

# Bendigo Income Generation Fund

## INVESTMENT RATING REPORT

December 2021



INVESTMENT RATING: **VERY STRONG**  
 PRODUCT COMPLEXITY: **RELATIVELY SIMPLE**

### Fund Details

<b>Investment Manager:</b> Sandhurst Trustees Ltd.
<b>Investment Structure:</b> Australian Unit Trust
<b>Wholesale/Retail:</b> Retail
<b>Category:</b> Australian Credit
<b>Investment Style:</b> Active management of cash and money market securities
<b>Inception:</b> 20 May 2020
<b>Management Fee:</b> 0.60%
<b>Performance Fee:</b> Nil
<b>Responsible Manager/Entity:</b> Sandhurst Trustees Ltd. ACN 004030737
<b>Investment Objective:</b> The objective of the Bendigo Income Generation Fund is to generate returns of 2% above the Bloomberg Ausbond Bank Bill Index (before fees) by investing in a portfolio of credit securities. The Fund will be actively managed to balance risk and return opportunities through different market conditions.

### Performance – October 2021

	Return	Benchmark + 2%	Excess Returns
<b>1 mth (%)</b>	0.01	0.16	-0.15
<b>3 mths (%)</b>	0.20	0.50	-0.30
<b>6 mths (%)</b>	1.01	1.01	0.00
<b>1 yr (%)</b>	3.42	2.02	1.40
<b>Inception</b>	3.76	2.94	0.82

Source: Sandhurst

Benchmark: Bloomberg AusBond Bank Bill Index

### Review Summary

The Bendigo Income Generation Fund (the Fund) is managed by Sandhurst Trustees Ltd. (Sandhurst), a fully owned subsidiary of Bendigo and Adelaide Bank. Sandhurst Trustees Ltd. is additionally the Responsible Entity, Custodian, and Administrator of the Fund.

The Bendigo Income Generation Fund seeks to provide an enhanced cash investment that targets a return above the benchmark; the Bloomberg AusBond Bank Bill Index. The Fund invests primarily in Australian dollar denominated investment grade Credit Securities (debt securities issued by banks and companies) generally. The portfolio is actively managed to minimise capital loss and provide consistent income over time.

The Fund provides quarterly income and is available either directly and or through an investment platform. Since its inception, the Fund has fulfilled its objective, providing returns of 2.82% over the benchmark, while maintaining a high level of capital stability and liquidity.

Foresight Analytics and Ratings' opinion is that the Investment Managers' investment process is robust and benefits from its experienced management team. The investment approach is conservative, technical, and highly analytical.

### Investment Rating and Foresight Complexity Indicator

A **VERY STRONG** rating indicates a very strong conviction that the Fund can deliver a risk-adjusted return in line with its positive absolute return objective. The Investment Manager is supported by Bendigo and Adelaide Bank and employs a well-defined and rigorous process.

Designation as a **RELATIVELY SIMPLE PRODUCT** indicates that the Investment Manager will seek to outperform their chosen mainstream market sector. The strategies used are well documented and do not include the use of leverage or derivatives for trading purposes. While this fund is expected to move closely in line with mainstream markets, there may be periods where it outperforms or underperforms the benchmark index.

**Fund Details**

<b>Dominant Strategy</b>	Australian Credit
<b>Fund Type</b>	Australian Unit Trust
<b>Investment Manager</b>	Sandhurst Trustees Ltd.
<b>Trustee/RE</b>	Sandhurst Trustees Ltd.
<b>KEY FEATURES</b>	
<b>Fund Inception</b>	20 May 2020
<b>Domicile</b>	Australia
<b>Legal Form</b>	Registered Managed Investment Scheme
<b>Geographic Mandate</b>	Australia
<b>Open/Closed</b>	Open
<b>Management Costs</b>	No
<b>Performance Fee</b>	0.60% p.a. of the net asset value of the Fund
<b>Target Return</b>	Bloomberg Ausbond Bank Bill Index plus 2%
<b>Distributions</b>	Quarterly – 31 March, 30 June, 30 September, and 31 December
<b>Funds Under Management (FUM)</b>	\$104.1m (November 2021)
<b>Minimum Subscription</b>	\$2,000
<b>Subsequent Subscription</b>	\$100 or a minimum of \$50 per month via a regular savings plan
<b>Entry Fee</b>	Nil
<b>Exit Fee</b>	Nil
<b>PRIMARY CONTACT</b>	
<b>Name and Title</b>	Funds Administration
<b>Email Address</b>	managedfunds@sandhursttrustees.com.au
<b>Telephone Number</b>	1800 634 969
<b>Address</b>	Level 5, 120 Harbour Esplanade, Docklands VIC 3008
<b>Website</b>	www.bendigobank.com.au

## Investment Profile

### BACKGROUND

The Bendigo Income Generation Fund (the Fund) is a unit trust established by a constitution dated 20 May 2020. The Fund is a managed investment scheme and is registered with the Australian Securities and Investment Commission (ASIC). It is a unit trust that fully distributes all capital and income on a pre-tax basis to unitholders.

Sandhurst Trustees Limited (Sandhurst) is the Responsible Entity of the Fund, the Investment Manager and provides custody, administration, and registry services. Sandhurst has a long history of providing trustee services and common and managed investment funds to its clients. Sandhurst is a wholly owned subsidiary of the Bendigo and Adelaide Bank and is part of the Bendigo Wealth division. The underlying portfolio is actively managed by the Investment Manager, who must strictly follow investment parameters within the Investment Policy

The Fund was launched in May 2020 with \$95m in seed capital. Although the Fund has not been formally exposed to the retail market, its size has grown to over \$100m. The Fund is like Sandhurst's flagship Strategic Income Fund which was launched over ten years ago. Compared to Sandhurst's flagship fund, this Fund has a higher target performance objective and is more flexible with asset limits for both security and investment ratings. It may also have a longer duration.

### OBJECTIVE

The Fund seeks to provide investors with a regular income stream by investing in a high-quality, diversified portfolio of fixed-income securities that have a low susceptibility to market value fluctuations triggered by interest rate changes. That is, the Fund seeks to provide enhanced cash returns with low interest-rate risk and with good liquidity for its investors.

Monies invested are pooled and used to purchase eligible assets on behalf of all investors in the Fund. Distributions to investors are made at the end of each quarter.

### FUNDS UNDER MANAGEMENT

The Bendigo Income Generation Fund's FUM on 30 November 2021 was \$104.1 million. The Sandhurst Trustees Income Investment team managed approximately \$2.8 billion in total, at the end of June 2021. Sandhurst Trustees had a total of \$6.9 billion under management and administration on 30 June 2021.

### INVESTMENT UNIVERSE

The Bendigo Income Generation Fund can invest in any Australian-issued debt security denominated in Australian dollars, including the following:

- Government bonds or bills
- Semi-government bonds
- Government agency and municipality bonds
- Corporate bonds, including covered bonds
- Asset-backed securities
- Hybrid securities
- Deposits with licensed ADIs
- Bank bills and negotiable certificate of deposits (NCDs)
- Debentures issued by ADIs
- Commercial paper
- Other debt securities
- Managed investment schemes that invest as above

## Investment Philosophy

Sandhurst, the Investment Manager, looks to capture the credit risk and relative risk inefficiencies that exist between sectors of the credit and cash markets in order to provide target risk-adjusted returns. They focus on carefully managed liquidity risk and capital stability, with these two objectives outweighing the hunt for yield.

They believe that active allocation between the credit and cash market sectors, underpinned by conservative credit analysis and identification of relative value, can generate superior returns with lower volatility than passive allocation.

Sandhurst has observed that various sectors display differing risk-and-reward opportunities through time, particularly when credit or interest-rate risk is poorly understood or when regulatory change occurs. They, therefore, analyse business and economic cycles to identify strong risk-reward opportunities.

A key part of the investment philosophy is to invest in term deposits as part of the portfolio, given the different risk-and-return drivers of this sector compared to other cash/credit sectors.

## Investment Strategy

The investment strategy for the Fund uses four main inputs for the formulation and management of the portfolio.

1. Liquidity:
  - Application and redemption monitoring
  - Forecast of fund liquidity
  - Testing securities
2. Asset allocation:
  - High-level risk allocation is set
  - Evaluation of sector credit capital structure, rates, and duration
  - Leveraging of top-down, multi-asset process
3. Risk management:
  - Diversification and downside risk management
  - Testing to ensure that there are no negative quarterly returns
  - Monitoring of credit duration
  - Oversight by Investment Committee and Compliance Committee
4. Stock selection:
  - Credit research is emphasised
  - Relative-value analysis
  - Asymmetric credit pay-offs are identified

## Investment Process

The Fund's investment process accumulates relevant economic, market and company-specific financial and credit data. The macro-level credit market outlook is also considered and encapsulates detailed credit analyses of fixed-income security issuers. More complex investments, such as RMBS, benefit from detailed bottom-up and pool-wide approaches within the investment process. Assets are assessed for their impact on the overall risk and reward of the Fund's asset portfolio. This includes decisions on the use of derivatives to manage interest rate risk and credit risk. The Investment Manager monitors the credit quality of the portfolio weekly.

### PROCESS STEPS



## INPUTS

The Fund’s macro-economic research and forecasting tools uses several sources, including Bendigo and Adelaide Bank’s Treasury Department and Financial Markets department, as well as the investment team’s and bank’s sell-side relationships. Information is gathered on future growth, interest rates, and sector conditions/spreads.

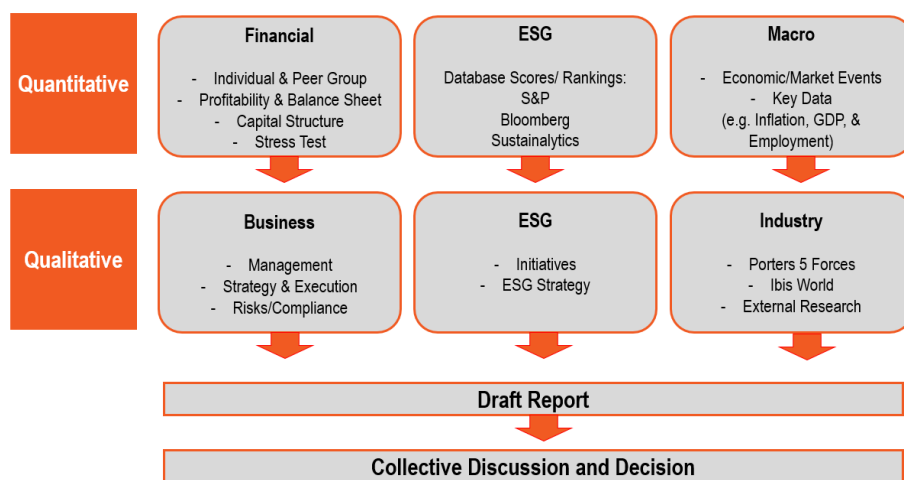
The investment team meets weekly to assess this information and formulate a view on the relative risk/reward across sectors and time frames, the outlook for rates and the yield curve, the prevailing market sentiments and any economic risk or opportunities that may affect the portfolio. This information is directly used to formulate the target duration and sector exposures for the Fund. It also contributes to the forecasting of carry/returns and market sensitivities, which in turn are used to assess relative-value switches and positioning along the yield curve for various credits.

In recent years, Sandhurst has enhanced their process with the addition of objective indicators such as international PMI, building approvals etc., and the use of forecast volatility.

## CREDIT RESEARCH

The investment team collaborates closely on credit analysis with the Bendigo Bank Financial Risk and Modelling team. Credit reports, financial data, and analyses are shared between the teams, with the Sandhurst investment team extending deeper analysis on the strategic and financial risks that may lead to underperformance.

Available securities are initially screened. Assets must be either denominated in Australian Dollars or hedged against foreign exchange risk. Securities must be rated by S&P, Moody’s, Fitch, Australia Ratings, Foresight Analytics or undergo internal rating process to produce a shadow rating. The credit process is applied to both potential and existing investments to assess the likelihood of a default.



Corporate debt securities require detailed cash flow modelling and stress testing to establish default probabilities. Asset-backed securities credit research includes cash-flow modelling, structure analysis, qualitative analysis, and analysis of the collateral. Individual loans are researched using demographics and postcodes. Over the last two years, Sandhurst has significantly enhanced their RMBS analysis in the following areas: model enhancements, responsible lending changes, income and expense verification methodology, cash-flow stress testing, delinquency tracking, and ongoing issuer monitoring.

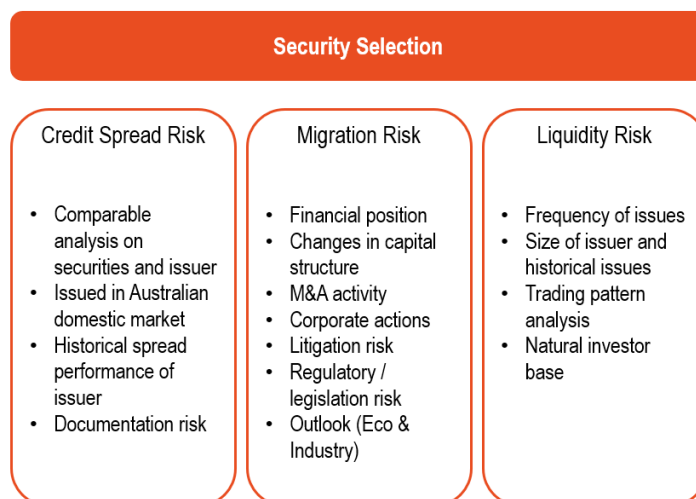
Sandhurst has recently enhanced its credit process with a “Deeper” analysis which includes the following:

- Stress-testing of capital structure
- Forecasting potential increases in bad debts and hits to profitability
- Increased scrutiny of strategic initiatives and management profiles
- Assessment of regulatory risks
- Investigating governance and Key Person risk

In addition, Sandhurst has now finalised their Shadow Rating system (using S&P methodology) for use with RMBS. This gives greater pricing power for use with private and warehouse RMBS, which in turn allows a potentially higher return margin.

## PORTFOLIO CONSTRUCTION

Portfolio construction is the result of several inputs, including detailed liquidity forecasts, macro-economic and market views, and interest rate and credit outlooks.



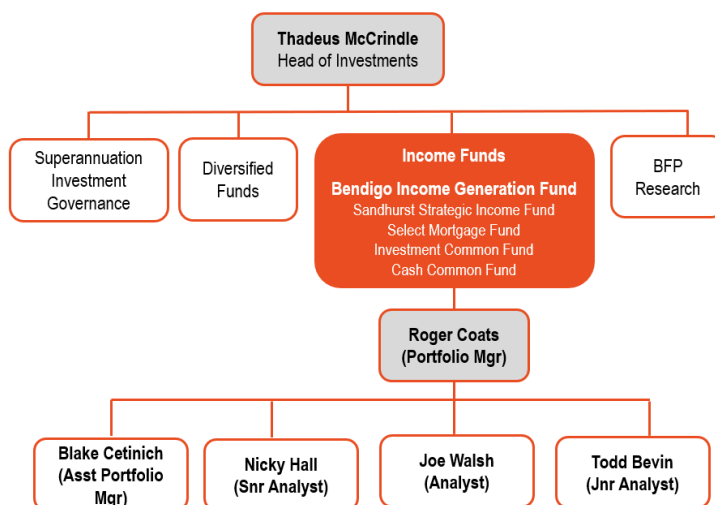
Securities are categorised for investment evaluation using a combination of liquidity, interest rate risk, credit risk, yield, and diversification characteristics; what Sandhurst calls 'utility' sectors. The categories are below:

<b>Cash</b>	11 am, cash accounts, and NCDs	<b>Diversify Yield</b>	Corporate, non-property paper
<b>Cascade</b>	Term deposits and short-dated ABS	<b>Diversify Nimble</b>	Corporate FRNs & foreign bank paper (liquid), corporate <3yrs
<b>Nimble Short</b>	Major bank paper with 1-3yrs to maturity	<b>Yield Short</b>	Regional bank paper, hybrids and RMBS with <3yrs to maturity
<b>Nimble Long</b>	Major bank paper with >3yrs to maturity	<b>Yield Long</b>	Regional banks, hybrids and RMBS with >3yrs to maturity

The portfolio and underlying securities are subject to ongoing review. Foresight Analytics and Ratings' opinion is that the Investment Managers' investment process is robust and benefits from the experienced management team. The investment approach is conservative, technical, and highly analytical. Sandhurst uses the Bloomberg PORT function in their stress testing/risk analysis. This function also provides in-depth performance attribution.

## Investment Team

Investment management of the Bendigo Income Generation Fund falls under the Sandhurst Income Funds team, which also manages the Strategic Income Fund, the Select Mortgage Fund and two common funds.



	Allocation of time to Fund (FY 2021)	Time with the Fund	Experience in the Industry	Responsibilities
<b>Thadeus McCrindle</b>	15%	16 years	20 years	Macro-economics, asset allocation, leadership
<b>Roger Coats</b>	60%	7 years	33 years	Portfolio management, credit analysis, sector allocation, process
<b>Blake Cetinich</b>	80%	4 years	4 years	RMBS analysis, systems, liquidity
<b>Joe Walsh</b>	40%	2 months	2 years	Credit and reporting
<b>Nicky Hall</b>	10%	25 years	25 years	Liquidity, interest rates, risk management
<b>Todd Bevin</b>	10%	5 years	9 years	Credit analysis, liquidity, risk

**Thadeus McCrindle (Head of Investments):** Thadeus has worked in investment roles for nearly 20 years with JP Morgan and Bendigo and Adelaide Bank. His experience includes quantitative modelling of derivatives, listed and unlisted assets, structured finance, credit analysis, and funds management. He joined the Bendigo and Adelaide Bank Group in 2005. In 2010, Thadeus was appointed Head of Investments/CIO and took on additional leadership responsibility across the multi-asset portfolios, Superannuation Investment Strategy, and Estates and Charitable trust portfolio management. His role involves manager selection and portfolio construction, active asset allocation, and capital markets research. Thadeus is a CFA charter holder, has a Bachelor of Finance from the University of Adelaide, and a Graduate Diploma in Applied Finance and Investment from FINSIA.

**Roger Coats (Portfolio Manager):** Roger has worked in banking and investment roles since 1987 with Merrill Lynch, ABN AMRO, Hambros, and BNP Paribas prior to joining Sandhurst. Initially originating and syndicating Eurobond issues in London, Roger also structured cross-currency and interest rate swaps in Sydney, where he expanded to originate and trade corporate bonds and domestic bank securities. In 1998, Roger was appointed Head of Capital Markets for Banque Nationale de Paris. The role provided oversight for teams involved in syndicated bank lending as well as bond and bank paper origination, trading, and sales. Roger led companies through stock market listings, private equity, and trade sales, as well as venture capital raisings as Chief Operating Officer with Living Cell Technologies and Opto Global. Prior to starting with Sandhurst, Roger spent five years consulting for several Financial Planning companies, providing him with direct insight into customer and investor requirements. Roger completed the Governor’s Leadership Foundation program in 2012 and a Diploma of Financial Planning in 2021. His management experience – through several interest rate cycles – coupled with his credit skills, supported his appointment as Portfolio Manager for the Bendigo Income Generation Fund in January 2014.

**Blake Cetinich (Assistant Portfolio Manager):** Blake joined the Bank as part of the Graduate Program in 2017 and joined the Investments team in January 2018 as an Investment Analyst. Prior to joining the team, Blake was employed by SAI Global, in their property division for 2 years, working on various projects and facilitating property settlements. During the Graduate program, Blake undertook roles in Credit, Partner Management, Finance and Treasury as well as Marketing to provide an extensive insight into the Bank and its varied functions.

Blake supports Roger in the day-to-day running of the Strategic Income Fund and has upgraded the procedures for credit and RMBS assessment.

## Investment Committee

The Sandhurst Funds Management and Corporate Investment Committee (Investment Committee) meets quarterly to review the performance and compliance of the Fund with its objectives. The Investment Committee has 6 members, each with over 20 years of experience in the industry, who currently hold senior positions within Sandhurst. The Committee is chaired by Jennifer Dawson (Sandhurst Trustees Board member). Other members include Justin Hoare (Head of Sandhurst Trustees), Paul Rohan (Head of Bendigo Wealth), David Robertson (Head of Economics and Research), Alexandria Fink (Business Banking Risk Specialist), and Darren Kashagan (Head of Third-Party Banking).

## Business Management

Management of the Bendigo Income Generation Fund comes within the Wealth division of Bendigo and Adelaide Bank. The Wealth division ultimately reports to Richard Fennell (Executive Director of Bendigo and Adelaide Bank Ltd. – Consumer Banking), supported by Paul Rohan (Head of Wealth) and with Justin Hoare (Head of Sandhurst Trustees) heading up the entire Sandhurst business.

Sales and marketing are provided by Bendigo Wealth's distribution, and Sandhurst provides in-house administration for the Fund. The sales initiative has been enhanced with the hiring of two new Business Development Managers focusing on both the superannuation products and the income funds.

Note that Sandhurst Trustees is currently acting as both an RE (Responsible Entity) to Sandhurst funds and RSE (Registrable Superannuation Entity). APRA has recently issued a directive indicating that a single entity cannot act as both. In response to this directive, Sandhurst will move out of the RSE status by June of 2022.

## Risk Management

Sandhurst has several roles in the management and administration of the Fund and its assets, for example, responsible entity, custodian, investment manager, and registrar. The multiple roles are subject to a wider Sandhurst and Bendigo and Adelaide Bank risk management and compliance frameworks. Sandhurst, as the Responsible Entity, has the primary responsibility to monitor compliance by the investment manager with the Fund's Product Disclosure Statement (PDS) and Investment Policy.

The compliance of the Fund with its Constitution and Investment Policy is overseen by the Sandhurst Audit, Risk and Compliance Committee, which is responsible for overseeing and monitoring the scheme's compliance with risk-management frameworks (including regulatory compliance obligations). It is comprised of three non-executive directors of the Sandhurst Board. The Committee also provides oversight for the treatment of all risk events, including regulatory breaches, escalations, and rectification decisions. All events relating to amounts over \$5,000 are reported to the Bendigo and Adelaide Bank operational risk department.

Unit prices are calculated daily by Sandhurst's Operations and Support team. Daily redemption is offered to unitholders. The Fund's assets are held by Sandhurst's custodial division on behalf of the Fund's investors. Sandhurst, as the Responsible Entity, is covered under a Professional Indemnity and Financial Institutions Bond of up to \$100 million (any one loss and aggregate) for the Bendigo and Adelaide Bank Group.

## EXPOSURE RISK

The Fund is governed by the following Investment Target Exposure Limits:

Security Exposure	Min	Max
Cash and money market securities	0%	100%
Government bonds		
Semi-government bonds	0%	100%
Corporate bonds and FRNs		



Asset-backed securities	0%	75%
Hybrid securities	0%	30%
Other income securities	0%	20%

## LIQUIDITY RISK

Liquidity management is a key process to ensure the Fund can meet redemptions. The Fund manages liquidity by

- holding a prescribed level of highly liquid assets;
- matching short-term asset maturities to forecasted redemptions;
- investing in a range of short-term assets with alternating maturities;
- investing in amortising assets; and
- monitoring the balance of liquid, semi-liquid, and less-liquid assets.

## Performance

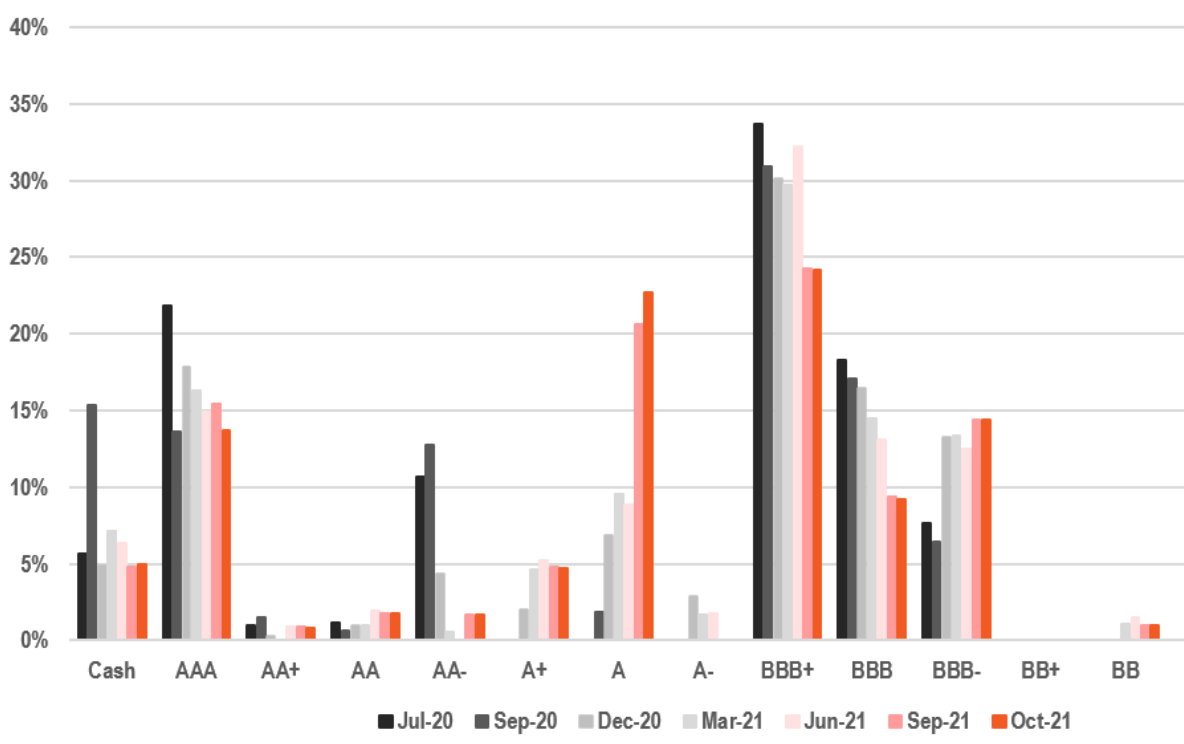
The Fund has seen some reduced returns from August this year due to credit spread compression.

### NET RETURNS – 30 OCTOBER 2021

	Return (Class A)	Bloomberg AusBond Bank Bill Index PLUS 2%	Excess Returns
<b>1 month (%)</b>	0.01	0.16	-0.15
<b>3 months (%)</b>	0.20	0.50	-0.30
<b>6 months (%)</b>	1.01	1.01	0.00
<b>1 year (% p.a.)</b>	3.42	2.02	1.40
<b>Since Inception</b>	3.76	2.94	0.82

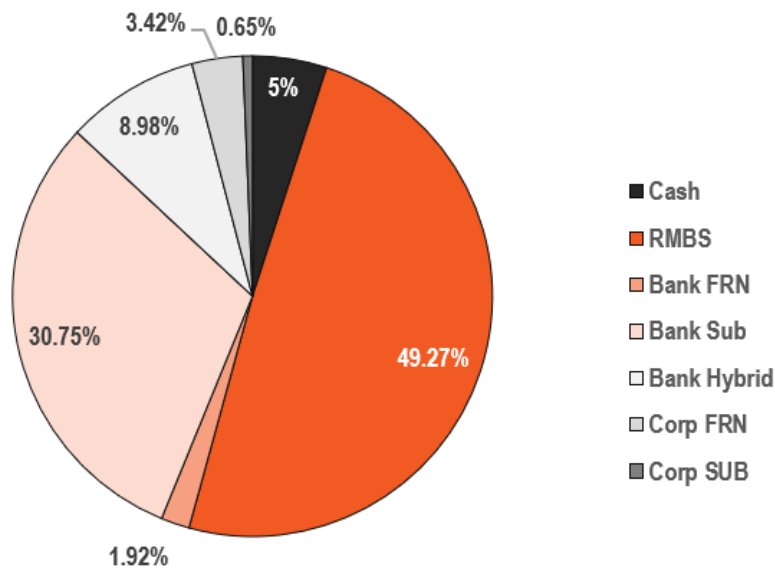
Source: Sandhurst Trustees

**CREDIT ALLOCATION**



Source: Sandhurst Trustees

**ASSET ALLOCATION: OCTOBER 2021**



Source: Sandhurst Trustees

## Transparency and Reporting

Sandhurst has a broad client service network in place, as it utilises the Bendigo and Adelaide Bank Group’s distribution network and client service staff.

Fund updates are provided on the website each quarter providing information on the performance of the fund, asset allocations, MER, and fund size. In addition to quarterly fund updates, the Bendigo Income Generation Fund produces monthly performance reports for investors.

Investors in the Bendigo Income Generation Fund receive a quarterly statement of transactions along with their quarterly distribution statement each March, June, September, and December.

## Compliance and Risk

Sandhurst has a dedicated Wealth Risk and Compliance team and a dedicated Risk and Compliance Officer. Each operational area at Sandhurst has a Manager/Responsible Monitoring Officer (RMO) who reports to the Head of Wealth Risk and Compliance, who in turn reports to the Sandhurst Risk and Compliance Committee (Board Committee).

There is a separate Compliance Plan for the Bendigo Income Generation Fund that is incorporated into Sandhurst’s compliance program. This Plan encompasses legislative, regulatory, and internal standard requirements and has been lodged with ASIC.

The overall risk framework is supported by the Group’s internal audit division and operates within the Group’s broader Risk and Compliance programs. Sandhurst utilises the Group Assurance department (internal audit) in accordance with the terms of the Bendigo and Adelaide Bank Service Agreement. Group Assurance conducts risk-based reviews of the responsible entity’s key compliance requirements at least once every 3 years, or more frequently if requested by Sandhurst (on a case-by-case basis).

In addition, the Compliance Plan is externally audited on an annual basis. The external auditors review the Fund’s operations, including unit pricing, valuation methodology, distribution calculations and taxation.

Conflicts of Interest are managed using the Bendigo and Adelaide Bank Group’s policies as well as the Sandhurst Management of Conflicts of Interest and Related Party Transactions policy. These policies cover the identification, avoidance, management, monitoring and recording of conflicts.

Sandhurst has also adopted the Bendigo and Adelaide Bank Anti Money Laundering and Counter-Terrorism Financing Policy.

### THIRD-PARTY AND SERVICE ADVISORS

<b>Fund administrator</b>	Sandhurst Trustees Pty. Ltd.
<b>Legal advisor</b>	Piper Alderman
<b>Taxation advisor</b>	EY
<b>Auditor</b>	EY
<b>Insurance provider</b>	Various (syndicated)
<b>Fund research</b>	Internal and product issuers
<b>Market intelligence</b>	Internal, Bloomberg, MSCI, S&P Global Market Intelligence and relationship (sell side)
<b>IT network provider</b>	Internal
<b>Portfolio software</b>	Bloomberg plus internal – Administration uses the Garradin system

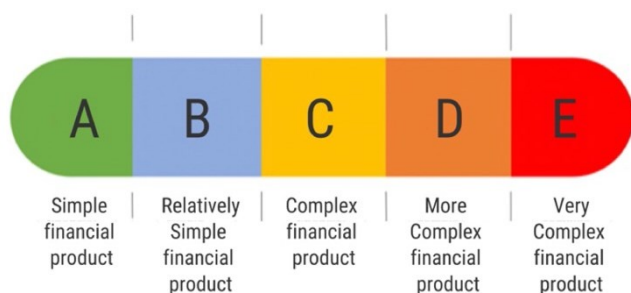
## Investment Rating Scale

The Foresight Analytics' investment rating is an opinion on how well we believe a fund will perform against a range of risks.

Rating	Definition
<b>Superior</b>	Indicates the highest level of confidence that the fund can deliver a risk-adjusted return in line with the investment objectives of the fund.
<b>Very Strong</b>	Indicates a very strong conviction that the fund can deliver a risk-adjusted return in line with the investment objective of the fund.
<b>Strong</b>	Indicates a strong conviction that the fund can deliver a risk-adjusted return in line with the investment objective of the fund.
<b>Competent</b>	Indicates that the fund may deliver a return in line with the funds relevant benchmark.
<b>Weak</b>	Indicates a view that the fund is unlikely to deliver a return in line with the investment objective of the fund and or meet the return of its benchmark.

## Foresight Complexity Indicator

Foresight Complexity Indicator (PCI) highlights the complexity of an investment by its terms and conditions' structure and transparency that may affect the investor's return.



## Investment Rating and Foresight Complexity Methodology

Foresight Analytics and Ratings' methodology for its investment rating and research can be downloaded from its website.

## Contact Details

### Foresight Analytics

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**Telephone:** 02 8883 1369

**Website:** [www.foresight-analytics.com](http://www.foresight-analytics.com)

**Analyst:** Maggie Callinan

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