Lonsec

Recommended

Product Review
Bendigo Growth Wholesale

About this Review

ASSET CLASS REVIEWED	MULTI-ASSET
SECTOR REVIEWED	61-80% GROWTH ASSETS
SUB SECTOR REVIEWED	MULTI-MANAGER
TOTAL FUNDS RATED	16

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	BENDIGO GROWTH WHOLESALE
APIR CODE	STL0014AU
PDS OBJECTIVE	TO DELIVER INVESTMENT RETURNS AFTER FEES IN EXCESS OF 4% ABOVE INFLATION OVER A FULL MARKET CYCLE (TYPICALLY SEVEN TO 10 YEARS).
INTERNAL OBJECTIVE	TO EXCEED THE PERFORMANCE OF THE FUND'S SAA (BEFORE FEES) AND MORNINGSTAR – MULTI-SECTOR GROWTH FUND PEER MEDIAN (AFTER FEES).
STATED RISK OBJECTIVE	TRACKING ERROR VERSUS SAA BELOW 1.5%.
DISTRIBUTION FREQUENCY	SEMI-ANNUAL
FUND SIZE	$81M (JAN 2021)
FUND INCEPTION	06-05-2002
MANAGEMENT COSTS	1.089% P.A. (INDIRECT COSTS (INCLUDES PERFORMANCE FEES BY UNDERLYING MANAGERS))
RESPONSIBLE ENTITY	SANDHURST TRUSTEES LIMITED

About the Fund Manager

FUND MANAGER	SANDHURST TRUSTEES LIMITED
OWNERSHIP	100% OWNED BY BENDIGO AND ADELAIDE BANK LIMITED
ASSETS MANAGED IN THIS SECTOR	$4.9B (FEB 2021)
YEARS MANAGING THIS ASSET CLASS	18

Investment Team

PORTFOLIO MANAGER	TOM NITSCHKE
INVESTMENT TEAM SIZE	5
INVESTMENT TEAM TURNOVER	LOW
STRUCTURE / LOCATION	PM & ANALYSTS/ADELAIDE
ASSET CONSULTANT	MERCER, STRATEGAS, INTERNAL TEAMS

Investment process

ASSET ALLOCATION	STRATEGIC, TACTICAL
SECTOR EXPOSURE	ACTIVE
GROWTH / DEFENSIVE SPLIT %	80/20
USE OF ALTERNATIVES	YES

Fund rating history

MARCH 2021	RECOMMENDED
APRIL 2020	INVESTMENT GRADE

What this Rating means

The **'Recommended'** rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

Strengths

- A dedicated multi-asset team focused on strategic and active asset allocation processes as the dominant driver of returns.
- Pragmatic and repeatable investment process supported by the Manager's culture of process improvement.
- Sound fundamental research capability driving a dynamic asset allocation style with a willingness to back high conviction views.

Weaknesses

- High key person risks in Tom Nitschke, Lead Portfolio Manager, and Thadeus McCrindle, CIO, who together hold the majority of the team's experience in asset allocation and manager research.
- The investment team is light on resources, relative to Lonsec-rated peers, although leveraging inputs from various internal teams and external consultants partially mitigates this.
- Team incentive and remuneration structure could be better aligned, with greater weighting toward performance outcomes.

Fund Risk Characteristics

	LOW		MODERATE		HIGH
BUSINESS SUSTAINABILITY RISK		●			
CAPITAL VOLATILITY				●	
FOREIGN CURRENCY EXPOSURE			●		
REDEMPTION RISK		●			
SECURITY CONCENTRATION RISK		●			
SECURITY LIQUIDITY RISK		●			

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

BIOmetrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE						●	

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

ANALYST: LEON KHOO | APPROVED BY: SEBASTIAN LANDER

Bendigo Growth Wholesale

Features and benefits

	LOW		MODERATE		HIGH
COMPLEXITY			●		
ESG	●				

Fee profile

	LOW		MODERATE		HIGH
FEES VS. UNIVERSE					●
FEES VS. ASSET CLASS				●	
FEES VS. SUB-SECTOR			●		

Fee BIOmetrics are a function of expected total fee as a percentage of expected total return.

What is this Fund?

- The Bendigo Growth Wholesale Fund ('the Fund') is an 80%/20% growth/defensive diversified offering that has access to a broad range of asset classes (including equities, fixed income, listed property, infrastructure and alternatives). The underlying asset classes are actively managed via a mix of selected fund managers.
- Sandhurst Trustees Limited ('the Manager' or 'Sandhurst') is a fully owned subsidiary of Bendigo Bank. Sandhurst has adopted an active investment style based on the belief that asset allocation is the dominant driver of long term returns within a multi-asset portfolio. Diversification by blending asset classes is used as a risk and volatility management strategy.
- The Manager seeks to provide investors with superior long-term returns through both Strategic Asset Allocation ('SAA') and Active Asset Allocation ('AAA'). The Manager believes using an Active Asset Allocation ('AAA') approach incorporating the factors of value, momentum and sentiment can provide better risk-adjusted returns through the cycle. In addition, the Manager recognizes that each asset class has its moment in the market cycle, and that understanding what stage the market is entering, assessing liquidity and positioning accordingly, can generate alpha.
- In addition to the above mentioned key performance drivers, the Manager seeks to add further value by allocating to actively managed underlying funds. Select underlying funds may charge performance-related fees which form part of the indirect costs.
- As per the PDS dated 22 December 2020, the ongoing annual fees and cost to investors in the Fund includes (a) management fees and costs of 1.09% p.a. which comprise 0.92% p.a. management fee, 0.16% p.a. indirect costs and (c) net transaction costs for the Fund were 0.54% p.a. for the year ended 30 June 2020. Due to market conditions, transaction and indirect costs have been materially higher than prior years but are expected to be lower going forward.
- Transaction costs include explicit (e.g. brokerage, stamp duty, clearing) and implicit (buy/sell spreads in multi-asset) costs of buying and selling underlying assets and the cost of hedging/protection strategies incurred in managing the Fund. These costs are not paid to the Manager. Some transaction costs may be incurred due to investor activity (e.g. buying/selling securities for Fund applications/redemptions) and these may be recouped via the Fund's buy/sell spreads. The Fund's buy/sell spreads are +/-0.20% but as these can change depending on market conditions, please refer to the Manager for the latest spreads.

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- Multi-Asset Class Multi-Manager Funds are well suited to investors who desire a diversified portfolio but have limited capital to invest. These funds invests across a broad range of asset classes (including equities, bonds, property, infrastructure and alternatives), employing a number of underlying specialist fund managers.
- The Fund is a growth orientated portfolio that is best suited to long term investors. A small income exposure should slightly reduce the shorter term fluctuations of the portfolio's value. It is best suited to a long term investor who can accept a high level of investment risk over the long run.

Suggested Lonsec risk profile suitability

SECURE	DEFENSIVE	CONSERVATIVE	BALANCED	GROWTH	HIGH GROWTH
				●	

For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

Changes Since Previous Lonsec Review

- Continued process refinements include re-weighting macro factors (inclusion of liquidity and interest-rate regime factors), right-sizing asset class allocations and manager allocations.
- Tail risk strategies, macro-risk management and income-generating strategy enhancements.

Lonsec Opinion of this Fund

People and resources

- Sandhurst forms part of the Bendigo Wealth division within Bendigo & Adelaide Bank. Sandhurst has 64 employees and is responsible for $4.9 billion in funds under management at the time of this review. The investment team responsible for the diversified, multi-asset funds is led by Chief Investment Officer, Thadeus McCrindle. McCrindle is supported in the day to day management of the Fund by Portfolio Manager, Tom Nitschke. The investment team manages both a low cost suite of diversified funds as well as a suite of diversified funds investing into actively managed funds (to which this report relates). The team reports through to Head of Sandhurst Trustees, Justin Hoare, who in turn reports through to Head of Wealth, Paul Rohan.
- Nitschke has over 13 years' industry experience with the last seven as lead portfolio manager of the Sandhurst funds. Nitschke primarily holds the lead decision making role in the team, with manager selection and active asset allocation as his core functions. McCrindle, as Chief Investment Officer, provides macro and strategic perspectives in the decision-making process, leveraging off his wide and varied experience base. Notably, both have worked together for more than a decade. Lonsec considers Nitschke and McCrindle to have the

relevant experience and expertise to execute on the Fund's strategy to achieve its objectives. Lonsec considers these two team members to be the primary key-person risks for the Fund and considers this risk to be high.

- In addition to Nitschke and McCrindle, the team comprises a further three analysts and takes inputs from a wide range of internal and external consultants. Lonsec considers the team to have sound capability, but is mindful that beyond the two senior managers, team co-tenure and experience is relatively modest. Team size is also considered low relative to peers, although the use of consultants partially mitigates this as does the team's culture of process improvement, noting that in recent years, there has been a focus on more predictive market indicators, relative valuation measures and improved scenario-testing models. In addition the asset allocation process is a generally quantitatively-driven framework, alleviating the need for a large team. It was noted that the investment team also leverages of internal resources within the group, including the Fixed Income, Superannuation and Economics teams. Nonetheless, in Lonsec's opinion, there is scope to add additional resources if/when complementary skill-sets are identified to further strengthen internal capability and reduce the reliance on external consultants. Moving forward, Lonsec will continue to monitor the team's workload and capacity, functional structure and team co-tenure.
- The three analysts, Lewis Einarson, Dom Chiuchiolo and Shirley He, have the relevant skills and academic backgrounds for due diligence and decision-support roles. Although their level of industry experience is light, they are mentored/supported by the senior members of the wider Sandhurst investment team and have demonstrated a level of competence sufficient to support the portfolio managers. Lonsec will continue to monitor the performance and rigour of work generated by the analyst team in future reviews.
- Positively, an advantage of the investment team (apart from the CIO) is that they do not have business management or marketing responsibilities. This allows the team to focus solely on investment management and the performance of the Fund rather than profitability and/or broader management issues.
- The investment team members' variable remuneration is assessed on both qualitative and quantitative factors with weighting skewed to non-investment outcomes. Lonsec notes that remuneration is linked to investment performance (approximately 25%) promoting the alignment of interests between the investment team and investors. Also, there are qualitative metrics aligned to behavioural aspects, in addition to profitability of the Manager and parent organisation. Overall, Lonsec considers the alignment of interests to be lower than its peers and this has scope for improvement.

Asset allocation

- Sandhurst consider asset allocation to be the dominant driver of long term returns within a multi-asset class portfolio. The majority of the investment team's focus is on the Active Asset Allocation ('AAA') framework which drives the SAA-anchored investment process.
- The starting point for asset allocation discussions is the investment policy itself which stipulates the investment objectives, desired risk tolerances and investment limits. The Manager formulates a SAA from historical asset class volatility, correlations and normalised returns. The SAA, which is reviewed every three years, forms the neutral position of the Fund from which the AAA is derived. The changes made in the last SAA review in 2018 saw initial allocations to emerging market equities, global infrastructure and a reduction to domestic equities. Lonsec believes these changes were in line with the Manager's long-term investment approach and represented a logical evolution of allowing room for greater global diversification.
- As stated, in between SAA reviews, the main driver of the investment process is the AAA approach which aims to take an intra-cycle view, typically for the upcoming 12-18 month period. The two main inputs into the process are (i) value, momentum and sentiment signals, and (ii) a 'four-phases' style business and market cycle framework. At the time of Lonsec's review, the team had recently added a Liquidity factor into the process. Quantitative scores are generated from the signals and cross analysed with the output from the cycle analysis. Lonsec believes this to be an intuitive approach founded on well known signals that are supported by academic evidence. In addition, Lonsec believes the focus on tilting the portfolio towards assets that are favoured at certain points in the market cycle is logical. While results are promising and the decision making framework appears robust, Lonsec notes the newer parts of the process have evolved over recent years, and therefore will continue to be assessed in future reviews.

Research approach

- Ongoing research has been dedicated to incorporating new market signals and valuation concepts within the AAA framework. The Manager has conducted analysis into global liquidity conditions deemed a material influence on market returns and this has been added into the AAA signal framework. In addition, the Manager also includes research from external parties (e.g. Strategas Research) who provide input into market cycle analysis. While viewing the process enhancements as positive, Lonsec is conscious of the small size of the team which may result in less robust peer reviews and elevated key-person decision risk.
- Lonsec considers the Sandhurst asset allocation research process to be thorough (in terms of the information gathered and assessed), robust and clearly articulated. The team's focus on fundamentals adds valuation-based elements which adds a level of capital preservation. This is complimented by momentum and sentiment factors which incorporates asset-class beta into the framework.

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- Sandhurst relies on the services of an external asset consultant (Mercer) when developing an initial screen of managers for potential inclusion in the Fund, ensuring the quality of managers shortlisted for Sandhurst's further due diligence remains sufficiently high. The manager research and due diligence process is considered thorough, incorporating extensive analysis and peer reviews with final approval required by the portfolio manager, CIO and/or Investment Committee. Lonsec notes the increased focus on manager selection and portfolio construction, with the aim of removing redundant positions and reducing macro risk, and regards these efforts positively.
- Overall, Lonsec considers the Manager's research approach to be fundamentally sound and sufficiently robust to achieve its intended outcomes.

ESG Integration

- The Manager has articulated a commitment to the integration of ESG within their investment process and relevant ESG policies are freely available on the firm's website. Overall, Lonsec views this commitment to be in-line with peers.
- The level of disclosure with respect to the Manager's proxy voting policy is in-line with peers with a limited policy framework. The Manager does not provide any details on engagement policy or engagement outcomes.
- The Manager holds a preference for funds which incorporate ESG factors. Light integration of ESG within manager monitoring activities is evident. Overall, ESG integration within the investment process is below peers. However, ESG is integrated across equity strategies of the portfolio. The Manager has no observable approach to performing detailed look-through ESG analysis of underlying holdings. Overall, on a peer relative basis, Lonsec considers the overall level of ESG integration within the Fund to be low.

Portfolio construction

- The Manager constructs portfolios by assigning the appropriate asset class weightings in accordance to the SAA and AAA outcomes. There are both quantitative and qualitative elements in this process, informed by a level of judgement and diversity of views. Sound fundamental research drives the asset allocation style, and there is a willingness to back high conviction views. Final portfolio outcomes are also influenced by relative risk-return and pragmatic forward-looking approaches which is favourable in longer-term upward trending markets. Lonsec considers this flexibility in approach and style to be a key advantage of the team.
- Asset class exposures are implemented via allocations to actively managed funds, except for cash which is managed internally. Passive index funds are used for a small number of select exposures. Active managers will be used when there is high conviction they can deliver outperformance and passive management is used for fee and implementation efficiency. The Manager generally applies a high conviction style within each asset class, with a focused number of underlying funds structured to achieve strong risk-adjusted outcomes. Lonsec views these demonstrated levels of conviction positively.

  Lonsec also notes the inclusion of the Alternatives asset class exposure in the Fund. This presents a potential source of diversification, uncorrelated return and risk mitigation, and is regarded positively. However, Lonsec highlights the difficulties faced when selecting managers in the alternatives space, particularly for lightly resourced managers.
- The focus of building portfolios is on targeted return generation within risk and diversification constraints. Lonsec regards many of the underlying manager capabilities to be of good quality and also recognises that there are internal processes in place to ensure the objectivity of the manager selection and portfolio construction process.

Risk management

- Lonsec believes that the Sandhurst investment team implements a reasonable and robust risk management process within a clear framework. Sandhurst adopts reasonably wide constraints in the management of the diversified strategies. Daily monitoring, regular holdings analysis, aggregated risk exposure monitoring and scenario analysis form part of the risk management process. The team uses quantitative proprietary models to analyse credit risk, interest rate risk, liquidity, asset class valuations, momentum, reinvestment and macroeconomic risks. Relative risk measures such as asset-class and manager beta/duration, sector/geographic concentrations and factor exposures also form part of the risk management process. Lonsec regards the market-aware risk analysis/ management positively.
- Sandhurst also has a dedicated Risk and Compliance team focused on regulatory compliance and operational risks. A Middle Office team separately monitors portfolio and derivatives exposures via third-party risk tools on a regular basis. Lonsec considers Sandhurst's risk management practices to be sufficiently robust.

Performance

- The Fund aims to provide returns after fees of 4% above inflation over a full market cycle (typically seven to 10 years).
- Over the three-year period the Fund has generated 7.5% p.a. (all figures to 31 January 2021, net of fees) to outperform the peer median by 2.0% p.a. Shorter-term performance over the one-year period has been markedly stronger, with the Fund delivering 6.3% to outperform the peer median by 5.0%. Over five and ten years, performance has been healthy at 8.5% p.a. and 8.6% p.a. respectively, both above peer medians and ahead of objectives.
- Notably, both the Fund's Sharpe and Information Ratios are higher than the peer median over all time periods assessed, indicating superior risk-adjusted returns. The Fund's drawdown track record is in line with the peer median.
- During the COVID-19 led market drawdown, the Active Asset Allocation and underlying managers' stock selection outcomes combined delivered a measure of defensiveness relative to its SAA and strong recovery outcomes compared to peers. However, the Fund's deepest drawdown was -14.3%, slightly better than the peer median and reflective of

higher market beta factors within the strategy. This is consistent with the higher conviction style employed by the Manager, which has also contributed to the Fund's robust recovery of 11.3% over the last six months to January 2021.

Overall

- Lonsec has upgraded the Fund to a **'Recommended'** rating at this review. The investment team led by CIO, Thadeus McCrindle and Lead Portfolio Manager, Tom Nitschke, is capable and generally 'punching above their weight' for a small investment team relative to the peer group. The Fund offers an exposure to well-diversified asset classes via quality underlying managers, and performance to-date has been strong with the decision-making framework viewed as robust.
- However, beyond the CIO and Portfolio Manager, the level of experience in asset allocation, manager selection and portfolio construction is low relative to peers, representing elevated key person risks. Finally, Lonsec notes the evolving active asset allocation process requires continued assessment over time and will monitor this at future reviews.

People and Resources

Corporate overview

Sandhurst Trustees (the 'Manager') is the investment management services group within Bendigo and Adelaide Bank. The Manager's focus is on active asset allocation and risk management, implemented via a multi-manager and multi-index fund allocation process across a range of asset classes. As at February 2021, Sandhurst managed $4.9 billion across a suite of multi-asset class products. Sandhurst Trustees is also the Responsible Entity of the Fund.

Sandhurst Trustees, established in 1888, has evolved beyond its traditional trustee roots into a full service wealth manager offering managed funds, superannuation, commercial loans, corporate trustee and custodial services. In 1992, Sandhurst Trustees merged with the Bendigo Building Society, which became Bendigo Bank, which in turn was merged into Bendigo and Adelaide Bank in 2007. Sandhurst is a wholly-owned subsidiary of the Bendigo and Adelaide bank, Australia's 5th largest bank, listed on the ASX.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
TOM NITSCHKE	PORTFOLIO MANAGER	13 / 13
THADEUS MCCRINDLE	CIO/HEAD OF INVESTMENTS	19 / 15
LEWIS EINARSON	INVESTMENT ANALYST	5 / 4
DOM CHIUCHIOLO	INVESTMENT ANALYST	5 / 3
SHIRLEY HE	INVESTMENT ANALYST	3 / 3

The Sandhurst Diversified Funds investment team is responsible for the investment strategy, asset allocation, underlying manager strategy selection and ongoing monitoring of the Fund. Profiles of the five team members below:

Tom Nitschke is the Lead Portfolio Manager of the Sandhurst Diversified Funds. Nitschke has over 13 years' industry experience with the last seven as lead portfolio manager of the Sandhurst Diversified Funds. His responsibilities include active asset allocation, portfolio performance, investment strategy and manager selection. He has a background in manager research and selection, SAA/TAA, capital markets research and asset allocation process improvement. Nitschke has held roles at Adelaide Managed Funds (part of Adelaide Bank), before its merger with Sandhurst, and was part of the pioneering team which launched and managed the Bendigo Index funds in 2011. In 2014, he was appointed to the current position of portfolio manager.

Thadeus McCrindle, Chief Investment Officer at Sandhurst, has over 18 years' industry experience with prior roles in credit and fixed income portfolio management, multi-asset portfolio management, manager and capital markets research, active asset allocation and portfolio construction. His tenure covers roles at JP Morgan and Bendigo and Adelaide Bank. McCrindle holds a return-generation and strategy oversight function within the team. He is also responsible for fixed income funds and superannuation products at Sandhurst, and spends approximately half his time with the Diversified Funds team.

Lewis Einarson, Investment Analyst, joined the Bendigo and Adelaide Bank group in 2015. He was initially in the bank's Treasury department, working in asset securitisation, before joining the Sandhurst investment team. Einarson is primarily responsible for Australian equities, property and asset allocation. He received the CFA Charter in 2019.

Dom Chiuchiolo, Investment Analyst, comes from the bank's graduate program, having spent time in Statutory and Regulatory reporting and Securitisation. He joined the investment team in 2018 and has primary focus on the global equities asset class, performance reporting and asset allocation. He received the CFA Charter in 2021.

Shirley He, Investment Analyst, joined the Sandhurst investment team in 2018. She has a lengthy academic background, having graduated with a Bachelor of Finance, she then stepped into a teaching and research assistant role in the University of Adelaide's Business School. Her current responsibilities include fixed income and alternatives asset classes, strategic and tactical asset allocation research.

All analysts also contribute to the manager research, selection and manager performance reviews. For new manager considerations, Mercer asset consultants will provide a shortlist of recommended managers, which will then be researched by the team, including site/personnel visits before being selected for portfolio inclusion. The analyst team conducts asset allocation research projects as directed by the two senior team members.

Remuneration / alignment of interests

The investment team's remuneration structure comprises fixed and variable components. The variable component is

weighted accordingly: 25% weighting to investment outcomes and performance; 25% weighting to behavioural aspects and qualitative factors; 25% weighting to profitability of the Manager and; 25% weighting to profitability of the parent organisation. The structure is designed to incentivise investment performance and align investor and investment staff interests.

Asset consultant

The Sandhurst investment team draws on a wide range of consultants as part of their research into asset allocation and manager selection decisions. These include Mercer, Strategas and also the internal resources of the bank, which include Group Treasury, Economics and Market Research, and the fixed income team. External asset consultants can be used, both for idea generation and asset allocation matters. In particular, Sandhurst benchmarks its expected risk and return assumptions against external consultants' capital market assumptions and peers as a sense check.

Asset Allocation

Strategic asset allocation

Reviewed every three years, the process of Strategic Asset Allocation (SAA) is to construct a neutral investment plan for the full market cycle, approximately seven to 10 years. The SAA forms the neutral position in which active asset allocation references. A SAA review is presented to the Sandhurst Investment Committee, with changes recommended for approval by the committee.

The SAA process starts with setting capital market assumptions, based on past asset and market data on returns, volatility and correlations. The model assumes historical volatility and correlations persist in the market cycle ahead, however the investment team normalises returns for believed anomalies. Capital market assumptions are cross analysed with inputs from consultants (Mercer, Strategas) as well as various market and research participants including the bank's internal teams in Treasury, Economics and Fixed Income. Optimisation of the SAA, calibrating risk-return within a set of constraints is undertaken, applying progressive risk-level exposures across the five growth-defensive Diversified Fund profiles. As a risk control measure, the resilience of the portfolios are tested in various conditions including hypothetical shocks. Finally, the portfolio's diversification levels are cross-checked against industry peers.

The Fund's asset allocation has an 80%/20% Growth/Defensive profile and as at February 2021 is summarised in the table below.

Asset allocation

ASSET CLASS	SAA BENCHMARK	MIN	MAX	CURRENT ALLOCATION
AUSTRALIAN EQUITIES	28%	15%	50%	34%
GLOBAL EQUITIES	28%	15%	50%	37%
EMERGING MARKETS	4%	0%	50%	10%
PROPERTY AND INFRASTRUCTURE	10%	5%	22%	1%
ALTERNATIVES	10%	0%	20%	6.5%
AUSTRALIAN FIXED INTEREST	7.5%	5%	25%	8%
GLOBAL FIXED INTEREST	7.5%	5%	25%	2.5%
CASH	5%	0%	25%	1%

Tactical/Dynamic asset allocation

The Manager's Active Asset Allocation process takes an intra-market cycle view of 12 to 18 months, based off outcomes from the investment team's monthly meetings.

The Active Asset Allocation decision outcomes are fundamentally anchored, incorporating five major factors, Valuation, Momentum, Sentiment, Liquidity and Quadrant (economic regime). The final two factors were added recently and weightings recalibrated. Valuation (35% weight) for each asset class is conducted monthly and a five-level valuation score is assigned. Momentum and Sentiment factors (17.5% weight each) are also measured, guiding position entry and exits. Finally liquidity (20% weight) and Quadrant (10% weight) as newly introduced factors are also considered. Each tradeable asset class is assigned a score which guides its overall weighting. Asset class tilt decisions are then made by the portfolio manager in conjunction with the CIO.

Macro data flow and liquidity conditions help build their view on the current market cycle. The analysis of macro data flow formulates the team's views of where the market cycle is positioned within a four quadrant growth-inflation regime framework. This also guides their over/under weights to specific asset/sub-asset class positions. Finally, market risk analysis is conducted to assess positions against extreme events. Returns are regularly monitored versus a select peer group.

The team utilizes a range of dashboarding signals (both micro and macroeconomic indicators) as current/backward and forward-looking indicators to monitor markets – liquidity conditions, economic region's growth metrics, asset class indicators/inflection points, short and medium-term trends. Bloomberg systems are used as the primary tool for this.

Research Approach

The Manager has both a quantitative and qualitative research approach in its SAA and TAA process. Research is fundamentally anchored, informed by a wide range of metrics and dashboarding tools, and complemented by internal and external consultant views.

Sandhurst relies on an external asset consultant (Mercer) when developing an initial screen of managers for potential inclusion in the Fund, ensuring the quality of managers shortlisted for Sandhurst's further due diligence remains sufficiently high. The investment team undertake a mix of both qualitative and quantitative research on this shortlist. Analysis of a new manager's suitability within the wider portfolio is also conducted. This research process is relatively extensive and thorough, incorporating peer review and approvals from the CIO and portfolio manager and/or Investment Committee. Underlying manager changes are only considered when conviction in the underlying manager's ability to deliver on its objectives have been compromised over a protracted period. That being said, manager research is a less material component of the investment process given the focus on asset allocation being the major driver of returns.

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Portfolio Construction

Overview

Portfolio construction is undertaken by the lead portfolio manager with the objective of balancing risk and return budgets within the SAA framework and TAA outcomes. The quantitative optimisation process informs the sub-asset class allocations and qualitative judgement is also applied. In constructing the portfolio, the investment team aims to eliminate diversifiable macro-risks, control beta and balance sub-asset class and currency risk exposures, within the context of return targets.

Underlying manager investment styles are balanced to form a style-neutral portfolio across asset classes, and there is a mild exposure tilt toward mid and small caps in equities. Fixed income exposures aim to strike a balance between credit quality, global holdings and local holdings, all within specified risk-return constraints. The majority of underlying managers are accessed via pooled vehicles. Portfolio Managers assess total portfolio risk exposures and balance manager allocations accordingly. Both qualitative and quantitative measures are used to achieve this. The team, informed by fundamental research, has moved toward focused high conviction positions. In addition, scenario modelling of potential changes is conducted to ensure a meaningful contribution to the portfolio. The lead portfolio manager implements portfolio changes with approval from the CIO.

Ongoing monitoring of manager performance and quarterly in-depth reviews are conducted. Stress and scenario testing of portfolios is performed on a regular basis to ensure portfolio resilience. Diversification levels are calibrated within the risk management framework and are benchmarked against industry peers.

Underlying manager allocation

Australian equities

- Alliance Bernstein Investment Management
- Bennelong Australian Equity Partners
- Ellerston Capital
- Investors Mutual
- Macquarie Investment Management

Global equities

- Antipodes Partners
- Franklin Templeton Investments
- T. Rowe Price

Property and Infrastructure

- Vanguard Investments

Australian & International Fixed Interest

- Janus Henderson Investors
- Payden & Rygel
- Vanguard Investments

Alternatives

- ETFS Metal Securities

Cash

- Sandhurst Trustees (Internal)

Risk Management

Risk limits

The Sandhurst investment team believes that strong risk management starts with a detailed understanding of the underlying exposures, together with a deep appreciation of current and potential market conditions. The investment team controls risk at a broad level by diversifying across asset classes within predetermined range limits. Asset allocations are monitored daily where +/-1% movements from targets are flagged and a tolerance of +/-2% set to ensure targeted asset allocations are maintained.

Quarterly, the team assesses underlying risk exposures via holdings analysis with holdings data is collected from the underlying managers. Analysis into equity positions is conducted in Bloomberg, where the team analyse total look-through exposures such as geography, sector, and fundamentals. Holdings analysis for fixed income incorporates fund/asset class duration analysis, regional and sector exposures and yield analysis, as well as credit risk assessments. The outputs are aggregated at the asset class level to form aggregate risk positions for the Fund. Asset class risk exposure metrics include equity and credit betas, duration and currency exposures.

Risk analysis reviews current and potential positions and takes holdings analysis outputs to analyse expected portfolio outcomes against a range of potential economic scenarios. This process occurs concurrently with the AAA process and can shape asset allocation outcomes. Scenario analysis and stress-testing are conducted with Bloomberg PORT.

Risk monitoring

Sandhurst works within the Bendigo and Adelaide Bank's governance and risk management framework; incorporating compliance, operational risk management, credit and market risk. The Governance framework is clearly defined with roles and responsibilities clearly articulated and evidenced by a

range of regular meetings and reporting.

The Sandhurst Investment Governance Committee acts as another separate layer of risk and governance oversight, which ensures that the Fund operates within the product disclosure and Board approved SAA ranges and associated operational ranges. The committee approves changes to major investment policies, SAA range limits and represents the investor, holding the Manager accountable for decisions, reviewing performance and ensuring delivery of objectives. Portfolio positions are additionally monitored by middle office and internal legal and compliance teams.

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Implementation

The Fund invests primarily via pooled vehicles, into a combination of external actively managed specialist funds and passively managed index funds, with a minor allocation to internal products for cash allocations. Sandhurst uses futures for the majority of tactical positions and cash flows are primarily used to rebalance asset class allocations. Rebalancing is flagged when weightings move 1.0% from target levels and is actioned within the +/-2.0% tolerance limit. To the extent possible, the investment team uses the overlay of derivatives/ futures to gain necessary exposures in order to minimize transaction and taxation costs.

Currency management

The investment team can employ derivatives to hedge currency exposures at targeted levels within their risk-management frameworks. Some of the underlying funds that the Fund invests in employ currency hedging through the use of forward foreign exchange contracts to manage currency risk. The returns of those underlying funds that employ currency hedging are thus relatively unaffected by currency fluctuations.

Risks

An investment in the Fund carries a number of standard investment risks associated with investment markets. These include performance, liquidity, counterparty, market and tax risks. These and other risks are outlined in the PDS and should be read in full and understood by potential investors. Lonsec considers the following to be the major risks:

Market risk

Investment returns are influenced by the performance of the market as a whole. This means that investments can be affected by things like changes in interest rates, investor sentiment and global events, depending on which markets or asset classes are invested in and the time-frame considered.

Currency risk

There is the chance that the value of an unhedged foreign investment, measured in Australian dollars, will decrease because of unfavourable changes in currency exchange rates. In the case of hedged investments, currency hedging involves costs and implementation risks due to the volatility of currency and securities markets, and there are impacts for the income distributions from those underlying funds. When the Australian dollar is appreciating relative to other currencies, the gains from currency hedging may result in significant additional income being distributed. Conversely, when the Australian dollar is depreciating relative to other currencies, the losses from currency hedging can totally offset other income received, resulting in no income distribution from those underlying funds (that employ currency hedging) for the period. This may impact the Fund's distribution to investors.

Derivative risk

The primary risks associated with the use of derivative contracts are: the values of the derivative may fail to move in line with the underlying asset (a performance difference); the potential lack of liquidity of the derivative; the Fund or underlying funds may not be able to meet payment obligations for the derivative contracts as they arise; and the counterparty to the derivative contract may not meet its obligations under the contract.

Bendigo Growth Wholesale

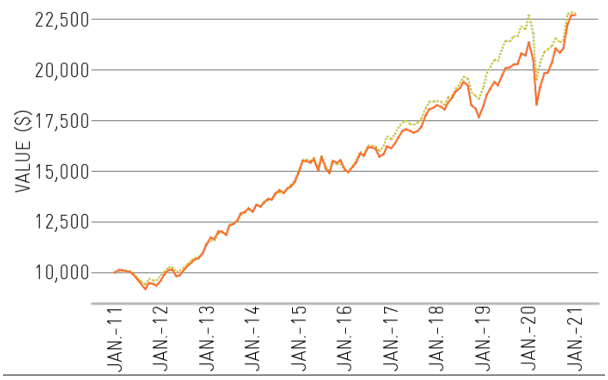
Quantitative Performance Analysis - annualised after-fee % returns (at 31-1-2021)

Performance metrics

	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	6.26	1.29	7.54	5.58	8.52	7.60	8.55	7.42
STANDARD DEVIATION (% PA)	15.41	15.73	10.15	10.21	8.41	8.34	7.72	7.70
EXCESS RETURN (% PA)	5.83	0.85	0.29	-1.62	-0.16	-0.99	-0.06	-1.17
OUTPERFORMANCE RATIO (% PA)	66.67	58.33	47.22	40.28	45.00	43.33	50.00	44.17
WORST DRAWDOWN (%)	-14.28	-15.05	-14.28	-15.05	-14.28	-15.05	-14.28	-15.30
TIME TO RECOVERY (MTHS)	8	8	8	8	8	8	8	NR
SHARPE RATIO	0.39	0.06	0.62	0.42	0.84	0.73	0.80	0.67
INFORMATION RATIO	2.15	0.34	0.12	-0.82	-0.08	-0.57	-0.03	-0.58
TRACKING ERROR (% PA)	2.71	2.73	2.33	2.04	1.98	1.76	1.74	1.81

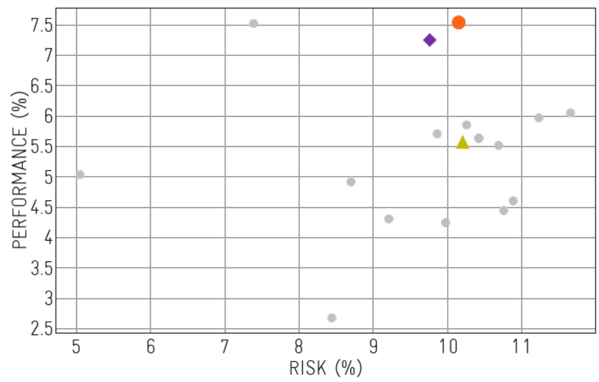
PRODUCT: BENDIGO GROWTH WHOLESALE
LONSEC PEER GROUP: MULTI-ASSET - 61-80% GROWTH ASSETS - MULTI-MANAGER
PRODUCT BENCHMARK: LONSEC STRATEGIC MULTI-ASSET (TRADITIONAL) 70% GROWTH INDEX
CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

Growth of $10,000 over 10 years



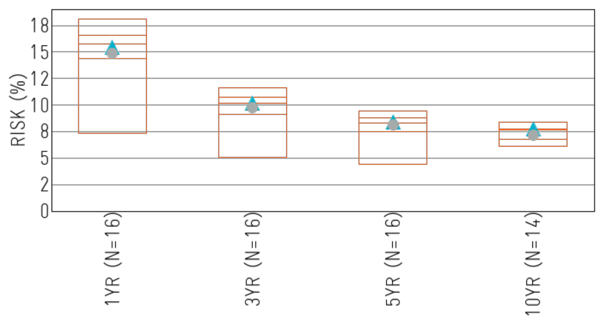
BENDIGO GROWTH WHOLESALE
LONSEC STRATEGIC MULTI-ASSET (TRADITIONAL) 70% GROWTH INDEX

Risk-return chart over three years



BENDIGO GROWTH WHOLESALE
LONSEC STRATEGIC MULTI-ASSET (TRADITIONAL) 70% GROWTH INDEX
PEER MEDIAN
PEERS

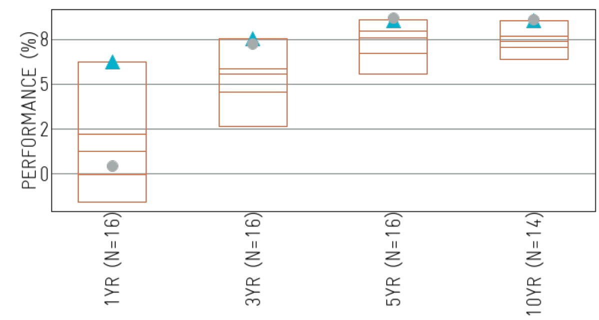
Quartile chart — risk



BENDIGO GROWTH WHOLESALE
LONSEC STRATEGIC MULTI-ASSET (TRADITIONAL) 70% GROWTH INDEX

N: NUMBER OF ACTIVE FUNDS

Quartile chart — performance



BENDIGO GROWTH WHOLESALE
LONSEC STRATEGIC MULTI-ASSET (TRADITIONAL) 70% GROWTH INDEX

N: NUMBER OF ACTIVE FUNDS

ANALYST: LEON KHOO | APPROVED BY: SEBASTIAN LANDER

Lonsec

Bendigo Growth Wholesale

Glossary

Total return 'Top line' actual return, after fees

Excess return Return in excess of the benchmark return

Standard deviation Volatility of monthly Absolute Returns

Tracking error Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)

Sharpe ratio Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)

Information ratio Relative reward for relative risk taken (Excess Returns / Tracking Error)

Worst drawdown The worst cumulative loss ('peak to trough') experienced over the period assessed

Time to recovery The number of months taken to recover the Worst Drawdown

Snail Trail A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned entity with a multi-brand strategy of providing leading financial services research and investment execution. Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

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