INDEPENDENT
INVESTMENT RESEARCH

LMI Monthly Update

27 February 2020

THE BIG SELL OFF = THE BIG BUYING OPPORTUNITY?

LICs/LITs have been sold off significantly over the last two weeks in line with broader markets. The question is whether the sell off in the sector materially exceeds the downward move in the underlying portfolios. Unfortunately in investment vehicles that publish monthly NTA that is impossible determine in real time. Yes, the relevant benchmark indices will provide a guide, but far from a perfect guide given many managers are high conviction, rather than index tracking or even index aware.

In IIR's view, the likely situation is the sell-off in the sector has been greater than the sell off in the underlying portfolio constituents. LICs/LITs have a smaller transacting base than the underlying securities taken as a whole. Share prices are determined by the marginal buyer and seller. It is reasonable to assume that there is a greater mismatch between the volume of selling interest versus the volume of buying interest in LICs/LITs during market dislocation events.

For those vehicles that publish daily NTA (primarily debt LITs), we have seen a general move from previously what were slight premiums to NTA to very slight discounts to NTA, and notwithstanding that 1) the sell off in global sub-investment grade has been substantially less than equities (see table below), and, 2) from a portfolio repositioning perspective there may be merit in a reallocation to debt versus equities.

Major Indices Performance Comparison (as of 2 March 2020)

Index	Month of Feb	Since 21 Feb 2020
MSCI World (AUD Hedged)	-8.43%	-8.63%
S&P 500 (AUD Hedged)	-8.68%	-7.82%
ASX 200 TR	-7.69%	-10.11%
Global High Yield (AUD Hedged)1	-1.51%	-2.35%

1 GHY (AUD Hedged) represented by ICE BofA Global High Yield Index. Performance shown in AUD terms

Additionally, the sell off appears relatively indiscriminate between Value and Growth style managers. This is despite value income oriented managers are generally defensively positioned (A-REITS, Infrastructure, Utilities, Financials) and are not subject to the same degree of P/E multiple compression risk. If the risk-off persists, is it finally time for Value style investing to come back in favour?

SPOTLIGHT ON CONTANGO INCOME GENERATOR LTD (ASX: CIE)

Over the last 12-months, the board and the investment management have worked closely to implement a number of changes designed to ultimately generate better performance, a more realistic and sustainable yield, and in doing so close the discount to NTA.

After a lengthy internal consultation period the key changes included:

- Moved to quarterly dividends (versus the prior semi-annual dividend frequency);
- Removed the cash restriction minimum limit of 15% (not helpful in a low interest rate world), with the actual variable allocation now generally at around the 5% level (this occurred over the last two years);
- Changed the dividend policy to make it more sustainable; and,
- Tweaked the investment strategy to facilitate a more balanced portfolio (in relation to 'Value' vs 'Growth') and allow the portfolio manager greater flexible in delivering upon dividend yield objective.

To understand why these changes were made requires a degree of historical context. The 'ex-30 income' investment strategy CIE is based on commenced in December 2012 (CIE launched in 2015). For the first 4.5 years to 30 June 2017, the strategy performed extremely well, generating total returns (pre fees) of 15%p.a., representing outperformance of 5.5% p.a. over the S&P/ASX All Ords Accumulation Index.

By 2017, many of the longer term positions in the portfolio (and which had performed well) were trading at elevated valuation multiples (as per the market more broadly). By definition, this makes it increasingly difficult for a manager to continue to prudently deliver a high and fixed dividend yield target (the target was fixed a 6.5%). It was becoming increasingly challenging for the portfolio manager to find stocks with that degree of a sustainable yield. What stocks where available ran a considerable risk of being value traps. This is a type of risk no prudent portfolio manager sensibly wants to adopt.

In a world of P/E multiple expansion, declining risk free rates and credit spread compression, and cap rate compression (property), the fixed dividend yield target was becoming not only increasingly unrealistic but, more importantly, somewhat dangerous. It was placing pressure on the investment manager to increase underlying equities risk to achieve the fixed yield target (i.e., increasing value trap risk). In short, it ran the risk of skewing the investment manager's investment decisions.

To address this it was decided to amend the investment framework and the dividend policy. In relation to the former, a decision was made to allow the investment manager to invest both inside the Top 30 (ex-20) and outside the 200 and to permit more growth oriented companies. Approximately 10-20% of the portfolio has been opened up to this expanded opportunity set.

In relation to second change, the dividend target was removed, replaced with an objective based target of paying a solid dividend but ensuring the dividend was 100% fully franked. In effect, the unfranked dividend target was reduced but the level of franking increased. The investment managers current expectation is to pay a circa grossed up 6% fully franked dividend (equating to around 4.5% on an unfranked basis).

These two changes deliver three key outcomes: 1) take the pressure of the investment manager with respect to what had become an unrealistic yield target and ran the risk of skewing investment decisions; 2) set a more realistic dividend yield target in which to telegraph to investor and more aligned asset market developments; and, 3) creates a more balanced portfolio with respect to Value versus Growth investment style. All at the same time not compromising the investment objective which remains unchanged: deliver relative high, franked, and sustainable income for what is larger a shareholder base in the latter style of the investment lifecycle.

In that regard, the changes could be presented as being loyal to the original investment objective and strategy rather than being viewed as a change.

In relation to discounts to NTA, CIE has generally traded at a 5-10% discount to NTA (excluding periods of exogenous shock such as the Labour party franking credits risk and market dislocation events). This is at lower end of discount spectrum relative to LIC peers in the similar market cap spectrum.

On the other aspect key to investor satisfaction, CIE has underperformed the S&P/ASX All Ords Accumulation Index over one and two years to 30 June 2019 (4.6% and 4.7% versus 12.5% and 11.0%, respectively). The question is whether the S&P/ASX All Ords Accumulation Index is the fair basis of comparison. IIR would argue not as the strategy is not managed to the index. A more suitable basis of comparison would be performance relative to the S&P/ASX

Pricing and Performance Update*

Best 5-year pre tax NTA returns (p.a.)%

Australian Large Cap Focus					Small-Mid Cap Focus & Others				
Company	3M	1Yr	3Yr	5Yr	Company	3M	1Yr	3Yr	5Yr
DUI	7.9	33.3	15.6	11.1	CD1	0.0	34.0	18.1	14.3
FSI	9.5	31.2	14.7	10.0	WIC	4.4	18.2	10.1	10.9
AMH	10.2	29.4	11.1	9.2	CD2	-2.1	19.9	14.2	10.6
AUI	6.4	30.0	12.7	8.8	MIR	5.9	23.1	10.9	10.1
AFI	6.9	28.5	11.1	7.7	GFL	9.2	17.0	12.5	9.9

Discounts & Premiums to pre-tax NTA (p.a.)%

Largest discounts		Largest premiums	
Company	Discount	Company	Premium
CD3	-28.4	WAX	21.4
ECP	-22.2	WAM	17.7
CD2	-21.7	PE1	9.1
GFL	-21.6	DJW	4.2
CD1	-21.2	PL8	3.8

*Data to 31 January 2020. Only includes LMIs covered by IIR
#Portfolio return = NTA plus dividends per share. Pre-tax NTA is after tax paid on realised gains.

200 Value Index ex 30 index (or, ex 20 index moving forward). On this basis, CIE actually outperformed over one and two year periods, recording alpha of of 1.76% and 0.72%, respectively.

IIR believes the Investment Manager may be well advised to add two additional data points in its monthly reporting to shareholders. In addition to retaining the formal benchmark, two additional line items could be added: performance relative to the S&P/ASX 200 Value Index ex 20 index and performance relative to the S&P/ASX 200 Value Index ex 20 index on a fully grossed up basis. Why is this important? Because it illustrates Investment Manager skill on stock selection and franking credit harvesting.

Contango and Switzer have done a strong job on growing FUM, raising circa $500m over the last three years. This has partly been achieved through a pivot to direct retail investors and leveraging the strong Switzer distribution and communication infrastructure. Consistent with this broader growth initiative, the investment manager would certainly like to grow FUM in CIE. And in a LIC, a precondition to issue more capital is trading at least at parity to NTA. Shareholders should be reassured by this - the board and investment manager will do every thing in their power to close the discount to NTA.

As a final point, value investing has been out of favour in recent years. But if you take a 'risk-off' type of view of the world over the foreseeable future, believing valuations are stretched and there are economic and market risks, then you may also logically think that value investing may well swing back into favour. Tied to this, we note the CIE is defensively positioned (consistent with it value and yield strategy), with the portfolio being heavily overweight AREIT, Financials, Infrastructure and Utilities sectors. Given the generally defensive and high yield qualities of these sectors, not the worst way to be position if things start to get ugly in the economy / market.

NEUBERGER BERMAN WITHDRAWS CAPITAL RAISE (ASX: NBI)

Neuberger Berman announced on Tuesday 2 March that its entitlement and shortfall offer (third capital raise for NB Global Income Trust), which closed on 21 February with applications exceeding $340m but with the shortfall offer component due to settle this Friday, would been withdrawn with the manager handing the money back to investors. This is unprecedented – withdrawing an offer that had already closed but in which full settlement had yet to occur. IIR ultimately thinks this is a strong positive development for both the manager's and, more broadly, the LIT sector's reputation in general.

Why was the raise withdrawn? - because the offer price had been previously struck at the applicable NTA of $2.05 but in the interim due to global market volatility the NTA published daily as of yesterday was $1.99. Offer participants were rightly unnerved – paying $2.05 for what was now worth $1.99 (and further unnerved by a share price dipping to $1.87 yesterday). Some retail investors said they were not going to settle, and the capital raise book started to diminish. In consultation with its JLMs, Neuberger Berman made the right call by investors to return their money.

IIR believes Neuberger Berman deserves, and indeed has received, kudos for this move. It also runs contrary to the often stated assertion that close ended investment managers are simply greedy hoarders of captive capital. The irony for investors is that the manager's PMs would love to have new money to invest into a falling market, a potential perfect buying opportunity. And investors may well have been the beneficiary.

It's no doubt tough being in the market currently for new capital (as PE1 and MXT are). Advisors are likely saying we are having enough issues with our existing assets let alone taking on new assets. Fair enough. But the irony is that private equity (PE1) and private debt (MXT) could be ideal portfolio buffers in the current environment.

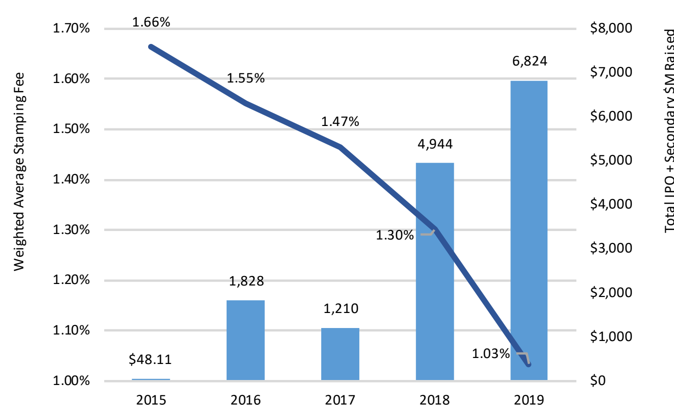
The lesson learned for product issuers? Shorten the settlement window to mitigate market risk.

IIR'S LIC STAMPING FEES SUBMISSION

As well publicised, the Treasurer Josh Frydenberg announced in January that the government would undertake a four week targeted public consultation program concerning the issue of LIT / LIC stamping fees. The Treasurer said that based on the feedback received, he will look at what changes, if any, need to be made to existing regulations around the payment of stamping fees during LMI IPO's. This review is still ongoing, with no clear indication as to when a decision will be made. That said, the general expectation is within the next four week period.

The purpose of IIR's submission was not to put forward a position one way or the other on stamping fees. As an independent research house IIR is removed from those interactions and, secondly, IIR is agnostic with respect to investment vehicle type. What IIR is not agnostic about is a motivation to see the highest quality and appropriately diverse range of investment strategies being made available to Australian retail investors. As such, IIR's submission focused on whether any possible disruption to the quality and diversity of LIT/LIC offerings is in the best interests of the Australian retail investor market.

Weighted Average Stamping Fees (by IPO raise amt) 2015-2019



Source: IIR based on underlying ASIC data

On the topic of stamping fees, IIR notes that the weighted average stamping fees has declined from 1.66% in 2015 to 1.03% in 2019 (see chart above). Meanwhile, speaking to certain broker groups prominent in LIC/LIT IPOs, the proportion of LIC/LIT chess holdings

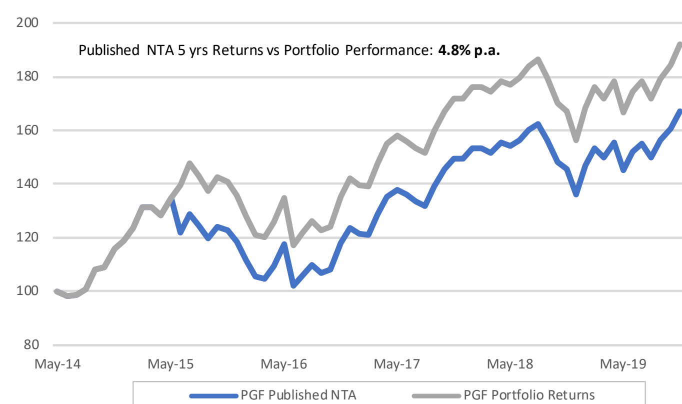
of their client base relative to all other holdings has not significantly changed over this period (both holdings have grown, but the proportions are relatively unchanged). This suggests to IIR that these groups have not engaged in a deliberate push of these products beyond seeking diversification for their client base.

IIR would encourage those considering the matter of stamping fees to consider potential second degree impacts on the retail investor base. In our view these potentially include:

1) Some of the highest quality public and private debt managers will likely not offer such solution to the Australian retail market if not confident of getting sufficient FUM scale to justify the considerable time and resources required to launch and manage these products;
2) There will be a slow down in fixed income LITs, and which are addressing a strong demand and prudent portfolio construction requirements for investors in the latter stage on their investment lifecycle;
3) Retail investors may cease to benefit to the same degree from the illiquidity (and often) complexity premium inherent in certain public and, particularly, private debt instruments which closed-ended vehicles are uniquely placed to capitalise on;
4) Retail investors will be largely precluded from private debt and private equity as an asset class without a closed-ended investment vehicle (and private debt can be a particularly suitable asset class for retirees' yield and low volatility preferences);
5) 'Push' retail investors into open-ended fixed income mandates, potentially exposing them to the repercussions of the liquidity mismatch risk that has emerged in public debt markets over recent years (as discussed in the submission).

The issue of stamping fees paid to brokers and advisors as part of the ASX capital raising process has caused a fair amount of debate on the topic both for and against the merit or not of their use. The ASIC performance analysis understated returns for any LIC that had loyalty options exercised. The chart below, in this case specific to PGF, illustrates how significant the understatement of actual portfolio performance to be (returns earned by IPO investors and illustrating true 'manager skill').

Loyalty Options - Portfolio Performance vs Published NTA



Source: IIR

Additionally, there was no consideration given to the notion of after-tax performance at the investor level, given the vast majority of LICs pay 100% franked dividends (vs the S&P/ASX 200 at circa 70% franking). Nor, on a comparative basis, has any consideration been given to the potential taxation inefficiencies of unit trusts.

There is also the issue of how any rule changes are applied to, or effect other similar investment holding structures for example A-REIT's when they initially list. To give one example, a recent A-REIT IPO had offer costs estimated per its offering documents to be circa 6.5% of the total capital raised but didn't pay stamping fees. In other words the NAV of the A-REIT will be impacted by circa 6.5% on day 1. LIC's could remove stamping fees for the sake of optics but up the fees paid to all the investment banks etc which would drive incentives for them to get the IPO away, no doubt through increased marketing to retail investors.

Recent IPO Trends

Over the last 24 month period, the most notable trend in the LMI market has been IPOs of LITs based on public or private debt strategies (collectively referred to 'fixed income' in this submission). Over the last two years, 47% of the approximate $8.4bn in primary and secondary capital raises relate to fixed income mandates. Where equity raises have been undertaken, they have largely been undertaken by large, successful and well supported investment managers (Magellan, VGI Partners, Regal Funds Management).

LIT/LIC Capital Raisings over Last Two Years

Asset Class	Amount ($m)	Percentage
Fixed Income	4,006.2	47.7%
Equities	2,416.3	28.8%
Absolute Return	1,611.5	19.2%
Other	366.1	4.4%

This flow of fixed income mandates has been in response to a range of factors including:

- The ongoing search for yield as TDs hit historic lows and cease to be a viable option for retirees from an income adequacy perspective;
- The need to diversify with Australian retail investors historically being very overweight Australian equities and very underweight fixed income as an asset class;
- The increasing number of investors moving in the latter stage of their investment lifecycle, including retirement stage, and during which it is important from a portfolio perspective to mitigate drawdown risk;
- The increasing number of advisers moving off traditional platforms and increasingly investing in ASX-listed investment vehicles.

Investment Manager Quality

The fixed income LITs have generally been issued by very high calibre investment managers. The nature of the LIT/LIC IPO process over the last few years almost demands this be the case. The only way meaningful amounts of capital can be raised is through a large broking syndicate. And the only way a large broking syndicate can be formed is if they believe 1) the investment manager is exceptionally good, and 2) the proposed investment strategy satisfies a genuine investor need and, in many cases, is a new, differentiated product offering.

IIR also notes, that as part of the IPO process, there a multiple levels of vetting and due diligence conducted by multiple parties, independent research houses being only one. While unlisted managed funds also get reviewed by research houses, they are not subject to the multiple layers of due diligence. At a time when the breadth of financial advice is declining, this level of due diligence scrutiny is probably more valuable than ever.

Furthermore, investment managers, cognisant of the time, resources and costs involved in an LIT/LIC IPO are well minded to present very well thought out investment strategies tailored to a particular investor need in the Australian retail landscape. In this regard, there is an incentive to not only offer a very strong offering, but a strategy that is unique to a degree. This facilitates the further diversification of the Australian listed investment strategy landscape. From a product development quality perspective, an argument could equally be made that the stamping fee costs incurred by investment managers actually serve as a quality control device, with Australian retail investors being the ultimate beneficiaries.

One of the more unsubstantiated claims through the one-sided information campaign to remove stamping fees is that the fixed income LITs encompass both highly risky debt instruments and investment strategies. For example, high yield bonds being referred to as 'junk bonds'. At what point was sub-investment grade debt not a legitimate asset class that generally provides a specific and historically known risk-return profile? At what point was unrated private debt (private debt is unrated by its very nature) similarly not a legitimate asset class? And why should Australian retail investors not have access to the latter, as many institutional pension/ superannuation funds do?

Of the four public debt LITs that have listed (or, in the case of PIMCO, planning to list), all have excellent track records in downside risk mitigation, and all have outperformed the applicable benchmarks during down markets. The managers have generated superior risk-adjusted returns, lower drawdowns, shorter times to recovery, lower volatility and, hence superior downside risk metrics. Furthermore, they have historically provided a regular and reliable income stream, preserved initial capital, and provided the potential for broader portfolio diversification benefits, especially for investors overweight equities. They have achieved this through a strong focus on avoiding credit deterioration, timely sector / asset class rotation and rigorous relative value analysis. In short, these managers have track records that have delivered on the stated objectives of the LITs they have issued in the domestic market.

The table below provides a performance summary of the public debt investment managers that have listed on the ASX based on either these managers' most comparable existing strategies or the strategies directly utilised in the ASX-listed LIT.

IIR notes the KKR Opportunistic Credit Strategy (OCS) is an outlier in terms of volatility. This is due to a track record that encompasses the GFC tied with intentionally a high degree of credit risk (largely B and CCC). Excluding the GFC period, historic volatility is 5.7%. Additionally, OCS is only one half of the long-term portfolio allocation, with a European private debt strategy expected to significantly dampen overall volatility and downside risk. Neuberger Berman (manager of NBI) has generated alpha over the long term in the sub-strategies that together represent the NBI strategy.

Public Debt ASX-listed LIT Historic Performance

ASX	Reference Fund	Incept.	Returns	Alpha	Vol
KKR	Opportunistic Credit Strategy	2008	10.2%	4.5%	10.0%
NBI	Global High Yield	2016	5.3%	-0.6%	3.7%
PCI	PPT Pure Credit Alpha Fund	2012	6.6%	4.4%	1.4%

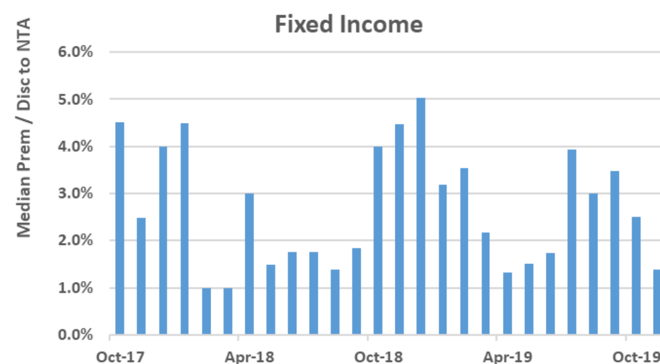
For ASX-listed LITs engaged in private debt strategies, the majority engage in first-lien senior secured debt only. First-lien senior secured debt ranks ahead of any other type of debt in the capital structure in terms of priority of payment and security on assets and cash flows, and reflects a strategic emphasis by these managers on lower credit risk, rather than stretching for yield. Where second-lien is included in a mandate, those managers are investing on a highly selective basis.

These investment managers generally have a very proactive approach to structuring and managing credits with respect to covenants, controls, security, LVRs, and other protections. The managers generally facilitate this by being either the sole-lender or, in the case of syndicated corporate loans, being the lead or co-lead lender. This provides for greater transparency and deal control, with the potential to structure more favourable pricing, collateral, covenants, and other credit terms, in addition to greater control / influence in the event of a default and potential recovery / workout situation.

To date, LIT debt managers have, almost without exception, delivered on income targets, with some also delivering material capital upside. This, tied with the search for yield in the context of low term deposit rates, has underpinned both capital raise and secondary market demand. IIR notes that a number of managers have undertaken secondary capital raises and in which there has been significant demand. Overall, the sector has traded at a healthy premium to NAV. Both reflect well on manager performance in the sector. Mis-sold products? IIR would beg to differ.

However, we note that it is clear to IIR that many of the debt LITs that have listed on the ASX over the last 24-month period would not have incurred the considerable time and internal costs if they did not have confidence in gaining a certain threshold of FUM scale.

ASX-listed Debt LITs Disc / Prem to NAV



Source: IIR. Data as per submission date in early February.

Managing Secondary Market Latent Demand

Investment managers undertaking an IPO are now more mindful of supporting strong secondary market demand post IPO to mitigate the risk of trading at a discount to NTA. They are doing this by scaling back issuance relative to demand. In doing so, scarcity brings more bids than offers in aftermarket.

IPO Structuring Improvements

Dilutive loyalty options and Day 1 NTA being less than the issue price for investors (with investors effectively picking up the costs of the IPO) are both long gone. The last significant option issues were Plato Income Maximiser in May 2017 and Contango Global Growth in June 2017, the latter being the final LIC that issued 'loyalty options'. There is a wide lack of understanding of the dilutive impact on published NTA post the exercise of loyalty options and the actual returns of the underlying portfolio (and those accrued by investors), the latter being the important measure of investment manager skill. Additionally, it is not only IPO investors that benefit from exercising in-the-money options. LICs with outstanding loyalty options have invariably traded at a discount to published NTA. This discount is a rationale pricing in of the potentially dilutive impact of loyalty options. New investors, at purchasing at a share price reflecting the potential dilutive impact of loyalty options are not being subsequently penalised if and when such options are exercised. They can in fact benefit if no such options end up being exercised or a lesser degree are exercised than potential priced in by the market.

Closed-ended Vehicles Matter in Debt Markets

In IIR's view, a key issue in relation to second degree adverse consequences relates to the advantages a closed-ended investment vehicle can have to open-ended vehicles, and this is no more so than in the fixed income asset class, both public and private debt.

To understand the advantageous nature of closed-ended vehicles in the public credit markets requires an understanding of key secular changes that have emerged over the last ten year period, or so, following the GFC. These changes are a combination of the regulation of the marketplace after the GFC and significant growth in open-ended, daily liquid ETFs and mutual funds (reflecting investors' persistent thirst for yield). Given the rapid growth in the public credit market, IIR believes there is urgency in understanding these current market dynamics and identifying possible hidden risks therein.

Pertinent to this discuss are the key secular changes of: 1. lack of market-making and other regulatory changes that will impede price discovery in the next downturn; and 2. the explosion in Asset-Liability mismatched structures.

Fixed-income markets, unlike their counterparts, the more liquid stock markets, are characterized by having the majority of their trades executed OTC. Similar to stocks, once a bond or bank loan is issued in the primary market, investors can, in theory, trade the bonds in the secondary market.

However, while secondary market trading for stocks occurs on popular lit exchanges such as the NYSE, LSE, ASX, etc, there are currently no significant lit exchanges for fixed-income securities, meaning more fixed-income securities are packaged into ETFs. Fixed income ETFs and open-ended mutual / managed funds have been created to appease the demand from retail investors for access and exposure to corporate bonds and loans and a range of asset-backed securities.

These products are attractive to retail investors (and those that have sold products to them) because they believe that ETFs and mutual funds have daily liquidity. What retail investors may not have considered, however, is that this perception of daily liquidity is not entirely accurate: these products are based on OTC securities, which have hidden risks in down-market cycles. Wrapping fixed-income securities into daily liquid open ended mutual / managed funds and ETFs does not solve the problem of the lack of exchange-traded markets for fixed-income securities. It only hides the lack of liquidity of the underlying constituents.

Asset / Liability Liquidity Mismatch

Market liquidity in the global bond and bank loans markets today is a fraction of what it was pre GFC, as broker-dealer inventories of such securities (the traditional liquidity providers during a dislocation event) have reduced substantially subsequent to the introduction of the Volcker Rule in 2014[2] tied with the significant inflow into daily liquid ETFs and mutual funds in both markets [3]. Taken together, the net result is substantially less liquidity on the asset side, but substantially more liquidity on the liability side. This has led to an inherently more volatile and technically dominated public debt markets.

[2] It is estimated that overall broker-dealer inventories have reduced by approximately 75% since the GFC, an™d more so in the sub-IG segment.

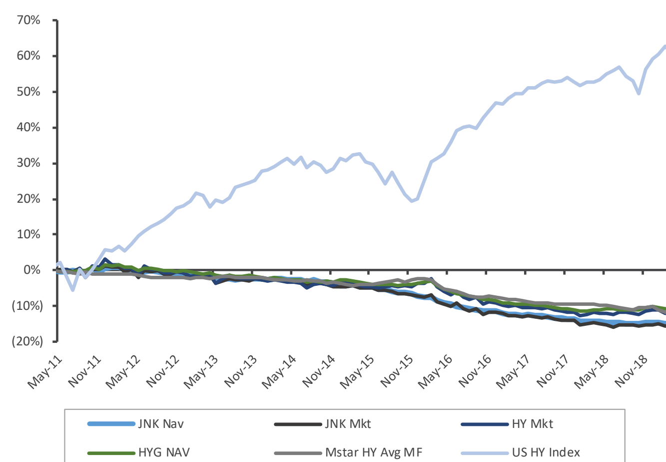
[3] For example, in the sub-IG segment, an approximate 40% of the market segment now comprises daily liquid (and predominantly index-tracking) investment vehicles. With an absence of significant exchanges for credit securities, more securities have been packaged into ETFs or daily liquid mutual funds (effectively hiding the lack of liquidity of the underlying constituents for some retail investors).

For open-ended investment vehicles, which are subject to the vagaries of investor net flows and the consequent necessity to buy and sell in response to both material net inflows and outflows, this evolving market dynamic has led to a situation of more forced selling during market dislocation events and more forced buying in recovering market as investor confidence recovers. In short, an increasing risk of being whipsawed with consequent detrimental impacts on performance.

The increasing bouts of volatility has created a market environment that is increasingly difficult for index aware and index-tracking mandates to perform well. The chart below illustrates the historic performance of a number of the largest sub-IG ETFs as well as the Morningstar high yield average for mutual funds (the majority being active mandates). As evident, there has been marked underperformance. It is IIR's understanding that given the considerable size of the index tracking / aware mandates (tied with a mandate incentive to largely simply replicate the index) combined with limited liquidity during bouts of volatility the mismatch is creating supply-demand related price distortions.

These supply-demand related price distortions became evident in 4Q2018, representing the last material dislocation event. As the US based asset manager Guggenheim has pointed out, during this period, demand for floating-rate bank loans waned when market expectations for Fed rate hikes in 2019 fell from two to zero, resulting in record fund outflows. This repositioning caused mutual fund managers and ETFs (i.e. open ended vehicles) to shed their more liquid holdings to cover redemptions, which led to larger loans underperforming smaller, less liquid loans on a price and total return basis. The limited liquidity in the bank loan market, combined with heavy outflows, exacerbated the negative pressure on loan prices, and resulted in performance that appeared to be more driven by liquidity concerns than credit. For example, as the sell off intensified in December 2018, the gap between first- and second-lien discount margins perversely tightened by 34 basis points for the quarter. The painful lesson learned: liquidity is not a given, and the exits tend to shrink on the way out. IIR views it as a cautionary tale for investors in index tracking mandates in particular but more broadly a risk that applies to all open-ended fixed income investment vehicles.

Passive Strategy ETF Underperformance



In contrast to an open-ended vehicle, a closed-ended structure, by way of 'captive capital', provides an investment manager the ability to opportunistically take advantage of market dislocation events in public traded debt. These investment managers have the ability to represent the 'liquidity provider' to daily liquid mutual / managed funds and ETFs on forced sales of what become discounted debt instruments. In doing so, it can enable an adept manager to generate a higher yield without necessarily having to dial up the credit risk of the portfolio.

So, closed-ended vehicles are not only subject to the detrimental impact of whipsaw risk but they can actually capitalise on the rising structural risks in the public fixed income markets. In the ASX-LIT segment, IIR notes that both KKR and PIMCO very actively seek this dislocation opportunities through their proven ability to identify and select mispriced risk.

The unintended consequences of hampering the growth of closed-ended fixed income LITs in Australia is it effectively pushes investors into open-ended fixed income vehicles. IIR is by no means saying open-ended fixed income vehicles are inherently incompatible with the asset class. Far from it. What we are saying, is open-ended fixed income vehicles are inherently risky when there is a liquidity mismatch, and that risk increases as the degree of relatively illiquid debt instruments in the underlying portfolio increases. In relation to that liquidity mismatch and some open-ended funds having a material portfolio weight to relatively illiquid underlying debt instruments, IIR notes past comments from Bank of England governor Mark Carney:-

"These funds are built on a lie, which is you can have daily liquidity," Mr Carney told MPs at a parliamentary hearing. For assets that "fundamentally aren't liquid" or might become illiquid in a market downturn, the damage of that "lie" for financial stability is that it "leads to an expectation for individuals that it's not that different from having money in a bank". Mr Carney said investors should expect terms that were in line with the liquidity of the assets, with no assumption of instant access if they wanted to redeem their investments. If nothing is done, Mr Carney added, the mismatch between the liquidity of the underlying assets and the liquidity of the funds risked becoming a systemic problem." Bank of England governor Mark Carney warning after high-profile problems at Neil Woodford's flagship fund, which froze withdrawals this month and at another asset manager H2O, which lost close to €2.4bn in a single day after investors took fright over illiquid bonds. Source: Financial Times, June 27, 2019.

Illiquidity & Complexity Premium

In contrast, an investment manager of a closed-ended investment vehicle can very intentionally take advantage of permanent capital by opening up a greater degree of the portfolio to less liquid investments to capitalise on the illiquidity premium. For example, mortgage backed securities and securitised credit are generally deemed to fall in the middle of the liquidity spectrum, between the generally daily liquid investments of open-ended traditional funds and the generally very illiquid investments of private debt funds. Fewer investment mandates target this segment of the liquidity spectrum, and as such it has provided an attractive compensation for risk. It has also provided some investment managers the benefit of not having to increase credit risk (to maintain yield in a declining rates environment) during what is arguably the late stage of the credit cycle.

While open-ended vehicles can and certainly do gain exposure to such asset classes, they can only prudently do so to a lesser degree in terms of portfolio weight due to the inherent liquidity mismatch such investments generate for open-ended investment vehicles.

IIR is aware of ASX-listed active fixed income ETFs that have significant portfolio weights (circa 30%) in Australian RMBS. Asset class returns have been attractive in this segment. However, the Australian RMBS market has limited secondary market liquidity, with investment managers generally holding such investments to each securities maturity. Many may remember that during the GFC the Australian RMBS market ceased up entirely, with the RBA eventually having to step in to provide liquidity.

Here's a not inconceivable scenario for an open-ended ETF with a very material holding in Australian RMBS: A significant market dislocation event occurs. There are broad outflows in the fixed income asset class. The manager of the open-ended vehicle with the 30% portfolio holding in Australian RMBS is required to fund redemptions by selling the more liquid holdings. In doing so, the Australian RMBS weight increases from 30% to 50% of the portfolio, for example. The marked-to-market value of the Australian RMBS is marked down to reflect rising spreads in the market. Reflecting this, monthly performance of the ETF deteriorates, fuelling further redemptions, further selling of more liquid underlying securities, and a further reweighting of the portfolio to Australian RMBS. In a worst case scenario, ETF redemptions are frozen, possibly due to the ETF portfolio exceeded maximum asset class limits or possibly due to the inability to fund further redemptions through asset sales.

While these risks are no different to an unlisted managed fund, a freeze in redemptions in an ETF vehicle would likely come as a complete and unexpected shock to ETF investors. This would run the risk of significantly undermining confidence in the ETF market more broadly, potentially leading to something of a contagion effect.

Private debt and private equity are both asset classes that can deliver a substantial premia to investors by way of the illiquidity and complexity premium. Neither can be delivered to retail investors by way of an open-ended investment vehicle. IIR would argue that private debt in particular can be a useful addition to an overall portfolio for those in the latter stage of their investment lifecycle.

Private Debt offers several advantages over the traded sub-investment grade markets of high yield bonds and bank loans (public debt). Private debt investors receive more detailed due diligence information, senior investments benefit from security over assets, there is a lower degree of interest rate sensitivity as private debt investments are more often floating rate notes, and there is lower marked to market volatility. Further, private debt investors benefit from stronger covenants, better information / monitoring rights and closer borrower relationships with private equity sponsors / borrowers. This is reflected historically in lower default rates and higher recovery rates, equating to lower capital loss. However, this comes at the price of lower liquidity and the need for more resource-intensive implementation and monitoring processes.

IIR views the addition of private debt closed-ended mandates as a welcome addition to the Australian retail investment landscape. The asset class can serve as an ideal addition to an overall portfolio for an investor in the latter stage of their investment lifecycle. There is a reason the asset class has proved so popular with institutional pension and superannuation funds. To date, there has been six private debt strategies that have been issued as ASX-listed LITs.

One such LIT is the KKR Credit Income Fund (KKC) which will have a 40-50% allocation to KKR European Direct Lending deals. Exposure to the latter strategy will be gained through KLPE II. Like many institutional private debt vehicles, KLPE II itself is a closed-ended vehicle with no liquidity during its term. There is an open period for investments, then the vehicle is locked up for its term. By its very nature, retail investment into such vehicles must be by way of a closed-ended vehicle with an IPO (with all funds invested prior to the final close date of, in this case, KLPE II), and where the investment manager is confident a sufficient scale of FUM will be raised. Without confidence in the latter, the better private debt investment managers will simply not bother to offer the asset class to Australian investors.

In short, closed-ended vehicles provide Australian retail investors; 1) the opportunity to access asset classes they could not otherwise access (and asset classes that may be ideally suited to their investment needs); and, 2) enable Australian retail investors the ability to benefit from a greater degree of the illiquidity and complexity premium than would otherwise be prudently possible through an open-ended vehicle. In relation to this latter point, this has the double benefit of potentially not having an investment manager moving up the credit risk spectrum to maintain yield during a period of declining interest rates.

Finally, closed-ended vehicles also enable the prudent use of leverage. With risk-free rates having declined materially in recent years, there may be a temptation for investment managers to maintain yield by moving up the risk spectrum, generally by taking on a greater degree of credit risk by way of a lower average credit quality or moving down the capital structure in securities. Alternatively, a manager can retain a higher degree of credit quality and/or remain higher in the capital structure through securities that inherently have lower leverage and then apply external leverage to the overall portfolio to increase the overall yield. IIR notes that both the proposed PIMCO LIT and Partners Group prudently apply leverage to augment yield (rather than doing so through higher credit risk).

In an open ended structure, the use of external leverage heightens redemption risk, adding to the degree of forced selling during a market dislocation event (selling in a declining market) and, conversely, the need to repurchase in a recovering market, should net inflows into the investment vehicle return.

As a final point, fixed income closed-ended vehicles in the US account for 57% of the total US$238b market cap. In contrast, in Australia, fixed income closed-ended vehicles account for only 10% of the total A$52b market cap. To a degree, IIR believes the significant weighting to fixed income mandates reflects a better awareness in the US of the structural advantages of closed-ended vehicles in particular the fixed income asset class.

Discounts and Premiums - Scale Matters

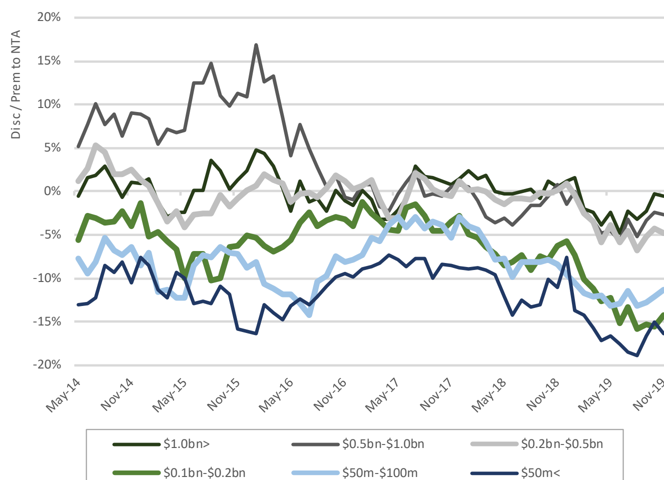
The fact that LMIs can trade at deep discounts and premiums is one that divides investors. There is no doubt that it adds a layer of complexity, but it does also offer an additional source of potential returns. Selling a LIT / LIC at a discount is not a good outcome for an investor. However, there are many of investors that buy at a discount and ride out the discount or the degree of it. Such investors pick up on both sides of the trade: the NTA growth and the discount erosion.

The size of a given LIC or LIT is a key determinant of whether the vehicle trades at a discount or premium. Broadly speaking, vehicles under $200 million tend to trade at a discount and those that are at $500 million and above tend to trade at a premium. It is difficult for small scale LICs to generate the same level of interest as larger LICs and they are likely to have poor market liquidity. Consistency of income payments also plays a significant role in keeping a listed vehicle trading at or close to NTA.

The charts below and on the right hand side highlight this tendency where there is a clear correlation between FUM scale and the premium / discount to NTA. The irony is probably not lost upon those participating in the stamping fee consultation and review process. The most vocal critics have pointed to a number of LICs trading at

sustained and material discounts to NTA as evidence of mis-selling. But on the basis of the below, it would appear that those LICs that had the lowest degree of "mis-selling" (i.e. those LICs at the lower of FUM) are most susceptible to trade at a material discount.

Simple Avg Premium by Mkt Capitalisation



Source: IIR

Conclusion

Irrespective of what one thinks about the stamping fee issue and the outcome, IIR is quite certain that some of the best global fixed income managers that have, and are planning to enter the Australian LIT market simply would not or will not do so if they were not confident is gaining sufficient FUM scale to justify the time and resources involved in IPO-ing and then managing their respective products.

In IIR's view, this would be a highly detrimental outcome for the Australian retail market. Closed-ended fixed income vehicles offer distinct advantages that not only mitigate exposure to some of the broader risks in the public and private debt markets, but actually allow adept managers to capitalise on those dynamics and risks. Captive capital facilitates the ability to prudently extract both the illiquidity and complexity premium to a degree not prudently possible in an open-ended structure. In doing so, there is less a temptation to maintain yield in a declining rates environment by moving up the credit risk spectrum (an issue every central banker in the Western world is rightly cautioning against). Given debt markets are generally viewed as being in a late cycle stage and where lending standards have generally deteriorated, the flexibility accorded by patient, captive capital has probably never been more important.

So too is investment manager quality. To mention just two, IIR would argue there are few investment managers globally that have capitalised on the advantages of a closed-ended vehicle more than PIMCO to deliver strong risk-adjusted returns, and through a flexible multi-sector approach, do so through the full economic and credit cycle. Similarly, in private debt, KKR for example is particularly well pedigreed, having extensive resources to work through the full life-cycle of a private debt lend, including strong workout and restructuring experience in the event of a payment default / bankruptcy.

The job of regulators is not to predict the future. What regulators are charged with, however, is understanding the risks that are currently present in a market and how those risks may evolve. And in debt markets, those structural risks are significant. If the Governor of the BoE recognises these risks, then surely Australian regulators can too and act accordingly to 1) not add to those risks and 2) not provide investors the choice of close ended versus open ended.

PENGANA PRIVATE EQUITY TRUST (ASX: PE1)- SECONDARY OFFER REVIEW

On 23 October 2019, Pengana Capital Group Limited (ASX: PCG) announced its intention to offer additional units in the Pengana Private Equity Trust (ASX: PE1) in the first quarter 2020 period ('Secondary Offer'). The rationale of the Secondary Offer was to satisfy strong latent and realised secondary demand as well as improve the degree of secondary market liquidity in the Trust. The offer opens on Monday 24 February.

The Secondary Offer comprises three components based on a waterfall structure: 1) the 2:1 entitlement offer; 2) the shortfall offer; and, 3) the discretionary offer. Under the entitlement offer, each existing investor as at the entitlement record date of 20 February 2020 ("existing unitholders") can subscribe for up to 2 new units for every 1 unit held. The shortfall offer will include any new units not applied for under the entitlement offer and is open to existing unitholders who have subscribed for their full 2:1 entitlement. The discretionary offer is open to existing unitholders and new investors, the latter at the discretion of the Responsible Entity (Pengana Investment Management Limited). All existing unitholders, irrespective of whether participate in the 2:1 offer or not, will also receive loyalty units in PE1 issued at the subscription price and which will be fully paid for by PCG.

Secondary Offer Rationale

The IPO, completed in April 2019, raised $205m by the issue of 164m units at the issue price of $1.25 per unit. This came at the lower end of the raise range of $100m to $650m. Many broker groups and IFAs took a wait and see approach, possibly partly due to concerns of the J-curve effect in private equity in general (an issue that has been very well managed by the Investment Manager, Grosvenor Capital Management, L.P.).

Over time it became very clear to the RE that actual and latent secondary demand was strong to very strong, and particularly in the context of its existing relatively low FUM and a largely buy-and-hold unitholder base that had participated in the IPO. This demand-supply imbalance was evident in the premium to NAV PE1 was trading at, reaching what is probably an unprecedented level in the Australian market place of approximately 22% in December 2019, and notwithstanding the then proposed Secondary Offer raise had already been announced back in October 2019. This precluded price efficient secondary market transactions, neither a positive situation for existing investors seeking to top up their investment or those wanting to be new investors in PE1.

The decision to undertake the secondary raise was therefore based on two motivations. Firstly, to satisfy both existing unitholder and new investor market demand by enabling both to either efficiently increase their investment in PE1 or efficiently become a new investor. Secondly, through the increased breadth of the investor base to facilitate secondary market liquidity. IIR concurs with the Responsible Entity that a secondary raise is in the best interest of all investors (new and existing, given many existing have been topping up).

What's Innovative?

The innovative component is the loyalty unit structre. Namely, all existing unitholders, irrespective of whether participate in the 2:1 offer or not, will also receive loyalty units in PE1 issued at the subscription price and which will be fully paid for by PCG. The amount issued to each existing unitholder will be based on 1) the units held and retained for four months (expected to be 23 July 2020 and 2) a "loyalty percentage", which will be equal to 1% per $100 million raised under the offer. For example, if $100 million is raised under the offer, then the loyalty percentage will be 1%. If $250 million is raised under the offer, then the loyalty percentage will be 2.5%, etc.

The variable percentage does not necessarily mean existing unitholders are better off the higher the raise amount, all things being equal. Rather it is designed to at least partly offset the increasing cash dilution impact the higher the secondary offer raise amount.

Why IIR Likes It

The issue with any follow on capital raises for a strategy that invests in private assets is the risk of cash dilution for existing unitholders. That is, it takes time to fully invest the new capital raised, with the prolongation of this deployment timeline diluting the prior expected returns profile. PCG have been steadfast in saying that it would only consider a secondary raise if it was not detrimental to existing unitholders in addition to not providing a substandard returns outcome to new investors (i.e. both should be on roughly the same footing in terms of longer term expected returns).

PCG have achieved this outcome for existing unitholders through a unique structuring innovation in the Australian listed managed investments sector. Namely, loyalty units are issued to all existing unitholders irrespective of whether they participate in the 2:1 offer or not. This is in contrast to the recent Magellan and VGI Partners loyalty unit offers, which required existing investors to participate in the respective offers.

IIR has in the past expressed reservations about this latter structure, with the risk that it creates an incentive to participate in a raise based on considerations that are not entirely directly related to the relevant investment vehicle. Hypothetically, if this sort of structure is determined to partly create an incentive exogenous to the investment merits of the vehicle in question, IIR suspects ASIC would ultimately review the appropriateness of the structure.

Reassuringly, the RE and Investment Manager have undertaken extensive modelling on the basis of a maximum 2:1 raise to determine over a nine year forecast period whether the additional capital raising will prejudice existing and new investors via its impact on both the deployment of capital and investment returns when compared to the Investment Manager's initial IPO expectations.

This analysis reveals that both existing and new investors are better offer under the 2:1. Existing investors, irrespective of whether they participate in the 2:1 or not, are better off on account of the faster than initially expected deployment of capital (since the IPO), the additional value of the loyalty units as well as the better than modelled short duration credit returns (investments to mitigate J-curve risk while the portfolio becomes fully deployed in private equity investments). Expected annualised returns for new investors are effectively comparable to existing IPO investors, as new investors are benefitting from a Day 1 portfolio that is already partially deployed into private equity.

In our view, the structuring of the loyalty units tied with the modelling initiative and output lead us to believe that the secondary raise could not be better structured. It sets an appropriate bar with respect to loyalty units and with respect to the inherent risks of follow on capital raises for private asset investment strategies.

IMPENDING CONSOLIDATION OF THE LIC SECTOR?

Overview

The Australian LIT/LIC sector is undergoing a marked structural shift. At the top end, IPOs have only progressed where there is confidence amongst Joint Lead Manager (JLM) consortiums of raising $500m+ . For debt LITs, we expect a continuation of trend - new IPOs will be largely limited to top tier global managers, with the possibility of some very highly regarded domestic managers offering differentiated and highly targeted investment strategies. In equities, IPOs, if any should be forthcoming, will be limited to successful domestically established fund managers with a large and loyalty investor base in which to internally market and distribute the product. VGI Partners Ltd and the Magellan Financial Group represent two prime examples.

At the bottom end, namely the sub $200m market cap part of the LIC sector, consolidation is gaining pace by way of increased activism and increasingly vocal disgruntled shareholders spurred by large and persistent discounts to NTA. Consolidation is playing out by way of an increasing number of liquidity restructures (conversions and wind-ups) and merger / acquisition activity in an effort to narrow discounts.

IIR notes that the stakes are not immaterial, with the elimination of discounts to NTA in the LIC sector with a market capitalisation of less than $200m generating a value uplift to (often long suffering) shareholders of $0.5bn (in a segment that has a combined market cap of $4.08bn).

Historically, Australian investors have exhibited an unhealthy tolerance of under-performing management teams. However, partly in the wake of the Banking Royal Commission and possibly the generally the shadow that has (wrongly or rightly been cast over the sector with respect to the stamping fee consultation process, IIR believes attitudes have begun to a shift In the LIC sector. This is beginning to manifest by way of shareholders becoming increasingly vocal in relation to persistent discounts to NTA and poor performance. As a long time proponent of close ended vehicles, this is a development that IIR welcomes as it will ultimately lead to a stronger sector and better shareholder outcomes. The onus now however is firmly on LIC boards to act in the best interests of shareholders.

Based on a review of the sector's structural dynamics, IIR's key recommendations are:

- IIR urges boards that oversee LICs with limited liquidity and persistent discounts to NTA to implement standard initiatives to close the gap, including on- and off-market buybacks, increasing dividends (where practicable), and improving investor communications. Where such measures have been exhausted with no material narrowing of a gap to NTA, a board must diligently and prudently consider all restructuring options to create liquidity and to narrow the discount, including conversion to a unit trust, wind-up, a merger, or appointment of a new investment manager.
- IIR advocates that investment managers and JLMs set hard minimums of, say, $200m for an IPO (with a few possible exceptions). IIR believes that investment managers that are unlikely to achieve this threshold would provide investors a better experience by pursuing the Exchange Traded Managed Fund (ETMF) avenue (at least until sufficient scale is achieved and at which point an investment manager may sensible pursue a conversion to a LIC if the benefits of a close-ended structure are likely to be advantageous to longer term performance);
- Loyalty share structures for capital raisings where the shares are issued in the listed fund manager parent group as incentive to invest (as undertaken by VGI Partners Ltd) should cease. Unlike the currently open secondary offer for the Pengana Private Equity Trust (PE1), in which the loyalty share offer (in PE1 versus Pengana Capital Group Limited) has been appropriately structured, issuing loyalty shares in as incentive to participate in a raise runs the risk of generating a motivation to invest that is partly exogenous to the investment merits of the investment vehicle taken in isolation. Both VG1 and VG8 moved to a discount to NTA following the respective capital raises (and VG1 had never previously traded at a discount). Clearly some investors participated in the capital raises solely for the shares in the listed parent company. While the discount may present an opportunity for those buying either VG1 or VG8 it has removed market exit timing control to a degree for those wishing to sell. This is not a direct criticism of VGI Partners Ltd (they pioneered the manager paying all IPO costs in VG1) but with the benefit of hindsight IIR suspects they would not have gone down the same route.

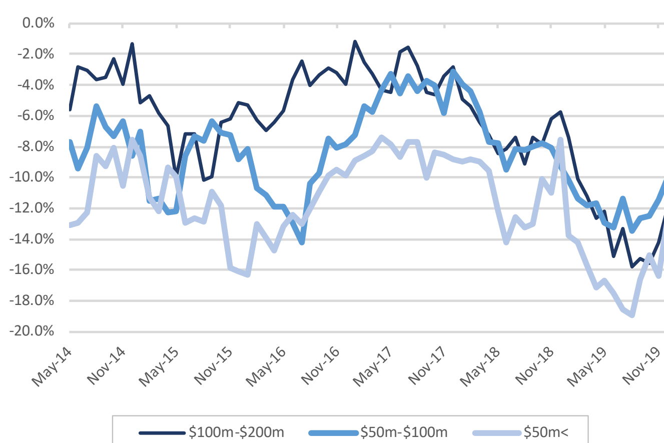
With respect to initiatives to close a discount gap to NTA, IIR believes the investment manager and board of the Monash Absolute Returns Fund (MA1) is leading the way in terms of acting in the best interests of shareholders (possibly being spurred into action by the activist investor Sandon Capital). The investment manager and board of the Monash Absolute Returns Fund have proposed a conversion to an ASX-listed Exchange Traded Managed Fund (ETMF). If shareholders vote in favour of the proposal it will be the first such conversion to an ETMF in the Australian market. IIR suspects however it will not be the last.

Permanent Discounts?

It is well understood that premium / discounts to NTA, both at the LIC specific and industry level, vary over time, with key determinants generally being manager performance, market sentiment and equity market environment.

It is also well understood that there is a strong correlation between LIC FUM scale and the degree and persistence of discounts to NTA. The chart below highlights this correlation, presenting the average discount by market cap band in the smaller end of the LIC sector. Small LICs, deemed to be those with a market cap below $200m, suffer from limited liquidity, a lack of market relevance and often sub-standard investor communications. Where manager performance has been poor, the likelihood of materially narrowing a deep discount to NTA is remote. Even in cases where manager performance has been strong, and recognised as such by shareholders (MA1 is a good example), many smaller LICs have still been characterised by deep and persistent discounts.

Average Discounts to NTA by Market Cap Band



Source: IIR

The key question is whether the significant discounts in the smaller LICs have become structural and permanent over recent years or, like the larger end of the sector, likely to be cyclical. In IIR's view, the deep discounts in the small end of the sector may well have become structural and permanent in nature, with the change (if it exists) potentially relating to the growth of the active ETMF market segment. An investor may reasonably ask why opt to access an investment strategy via an LIC investment vehicle that lacks scale when it is almost a given a material discount will develop and thereby precluding an investor from accessing the NTA performance of the manager should they wish to exit. In contrast, an ETMF guarantees such access to performance upon exit by way of the market maker function. It is possible that an increasing number of investors who value ASX liquidity are choosing to access an active investment strategy via an ETMF versus a LIC structure, and notwithstanding the considerable investment strategy benefits of the close-ended vehicle.

In light of the above, and where a board has exhausted all other initiatives to close the gap, IIR believes a board must act in the best interests of investors by exploring four possible options to address a persistent and deep discount to NTA: i) conversion to a unit trust; ii) merger with a larger LIC that trades at or close to NTA; iii) a change in the investment manager; and, iv) wind-up.

The determination of the best course of action to present to a shareholder vote should be quite apparent where, during the course of the process, the investment manager and board have engaged in extensive consultation with the shareholder base. Broadly speaking, where shareholders are satisfied with manager performance, continuation (via conversion or a shareholder vote outcome of status quo) would be the appropriate proposal. In contrast, where manager performance has been poor over a prolonged period and in a manner not true to investment style, wind-up, merger, or replacing the investment manager would be the appropriate proposed remedies.

Board Initiatives

A board can undertake a range of standard initiatives in an attempt to address a discount to NTA. Specifically, on- and off-market buybacks, improving shareholder communications and increasing dividends (where an option). However, in IIR's view, these initiatives, while commendable when undertaken, have often been relatively ineffective in closing the discount gap for small LICs over recent years.

Where these initiatives have been exhausted with little positive impact on closing the gap and where the manager / board are receiving shareholder feedback that the gap should be addressed, then IIR believes it is incumbent upon the board to consider more significant structural change options. IIR adopts this view irrespective of manager performance, with manager performance only being relevant to the proposed course of action upon which shareholders vote for.

But with respect to action of this type from a board there is an inherent potential conflict of interest. The only stakeholder that is a given 'loser' in all options bar replacing the investment manager is the board of an LIC. Both a shareholder vote for a wind-up or conversion into a unit trust (either unlisted or as an ETMF)) will lead to a dismantling of the board. The flipside for a board is the reputational kudos it is likely to gain for acting in the best interests of shareholders. Again, IIR believes the board of the Monash Absolute Return Fund is leading the way in this regard.

The table below details those LICs that have undertaken, or are in the processing of doing so, one of the four restructuring actions noted above.

Recent and Ongoing LIC Structural Actions

	ASX Code	Action
8IP Emerging Companies Ltd	8EC	Wind-up
Clime Capital Limited / CBG Capital Ltd	CAM/CBC	Merger
Blue Sky Alternatives Access Fund Ltd	BAF	IMA transferred to Wilson Asset Mgmnt
Monash Absolute Investment Company Ltd	MA1	Proposal convert to ETMF
Ellerston Global Investments Ltd	EGI	Proposal convert to unlisted MF
Watermark Absolute Return Fund	WMK	Converted to and merged with unlisted MF
URB Investments	URB	Converted to and merged with unlisted MF
Sandon Capital Investments :Limited / Mercantile Investment Company Limited,	SNC/MVT	Merger

Source: IIR

The section below addresses the considerations and implications for each of the four possible forms of restructure.

Conversion to a Unit Trust

Over the course of the last nine months, or so, the Monash Absolute Return Fund (MA1) and the Ellerston Global Investments Ltd (EGI) have proposed converting into a unit trust, the first being an ETMF, and second being an unlisted trust. This comes after the conversion (and merger) of the Watermark Absolute Return Fund (WMK) into an unlisted trust.

A conversion to a unit trust represents a continuation of the investment strategy and the ability for shareholders to remain invested in the strategy. This is only a realistic option where a majority of shareholders are satisfied with manager performance.

The are two unit trust structures a board can present to shareholders to vote on: an exchange traded managed fund (ETMF) or an unlisted unit trust.

The benefit of the ETMF route is the converted investment vehicle remains listed on the ASX which is consistent with what investors bought into in the LIC and which is important to the vast majority of investors.

An ETMF restructure ensures that the investments in the portfolio continue to be accessible by way of a listed vehicle, but adds the benefit of an external market maker to ensure that the price trades in line with NTA and that there is always liquidity. Furthermore, an ETMF, through the in-specie transfer mechanism of the creation-redemption process, can deliver taxation efficiencies over and above an unlisted managed fund. This taxation efficiency advantage is no small matter, as unlisted trusts can be highly tax inefficient and lead to 'inter-generational' tax inequalities between selling, existing and new investors.

In providing continued exposure to an investment strategy, shareholders are not denied sufficient time for the embedded value of the investments made by a manger to be realised, as would be the case in a wind-up or potentially a merger or the replacement of the investment manager. Additionally, it keeps market exit and CGT realisation timing control in the hands of investors.

Conversion also avoids manager termination costs. Any alternative proposal may result in a dispute with the manager as to the remaining fees that would otherwise be payable under the Investment Management Agreement (IMA), which is generally not able to be terminated during a remaining term other than for cause. Additionally, under an IMA, any change in the investment strategy requires the agreement of the manager, which may not be obtained.

Conversion also removes the risk of market impact costs which is present in a wind-up and potentially also in a merger and change of investment manager outcome. With conversion, no investments are sold on market to enable the restructure and therefore no value is lost. This is a particular issue for less liquid underlying investments in a portfolio where divestment could be challenging / costly. In a conversion the entire portfolio of listed investments is transferred to the unit trust structure in return for the issue of units to the LIC. Units in the unit trust are then distributed by the LIC to the LIC shareholders in line with their existing shareholding via an in-specie distribution.

A conversion into a unit trust may also provide distribution yield benefits. Newer LICs require a period of time to establish a retained earnings and franking credits buffer in order to, one, begin paying dividends and, two, consistently and smoothly do so moving forward. In the interim, barring the appropriately frowned upon fabrication of dividend by way of a capital return component (as per the Magellan Global Trust (MGG)), investors will either not receive a dividend, receive a relatively low dividend and may not receive franking credits. In contrast, in a unit trust, all realised trading profits are passed through to the investor in the year realised. This generally creates a lumpy and market related distribution profile (in contrast to that of a LIC), but does not involve a period in the early ways of no income.

Finally, conversion, by removing the liquidity constraints in a smaller LIC for larger investors wishing to invest, can facilitate FUM growth in the investment vehicle. This may ultimately see investors benefit by way of a lower MER on the basis of scale benefits. IIR also notes that unit trust costs overall are likely to be lower, given the removal of the board and associated costs. Given the whole conversion cost exercise involves total costs of around $300K, the removal of director fees alone should lead to a two year payback profile to investors.

It should be noted that any franking credit reserves not distributed by way of a special distribution and tax deferred assets will be lost in the conversion process.

In IIR's view, a manager should only go down the unlisted unit trust route (versus an ETMF) where the converted vehicle will be merged with a pre-existing unit trust based on exactly the same strategy. In doing so, investors may benefit from material scale related cost savings in addition to the lower costs of an unlisted vehicle versus an ETMF. The ability to do so exists for both Ellerston and Monash. Monash, however, believed the ETMF route was preferable given the importance the majority shareholders place on ASX liquidity.

Merger/Acquisition

Over the course of the last year there have been two mergers. Specifically, Clime Capital Limited (CAM) and CBG Capital Ltd (CBC) and Sandon Capital Investments Limited (SNC) and Mercantile Investment Company Limited (MVT). In both cases the investment strategies were largely the same (with very similar portfolios) and both had either the same investment team or, in the case of SNC/MVT, the portfolios were managed by the same portfolio manager (Gabriel Radzyminski).

To realistically address a discount to NTA, a merger needs to, one, be with a substantially larger LIC that trades at or close to NTA (an LIC can not participate in consolidating the sector if it does not have 'a currency' not trading a premium) and which is managed by an investment manager with a strong track-record and, two, have a comparable investment style and strategy in the same asset class.

The first attribute is important as there needs to be sufficient liquidity in the larger LIC to withstand the likely selling upon merger by some long suffering shareholders in the smaller LIC ('sufficient' in the sense that any such selling does not move the share price to a material discount).

The second attribute is important as for it to be otherwise effectively represents a betrayal of a key aspect of why shareholders invested in the smaller LIC in the first place.

Hostile acquisitions in the LIC sector can be very hard to execute and more so during the initial term of an IMA (and most IMAs are for a 10-year term). For acquisitions to realistically have a chance of proceeding there generally needs to be acquiescence from the investment manager and board of the targeted LIC. In short, investors should not be expecting a flurry of LIC acquisitions any time soon.

Wind-Up

This is an action of last resort and relates to poor performing managers. Investors should note that in a wind-up scenario they lose market exit timing control, may incur impact costs, will incur termination costs, and any tax deferred benefits will be lost. An orderly divestment program may be relatively prolonged and with a staggered distribution of capital to shareholders.

Status Quo

Shareholders may rationally vote to maintain the status quo as a close ended investment vehicle can have very significant benefits, as discussed below.

CAPACITY

Capacity is an important but often ill-defined concept, relating to how much money can be invested in an actively managed strategy without harming that strategy's future returns. Smaller pools of money allow the investment manager to rotate between stocks quickly, and with minimal pricing impacts. However, once a fund grows its assets under management beyond a certain amount, i.e. beyond its capacity, the portfolio manager can face difficulties building meaningful positions in stocks.

Capacity is particularly relevant when investing in the smaller and less liquid stocks on the market.

A consequence of capping the size of an open-ended fund, is that new investors are unable to gain exposure to our fund's strategy. Existing investors could be similarly frustrated as they are unable to increase their exposure. In a closed-end vehicle, investors are free to buy and sell the fund, with the same level of freedom and flexibility as they would with any company listed on the market.

MAINTAINING A STABLE CAPITAL BASE

A key to outperform is the ability to ride out market gyrations, and stay focussed on long term goals. Probably the issue which most challenges an investment managers ability to remain long term focussed, are the liquidity constraints which come when running an open-ended fund. Because the pool of funds available to be invested isn't fixed under this structure, the portfolio manager has to ensure that there is always enough cash on hand to meet redemptions from clients. On the flip side, through periods when investor applications exceed redemptions, the portfolio manager will be pressured to deploy that capital into the market, even if they believe stock prices may be overvalued.

These pressures can be particularly acute in periods of heightened market volatility, when redemption activity can increase considerably. For example, through the financial crisis period of 2008, many small cap managers were forced into selling key portfolio holdings at sub-optimal prices, so as to raise cash and meet investor redemptions. By contrast, the investment managers with stable pools of capital were able to take advantage of the forced sellers, by acquiring these parcels of shares at often bargain prices.

In comparison, the manager of an open-end fund is often forced into selling off their highest quality companies at undervalued prices through such bear market periods. Loyal investors in open ended funds during these periods are often left as investors in the remaining lower quality less liquid stocks in the fund. Academic evidence tends to support this proposition that closed end funds don't suffer the performance drag from having to fund investor redemptions at inopportune times.

DIVIDENDS, TAX AND 'INTER-GENERATIONAL' ISSUES

The company structure of LICs allows it to retain earnings and pay dividends at a rate set by the company. This is different to a unit trust, which must distribute all realised gains in the year earned. The results of these differing tax structures tend to mean consistency of LIC dividends and lumpiness of unit trust dividends. Investors who rely on these dividends to fund their living expenses clearly prefer the former.

Unit trust investors are subject to the taxation implications of the trading activities of other investors. Net redemption requests may require the manager to sell underlying portfolio holdings which, in turn, may crystallise a capital gain. This leads to the distribution of a CGT liability to remaining investors. Furthermore, the level of the CGT liability may be a function of gains accumulated well before an investor entered the unit trust (creating 'inter-generational' issues). To some degree, these taxation issues can be mitigated in an ETMF by way of the in-kind creation and redemption process undertaken by market makers and authorised participants.

Activist Investors getting More Active

Over the last few years activists have targeted an increasing number of heavily discounted LICs, including the Templeton Global Growth Fund, 8IP Emerging Companies, Blue Sky Alternatives Access Fund, Ellerston Global Investments, Watermark Absolute Return Fund, URB Investments, Monash Absolute Investment Company, Australian Leaders Fund, Contango Income Generator, Cadence Capital Limited, and the Antipodes Global Investment Company.

We expect activist investors to play an increasing role in the sector moving forward. The result is likely to be an increasing number of conversions, wind-ups, and potentially investment manager changes and acquisitions.

The main activist LIC investors in Australia are Sandon Capital Pty Ltd (founded and led by Gabriel Radzyminski) and Wilson Asset Management (International) Pty Limited (founded and led by Geoff Wilson).Both individuals are strong activist investors. Geoff Wilson has a long and successful track record in the LIC sector. Gabriel Radzyminski has a 'nose' for sniffing out an activist prospect and gaining a sense of a disquieted shareholder base. He also has a dogged determination in pursuing an activist strategy when the targeted company management is not agreeable to the proposed strategy.

In deciding to pursue an activist opportunity, these managers need to see a disquieted shareholder base that is looking for, or open to change and where they believe it has a better than even probability it can act as a catalyst to change.

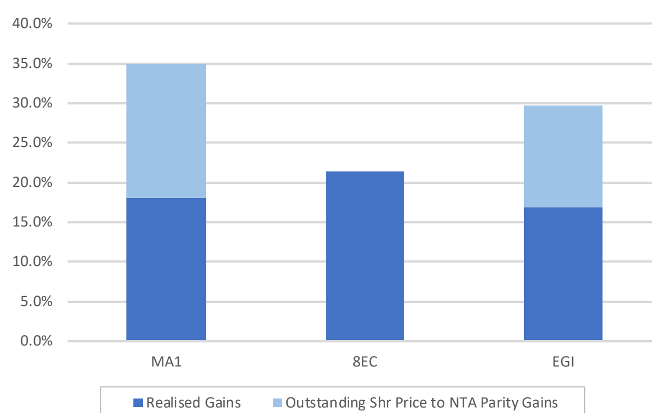
Additionally, in respect to LICs, these managers like to see or assess:

- A deep discount to NTA and ideally poor manager performance (there is no point targeting a LIC where shareholders do not believe there is a problem. And the discount is not always a sufficient problem, partly because existing net buying investors are very happy to do so by way of a discount).
- An investment manager where they can demonstrate is not fit for managing the investment strategy (i.e., has changed and deviated from the previously stated investment style). There needs to be a distinction between LIC's that have fundamentally broken investment strategies versus LICs with investment strategies that are simply out of favour.
- An open shareholder register is generally held to be a positive. However, this is not necessarily the case. An open register can sometimes being a positive yet other times a disadvantage in that it is like 'herding cats' in terms of agitating for change.
- Indications the investment manager "has no friends", such as a significant number of shares being tended in an off-market buyback (indicating a lot of shareholders want to exit).

For retail investors, LICs can be one of the best ways to generate returns. Investors can benefit from both the underlying performance of manager in addition to buying discounted LICs knowing there are investors in the market that may well agitate for change. The latter represents an additional leg to generating positive returns through the narrowing of the discount.

For investors prepared to speculate on structural change, we note the share price gains on a number of LICs that announced structural change to address the discount over the last year as a guide to potential returns upside. The chart below reflects the share price move in relevant LICs pre and post announcement and, where relevant, the residual upside should the share price today converge to the latest published month end NTA.

Realised and Potential Share Price Upside



Source: IIR

KKR CREDIT INCOME FUND - BUYING OPPORTUNITY??? (ASX: KKC)

There has been a degree of negativity press regarding the KKR Credit Income Fund (ASX: KKC) and its negative share price performance since raising $925m in November 2019 (down 9.2% and 10.3% versus the IPO issue price of $2.50/unit and the latest month end NAV of $2.53/unit). These articles have tied this performance to the broader topic of LIT/LIC stamping fees, inferring that the KKC share price performance is proof positive that some / many of the recent debt LITs are risky products and being mis-sold (ironically, there is no mention of general equities risk). IIR believes the views directly in relation to KKC and connecting the negative share price performance to the appropriateness, or otherwise of debt LITs are both very misplaced.

The tone of these articles is that the likes of KKC and other debt LITs are somehow based on risky investment strategies (the term 'junk bonds' gets bandied around a lot by the critics). The yield to maturity on the current KKR portfolio (currently 100% invested in the underlying KKR Global Credit Opportunities Fund (GCOF)) is an attractive 8.35%. The question is whether KKR are going up the credit risk spectrum to generate this yield. We believe this is simply not the case for several key reasons.

- KKC portfolio is currently positioned 92% senior in the capital structure (only 8% unsubordinated / other). Further, sector and company positioning is broadly consistent with KKR's late cycle economic and credit cycle view - i.e., defensively positioned. This positioning also accords well with Coronavirus risk mitigation. No, or very little exposure to casinos, travel/airlines/hotels, or discretionary consumption, and a bias to US companies that are largely domestically focused with stable cashflows.
- The Manager is not buying debt names that are a deep discount to par value. The average price of what KKR has bought in the GCOF portfolio tends to be in the range of $95 and $105. The manager is focused on buying names that are dislocated (not distressed) and have not yet benefited from the general spread compression that has been driving credit markets. KKR expects a return of market rationality with respect to the names it has identified will see these investments ultimately rally.
- Average revenue and EBITDA growth across the GCOF portfolio has been very strong, at 7.6% and 9.3% respectively (last twelve months vs prior year). This is significantly above where GDP growth levels are. However, these growth rates are expected to normalise. And while there may be some erosion in the equities buffer that sits below credit security, the manager believes it is in strong position from risk-reward perspective and downside protection.
- The manager has committed (but not yet funded) A$126m of the KKC portfolio to the European Direct Lending (EDL) strategy (private debt). IIR expects funding will occur over the next several months. EDL provides broader geographic diversification for KKC. It is private debt, and will not be subject to the same degree of volatility as public traded debt and therefore expected to contribute to a smoother NAV profile over time. IIR believes KKR has very robust processes in terms of new deal origination. This is particularly important in private debt, as the significant flow of capital into the sector has led to convenant protection erosion and tight pricing. KKR is not participating in either. KKR is targeting the less trafficked upper mid market sector, doing so largely as the sole lender, and by way of full covenant protection It believes it is pricing appropriately given level of risk taking. The yields in the euro strategy expected somewhere between Euribor 550 + 650 (this excludes the yield pick up for KKC through hedging back to the AUD based on the interest rate differential between Australia and Europe)

So what ails the share price and has driven the discount to NAV and does it represent a buying opportunity? IIR believes there a several potential drivers.

- KKR received $1.1bn of orders during the IPO and scaled this back 15% to the $925m. In doing so, the manager felt confident that it would leave net demand in the secondary market to support the share price relative to NAV. Unfortunately, it appears one particular JLM may have over allocated and begin selling on market. That is, the selling was technical and abnormal event in nature. However, negative momentum and lead to further negative momentum, especially if an investment vehicle has just listed.
- The manager 'touches' the client base less frequently than other debt LITs, having monthly NAVs (versus weekly) and paying distributions quarterly (versus monthly). The monthly and quarterly regime relates to some rigidity in the underlying investment vehicle, GCOF. KKC has only issued three monthly NAVs and yet to make its first distribution. When the latter happens, and assuming the Manager continues to post consistent with what the Manager has said what it will deliver, KKC may well begin to see net buying and the share price partly of wholly revert to NAV. However, this takes a degree of time.
- In KKC, the Manager has created a very different credit risk to the other debt LITs in the market. It can only be proven over time by way of posting solid performance.

At a 10% discount to NAV and with a portfolio yield to maturity of 8.35%, the running yield on KKC at the current share price is 9.3% on what IIR believes is not undue credit risk. Sounds a bargain and a buying opportunity from where i'm sitting!!!!

A final thought, if a very significant market dislocation event occurs investors may very quick re-/gain an appreciate the potential significant benefits of close ended investment vehicles. And KKR seek to capitalise on this structure accutely - being the liquidity provider (buyer) to the forced seller open ended vehicles funding redemptions. KKR is currently seeing an unprecedented level of earnings dispersion by sector. The averages (i.e. what passive index tracking mandates invest in) mask that level of dispersion. Now is not the time to be investing on a passive basis.

Pricing & Recommendations – Australian Share Focus

All data as at 31 January 2020	ASX Code	Market Cap ($M) *	Last Price ($)	Dividend Yield %	Pre-Tax NTA ($)**	Pre-tax NTA Prem/Disc %	3 Year Avg Prem/Disc%	M'ment	M'ment Fee %	IIR Rating
Australian Shares - Large Cap										
Australian Foundation Investment Company	AFI	8,552.7	7.09	4.5	6.96	1.9	0.5	Internal	0.13	Highly Recommended
Argo Investments	ARG	6,279.9	8.75	3.8	8.87	-1.4	-0.4	Internal	0.15	Highly Recommended
Milton Corporation	MLT	3,371.4	5.03	4.4	5.11	-1.6	-2.1	Internal	0.14	Highly Recommended
BKI Investment Company	BKI	1,272.5	1.74	5.7	1.73	0.3	-0.6	Internal	0.10	Recommended +
Australian United Investment	AUI	1,271.0	10.21	3.5	10.58	-3.5	-4.8	Internal	0.10	Recommended +
Diversified United Investments	DUI	1,091.3	5.16	3.0	5.30	-2.6	-5.4	Internal	0.12	Recommended +
WAM Leaders Limited	WLE	1,008.9	1.29	4.4	1.32	-2.3	-4.1	External	1.00	Recommended
Djerriwarrh Investments	DJW	775.6	3.47	5.4	3.33	4.2	7.4	Internal	0.43	Recommended +
Plato Income Maximiser	PL8	505.6	1.18	7.6	1.14	3.8	1.0	External	0.80	Recommended +
Whitefield Limited	WHF	497.2	5.38	3.8	5.59	-3.8	-7.4	External	0.25	Recommended +
AMCIL Limited	AMH	275.7	0.99	3.5	1.08	-8.3	-5.8	Internal	0.72	Recommended +
Concentrated Leaders Fund	CLF	78.4	1.32	7.2	1.41	-6.4	-6.7	External	na	Not Rated
Ironbark Capital	IBC	64.7	0.53	6.2	0.57	-7.6	-7.6	External	0.65	Not Rated
Flagship Investments	FSI	49.7	1.95	4.2	2.35	-16.9	-13.4	External	0.00	Recommended
Australian Governance & Ethical Index Fund	AGM	36.9	2.04	4.4	2.08	-1.9	-1.4	External	0.19	Not Rated
Evans & Partners Australian Flagship Fund	EFF	36.2	1.76	4.4	1.81	-2.8	1.4	External	0.98	Recommended
Australian Shares - Mid/Small Cap										
WAM Capital	WAM	1,630.1	2.26	6.9	1.92	17.7	19.8	External	1.00	Recommended +
Carlton Investments	CIN	849.6	32.09	4.1	37.74	-15.0	-13.0	Internal	0.08	Not Rated
Ophir High Conviction Fund	OPH	544.0	2.72	0.0	2.91	-6.2	-3.0	External	1.20	Recommended +
Future Generation Investment Company	FGX	460.0	1.16	4.1	1.31	-11.9	-2.8	External	0.00	Highly Recommended
Mirrabooka Investments	MIR	425.7	2.64	3.8	2.58	2.3	9.1	Internal	0.61	Highly Recommended
QV Equities	QVE	282.3	1.04	4.2	1.16	-10.3	-1.2	External	0.90	Recommended +
WAM Research	WAX	280.5	1.46	6.6	1.20	21.4	22.5	External	1.00	Highly Recommended
WAM Microcap Limited	WMI	207.9	1.47	4.6	1.46	0.9	4.4	External	1.00	Recommended +
Westoz Investment Company	WIC	153.6	1.15	5.2	1.28	-10.5	-10.7	External	1.00	Recommended
Thorney Opportunities	TOP	133.9	0.66	2.7	0.84	-21.3	-14.3	External	na	Not Rated
Forager Australian Shares Fund	FOR	133.2	1.17	1.9	1.39	-15.8	4.0	External	1.10	Not Rated
Spheria Emerging Companies	SEC	118.5	1.82	3.3	2.14	-15.3	-10.1	External	1.00	Not Rated
Naos Small Cap Opportunities Company Limited	NSC	110.9	0.69	5.3	0.90	-23.3	-12.6	External	1.15	Not Rated
Sandon Capital Investments	SNC	89.1	0.84	8.4	0.96	-12.6	-5.3	External	1.25	Recommended
Contango Income Generator	CIE	88.9	0.85	5.4	0.98	-12.8	-9.1	External	0.95	Recommended
Ryder Capital	RYD	84.1	1.42	2.8	1.65	-14.1	-13.4	External	na	Not Rated
Lion Select Group	LSX	66.8	0.45	0.0	0.50	-11.0	-5.5	External	1.5	Not Rated
Naos Emeriging Opp Company	NCC	64.1	1.04	7.0	1.24	-16.1	0.0	External	1.75	Not Rated
Acorn Capital inv Fund	ACQ	63.0	1.18	5.9	1.33	-11.5	-12.3	External	na	Not Rated
Ozgrowth Limited	OZG	62.0	0.18	2.9	0.22	-19.7	-19.7	External	1.0	Not Rated
WAM Active Limited	WAA	50.3	1.09	5.4	1.09	-0.1	3.0	External	1.00	Recommended
Naos Absolute Opportunities Company	NAC	48.2	1.00	5.3	1.21	-17.4	-11.7	External	1.75	Not Rated
Glennon Small Companies Fund	GC1	35.5	0.80	3.8	1.00	-20.5	-11.4	External	1.00	Recommended
Katana Capital Limited	KAT	33.4	0.85	2.9	1.02	-16.7	-16.2	External	na	Not Rated
ECP Emerging Growth Limited	ECP	20.3	1.11	3.4	1.43	-22.2	-19.9	External	1.00	Recommended
Australian/International Shares - Blended										
Hearts & Minds Investments	HM1	735.6	3.30	0.0	3.22	2.5	-0.9	External	0.0	Recommended +
Perpetual Investment Company	PIC	372.6	1.08	6.0	1.12	-3.9	-3.2	External	1.00	Recommended +
Cadence Capital	CDM	236.4	0.76	6.6	0.88	-14.2	-1.0	External	1.00	Recommended +
Clime Capital	CAM	109.8	0.97	5.2	1.03	-6.3	-3.9	External	na	Not Rated

Pricing & Recommendations – International Shares & Specialist Focus

All data as at 31 January 2020	ASX Code	Market Cap ($M) *	Last Price ($)	Dividend Yield %	Pre-Tax NTA ($)**	Pre-tax NTA Prem/Disc %	3 Year Avg Prem/ Dis %	M'ment	M'ment Fee %	IIR Rating
International Shares - Diversified										
Magellan Global Trust	MGG	2,604.9	2.10	3.0	2.02	4.1	-0.4	External	1.35	Recommended +
MFF Capital Investments	MFF	1,970.1	3.63	1.0	3.80	0.7	-9.4	External	***	Not Rated
Magellan High Conviction Trust	MHH	1,020.7	1.67	1.3	1.65	1.2	2.6	External	1.50	Recommended
VGI Partners Global Investments Limited	VG1	903.4	2.22	0.0	2.53	-12.3	1.8	External	1.50	Recommended +
Antipodes Global Investment Company Ltd	APL	557.7	1.03	4.4	1.17	-11.7	-6.2	External	1.10	Recommended
Vgi Partners Asian Investments Limited	VG8	505.3	2.27	0.0	2.53	-10.3	-7.8	External	1.50	Recommended
Future Generation Global Investment Company	FGG	494.5	1.26	1.2	1.54	-18.2	-3.4	External	0.00	Recommended +
WAM Global Limited	WGB	476.7	2.25	0.9	2.56	-12.0	-8.8	External	1.25	Recommended
Platinum Capital	PMC	474.9	1.64	6.1	1.59	3.3	6.3	External	1.35	Recommended +
PM Capital Global Opportunities Fund	PGF	434.2	1.23	3.1	1.44	-14.7	-12.1	External	1.00	Recommended +
Pengana International Equities Limited	PIA	293.4	1.16	6.1	1.34	-13.6	-8.0	External	1.23	Recommended
Templeton Global Growth	TGG	280.7	1.36	5.2	1.52	-11.0	-10.4	External	1.00	Recommended
Evans & Partners Global Flagship Fund	EGF	216.9	1.81	6.6	1.84	-1.6	-0.4	External	1.35	Not Rated
WCM Global Growth Limited	WQG	214.0	1.23	1.6	1.41	-12.6	-11.9	External	1.25	Recommended +
Ellerston Global Investments	EGI	129.5	1.23	2.4	1.28	-3.6	-11.1	External	0.75	Recommended
Morphic Ethical Equities Fund	MEC	50.7	0.96	2.1	1.21	-20.8	-11.5	External	1.25	Not Rated
Fat Prophets Global Contrarian Fund	FPC	44.3	1.04	0.0	1.18	-11.8	-11.4	External	1.25	Not Rated
International Shares - Emerging Markets										
Platinum Asia Investments	PAI	373.9	1.03	3.9	1.15	-10.3	-1.2	External	1.35	Recommended +
Evans & Partners Asia Fund	EAF	162.9	1.33	3.9	1.37	-2.9	-2.1	External	1.00	Not Rated
Ellerston Asian Investments	EAI	142.9	1.05	2.4	1.21	-13.9	-10.1	External	0.95	Not Rated
PM Capital Asian Opportunities Fund	PAF	51.8	0.91	3.9	1.06	-14.5	-8.3	External	1.00	Not Rated
International - Specialist										
Argo Global Listed Infrastructure	ALI	354.9	2.50	2.6	2.74	-8.8	-12.7	External	1.20	Not Rated
Evans & Partners Global Disruption Fund	EGD	303.6	2.50	0.0	2.54	-1.6	0.9	External	1.29	Recommended
Global Value Fund	GVF	161.7	1.10	5.5	1.13	-3.5	-0.5	External	1.50	Not Rated
Tribeca Global Natural Resources Ltd	TGF	123.5	1.96	0.0	2.19	-10.7	-7.3	External	1.50	Recommended
Zeta Resources	ZER	82.0	0.29	0.0	0.32	-10.6	-18.3	External	0.50	Not Rated
Global Masters Fund	GFL	23.1	2.15	0.0	2.74	-21.6	-8.8	Internal	0.00	Recommended+
Fat Prophets Global Property Fund	FPP	21.1	0.93	6.9	1.13	-18.4	-10.5	External	1.00	Not Rated
Fixed Income Funds										
MCP Master Income Trust	MXT	1,285.1	2.01	5.3	2.00	1.0	3.1	External	0.67	Recommended +
NB Global Corporate Income Trust	NBI	917.7	2.06	5.9	2.06	0.0	0.6	External	0.85	Recommended +
KKR Credit Income Fund	KKC	910.2	2.46	0.6	2.53	-2.9	-0.9	External	0.90	Recommended +
Partners Group Global Income Fund	PGG	566.6	2.06	0.8	2.02	2.1	1.9	External	1.00	Recommended
Perpetual Credit Income Trust	PCI	454.3	1.14	2.4	1.11	2.7	3.0	External	0.72	Recommended +
Gryphon Capital Income Trust	GCI	422.6	2.05	4.6	2.01	2.1	1.2	External	0.72	Recommended
Qualitas Real Estate Income Fund	QRI	366.3	1.63	5.3	1.60	1.5	5.1	External	1.50	Recommended
Mcp Income Opportunities Trust	MOT	358.0	2.07	4.9	2.01	3.0	2.7	External	1.03	Not Rated
Private Equity Funds										
Pengana Private Equity Trust	PE1	247.2	1.51	1.6	1.38	9.1	3.8	External	1.25	Recommended +
Bailador Technology Investments	BTI	129.9	1.08	0.0	1.30	-16.9	-22.6	External	1.75	Recommended +
Cordish Dixon Private Equity Fund 3	CD3	100.1	1.39	0.0	1.94	-28.4	-3.7	External	1.33	Recommended
Cordish Dixon Private Equity Fund 2	CD2	99.3	1.80	12.2	2.30	-21.7	-3.0	External	2.33	Recommended
Cordish Dixon Private Equity Fund 1	CD1	60.3	1.55	16.2	1.96	-21.2	-3.0	External	2.33	Recommended
Absolute Return Funds										
L1 Long Short Fund Limited	LSF	990.6	1.49	0.0	1.70	-12.3	-6.3	External	1.40	Recommended +
Regal Investment Fund	RF1	304.3	2.70	1.6	2.86	-5.6	-4.7	External	1.50	Recommended +
Australian Leaders Fund Limited	ALF	235.0	0.99	4.6	1.18	-16.5	-12.4	External	na	Not Rated
Absolute Equity Performance Fund	AEG	109.4	1.12	5.4	1.26	-11.2	-3.3	External	na	Not Rated
Contrarian Value Fund Limited	CVF	68.9	1.01	8.3	1.22	-17.6	-11.2	External	1.00	Not Rated
Monash Absolute Investment Company Limited	MA1	45.2	1.02	2.0	1.18	-10.0	-14.3	External	1.50	Not Rated
Alternative Investment Trust	AIQ	27.5	0.11	2.4	0.12	-6.4	-8.0	External	na	Not Rated
Other Specialist										
Duxton Water Limited	D2O	175.0	1.46	3.6	2.01	-27.4	-9.1	External	1.20	Not Rated
Blue Sky Alternatives Access Fund	BAF	172.1	0.87	5.7	1.14	-23.6	-12.9	External	0.85	Not Rated
Thorney Technologies Ltd	TEK	70.8	0.28	0.0	0.34	-19.1	-6.0	External	0.75	Not Rated
Lowell Resources Fund	LRT	12.9	4.68	0.0	6.21	-24.6	-18.0	External	2.16	Not Rated

*Based on fully paid ordinary shares available for trade.
**Pre-tax NTA includes tax paid on realised gains.

***MFF pays a flat base management fee of $1m per quarter and a potential $1m pa fee subject to certain performance criteria.
Source: ASX/IRESS

Performance – Australian Share Focus

All data as at 31 January 2020	ASX Code	NTA (plus dividends) Return (p.a) %					Share Price (plus dividends) Return (p.a) %					Benchmark
Australian Shares - Large Cap		**1 Mth**	**3 Mths**	**1 yr**	**3 yrs**	**5 yrs**	**1 Mth**	**3 Mths**	**1 yr**	**3 yrs**	**5 yrs**	
Australian Foundation Investment Company	AFI	5.0	6.9	28.5	11.1	7.7	-0.3	8.4	17.9	10.9	7.4	S&P/ASX 200 Acc Index
Argo Investments	ARG	3.9	5.0	24.5	9.6	7.6	0.5	4.5	17.0	9.1	6.0	S&P/ASX 200 Acc Index
Milton Corporation	MLT	3.9	3.9	19.6	9.3	7.6	1.8	4.4	18.1	8.7	6.0	All Ordinaries Acc Index
BKI Investment Company	BKI	4.2	4.2	20.9	8.4	5.4	3.0	4.5	15.3	5.7	5.8	S&P/ASX 300 Acc Index
Australian United Investment	AUI	4.9	6.4	30.0	12.7	8.8	2.6	6.8	25.8	14.3	9.6	ASX 300 Acc Index
Diversified United Investments	DUI	5.8	7.9	33.3	15.6	11.1	3.6	9.3	29.7	17.9	12.5	ASX 300 Acc Index
WAM Leaders Limited	WLE	3.3	5.0	25.1	8.9	na	4.9	8.9	23.8	8.0	na	S&P/ASX 200 Acc Index
Djerriwarrh Investments	DJW	4.2	4.2	22.3	8.2	5.9	-2.8	0.2	14.4	3.3	0.3	S&P/ASX 200 Acc Index
Plato Income Maximiser	PL8	5.0	5.8	26.2	na	na	-0.4	2.1	26.1	na	na	S&P/ASX 200 Franking Credit Adjusted Daily Total Return Index (Tax-exempt)
Whitefield Limited	WHF	6.3	5.5	26.5	9.8	7.2	4.1	6.7	29.4	12.0	8.4	S&P/ASX 200 Industrials Acc (XJOAI) Index
AMCIL Limited	AMH	5.9	10.2	29.4	11.1	9.2	2.6	7.6	19.7	7.5	7.6	S&P/ASX 200 Acc Index
Concentrated Leaders Fund	CLF	4.0	6.3	21.2	9.6	7.8	1.1	4.7	15.9	11.6	8.7	S&P ASX 200 Acc Index
Ironbark Capital	IBC	2.3	1.2	13.1	5.7	3.9	1.0	5.0	13.3	6.8	4.0	na
Flagship Investments	FSI	5.1	9.5	31.2	14.7	10.0	2.4	3.4	22.2	12.2	10.3	All Ordinaries Index
Australian Governance & Ethical Index Fund	AGM	5.1	6.4	31.5	na	na	0.5	5.3	26.3	na	na	S&P/ASX 100 Acc Index
Evans & Partners Australian Flagship Fund	EFF	5.8	7.8	33.5	na	na	1.1	6.7	21.9	na	na	S&P/ASX 200 Acc Index
Australian Shares - Mid/Small Cap												
WAM Capital	WAM	2.3	2.6	14.0	7.2	9.5	0.4	2.7	16.8	4.9	9.5	All Ordinaries Acc Index
Carlton Investments	CIN	-0.1	1.2	11.3	3.3	5.7	0.1	0.6	6.8	3.4	5.7	S&P/ASX 200 Acc Index
Ophir High Conviction Fund	OPH	3.9	9.4	na	na	na	9.2	9.2	17.7	na	na	S&P/ASX Mid Cap 50's Acc Index. S&P/ASX Small Ordinaries Acc Index
Future Generation Investment Fund	FGX	3.3	4.5	20.1	8.6	7.2	-0.9	2.2	2.4	4.1	4.2	All Ordinaries Acc Index
Mirrabooka Investments	MIR	3.0	5.9	23.1	10.9	10.1	-0.9	1.7	6.4	4.0	7.1	S&P/ASX Mid Cap 50's Acc Index. S&P/ASX Small Ordinaries Acc Index
QV Equities	QVE	2.7	3.6	9.7	3.6	5.8	0.5	3.0	1.0	-3.0	3.1	na
WAM Research	WAX	2.3	1.0	14.0	6.4	9.5	-1.0	3.2	12.7	4.8	10.9	All Ordinaries AccIndex
WAM Microcap Limited	WMI	3.2	1.8	24.4	na	na	1.4	3.5	24.6	na	na	
Westoz Investment Company	WIC	0.6	4.4	18.2	10.1	10.9	2.2	7.0	13.3	8.9	9.1	Absolute return focus
Thorney Opportunities	TOP	1.6	-2.4	14.0	6.3	13.0	-1.5	-1.5	9.4	0.5	10.8	na
Forager Australian Shares Fund	FOR	2.2	-2.8	1.7	0.1	na	-0.8	-5.6	-12.3	-9.7	na	8% Absolute
Spheria Emerging Companies	SEC	2.1	4.1	13.7	na	na	1.4	8.0	7.6	na	na	S&P/ASX Small Ords Acc Index
Naos Small Cap Opportunities Company Limited	NSC	3.4	0.0	13.5	-2.6	2.0	-8.6	-6.1	4.9	-7.9	-1.7	ASX All Ordinaries Acc Index
Sandon Capital Investments	SNC	-1.1	-1.0	6.6	3.7	5.9	1.2	1.2	10.7	2.8	4.9	na
Contango Income Generator	CIE	2.5	1.4	13.7	5.5	na	-1.2	-0.6	18.4	3.0	na	All Ordinaries Acc Index
Ryder Capital	RYD	2.0	1.3	19.3	14.1	na	-0.4	-6.6	21.9	11.9	na	na
Lion Select Group	LSX	0.0	6.4	19.0	6.8	5.6	-3.3	12.7	15.6	3.6	12.2	na
Naos Emerging Opp Company	NCC	9.7	13.8	18.3	2.1	7.3	0.5	-2.8	2.9	-2.7	6.3	Small Ordinaries Acc Index (XSOAI)
Acorn Capital Inv Fund	ACQ	-1.3	0.0	19.2	9.2	12.6	-3.3	3.3	16.2	10.0	14.1	na
Ozgrowth Limited	OZG	4.3	2.3	14.5	2.7	8.5	2.9	6.1	12.9	3.0	4.0	Absolute return focus
WAM Active Limited	WAA	1.8	3.4	12.2	6.5	7.7	-0.5	1.9	14.8	3.4	3.1	All Ordinaries Acc Index
Naos Absolute Opportunities Coy.	NAC	1.7	3.7	22.1	6.7	8.1	3.6	9.0	19.8	1.4	5.0	na
Glennon Small Companies Fund	GC1	4.2	6.4	1.2	3.3	na	-5.4	-10.2	-4.7	-1.8	na	ASX Small Ords Acc Index
Katana Capital Limited	KAT	4.0	5.3	19.9	10.0	6.3	2.7	11.4	21.0	5.6	2.6	na
ECP Emerging Growth Limited	ECP	4.2	8.0	27.9	15.9	9.4	0.9	15.6	32.0	12.2	8.5	All Ordinaries Accum Index
Australian/International Shares - Blended												
Hearts & Minds Investments Limited	HM1	4.9	6.3	27.2	na	na	0.9	8.6	26.4	na	na	na
Perpetual Investment Company	PIC	0.8	2.8	13.5	6.1	6.8	0.9	4.9	8.5	8.4	6.4	na
Cadence Capital	CDM	-1.1	2.2	-6.9	-2.2	-2.2	1.7	2.4	-4.1	-8.5	-5.7	All Ordinaries Acc Index
Clime Capital	CAM	5.3	8.6	26.4	10.9	7.0	0.3	7.4	20.6	9.3	7.0	na

Performance – International Shares & Specialist Focus

All data as at 31 January 2020	ASX Code	NTA (plus dividends) Return (p.a) %					Share Price (plus dividends) Return (p.a) %					Benchmark
International Diversified		1 Mth	3 Mths	1 yr	3 yrs	5 yrs	1 Mth	3 Mths	1 yr	3 yrs	5 yrs	
Magellan Global Trust	MGG	4.9	9.9	27.6	na	na	6.9	18.2	33.0	na	na	MSCI World Net Total Return A$ Index
MFF Capital Investments	MFF	5.3	8.5	35.6	21.6	16.5	6.4	13.3	46.8	29.4	17.1	na
Magellan High Conviction Trust	MHH	3.1	9.3	na	na	na	3.8	5.1	na	na	na	10% Absolute with HWM
VGI Partners Global Investments Limited	VG1	5.4	5.4	17.9	na	na	-1.3	-2.2	-5.2	na	na	na
Antipodes Global Investment Company Ltd	APL	1.0	3.6	9.9	4.3	na	-1.9	9.6	-0.2	1.0	na	MSCI All Country Word Net Index (AUD)
Vgi Partners Asian Investments Limited	VG8	4.1	na	na	na	na	-2.2	na	na	na	na	na
Future Generation Global Investment Company	FGG	4.2	10.0	21.4	13.6	na	-1.2	-1.2	-6.6	6.9	na	MSCI World Index AUD
WAM Global Limited	WGB	4.4	7.8	22.5	na	na	-3.4	6.6	16.5	na	na	MSCI World Index. Net. AUD
Platinum Capital	PMC	-2.0	0.9	10.9	8.4	na	-4.4	5.5	1.4	6.9	3.2	MSCI All Country World Net Index in A$
PM Capital Global Opportunities Fund	PGF	-0.6	5.0	16.1	11.6	6.4	-2.4	7.4	13.1	11.0	5.6	na
Pengana International Equities Limited	PIA	3.4	8.0	20.9	8.3	4.9	2.2	5.9	12.9	5.0	4.0	MSCI Total Return Index. Net Dividends Reinvested in Australian dollars
Templeton Global Growth	TGG	1.0	5.5	13.9	7.1	5.3	1.5	10.2	12.9	8.2	3.5	MSCI All Country World Index
Evans & Partners Global Flagship Fund	EGF	4.5	9.0	29.0	16.8	9.6	2.8	8.4	32.2	15.3	9.8	na
WCM Global Growth Limited	WQG	5.9	10.3	16.6	na	na	4.7	12.3	21.0	na	na	MSCI AWCI ex Australia. AUD
Ellerston Global Investments	EGI	-1.2	7.5	23.0	7.2	na	3.8	21.8	36.5	11.3	4.4	MSCI World Index (Local)
Morphic Ethical Equities Fund	MEC	4.4	6.9	12.4	na	na	-2.0	10.8	9.0	na	na	MSCI All Countries World Daily Total Return Net Index
Fat Prophets Global Contrarian Fund	FPC	-4.7	-1.8	14.6	na	na	-4.6	10.6	30.0	na	na	Increase in value of investment portfolio above previous high
International Shares - Emerging Markets												
Platinum Asia Investments	PAI	0.4	5.2	17.1	9.5	na	-5.1	4.6	-0.7	8.8	na	na
Evans & Partners Asia Fund	EAF	2.2	4.2	30.3	na	na	-5.0	4.2	23.5	na	na	MSCI AC Asia ex Japan Index
Ellerston Asian Investments	EAI	0.7	6.9	21.1	9.2	na	-0.5	6.6	8.4	8.2	na	na
PM Capital Asian Opportunities Fund	PAF	1.0	2.8	3.1	2.1	2.1	-2.2	9.0	-9.5	2.7	1.1	na
International - Specialist												
Argo Global Listed Infrastructure	ALI	6.6	6.2	28.3	15.1	na	5.5	4.6	34.3	17.2	na	na
Evans & Partners Global Disruption Fund	EGD	9.0	16.0	36.8	na	na	7.3	16.8	32.3	na	na	na
Global Value Fund	GVF	3.7	5.7	13.7	7.1	5.5	-2.2	4.8	11.1	3.9	6.0	BBSW 1 Year Swap Rate +4%
Tribeca Global Natural Resources Limited	TGF	-10.6	-5.0	-9.8	na	na	-6.2	3.2	-18.3	na	na	na
Zeta Resources	ZER	-13.4	-18.1	-17.5	-12.0	-10.2	-8.1	-14.9	-25.0	-2.8	-5.6	na
Global Masters Fund	GFL	3.7	9.2	17.0	12.5	9.9	-0.5	14.4	8.0	9.8	6.2	S&P 500 US Index
Fat Prophets Global Property Fund	FPP	-6.2	-2.5	14.1	na	na	-0.5	-4.2	11.4	na	na	Blend of Domestic & International REIT Indices
Fixed Income Funds												
MCP Master Income Trust	MXT	0.5	1.3	7.9	na	na	-1.4	-0.2	3.1	na	na	RBA Cash Rate + 3.25%
NB Global Corporate Income Trust	NBI	0.4	2.8	13.1	na	na	0.1	1.0	10.7	na	na	ICE BofAML Global High Yield
Kkr Credit Income Fund	KKC	2.4	na	na	na	na	-1.6	na	na	na	na	RBA Cash Rate + 4%
Partners Group Global Income Fund	PGG	0.3	2.2	na	na	na	1.4	1.8	na	na	na	RBA + 6 on Special Sits
Perpetual Credit Income Trust	PCI	0.5	1.3	na	na	na	-0.1	1.0	na	na	na	RBA Cash Rate + 3.25%
Gryphon Capital Income Trust	GCI	0.4	1.5	7.5	na	na	0.8	1.9	6.0	na	na	RBA Cash Rate + 3.5%
Qualitas Real Estate income Fund	QRI	0.5	4.4	8.8	na	na	0.8	1.9	2.9	na	na	8% Absolute Return
Mcp Income Opportunities Trust	MOT	1.1	2.3	na	na	na	0.1	2.2	na	na	na	RBA Cash Rate + 6.0%
Private Equity Funds												
Pengana Private Equity Trust	PE1	5.0	2.9	na	na	na	-1.4	0.6	na	na	na	8% Absolute Return
Bailador Technology Investments	BTI	-0.8	10.2	12.1	3.3	3.6	-3.6	9.1	38.5	1.8	3.8	8% p.a. compound
Cordish Dixon Private Equity Fund 3	CD3	4.3	3.7	20.7	9.2	na	-7.3	-3.5	-17.3	-4.7	na	8% Absolute Return
Cordish Dixon Private Equity Fund 2	CD2	4.5	-2.1	19.9	14.2	10.6	-7.2	0.3	-11.2	4.0	4.6	Absolute Return w H/W Mark
Cordish Dixon Private Equity Fund 1	CD1	3.7	0.0	34.0	18.1	14.3	-4.0	0.3	6.0	7.7	7.9	na
Absolute Return Funds												
L1 Long Short Fund Limited	LSF	-7.8	-5.5	8.8	na	na	-9.4	-6.9	1.0	na	na	Previous High Water Mark
Regal Investment Fund	RF1	2.9	6.1	na	na	na	3.1	1.3	na	na	na	RBA Cash Rate
Australian Leaders Fund Limited	ALF	0.9	1.3	5.7	-0.1	3.2	-0.5	6.3	7.5	-8.8	-2.3	All Ordinaries Acc Index
Absolute Equity Performance Fund	AEG	6.7	12.3	25.2	12.8	na	3.7	14.3	7.3	6.5	na	na
Contrarian Value Fund Limited	CVF	2.0	7.3	8.2	13.0	9.5	-2.9	3.4	9.2	9.2	5.2	na
Monash Absolute Investment Company Limited	MA1	4.0	3.8	27.6	10.4	na	0.0	6.3	35.2	5.4	na	na
Alternative Investment Trust	AIQ	15.3	18.0	22.9	5.1	3.5	-6.2	-2.1	17.3	8.2	5.1	na
Other Specialist												
Duxton Water Limited	D2O	0.5	3.1	51.3	28.4	na	1.4	0.7	6.5	16.1	na	8% Absolute
Blue Sky Alternatives Access Fund	BAF	0.4	1.4	7.2	6.3	8.4	-1.1	1.2	10.2	-3.7	3.6	na
Thorney Technologies Ltd	TEK	3.0	4.0	30.8	17.8	na	-1.8	1.9	25.0	5.4	na	Increase in NAV

All data as at 31 January 2020	ASX Code	NTA (plus dividends) Return (p.a) %					Share Price (plus dividends) Return (p.a) %					Benchmark
Lowell Resources Fund	LRT	-0.3	-3.6	4.9	na	na	1.3	-5.6	2.9	na	na	10% Absolute Return
Benchmark Returns		**1 Mth**	**3 Mths**	**1 yr**	**3 yrs**	**5 yrs**	**1 Mth**	**3 Mths**	**1 yr**	**3 yrs**	**5 yrs**	
S&P/ASX 50 Accumulation Index	XFLAI	na	na	na	na	na	5.1	6.0	26.4	12.4	8.8	na
S&P/ASX 200 Accumulation Index	XJOAI	na	na	na	na	na	5.0	6.1	24.7	12.4	9.3	na
S&P/ASX 300 Accumulation Index	XKOAI	na	na	na	na	na	4.9	6.0	25.0	12.4	9.4	na
All Ordinaries Accumulation Index	XAOAI	na	na	na	na	na	4.7	5.9	24.9	12.4	9.6	na
Small Ordinaries Accumulation Index	XSOAI	na	na	na	na	na	3.4	4.7	18.8	12.1	11.2	na
S&P/ASX 200 Industrials Accumulation Index	XJIAI	na	na	na	na	na	6.1	5.8	26.8	11.5	8.7	na
S&P/ASX 200 Resources Accumulation Index	XMJAI	na	na	na	na	na	1.8	8.2	20.9	15.6	14.1	na
RBA Cash Rate at 31 January 2020: 0.75												

Source: ASX/IRESS
Note: Share Price and NTA are adjusted using adjustment factors provided by IRESS.

ASX Active ETFs

About ASX Active ETFs

Active ETFs are a relatively new type of exchange traded product (ETP) traded on the ASX. While traditional exchange traded funds (ETFs) adopt passive strategies that synthetically track the performance of an index or other benchmark. Active ETFs are actively managed funds. The legal structure is the same as a traditional managed fund. but the units can be bought and sold on the ASX just like shares. Unlike listed investment companies. Active ETFs are open ended with the manager acting as market maker. This ensures the units trade close to net asset value. The manager issues new units as required to meet market demand.

Pricing & Rating

All data as at 31 January 2020	ASX Code	Market Cap ($M)	Last Price ($)	Dividend Yield %	NAV ($)	M'ment Fee %	IIR Rating
Australian Share Strategies							
BetaShares Active Australian Hybrids Fund	HBRD	690.9	10.21	3.4	na	0.55	Not Rated
Betashares Aus Top20 Equity Yield Max Fund	YMAX	315.2	8.59	8.7	na	0.59	Not Rated
Betashares Australian Dividend Harvester Fund	HVST	168.5	15.25	10.6	na	0.65	Not Rated
Betashares Australian Equities Strong Bear Hedge Fund	BBOZ	158.3	8.58	0.0	na	1.19	Not Rated
ActiveX Real Outcome Bond Fund	XARO	151.9	26.49	3.2	na	0.5	Not Rated
BetaShares Legg Mason Australian Bond Fund	BNDS	131.3	27.34	2.1	na	0.42	Not Rated
Betashares Geared Australian Equity Fund	GEAR	100.7	28.59	7.4	na	0.80	Not Rated
Switzer Dividend Growth Fund	SWTZ	85.4	2.65	6.7	na	0.89	Recommended
BetaShares Legg Mason Real Income Fund (Managed Fund)	RINC	61.6	10.09	4.1	na	0.85	Not Rated
BetaShares Australian Equities Bear Hedge Fund	BEAR	54.3	11.32	0.0	na	1.19	Not Rated
Betashares Managed Risk Australian Share Fund	AUST	51.2	17.45	3.5	na	0.39	Not Rated
BetaShares Australian Small Companies Fund (Managed Fund)	SMLL	36.2	3.52	2.4	na	0.39	Not Rated
InvestSMART Australian Equity Income Fund	INIF	32.3	2.45	3.9	na	0.97	Not Rated
Einvest Income Generator Fund	EIGA	25.8	3.96	11.7	na	0.65	Not Rated
Investsmart Ethical Share Fund (Managed Fund)	INES	19.3	2.70	0.0	na	0.97	Not Rated
K2 Australian Small Cap Fund	KSM	16.2	2.32	4.3	na	1.31	Recommended
Pinnacle Ashares Dynamic Cash Fund (Managed Fund)	Z3RO	5.0	50.02	0.3	na	0.00	Not Rated
eInvest Future Impact Small Caps Fund (Managed Fund)	IMPQ	1.3	4.60	0.0	na	0.34	Not Rated
International Share/Security Strategies							
Magellan Global Equities Fund	MGE	1,799.6	4.27	2.6	na	1.35	Not Rated
Magellan Infrastructure Fund (Currency Hedged) (Managed Fund)	MICH	615.8	3.37	2.9	na	0.95	Not Rated
Platinum International Fund	PIXX	379.4	4.75	8.2	na	1.76	Not Rated
Platinum Asia Fund	PAXX	154.3	4.52	5.2	na	1.58	Not Rated
Magellan Global Equities Fund (Currency Hedged)	MHG	139.7	3.68	2.7	na	1.35	Not Rated
WCM Quality Global Growth Fund	**WCMQ**	**112.1**	6.50	0.0	**na**	**1.35**	**Not Rated**
BetaShares S&P 500 Yield Maximiser Fund	UMAX	107.4	21.75	5.3	na	0.59	Not Rated
Montgomery Global Equities Fund	MOGL	102.8	3.85	6.6	na	1.32	Not Rated
BetaShares US Equities Strong Bear Currency Hedged	BBUS	99.7	2.86	0.0	na	1.38	Not Rated
Betashares Managed Risk Global Share Fund	WRLD	73.2	14.27	1.3	na	0.39	Not Rated
Schroders Real Return Fund (Managed Fund)	GROW	53.7	3.73	3.4	na	0.90	Not Rated
AMP Capital Global Infrastructure Securities Fund (Unhedged)	GLIN	38.1	3.66	3.0	na	0.95	Not Rated
BetaShares Geared U.S. Equity Fund - Currency Hedged	GGUS	31.3	22.38	0.1	na	0.74	Not Rated
BetaShares Legg Mason Equity Income Fund (Managed Fund)	EINC	28.0	8.83	4.2	na	0.85	Not Rated
Antipodes Global Shares	**AGX1**	**27.8**	5.65	1.0	**na**	**1.1**	**Not Rated**
AMP Capital Global Property Securities Fund (Unhedged)	RENT	27.1	3.23	1.3	na	0.99	Not Rated
Vanguard Global Value Equity Active ETF	VVLU	25.0	50.82	2.7	na	0.28	Not Rated
AMP Capital Dynamic Markets Fund (Hedge Fund)	DMKT	20.1	2.49	0.0	na	0.48	Not Rated
Vanguard Global Multi-Factor Active ETF (Managed Fund)	VGMF	18.5	55.55	1.1	na	0.34	Not Rated
Vanguard Global Min Volatility Active ETF	VMIN	17.4	61.19	0.8	na	0.28	Not Rated
BetaShares Legg Mason Emerging Markets Fund (Managed Fund)	EMMG	11.2	6.21	0.2	na	1.0	Not Rated
Pinnacle AShares Global Dynamic Income Fund	SAVE	5.9	10.78	1.5	na	0.50	Not Rated

All data as at 31 January 2020	ASX Code	Market Cap ($M)	Last Price ($)	Dividend Yield %	NAV ($)	M'ment Fee %	IIR Rating
Commodity & Currency Strategies							
Betashares Strong US Dollar Fund (Hedge Fund)	YANK	11.1	14.86	17.8	na	1.38	Not Rated
Betashares Strong Australian Dollar Fund (Hedge Fund)	AUDS	3.2	10.67	0.0	na	1.38	Not Rated

Performance

All data as at 31 January 2020	ASX Code	NAV (plus dividends) Return (p.a) %					Share Price (plus dividends) Return (p.a) %				
Australian Share Strategies		**1 Mth**	**3 Mths**	**1 year**	**3 years**	**5 years**	**1 Mth**	**3 Mths**	**1 year**	**3 years**	**5 years**
BetaShares Active Australian Hybrids Fund	HBRD	na	na	na	na	na	0.3	0.6	5.1	na	na
Betashares Aus Top20 Equity Yield Max Fund	YMAX	na	na	na	na	na	3.5	3.8	15.9	6.9	4.1
Betashares Australian Dividend Harvester Fund	HVST	na	na	na	na	na	3.4	2.6	15.6	0.9	0.4
Betashares Australian Equities Strong Bear Hedge Fund	BBOZ	na	na	na	na	na	-11.5	-13.2	-41.7	-23.4	na
ActiveX Real Outcome Bond Fund	XARO	na	na	na	na	na	0.6	0.9	8.6	na	na
BetaShares Legg Mason Australian Bond Fund	BNDS	na	na	na	na	na	2.2	1.6	9.1	na	na
Betashares Geared Australian Equity Fund	GEAR	na	na	na	na	na	10.3	12.6	54.2	20.4	13.1
Switzer Dividend Growth Fund	SWTZ	na	na	na	na	na	4.0	3.6	20.2	na	na
BetaShares Legg Mason Real Income Fund	RINC	na	na	na	na	na	2.8	2.1	20.8	na	na
BetaShares Australian Equities Bear Hedge Fund	BEAR	na	na	na	na	na	-5.0	-6.0	-19.3	-9.9	-7.9
Betashares Managed Risk Australian Share Fund	AUST	na	na	na	na	na	2.8	4.8	17.2	8.3	na
BetaShares Australian Small Companies Select Fund	SMLL	na	na	na	na	na	1.9	2.8	17.1	na	na
InvestSMART Australian Equity Income Fund	INIF	na	na	na	na	na	-0.8	1.8	12.2	na	na
Einvest Income Generator Fund	EIGA	na	na	na	na	na	3.3	3.7	18.3	na	na
Investsmart Ethical Share Fund (Managed Fund)	INES	na	na	na	na	na	3.1	5.5	na	na	na
K2 Australian Small Cap Fund	KSM	na	na	na	na	na	4.0	6.4	12.1	3.9	na
Pinnacle Ashares Dynamic Cash Fund (Managed Fund)	Z3RO	na	na	na	na	na	0.1	0.2	na	na	na
eInvest Future Impact Small Caps Fund (Managed Fund)	IMPQ	na	na	na	na	na	4.5	6.0	na	na	na
International Share/Security Strategies											
Magellan Global Equities Fund	MGE	na	na	na	na	na	7.6	12.4	34.7	21.0	na
Magellan Infrastructure Fund (Currency Hedged) (Managed Fund)	MICH	na	na	na	na	na	3.9	5.5	22.7	15.3	na
Platinum International Fund	PIXX	na	na	na	na	na	-0.2	2.4	13.4	na	na
Platinum Asia Fund	PAXX	na	na	na	na	na	-0.4	5.4	16.4	na	na
Magellan Global Equities Fund (Currency Hedged)	MHG	na	na	na	na	na	2.8	8.2	24.6	15.8	na
WCM Quality Global Growth Fund	**WCMQ**	**na**	**na**	**na**	**na**	**na**	**6.9**	**10.9**	**36.8**	**na**	**na**
BetaShares S&P 500 Yield Maximiser Fund	UMAX	na	na	na	na	na	4.5	7.3	27.7	13.7	11.4
Montgomery Global Equities Fund	MOGL	na	na	na	na	na	4.9	10.3	27.2	na	na
BetaShares US Equities Strong Bear Currency Hedged	BBUS	na	na	na	na	na	-5.6	-17.8	-41.3	-30.1	na
Betashares Managed Risk Global Share Fund	WRLD	na	na	na	na	na	4.9	8.7	22.9	13.3	na
Schroders Real Return Fund (Managed Fund)	GROW	na	na	na	na	na	2.0	2.8	8.1	4.7	na
AMP Capital Global Infrastructure Securities Fund (Unhedged)	GLIN	na	na	na	na	na	5.6	10.0	33.2	17.6	na
BetaShares Geared U.S. Equity Fund - Currency Hedged	GGUS	na	na	na	na	na	5.1	17.3	50.5	26.2	na
BetaShares Legg Mason Equity Income Fund (Managed Fund)	EINC	na	na	na	na	na	1.7	2.8	21.7	na	na
Antipodes Global Shares	**AGX1**	**na**	**na**	**na**	**na**	**na**	**0.9**	**7.2**	**16.0**	**na**	**na**
AMP Capital Global Property Securities Fund (Unhedged)	RENT	na	na	na	na	na	7.3	5.2	26.9	13.8	na
Vanguard Global Value Equity Active ETF	VVLU	na	na	na	na	na	-1.0	3.7	10.7	na	na
AMP Capital Dynamic Markets Fund (Hedge Fund)	DMKT	na	na	na	na	na	-3.1	0.4	2.9	0.2	na
Vanguard Global Multi-Factor Active ETF (Managed Fund)	**VGMF**	**na**	**na**	**na**	**na**	**na**	**2.6**	**6.7**	**na**	**na**	**na**
Vanguard Global Min Volatility Active ETF	VMIN	na	na	na	na	na	1.8	5.0	19.0	na	na
BetaShares Legg Mason Emerging Markets Fund (Managed Fund)	EMMG	na	na	na	na	na	2.3	9.9	na	na	na
Pinnacle Ashares Global Dynamic Income Fund (Managed Fund)	SAVE	na	na	na	na	na	2.1	5.9	na	na	na
Commodity & Currency Strategies											
Betashares Strong Australian Dollar Fund (Hedge Fund)	AUDS	na	na	na	na	na	9.1	7.1	21.2	7.8	na
Betashares Strong US Dollar Fund (Hedge Fund)	YANK	na	na	na	na	na	-9.0	-7.5	-19.5	-11.1	na

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