AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

L1 Capital International Fund (APIR: ETL1954AU)

March 2019

INDEPENDENT INVESTMENT RESEARCH

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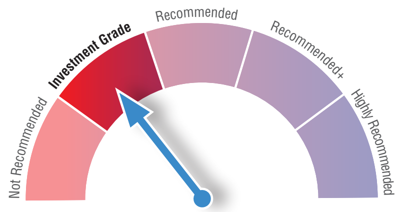
Note: This report is based on information provided by the company as at March 2019

Rating



Key Investment Information

Name of Fund	L1 Capital International Fund
Investment Manager	L1 Capital International Pty Ltd
Investment Type	Unlisted unit trust
APIR Code	ETL1954AU
Inception Date	1 March 2019
NTA (Pre-tax) (20 March)	1.01
Applications / Redemptions	Daily
Distribution Policy	Semi-annual, subject to distributable income
Benchmark	MSCI World Net Total Return Index in AUD
FX Exposure	Unhedged
MER	1.2%
Performance Fee	15% of net return in excess of benchmark subject to HWM

Fees Commentary

The Fund's annual management fee and performance fee level and hurdle are slightly below the peer group average. We would note that if we were to consider the peer group as a whole when combining the MER plus performance fees and relevant hurdles the peer group is relatively expensive when compared to Australian equities larger cap mandates.

Portfolio Characteristics

Number of stocks	20-40
Target geography (typical)	Developed markets
Max Position (at time of investment)	10.0%
Min Position (typical)	2.0%
Cash levels	0-25%
Shorting	No
Leverage	No

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

OVERVIEW

The L1 Capital International Fund ('the Fund') was issued 1 March 2019. The portfolio is managed by L1 Capital International Pty Ltd (the 'Manager'), a recently formed 50-50 joint venture (JV) between L1 Capital Pty Ltd ('L1 Capital') and Perpendo Investment Management Pty Ltd ('Perpendo'). The Fund offers investors exposure to a concentrated and high-conviction portfolio of global equities investments comprised of long only positions and is unhedged to the Australian dollar. The portfolio is based on a fundamental bottom-up investment process that places a strong emphasis on high quality companies and with a focus on mitigating downside risks over the longer term. The Manager is a long-term investor, generally adopting a rolling 5-year investment horizon, but will actively manage position sizes over time within a valuation range. While the investment team is recently formed, the individual team members all have highly relevant prior experience in managing concentrated, high conviction global equities mandates and based on investment processes that are consistent with the Fund. Through equity ownership, co-investments in the Fund and the performance fee structure, there is a strong alignment of interest between the Manager and investors. Both L1 Capital and Perpendo have exhibited a genuine committment to the Manager and the Fund, including by way of a detailed shareholder agreement that, amongst other factors, underpins the financial viability of the Manager for at least a four year term.

INVESTOR SUITABILITY

The Fund's concentrated and unhedged portfolio has the potential to create material risk. Somewhat offsetting this, however, is the Manager's strong focus on quality companies and preservation of capital over the investment horizon. The portfolio may perform materially different to both peers and international equities markets in general on account of a highly selective investment process and the portfolio's concentrated nature (potentially by stock, sector, geography, thematic). More broadly, many domestic investors exhibit a home country bias, with Australian investor preferences often biased towards products and services that depend substantially on the performance of the Australian economy. Not only is the domestic economy facing a relatively subdued outlook but many large incumbent domestic companies are also facing substantial global competitive forces. The Fund provides the opportunity to help address this as well as access potentially stronger sources of growth and provide something of a hedge to the global competitive forces that may adversely impact some domestic companies.

RECOMMENDATION

IIR ascribes a "INVESTMENT GRADE" rating to the L1 Capital International Fund. While newly formed, the investment team has a high degree of experience in managing global equities mandates, with the CIO and PM most recently engaged with the Lowy Family Group and Tesco Pension Investment, respectively. Furthermore, the key members of the team have been managing global equities mandates based on an investment process that is largely consistent with the Fund. That is, the investment process that the portfolio is based on is tried and proven over a full market cycle. That said, the key risks of the Fund, other than that naturally pertaining to any investment strategy, is the newly formed aspect of the Manager. While we sense a strong collaborative team culture and note the strong vested interest by way of equity ownership and co-investment in the Fund, the individual members have not previously worked together. Furthermore, while we understand each member has a track record of achieving strong risk adjusted returns and protecting capital and that each team member has been a key contributor to performance in their prior roles (all worked in relatively small teams), these track-records are either not independently verifiable and/or were achieved in the context of operating as part of other teams. Over time, these risks will mitigate and, assuming the Manager achieves its performance objectives, may well be the basis of a ratings upgrade over time given the inherent strength of the investment team and the eminently sensible investment process.

SWOT ANALYSIS

Strengths

- While the team is newly formed, all members are experienced and proven global equities investors. We understand each member has a track record of achieving strong risk adjusted returns and protecting capital and that each team member had been a key contributor to performance in their prior roles (all worked in relatively small teams).
- The investment universe and investment process reflects what the key team members have been doing for the last 10 plus years. Many of the companies in the portfolio and watchlist are companies that the team has been assessing and investing in for many years. While the Fund and team are newly formed, the investment style and approach replicates long-standing and proven processes.
- There is a strong alignment of interest between the Manager and investors. All members of the investment team have equity in the Manager and have invested in the Fund including a large investment by the CIO, David Steinthal. Further, the business model is based on performance fees that are only payable by generating above benchmark returns to clients.
- All investments must surpass a risk adjusted return hurdle and there is a strong emphasis on understanding the downside risks of any investment. We believe that prior roles, notably one of Australia's largest and most sophisticated family offices in the Lowy Family Group for David Steinthal and a multi billion pound pension fund (Tesco Pension Investment) for David Khaw, have served the team well in this regard.
- From a new fund perspective the L1 Capital partnership means the Manager does not have the operational risk that many new funds would have as the Manager benefits from being able to utilise L1 Capital's experienced and seasoned operational team with established counter parties and processes.

Weakness

- While the individual team members all have directly relevant experience in global equities mandates and we have a high degree of conviction in the quality of the team and investment process, the team members lack performance track-records that are either not independently verifiable or not largely attributable to each individual member. The investment rating reflects this: IIR's conviction in team, process, and the repeatability of that process, yet a recognition that the absence of separately attributable track-records adds a material layer of risk that established teams are not subject to. Over time, should the Manager achieve its stated investment objectives, this risk will gradually disappate.
- While there is a strong team culture, the team itself is newly formed and untested as a collective. This introduces a degree of risk.
- The Fund's annual management fee and performance fee level and hurdle are slightly below the peer group average. We would note that if we were to consider the peer group as a whole when combining the MER plus performance fees and relevant hurdles the peer group is relatively expensive when compared to Australian equities larger cap mandates.

Opportunities

- Australian investor preferences are often biased towards products and services that depend substantially on the performance of the Australian economy. This domestic bias can lead to investment outcomes that do not benefit from global diversification. The Fund creates an opportunity to help address this issue.
- With a relatively small starting FUM, the Manager will in no way be capacity constrained over the foreseeable future. This opens the investable universe to lower market capitalisation opportunities that larger scale global mandates would not meaningfully be able to invest in.

Threats

- As with any small investment team, there is key person risk in the form of both David Steinthal and David Khaw.
- Investors should be aware that the portfolio's concentrated nature and unhedged portfolio may result in heightened stock, sector and geographic-specific risks and volatility.

PRODUCT OVERVIEW

The L1 Capital International Fund was issued in 1 March 2019 as an unlisted managed fund. The Fund's investment portfolio is managed by L1 Capital International Pty Ltd, a recently formed 50-50 JV between L1 Capital Pty Ltd ("L1 Capital") and Perpendo Investment Management Pty Ltd ("Perpendo"). Perpendo is wholly owned by the three member investment team and will be led by CIO and majority owner David Steinthal, who most recently was engaged as Senior Portfolio Manager for a global equities mandate for the Lowy Family Group.

Under the JV agreement, L1 Capital will provide funding, license, systems, operations, compliance, and branding and distribution capabilities, allowing the Sydney-based team to focus on investment management. This arrangement is based on a detailed shareholder agreement between the two parties and safeguards the financial viability of the Manager for at least a four year period. There is an evident long-term commitment from both parties, with David Steinthal having made a large, long-term investment in the Fund at launch, as well as co-investments from the other two team members, and the founders of L1 Capital similarly making large, long-term investments in the Fund.

The Fund's investment objectives are to provide capital growth and income through investing in a concentrated portfolio of long only positions in international listed securities, that will be actively managed with a focus on capital preservation. The Manager will typically invest in a select number of between 20 to 40 companies (typically 25 positions weighted to 3% to 5% of portfolio NAV), that are considered as both high quality and attractively valued and in industries the Manager understands well. The Manager typically seeks to identify and invest in companies that have strong, durable business models and industry positions, generate attractive returns on capital, have compounding cashflow, conservative balance sheets, and aligned management with a strong capital allocation track record.

The portfolio will have a developed markets focus (North America, Europe, Asia, Aust/NZ), partly on account of the Manager imposing a strong governance filter and whereby it eschews companies without adequate governance and transparency. Therefore the Manager tends to invest in developed markets with selective investments in Asia where it is comfortable with particular investments.

The Manager will invest across the market capital spectrum, albeit typically not below $2 billion market capitalisation. The Manager is a long-term investor, usually adopting at least a rolling 5-year investment horizon in assessing any potential investment, and seeks to benefit from the excessive short term focus of the market. That said, position size is actively managed in relation to share price, valuation, and portfolio construction dynamics.

While the Manager and Fund is newly formed, all three members have a long tenure in managing global equities mandates and doing so with an investment process that is consistent with the Fund. The investment style is very much fundamental bottom up, with the Manager undertaking detailed business and industry due diligence with a wide variety of stakeholders in order to provide a more complete cross-check of a company's prospects. While the Manager is style agnostic, the investment approach has a Quality-At-a-Reasonable-Price (QARP) orientation and, while very cognisant of valuation, is in no way a 'value' investment manager.

Reflecting this QARP emphasis, the investment process revolves around, first and foremost, the identification of quality companies. The Manager will only invest in companies it assesses as 'Excellent' to 'Good'. The business must be understandable, reliable and financially assessable. Aiding the Manager in this regard, the investment team has almost invariably focused on companies and industries that they have followed for many years. Conversely, the Manager will eschew certain sectors that do not correspond with the quality it seeks to identify or industries requiring highly technical knowledge (such as biotech companies).

While all investments must surpass a risk adjusted return hurdle, the Manager does not emphasis maximising returns. Rather, the emphasis is understanding the downside risks of any investment and optimising risk adjusted returns. We believe that prior roles, notably one of Australia's largest and most sophisticated family offices in the Lowy Family Group for David Steinthal and a multi billion pound pension fund (Tesco Pension Investment) for David Khaw, have served the team well in this regard.

With respect to portfolio construction, restrictions / guidelines with regards to minimum, maximum, and typical portfolio size are designed to strike a prudent balance between conviction and hubris (not being excessively positioned in any single investment or theme). As at the date of this report, the Fund is 90% invested with the portfolio reflecting the Manager's investment style and processes. Moving forward, marketing and distribution initiatives will target a mix of sophisticated investors, institutions, and retail investors.

The Manager intends to pay a distribution semi annually, subject to available income. As a global equities mandate, it is reasonable to assume total returns will predominantly be in the form of capital relative to income and that income will have very limited franking credits attached.

In relation to fees, the MER is equal to 1.20% p.a. (including GST and RITC) of the value of the portfolio. In addition to the management fee, there is a performance fee equal to 15% over benchmark, subject to any underperformance being recouped and there must be positive absolute performance (adjusted for distributions) in the Performance Period (otherwise positive relative performance is carried forward to the next Performance Period).

MANAGEMENT GROUP PROFILE

The Manager is a global investment manager established as a joint venture between the parent company of L1 Capital Pty Ltd and Perpendo Investment Management Pty Ltd.

Perpendo was established in 2018 by David Steinthal and is 100% owned by its investment team. The Manager is led by David Steinthal as the Chief Investment Officer, David Khaw as the Portfolio Manager and Chen Lin as the Senior Investment Analyst. All three members come with directly relevant global equities investment management experience and in a style consistent with that which the Fund is based on.

L1 Capital is a global investment manager with funds under management of approximately AUD$3 billion. L1 Capital currently manages capital for a range of investors including large superannuation funds, endowment funds, private banks, financial planning groups, asset consultants, family offices, high-net worth individuals and retail investors. L1 Capital was established in 2007 by Raphael Lamm and Mark Landau, and currently employs a team of 9 investment personnel and 5 operations staff in its Melbourne office.

Under the JV agreement, L1 Capital provides funding, license, systems, operations, compliance, branding and distribution capability, allowing the Sydney-based investment team to focus on investment management. It is a genuine long term commitment from both parties. The founders of L1 Capital, Mark Landau and Rafi Lamm, have made a large, long term investment in the Fund at launch. Similarly, David Steinthal and, to a lesser degree, David Khaw and Chen Lin have made large, long term investments in the Fund.

Furthermore, the individual members of the Manager have launched the Fund on the basis that they see themselves doing this for the rest of their respective careers. All members left good existing positions and, it is our understanding, left on very good terms with previous employers. David Steinthal spent considerable time ensuring there was a mutual understanding and commitment from L1 Capital to the Manager, and vice versa.

While the JV is relatively newly formed, the relationship between the two parties, or the key principals of the two parties, goes back further in time. Specifically, David Steinthal and Lev Margolin, the third employee at L1 and currently in the position of Portfolio Manager in the L1 Capital Long Short Fund, were previously colleagues at Babcock & Brown dating back to 2009.

Subsequent to Babcock & Brown, David spent approximately nine years with the Lowy Family Group co-managing a concentrated portfolio of global equities. During this period, David stayed in contact with Lev Margolin who, upon David's return to Australia in 2017, suggested he make contact with the founders of L1 Capital to explore opportunities. Subsequently the parties had discussions and ultimately agreed to a 50:50 joint venture to launch a long only global equities fund.

David first met David Khaw approximately eight years ago while David Khaw was still based in London. Both managed funds in a very consistent manner with respect to style and process. The two stayed in contact and then reengaged once David Steinthal decided to launch the Fund.

INVESTMENT TEAM

The investment team formally came together in December 2018 after both David Khaw and Chen Lin had served out respective notice periods. During January-February 2019 the team engaged in marketing and distribution activies while the Fund itself was launched on 1 March 2019.

As befits a concentrated mandate managed by a small team, all members are generalists. Each company is assigned a primary and secondary analyst to facilitate the assessment and discussion process. While the Manager and Fund may be newly formed, the investment team members have a high degree of knowledge of the industries and companies of interest based on prior global equities investment management responsibilities.

We note that the team members have not previously worked together. That said, our sense of team culture is one of a very flat structure and consensus based discourse. While David Steinthal has ultimate authority regarding the portfolio, to date there have been no instances of disagreement regarding investment candidates, a harmony no doubt aided by the team members having been grounded in very similar investment processes during prior employment. While newly formed, the investment team members are replicating what they have been effectively doing for the last 10 plus years, investing in the same investment universe of companies that the individual team members have been investing in for many years and based on largely the same investment style and approach.

As noted, all team members are experienced and proven global investors, We understand each member has a strong track record of strong risk adjusted returns and protecting capital and that each team member has been a key contributor to performance (all worked in relatively small teams). The only point we would note to this is IIR is not able to independently verify these statements. However, suffice to say, working with the Lowy Family Group for nine years in a senior role and leaving on good terms speaks for itself.

The investment team's experience most recently includes managing large FUM for one of Australia's largest and most sophisticated family offices and a multi billion pound pension fund. On this basis, we believe it is reasonable to agree with the Manager's statement that it will have a "stronger focus on downside protection and risk assessment than the vast majority of peers". Further to investment temperament, the Manager can spend considerable time looking at an idea but chose not to invest where it is not completely comfortable.

There is a strong alignment of interest between the Manager and investors. The entire investment team has equity in the manager and are investing in the Fund including a large investment by the CIO. Further, the business model is based on performance fees that are only payable by generating strong returns to clients.

The members of the investment team are detailed below.

- **David Steinthal - CIO, PM.** Senior Portfolio Manager/Investment Committee Member at Lowy Family Group (LFG) 2009-18. Core portfolio of listed high quality global equities – Generalist covering wide range of sectors including financials, services, industrials, infrastructure, real estate. Based in New York and Sydney. 20 years' experience across global equities, direct listed and unlisted investments and investment banking (LFG, Babcock & Brown, UBS). B.Law, B. Com (Major in Finance with Merit).
- **David Khaw - PM.** Portfolio Manager at Tesco Pension Investment (London, 2016-18), a £4bn global equity portfolio. Generalist covering technology and consumer. Charlemagne Capital, Senior Analyst – Asian Equities (London, 2012-16). Northern Trust Global Investments, Senior Analyst – Global Equities (ex US), (London, 2008-12).17 years' total experience in global equities and equity research (Morgan Stanley, Credit Suisse). B.Com (Major in Accounting and Finance), B. Information Systems.
- **Chen Lin - Senior Analyst.** Investment Analyst at PM Capital (2014-18). Primary coverage for Japan, media, (Global), industrial automation (Global), financials and cosmetics (Asia), aged care (Australia). Asciano, Manager - Mergers & Acquisitions (2012-14). Grant Samuel, Manager - Corporate Finance (2010-12). Deutsche Bank, Analyst – Global Banking (2008-09). B.Com (Major in Accounting and Finance), B. Arts (Major in International Relations).

INVESTMENT PROCESS

Investment Philosophy

The Manager's investment philosophy rests on three core beliefs: quality and value are the key drivers of long term share price performance; markets tend to be emotional, short-term and/or backward looking; and, detailed business and industry diligence with a wide variety of stakeholders can provide a more complete cross-check of a company's prospects.

The Manager first assesses quality and, only once the quality criteria has been met, then valuation, with a potential investment required to meet both tests. The Manager's investment processes are built around the identification of the quality of a business and ultimately designed to form a view whether a business is going to improve over time.

The key questions the Manager seeks to determine include whether the business has favourable operational and financial drivers, whether the industry is well-structured, its degree of comfort with a company's positioning within an industry, and whether management is aligned with shareholders (trying to create shareholder value and deliver strong returns on invested capital). The Manager will typically eschew companies that have a high degree of financial leverage. Many targeted companies have attributes in common, including strong barriers to competition, which translates to the ability to generate high margins and high returns on invested capital and incremental invested capital.

The businesses are across industries that the Manager understands and have followed for many years. The Manager will generally not invest in industries such as bio-tech, or pharma where very specialised knowledge that the team does not have is required or companies that have cutting edge technology that may or may not prove to be disruptive.

By 'improve over time', the Manager generally assesses companies over a rolling 5-year time horizon. The Manager is by no means a 'trader', notwithstanding an active approach to position sizing in any given investment based on share price / valuation dynamics. This reflects the Manager's view that markets tend to be emotional, short-term and/or backward looking and continually present opportunities to investors who are unemotional and long term in their assessment of business potential and key issues. The Manager does not consider itself to be 'contrarian' per se, but the Manager is not afraid express a view that is contrary to 'conventional' wisdom.

The Manager's investment process is based on detailed business and industry diligence with a wide variety of stakeholders for the purpose of providing a more complete cross-check of a company's prospects. The Manager also understands that it takes considerable time to understand an industry ecosystem with the Manager having assessed its investment universe over a long period.

Positions are sized based on risk and conviction, not just return. Risk is deemed to be the likelihood of a permanent loss of capital (not stock volatility). Larger positions are held in stocks with the best risk-adjusted returns. There is an emphasis on bottom-up business investing, rather than macro forecasting, with the Manager viewing the former as a more realistic basis to forecast industry and company specific drivers than macro events. Downside risks are assessed on the basis of conservative underlying assumptions, with the Manager essentially trying to assess plausible worst case scenario outcomes to understand downside risk.

Investment Process

The Manager has delineated its investment approach in practice based on four components,

Idea Generation
While the Manager utilises quantitative screens and financial industry research as potential sources of information and idea generation, the bulk of idea generation stems from the Manager's own research and thought processes. Companies in the Manager's universe are under long-term research coverage and this understanding leads to investment ideas. Additionally, the Manager aims to capitalise on situations where a differentiated perspective and potentially a longer-term investment horizon provides a competitive advantage against an investment environment which is crowded and increasingly short-term focused.

Qualitative Assessment

To be a potential portfolio investment, the business must be qualitatively assessed as an Excellent to Good business (1 to 3 based on the Manager's rating system). Good businesses (rated 3) must be assessed to be materially undervalued to qualify as potential investments Such businesses provide a margin of safety through quality and value. The Manager does not invest in structurally challenged or declining businesses, which have a higher chance of becoming "value traps".

The quality assessment is based on multiple factors such as business drivers, industry structure, management, financial strength and business economics. While starting valuation is important, how a company performs over time is critical over the long term. The quality of "Excellent" business franchises offsets a lower valuation margin of safety.

The Manager's view on what constitutes quality is a company that demonstrates an ability to sustain a high return on capital employed. Generally, the Manager favours companies that are able to compound shareholders' wealth through: requiring limited incremental capital to support growth; or re-investing cashflows into growing the business at high returns on incremental capital; and returning excess cashflow to shareholders efficiently.

In assessing key business drivers, the Manager is seeking to determine whether there are favourable trends in long-term operational drivers supporting growth (i.e. supply/demand, asset utilisation/capacity, operational leverage, regulation).

In assessing industry structure, the Manager examines the degree of industry consolidation, rivals/substitutes, competitive intensity and the current point in the capital cycle. Further, the Manager assesses whether a business has a sustainable competitive advantage and possesses a durable barrier to entry that is difficult to replicate (e.g. technological, brand, IP, installed base, network effects, switching costs).

With respect to business economics and financial strength, the Manager considers the following. Pricing power, specifically the ability to demonstrate value to its customers supporting price growth, lead industry pricing as well as the ability to pass through cost inflation. Predictability, namely business models where it can gain a higher degree of confidence over the key drivers. High cash conversion, with the Manager valuing sustainable cash generation, not accounting earnings. Capital intensity, with the Manager focused on return on invested capital and critically return on incremental invested capital. Financial risk, whereby a quality business does not require leverage to enhance economics. The Manager analyses operating leverage, cashflow variability, debt covenants and off-balance sheet financing.

Finally, with respect to management, the Manager assesses the capital allocation track record, incentives (ideally aligned with economic value creation), and the company-wide culture. The Manager considers that for a company to be considered high quality, management must demonstrate and implement responsible ESG practices to support business sustainability.

Valuation Discipline

At the core of the approach is detailed internal financial modelling of all potential investments with the Manager seeking to understand what really drives the company's financial performance and whether the key drivers are able to be assessed. The Manager values sustainable cashflows rather than accounting earnings. There is a focus on cashflow generation and how it is allocated by the board and management.

The Manager undertakes valuation range and scenario analysis, recognising there are many uncertainties and that valuation is not a science. The valuation analysis is viewed as providing buy and sell discussion prices rather than representing buy and sell decisions per se. Valuations are undertaken based on the Manager's conservative base case assumptions and analysis, and then assesses how the range of expected investment outcomes and the assessed risk and variability of these outcomes compare to the current market price.

Valuations are cross-checked against a range of valuation methodologies, including DCF, P/E multiples, EV/EBITA multiples, sum-of- the-parts. All eligible investments must surpass a minimum rate of total return over the assessed value. For example, for companies that rate as "Excellent" or "Very Good", there is usually a minimum 10% p.a. return in a conservative but realistic base case scenario. This threshold may increase to around 12% to 15% p.a. for "Good" companies.

Portfolio Construction & Risk Management

The Manager effectively has three investment lists, specifically the portfolio, a 'bench' (typically numbering around 25 companies) and a broader investment watchlist (typically numbering around 100 companies).

The bench represents companies the Manager actively follows, have done detailed analysis and would like to invest in subject to price. The watchlist consists of companies the Manager monitors. Such companies might be peers of companies that the Manager has invested in. The Manager will often follow such companies from an industry perspective. If there is an event that creates an investment opportunity then the Manager will then prioritise such companies for further work, which may result in that company migrating to the bench or inclusion in the portfolio.

The portfolio is expected to be relatively low turnover given the Manager's strong focus on quality and long-term investment horizon. The Manager believes it would be reasonable to expect changes of approximately five investments per year on average, equating to around 20% portfolio turnover (ignoring dynamic portfolio sizing changes).

As noted, the portfolio will comprise between 20 to 40 companies, with the typical number being closer to 25 holdings. All eligible investments must score between 1 to 3 according to the Manager's internally developed quality criteria. The minimum position size is 2%, with a typical holding between 3% to 5%, and a maximum 10% limit applies. Cash is permitted to range from 0% to 25%, with the level being driven bottom up and reflecting available investment opportunities. A $1b market cap (soft limit) applies and companies with less than $2b market cap have a maximum weighting of 4% (soft limit).

Position size is a function of: confidence level and due diligence; asymmetry of range of return expectations; portfolio risk management considerations (discussed below); market capitalisation, enterprise value and financial leverage; stock liquidity; and, a balance between having conviction and avoiding hubris.

Examining each of these considerations further:

- Confidence level and due diligence - Conviction combines quality of business, knowledge and valuation. There needs to be a degree of predictability of key business drivers and financial sensitivities informs the expected range and probability of forecasts;
- Asymmetry of range of return expectations - There needs to be a low likelihood of a permanent capital loss over the investment horizon which is critical for larger positions and upside optionality.
- Market capitalisation, enterprise value and financial leverage - The Manager is automatically cautious when considering investments in businesses with meaningful financial leverage;
- Security liquidity - Liquidity is rarely a constraint (given the relatively large market cap target companies) but always a consideration;
- Balance between having conviction and avoiding hubris - This is reflected in the portfolio size constraints, specifically a minimum position size of 2% (cost), a typical position size of 3% to 5% and a maximum position size of 10% (cost).

Risk is assessed and controlled at four different levels plus a macro risk overlay:

- Business Level. The Manager assesses a variety of risks, which may preclude buying or limiting the investment weight, including: financial forecasts; balance sheet; company specific considerations. The major focus is "How much capital could we permanently lose if we are wrong?"
- Sector/Industry Level. The Manager assesses industry dynamics, such as regulation, technology, and competition.
- Country/Regional. The Manager's quality filter and assessment of governance will naturally skew it towards developed markets. From a risk perspective, there is a focus on economic exposure, not country of listing/incorporation.
- Portfolio Level. The contribution to risk of each holding must be consistent with conviction and depth of research conducted.
- Macro economic risks overlay. The Manager will assess domestic and global economic indicators, for e.g. interest rates, unemployment, GDP, inflation, as well as geopolitical and exogenous shocks, for e.g. portfolio exposure to credit event, war, sovereign risk.

The Company's portfolio as at March 2019 is detailed below.

Portfolio by Industry [1]	Weight
Internet	15
Consumer Discretionary	12
Payments	10
Software	9
Consumer Staples	9
Commercial Services	9
Banks	8
Exchanges	7
Health Care	6
Materials	4
Industrials	4
Cash	10

Portfolio Revenue by Region [2]	Weight
North America	48
Western Europe	22
Asia Pacific	15
Rest of World	5
Cash	10

Portfolio by Market Cap (in US$)	Weight
$100 billion +	37
$50-100 billion	17
$10-50 billion	22
$2-10 billion	7
< $2 billion	7
Cash	10

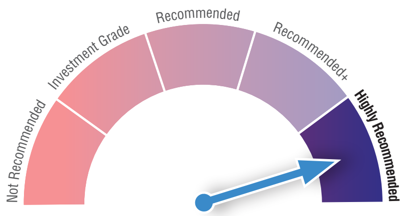
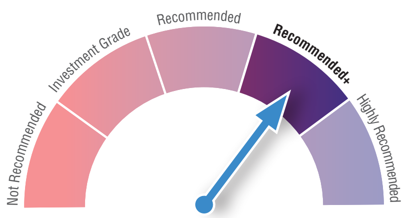
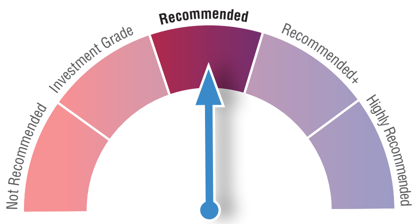
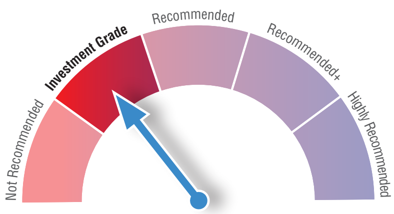
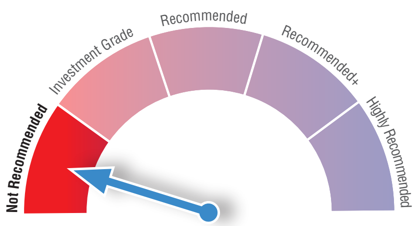
(1) Industry classification is defined by the Manager to best describe the nature of the underlying business.

(2) Estimated by the Manager on a look through basis.

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system

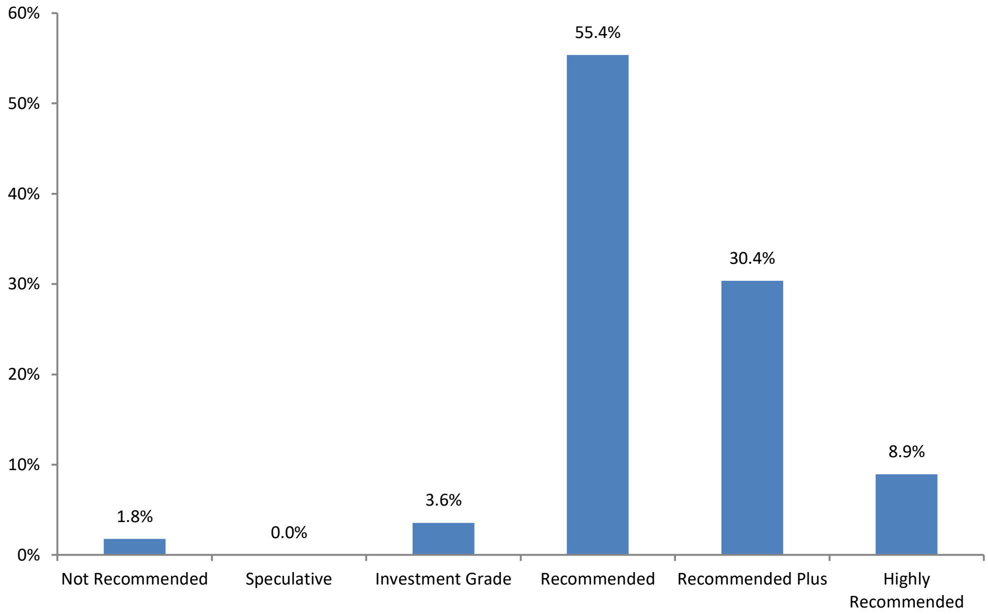
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	**83 and above**
	This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.
Recommended +	**79–83**
	This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.
Recommended	**70–79**
	This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.
Investment Grade	**60-70**
	This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.
Not Recommended	**<60**
	This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



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