Mason Stevens OCIO

Australian Equity Sector Review July 2024

Australian Equity Sector Review

Introduction

The Mason Stevens OCIO Australian equity sector review was completed in July 2024. This was a focused review of who we believe to be the best managers in market across the Australian equity asset class. This review has in turn informed decisions around managers on the Mason Stevens High Conviction List (HCL). This document details our thoughts on this asset class, the process and outcomes of the review, and summaries of each of the managers.

The subsectors that are covered in the Australian equities review include:

- **Value** – managers that seek alpha by investing in companies that are typically cheaper than the market average in terms of traditional metrics such a P/Es, Price to Book, and Dividend Yield.
- **Growth** – managers that seek alpha by investing in companies that are typically growing their earnings faster than the market. A subset of this is Growth at a Reasonable Price (GARP), which adds a stronger valuation discipline in the short-medium term.
- **Core** – managers that exhibit neither strong value nor growth characteristics, typically have lower tracking error, and deliver most of their alpha from idiosyncratic stock risk.
- **Income** – managers that seek to deliver a higher level of income than the benchmark. This may come in the form of higher dividends or in option premiums.
- **Extension** – managers that take both long and short positions but provide a beta 1 like exposure, for example 130 long and 30 short.
- **Variable Beta** – these managers seek strong risk-adjusted returns by running a lower beta than the market at times. This can be done by various means including increasing cash, shorting, as well as options overlays.
- **Responsible and sustainable investing** – managers with a greater ESG focus in terms of how they invest. Managers that invest in a relatively benchmark aware way but with strong ESG integration are classified as responsible investing. Those with a heavy focus on sustainability in their approach, and as a result have high tracking error portfolios, are typically classified as sustainable investing.
- **Mid caps** – managers that have an explicit focus on stocks outside the top 20 companies on the ASX.
- **Small caps** – managers that have an explicit focus on smaller companies outside the top 100 companies on the ASX.

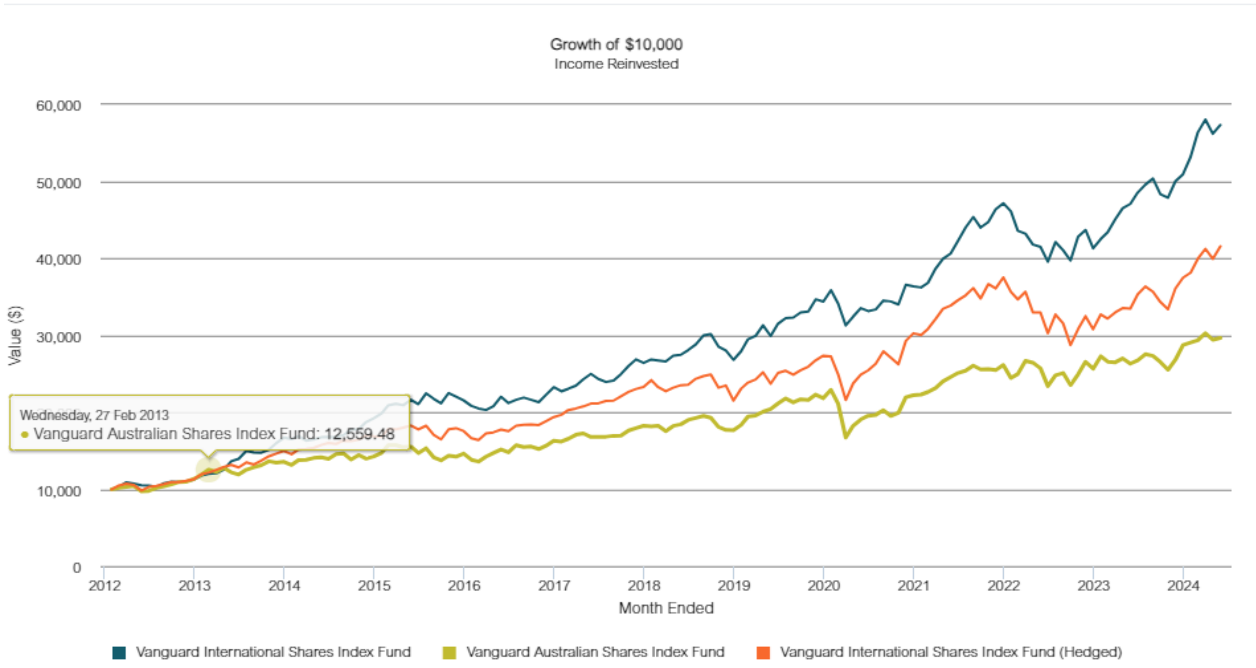
Perhaps one notable exclusion that is not covered above is Quality. Given the unique structure of the Australian market which is dominated by banks and resources and has a much smaller pool of companies in what within international equities might be categorised as “high quality” companies, there are a lack of “Quality” strategies available. There are of course many managers who place a high emphasis on traditional quality metrics, but for our purposes we believe they are better categorised in one of the other sub sectors identified above to capture the broad characteristics of the strategy.

Sector commentary

Australian Equities – The Challenge of Both Beta and Alpha

Over the past decade, Australian equities have delivered a solid, if slightly underwhelming absolute return of 7.67% p.a.[1] What has been particularly noticeable, however, is the large underperformance when compared to international equities which have returned 13.09% p.a.[2] over the same period as illustrated in Chart 1.

Chart 1: International Equity Outperformance over Australian Equities Over The Past Decade



Source: Lonsec

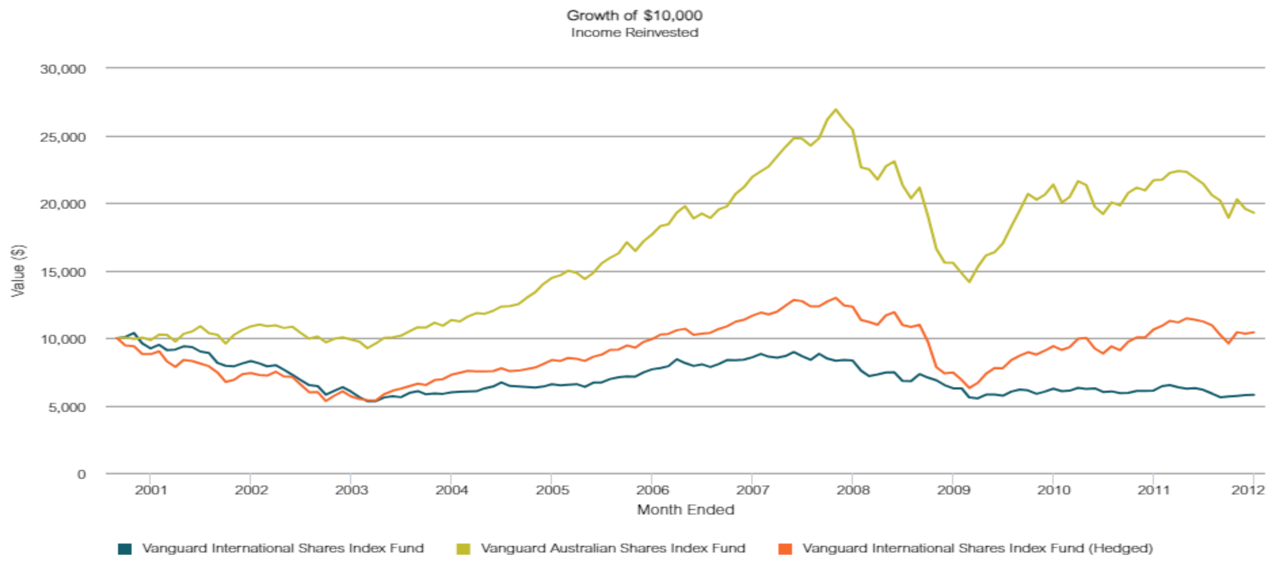
This performance gap reflects the strong growth of the S&P500 and in particular the large technology companies that have come to dominate these indices. However, it also reflects a decade in Australia of very poor productivity, where economic growth was largely a function of strong immigration levels. These return series don't of course capture the benefit of franking credits and after-tax returns for local investors, but even when making allowance for this, the performance difference between international and domestic equities remains large.

Of course this has not always been the case. In the first decade of this century, Australian equities meaningfully outperformed international equities as illustrated in chart 2 below. The after-effects of the Dotcom bubble in the US and the greater depths of the GFC experienced in international markets dragged international equity performance lower, while at the same time Australia disproportionately benefited from the Chinese led resources boom.

[1] Performance of the Vanguard Australian Shares Index Fund as at 30th June 2024

[2] Performance of the Vanguard International Shares Index Fund as at 30th June 2024

Chart 2: Australian Equities Outperformance Over International Equities Between the Dotcom Bubble and the GFC



Source: Lonsec

Where will the returns from the beta of equity markets go in the next decade? Our long-term SAA forecasts, which consider returns over 7-10 years, have international and Australian equities at very similar levels, reflecting in part cheaper multiples in Australia but greater productivity in US markets. However, we acknowledge that these longer-term returns could take quite different paths in the short-medium term and could also be changed meaningfully by events and policy changes as yet unknown.

This background all provides context to make the argument that the search for consistent alpha remains relevant within equities and Australian Equities in particular. An allocation to Australian equities in a multi-asset portfolio remains logical for Australian investors, particularly given the tax considerations. Whether Australian equities continue to lag international equities in the next few years, however, is of course uncertain. If recent trends do continue though, alpha generation in your Australian equities portfolio may help bridge some of the performance gap, while obviously enhancing returns where beta meets or exceeds expectations.

Where are you sourcing your alpha?

We asked the same question in our international equity sector review given the increasing concentration into the largest technology companies globally, and the challenge that has presented to alpha generation in the short-term. Of course, in Australia we are very used to having a concentrated market, but it’s worth highlighting just how concentrated it is. While the Magnificent 7 constitute somewhere around 30% of the S&P500, our top 11 stocks locally make up more than 50% of the ASX200. 75% of the market cap of those 11 stocks are banks or mining companies. Given this concentration and the level of analyst coverage of both this market and these stocks, this is a highly efficient part of the market, where active returns would logically appear harder to come by.

The lower the market cap, the higher the alpha

While this has not always been true in international equities, Australian equities continue to follow quite a logical path of alpha being more achievable the further down the market cap spectrum you go, driven by the relative lack of research coverage of smaller companies. Looking through some of the most successful, long standing large cap managers in the market, anyone delivering 1.5% p.a. or more net of fees alpha over the cycle is very much in a small elite group of outperforming managers. **Of a group of 40 well-rated, long only managers with a track record of 7 years or longer, only 6 managers had generated alpha at or above 1.5% p.a. as at the end of June 2024.** Our research process has reviewed the group of managers that have done this consistently, but just as importantly we have identified managers who we believe are well positioned to continue to deliver these alpha numbers going forward.

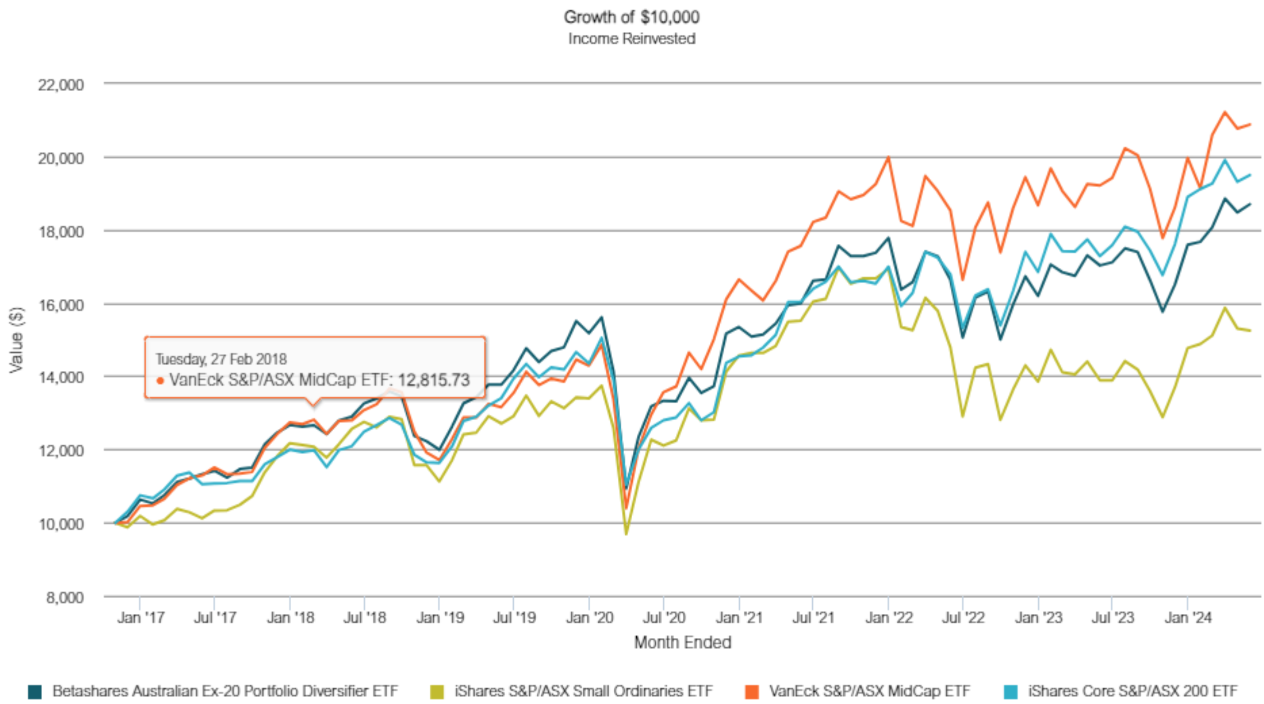
In the mid cap space, you can see an increase in the number of managers with 2-3% net of fee alpha, while in small caps the best managers have achieved 3-4% net of fee alpha over longer time frames. Not only are the alpha numbers larger but they are more consistent. **Of a group 27 well rated, small cap managers with a track record of 7 years or longer, 17 of these managers have achieved alpha of 3% p.a. or greater over the 7 years to the end of June 2024.**

What is clear is that the relative lack of coverage outside the top 20 stocks in Australia, and then outside the top 100 in an even more pronounced fashion, do present great alpha opportunities for the very best managers.

Of course, the decision about who or how to allocate is not as simple as overweighting small caps given the alpha potential. As chart 3 shows, small caps have struggled to keep up with large and mid-caps in recent years, and the ex-50 index has been the top performer.

This mid cap outperformance has been driven in part by a greater relative exposure to the technology and growth stocks that have rallied significantly post March 2020.

Chart 3: Mid and Large Cap Outperformance over Small Caps



Mid cap and small cap managers are on average more likely to generate alpha, but before you decide to overweight them in your portfolio you'll need to think about your expectation of the market betas going forward. Will small caps close the underperformance gap of recent years? If you decide to make that allocation, small caps may continue to underwhelm for a while yet. An allocation to a good quality active manager, with the greater likelihood of alpha over the index through time, could at least bridge some of the gap to the overall asset class performance.

Beyond thinking about your mid and small cap allocations, extension strategies are another way to seek alpha. An extension strategy takes both long and short positions but aims to run at a market beta of approximately 1 and will typically be something like 130 long and 30 short. In this space, if you can find a manager with a strong long only strategy, and also a robust process with their shorting, then their capacity for alpha is in theory greater than a long only manager. Of course, given the greater market exposure there is also greater risk and potential downside with these managers, so doing the work to ensure the robustness of a managers' process and risk management is paramount. Based on our research there is a small group of extension managers with long track records and strong evidence of investment skill and risk management, where 3-4% p.a. net of fee alpha has been achievable through time.

It is perhaps counterintuitive but alpha can work as something of an insurance policy against your beta exposures. If you can identify managers that can consistently deliver alpha over the long-term, then it can provide a degree of protection against an asset class or sub-asset class that subsequently underperforms. Below we detail the process we have undertaken to arrive at our highest conviction managers that we believe represent the best opportunities for alpha and risk adjusted returns going forward.

Scope of Review

There are over 300 Australian equity managed funds available in the local market along with around 50 ETFs. Our review process seeks to identify the best in market managers across this broad universe.

Initial Screen

In conducting a review of each asset class, the Mason Stevens process starts with a quantitative screen. Managers within each asset class and sub-asset class are reviewed in terms of performance and ratios within relevant peer groups. For Australian equities this is done as follows:

- Breakdown the asset class into smaller peer groups – value, core, growth, income, small cap, mid cap, extension, variable beta, and social and responsible investing.
- Consider performance and alpha within peer groups over all timeframes but with a particular focus on 3, 5 and 7 years, which are timeframes that align to managers own stated objectives.
- Look at asset class relevant performance and risk statistics e.g. information ratio, sharpe ratio, tracking error, batting average, consistency of alpha, active share, turnover, and correlations.
- ESG screen – use of Morningstar Sustainalytics to understand exposures and identify any poor performers in this space.
- Cost comparisons – look at total cost ratios in comparison with peers.

This screening process is designed to refine the list of managers under consideration to those where the data is strongly supportive of the manager having a level of investment skill in either alpha generation and/or risk minimisation. Morningstar Direct and Jacobi Analytics are the two main systems used for the quantitative screen.

External Research House Screen

Mason Stevens will review external research house ratings for the asset class as well. This provides a qualitative check on the quant screen process, helping to identify managers for selection or de-selection that a quant screen in isolation may not. The major external research houses provide broad market coverage, detailed qualitative and operational research. Their output is a ratings methodology that clearly identifies their highly rated managers e.g. recommended and highly recommended. This effectively provides us with an expert second opinion, as well as a cross check against the quantitative screen.

Finally, we will on occasion review strategies that meet neither that quantitative or qualitative screening process, due to their newness in market, but where there is evidence of a compelling capability.

Through the quantitative and qualitative process outlined above, a universe of over 300 unique Australian equity strategies was reduced to 37 strategies for detailed due diligence.

Manager Due Diligence

Managers that passed both the quantitative and qualitative screen were engaged to complete a due diligence questionnaire (DDQ). This questionnaire is a detailed set of questions that covers key areas of consideration including more objective and data related areas as well as some open-ended questions. We also request key documents such as the Product Disclosure Statement (PDS)/Investment Memorandum (IM), investment recommendation samples, and the Financial Services Council (FSC) Questionnaire.

Review of this DDQ led to either proceeding with a meeting with the manager or being screened out. Manager meetings are always a multi meeting process with the aim to gain clarity in the following five areas:

- **Objective and philosophy** – What are they trying to achieve and what is the approach they are taking to achieve that? What is the manager's underlying investment philosophy? What's the evidence that this approach works and why do they think they have an information edge vs peers?
- **Organisation and people** – who is the fund manager, portfolio manager and analysts? How experienced are they? How stable has the team been? How well aligned are the team to the end objective of the fund?
- **Investment process** – is idea generation, security selection, portfolio construction and risk management coherent and does it tie back to the objective? We look for critical thinking and a clear view on what their competitive advantage is.
- **Fees** – are the fees competitive within the peer group and are any performance fees aligned to the interests of investors? Do they inhibit the stated objective?
- **Performance** – assessment of performance against objective and against peers, referencing back to quantitative screen process.

Research Process

In going through this research process, the managers were scored against their peers using the following scale across the five areas mentioned previously of philosophy, people, process, price, and performance. The scoring outcome is defined in Table 1.

Table 1: Mason Stevens Manager Selection Rating Process

Individual Component Ratings	Explanation
0 – 2.0	Poor
2.25 - 2.75	Below average/below peers
3.0 – 3.5	Investment Grade/in line with peers
3.75 - 4.25	Recommended/ahead of peers
4.5 - 5.0	Highly Recommended/significantly ahead of peers
Numerical Scores	**Qualitative Score**
0-2	Sell
2.25 – 2.75	Below average/reduce
3 – 3.5	Investment Grade/hold
3.75 – 4.25	Recommended/buy
4.5 - 5.0	Highly Recommended/buy

Source: Mason Stevens OCIO

This scoring process provides a discipline in testing overall impressions, and potentially highlights where more work needs to be done before landing on a final score.

Further information on the Mason Stevens OCIO Managed Fund and ETF Selection Process can be found here.

Review Outcomes

Our scoring noted above drives the outcomes and typically the top two scoring managers in any given style are added to the HCL. If an insufficient number of active managers meet at least the Recommended score, then that is when we may defer to a rules based or even market cap ETF to fill the style or sub asset class. The outcome from the Australian equity review was to add the following managers to the Mason Stevens HCL as per Table 2.

Table 2: Australian Equity funds on the HCL

Product Name	Style/Segment	Available Structures	Fee discount available for Mason Stevens OCIO Clients?	Score
DNR Capital Australian Equities High Conviction Fund	Core	Fund/SMA	0.10%	4.25
Macquarie Enhanced Plus Australian Shares/Active ETF	Core	Fund/ETF	0.12%	4.5
Macquarie Australian Shares	Core	Fund	0.15%	4.25
Quest Concentrated Australian Shares	Core	Fund/SMA	0.15%	4.5
Greencape Broadcap Fund	GARP	Fund	Nil	4
First Sentier Concentrated Australian Share	Growth	Fund	0.15%	4.25
ECP Growth Companies	Growth	Fund	0.20%	4
Lazard Select Australian Equity Fund	Value	Fund	0.12%	4
RealIndex Australian Share Value	Value	Fund	Nil	4
Perpetual SHARE-PLUS Long-Short	Extension	Fund	0.35%	4
Blackwattle Long/Short 130/30 Quality	Extension	Fund	0.20%	4
Ausbil Active Dividend Income Fund	Income	Fund	0.10%	4
DNR Australian Equites Income	Income	Fund/SMA	0.10%	4
Vanguard Australian Shares High Yield	Income	ETF	Nil	4
Lazard Defensive Australian Equity	Variable Beta	Fund	0.19%	4.25
Milford Australian Absolute Return	Variable Beta	Fund/ETF	0.20%	4.25
Quest Ex 20 Australian Equities	Mid Caps	Fund/SMA	0.15%	4.5
Chester High Conviction Fund	Mid Caps	Fund	0.20%	4.5
OC Premium Smaller Companies	Small Caps	Fund	0.20%	4.5

Product Name	Style/Segment	Available Structures	Fee discount available for Mason Stevens OCIO Clients?	Score
Prime Value Emerging Opportunities	Small Caps	Fund	0.25%	4.25
Spheria Australian Smaller Companies	Small Caps	Fund	Nil	4.25
Alphinity Sustainable Share Fund	Responsible Investing	Fund	Nil	3.75

Manager Performance

Below we have provided performance and volatility numbers for the Australian equity managers on the HCL.

Table 3: Performance and volatility as at 31 May 2024 for Australian equity funds on the HCL

Product Name	3 months	6 months	1 Year	1 Year Volatility	3 Years p.a.	3 Year Volatility p.a.	5 Years p.a.	5 Year Volatility p.a.	7 Years p.a.	7 Year Volatility p.a.
Core										
DNR Capital Australian Equities High Conviction Fund	-0.96	6.54	8.27	11.7	7.86	11.74	10.17	18.14	9.32	16.31
Macquarie Australian Enhanced Plus Equities Fund	1.45	11.23	14.57	11.26	7.21	13.49	9.13	16.45	9.56	14.67
Macquarie Australian Shares Fund	1.51	11.53	14.86	11.23	8	13.13	10.01	15.9	10.68	14.26
Quest Australian Equities Concentrated Portfolio	0.96	9.93	10.27	11.55	8.44	13.35	12.28	17.07	12.25	15.22
Blackwattle Long-Short 130/30 Quality Fund	2.63	12.65	-	-	-	-	-	-	-	-
Benchmark 1: Betashares Australia 200 ETF	*1.27*	*10.87*	*13.08*	*11.54*	*6.95*	*13.48*	*8.02*	*16.84*		
Growth										
Greencape Broadcap Fund	2.34	11.75	13.46	12.34	6.12	13.67	9.3	16.26	10.24	14.46
First Sentier Concentrated Australian Share Fund	1.72	14.09	17.92	13.85	4.44	17.18	9.64	18.59	10.53	16.61
ECP Growth Companies Fund	-0.72	17.55	27.75	21.33	6.56	20.55	-	-	-	-
Benchmark 1: Betashares Australia 200 ETF	*1.27*	*10.87*	*13.08*	*11.54*	*6.95*	*13.48*	*8.02*	*16.84*	-	-
Value										
Lazard Select Australian Equity Fund (W Class)	-0.72	6.11	9.73	10.08	15.11	12.73	7.97	17.85	7.41	15.88
Realindex Australian Share Value – Class A	0.85	10.16	15.96	10.76	8.7	12.83	8.97	16.7	9.16	14.77
Perpetual SHARE-PLUS Long-Short Fund	0.93	13.9	12.79	9.8	10.19	13.12	10.18	16.49	9.22	14.73
Benchmark 1: Betashares Australia 200 ETF	*1.27*	*10.87*	*13.08*	*11.54*	*6.95*	*13.48*	*8.02*	*16.84*		
Income										
Vanguard Australian Shares High Yield ETF	-	-	15.57	9.71	8.74	12.87	8.95	17.04	8.44	15.22
DNR Capital Australian Equities Income Fund	-1.89	7.08	4.02	11.57	5.64	11.48	-	-	-	-
Ausbil Active Dividend Income Fund - Wholesale Class	1.01	8.86	10.03	10.13	5.3	12.55	7.71	15.65	-	-
Low Volatility										
Lazard Defensive Australian Equity Fund	-1.66	5.33	8.11	8.92	12.74	10.58	9.56	12.4	7.97	10.92
Milford Australian Absolute Growth Fund	3.58	8.38	8.65	8.9	6.42	7.86	9.76	9.4	-	-
Benchmark 1: iShares Edge MSCI Australia Minimum Volatility ETF	-	-	*6.88*	*9.42*	*5.77*	*12.07*	*5.63*	*15.46*	*6.61*	*13.74*

Product Name	3 months	6 months	1 Year	1 Year Volatility	3 Years p.a.	3 Year Volatility p.a.	5 Years p.a.	5 Year Volatility p.a.	7 Years p.a.	7 Year Volatility p.a.
Midcaps										
Chester High Conviction Fund	5.12	11.95	11.78	10.19	9.49	12.19	13.41	15.41	12.45	14.17
Quest Ex-20 Australian Equities Portfolio	3.41	17.47	17.15	14.38	5.83	16.72	12.57	21.51	13.45	19.02
Benchmark 1: Betashares Australian Ex-20 Portfolio Diversifier ETF	-	-	*9.83*	*12.27*	*5.36*	*14.57*	*6.31*	*18.32*	*7.43*	*16.3*
Small Caps										
OC Premium Small Companies Fund	0.2	13.78	17.28	13.81	5.23	15.68	8.24	21.65	9.69	19.59
Prime Value Emerging Opportunities Fund	-1.28	6.89	9.12	11.79	2.28	13.38	11.6	17.01	11.56	15.2
Spheria Australian Smaller Companies Fund	-1.72	11.98	8.31	20.09	2.61	17.67	6.57	21.15	9.21	19.04
Benchmark 1: iShares S&P/ASX Small Ordinaries ETF	-	-	*9.75*	*14.57*	*-0.59*	*18.06*	*3.7*	*20.76*	*6.03*	*18.61*
Responsible and Sustainable										
Alphinity Sustainable Share Fund	0.39	10.77	12.8	11.78	4.79	13.88	8.24	16.02	10.09	14.57
Benchmark 1: Betashares Australia 200 ETF	*1.27*	*10.87*	*13.08*	*11.54*	*6.95*	*13.48*	*8.02*	*16.84*	-	-

Source: Morningstar

Past performance is not a reliable indicator of future performance.

Manager Summaries

Aphinity Sustainable Share Fund

	Aphinity Sustainable Share Fund
Summary	A core, fundamental portfolio of 35-55 stocks with strong focus on sustainability and growing earnings.
Objective	Aims to outperform the ASX300 by 2.5% p.a. gross of fees on a rolling 5 year basis.
People	A highly experienced and cohesive team of 7. This strategy is co managed by Stephane Andre and Bruce Smith, both with over 30 years experience, and 13 years together at Alphinity. Jessica Cairns is the Head of ESG.
Processes	» Sustainability is a key focus throughout the investment process. Assess stocks in terms of net positive alignment to the UN Sustainable Development Goals, operational ESG practices within the business, and attractive financial returns. Key exclusions include thermal coal producers, gambling, alcohol and tobacco. » Alphinity's fundamental stock analysis is focused on identifying underestimated earnings growth though bottom-up work as well as considerations of EPS revisions, momentum, and improvements in quality factors such as FCF margin and ROE » The highest ranking stocks within this process are allocated to in the portfolio with stock limits of the benchmark +/-5% and the sector +/- 15%.
Fees	0.95% p.a.

Source: Mason Stevens OCIO

Ausbil Active Dividend Income

	Ausbil Active Dividend Income
Summary	The manager typically holds 25-50 large cap, dividend paying stocks and also employs a dividend run-up strategy.
Objective	To generate 125% of the dividend yield of the ASX200.
People	Ausbil has a team on 26 and this strategy is led by Michael Price. Price is a highly experience equity income manager having run strategies at AMP and now at Ausbil since 2018.
Processes	» Leverages Ausbil's long-standing investment approach that focuses on top down sector analysis to identify attractive sectors that will be subject to the strongest earnings and earnings revisions in the next 1-2 years. » This strategy is then tilted towards stocks that manager has identified as having sustainable and growing dividends. » Additionally the manager will rotate the portfolio around ex-dividend dates to exploit the dividend run-up anomaly - a positive excess return from tilting towards dividend paying stocks in the month or so prior to the ex-date.
Fees*	0.85% p.a. (15bps rebate delivers an effective cost of 0.70% p.a.)

Source: Mason Stevens OCIO

Blackwattle Long Short 130/30 Quality

	Blackwattle Long Short 130/30 Quality
Summary	A 130/30 long/short extension strategy that typically runs at a market beta close to 1
Objective	Outperform the ASX200 by 3-5% p.a. over the cycle
People	Team of 4 led with this strategy led by Ray David and Joe Koh, who have worked together for 7 years. Sit within the broader Blackwattle equity team of 14.
Processes	» The long side of the portfolio focuses on quality with a key focus on both the stability of a company's earnings and the expected duration of those earnings. Quality is also considered on a sector relative basis rather than absolute. Results in a core style of portfolio. » Consistent valuation process with the same discount rate across stocks/sectors and a focus on mid-cycle earnings. » Portfolio construction driven by matrix that considers the quality score of a company and their valuation upside. » Shorts are driven by a detailed Red Flag process that identifies issues and weaknesses across Earnings Revisions, Accounting, Profit Quality, Insider Selling and Governance » Stock positions typical +/-5% relative to benchmark and overall portfolio up to 5% tracking error.
Fees*	1.76% (20bps rebate delivers an effective fee of 1.56% p.a.)

Source: Mason Stevens OCIO

Chester High Conviction Fund

	Chester High Conviction Fund
Summary	A benchmark unaware, fundamental portfolio of 25-40, with a mid cap growth bias.
Objective	Outperform the ASX300 before fees by 4% p.a. before fees on a rolling 3 year basis.
People	A cohesive investment team of 5 led by Rob Tucker. Tucker and other lead PM Anthony Kavanagh have been working together for 14 years, and established Chester in 2017.
Processes	» The manager's process considers stocks within 3 buckets – Predictables, Cyclicals, and Defensives. » Predictables typically constitute about 65% of the portfolio and are companies with relatively predictable cash flows. Cyclicals allocations typically range between 15-25%. Defensives are allocations to gold stocks and cash. » Stocks are scored in terms Quality – financial, business, and management, Valuation – DCF focused analysis, and Insight – what edge or information advantage do they have with stock. » Predictables have a higher weighting to the Quality score, while Cylicals and Defensives have a higher weighting to Valuation. » Stock limits typically of 8%, and sector limits at +/- 20%.
Fees*	1.11% p.a. (20 bps rebate delivers an effective fee of 0.91% p.a.)

Source: Mason Stevens OCIO

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Fees*	1.11% p.a. (20 bps rebate delivers an effective fee of 0.91% p.a.)

Source: Mason Stevens OCIO

DNR High Conviction Fund

	DNR High Conviction Fund
Summary	High Conviction portfolio of 15-30 stocks with a quality at a reasonable price focus.
Objective	Outperform the ASX200 by 4% p.a. before fees on a rolling 3-year basis
People	Highly experienced and cohesive team of 11 led by Jamie Nicol and Scott Bender. The two PMs have been working together for 20 years.
Processes	» The manager ranks stocks for Quality based on Porter style analysis which includes Earnings Strength (ROE, margin trend etc), Balance Sheet (net debt to EBITDA, interest cover), Management and ESG » Target price determined predominantly by DCF, but also look at comparables such as EV/EBITDA, Relative P/Es and P/B » Stocks Ranked based on quality and valuation upside – driving portfolio position. Overlay of quality score and macro considerations refine stock weightings in the portfolio
Fees*	0.90% p.a. (10 bps rebate delivers an effective fee of 0.80% p.a.)

Source: Mason Stevens OCIO

DNR Equities Income

	DNR Equities Income
Summary	High Conviction portfolio of 15-30 stocks that provide a growing and sustainable yield.
Objective	Outperform the ASX200 Industrials index and deliver higher levels of income on a rolling 3-year basis.
People	Highly experienced and cohesive team of 11 led by Jamie Nicol and Scott Bender. The two PMs have been working together for 20 years.
Processes	» The manager ranks stocks for Quality based on Porter style analysis which includes Earnings Strength (ROE, margin trend etc), Balance Sheet (net debt to EBITDA, interest cover), Management and ESG » Target price determined predominantly by DCF, but also look at comparables such as EV/EBITDA, Relative P/Es and P/B » Stocks Ranked based on quality and valuation upside – additional screen then applied in terms gross up div yield, interest cover, sustainability of dividends, capital intensity, and dividend cover. » Rankings drive portfolio position, with an overlay of quality score and macro considerations refine stock weightings in the portfolio
Fees*	0.90% p.a. (10 bps rebate delivers an effective fee of 0.80% p.a.)

Source: Mason Stevens OCIO

ECP Growth Companies Fund

	ECP Growth Companies Fund
Summary	A concentrated portfolio of 25-30 stocks with a focus on revenue growth. Mid cap bias and high tracking error.
Objective	Outperform the ASX300 2-4% p.a. over rolling 5 year cycles
People	A highly experienced team led by Manny Pohl and Jared Pohl, who co-founded the business in 2012, having left Hyperion. Overall investment team of 11 with a highly collaborative approach on stock selection.
Processes	» Key focus on quality of the business – screening in terms of Sales Growth, ROIC, ROE, and interest coverage res » Consistent and transparent internal investment process encourages team involvement across all stocks and ensures that valuation methodologies are consistently applied. » 18 factors are consistently considered when evaluating a company across industry, business model, competitive positioning, competitive advantage, ESG, management, and financial quality. » Companies are valued with a 10 year IRR, with industry averages applied after the 5th year. IRR drives initiation, weight and the sell discipline.
Fees*	1.16% (20bps rebate delivers an effective fee of 0.96%)

Source: Mason Stevens OCIO

First Sentier Concentrated Australian Share Fund

	First Sentier Concentrated Australian Share Fund
Summary	A fundamental, concentrated portfolio of 20-30 stocks with a focus on quality and businesses growing cash flows.
Objective	Outperform the ASX300 by 3-4% p.a. before fees on a rolling 3-year basis
People	A highly experienced and cohesive team of 11 led by Head of Australian Equities Dushko Bajic. Bajic and other senior members of the team have been working together for at least 8 years.
Processes	» The manager's investment process focuses on bottom-up fundamental research to identify companies that are growing revenues and cashflows as well as having a strong and/or improving return on invested capital (ROIC). » The larger team enables them to maintain detailed models on 180 companies, which identifies changes in ROIC. » All stocks are valued using a consistent Discounted Cash Flow model - inputs are consistent and transparent. » Analysts must equally weight their coverage across 5 ratings – Strong Buy, Buy, Hold, Sell, Strong Sell. » Bajic then constructs the portfolio using the analysts Strong Buys and Buys, within broad stock and sector limits.
Fees**	0.80% p.a. (managed account share class)

Source: Mason Stevens OCIO

Greencape Broadcap Fund

	Greencape Broadcap Fund
Summary	Benchmark relative 45-60 stock portfolio with a growth at a reasonable price (GARP) approach.
Objective	Outperform the ASX300 by 3% p.a. before fees on a rolling 3-year basis
People	Highly experienced and cohesive team of 7 led by Matt Ryland and David Pace. The two main PMs have been working together for 16 years.
Processes	Stocks ranked on 4 factors: » Shareholder stewardship - historical decision making, management and board effectiveness, remuneration structures, corporate governance, culture, financial controls and disciplines » Business Evaluation - competitive advantage, industry structure, barriers to entry, capital intensity of growth, asset and operating cost leverage. » Valuation - Net Present Value of Cashflows is the primary method. Other methods include: Capitalisation of Earnings (e.g.PER, EV/EBITDA), Net Tangible Assets (NTA) » Market Milestones – looking to identify underappreciated information and catalysts. » Allocation to the portfolio based on ranking of stocks on these four factors with weights constrained +/-5% of benchmark.
Fees	1.28% p.a. (including a management fee of 0.95% and 15% of the excess return above benchmark and after fees)

Source: Mason Stevens OCIO

Lazard Defensive Australian Equity Fund

	Lazard Defensive Australian Equity Fund
Summary	A defensively managed portfolio of stocks and cash - focus on stocks trading at a discount to intrinsic value
Objective	Aims to deliver an income in excess of the ASX200 Div Yield, while running at lower volatility than the market
People	One of the most experienced and cohesive teams in market with 5 members of the 9-person team having worked together for more than 20 years. Co-PMs Rob Osborn, Philipp Hofflin, Aaron Binsted, and Tim Zhao.
Processes	» Key focus on identifying an earnings number for each company that they can be very confident in on a 3 year view. » Bottom-up, fundamental research seeks to come up with a conservative estimate of a company's earnings power and any risks to cash flows. Apply higher discount rates to riskier ESG companies. » Valuations focus on a 3 year stock return, with rankings considering normalized earnings per share and relative earnings yield. » Maximum of 3% in any one stock. Where the manager can't complete the portfolio based on their value ranking they will allocate to cash. Cash has been as high as 30% historically.
Fees**	0.60% p.a. (Managed Account Share Class)

Source: Mason Stevens OCIO

Lazard Select Australian Equity Fund

	Lazard Select Australian Equity Fund
Summary	A concentrated, fundamental portfolio of 12-30 stocks - focus on stocks trading at a discount to intrinsic value.
Objective	Outperform the ASX200 5% p.a. before fees over rolling 5 year cycles.
People	One of the most experienced and cohesive teams in market with 5 members of the 9-person team having worked together for more than 20 years. Co-PMs Rob Osborn, Philipp Hofflin, Aaron Binsted, and Tim Zhao.
Processes	» Key focus on identifying an earnings number for each company that they can be very confident in on a 3 year view. » Bottom-up, fundamental research seeks to come up with a conservative estimate of a company's earnings power and any risks to cash flows. Apply higher discount rates to riskier ESG companies. » Valuations focus on a 3 year stock return, with rankings considering normalized earnings per share and relative earnings yield. » The value rank of each stock drives its weight in the portfolio up to a typical 8% maximum. Sector weights are constrained by consideration of four major sectoral exposures – Short cycle, Long cycle, Interest Rate Sensitive, and Consumer Related.
Fees**	0.78% (Managed Account Share Class)

Source: Mason Stevens OCIO

Milford Australian Absolute Return Fund

	Milford Australian Absolute Return Fund
Summary	A defensively managed Australian Equity portfolio than utilises cash and index futures.
Objective	Aims to deliver RBA Cash + 5% p.a. while preserving capital on a rolling 3 year basis
People	An experienced team of 7 led by CIO Wayne Gentle. This strategy is managed by William Curtayne who has been with Milford for 14 years.
Processes	» Overall portfolio positioning is driven by Milford's top-down view which considers the direction of Profits, Policy, Positioning, Price, and Potential risks. The aggregate score will drive the risk appetite and sector tilts of the portfolio. » A more defensive portfolio positioning typically sees up to 20% allocated to cash as well as index shorts to protect on the downside – net market exposure typically range between 50-90%. » Bottom-up fundamental research looks to score stocks based on management, industry, company, balance sheet, valuation, and ESG – with the highest rating stocks allocated to the portfolio within the top-down view. » Stock allocations are typically between 2-5%, with 40-60 stocks in the portfolio.
Fees*	1.52% p.a. (20bps rebate delivers an effective fee of 1.32%)

Source: Mason Stevens OCIO

Macquarie Australian Enhanced Plus Fund

	Macquarie Australian Enhanced Plus Fund
Summary	Quantitative diversified portfolio of 200-250 stocks that seeks to generate consistent alpha with a tracking error of 1-1.5% p.a.
Objective	Outperform the ASX200 by 2% p.a. gross of fees on a rolling 3-year basis.
People	Experienced team of 16 of which 5 are dedicated quant researchers. Led by Co-PMs Scott Thompson and Ben Leung, who have both been with the team for 20 years, providing great experience and cohesion.
Processes	» The strategy uses about 65 signals - off a research base of 1000. Can be alpha or risk signals and fall into four broad buckets - Valuation, quality, momentum, and alternative » Relationship between signals and the effectiveness of signals combine into final stock scores. 3 month minimum timeframe on signal - up to 18 months. » ESG is a risk signal - ingest ESG data and come up with a proprietary ESG score to drive risk signal. » Strong risk management and modelling. Largest active position about 70bps. Largest sector weights +/-2%.
Fees**	0.25% p.a. (Managed Account Fee Class)

Source: Mason Stevens OCIO

Macquarie Core Australian Active ETF

	Macquarie Core Australian Active ETF
Summary	Quantitative diversified portfolio of 100-200 stocks that seeks to generate consistent alpha with a tracking error of 0.5-1.5% p.a.
Objective	Outperform the ASX200 by 1.0% p.a. gross of fees on a rolling 3-year basis.
People	Experienced team of 16 of which 5 are dedicated quant researchers. Led by Co-PMs Scott Thompson and Ben Leung, who have both been with the team for 20 years, providing great experience and cohesion.
Processes	» The strategy uses about 65 signals - off a research base of 1000. Can be alpha or risk signals and fall into four broad buckets - Valuation, quality, momentum, and alternative » Relationship between signals and the effectiveness of signals combine into final stock scores. 3 month minimum timeframe on signal - up to 18 months » ESG is a risk signal - ingest ESG data and come up with a proprietary ESG score to drive risk signal » Strong risk management and modelling. Largest active position about 70bps. Largest sector weights +/-2%.
Fees	0.23% p.a. (0.03% management fee and 20bps performance fee)

Source: Mason Stevens OCIO

Macquarie Australian Shares Fund

	Macquarie Australian Shares Fund
Summary	Quantitative diversified portfolio of 60-80 stocks that seeks to generate consistent alpha with a tracking error of 2-3% p.a.
Objective	Outperform the ASX200 by 2-3% p.a. gross of fees on a rolling 3-year basis.
People	Experienced team of 16 of which 5 are dedicated quant researchers. Led by Co-PMs Scott Thompson and Ben Leung, who have both been with the team for 20 years, providing great experience and cohesion.
Processes	» The strategy uses about 65 signals - off a research base of 1000. Can be alpha or risk signals and fall into four broad buckets - Valuation, quality, momentum, and alternative » Relationship between signals and the effectiveness of signals combine into final stock scores. 3 month minimum timeframe on signal - up to 18 months. » ESG is a risk signal - ingest ESG data and come up with a proprietary ESG score to drive signal. » Strong risk management and modelling. Largest active position about 70bps. Largest sector weights +/-2%.
Fees**	0.45% p.a. (Managed Account Fee Class)

Source: Mason Stevens OCIO

OC Premium Smaller Companies Fund

	OC Premium Smaller Companies Fund
Summary	A fundamental, bottom-up small cap portfolio with a strong quality bias.
Objective	To outperform the ASX Small Ordinaries by 3-5% p.a. net of fees on a rolling 5 year basis.
People	A highly experienced, aligned, and cohesive team of 5 that is led by Rob Frost. The 3 Portfolio Managers – Frost, Robert Calnon, and Stephen Evans, have been working together for 14 years.
Processes	» Screening and philosophical approach creates a focus on companies with transparent business models, that are capital light, and have what the manager believes are sustainable competitive advantages. » Companies are scored on both operational risk management (management, business model, operating history, industry, and governance) and valuation (different valuation measures used for different sectors). » Stock weights are driven by matrix of operational risk scores and valuation scores (max 8% position).
Fees	1.44% p.a. (20bps rebate deliver an effective rate of 1.24% p.a.)

Source: Mason Stevens OCIO

Perpetual Share Plus Long/Short Fund

	Perpetual Share Plus Long/Short Fund
Summary	A 125/25 long/short extension strategy that typically runs at slightly less than 100% market exposure.
Objective	Outperform the ASX300 by 4% p.a. before fees on a rolling 3-year basis.
People	Team of 16 led with this strategy led by Anthony Aboud, deputy head of Australian Equities at Perpetual. Aboud has been at Perpetual for 11 years and co-manages this strategy with Sean Roger.
Processes	» The long side of the portfolio utilises Perpetual's existing, long-standing focus on quality and value. Four key filters are quality of management, conservative debt levels, the quality of the business and recurring earnings. Results in a portfolio of around 40-60 stocks. » The short side of the portfolio looks at ideas more opportunistically based on an assessment of company behaviour - creative accounting, selling stock etc. as catalysts for further investigation. » Individual shorts all have stop/losses and are limited to 2.5% of NAV. Overall short book limited to 25% of NAV.
Fees**	1.13% p.a. (managed account share class)

Source: Mason Stevens OCIO

Prime Value Emerging Opportunities Fund

	Prime Value Emerging Opportunities Fund
Summary	A fundamental, core small cap portfolio with a strong quality bias.
Objective	To generate returns of 10-15% p.a. net of fees on a rolling 3-5-year basis.
People	Team of 4 led by Richard Ivers and Mike Younger, two highly experienced small cap investors.
Processes	» Key initial filter in their process is identifying companies with ROE's of at least 15% and improving – providing a strong quality tilt to the portfolio. » Stocks are then grouped into five main sectors/themes for analysis – Core, Growth, Asset realisation, Turnaround, and Thematic – this is also a driver of diversification » The valuation process looks to forecast financials over 3-5 years and seeks a minimum return of 10% p.a. » Stock allocations range from 1-6% typically.
Fees*	2.78% (1.25% management feel plus performance fee of 20% of net performance subject to a hurdle of 8% and a High Water Mark. Also includes a 15bps rebate).

Source: Mason Stevens OCIO

Quest Australian Equities Concentrated (Fund and SMA)

	Quest Australian Equities Concentrated (Fund and SMA)
Summary	A core, fundamental portfolio of 25-30 stocks with a focus on sustainable returns on invested capital.
Objective	Outperform the ASX300 by 4% p.a. before fees over the cycle.
People	A highly experienced and cohesive investment team of 5 led by Directors Chris Cahill, Michael Evans, and Troy Cairns. These 3 directors all have 30 years+ experience and have been working together for more than 15 years.
Processes	» The manager's well-established process considers 18 key tests to identify great businesses and what is referred to as a Q Score – these are across Financial measures such as ROC and capital intensity, Business Sustainability such a pricing power and barriers to entry, and finally Management which includes consideration of management capability and governance. » This process results in ratings of A, B, C, and D across stocks for their Q Score. » Valuation is a consistent DCF process seeking to identify stocks with a minimum 15% upside. » Portfolio construction is driven by a combination of the Q score and valuation. The higher the Q score the higher the weight for the same valuation upside.
Fees*	0.96% p.a. (15 bps rebate – effective fee of 0.81% p.a.).

Source: Mason Stevens OCIO

Quest Ex 20 Australian Equities (Fund and SMA)

	Quest Ex 20 Australian Equities (Fund and SMA)
Summary	A core, fundamental portfolio of 30-40 mid cap stocks with a focus on sustainable returns on invested capital.
Objective	Outperform the ASX300 ex ASX 20 Index by 4% p.a. before fees over the cycle.
People	A highly experienced and cohesive investment team of 5 led by Directors Chris Cahill, Michael Evans, and Troy Cairns. These 3 directors all have 30 years+ experience and have been working together for more than 15 years.
Processes	» The manager's well-established process considers 18 key tests to identify great businesses and what is referred to as a Q Score – these are across Financial such as ROC and capital intensity, Business Sustainability such a pricing power and barriers to entry, and finally Management which includes consideration of management capability and governance. This process results in ratings of A, B, C, and D across stocks for their Q Score. » Valuation is a consistent DCF process seeking to identify stocks with a minimum 15% upside. » Portfolio construction is driven by a combination of the Q score and valuation. The higher the Q score the higher the weight for the same valuation upside.
Fees*	1.25% p.a. (15 bps rebate on Fund – effective fee of 1.1% p.a.).

Source: Mason Stevens OCIO

RealIndex Australian Share Value Fund

	RealIndex Australian Share Value Fund
Summary	Quantitative, diversified portfolio of 100-150 stocks that seeks to generate consistent alpha with a focus on value stocks.
Objective	Outperform the ASX200 by 1.5% p.a. gross of fees on a rolling 7-year basis.
People	An experienced team of 13 of with a large focus on quantitative analysis and research. Led by Head of Investment, David Walsh.
Processes	» All stocks given an accounting-based value based on a 5-year average of Sales, Book Value, Cash Flows and Dividends – reduces 600 stocks down to 200. » Alpha insights then applied based on latest research on effective signals in terms Quality – balance sheet, earnings quality etc., Valuation Signals – forward and trailing ratios, Momentum, and Market Sentiment. » These alpha signals refine the portfolio further down to 100-150 stock. » Portfolio turnover at 20-25% p.a. relatively low for a quantitative strategy.
Fees	0.36% p.a.

Source: Mason Stevens OCIO

Spheria Smaller Companies Fund

	Spheria Smaller Companies Fund
Summary	A bottom-up, fundamental portfolio of typically 40 stocks that has both a quality and value focus.
Objective	To outperform the ASX Small Ordinaries by 3% p.a. net of fees on a rolling 3-5 year basis.
People	A highly experienced and aligned team of 8 led by 3 founders – Matthew Booker, Marcus Burns, and Adam Lund – all of whom have worked together for over a decade.
Processes	» Belief that where Free Cash Flows can be predicted with a high degree of certainty and the security is trading at a discount to the present, then the security represents an investment opportunity. » Fundamental research focused on detailed financial analysis, porter analysis, and ESG assessment. » Discounted Cash Flow valuation approach with consideration also of market multiples. » Portfolio divided into “Core” holdings (75% or more) – relatively low risk based on Spheria risk metric, and “Satellite” holdings (25% or less) – higher risk based on Spheria risk metrics and perhaps less liquid.
Fees	1.89% p.a. (includes a 20% performance fee on ASX Small Ordinaries with a High Water Mark)

Source: Mason Stevens OCIO

Vanguard Australian Shares High Yield ETF

	Vanguard Australian Shares High Yield ETF
Summary	A rules-based ETF that seeks to gain exposure to higher yielding, large cap stocks on the ASX.
Objective	The fund aims to track the return of the FTSE Australia High Dividend Yield index over the long term.
People	Vanguard is one of the world’s leading ETF providers. Duncan Burns as Head of Investments, with almost 30 years experience leads a team of 17 based in Melbourne.
Processes	» The underlying index ranks companies based on the median Broker 12 month forecast Dividend Yield. » The index then takes the top-ranking stocks on this basis until approximately 50% of the ASX200 market cap is met. » Constraints include a maximum of 10% in any one stock, and 40% in any one industry, with rebalances quarterly.
Fees	0.25% p.a.

Source: Mason Stevens OCIO

* Rebates are payable with respect to holdings in Managed Accounts only, exclusively for Mason Stevens OCIO clients. Some rebates may vary based on FUM hurdles negotiated with each product issuer.

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