Zenith INVESTMENT PARTNERS

RECOMMENDED

Product Assessment

Bendigo Balanced Index Fund

Report data as at 31 Aug 2022
Rating issued on 29 Sep 2022

The Fund provides investors with cost-efficient exposure to a multi-asset portfolio that largely comprises mainstream asset classes. Offered to market by Sandhurst Trustees Limited (Sandhurst), the Fund is managed to a Strategic Asset Allocation (SAA), and implements Active Asset Allocation (AAA) strategies to enhance portfolio outcomes. Zenith believes Sandhurst's top-down asset allocation process is strongly complemented by its AAA framework, which has been key to delivering attractive long-term risk-adjusted performance outcomes. Further, we view favourably the level of active risk deployed relative to the Fund's cost structure.

Sandhurst is a wholly-owned subsidiary and wealth management arm of Bendigo and Adelaide Bank (ASX: BEN), offering a broad range of superannuation, diversified, and sector-specific strategies (i.e., Cash, Income and Equity) to retail investors. As at 31 August 2022, Sandhurst had approximately $A 5.2 billion in funds under management (FUM), including $A 2.0 billion in diversified funds.

The Sandhurst team is based in Adelaide and comprises five investment professionals including Chief Investment Officer (CIO) Thadeus McCrindle. Joining the team via Bendigo Bank in May 2005, McCrindle is an experienced investment professional who demonstrates strong leadership qualities and a pragmatic approach to investment management. This is most notable with respect to his oversight of portfolio positioning and the structuring of AAA strategies. Notwithstanding this, we note that he retains a broad set of responsibilities that span governance, strategy and portfolio oversight, and at times these may compete.

Providing strong support to McCrindle is Portfolio Manager Tom Nitschke, who oversees the Fund's SAA process, and is responsible for AAA and managing a pool of three investment analysts. In Zenith's opinion, Nitschke is effective in identifying cross asset class opportunities, whilst providing research support to a compact team of relatively inexperienced analysts. Importantly, Zenith believes Nitschke's skill set is complementary to that of McCrindle's, with the pairing deemed integral to the management of the Fund.

Consistent with its philosophical view that asset allocation is the dominant driver of long-term returns, Sandhurst dedicates considerable resources to establish an SAA that is best positioned to achieve the Fund's objectives. The SAA comprises a relatively narrow set of mainstream asset classes, with all exposures (excluding cash) gained through wholesale pooled vehicles managed by Vanguard Investors Australia. Zenith believes this approach is consistent with the Fund's low-cost positioning.

To complement the Fund's SAA positioning, the investment team implement AAA strategies with the goal of enhancing portfolio outcomes, using a blend of quantitative and qualitative factors. Regarding the former, Nitschke considers Valuation, Momentum & Sentiment (VMS) analysis, macroeconomic data and measures of market liquidity.

AAA strategies are implemented through the use of ETFs and futures, with the choice of instrument based on an assessment of cost and best expression of a trade idea. Furthermore, position sizing is guided by a range of asset class and exposure limits, with the latter determined by Nitschke who bases these on asset class conviction scores and the outputs from its proprietary risk management system.

Overall, Zenith considers Sandhurst's portfolio construction process to be sound, and we view favourably the level of active risk deployed relative to the Fund's cost structure, which ultimately positions the Fund as a competitive proposition within the low-cost market segment.

FUND FACTS

- A moderate to high-risk strategy providing low-cost exposure across defensive and growth assets
- A neutral asset allocation weighted 40% to defensive assets and 60% to growth assets
- Returns underwritten by SAA (90%), with AAA and manager selection accounting for the remainder
- Responsible Investment Classification of **Traditional**

ABSOLUTE RISK (SECTOR)

- VERY HIGH
- HIGH
- MODERATE
- LOW
- VERY LOW

RELATIVE RISK (FUND WITHIN SECTOR)

- Active - AA Unconstrained
- Active - Tactical AA focussed
- Active - Strategic AA focussed
- Index - Enhanced/Fundamental
- Index

INCOME DISTRIBUTIONS PER

MONTH | QUARTER | 6 MONTH | ANNUM

INVESTMENT TIMEFRAME

1-2 YRS | 3-4 YRS | 5-6 YRS | 7+ YRS

APIR Code

STL0033AU

Asset / Sub-Asset Class

Multi-Asset
Balanced

Investment Style

Active

Investment Objective

To achieve a return broadly equivalent to the Consumer Price Index (CPI) plus a margin of 3% (net) over a full market cycle.

Zenith Assigned Benchmark

Diversified Market Balanced Benchmark
CPI plus 3%

Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
Fund	5.26	2.50	-9.30
Benchmark	5.25	2.91	-7.23
Median	4.38	2.47	-6.25

Income (% p.a.)

	Income	Total
FY to 30 Jun 2022	3.46	-8.45
FY to 30 Jun 2021	8.91	17.73
FY to 30 Jun 2020	4.63	-1.22

Fees (% p.a., Incl. GST)

Management Cost: 0.44%
Performance Fee: N/A

APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

The multi-asset sector comprises funds that are permitted to invest across multiple asset classes and investment strategies. Traditionally, asset class exposures have included equities, fixed interest, property, and cash. However, in more recent times, Zenith has observed a greater preparedness by sector participants to incorporate alternative assets and strategies within their targeted asset mix. Included amongst these are real assets (i.e., direct property & infrastructure), commodities, and private market exposures (i.e., equity and credit). Innovation has also been observed in terms of sector structuring and tail risk hedging strategies, with the goal of building more resilient, all-weather portfolios.

Zenith categorises funds in the Multi-Asset – Balanced peer group (greater than 40% exposure to growth/alternative assets and up to 60%) based on our collective assessment of their targeted asset mix and actual portfolio holdings. Funds within this peer group are benchmarked against the Zenith Composite Balanced Benchmark which has a defensive/growth split of 40%/60%. The exact composition of this benchmark is provided below:

Cash:
Bloomberg AusBond Bank Bill Index (2%)
Australian Fixed Interest:
Bloomberg AusBond All Maturities Composite Index (17%)
International Fixed Interest:
Barclays Global Aggregate Index Hedged $A (17%)
Alternatives (Defensive):
HFRX Global Hedge Fund Index $A (4%)
Australian Equities:
S&P/ASX 300 Accumulation Index (29%)
International Equities (Unhedged):
MSCI World ex-Australia Unhedged (11.25%)
International Equities (Hedged):
MSCI World ex-Australia Hedged (11.25%)
Australian Listed Property:
S&P ASX 300 Property Accumulation Index (2.25%)
Global Listed Property:
FTSE EPRA/NAREIT Developed Rental Index TR Hedged $A (2.25%)
Alternatives (Growth):
HFRX Global Hedge Fund Index $A (4%)

To provide greater insight into a Fund's risk/return profile, Zenith decomposes targeted exposures between two broad categories – growth and defensive. While we are cognisant that our designation of asset class exposures between these categories may vary from that defined by the manager, we have sought to adopt a common methodology to ensure consistency in the assessment of like strategies across Zenith's universe of rated funds. Further detail on the Fund's targeted asset mix is provided at Risk Management.

PORTFOLIO APPLICATIONS

The Fund provides investors with a cost-efficient exposure to a multi-asset portfolio that largely comprises mainstream asset classes. The Fund's Strategic Asset Allocation (SAA) comprises 40% defensive assets and 60% growth assets. The Fund is deemed suitable as a stand-alone investment, or as a complement to a broader portfolio that seeks to produce outcomes consistent with an investor's risk/return preferences.

In terms of portfolio outcomes, the Fund will be positioned such that its SAA underwrites the majority of returns (90%), with Active Asset Allocation (AAA) and manager selection accounting for the remainder. Asset class exposures will be predominantly gained on a physical basis, with the exception of AAA positioning, which will be implemented through the use of derivatives (i.e., equity futures) and ETFs.

The Fund has a Standard Risk Measure (SRM) of two to three negative annual returns over any 20-year period. This SRM is published in the Fund's current Product Disclosure Statement (PDS) and was last calculated in 2021 as part of the Fund's SAA review, using an internal calculation methodology.

The Fund is considered suitable for investors with a moderate to high risk tolerance, seeking investment returns that are likely to be more skewed towards capital growth versus income. Given the risks inherent in a number of asset classes that the Fund targets, Zenith considers an appropriate investment horizon to be five or more years.

RISKS OF THE INVESTMENT

SECTOR RISKS

There exist a number of risks that are generally common amongst all multi-asset funds. These include:

MARKET RISK: In periods of heightened risk aversion, it is feasible that asset-class correlations merge. Should this occur, the diversification benefits brought through the construction of a portfolio comprising multiple lowly correlated asset classes may be lost, potentially exposing investors to a broader deterioration in market conditions.

CURRENCY RISK: Sector participants may be permitted to gain international exposures on an unhedged basis. The decision whether or not to hedge is often deemed active in nature and can expose investors to fluctuations in cross currency rates. This may be either to the benefit or cost of Fund volatility and performance.

EMERGING MARKET RISK: Many sector participants gain exposure to emerging and frontier markets which bring with them additional risks. These may include reduced liquidity, a more opaque pricing mechanism, increased sovereign risk and political tensions.

ALTERNATIVES RISK: A growing number of Funds have investment mandates that permit a meaningful exposure to alternative assets and strategies. Investors should be aware that the use of alternatives can bring with them additional risks.

ILLIQUIDITY RISK: While most sector participants will seek to retain high levels of liquidity, it is feasible that a Fund may retain exposures in assets that are deemed illiquid or subject to irregular pricing policies. It may be difficult for an investment manager to subsequently liquidate such portfolio positions without incurring meaningful transaction or other performance related costs.

REGULATORY RISK: The ASIC Regulatory Guide 97 'Disclosing Fees and Costs in Product Disclosure Statements and Periodic Statements' came into effect on 1 October 2017 and seeks to establish a common framework for disclosing fees with respect to registered managed investment schemes issued to retail investors.

In November 2019, ASIC released its final recommendations, with proposed changes to be phased in from 30 September 2020, with all Funds required to be compliant by 30 September 2022.

In its current form, RG97 will not impact the actual costs (or after fee returns) on existing investments. Rather, the guide is focused on providing increased transparency with respect to the costs of management. Given this, it is feasible that under RG97, investors become more sensitive to the costs charged and seek lower cost alternatives, potentially leading to fund outflows.

FUND RISKS

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

KEY PERSON RISK: Zenith believes McCrindle and Nitschke are key to the effective management of the Fund given their experience and complementary skill sets. Accordingly, should either depart, this would necessitate a review of our existing rating.

DIVERSIFICATION RISK: The Fund does not gain exposure to alternatives due to its low-cost nature. As a consequence, it is feasible that investment outcomes lag competitors who are able to incorporate alternative strategies that bring diversification benefits and ultimately enhance the theoretical 'efficient frontier'.

CURRENCY RISK: The Fund's SAA includes unhedged global exposures. As such, movements in cross rates may have a negative impact on performance outcomes.

ACTIVE ASSET ALLOCATION (AAA) RISK: The Fund's mandate permits the use of AAA for the purposes of enhancing portfolio outcomes. However, there are few limitations in terms of the level of capital (and by consequence risk) that may be applied to such strategies. Accordingly, it is feasible the performance of such strategies subsume that of the Fund's SAA, and in an extreme scenario this leads to negative returns.

QUALITATIVE DUE DILIGENCE

ORGANISATION

Sandhurst Trustees Limited (Sandhurst) is a wholly-owned subsidiary and wealth management arm of Bendigo and Adelaide Bank, offering to market a broad range of superannuation, diversified, and sector-specific strategies (i.e., Cash, Income and Equity). As a standalone entity, Sandhurst contributes meaningfully to group profits, most notably through its superannuation activities.

Sandhurst has a long history in managing diversified funds, with its product range comprising both traditional multi-manager strategies and a set of lower-cost, index-centric offerings. The diversified funds are supported across a broad set of distribution channels including Bendigo Bank, external and aligned advisory practices, and through direct investment.

In terms of future growth prospects, the business is being refocused with the view to growing its customer base through market awareness, extracting greater operational efficiencies, and an improved governance and sustainability framework.

As at 31 August 2022, Sandhurst had approximately $A 5.2 billion in funds under management (FUM), including $A 2.0 billion in diversified funds.

Across its diversified product set, Sandhurst's Index set accounted for $A 1.5 billion as at 31 August 2022, which includes $A 459.8 million in this Fund.

Zenith notes that the Index product set has experienced strong inflows in recent years, corresponding with their low-cost structure and strong performance track record.

INVESTMENT PERSONNEL

Name	Title	Tenure
Thadeus McCrindle	Head of Investments	17 Yr(s)
Tom Nitschke	Portfolio Manager	17 Yr(s)
Dom Chiuchiolo	Senior Investment Analyst	4 Yr(s)
Michael Croser	Senior Investment Analyst	8 Mth(s)
Shirley He	Investment Analyst	4 Yr(s)

The Sandhurst team is based in Adelaide and comprises five investment professionals. Leading the team is Chief Investment Officer (CIO) Thadeus McCrindle, who joined via Bendigo Bank in May 2005, to establish a wealth management division in support of the bank's retail customers. As CIO, McCrindle retains a broad set of responsibilities that span governance, strategy and portfolio oversight. In terms of the latter, this includes Sandhurst's multi-asset products, the team's cash and fixed interest capabilities, and the bank's superannuation strategies.

In Zenith's opinion, McCrindle is an experienced investment professional who demonstrates strong leadership qualities and a pragmatic approach to investment management. This is most notable with respect to his oversight of the team's portfolio positioning and the structuring of AAA strategies, where he acts as a sounding board whilst also challenging the team's highest conviction views. That said, we also believe his responsibility set is extensive and that elements of his role may at times compete.

Providing strong support to McCrindle is Portfolio Manager Tom Nitschke, who oversees the Fund's SAA process, and is responsible for AAA, manager selection and managing a pool of three investment analysts. Nitschke has over 17 years of experience and joined Bendigo Bank in March 2005. Through this time, he has held a number of positions within the bank, and transitioned to its wealth management division in June 2007. Zenith believes Nitschke has experience that is well-aligned with asset allocation, the identification of cross asset class opportunities and manager selection. Importantly, Zenith consider these skills to be complementary to that of McCrindle's, providing a strong foundation upon which the Fund may be positioned to achieve its objectives.

The remaining members of the team are Senior Investment Analysts Dom Chiuchiolo, Michael Croser, and Investment

Analyst Shirley He, all of whom provide input into the AAA models and manager selection process, as well as having specific areas of responsibility. Chiuchiolo joined the team in January 2018 and has research responsibility for defensive assets, including fixed income, defensive alternatives and cash. Croser joined in January 2022 and maintains coverage for growth assets, including equities, property and infrastructure. He joined in January 2018 and undertakes trading for the team, and research in Responsible Investments.

Sandhurst continues to experience turnover from across its analyst level, a factor which has the potential to be disruptive to research continuity and team culture. Zenith believes that the extent of change has been significant and in the absence of a period of stability, has the potential to negatively impact the quality and breadth of the research efforts.

The investment team is supported by Mercer which provides a range of services including capital market assumptions and manager research. Zenith notes this arrangement was implemented in January 2019 following the formal separation of the Sandhurst investment team from the bank dealer-group research team. Prior to this, the latter had maintained responsibility for manager research, hiring/terminating and structuring mandates. The decision to separate was made on the grounds that it would result in an improved governance structure and a refocusing of resources to asset allocation as opposed to manager selection, with the latter deemed a critical step in the process.

Maintaining oversight of the team's activities is the Investment Governance Committee (IGC) which comprises six senior members from across Sandhurst and Bendigo & Adelaide Bank. Included amongst these is Justin Hoare, Chief Executive Officer (CEO) of Sandhurst Trustees. The IGC's responsibilities extend to reviewing the Fund's investment objectives (and suitability of its performance benchmark), endorsing its SAA and manager selection recommendations. Meeting quarterly, the IGC will also challenge the team on portfolio positioning, risk expression and the likelihood of achieving stated objectives. Zenith views positively the existence of the IGC, believing it adds an additional layer of governance and oversight.

The team meets on a weekly basis to discuss its members' most contemporary views, asset class observations, and the directionality of markets (including potential drivers). This meeting is also attended by Roger Coats, Portfolio Manager for Sandhurst's income funds, who provides additional perspective in terms of debt markets and issuer patterns. In Zenith's opinion, the team's weekly meeting is particularly beneficial for Nitschke, who uses the forum to test model-based outputs and further hone his AAA strategies.

Investment team remuneration comprises a market-aware base salary and variable bonus. The variable component is assessed across a number of quantitative and qualitative measures including performance, behaviours and profitability. The variable component represents a relatively small proportion of an employee's total remuneration and is payable in cash.

Overall, Zenith believes that Sandhurst's investment team is compact yet appropriately resourced to manage the Fund, noting the support provided by Mercer with respect to capital market assumptions and manager research. Importantly, we believe the pairing of McCrindle and Nitschke is key to the management of the Fund, noting their experience, complementary skill sets and long-standing working relationship.

INVESTMENT OBJECTIVE, PHILOSOPHY AND PROCESS

Sandhurst positions the Fund to outperform its SAA benchmark (net of fees) on a rolling seven to 10-year investment horizon. This benchmark comprises a mix of mainstream asset classes that are weighted by the Fund's neutral asset class exposures. Internally, the Fund is managed to achieve a return broadly equivalent to the Consumer Price Index (CPI) plus a margin of 3% (net) over a full market cycle.

To achieve this performance objective, Sandhurst adheres to an active style, one that is centred around four key investment beliefs, namely:

- Asset allocation is the dominant driver of long-term returns within a multi-asset class portfolio
- It is important to incorporate assessments of valuation, momentum and sentiment into asset class positioning
- Portfolio positioning necessitates an assessment of market cycle and liquidity
- It is difficult to consistently identify managers that will deliver excess returns over the full market cycle

Consistent with these investment views, Sandhurst direct considerable resources to the derivation of an SAA, with the goal of structuring an asset mix that promotes the objectives of the Fund. The SAA is then complemented by select AAA positioning and active cash management, with the former largely implemented through the use of index futures.

SAA Process

The SAA process is formally undertaken every three years and commences with the team producing a set of capital market assumptions (CMAs) based on a 10-year forecast investment window. CMAs are derived using a mix of historical data compiled from Bloomberg, and forward market expectations. Regarding the latter, these take into consideration the outputs from a range of internal models and consultant forecasts (i.e., Mercer) which extend to asset class returns, volatility and correlations.

Regarding return forecasts, these are derived on a real rather than nominal basis (i.e., net of inflation), and are based on an assessment of asset class betas, without consideration of alpha assumptions or the impact of hedging. Similarly, volatility assumptions are derived using historical data points albeit they are normalised for perceived outliers. However, they are not calculated using time varying or exponentially weighted adjustments as has been evidenced across competitors.

Once the CMAs have been derived, the Fund's SAA is set using a proprietary mean-variance optimisation tool. The SAA is set taking into consideration targeted objectives, mandate constraints and desired risk tolerances. Regarding the latter, Sandhurst use Standard Risk Measures as opposed to volatility limits or drawdown constraints, an approach which is differentiated to peers. In Zenith's opinion, there are risks associated with using SRMs as an optimisation constraint, particularly where these have been calculated based on an assumption that risk rises in a linear fashion and is broadly stable from one observation period to another.

Theoretical portfolios will also be stress and scenario tested by Mercer, to ascertain their resilience through various market conditions and in the face of hypothetical shocks. The final portfolio chosen is not necessarily the one deemed to be the most efficient, rather the one considered to be most resilient regardless of market conditions.

Prior to recommending a final SAA, the team undertakes market surveillance and compares the Fund's proposed asset mix to that of the broader market, using Mercer, Vanguard and other industry peers, with key areas of difference investigated. While Zenith believes it is reasonable to take into consideration the positioning of peers, ultimately they should not inform positioning, noting that competitors seldomly use consistent CMAs and optimisation constraints.

The final SAA is presented to the IGC for review and endorsement. Supporting this process is Nitschke who is responsible for drafting formal submission papers, with the support of Mercer. As part of this process, Nitschke maintains close dialogue with McCrindle who tests the validity of assumptions and plays 'devil's advocate'.

AAA Process

In an effort to enhance portfolio outcomes, Sandhurst implements AAA and will utilise strategies that move the Fund away from its SAA to take advantage of market mispricing. By construct, AAA takes an intra-market cycle view, typically for the forthcoming 12 to 18-month time frame, with strategies identified through a mix of quantitative and qualitative considerations.

On a monthly basis, the investment team meet to discuss two sets of information, which are Valuation, Momentum & Sentiment (VMS) analysis, and market cycle positioning through macroeconomic data flow & liquidity analysis and consultant input. Regarding VMS, a series of quantitative outputs are created across asset classes by the relevant analyst. Included amongst these are a set of relatively generic valuation signals (e.g., P/E, forward P/E, Price to Sales, Debt/EBITDA, FCF Yield), measures for momentum (e.g., relative strength indicators across 14 and 30-day observation periods) and sentiment (e.g., VIX, open market interest). An overall score for each asset class is established, ranging from +3 to -3, with the valuation component making up 50% and momentum & sentiment making up 25% each.

In terms of market data flow and liquidity, Sandhurst has developed a set of models that seek to identify asset classes that are supported by high levels of market liquidity and a favourable economic backdrop. To assist with this, Nitschke assesses a range of key economic data, which are presented in a comprehensive chart pack, with the goal of ascertaining if real growth and inflation is rising or falling. With respect to liquidity, Nitschke assesses a broad range of measures including global money supply, the movement in repo and swap markets, and the trajectory of developed market monetary policy. Consistent with the team's VMS process, each asset class is assigned a market data and liquidity score (ranging from +3 to -3), to provide a guide on overall relative value.

Augmenting the team's top-down views are investment consultants Mercer and Strategas who provide independent views on the directionality of asset classes and sub-asset classes. These views act as a reference point against which the team's model outputs can be tested.

The AAA process is completed with asset classes assigned an overall score, ranging from +3 (strongly attractive) to -3 (strongly negative), reflecting an aggregation of the team's VMS, market data flow and liquidity scores. Overall, Zenith believes that Sandhurst's AAA process effectively combines a complementary blend of quantitative and qualitative factors to derive relative-value asset class views that strongly complement its SAA process.

SECURITY SELECTION

Consistent with the Fund's low-cost positioning, asset class exposures are predominantly gained on a passive basis, with capital allocated to sector funds managed by Vanguard Investors Australia, who adopts a market capitalisation approach to indexing.

Zenith notes the existence of a long-standing strategic relationship between Sandhurst and Vanguard, one that permits the former to gain exposure to wholesale pooled vehicles on terms that are more competitive than that offered to retail-orientated investors. This is achieved through a rebate arrangement that has been struck between the two entities, the magnitude of which varies across asset classes.

While Zenith believes such arrangements can lead to improved after fee outcomes for investors, we also note that this approach stands in contrast to that of diversified peers, many of whom seek to leverage their scale to structure mandates to achieve a desired outcome (e.g., to tailor for ESG exclusions or manage tax outcomes), whilst also maintaining cost efficiency.

Notwithstanding the longevity of this strategic relationship, Zenith believes that it is important for Sandhurst to formally revisit commercial terms on a regular basis (i.e., on an annual basis or at the time of the Fund's SAA review), potentially through a tendering process. In the absence of this, it is difficult to ascertain whether the most competitive pricing and best execution standards have been achieved.

The Fund's cash allocation is gained through an internally managed fund that targets a margin above bank bill rates, through the use of strategies including yield-curve positioning and security selection. This strategy has high levels of liquidity and is used as a funding source to manage rebalancing obligations, meet distributions and redemption requests, and to execute AAA strategies.

Overall, Zenith believes that Sandhurst's approach to security selection is fit for purpose, and consistent with the Fund's low-cost positioning. That said, as Sandhurst gains greater scale across its diversified product set, we believe there is an opportunity for the investment team to further enhance the manner in which it gains asset class exposure, through the use of improved fee arrangements or other tailored index-orientated solutions.

PORTFOLIO CONSTRUCTION

Portfolio construction represents an outworking of the SAA and AAA processes, with Sandhurst implementing asset class exposures through passive investment vehicles, ETFs and derivatives including futures and swaps.

The Fund's SAA comprises a relatively narrow set of mainstream asset classes, with all exposures (excluding cash) gained through wholesale pooled vehicles managed by Vanguard. Zenith believes that this approach is consistent with the Fund's low-cost positioning. However, we note that despite this largely passive approach to implementing its SAA, there exist avenues for the Fund to generate excess returns. These include the harvesting of franking credits, withholding taxes and active cash management.

To complement the Fund's SAA positioning, the investment team implement AAA strategies with the goal of enhancing portfolio outcomes. These are implemented through the use of ETFs and futures, with the choice of instrument based on an assessment of cost and best expression of a trade idea. Furthermore, position sizing is guided by a range of asset class limits (see Risk Management) and exposure limits as determined by Nitschke. Regarding the latter, Nitschke sets targets taking into consideration the team's AAA conviction scores and the outputs from its proprietary risk management system.

The Fund retains no strategic weight to alternatives due to fee budget constraints. That said, the Fund is permitted to gain up to a 20% exposure in alternative assets and strategies should compelling investment opportunities arise, and will be expressed through AAA. Historically, alternative exposures have been limited to the use of gold futures, and for the purposes of tail risk hedging. Zenith believes that Sandhurst has the opportunity to further enhance this element of the process, potentially through the addition of a broader set of commodities.

The Fund's currency exposure is fully hedged in the fixed income sector, while the Fund has a strategic hedge ratio of 50% for global equities (developed only) and infrastructure. Active currency positions can be enacted based on the output of the AAA process, with the team permitted to use futures contracts spanning G4 currencies and predominantly for volatility management purposes.

Zenith notes that the Fund is not managed to a formal rebalancing policy as is the case with many of its peers. Rather, Sandhurst's preferred approach to rebalancing is through cash flows. That said, the team actively monitors portfolio positioning and on a weekly basis, McCrindle and Nitschke will propose trade ideas to return the portfolio to its targeted setting. Ordinarily, exposures that drift by more than 1% away from their targets are flagged by He and will be transacted upon where this exceeds 2%.

The last SAA review was conducted in September 2021. Whilst there was no change in the split between the growth and defensive allocations, there were several changes observed across the growth exposures, with an increased Australian Equities and Global Equities allocation, and a reduced Listed Property, Infrastructure, Global Small Caps and Emerging Markets allocation.

Overall, Zenith considers Sandhurst's portfolio construction process to be sound, effectively combining passive vehicles to implement the Fund's SAA, with low-cost ETFs and futures contracts used to express its AAA. Furthermore, we believe the level of active risk deployed relative to the Fund's cost structure is a key area of differentiation relative to peers.

RISK MANAGEMENT

Portfolio Constraints	Description
Defensive Exposures	
Cash (%)	0% to 30% SAA = 10%
Australian Fixed Income (%)	7% to 50% SAA = 15%
Global Fixed Income (%)	5% to 50% SAA = 15%
Total Defensive Exposure (%)	SAA = 40%
Growth Exposures	
Australian Equities (%)	10% to 40% SAA = 24%
Global Equities - Unhedged (%)	5% to 15% SAA = 18%
Global Equities - Hedged (%)	5% to 15% SAA = 18%
Global Equities - Small Caps (%)	0% to 10% SAA = 0%
Emerging Markets - Unhedged (%)	0% to 10% SAA = 0%
Listed AREITS (%)	0% to 10% SAA = 0%
Listed Infrastructure (%)	0% to 10% SAA = 0%
Total Growth Exposure	SAA = 60%
Alternatives (%)	0% to 20% SAA = 0%
Responsible Investment Exclusions	Nil

Risk management is ingrained in Sandhurst's investment process at multiple levels. At this highest level is the IGC, whose members meet quarterly (with the CIO also required to attend) to provide independent oversight of the Fund's positioning and performance. The IGC is also responsible for approving portfolio limits, the SAA, investment objectives, benchmarks, and adherence to PDS provisions. The IGC is governed by an Investment Governance Charter which has been approved by the Sandhurst Trustees board of directors.

McCrindle and Nitschke provide a further layer of risk management, through their experience in managing the Fund across various market conditions. The pairing also benefit from the risk management outputs of Mercer who conducts extensive risk management analysis as part of its service proposition.

The primary risk tools used by Sandhurst include Bloomberg Port and a proprietary risk management system which has been developed to assist the investment team in quantifying risk. Regarding the latter, this includes a scenario testing model which provide insights into the Fund's sensitivity to inflationary and deflationary environments.

On a quarterly basis, the investment team collect underlying security holdings and exposures, which are subsequently aggregated to provide insight in terms of geographic and sectoral exposures, and other fundamentals such as P/E, earnings growth and leverage.

At a bank level, there also exists independent monitoring, compliance and operational risk teams, each of whom monitor the team's activities in terms of derivatives use, active risk and adherence with mandate provisions.

Overall, Zenith believes that Sandhurst has in place a multi-layered risk framework that places considerable emphasis on governance (i.e., adherence with mandate provisions). Notwithstanding this, we note that the risk tools produce relatively elementary analytics and there exist limits in terms of the team's ability to tailor risk outputs.

Responsible Investment Approach

Sandhurst is not a signatory to the United Nations Principles for Responsible Investment (UNPRI), nor is Sandhurst governed by a Responsible Investment Policy (RIP).

Sandhurst do not presently have dedicated ESG resources, however the team subscribes to Sustainalytics, an independent ESG provider.

The Fund does not implement any negative screens, and ESG activities are limited to engagement and proxy voting via Vanguard.

In Zenith's opinion, Sandhurst's ESG process lags that of peers. This view has been reflected in our categorisation assessment.

From a classification scale of:

- Impact
- Thematic
- Integrated
- Aware
- Traditional

Zenith has assigned the Fund a Responsible Investment Classification of Traditional.

INVESTMENT FEES

The sector average cost (in the table below) is based on the average management cost of all flagship Multi-Asset Balanced funds surveyed by Zenith.

The Fund's management cost is 0.44% p.a. and no performance fee is payable. Zenith highlights that the fee level is low relative to the Fund's peers, albeit broadly comparable with low-cost equivalents.

There also exists a buy/sell spread of 0.09%/0.13% representing the costs incurred by the Fund when transacting its portfolio. This spread is payable by investors when both entering and exiting the Fund.

(The fees mentioned above are reflective of the flagship version only. Fees may differ when the product is accessed through an alternative vehicle such as a platform).

Fees Type	Fund	Sector Average (Wholesale Funds)
Management Cost	0.44% p.a.	0.68% p.a.
	Description	
Performance Fee	N/A	
	Buy Spread	Sell Spread
Buy / Sell Spread	0.09%	0.13%

PERFORMANCE ANALYSIS

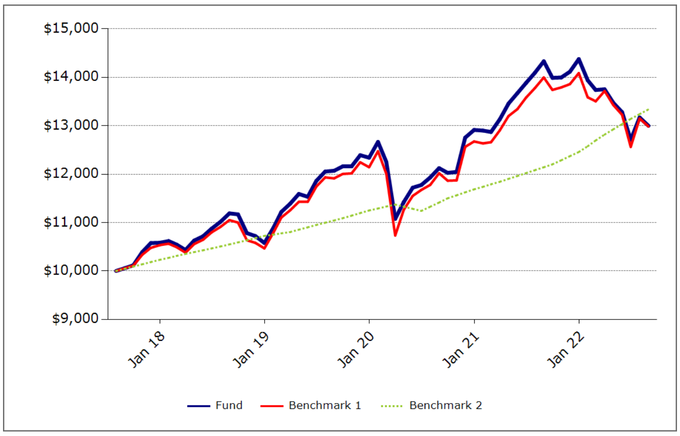
Report data: 31 Aug 2022, product inception: Oct 2011

Monthly Performance History (%, net of fees)

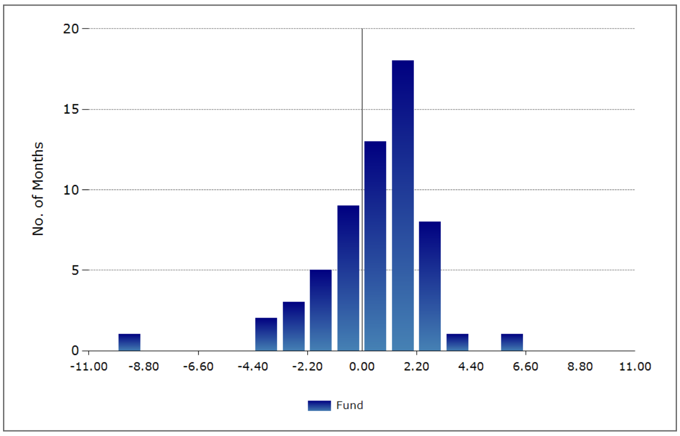
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BM1 YTD	BM2 YTD
2022	-3.04	-1.44	0.11	-2.01	-1.46	-4.29	3.63	-1.31					-9.59	-7.82	7.07
2021	-0.10	-0.22	2.06	2.45	1.60	1.53	1.52	1.69	-2.39	0.05	0.85	1.85	11.33	11.13	6.59
2020	2.64	-3.26	-9.60	3.15	2.59	0.47	1.32	1.62	-0.81	0.17	5.87	1.24	4.64	4.37	3.88
2019	2.93	3.05	1.52	1.76	-0.51	2.86	1.62	0.14	0.74	0.01	1.90	-0.42	16.65	16.03	4.89
2018	0.33	-0.68	-1.06	1.86	0.84	1.47	1.30	1.58	-0.18	-3.47	-0.57	-1.32	-0.05	-0.64	4.83

Benchmark 1: Diversified Market Balanced Benchmark, Benchmark 2: CPI plus 3%

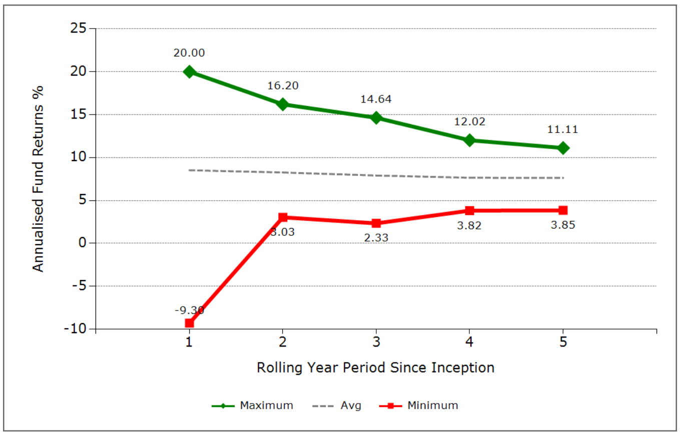
Growth of $10,000



Monthly Histogram



Minimum and Maximum Returns (% p.a.)



Return	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	7.94	5.26	2.50	-9.30
Benchmark 1 (% p.a.)	7.57	5.25	2.91	-7.23
Benchmark 2 (% p.a.)	5.32	5.83	6.49	9.85
Median (% p.a.)	6.57	4.38	2.47	-6.25
Ranking within Sector	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund Ranking	3 / 32	6 / 43	21 / 45	42 / 48
Quartile	1st	1st	2nd	4th
Standard Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund (% p.a.)	6.93	7.90	9.14	7.29
Benchmark 1 (% p.a.)	6.96	8.46	10.07	8.53
Median (% p.a.)	6.47	7.41	8.61	6.74
Downside Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund (% p.a.)	4.36	5.71	7.00	6.58
Benchmark 1 (% p.a.)	4.64	6.21	7.71	7.05
Median (% p.a.)	4.46	5.43	6.77	5.84
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Sharpe Ratio - Fund	0.87	0.55	0.23	-1.33
Sortino Ratio - Fund	1.38	0.76	0.31	-1.47

Zenith benchmarks Funds in the Multi-Asset Balanced peer group against the Zenith Composite Balanced Benchmark. While this benchmark may not be consistent with the one adhered to by all rated participants, it has been adopted to provide investors with a common reference point against which similarly structured strategies may be assessed.

The following commentary is current as at 31 July 2022.

The Fund is managed to achieve a return broadly equivalent to the Consumer Price Index (CPI) plus a margin of 3% p.a. (net) over a full market cycle. When assessed relative to this objective, the Fund has performed strongly since inception, outperforming over the medium to long-term. The Fund has also outperformed the median manager over the medium to long-term, leading to a consistent upper quartile outcome relative to peers.

Volatility (as measured by Standard Deviation) has been higher

ABSOLUTE PERFORMANCE ANALYSIS

than the median manager across all periods of assessment.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	0.36	0.02	-0.41	-2.07
% Monthly Excess (All Mkts)	58.02	61.67	58.33	50.00
% Monthly Excess (Up Mkts)	62.22	60.98	50.00	40.00
% Monthly Excess (Down Mkts)	48.78	63.16	75.00	57.14
Beta Statistics	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Beta	0.97	0.92	0.89	0.83
R-Squared	0.95	0.97	0.97	0.95
Tracking Error (% p.a.)	1.56	1.62	1.97	2.20
Correlation	0.97	0.98	0.98	0.97
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Information Ratio	0.23	0.01	-0.21	-0.94

The following commentary is current as at 31 July 2022.

Zenith seeks to identify managers who can achieve a consistency ratio above 50%, as we believe it is representative of persistent manager skill.

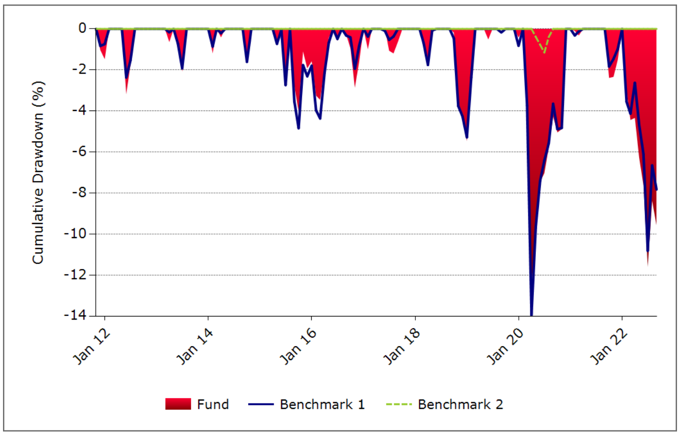
The Fund has been successful in outperforming the benchmark in more than 50% of 'all' markets over all periods of assessment, whilst also demonstrating superior consistency in 'down' markets over most periods of assessment.

DRAWDOWN ANALYSIS

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.

Drawdown Analysis	Fund	BM1	BM2
Max Drawdown (%)	-12.55	-13.95	-1.15
Months in Max Drawdown	2	2	3
Months to Recover	8	8	2

Worst Drawdowns	Fund	Benchmark 1	Benchmark 2
1	-12.55	-13.95	-1.15
2	-11.59	-10.81	
3	-5.46	-5.28	
4	-4.02	-4.84	
5	-3.19	-2.74	



The following commentary is current as at 31 July 2022.

The Fund's largest drawdown was -12.55% in 2020, which was slightly smaller than that of the benchmark (-13.95%). The Fund has generated drawdown outcomes that have been broadly consistent with that of the benchmark.

INCOME/GROWTH ANALYSIS

Income / Growth Returns	Income	Growth	Total
FY to 30 Jun 2022	3.46%	-11.91%	-8.45%
FY to 30 Jun 2021	8.91%	8.81%	17.73%
FY to 30 Jun 2020	4.63%	-5.84%	-1.22%
FY to 30 Jun 2019	4.12%	4.96%	9.08%
FY to 30 Jun 2018	4.29%	4.31%	8.60%

The Fund does not target a specific level of income. That said, given the Fund's SAA, Zenith would expect that over the longer-term, returns would be more heavily influenced by capital appreciation.

Should the Fund seek to make a distribution, this would occur on a semi-annual basis following June and December of each year.

REPORT CERTIFICATION

Date of issue: 29 Sep 2022

Role	Analyst	Title
Author	Darryl Ding	Associate Investment Analyst
Sector Lead	Andrew Yap	Head of Multi Asset & Austn. Fixed Income
Authoriser	Bronwen Moncrieff	Head of Research

ASSOCIATIONS & RELATIONSHIPS

ASIC Regulatory Guide RG79.164 requires Research Houses to disclose certain associations or relationships that they may have with a product issuer. We may receive remuneration from an issuer or investment manager for subscription to our other research/ data services or the research/ data services of our related entities. Conflict management arrangements are in place where we or our related entities provide research services to the product issuer or financial advisory businesses who provide financial planning services to investors and are also associated entities of product issuers. This is in accordance with the Zenith Group's Conflict of Interests Policy. Further details in relation to our relationships and associations are available on request.

RATING HISTORY

As At	Rating*
29 Sep 2022	Recommended
30 Sep 2021	Recommended
4 Sep 2020	Not Rated - Declined
11 Jun 2019	Not Rated - Screened Out
2 Jul 2018	Not Rated - Screened Out
Last 5 years only displayed. Longer histories available on request.	

*In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

DISCLAIMER AND DISCLOSURE

Zenith has charged Sandhurst a fee to produce this report.