**'. The rating reflects on Lonsec's strong conviction in the quality and experience of portfolio manager, Ben Griffiths, as well as the wider EGG investment team. Lonsec also regards the Manager's investment philosophy and process to be stable and logical. Further underpinning the rating is the Manager's commitment to adequate resourcing that should encourage efficient workload allocation with the inception of this Fund. The Fund's low FUM makes it an attractive option compared to peers who are operating near capacity.

People and Resources

Corporate overview

Eley Griffiths Group (EGG) is a boutique fund manager specialising in Australian small companies. The firm has current FUM of $1.6b and is 100% staff owned, with EGG co-founder and portfolio manager Ben Griffiths holding a 51% stake. David Allingham (30%), Tim Serjeant (14%) and Lachlan Ridhalgh (5%) are also shareholders. Perpetual Trustees is the Fund's Responsible Entity.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
BEN GRIFFITHS	CO-PORTFOLIO MANAGER	26 / 15
DAVID ALLINGHAM	CO-PORTFOLIO MANAGER / ANALYST	12 / 12
TIM SERJEANT	ANALYST	10 / 4
NICK GUIDERA	ANALYST	7 / 1
LACHLAN RIDHALGH	DEALER	15 / 12

Ben Griffiths is a Co-Portfolio Manager/Analyst. Griffiths has 26 years' experience in financial markets and was with ING for nine years prior to establishing EGG with Brian 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.

David Allingham is a Co-Portfolio Manager/Analyst and has 12 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 seven 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 and Guidera serve as research analysts. 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

With the exception of Brian Eley's forced departure from the firm due to ill health in 2015, 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.

Eley Griffiths Group Emerging Companies Fund

Remuneration/alignment of interests

Given the ownership structure, remuneration for Griffiths, Allingham, Serjeant and Ridhalgh is based entirely on the profitability of the Manager. In addition to this, the portfolio managers are co-invested in the Fund, and the Fund has a performance fee structure based on the 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. STOCKS IN UNIVERSE	350
NO. STOCKS FULLY MODELLED	90
KEY SCREENS	MARKET CAP: MINIMUM $25M, PROFITABILITY, REVENUE GROWTH, QUALITY OF MANAGEMENT
TOP-DOWN	0%
BOTTOM-UP	100%
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 microcaps 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 to long 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

- Revenue Growth & Enterprise Value to Revenue (50%)
- Price to Earning Ratio & Earnings Per Share (50%)

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 factors:

- revenue growth;
- enterprise value to revenue ratio;
- earnings per share growth profile; and
- 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:

- Total addressable market;
- 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; and
- 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); and
- Alignment of management with shareholders.

Portfolio Construction

Overview

FUND BENCHMARK	S&P ASX SMALL ORDINARIES ACCUMULATION INDEX
RETURN OBJECTIVE (INTERNAL)	6-12% P.A. (BEFORE FEES) OVER ROLLING FIVE YEARS
RISK OBJECTIVE (INTERNAL)	TRACKING ERROR OF 6-12% P.A. OVER ROLLING FIVE YEARS
PORTFOLIO APPROACH	BOTTOM-UP
INVESTMENT STYLE	STYLE NEUTRAL
TOP-DOWN INFLUENCE	10%
TYPICAL NUMBER OF HOLDINGS	35-55
MARKET CAPITALISATION BIAS	MICROCAP
EXPECTED PORTFOLIO TURNOVER	80% P.A.
% OF PORTFOLIO IN TOP 10 HOLDINGS	32.2% (31 DECEMBER 2018)

Eley Griffiths Group Emerging Companies Fund

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
STOCK LIMITS	INDEX +7%
SECTOR LIMITS	NO HARD LIMIT
MAXIMUM OF ISSUED CAPITAL IN A STOCK	10%
MAXIMUM CASH ALLOCATION	50%
MINIMUM CAPITALISATION	$25M (SOFT LIMIT)

The Fund adheres to a broad stock limit of benchmark plus 7% and can hold up to 50% in cash. The cash position in the portfolio is an outcome rather than an asset allocation decision. There are no sector limits.

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 200 have a three-month 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 Emerging Companies Fund

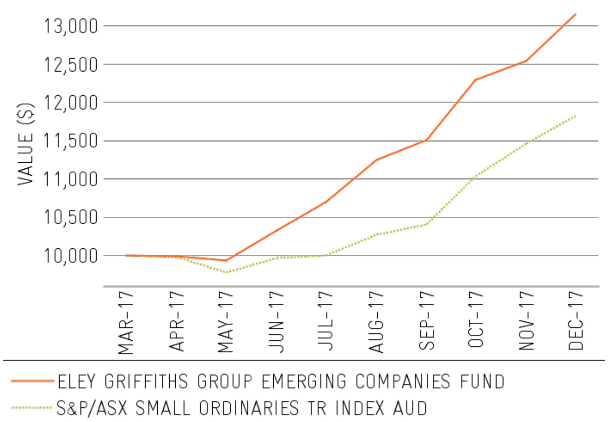
Quantitative Performance Analysis - annualised after-fee % returns (at 31-12-2017)

Performance metrics

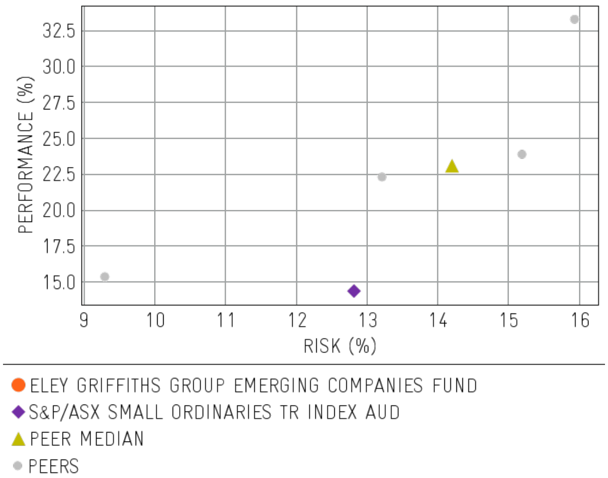
	3 MTH		6 MTH		9 MTH		12 MTH	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	14.29	13.77	27.37	26.63	31.56	23.94	-	-
STANDARD DEVIATION (% PA) *	-	-	-	-	-	-	-	-
EXCESS RETURN (% PA)	0.60	-0.70	8.67	1.97	13.28	4.32	-	-
OUTPERFORMANCE RATIO (% PA)	66.67	66.67	83.33	66.67	88.89	61.11	-	-
WORST DRAWDOWN (%)	0.00	0.00	0.00	0.00	-0.62	-3.81	-	-
TIME TO RECOVERY (MTHS)	-	-	-	-	1	2	-	-
SHARPE RATIO *	-	-	-	-	-	-	-	-
INFORMATION RATIO *	-	-	-	-	-	-	-	-
TRACKING ERROR (% PA) *	-	-	-	-	-	-	-	-

FUND: ELEY GRIFFITHS GROUP EMERGING COMPANIES FUND
LONSEC PEER GROUP: AUSTRALIAN EQUITIES - AUSTRALIAN SMALLER COMPANIES - MICRO CAP
BENCHMARK USED: S&P/ASX SMALL ORDINARIES TR INDEX AUD
CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
* PERIODS LESS THAN 12 MONTHS ARE NOT CALCULATED
TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

Growth of $10,000 over nine months



Risk-return chart over three years



Eley Griffiths Group Emerging 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

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