SQM RESEARCH

# BlackRock Australian Bond Fund (S-Class)

This report has been prepared for financial advisers only

**Outstanding**

March 2024

# INTRODUCTION

### Key Principles

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

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

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https://interprac.com.au/wp-content/uploads/2021/07/InterPrac-FSG-Part-1-v12.0.pdf

## Report Date: 15 March 2024

| Star Rating* | Description | Definition | |
|---|---|---|---|
| 4½ stars and above | Outstanding | **Highly suitable for inclusion on APLs**<br>*SQM Research believes the Fund has considerable potential to outperform over the medium-to-long term. Past returns have typically been quite strong. Product disclosure statement (PDS) compliance processes are of a high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.* | High Investment grade |
| 4¼ stars | Superior | **Suitable for inclusion on most APLs**<br>*SQM Research considers the Fund has substantial potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.* | High Investment grade |
| 4 stars | Superior | **Suitable for inclusion on most APLs**<br>*In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no corporate governance concerns. Management is of a high calibre.* | High Investment grade |
| 3¾ stars | Favourable | **Consider for APL inclusion**<br>*SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality. There are no corporate governance concerns, or they are of a minor nature.* | Approved |
| 3½ stars | Acceptable | **Consider for APL inclusion**<br>*In SQM Research's view, the potential for future outperformance in the medium-to-long term is somewhat uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and capable. SQM Research has identified weaknesses which need addressing in order to improve confidence in the Manager.* | Low Investment grade |
| 3¼ stars | Caution Required | **Not suitable for most APLs**<br>*In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potential substandard. There are possible corporate governance concerns. Management quality is not of investment-grade standard.* | Unapproved |
| 3 stars | Strong Caution Required | **Not suitable for most APLs**<br>*In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There may be some material corporate governance concerns. SQM Research has a number of concerns regarding management.* | Unapproved |
| Below 3 stars | Avoid or redeem | **Not suitable for most APL inclusion** | Unapproved |

| Event-driven Rating | Definition |
|---|---|
| **Hold** | *Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks.* |
| **Withdrawn** | *Rating no longer applies. Significant issues have arisen since the last report date. Investors should consider avoiding or redeeming units in the fund.* |

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

## CONTENTS

**SQM Rating** ★★★★½ *Outstanding. Highly suitable for inclusion on APLs.*

| | |
|---|---|
| **Fund Description** | |
| Fund Name | BlackRock Australian Bond Fund (S-Class) |
| APIR code | BLK8516AU |
| Asset Class | Fixed Income |
| **Management and Service Providers** | |
| Fund Manager | BlackRock Investment Management (Australia) Limited |
| Responsible Entity | BlackRock Investment Management (Australia) Limited |
| **Fund Information** | |
| Fund Inception Date | 01-Aug-10 |
| Fund Size | $27.8 m |
| Return Objective (per PDS/IM) | The Fund aims to capture returns superior to those available from the Bloomberg AusBond Composite 0+ Yr Index |
| Internal Return Objective | Benchmark +1.00% p.a. |
| Risk Level (per PDS/IM) | NA |
| Internal Risk Objective | NA |
| Benchmark | Bloomberg AusBond Composite 0+ Yr Index |
| Number of stocks/positions | 243 |
| Fund Leverage | 0% |
| Portfolio Turnover | has varied over recent years from 72.3% in 2019 to 16.9% p.a. in 2022 |
| Top 5 Holdings Weight | 17% |
| **Investor Information** | |
| Management Fee | 0.15% |
| TCR (Total Cost Ratio) | 0.15% |
| Buy Spread | 0.05% |
| Sell Spread | 0.05% |
| Performance Fee Rate | 0.00% |
| Minimum Application | $0 |
| Redemption Policy | Daily (T+7 Settlement) |
| Distribution Frequency | Quarterly |
| Investment Horizon | 0 |
| Currency Hedging Policy | Actively Hedged |

## Fund Summary

### Description

The **BlackRock Australian Bond Fund (S-Class) (the "Fund")** is an open-ended, unlisted registered managed investment scheme available to retail and wholesale investors in Australia. The Fund invests in a broad universe of domestic and international debt securities. A significant portion of the Fund's portfolio (70%) is invested via the BlackRock Enhanced Australian Bond Fund which aims to provide an enhanced index outcome by replicating the return on the index (often referred to as beta) and aiming for enhancement of +0.25% p.a. to the return via credit enhancement. The rest of the Fund's portfolio (30%) is invested in a range of active strategies aimed at producing excess returns (often referred to as alpha) above its benchmark, the Bloomberg AusBond Composite 0+Yr Index.

The Fund is therefore a diversified Australian bond fund that has the objective of providing consistent excess returns above its benchmark from the Australian and global fixed-income markets. The investment strategy employed aims for capital preservation and income generation designed to deliver consistent and attractive total returns. This is achieved through the application of active portfolio positions supported by quantitative analysis and combined with the qualitative judgment of experienced professionals.

The Fund Manager's expected excess return above the benchmark is +1.00% p.a. over rolling 3-year periods with expected volatility of returns of around 0.75% p.a.

## Fund Rating

The Fund has achieved the following rating:

| Star Rating | Description | Definition | Investment Grading |
|---|---|---|---|
| **4.50 stars** | **Outstanding** | **Highly Suitable for inclusion in most APLs** | **High investment Grade** |

## SQM Research's Review & Key Observations

### About the Manager

BlackRock Investment Management (Australia) Limited is a subsidiary of BlackRock, Inc. a publicly traded investment management firm, with common stock listed on the New York Stock Exchange which provides a broad range of investment management and technology services to institutional and retail clients worldwide. As of 31 December 2023, BlackRock Inc. managed US $10 trillion across equity, fixed income, alternatives, multi-asset, and cash management strategies for its clients. BlackRock has been profitable over the past ten years. The business is largely fee-based, thereby generating strong recurring cash flow from operations.

The firm has a substantial team of fixed-income investors comprising over 200 fixed-income specialist analysts and portfolio managers and over 300 risk management professionals using a highly developed proprietary risk management software system.

### Investment Team

Cameron Garlick is the lead Fundamental fixed-income portfolio manager responsible for the Fund. He is responsible for the management of risk factors such as interest rate and yield curve risk, credit risk and liquidity risk. He is also responsible for the allocation of the Fund's portfolio weighting to:

- the excess return strategies (often referred to by the jargon term alpha strategies), which make up about 30% of the Fund portfolio; and
- the Enhanced Australian Bond Fund, which is mainly a market or index matching strategy (often referred to by the jargon term beta strategy) that makes up about 70% of the Fund portfolio.

He focuses more on fundamental macroeconomic and market variables such as inflation, GDP growth and yield curve expectations out to 3 or 6 months rather than bottom-up security selection.

Craig Vardy is the Head of Australian Fixed Income and leads the team of fixed-income professionals in Australia. He is also the Portfolio Manager of the BlackRock Enhanced Australian Bond Fund (BEABF). The BEABF has had a consistent track record over 20 years of meeting its objective.

The Portfolio Managers appear to have worked well together for many years, especially Garlick and Vardy, who are further supported by other members of the Australian Fixed income team. They also work with sector specialists across fixed income. Bottom-up opportunity identification and security selection are done in collaboration with over 200 research professionals around the world, who spend all of their time on these bottom-up efforts. Sector specialists will have discretion, that said the portfolio manager ultimately is responsible for what goes into the portfolio.

There is a key person risk inherent in the roles of each of Garlick and Vardy.

The investment team is supported by the Risk & Quantitative Analysis (RQA) group, which provides bottom-up risk oversight.

## 1. Investment Philosophy and Process

### Investable Universe

The Fund may invest in a broad universe of domestic and international debt securities, including, but not limited to:

- any fixed-income security, negotiable instrument, note, mortgage or asset-backed security or other debt instrument issued or guaranteed by a central or regional government, corporation, or supranational body;
- foreign currency exposures;
- repurchase agreements or stock lending on any eligible investments;
- cash and cash equivalents (including investments in other BlackRock Group funds) and other money market securities; and
- any instrument whose value is derived from eligible physical instruments, cash or currency exposures. Such instruments include, but are not limited to futures, options, interest rate swaps, cross currency swaps, index swaps, credit swaps, credit default agreements and forward currency exposures.

The Fund may implement some of its investment strategy via an investment in another BlackRock Group fund, including but not limited to, the BlackRock Enhanced Australian Bond Fund, where the investments of any such fund include the permitted investments of the Fund. The Fund may also hold a small allocation of cash (or cash equivalents including other BlackRock Group funds) for cash flow management purposes.

### Philosophy / Process / Style

The Fund Manager seeks to systematically exploit market inefficiencies that are identified by research to ensure that risk is adequately compensated. The Fund Manager believes that:

- this is best done by combining traditional and quantitative methods.
- people are best at generating and researching investment ideas, focusing on security selection, and performing the critical tasks of portfolio management and trading
- technology is necessary to remove emotion from the process, broaden the opportunity set, monitor risks, and improve the speed of implementation.
- incorporating a wide array of sources of excess returns in fixed income is desirable for diversification.

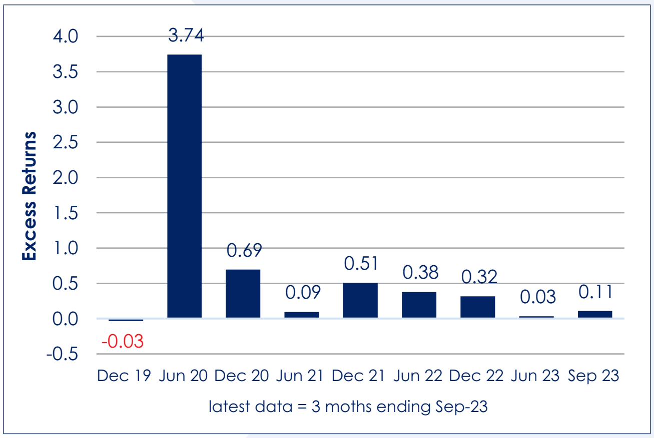
The investment style can be characterized as a combination of bottom-up security selection with top-down macroeconomic and market judgment.

## 2. Performance & Risk

### Return Objective

The return objective stated in the PDS is: "The Fund aims to capture returns superior to those available from the Bloomberg AusBond Composite 0+ Yr Index. "

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




### Length of Track Record

The Fund has a history of 13.5 years (or 162 months). Observations and analysis of returns will have substantial statistical meaning as a result of the sample size of observations.

### Risk Objective

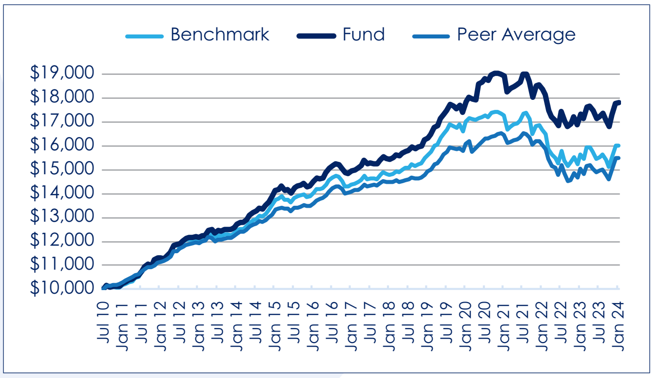
The Fund's PDS does not state a risk level.

| Fund Performance to 31 January 2024 (% p.a.) | | | | | | | |
|---|---|---|---|---|---|---|---|
| Total Return | 1-Month | 3-Month | 6-Month | 1-Year | 3-Year | 5-Year | Inception |
| Fund | 0.23 | 5.94 | 3.36 | 2.63 | -2.03 | 1.74 | 4.37 |
| Benchmark | 0.21 | 5.96 | 3.17 | 2.45 | -2.49 | 0.56 | 3.56 |
| Peer Average | 0.06 | 5.98 | 3.39 | 3.04 | -2.04 | 0.72 | 3.24 |
| Alpha | 0.03 | -0.02 | 0.19 | 0.18 | 0.46 | 1.19 | 0.81 |

With dividends reinvested. Returns beyond one year are annualised. Return History starts Aug-2010

Benchmark: Bloomberg AusBond Composite 0+Y TR AUD

### Growth of $10,000




### Strengths of the Fund

- The experience and stability of the well-qualified portfolio management team with an average of over 20 years of relevant fixed-income market experience.
- The parent company's size and scale provide portfolio managers with purchasing power and improve pricing and access to new issuance.
- The support of over 200 fixed-income sector specialists to source and analyse ideas for excess returns.
- Broad sector and duration flexibility that is needed to generate durable excess returns.
- A strong risk management orientation and a substantial investment in proprietary analytical risk management systems that provide timely and valuable information to portfolio managers for their use in making investment decisions and calibrating risk positions.
- The Fund has very competitive fees.
- The Fund has a track record that has demonstrated value added relative to peers and the benchmark over most periods.

### Weaknesses of the Fund

- There is key person risk inherent in the roles of each of the two main Portfolio Managers.

### Other Considerations

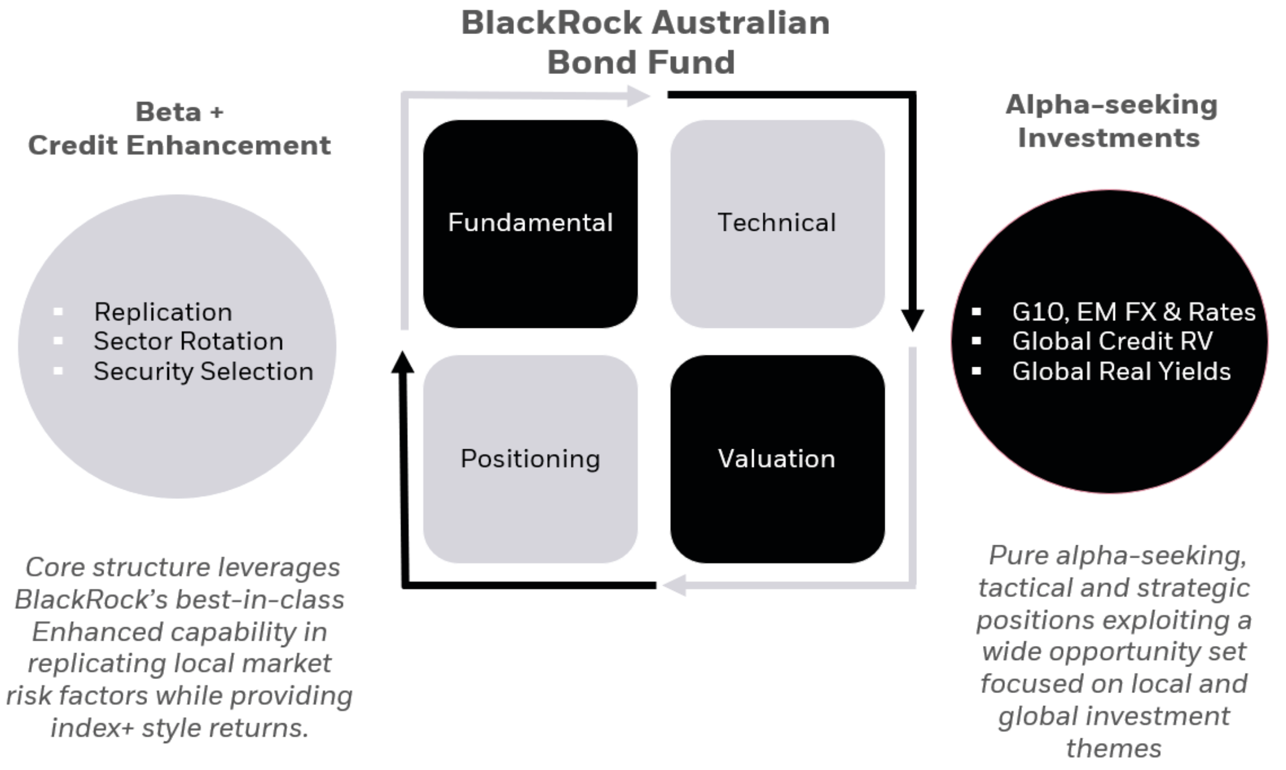
- The fund's flexibility in allocation across fixed-interest markets allows it to achieve desired returns in changing market environments.
- A market environment with moderate to high volatility levels that provide trading opportunities in conjunction with ample liquidity to implement trade ideas is advantageous.
- When volatility falls to extremely low levels, credit spreads become very compressed and the rewards for taking credit or structural risk are lower.
- When liquidity is diminished to the point where it is difficult to execute trades or implement strategies, the ability to capture dislocations in securities or sectors can be compromised and the expected alpha will be lower.

### Key Changes Since the Last Review

- This report is an inaugural review.

## Investment Process Diagram

The Fund manager has provided the following diagram of its investment process:




## Process Description

| Investment Process | |
|---|---|
| **Research and Portfolio Construction Process** | The investment approach employs collaboration between the portfolio managers, who are responsible for setting the top-down asset allocation framework for portfolio construction and the sector specialists and traders who are responsible for bottom-up idea generation, including research, analysis, security selection and execution.<br><br>The Australian fixed-income investment team is supported by over 200 research professionals around the world, who spend all of their time analysing bottom-up opportunities. The investment process centres around a series of daily and weekly meetings. The structured process forms the basis for consistently diversified investment decisions.<br><br>**Idea Generation**<br><br>The investment process combines a top-down determination of investment themes with a dynamic tactical approach designed to capture shorter-term market movements.<br><br>High-level global investment strategies and themes are generated by the Global Investment Strategy Group (ISG). The ISG meet weekly where they receive input from numerous investment teams responsible for bottom-up idea generation and research, as well as Portfolio Management Teams which are responsible for deriving top-down thematic themes and portfolio construction. |

## Investment Process

**Research and Portfolio Construction Process**

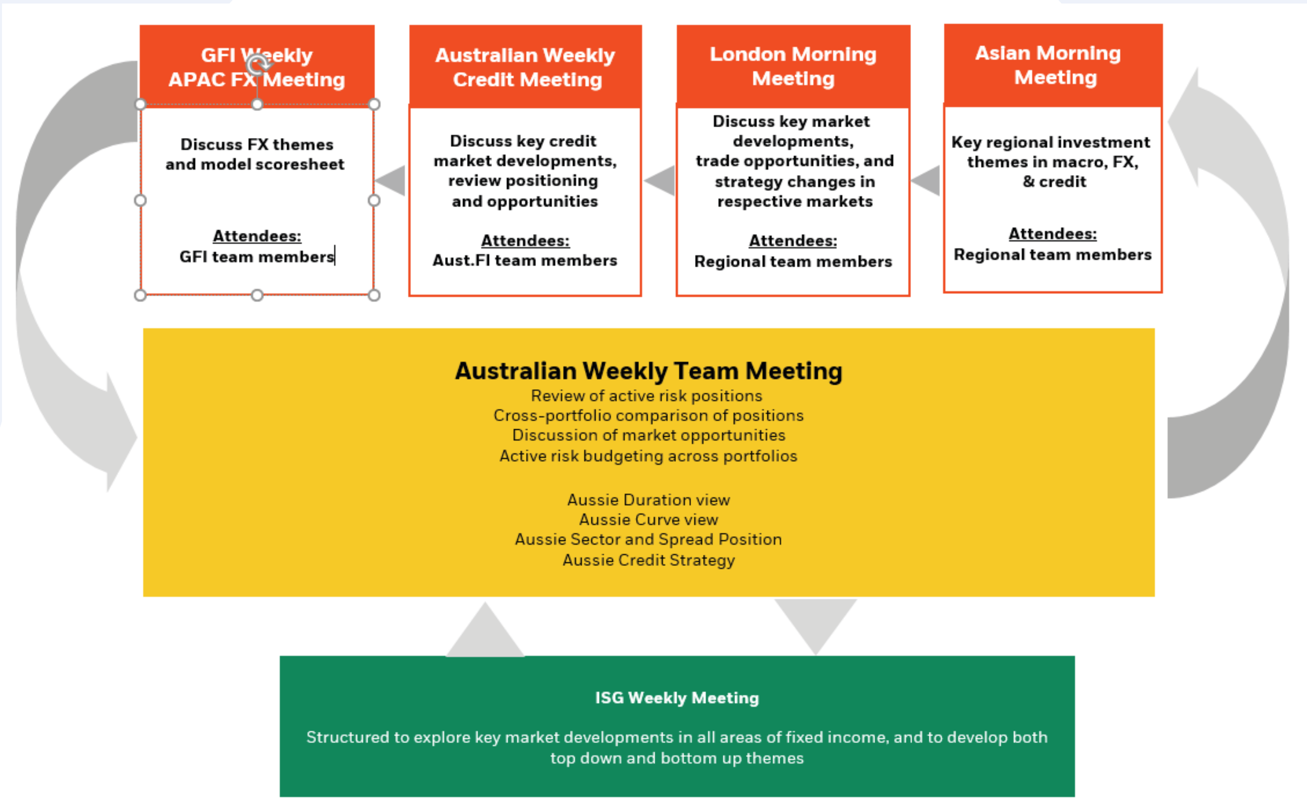
***...continued***

The ISG meeting is split in two; the first part discusses the existing market outlook and trade ideas and may drill down into one specific theme or sector of the market. The second part of the meeting is a portfolio strategy meeting which looks at how best these themes should be implemented within portfolios. This part of the meeting is driven by portfolio managers who decide on asset allocation, sector rotation and curve decisions.

After the global ISG meeting, the Australian Fixed Income team meet to infer how these changes and views should impact the portfolios that they manage. Local portfolio managers are fully responsible for the portfolios they manage and therefore have autonomy to implement global themes with the discretion to implement their own trade ideas and selectively choose global trade ideas.

There is a discussion of how any change of global views should be implemented within Australian portfolios. This gives rise to a discussion on tactical positioning as part of the weekly investment review process. This process is aided by the firm's risk management system, Aladdin which is integral to portfolio construction with portfolios being monitored by a separate risk and quantitative analysis team, RQA.

The Australian fixed-income team formulates a domestic view on a range of macroeconomic and market variables specific to the Australian economy such as economic growth, inflation, interest rates, credit, and the Australian dollar. Forecasts are formulated and discussed at the weekly Australian macro-economic and credit meetings which ultimately are used to dictate the size of active positions taken in Australian interest rate and credit markets, including sector and credit quality positioning across all Australian portfolios. The following diagram summarises the Australian Fixed Income process and the inputs into portfolio positioning.



## Investment Process

**Research and Portfolio Construction Process**

***...continued***

**Screening**

Credit analysts develop and maintain a direct dialogue with each issuer's management during the credit surveillance process, which allows them to understand and regularly assess financial performance. In addition to direct dialogue with management, the analysts also speak to customers, suppliers, competitors, and other related entities to assess potential changes in a company's performance and value. The analysis incorporates relevant information from industry resources, and it considers macro or industry effects and their potential influence on the issuer. The analysts review all available information to determine potential changes to an issuer's credit quality and industry position.

Once the credit decision is made by the sector-specific research analyst, the security can be purchased.

**Security Research and Selection**

The fund's security selection process is based on:

- the fundamental analysis of the Global Credit Research teams,
- the risk management group's quantitative assessment of the securities and the portfolio.
- the relative value outlook and the quantitative assessment of the security and portfolio.
- technical analysis and sentiment indicators used to supplement this analysis.

When superior relative value is found, a security will be considered by the fund's portfolio managers. If consistent with strategy and portfolio guidelines, a holding is generally sold, and a more attractive security is purchased. A security might be sold, for example, to realise a gain after strong performance, or a credit downgrade; to modify the yield curve biases, duration or convexity characteristics of the overall portfolio; or to move into a sector or security that has been targeted by the portfolio managers for the relative value it offers. There is no automatic selling process. All decisions to buy and sell are made after consideration of quantitative research and credit analysis.

The ultimate security selection investment decision represents a combination of several factors: credit fundamentals, relative value, and credit/sector diversification. The relative value of a security purchased must be attractive within its industry/sector. Further, the security must be consistent with the overall investment strategy and represent a fit with existing portfolio exposures to the credit and the industry. Investment in security is always underwritten by the fundamental credit analysis of credit research analysts.

**Portfolio Construction**

Portfolio sector allocation decisions are made having regard to the Portfolio Managers' broad secular view of the markets. Within fixed-interest sectors position size and limit decisions will vary according to sector and asset class but are mainly driven by the risk contribution of a security to the overall portfolio whether from a duration or credit risk perspective. The portfolio managers, sector specialists, and Risk & Quantitative Analysis (RQA) team monitor the risk and positions in the fund daily. If the team ever became concerned about one position or issuer, it would be discussed in the daily investment strategy meeting and appropriately managed.

## Investment Process

**Research and Portfolio Construction Process**

***...continued***

There is flexibility when deciding where to invest:

| Asset Class | Minimum | Maximum |
|---|---|---|
| Australian fixed-income securities | 0% | 100% |
| International fixed-income securities | 0% | 100% |
| Cash and equivalents | 0% | 50% |

The portfolio managers have full discretion as long as the following limits are respected:

- The modified duration of the Fund must be maintained within +/- 2.0 years of the modified duration of the benchmark index.
- The fund is not permitted to have a total exposure of more than 15% to securities rated below investment grade.
- There are also limits on investment in securities by issuer:

**Issuer limits:**

Limits to restrict the maximum percentage exposure of the Fund to any individual issuer are specified for each credit category and are outlined below:

| Rating Grade – Long term | Maximum Exposure to any individual Issuer / Guarantor |
|---|---|
| Government | 100% |
| AAA | 20% |
| AA- to AA+ | 10% |
| A- to A+ | 5% |
| BBB- to BBB+ | 2% |
| Below Investment Grade | 1% |

| Rating Grade – Short and Long Term | | Maximum Exposure to any individual Issuer / Guarantor |
|---|---|---|
| Government | | 100% |
| A-1+ | AA- to AAA | 25% |
| A-1 | A+ | 20% |
| A-2 | BBB+ to A | 5% |
| A-3 | BBB- to BBB+ | 2% |
| Below Investment Grade | | 1% |

- Where the issuer has an explicit long-term and short-term rating, long-term rating requirements will apply specifically to long-term debt but issuer constraints on short-term debt should also include long-term exposure.
- Ratings are defined by Standard and Poor's or the equivalent Moody's Investor Service and Fitch Ratings. Where more than one rating is available the lowest rating shall apply for eligibility criteria. New issues can be purchased on the basis of expected ratings.

## Investment Process

**Research and Portfolio Construction Process**

***...continued***

- Where a particular issuer is not rated, but in the opinion of the investment manager is of investment grade quality, the exposure limit is equivalent to the lowest investment grade rating (i.e. 2%)
- Where the fund invests in pooled vehicles the credit rating shall be determined first by any rating attached to the vehicle. Where that is not possible issuer rating shall be determined by "looking through" the vehicle. Where neither of those is possible, the rating will be determined by the sponsor of the pooled vehicle.
- The credit rating assigned to swaps will be that of the counterparty.
- Where any security has a guarantor ignore the issuer and monitor the exposure to the guarantor.

The following aspects are considered in portfolio construction:

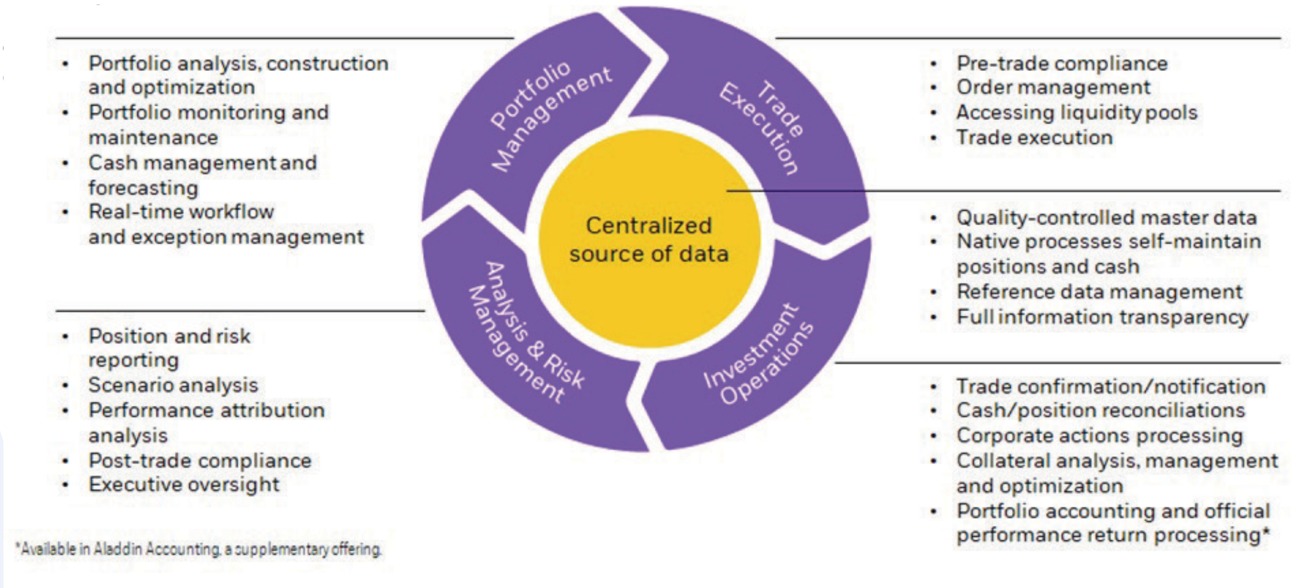
- Interest Rate Risk (Duration Position): by limiting duration within a band of -2 years to +2 years relative to the benchmark duration. Active and flexible duration management is a key part of generating returns and controlling risk across different interest environments.
- Yield Curve (Key Rate Duration): While no specific yield curve position constraint is set for the strategy, the Fund Manager measures, monitors and actively manages yield curve strategies according to the fund's objectives and tolerances for yield curve sensitivity. Yield curve exposure is evaluated using multiple duration and convexity measurements, including key rate duration analysis (KRD), which measures the sensitivity of a specific security or entire portfolio to shifts in portions of the yield curve. KRD analysis shows how portfolios would react in non-uniform shifts across parts of the yield curve and allows the Portfolio Managers to more precisely position portfolios to be insulated, or to benefit, from yield curve shifts. This analysis is conducted for each currency and market bloc.
- Credit research to identify opportunities to add value, avoid credit problems, and manage credit problems that may arise.

**Risk Management**

The portfolio managers are responsible for decisions regarding the six risk parameters inherent in the management of fixed-income securities: (i) interest rate risk, (ii) yield curve risk, (iii) cash flow risk, (iv) credit risk, (v) liquidity risk and (vi) currency risk. The Fund Manager quantifies each of these risk parameters daily and provides them online and in the daily risk management package.

The Fund Manager's proprietary investment platform, Aladdin, integrates and connects all the functions needed to manage money. From portfolio management and trading to compliance, operations and risk oversight, Aladdin brings together people, processes, and systems to support an investment process.

## Investment Process




**Measures of risk used.**

The Fund Manager does not view portfolio risk as something that can be quantified by any single measure. It produces reports providing security level, portfolio level, benchmark, and active summary aggregations of individual parametric analytical measures and their integration (as in parametric Value-at-Risk) as well as actual revaluations for scenario analyses, stress tests and historical simulations.

The chart below illustrates the analysis used in portfolio-level risk management:


| Risk Factors | Stress testing | Correlation analysis | Daily Attribution |
|---|---|---|---|
| • Provide real time portfolio level risk updates across a variety of metrics<br>• DxS and Spread duration fund profiles across currencies are used more frequently in global credit portfolios.<br>• Weekly meetings to discuss current risk exposures in fund | • Analyze impact of actual and hypothetical scenarios (e.g. fiscal cliff, escalation of European debt crisis, etc.) on portfolio<br>• Full flexibility to use historical market moves as well as specify custom shocks<br>• Adjust portfolio positioning based on results | • Analyze ex-ante and ex-post correlations among trades, strategies and factors using various time horizons and weighting schemes<br>• Limit correlations to ensure diversified sources of risk and alpha, which allows portfolio to outperform regardless of market conditions | • Daily attribution provided at a security level<br>• Detailed weekly and monthly reports are provided to the global bond team |

## Investment Process

**Research and Portfolio Construction Process**

***...continued***

The Value-at-Risk is the primary risk measure used. The VaR calculation is based on the following calculation parameters:

- One-tailed confidence level of 99%.
- Holding period of 1 month (20 business days).
- Effective historical observation period not less than 1 year (250 business days), unless a shorter observation period is justified by a significant increase in price volatility.
- Quarterly data set updates, or more frequent when market prices are subject to material changes.
- At least a daily calculation.
- The Analytical VaR (AVaR) model is used for the calculation. AVaR is a parametric multi-factor model.

Multi-factor models identify common factors, which are categories defined by common characteristics of different securities and determine the return sensitivity to these factors. Portfolio risk and return are decomposed into components due to common factors and a specific, or idiosyncratic, factor.

The Risk & Quantitative Analysis Group (RQA) has adopted a Risk & Performance Targets framework ("RPT") as an additional level of surveillance. Risk levels are reviewed daily against pre-specified risk bands for the portfolio. If it falls outside of these bands there must follow a defined resolution, escalation, and documentation process.

Standard stress tests are available daily for the investment team to review. In addition, RQA conducts relevant and timely stress tests regularly where exposures are examined. Ad-hoc stress tests are also conducted as deemed appropriate given dynamic markets.

The RQA team also utilizes the Risk Dashboard, which was developed exclusively for multi-sector fixed-income funds. The Risk Dashboard is the main tool used by the team to provide a comprehensive, highly detailed view of all the strategy's exposures, with data on each position's carry (or yield from coupon and other sources), liquidity, P&L contribution, and behaviour under a variety of stress tests, among other attributes. This tool enables the team to thoroughly understand portfolio positions and behaviour, which leads to better analysis, discussion and decision-making to budget risk to the highest quality sources that provide diversified risk-adjusted returns. If the team ever became concerned about one specific issuer, it would be discussed in the daily investment strategy meeting and addressed.

As part of the daily review, each sector lead will identify new opportunities or risks. The output from this daily review of the Risk Dashboard can lead to asset allocation shifts or implementation of macro hedges to mitigate key risk scenarios.

## Investment Process

**Research and Portfolio Construction Process**

***...continued***

The Risk Dashboard is refreshed daily through Aladdin. The investment team starts every day with a discussion with RQA of what has changed on the Risk Dashboard and how that could impact the Fund's expected return and risk profile. Specifically, the team focuses on changes to:

- Volatility.
- Correlations.
- Expected returns.
- Stand-alone risk and strategy level marginal contribution to risk.
- Liquidity; and
- Stress test scenarios.

The team focuses on these changes in conjunction with valuation moves and any changes in perceived relative value to determine any actions to take in the portfolio on a daily and continuous basis.

Proprietary technology platforms may help manage risk, but risk cannot be eliminated.

The Risk & Quantitative Analysis Group (RQA) leads risk management efforts by providing independent top-down and bottom-up oversight to help identify investment, counterparty, operational, regulatory, and technology risks. RQA provides tailored advice, quantitative analysis, and constructive challenge to help ensure risks are properly understood and appropriately managed.

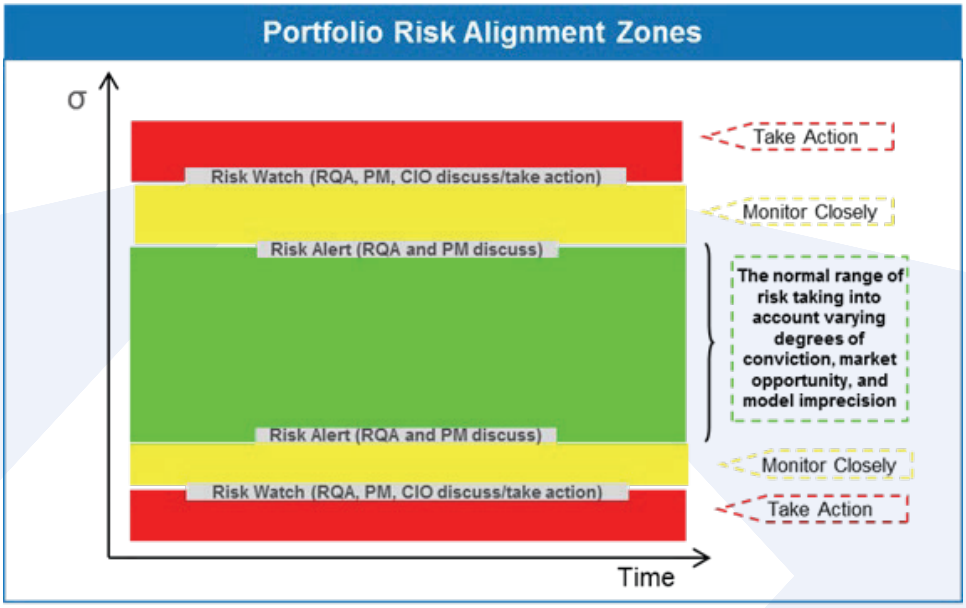
RQA comprises over 300 professionals and is organized with a matrix structure; there is a global head for each product/functional area as well as a regional head within the major functions. The regional and functional dimension of our organizational structure connects people with expertise in all BlackRock portfolio management centres. The availability of daily portfolio information permits portfolio oversight responsibilities to be shared globally. The functional orientation encourages teamwork and the exchange of expertise.

Members of RQA have specialized knowledge of each type of portfolio that BlackRock manages. RQA seeks to identify and properly measure key risks for each portfolio type. Actual investment performance is attributed to returns on different types of risk. RQA communicates proactively with portfolio managers to help them position portfolios and fully utilize BlackRock Solutions' analytical capabilities powered by Aladdin.

The RQA team set risk and performance targets ("RPT") to align portfolio risk and return objectives across all locally managed portfolios. A Global Portfolio Risk Alignment Policy governs RPT. This provides a framework, policy, and process for determining risk targets and thresholds, and ensuring portfolio risk is aligned with those thresholds. Targets and thresholds are developed in conjunction with the portfolio managers. The portfolio risk alignment framework is comprised of three (3) risk zones:

- Target (Green Zone) –This zone is the normal or target range of risk-taking levels for an account.
- Risk Alert High and Risk Alert Low (Yellow Zone) – Portfolios within the yellow zone have entered a region where market fluctuations may impact the risk levels of the portfolios; the portfolio has moved from the target (green zone) but is expected to revert to normal risk zones. A portfolio can enter the yellow zone due to an increase (risk alert high) or a decrease (risk alert low) within the risk zones.

| Investment Process | |
|---|---|
| **Research and Portfolio Construction Process** | • Risk Watch High and Risk Watch Low (Red Zone) – Portfolios within the red zone have fallen into a region of risk-taking level that is inconsistent with the portfolio objectives. This can occur at both the high (risk watch high) and low (risk watch low) risk-taking levels. |
| ***...continued*** | The type of response and swiftness of resolution conducted by RQA are dependent on the location of the portfolio's risk in this risk zone. Depending on where the portfolio's risk level is located within the risk zones, RQA takes different steps, as shown in the diagram below. |




## Portfolio Characteristics

### Portfolio Biases/Preferences

The portfolio is diversified across many sectors with no sector biases.

### Portfolio Turnover

The portfolio turnover of the Fund has varied over recent years from 72.3% in 2019 to 16.9% p.a. in 2022.

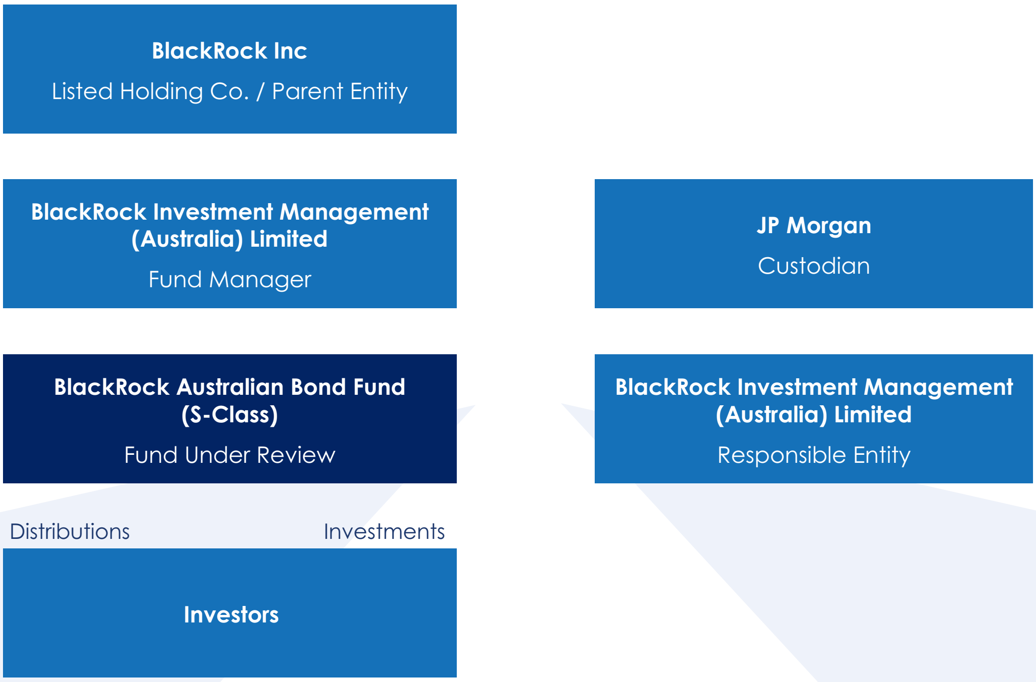
### Liquidity

The fund invests at least 70% of its total assets in fixed-income transferable securities denominated in Australian dollar bonds by governments, agencies, and corporates. The balance of the portfolio is allocated towards higher alpha-seeking investments across G10 and Emerging Market, Foreign Exchange and Rates positions, Global Credit positions and Global Real Yield positions. These typically are implemented in derivatives such as FX forwards and options, interest rate swaps and swaptions, and all of these are liquid.

The portfolio reflects a focus on liquid securities. The Fund Manager incorporates a liquidity measure based on bid/ask spreads into its relative value analysis. While in some cases this has led to missing some incremental value, the strategy has escaped major portfolio devaluations from unanticipated or unavoidable volatility associated with these types of securities.

| Investment Process | |
|---|---|
| **Research and Portfolio Construction Process**<br><br>***...continued*** | **Leverage**<br><br>This Fund does not employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives). While the constitution of the Fund allows the Responsible Entity to borrow, it is the intention that no borrowing arrangements will be entered into other than temporary overdrafts, which may be used as a means of managing certain cash flows.<br><br>**Derivatives**<br><br>The portfolio managers may, when consistent with the Fund's investment objectives, buy or sell derivatives whereby any instrument whose value is derived from eligible physical instruments, cash, or currency exposures. Such instruments include, but are not limited to futures, options, interest rate swaps, cross currency swaps, index swaps, credit swaps, credit default agreements and forward currency exposures.<br><br>In addition to the permitted investments of each Fund, the Funds may also invest in derivatives, such as futures, forwards, and options to manage risk and return, including the bondisation of any cash exposure. When derivative positions are established, they will always be backed by cash holdings and/or underlying assets. Derivative securities will not be used to leverage exposures.<br><br>All derivatives are incorporated into Aladdin, the enterprise-wide risk management system and holdings are reflected in daily reports. Each day positions are marked-to-market, and based on pre-determined threshold limits, margin calls are made, on a dealer-by-dealer basis, for each portfolio.<br><br>**Sell discipline**<br><br>There is no automatic sell process or stop-losses procedures in place. All decisions to buy and sell are made after consideration of quantitative research and credit analysis. A security might be sold to offset any realized losses in the portfolio according to the investment guidelines; in anticipation of changing prepayment speeds or a credit downgrade; to modify the yield curve biases, duration or convexity characteristics of the overall portfolio; or to move into a sector or security which has been targeted by the portfolio managers for the relative value it offers. |

## Key Counterparties




## Parent Company

BlackRock Investment Management (Australia) Limited is a subsidiary of BlackRock, Inc. a publicly traded investment management firm, with common stock listed on the New York Stock Exchange which provides a broad range of investment management and technology services to institutional and retail clients worldwide.

BlackRock Inc. manages US $10 trillion across equity, fixed income, alternatives, multi-asset, and cash management strategies for its clients in 100 countries. It has over 19,000 employees in 36 countries. The firm's diversified investment platform and technology offerings have provided stable financial results allowing BlackRock to be profitable over the past ten years while expanding operating margins over this time. In addition, BlackRock's largest expense, employee compensation and benefits, accounts for approximately 50% of overall expenses. The business is largely fee-based, thereby generating strong recurring cash flow from operations.

The firm has a substantial team of fixed-income managers supported by over 200 fixed-income specialist analysts and over 300 risk management professionals using a highly developed proprietary risk management software system.

## Fund Manager

BlackRock Investment Management (Australia) Limited is the Fund Manager.

## Governance

## Responsible Entity

BlackRock Investment Management (Australia) Limited is the Responsible Entity of the Fund.

The Board of Directors of the Responsible Entity consists of **4** directors, **none** of whom are independent. Board members have an average of **27** years of industry experience.

***SQM Research prefers the inclusion of independent members on the Board of Directors – it is a meaningful way to enhance governance and oversight. SQM Research observes that the RE is not independent of the Fund Manager and that none of its directors are independent.***

The Responsible Entity's **Compliance Committee** composition was not fully disclosed. The RE was not able to disclose the Individual members of the Responsible Entity's Compliance Committee as it does not have consent to do so. The Responsible Entity did confirm that it has appointed an independent Compliance Committee that oversees compliance activities in relation to the schemes and that as of 31 October 2023, the composition of the Compliance Committee is comprised of three external independent members, and two employees.

***SQM Research views independence in a RE oversight body such as the Compliance Committee as a strong and favourable factor in Fund governance. Compliance Committee members have undisclosed periods of industry experience.***

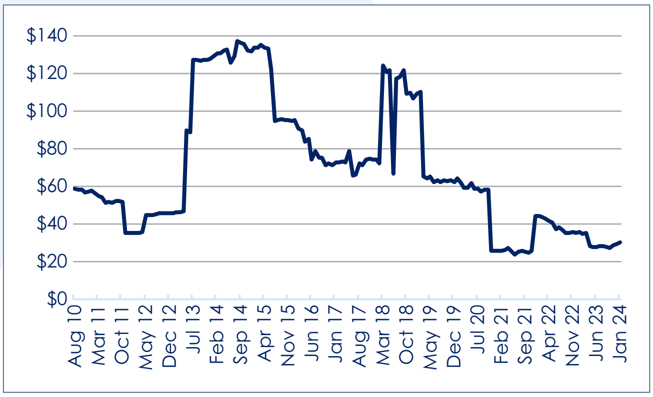
## Management Risk

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

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

## Funds under Management (FUM)

**FUM for Fund under Review ($mill)**



## Investment Team

| Name | Responsibility / Position | Location | Years at Firm | Years in Industry |
|---|---|---|---|---|
| Michael McCorry | Australian CIO | Sydney | 26.0 | 29.0 |
| Craig Vardy | Head of Australian Fixed Income | Sydney | 31.0 | 36.0 |
| Cameron Garlick | Portfolio Manager | Sydney | 22.0 | 32.0 |
| Michael Prljaca | Portfolio Manager | Sydney | 17.0 | 17.0 |
| Pavel Pospisil | Portfolio Manager | Sydney | 20.0 | 22.0 |
| Dmitri Levachov | Portfolio Manager | Sydney | 9.0 | 14.0 |
| Joel Hedlund | Investment Strategy | Singapore | 11.0 | 17.0 |
| Harshani Kotuwegedara | Credit Analyst | Sydney | 2.0 | 13.0 |

Cameron Garlick is the lead Fundamental fixed-income portfolio manager responsible for the Fund. He is responsible for the management of risk factors such as interest rate and yield curve risk, credit risk and liquidity risk. He is also responsible for the allocation of the Fund's portfolio weighting to:

- the excess return strategies (often referred to by the jargon term alpha strategies), which make up about 30% of the Fund portfolio; and
- the Enhanced Australian Bond Fund, which is mainly a market or index matching strategy (often referred to by the jargon term beta strategy) that makes up about 70% of the Fund portfolio.

He focuses more on fundamental macroeconomic and market variables such as inflation, GDP growth and yield curve expectations out to 3 or 6 months rather than bottom-up security selection.

Craig Vardy is the Head of Australian Fixed Income and leads the team of fixed-income professionals in Australia. He is also the Portfolio Manager of the Enhanced Australian Bond Fund (EABF). It aims to provide an enhanced index outcome by replicating the return on the index (often referred to as beta) and aiming for enhancement to the return via credit enhancement. He is responsible for the portfolio weighting decisions for the EABF and hence much of the portfolio weighting of the Fund. The EABF has had a consistent track record over 20 years of meeting its objective.

Michael Prljaca is the backup Fundamental fixed-income portfolio manager. Dmitri Levachov is the lead portfolio manager for the Fund Manager's index suite of funds. Harshani Kotuwegedara is the team's Australian credit analyst.

Within Fundamental Fixed Income the research analysts are organised by industry and are responsible for actively following news/events in their sector relevant to names in the portfolios and any potential opportunities. Analyst coverage of specific names, and hence several names will change depending on portfolio positioning and where analysts and portfolio managers jointly believe they can generate the best risk-adjusted return. Indicatively, the Fund Manager believes that the optimal number of core names for an analyst to cover intensively is approximately 30, with an additional 30 under higher-level surveillance.

The Portfolio Managers appear to have worked well together for many years (especially Garlick and Vardy). They also work with sector specialists across fixed income. Bottom-up opportunity identification and security selection are done by over 200 research professionals around the world, who spend all of their time on these bottom-up efforts.

There is key person risk inherent in the roles of each of Garlick and Vardy.

Communication happens via the team's several daily meetings. During the daily meetings, sector specialists communicate with the team on different events and trade ideas in their specialty areas.

The investment team is supported by the Risk & Quantitative Analysis (RQA) group, which provides bottom-up risk oversight.

## Staffing Changes

There have been few material departures or additions in the last three years:

| Departures | | | |
|---|---|---|---|
| **Date** | **Name** | **Responsibility** | **Reason for Departure** |
| 01-May-21 | Andrew Ling | Credit Analyst | Internal transfer |
| 05-Jan-24 | Jet James | Investment Strategy | External opportunity |

| Additions / Hires | | | |
|---|---|---|---|
| **Date** | **Name** | **New Responsibility** | **Previous Position / Employer** |
| 01-Sep-21 | Harshani Kotuwegedara | Credit Analyst | Moody's |

***SQM Research observes that the levels of investment experience and company tenure are strong across the investment team. The size and nature of staff turnover are not an issue of concern, in SQM's view.***

## Meeting Schedule

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

| Meeting | Agenda | Frequency | Participants |
|---|---|---|---|
| **Macro Events Call** | Global fixed-income teams discuss data releases and overnight market moves | Daily | CIO, Portfolio Managers, Analysts |
| **Positioning Meeting** | Multi-Sector Fund Team discusses portfolio positioning, risk and performance. Bi-weekly review of ESG risks. | Daily | CIO, Portfolio Managers, Analysts |
| **Investment Strategy** | CIO-led discussion across global fixed-income teams | Weekly | CIO, Portfolio Managers, Analysts |
| **Sector Deep Dive** | Weekly rotation of sector specialists to provide in-depth fixed-income sector insights | Weekly | Portfolio Managers, Analysts |
| **Daily Global Meeting** | Portfolio teams across asset classes discuss market themes, liquidity, and risk | Daily | Portfolio Managers, Analysts |
| **Portfolio Strategy** | Lead portfolio managers review, discuss and debate top-down themes and risk posture | Weekly | Portfolio Managers, Analysts |
| **Macro Speaker** | External macro speaker addresses market views | Weekly | External guest, CIO, Portfolio Managers, Analysts |
| **CIO Markets Call** | Rick Rieder provides a medium-term horizon outlook and ongoing research designed to identify the prevailing investment regime | Monthly | CIO, Portfolio Managers, Analysts, Open to clients |

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

## Remuneration and Incentives

The Fund Manager's predominant compensation model includes a salary and discretionary bonus reflecting firm, business area, and individual performance. For most investment professionals, compensation reflects investment performance and the success of the professional's business or product area. As professionals become more senior the discretionary bonus accounts for a larger percentage of total compensation.

Compensation decisions for employees are made annually following the end of the performance year. This timing allows full-year financial results to be considered along with other non-financial goals and objectives. Although the framework for compensation decision-making is tied to financial performance, significant discretion is used to determine individual compensation based on the achievement of strategic and operating results and other considerations such as management and leadership capabilities.

No set formulas are established, and no fixed benchmarks are used in determining annual incentive awards. In determining specific individual compensation amounts, several factors are considered including non-financial goals and objectives and overall financial and investment performance (net of fees). These results are viewed in the aggregate without any specific weighting or direct formula between any particular performance measure and the resulting annual incentive award.

Annual incentive awards are generated from a bonus pool. The total bonus pool is determined as a percentage of pre-incentive operating income within a range approved by the Management Development and Compensation Committee of the Board of Directors. The ratio of annual compensation and benefits expense to net revenue is also considered when determining the annual bonus pool. These guidelines are designed to ensure a balance of shareholder and employee interests, that bonuses are closely tied to profitability and that overall compensation and benefits costs are competitive.

Given that the parent company is publicly listed, the firm can include equity as a component of compensation. At senior levels, a more significant percentage of the annual discretionary bonus is paid in the form of restricted stock awards that vest over three years. Select investment professionals have a portion of their annual discretionary bonus awarded as deferred cash that notionally tracks investment in products managed by the employee. These awards intend to align investment professionals' compensation with the investment returns of the products they manage.

***SQM Research believes remuneration in the form of firm equity and client-focused performance bonuses act as strong incentives for optimising staff engagement, retention, and productivity. The intention (and SQM believes the effect) is to align staff performance with client and shareholder objectives. It focuses on the customers' needs and medium to long-term results.***

| Fees and Costs | Fund | Peer Avg |
|---|---|---|
| Management Fee % p.a. | 0.15% | 0.53% |
| Expense Recovery/Other Costs % p.a. | – | – |
| Performance Fee % | – | – |
| Total Cost Ratio TCR % p.a. | 0.15% | 0.53% |
| Buy Spread %* | 0.05% | 0.11% |
| Sell Spread %* | 0.05% | 0.11% |

* This spread is the difference between the Fund's application price and withdrawal price and reflects transaction costs relating to the underlying assets.

## Management Fee

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

## Performance Fee

The Fund does not charge a performance fee

***SQM Research observes that:***

- ***The Fund management fee is 0.15% p.a., which is 38 basis points lower than the peer group average of 0.53% p.a.***
- ***The Total Cost Ratio (TCR) is 0.15% p.a., which is 38 basis points lower than the peer group average of 0.53% p.a.***

## Distributions

Distributions occur quarterly, subject to the availability of distributable income. In a scenario where the Fund's realised losses and expenses exceed income in a distribution period, the Fund may elect not to make a distribution during that time.

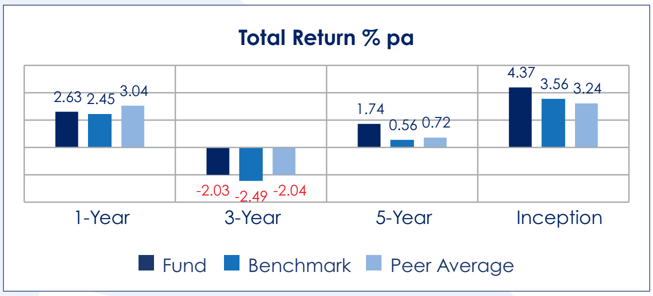
| Risk/Return Data to 31 January 2024 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Total Return** | **1-Month** | **3-Month** | **6-Month** | **1-Year** | **3-Year** | **5-Year** | **Inception** |
| Fund | 0.23 | 5.94 | 3.36 | 2.63 | -2.03 | 1.74 | 4.37 |
| Benchmark | 0.21 | 5.96 | 3.17 | 2.45 | -2.49 | 0.56 | 3.56 |
| Peer Average | 0.06 | 5.98 | 3.39 | 3.04 | -2.04 | 0.72 | 3.24 |
| Alpha | 0.03 | -0.02 | 0.19 | 0.18 | 0.46 | 1.19 | 0.81 |
| **Metrics** | | | | **1-Year** | **3-Year** | **5-Year** | **Inception** |
| Tracking Error (% p.a.) - Fund | | | | 0.21 | 0.42 | 1.52 | 1.00 |
| Tracking Error (% p.a.) - Peer Average | | | | 2.22 | 2.64 | 2.72 | 2.09 |
| Information Ratio - Fund | | | | 0.84 | 1.08 | 0.78 | 0.81 |
| Information Ratio - Peer Average | | | | 0.27 | 0.07 | 0.03 | -0.01 |
| Sharpe Ratio - Fund | | | | -0.21 | -0.57 | 0.05 | 0.48 |
| Sharpe Ratio - Peer Average | | | | -0.18 | -0.72 | -0.16 | 0.23 |
| Volatility - Fund (% p.a.) | | | | 6.36 | 6.73 | 5.88 | 4.16 |
| Volatility - Peer Average (% p.a.) | | | | 5.72 | 5.50 | 4.83 | 3.75 |
| Volatility - Benchmark (% p.a.) | | | | 6.53 | 6.71 | 5.63 | 4.08 |
| Beta based on stated Benchmark | | | | 0.97 | 1.00 | 1.01 | 0.99 |

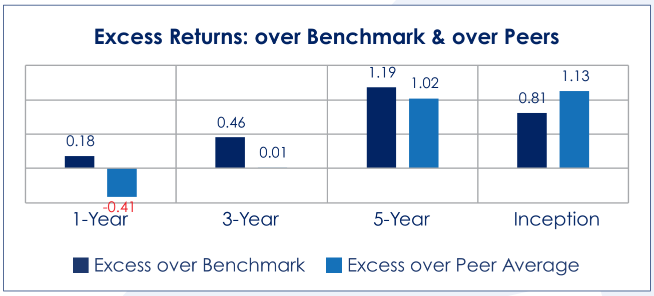
Distributions reinvested. Returns beyond one year are annualised. Return History starts Aug-2010

Benchmark: Bloomberg AusBond Composite 0+Y TR AUD

## Quantitative Insight[1]

**Note:** Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for **periods ending 31 January 2024.**



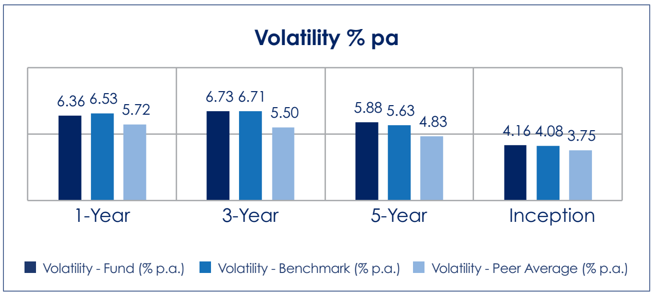

**Excess Returns (Alpha)**

The Fund has displayed good performance across most periods when compared with the benchmark and peers.

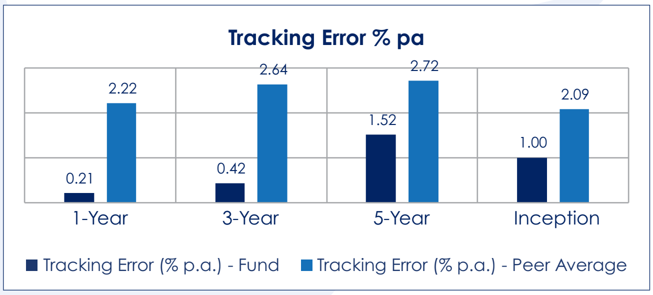
The **return outcomes** as described above are above SQM's expectations for the Fund relative to its fee level and volatility.

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

## Risk




The Fund's **volatility** (annualised standard deviation of monthly returns) has tended to be around that of the benchmark and higher than that of the peers.




The Fund's **tracking error** (annualised standard deviation of monthly **excess** returns) has tended to be lower than that of the peers.

The **risk outcomes** as described above regarding volatility and tracking error are consistent with SQM's expectations for this Fund.

## Drawdowns

| Drawdown Summary | | | |
|---|---|---|---|
| Drawdown Size (peak-to-trough) | | | |
| | Fund | Bench | Peers |
| Average | -1.27% | -1.44% | -1.58% |
| Number | 20 | 19 | 18 |
| Smallest | -0.01% | -0.16% | -0.05% |
| Largest | -11.71% | -13.20% | -12.40% |
| Length of Drawdown (in months) | | | |
| | Fund | Bench | Peers |
| Average | 3.3 | 3.8 | 5.8 |

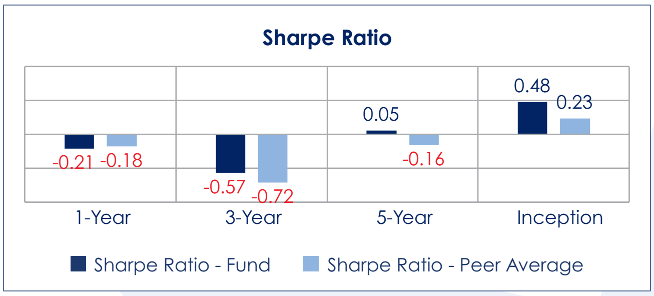
Length of Drawdown = time from peak to trough and back to the previous peak level

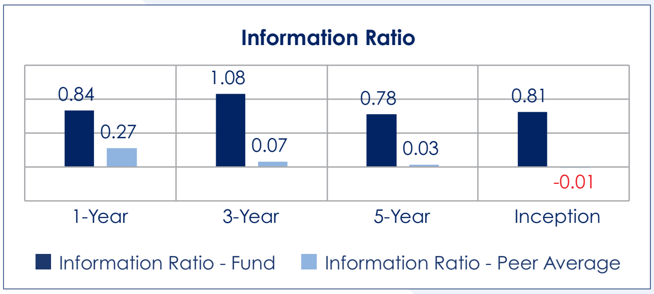
**Average** drawdowns have been slightly better than the benchmark and the peer average.

## Upside/Downside Capture

| | Downside Capture | | Upside Capture | |
|---|---|---|---|---|
| | 3 years | Inception | 3 years | Inception |
| **Fund** | 97.2% | 94.0% | 102.0% | 107.7% |
| **Peer Average** | 79.5% | 76.7% | 78.4% | 83.7% |

## Risk-Adjusted Returns




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

## Correlation of Fund to Asset Classes

| Market | 3 years | Inception | Market Indexes |
|---|---|---|---|
| Aust Bonds | +99.8% | +97.1% | Bloomberg AusBond Composite 0+Y TR |
| Aust Equity | +42.9% | +14.3% | S&P/ASX 300 TR |
| Global Bonds | +81.8% | +74.7% | Bloomberg Global Aggregate Hdg AUD |
| Global Equity | +60.5% | +25.6% | MSCI World Ex Australia NR AUD |

## Correlation Key

| Low | High | Description |
|---|---|---|
| 0% | 20% | low, weak |
| 20% | 40% | modest, moderate |
| 40% | 70% | significant, material |
| 70% | 90% | strong, high |
| 90% | 100% | substantial |

### Tail Risk

*(The analysis in the table below looks at the **tail risk performance relationship of the Fund to the ASX300**, a practice that SQM has set as common across asset classes in Fund reviews. This approach recognises that for the large bulk of financial planner clients, their key traditional asset class **risk** regarding **size** and **volatility** is to Australian equities. Exploring that relationship is useful regardless of the asset class of the Fund itself, as it is helpful to understand how a Fund has acted in times of Australian equity market stress in terms of softening or exaggerating the negative performance experienced at such times.)*

The table below details the **largest negative monthly returns** for the ASX 300 **since the inception of the Fund**. This is compared to the Fund's performance over the same months.

**Tail Risk Observations:**

**Extreme Market Returns vs Fund Return Same Month**

**Index:** S&P/ASX 300 TR — **From Aug-10 to Jan-24**

| Rank | Date | Market | Fund | Difference |
|---|---|---|---|---|
| 1 | Mar-20 | -20.83% | -0.35% | +20.48% |
| 2 | Jun-22 | -8.97% | -1.20% | +7.77% |
| 3 | Feb-20 | -7.76% | +0.98% | +8.74% |
| 4 | Aug-15 | -7.70% | +0.71% | +8.41% |
| 5 | May-12 | -6.74% | +2.56% | +9.30% |
| 6 | Jan-22 | -6.45% | -0.97% | +5.48% |
| 7 | Sep-22 | -6.29% | -1.28% | +5.01% |
| 8 | Sep-11 | -6.28% | +1.05% | +7.32% |
| 9 | Oct-18 | -6.16% | +0.56% | +6.72% |
| 10 | Jan-16 | -5.45% | +1.21% | +6.66% |
| **Totals** | | **-82.63%** | **+3.27%** | **+85.90%** |

| | | | No. of Months |
|---|---|---|---|
| **Correlation** | +24.5% | Positive Return | 6 |
| **Capture** | -4.0% | Outperform | 10 |

The data in the table above indicate that the Fund displays substantial **defensive characteristics** in the face of extreme Australian equity tail risk.

### Snail Trail

The snail trail chart and tables below show the Fund's rolling 3-year excess returns and rolling 3-year excess volatility.

There are 70 observations in total.

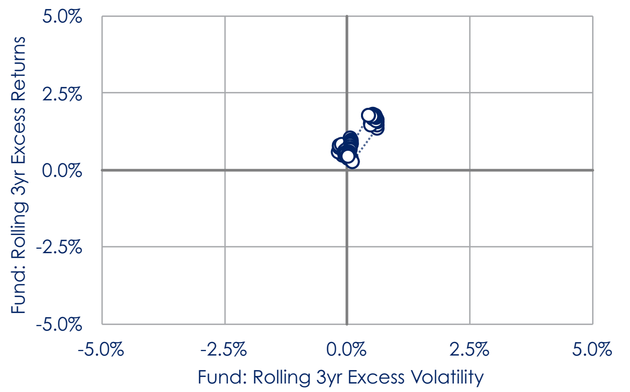
The two tables below display the distribution of these observations and their overall frequency across the risk/return quadrants.

**Snail Trail Distribution**

| Frequency | Lo-Vol | Hi-Vol | Total |
|---|---|---|---|
| **Hi-Return** | **62** | 65 | 127 |
| **Lo-Return** | 0 | 0 | 0 |
| **Total** | **62** | **65** | **127** |

**127 rolling 3-year observations**

| % of Total | Lo-Vol | Hi-Vol | Total |
|---|---|---|---|
| **Hi-Return** | **48.8%** | 51.2% | 100.0% |
| **Lo-Return** | 0.0% | 0.0% | 0.0% |
| **Total** | **48.8%** | **51.2%** | **100.0%** |




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

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

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

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

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

**Consistency**

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

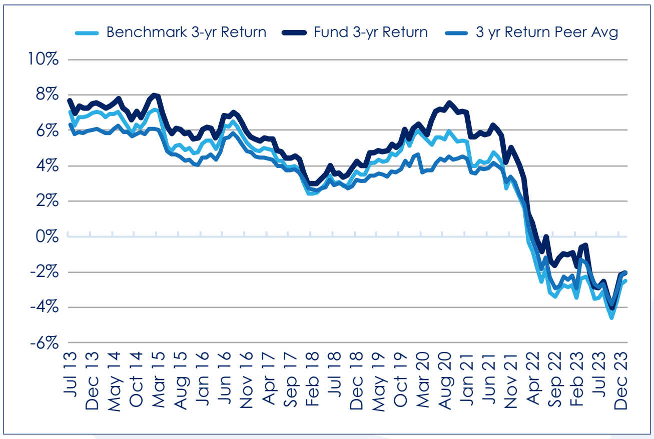
### Annual Returns

| Year | Fund | Benchmark | Peer Avg | vs. Bench | vs. Peers |
|---|---|---|---|---|---|
| 2012 | +7.83 | +7.70 | +7.79 | +0.13 | +0.04 |
| 2013 | +3.32 | +1.99 | +2.10 | +1.33 | +1.22 |
| 2014 | +10.55 | +9.82 | +7.48 | +0.73 | +3.06 |
| 2015 | +3.03 | +2.58 | +2.66 | +0.45 | +0.37 |
| 2016 | +3.49 | +2.93 | +4.21 | +0.56 | -0.72 |
| 2017 | +4.26 | +3.66 | +3.13 | +0.60 | +1.13 |
| 2018 | +4.94 | +4.54 | +2.22 | +0.41 | +2.72 |
| 2019 | +7.28 | +7.26 | +6.72 | +0.02 | +0.56 |
| 2020 | +9.00 | +4.48 | +4.64 | +4.52 | +4.36 |
| 2021 | -2.29 | -2.87 | -1.90 | +0.59 | -0.38 |
| 2022 | -9.04 | -9.71 | -9.48 | +0.66 | +0.44 |
| 2023 | +5.27 | +5.06 | +5.45 | +0.21 | -0.18 |
| Jan-24 | +0.23 | +0.21 | +0.06 | +0.03 | +0.18 |

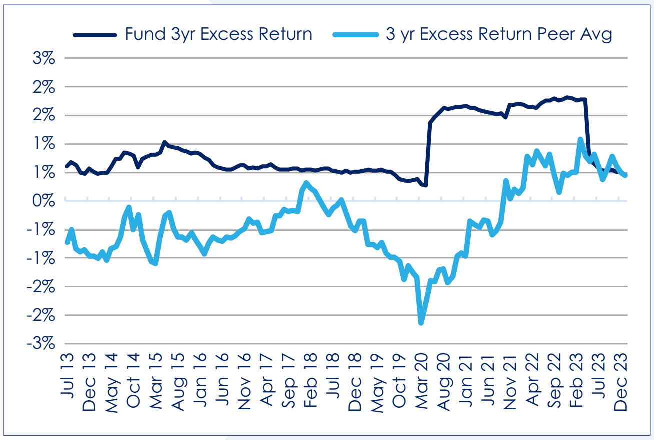
2024 data = 1 months ending Jan-24

## Return and Risk

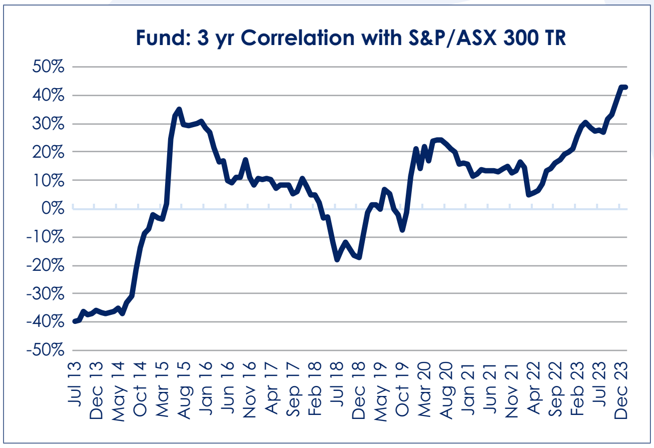
### Rolling Returns




### Rolling Excess Returns

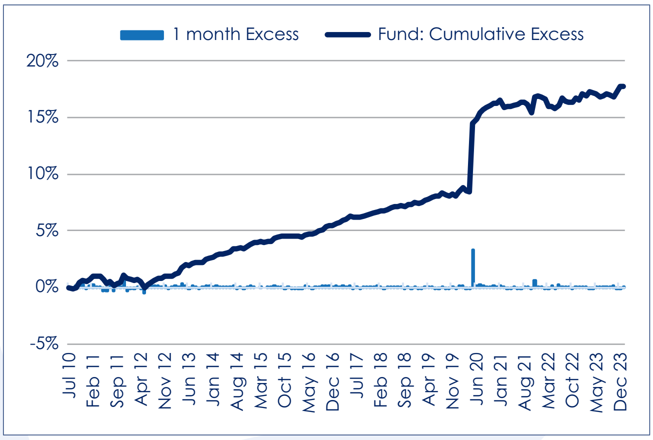



### Rolling Correlation

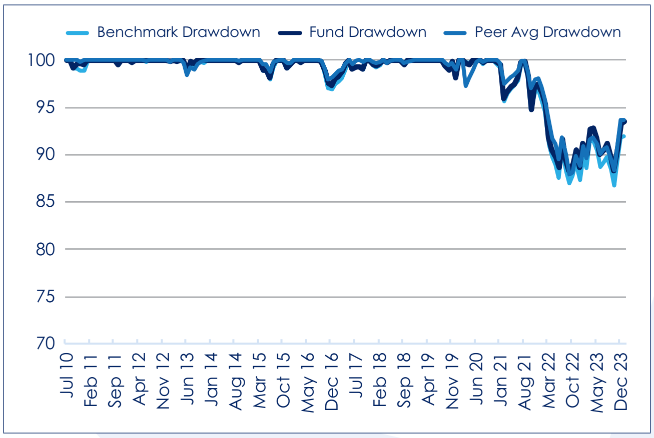


## Return and Risk

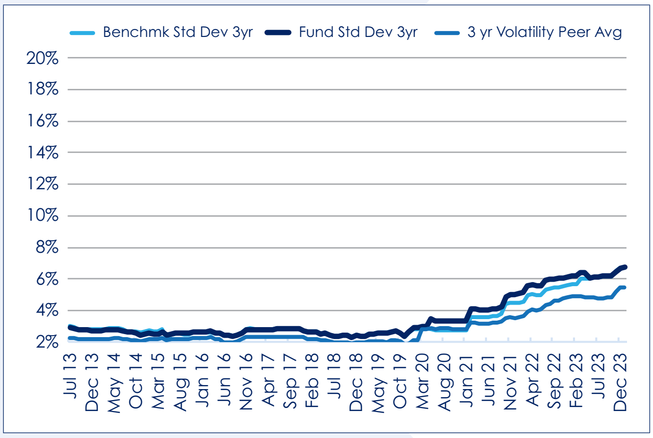
### Cumulative Excess Returns



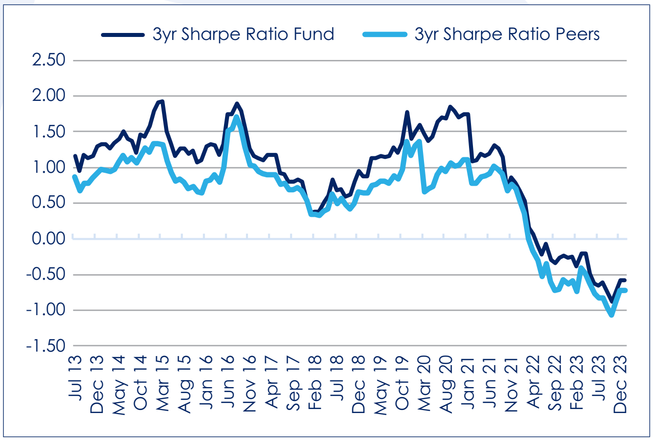

### Drawdowns




### Rolling Volatility




### Rolling Sharpe Ratio



### Drawdown

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

### Alpha

SQM defines **Alpha** as the excess return compared to the Benchmark and is calculated as

Alpha = Fund Return – Benchmark Return

### A General Note on Distributions for Managed Funds

The Responsible Entity of a Managed Fund will provide for a regular schedule of distributions, such as monthly/ quarterly/semi-annual or annual. This is subject to the Fund having a sufficient distributable income. The official total distributable income available to pay to investors is determined for the period of that Fund's financial year. By distributing the net taxable income of the Fund to investors each year, a Fund itself should not be liable for tax on its net earnings.

If a Fund makes distributions more frequently than once over the financial year, those distributions will be based on estimates of the distributable income for that distribution period. The final total amount of distributable income available for passing on to investors can only be calculated after the close of the financial year, based on the Fund's taxable income for that year.

If the total distributions a Fund pays out exceed total taxable income for that particular financial year, the excess amount may be treated as a return of capital rather than income. This will possibly have tax implications for the investor.

Due to the considerations outlined above, there may be periods in which no distributions are made, or a Fund may make additional distributions.

A Fund's ability to distribute income is determined by the performance of the Fund and general market conditions. Accordingly, there is no guarantee that a Fund will make a distribution in any distribution period.

### Total Cost Ratio (TCR)

Managed Investment Schemes: The TCR for Managed Investment Schemes, Exchange Traded Products, and Investment Bond funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, and the impact of dollar-based fees.

Superannuation funds: The TCR for Superannuation and Pension funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, Administration Fees and Costs, the impact of dollar-based fees and a deduction of Super OTC Derivative Costs.

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https://interprac.com.au/wp-content/uploads/2021/07/InterPrac-FSG-Part-1-v12.0.pdf

This report has been prepared for Financial Advisers Only.

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