# AZ Sestante Managed Account Service Investment Mandate

Issuer:
Mason Stevens Limited
ABN 91 141 447 207 AFSL 351578

Investment Sub-Adviser:
AZ Sestante Limited (AZ Sestante)
ABN 94 106 888 662 AFSL 284442

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## Contents




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Mason Stevens has appointed AZ Sestante Limited (AZ Sestante) ABN 94 106 888 662 AFSL 351578 as Investment Sub-Adviser on the Investment Options and Managed Portfolios outlined in this Investment Mandate.

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**Important Information**

This Investment Mandate is issued by Mason Stevens Limited ABN 91 141 447 207 AFSL 351578 (Mason Stevens) as the Managed Discretionary Account (MDA) Provider of the MDA Service. Mason Stevens has appointed AZ Sestante Limited (AZ Sestante) ABN 94 106 888 662 AFSL 284442 as Investment Sub-Adviser on the Managed Portfolios outlined in this document.

In this document, **MDA** refers to a Managed Account provided by Mason Stevens which follows the investment strategy and parameters of the portfolios as defined in the Investment Guide section of this document.

This document is produced without consideration of the investment goals, needs or financial circumstances of any person who may read it. If you are a retail investor, you must obtain personal advice from a licensed financial adviser on whether a particular portfolio is appropriate for you given your personal goals, needs and financial circumstances.

Investment involves risk, potentially resulting in (but not limited to) delays in payment of withdrawal proceeds and the loss of income and capital invested. Past performance is not necessarily indicative of future performance. Mason Stevens, AZ Sestante and their respective directors, officers, employees, subcontractors and associates do not assure or guarantee the capital value of your investments will be maintained, or the investment performance of any investments acquired through this MDA Service.

Where there are references to data provided by third parties, none of Mason Stevens, nor AZ Sestante has control over that data and nor do they accept any responsibility for verifying or updating that data. Mason Stevens, AZ Sestante and their respective directors, officers, employees and associates may from time to time hold interests in investments of, or earn fees and other benefits from, corporations or investment vehicles which may be held in your portfolio.

AZ Sestante consent to statements in this document attributable to them or referring to them, and have not withdrawn their consent. AZ Sestante have confirmed the statements attributable to them or referring to them are not misleading or deceptive at the time of issue.

All amounts in this document are in Australian dollars and all fees are inclusive of GST net the effect of any reduced input tax credits. This document should be read in conjunction with the Mason Stevens Financial Services Guide (**FSG**), the Mason Stevens Global Investment Service Guide (**Guide**) including the Mason Stevens MDA Service Terms (which together form the Investment Mandate).

The FSG contains information on Mason Stevens and the MDA Service and is available at **masonstevens.com.au/fsg**. This document is incorporated by reference into the Guide which contains important information on the fees and costs you pay when you establish an account and use the MDA Service. It also contains information on how to operate your account and how to contribute into your account once it is opened as well as the risks of investing. It is available at **masonstevens.com.au/investorguide**. If you are unable to access the online information, your adviser or Mason Stevens can provide the information free of charge.

# About the relevant parties 1

## 1.1 About AZ Sestante

AZ Sestante Ltd is an AFS licensed entity owned by Azimut Holdings Group Established in 1989, AZIMUT is Italy's largest independent asset manager.

AZ Sestante, through Azimut, offers expertise in various asset classes backed by more than 100 investment professionals and robust investment infrastructure.

## 1.2 Investment Philosophy

The portfolio employs a combination of top down and bottom-up analysis. The process seeks to exploit market trends, strength of trends and potential turning points to make statistically favorable decisions. Markets are made up of buyers and sellers who by nature are not rational and commit cognitive errors that AZIMUT seek to take advantage of. The process is not dogmatic, it is disciplined and is built in order to give self-correcting inputs.

The strategy will look to identify stocks with the highest expected risk adjusted returns. This view is obtained through a combination of top down and bottom up analysis and leads the portfolio to exhibit different styles and factors depending on market conditions. Both fundamental as well as quantitative approaches are applied which helps filter down the stock universe.

**Investment Process**

**Step1 – Macro – the Asset Allocation approach**

The first step in the process is to reduce the broad investment universe held within the index from approximately 3000 stocks to approximately 1000 stocks by applying a top down macro-economic view around regions and sectors. The focus is on overall exposure and diversification of the sectors, countries, currency, relative values. The focus is also on the business cycle, monetary policy and the general geopolitical situation. The Macro view is produced inhouse by the global team, and will take into consideration current trends and economic expectations over the medium to long term view.

**Step 2 Quantitative Analysis for stock selection**

A quantitative filter is applied to the 1000 stocks to further reduce the universe to around 200. Stocks are screened around market cap, profits, free cash flow, 10-year CAPEX analysis, dividend structure, profitability ratios (ROIC, ROA, EBITA margin etc.), momentum indicators (MACD, RSI etc.) and implied volatility.

**Step 3 – Fundamental Analysis**

The portfolio of stocks is narrowed down using the bottom-up fundamental research from the team of global equity analysts and third-party broker research. In the bottom-up approach emphasis is placed on profitability ratios in order to invest in companies with a high return on invested capital (ROIC). Depending on the specific business, other metrics are considered such as P/E, P/BV, P/CF, P/S, PEG, dividend yield, free cash flow etc.). The bottom-up analysis also focuses on identifying the potential risks behind every investment.

AZIMUT's in-house global team of analysts rank stocks as overweight, underweight or equal-weight along with the rational for that ranking. A stock must be ranked equal-weight or overweight to be included in the portfolio. Each analyst is responsible for specific markets, sectors and/or quantitative strategies, depending on his/ her experience and background. External research is also used with regard to views on markets, sectors and individual stocks. This helps form a solid opinion when combined with the inhouse view as to the general market consensus. The external providers showcase macroeconomic and technical data analysis, stock analysis and stock ratings (overweight/ underweight/ equal weight with potential returns), market sentiment and outlook and business valuations.

**Step 4 – Portfolio Construction**

Once the relevant companies are identified on risk-adjusted-return basis, the portfolio manager determines the best time to buy or sell single stocks looking at potential catalysts, sales and earnings momentum, upside/downside risk vs sell side consensus estimates, and technical analysis.

ESG considerations and their application to the stock universe is an integral part of the process when constructing the final stock portfolio. AZIMUT believe that the inclusion of ESG considerations within the investment process will lead to the construction of portfolios that can generate better outcomes for investors.

# Portfolio parameters 2

## AZ INVESTMENTS HIGH CONVICTION GLOBAL EQUITIES

| Name | | |
|---|---|---|
| **Portfolio Name** | AZ Investments High Conviction Global Equities | |
| **Investment Sub-Advisor** | AZ Sestante | |
| **Inception Date** | August 2022 | |
| **Investment objective** | The return objective is to earn a total return that 2% p.a. in excess of the Benchmark. | |
| **Investment Strategy and Approach** | The portfolio employs a combination of top down and bottom-up analysis. The process seeks to exploit market trends, strength of trends and potential turning points to make statistically favorable decisions. The aim of the investment strategy is to identify stocks with the highest expected risk adjusted returns in the current market conditions. Markets are made up of buyers and sellers who by nature are not rational and commit cognitive errors that AZIMUT seek to take advantage of. The process is not dogmatic, it is disciplined and is built in order to give self-correcting inputs. | |
| **Benchmark Return** | MSCI All Country World Index | |
| **Minimum number of securities** | 15 | |
| **Maximum number of securities** | 35 | |
| **Asset Allocation** | **Allocation Range** | **Target** |
| International Equities | 80% - 98% | 98% |
| Cash (minimum 2% cash) | 2% - 20% | 2% |
| **Investment universe** | International listed securities and cash. | |
| **Maximum single security or fund weighting** | 10% | |
| **Minimum suggested timeframe** | 5-7 years | |
| **Minimum initial investment $** | $50,000 | |
| **Minimum additional investment $** | $10,000 | |
| **Minimum withdrawal** | $10,000 | |
| **Rebalance frequency** | Sub-Adviser discretion | |
| **Investment manager fee** | 0.635% | |
| **Indirect Cost Ratio** | Nil | |
| **Performance fee** | Nil | |

# Risks of investing 3

## 3.1 Investment Risks

Before you make an investment decision, it is important that you understand the risks that can affect your investment. You must be prepared for the risk that your investment does not meet your investment objectives or you lose money on your investment.

Specific investment risks apply to all investments that may have an effect on the value of your Managed Account. The risks of investing in the Investment Option or Managed Portfolio may include, but are not limited to, the following factors:

- **Market risk** – Unexpected conditions (i.e. economic, technological or political) can have a negative impact on the returns of all investments within a particular market. General movements in local and international stock markets, prevailing and anticipated economic conditions, investor sentiment, interest rates and exchange rates could all affect the value of listed securities and the investment returns.
- **Company or security specific risk** – Risks which could affect the value of a specific security, such as a fall in the profit performance of a company, may impact adversely on its share price and may also affect the interest rate it has to pay to borrow funds, which in turn, can affect the value of its debt securities.
- **Currency risk** – If the Managed Portfolio(s) have investments in international assets that are unhedged, a rise in the Australian dollar relative to other currencies will negatively impact investment values and returns. Currency markets can be extremely volatile and are subject to a range of unpredictable forces. It is not the Investment Sub-Adviser's intention to hedge the foreign currency exposure of the Managed Portfolio arising from investments in overseas markets.
- **Derivatives risk** – A derivative is a financial instrument which has characteristics derived from an underlying asset or index. Typically the derivatives are either cash settled or are realised by being closed out with a derivative of the opposite nature. Derivatives may be used by investment managers or managed funds to protect against changes in market value of existing investments, to simulate an investment position without purchasing or selling the underlying asset, to partially or substantially manage against various risks such as credit and interest rate risks or to gear an investment or a portfolio. The use of derivatives brings additional risks. These risks include the failure of the value of derivatives to move in line with the underlying asset, a derivative position may be costly to reverse, the parties/counterparties associated with the derivative contract do not fulfil their obligations, and derivatives may be impacted by market liquidity. Derivatives which are a leveraged investment can increase your potential losses and gains in relation to movements in the price of the underlying assets. Exchange traded derivatives, including the ETOs available for the Managed Portfolio, do not remove all of the general risks of derivatives, and may have their own risks. Before investing in any derivatives instrument you must fully understand and accept the risks involved.
- **Sophisticated product risk** – The use of sophisticated financial products, such as derivatives including ETOs has the potential to cause losses that are large in proportion to the money invested in them. Such products may also have embedded leverage thereby potentially magnifying further losses. The cost of using such financial products may also reduce returns. The Managed Portfolio may also invest in the above products and their use has the potential to cause losses that are large in proportion to the money invested in them or even unlimited losses. Before investing in any derivatives instrument you must fully understand and accept the risks involved.
- **Custody and margining risk** – Mason Stevens is custodian for derivatives held for all of its clients, including for accounts which do not include these Managed Portfolios. While Mason Stevens allocates derivatives to its clients in its records, as with other investment, the derivatives may be aggregated in the accounts of sub-custodians and clearing participants of exchanges. This can lead to derivative assets which are beneficially held for a client being available to meet the margin or other exchange obligations arising due to other derivatives held for Mason Stevens in the same account. This can expose a client's assets to being lost, due to meeting those other obligations (i.e., without any default by the client). It is important to note that Mason Stevens does not today permit the purchase or sale of any derivatives within any Managed Portfolio that could result in any margining risk or a requirement to post collateral.
- **Interest rate risk** – Changes in interest rates can influence the value and returns of investment in the Managed Portfolio.
- **Credit risk** – Any change in the market perception of the creditworthiness of a security or the credit rating of the issuer of the security may affect the security's value.
- **Investment Sub-Adviser risk** – This is the risk that the Investment Sub-Adviser may not achieve their stated investment objectives or that changes in the investment team may impact on the performance of the Investment Sub-Adviser.
- **Liquidity risk** – The risk that the Managed Portfolio may experience difficulty in realising its assets.

- **Time horizon risk** – There is no assurance that in any time period, particularly in the short term, a Managed Portfolio will achieve its investment objectives. Many of the underlying assets may be volatile particularly over the short term. The Managed Portfolio is suitable for long term investors and is not designed for short term investment.
- **Income risk** – The level of income generated on the Managed Portfolio's investments can fall as well as rise and the tax status of such income can change.
- **Asset risk** – Asset risk is the risk that a particular asset or asset class in which the Managed Portfolio invests may fall in value, which may have an impact on the value of the Managed Portfolio.
- **Diversification/Concentration risk** – If your Managed Portfolio is concentrated into one investment or sector, a fall in that investment or sector may have a significant adverse effect on your total Managed Portfolio. Diversification is used as a strategy aimed at reducing the impact that volatility in one investment or sector will have on the performance of your overall Managed Portfolio. The Managed Portfolio will have a relatively higher concentration over time of listed securities but it is not possible to advise in advance the levels of concentration or diversification of issuers, types of investments or industry sectors.
- **Inflation risk** – Your investment may not keep pace with inflation. Broadly, this could mean that prices may increase more than the value of your investments in the Managed Portfolio and if this risk eventuates, you would not be able to buy as much with the value of your investments in the future as you could now.
- **Investment risk** – All investments have an inherent level of risk. The general expectation is that a high risk investment offers a higher expected return on investment. Investment risk may result in performance less than you expect or the loss of all of the capital invested or reduction in or no income and possible delays in repayment. Whilst it is the intention of the Investment Sub-Adviser to implement strategies designed to minimise potential losses, there can be no assurance that these strategies will be successful.
- **Specific portfolio risk** – The Investment Sub-Adviser investment approach may result in a Managed Portfolio that differs substantially from an industry benchmark and hence the Managed Portfolio's investment returns may also differ substantially from industry benchmark returns.
- **Third party risk** – The MDA Provider uses information and services provided by third parties such as sub-custodians and other service providers. Procedures are in place to address risks associated with outsourcing, such as having comprehensive service agreements with service providers. If a service provider advises of an error, it is corrected and if material, it will generally be communicated to you or your advisor (or both).
- **Systems and technology risk** – The MDA Provider relies on the integrity and reliability of the Managed Portfolio trading and administration systems used to manage your managed account. To minimise potential risks, established systems operated by experienced system providers are used. The system providers must have back-up arrangements and business continuity plans. In the event that the systems fail there may be delays in processing transactions or in accessing your investment capital and investment returns may differ from those that would have been achieved.

Please note that the risks identified are not meant to be exhaustive as it is not possible to identify every risk factor associated with investing. The appropriate level of risk for you will depend on various factors including your age, investment timeframe, other investments you may hold, and your level of risk tolerance.

Investors who have concerns regarding any of the above risk factors, or any other applicable risks, are encouraged to contact their financial adviser.