# Qualitative Fund Research

## Ausbil Global SmallCap Fund

27 March 2024

RESEARCH IP Rating

*The views and opinions in this document are considered valid for one year from the date published.*

# Qualitative Fund Research Contents

## Rating Profile

| Research Process Category | Factor Weight | Analyst Score | Maximum Score |
|---|---|---|---|
| Corporate & Investment Governance | 15% | 4.50 | / 5 |
| Investment Philosophy & Process | 20% | 4.00 | / 5 |
| People | 25% | 4.00 | / 5 |
| Portfolio Construction & Implementation | 15% | 4.00 | / 5 |
| Risk Management | 15% | 4.80 | / 5 |
| Investment Fees | 10% | 4.00 | / 5 |
| **Overall Average Score** | | **4.20** | **/ 5** |

## Meet the Manager

Ausbil Investment Management Limited is a leading Australian investment manager. Established in April 1997, Ausbil's core business is the management of Australian and global equities for major superannuation funds, institutional investors, master trust and retail clients. Ausbil manage over $16.4 billion in active Australian and global equity investments. Ausbil is owned by its employees and New York Life Investment Management (NYLIM), a wholly-owned subsidiary of New York Life Insurance Company. NYLIM has more than US$650 billion in assets under management. NYLIM has a number of boutique affiliates including MacKay Shields, Candriam Investors Group and Apogem Capital.

Further information on the Manager can be found in its online profile.

The investment philosophy and corporate goals of Ausbil have been formulated to provide a tightly defined and disciplined investment management style that is active and incorporates quantitative inputs and risk awareness. Ausbil's style pursues the goal of adding value from a clear set of transparent processes that seek to enhance performance, whilst managing risk.

Ausbil is a signatory to the United Nations Principles of Responsible Investment (UN PRI). Ausbil has a dedicated environmental, social and governance (ESG) research team who provide an in-house service. ESG research is integrated into Ausbil's investment process. Ausbil believes that a consideration of ESG issues as developed by well-founded ESG research can identify mispriced stocks and assess a company's earnings sustainability. Similarly, engagement on ESG issues can drive long-term value and reduce the risk of value destruction.

Ausbil has monitored and engaged with companies on their corporate governance record and to this extent has historically regarded proxy voting as an important part of its fiduciary duties.

The Manager has provided individual bios for the team.

Access the full range of investment options here.

# Key Takeouts

The Ausbil Global SmallCap Fund ("the Fund") provides exposure to an actively managed portfolio, predominantly made up of listed global small capitalised equities, which are primarily selected from the MSCI World Small Cap Index constituents.

## Research IP Says

"The Manager demonstrates a repeatable investment process which provides access for investors seeking stocks with unrecognised growth characteristics in the global small cap space. Quantitative tools are used as a complement to keep the process consistent."

"The Manager has four stages to the investment process. The process is well defined, although the Manager is alert to learnings and potential improvements to the process in practice. Research IP believes this is a crucial aspect to investing generally, let alone in global small cap stocks."

"Small caps are naturally less liquid than large cap stocks in the global universe, however Research IP believes the Manager has the necessary settings in place to measure and monitor liquidity risk in the portfolio. Management of liquidity risk is built into the Manager's investment process through weighting stocks in the portfolio by liquidity (average daily trading volume over the last 3 months) rather than investment preference."

## The Fund

| Fund Details | Ausbil Global SmallCap Fund |
|---|---|
| **Fund Code** | APIR Code: AAP8285AU |
| **Responsible Entity / Trustee** | Ausbil Investment Management Limited |
| **Geographic Focus** | Global Sector |
| **Sector / Asset Class** | Shares |
| Investment Objectives | The Ausbil Global SmallCap Fund aims to outperform the MSCI World Small Cap Net Total Return (TR) Index in AUD over the long term by primarily investing in listed global small cap companies using Ausbil's global small cap investment philosophy and process. |
| Benchmark | MSCI World Small Cap Net Total Return (TR) Index in AUD |
| Alpha Objective | To achieve returns (before fees and taxes) above the MSCI World Small Cap Net Total Return (TR) Index in AUD by more than 3% p.a. over rolling three-year periods. |
| Management Fee | 1.20% p.a. |
| Performance Fee | Performance Fee – 20.5% p.a. max<br>Hurdle – MSCI World Small Cap Net Total Return (TR) Index in AUD, plus a margin of 1.20% p.a.<br>Net/Gross – performance fee calculated on gross out-performance<br>High Water Mark (HWM) - Yes – Perpetual HWM<br>Frequency – calculated daily, paid monthly<br>Maximum limit – none |
| Estimate of Total Fund Charges | 1.20% (including GST) – 30/06/2023 |

## Using this Fund

The Fund is designed for investors with at least a five-year investment time horizon, who wish to benefit from the long-term capital gains available from global small cap equity investments and who are comfortable with fluctuations in capital value in the short to medium term.

Investors should be aware that the Fund may experience periods of negative returns and that there is a risk of potential capital loss being incurred on their investment. Research IP believes an investor should have a minimum investment time horizon of seven years, preferably longer.

| Factor | Lower Limit | Upper Limit | Reference |
|---|---|---|---|
| No. of securities in universe | | | 4,300 |
| No. of securities fully researched | | | 300 |
| Typical number of holdings | 50 | 80 | |
| Expected Portfolio Turnover | | | 80% |
| Cash | 0 | 10 | |

## Funds Under Management

| | |
|---|---|
| Fund currency | AUD |
| Current size of the Fund ($) | $75,012,338 |
| Current FUM in the strategy, including mandates ($) | $98,482,645 |
| Current total FUM of the Manager ($) | <not supplied by manager> |

***Quantitative Tear Sheet -*** [https://portal.research-ip.com/](https://portal.research-ip.com/)

*Platform is FREE to access via registration – performance data updated monthly.*

***Factsheet*** ***Report*** ***PDS*** ***Articles / Views***

***For important Fund Facts view the RIPPL Effect***

**This is General Advice only and should be read in conjunction with the Disclaimers, Disclosures and Warnings at the end of this document.**

# What the Manager Says

## Who holds accountability for the fund's outcomes and actions? How relevant is the work / career history of the investment team to the management of the funds?

### Manager Statement:

Tobias Bucks and Simon Wood are the designated Portfolio Managers for the strategy, with Joseph Kim as the designated Equities Analyst. The team has a flat structure so there is no formal delineation of responsibilities by way of sectors or regions. Simon and Tobias cover all sectors and regions.

**Simon Wood, CFA, Portfolio Manager, Global Small Caps**

Simon is Portfolio Manager for the Global Small Caps strategy, responsible for portfolio construction, research, analysis, and portfolio management. Simon has worked in investments since 2001 and joined Ausbil in 2017. Simon has a BA (Hons) degree in Accounting and Finance, is a Global Chartered Management Accountant and is a CFA Charterholder.

**Tobias Bucks, Portfolio Manager Global Small Caps**

Tobias is Portfolio Manager for the Global Small Caps strategy, responsible for portfolio construction, research, analysis, and portfolio management. Tobias has worked in investments since 2005 and joined Ausbil in 2017. Tobias holds a Master in Arts (Hons) degree in Social Anthropology from the University of Edinburgh.

**Joseph Kim, Equity Analyst, Global Small Caps**

Joseph is an Equity Analyst at Ausbil within the Global SmallCap team. Joseph commenced with Ausbil in 2017 as Client Services Support within the Institutional division and was promoted to Client Services Associate in 2018. In February 2019, Joseph moved into the middle office team in a support function responsible for trade, settlement, and allocation support for portfolio management.

Joseph has a Bachelor of Applied Finance and Economics from Macquarie University and is a CFA Charterholder.

### Research IP Opinion:

The investment team takes a collective approach to managing the fund. Bucks and Wood are the key decision makers, with discussions ultimately needing a consensus to move forward. Over the years, disagreements have typically been sorted out by referring to the documented process. The investment team will through the process step by step to reveal the answer. Disagreements are few and far between as the team ask the right questions and rigorously debate the issues as they move through the investment process.

Wood and Bucks working relationship goes back to the late 2000s having worked together at Baring Asset Management. Both have significant experience from previous research-based roles, with over 17 years' experience in the industry for Bucks and over 20 years for Wood.

The global small cap team of Wood, Bucks and analyst Joseph Kim receives support from the Ausbil quantitative team (Khay-Tuck Chow and Salvia Ma).

Research IP notes key inputs in the broader management of the Fund are provided by the ESG team, led by Mans Cårlsson, and the Chief Economist, Jim Chronis.

Chronis has over 30 years of industry experience, including over 8 years with the Manager. Previously he worked at AMP Private Wealth, BT Investment Management, BT Financial Group, and Rothschild Australia Asset Management.

Mans Cårlsson is Head of ESG, supported by two analysts. Cårlsson joined the Manager in 2015 and has over 19 years of industry experience. Previously he worked at AMP Capital, Carnegie Investment Bank, Macquarie Bank, and Accenture. He also sits on the panel of experts advising the Federal Government on the Modern Slavery Act, and is Chair of RIAA's (Responsible Investment Association of Australasia) Human Rights Working Group.

## Has the CIO/ PM / Investment Team personally invested in the Fund? Do they have the same fee / cost structure as other investors?

### Manager Statement:

Yes. A management fee rebate is made available to staff.

### Research IP Opinion:

Investing in funds alongside investors and at the same fees aligns the interests of investment personnel with those of the investors. The management fee rebate made available to the staff is not completely aligned with investors' interests but can serve some useful purpose as a staff recruitment/retention tool. Nevertheless, the individual commitments from the investment team into the strategy are a strong indicator of their confidence and belief in the process.

## What are the reasons for investing in this fund?

### Manager Statement:

The Fund provides exposure to an actively managed portfolio, predominantly made up of listed global small cap equities. Ausbil believes that their active management facilitates consistent and risk-controlled outperformance. Ausbil focuses on identifying a company's unrecognised growth, which in turn will deliver superior risk adjusted returns over the medium to long-term.

Investing in the Fund offers a range of benefits, including:

- Exposure and access to a portfolio of global small capitalised companies that individual investors may not be able to invest in directly on their own.
- Diversification: the potential to diversify an investment portfolio.
- Experience: access to Ausbil's experienced global small cap investment management team.

The Fund invests in a portfolio of listed global small cap equities which are primarily chosen from the MSCI World Small Cap Index. The stocks have a market capitalisation of between USD 500 million and USD 5 billion. The Fund will generally hold between 50 and 80 listed companies.

We prefer to own companies with the following positive traits:

- Cost Structure (Improved production facilities, Efficiency drive, New technology)
- Market/New Product Expansion (New geographies or sectors, New demographics, New sales channels or media)
- Product/Segment Mix, Segment size, New product or services, New pricing methods)
- Management Control (Improvement in management capability, Improvement in corporate governance)
- Capital Structure (Debt Equity Mix, M&A, Improvement in capital allocation)

### Research IP Opinion:

The Manager demonstrates a repeatable investment process which provides access for investors seeking stocks with unrecognised growth characteristics in the global small cap space. Quantitative tools are used as a complement to keep the process consistent.

An aspect of this strategy that Research IP believes is important in the small cap space is dealing with liquidity risk. Management of liquidity risk is built into the Manager's process though weighting stocks in the portfolio based on liquidity (average daily trading volume over the last 3 months) rather than solely investment preference.

Compared to other asset classes, alpha is more prevalent in the global small cap space given it is not covered as widely by sell-side analysts. Theoretically, this should result in more mispriced/underappreciated stocks in the market. To extract that alpha through time the Manager needs a consistent process. Research IP believes the Manager demonstrates this consistency. Key aspects of the process cover macroeconomic risks, regional and sector considerations, and fundamental bottom-up stock characteristics which includes ESG analysis. The strategy has a quality and growth bias, so short term market factors can and do result in volatile returns. Investors should have a long-term focus.

## What are key criteria for the buying and selling decisions of the Fund?

### Manager Statement:

The Ausbil Global SmallCap Fund aims to find small cap companies across the developed world which are expected to deliver unrecognised growth, which is defined as earnings growth surprise and positive earnings revisions. The fund invests only in developed markets as we believe that companies within stable and supportive regulatory regimes, rule of law, and robust standardised accounting frameworks are more likely to achieve sustainable growth and experience lower volatility over time.

We believe that the Global Small Cap asset class is not perfectly efficient, and that this inefficiency can be exploited by focusing on the company characteristics reflected in our investment philosophy. Our fundamental premise is that stock prices ultimately follow earnings and earnings surprise. When investing in growth asset classes like Global Small Caps it is essential to focus on good quality, attractively valued companies which can sustainably access this growth without taking excessive risk.

Ausbil has used robust and timely financial data on small cap companies to develop a proprietary screening model across developed markets. It is based upon a combination of financial ratios that provide a leading indicator to identify companies which have a higher probability of delivering sustainable earnings growth surprise.

We believe that good quality companies, with strong management teams and robust financials will experience lower share price and earnings volatility over time in addition to delivering unrecognised growth. The focus by the portfolio management team on companies with unrecognised growth potential combined with lower risk is key to delivering superior risk adjusted returns against the peer group of competitors.

The Ausbil Global Small Cap investment philosophy builds on the core Ausbil investment philosophy and is based upon four key tenets. These are: (i) unrecognised growth; (ii) quality; (iii) valuations; and (iv) liquidity.

The Region and Sector Matrix Tool assesses global regions and sectors on several underlying fundamental metrics including valuations, quality, growth, and trend characteristics on a market relative basis and compared to their own history.

This helps guide the active region and sector positioning of the Fund.

Our buy and sell decisions are triggered by changes in our fundamental outlook for the company alongside the stock's contribution to the overall structure of the portfolio. The portfolio management team maintains a register of potential portfolio changes including companies we wish to sell from the portfolio, trim or to buy into the portfolio. Companies will be sold from the portfolio when our investment thesis has been achieved or the company is no longer expected to deliver unrecognised growth.

A structured sell discipline for underperforming stocks will also be implemented with guidelines as follows:

- Soft sell discipline (re-evaluation of investment case)
  - 15% relative underperformance
- Hard sell discipline
  - 25% relative underperformance
  - Profit warning

### Research IP Opinion:

The Manager has four stages to the investment process. The process is well defined, although the Manager is alert to learnings and potential improvements to the process in practice. Research IP believes this is a crucial aspect to investing generally, let alone in global small cap stocks.

1. Macroeconomic analysis

Insights are gained through daily meetings and a monthly strategy pack from the Chief Economist. Using a cyclicality model, analysis is undertaken on global macro indicators, focusing on styles, regions and sectors that may behave differently in certain environments.

2. Region and sector analysis

This step works as a tilt using a proprietary Region Sector Matrix tool. The matrix is based on the fundamentals of a region/sector, notably, earnings upgrades/downgrades. The Manager doesn't use this tool formulaically but more so as a guide. The matrix is updated monthly.

3. Stock selection.

Fundamental characteristics of each stock are analysed in depth at this step. This includes ESG analysis, building company models, meeting with management teams, and assessing market dynamics. The Manager reduces the number of stocks eligible for selection from 300 down to 100.

4. Portfolio construction

The Manager is cognisant of top-down macro factors at this step and combines this with the best ideas from a bottom-up perspective. The Bloomberg global risk model on factor and stock specific risk is used to support stock selection. The portfolio is constructed by using a liquidity weighted approach which results in a portfolio of about 50-80 stocks. Portfolio guidelines and constraints are applied here. Research IP notes the allowable cash weighting of 0-10% is a residual decision after stock selection, rather than an asset allocation decision.

In response to challenging performance in 2022, the team took a detailed and thorough review of the process, including bringing in an outside consultant for an expert and objective assessment. This process revealed that they had a tendency to under-estimate the importance of duration (interest-rate sensitivity) in their analysis, in particular for growth stocks. The team's response was to introduce an important enhancement to their analysis – a metric they call 'duration beta'. Every stock now has a beta calculated from the regression of the stocks' returns against real interest rates. This interest-rate-sensitivity measure is compared to the benchmark, industry peers, and other sectors. The review also uncovered to observation that Price-to-Sales ratio can be a useful trouble-alert or early warning identifier, particularly for stocks with a high duration.

## What are the key determinants of the Fund's performance?

### Manager Statement:

The Strategy's underlying stock positions will be liquidity weighted rather than preference weighted. We believe that this removes significant liquidity risk from the portfolio and allows the portfolio management to trade stocks when necessary, with negligible impacts, reducing the cost of trading over time, and ultimately benefiting portfolio investors.

The Strategy will always exhibit positive biases to quality ratios including profitability measures and balance sheet risk.

There are significant risks associated with managed investment schemes generally. Investors should be aware that:

- the value of investments will vary;
- the level of returns will vary, and future returns may differ from past returns;
- returns are not guaranteed, and members may lose some of their money;
- laws affecting registered managed investment schemes may change in the future; and
- the level of risk for each person will vary depending on a range of factors including age, investment time frames, where other parts of the member's wealth are invested and the member's risk tolerance.

Macroeconomic factors such as real interest rates, exchange rates and spread, regional economic developments, equity valuations, cyclicality analysis and market trends could negatively affect the portfolio.

### Research IP Opinion:

The Manager takes a somewhat contrarian approach. This means trying to identify stocks where the valuation hasn't been fully recognised in its market price. The Manager uses a combination of qualitative and quantitative analysis to identify stocks where an earnings surprise may eventuate. This relies on the Manager's ability to identify businesses with strong fundamentals that are well managed and have a niche offering in their respective market.

The fundamentals that are core to the Manager's approach include ESG and overall management of the company. Governance is one of the first things the Manager looks at. The Manager believes that tail risk can be reduced with a strong focus on ESG integration, ultimately adding alpha.

Valuation is also a key part to the Manager's ability to achieve alpha, where the price entry point and estimates of future cash flows are crucial.

Given the focus on unrecognised growth, it is inherent that the stocks will be more sensitive to interest rate change due to the long-dated nature of the cash flows. Additionally, a key tenant of stock selection is the ability of a business to expand globally, which adds a degree of cyclicality to the fund profile. This is mitigated somewhat by incorporating macroeconomic analysis in the investment process.

The Manager has shared a forward-looking view related to the Fund's prospects, summarised below:

The investment team holds the perspective that we are at the beginning of a bull market in small-cap stocks, particularly centred around themes such as data centres, expansion of the electricity grid, and other 'picks and shovels' related to artificial intelligence (AI). They believe these themes are undervalued by the market, and clients' anxiety is exacerbated by the abundance of sell-side research and media focus on the 'impending recession'.

Ausbil's macroeconomic outlook anticipates a growth slowdown from trend levels, but they do not foresee a recession in 2024.

While some of the larger and more liquid stocks are trading at high prices, those in the $500 million to $2 billion market cap range appear inexpensive. The team emphasizes that their portfolio is both cheaper than the index and of higher quality. They are closely monitoring their stock's financial models and the potential for earnings upgrades. The ultimate objective is for the portfolio to maintain a growth-adjusted discount relative to the overall market.

The team state they are aiming to achieve a lower portfolio turnover rate over the coming year, as it has been moderately higher than they would prefer over the past couple of years.

## What are the risks / adverse outcomes that could arise from investing in this Fund?

### Manager Statement:

All investments carry risk. The likely investment return and the risk of losing money are different for each managed investment scheme. Different strategies may carry different levels of risk, depending on the assets that make up the strategy. Assets with the highest long-term returns may also carry the highest level of short-term risk. There are significant risks associated with managed investment schemes generally.

Investors should be aware that:

- the value of investments will vary;
- the level of returns will vary, and future returns may differ from past returns;
- returns are not guaranteed, and members may lose some of their money;
- laws affecting registered managed investment schemes may change in the future; and
- the level of risk for each person will vary depending on a range of factors including age, investment time frames, where other parts of the member's wealth are invested and the member's risk tolerance.

The Fund does not use leverage and derivatives.

## Research IP Opinion:

Liquidity risk is important to manage when investing in any equity strategy, especially so in small caps. The Manager specifically assigns portfolio weights to stocks based on how liquid the stock is. The ability to trade stocks and manage overall portfolio risk through time relies on liquid stocks.

The Manager identifies ESG considerations in terms of risk. By avoiding badly governed companies, the Manager can mitigate tail risk across the portfolio.

The Fund's style is biased towards unrecognised growth. While this is a driver of performance, it is also a risk to be aware of. The risk originates from the longer-dated cash flows of the underlying businesses which are more sensitive to interest rate changes.

Key person risk is evident in respect of Wood and Bucks. However, Research IP believes this is mitigated somewhat due to the input of the broader investment team and a structured and documented investment process.

In Research IP's opinion, an important and positive aspect of the Manager's philosophy and practice is:

- a motivation to learn from events or positions that have not gone 'to plan', and
- a desire to find improvements that can evolve the process for better effectiveness.

In the recent review meeting Bucks and Wood gave this practical example:

The largest detractor from performance in 2023 was LSB Industries, a chemical company in the Basic Materials sector. The stock was purchased based on considerable research and a carefully developed thesis, which eventually did not go according to plan. This is common in investment management as many opportunities that appear promising can be unsuccessful. The mark of a good manager is how they react to such circumstances.  The team exited the position completely in accordance with their sell discipline rules. While the position was a negative to performance, discipline in using the rule prevented additional cost as the stock price continued to fall further from the exit price. Most importantly, a thorough 'root and branch review" was undertaken of the entire history of the investment, from the original idea generation to the eventual sale. This provided perspectives that would assist with future analysis.

# What is the justification for the fees and costs that are charged?

## Manager Statement:

Ausbil sets the management fee and the performance fee of the fund with the aim of providing certainty for investors and competitiveness with similar funds (asset class, investment approach and objective) and distribution channels in the Australia funds market. Ausbil has chosen to only charge a management fee and not recover normal operating expenses, i.e. it adopts a "rolled-up" management fee approach. This gives investors certainty around the management fee charged, and in only very rare circumstances will Ausbil recover abnormal expenses from the Fund. The performance fee has been set with a performance hurdle rate of 1.20% p.a. above the fund's benchmark, the MSCI World Small Cap Accumulation Index (AUD).

The fund started in late 2018 and at its launch an exercise was undertaken to ensure that the fund's fees and costs charged were benchmarked against competitors. Benchmarking occurs on a periodic basis as part of the fund's external investment research process.

Although we have reviewed the fund's fee on a periodic basis, there has been no fee revisions (up or down) since the fund was started in late 2018. The fees of the fund remain competitive.

## Research IP Opinion:

Research IP believes the Manager is transparent and clear regarding its fees. Fees are disclosed in the Product Disclosure Statement, with additional information in the Additional Information Guide. Both can be accessed at this link.

Research IP observes that the Manager's basic fee is in the higher half of sector peer relevant funds in New Zealand.

## Describe the governance processes for managing organisational and investment decisions.

### Manager Statement:

The Ausbil dealing team determine the best execution method specifically to keep both market impact costs and brokerage costs to a minimum. Orders are normally placed on a best care over-the-day basis to minimise execution costs. At other times, and dependant on market conditions, trades are executed during the day at prices which are viewed as opportunistic while liquidity is available.

After the post-trade compliance process, at the end of each day completed orders are automatically updated to the portfolio management system which calculates daily performance.

Portfolio managers remain cognisant of the negative impact on the interests of clients of all transaction costs, including brokerage.

All transactions and brokerage charges are reviewed by the Investment Committee and signed off daily by the Chairman, Investment Committee.

Reports are provided to the Chief Compliance Officer and Risk Management Officer on an exceptions basis and outstanding matters escalated for action at the weekly Executive Committee meeting, which incorporates the Risk Management Committee.

All portfolios are managed via a portfolio management system that ensures the portfolio managers have full details of every portfolio position at all times. Ausbil's portfolio management system features a compliance module to ensure mandate specifics are factored directly into the system. There is a daily automated review of trades within the system in a pre-trade compliance environment where trades may not be allocated to individual mandates if that trade would breach any of the mandate's guidelines or rules. Post-trade compliance is also undertaken daily.

Portfolio managers must sign off daily that the portfolios under their stewardship conform to all mandate restrictions. This review is performed by the Head of Equities (or delegate) and exceptions are reviewed by the Chief Compliance Officer and Risk Management Officer.

Compliance is an independent and dedicated function within Ausbil. Ausbil has appointed a Chief Compliance Officer who is responsible for the day-to-day compliance management of Ausbil. Ausbil's Chief Compliance Officer has a reporting line direct to NYLIM compliance.

### Research IP Opinion:

Research IP observes robust compliance and governance structures in place within the organisation.

The Internal Compliance Committee (ICC) oversees compliance within Ausbil. The ICC communicates with four committees: (1) direct reporting externally to New York Life Investment Management (NYLIM) Compliance, (2) reporting internally to the Executive Committee [ECC, which reports direct to the Board], (3) liaising with the External Compliance Committee [for Schemes where Ausbil is the Responsible Entity], and (4) monitoring of the Investment Committee. Responsibility for all compliance matters is with Jane Lamming, the Chief Compliance Officer. Lamming has independent reporting lines to the Board, CEO, ECC, ICC and NYLIM Compliance.

PricewaterhouseCoopers currently undertake the annual GS007 Internal Controls audit.

In terms of software and compliance systems, Research IP believes the Manager is transparent and well-placed to manage operational risk within the investment process. The Manager uses Bloomberg AIM to ensure the investment strategy is executed accurately and within set parameters. Bloomberg AIM is a commonly used global portfolio management system.

Investment decisions are discussed daily in the morning by portfolio managers and analysts. A monthly strategy meeting also takes place which includes the Chief Economist.

## Describe how the Manager implements ESG, Corporate Sustainability policies and engagement.

### Manager Statement:

The Ausbil Global SmallCap Fund integrates ESG as part of the overall investment process. We don't necessarily exclude companies solely via a "controversial activities" framework. The Fund will not invest in Tobacco and Armaments companies as these companies are excluded from the universe. Engagement is critical to any good ESG framework, as such, we actively engage with companies on ESG matters.

The strategy negatively screens out company's exposed to certain activities via our controversial activity exclusion policy described below. These are monitored using Bloomberg.

The Fund's controversial activity exclusion policy allows for the removal of companies that are subject to long-term earnings sustainability risk due to controversial activities.

The Fund's investments are regularly reviewed to determine whether they continue to form part of the Fund's investible universe. If Ausbil becomes aware that the Fund is invested in a company that no longer forms part of the Fund's investible universe, the investment will be sold in a reasonable period.

No third-party providers are used, Ausbil has an internal ESG team which employs proprietary research.

Whether a company is excluded from the Fund's investible universe is determined by the company's level of exposure to controversial activities.

The Fund will exclude companies that:

- are directly involved in either one of the following:
    - controversial weapons and armaments e.g. antipersonnel landmines, cluster bombs, nuclear weapons, depleted uranium weapons & armour, chemical weapons, biological weapons, white phosphorus;
    - the production of tobacco and tobacco-based products.
- have a material direct exposure (10% or more of revenue, except if otherwise stated) from one or a combination of: conventional armaments; thermal coal; adult content; alcohol; gambling; genetically modified organisms; and tobacco distribution (5% or more of revenue).
- perform animal testing that is either prohibited or considered irresponsible; and
- are involved with oppressive regimes e.g. companies with high human rights risks.

Please see the Fund's Controversial Activity Exclusion Policy available at http://www.ausbil.com.au for further information on controversial activities, including direct and indirect examples, and the material threshold that is applied to each activity.

Ausbil has been a signatory of UNPRI since 2016 and hold a rating of A (as of 2020).

### Research IP Opinion:

The fundamental approach to ESG and sustainability that the Manager applies is through the integration of ESG factors and corporate engagement. Research IP believes these are two of the more effective and pragmatic ways to apply ESG considerations over the long term. The Manager also implements an exclusion policy. More information on the complexities of ESG is presented here.

(1) Integration. Research IP observes integration of ESG through each of the 4 stages of the Manager's investment process. Stage 1 and 2 ESG considerations are higher level, for example identifying broader thematics across sectors or countries such as energy use or regulatory settings. Stock analysis at stage 3 is where the rubber hits the road. ESG research is focused on the risks and opportunities faced at the company level and the industry it operates in on a forward-looking basis.

(2) Corporate engagement and proxy voting. This is a key aspect at stage 3 of the investment process. Importantly, ongoing engagement and dialogue can influence what goes into or remains in the portfolio.

(3) Exclusions. These are based around controversial activities.

ESG is considered by both the portfolio management team and the separate ESG team. The portfolio managers and analysts will score each company in the portfolio on multiple factors including climate risk, resource efficiency, emissions, human capital, supply chains, independence, shareholder rights, diversity etc.

## How does the ownership of the Manager and the compensation of the investment team align with the investors' interests?

### Manager Statement:

Base salaries for all staff are determined commensurate with the tasks performed, seniority and market forces. Ausbil benchmarks these annually against various industry surveys and anecdotally through the recruitment process. There is an annual review process for all staff and specific job descriptions that outline roles and KPI's.

For the Global SmallCap team, bonus remuneration is predominantly linked to the performance of the Global SmallCap business within Ausbil.

The Global SmallCap team have an equity interest in the business. These interests vest over 3 years. The vesting on incentive payments and equity interests is designed to lock-in key staff. Senior staff also have non-compete clauses in their employment contracts.

Ausbil Investment Management ("Ausbil") is a strategic relationship between senior members of Ausbil's Australian investment/management team and NYLIM, which is owned by New York Life. NYLIM is the majority holder of Ausbil, with a target ownership of approximately 70%, and the remainder is held by the Australian investment and management team.

In February 2014 New York Life Investment Management (NYLIM), a subsidiary of New York Life, purchased Dexia Asset Management from Dexia Group. Ausbil Dexia was rebranded as Ausbil Investment Management and Dexia Asset Management was rebranded as Candriam Investors Group ("Candriam"). In November 2014 NYLIM becomes a direct shareholder in Ausbil Investment Management, replacing Candriam.

Ausbil's Board of Directors is comprised of nine executives representing New York Life, NYLIM and Ausbil.

### Research IP Opinion:

Remuneration for the Manager's investment team is a combination of salary, cash bonus, and equity.

Remuneration is linked to performance of the team overall, though there is sub-component of this which is tied to an individual's performance as an analyst/portfolio manager. For example, the sub-component could be the relative performance of an analyst's recommendation. Performance is assessed annually. The primary measure is performance of client portfolios. Compliance performance and participation of the investment team are also assessed, with a focus on risk awareness.

Research IP views the vesting period of 3 years for the equity interest as evidence of strong alignment with investors. This is important, particularly for a long-term investment into a Fund such as this one.

Research IP notes that Ausbil's Board of Directors consists of nine executives. Five of these are from New York Life / New York Life Investment Management / Candriam Investors Group. Four of them are from Ausbil's senior executive leadership team (Paul Xiradis, Ross Youngman, John Grace, Mark Knight). Xiradis is the Executive Chairman and founded the Ausbil business in 1997. Ausbil expanded into global equity markets in 2018 with the launch of this Fund, as well as strategies in Global Essential Infrastructure and Global Resources.

Research IP views the financial backing of NYLIM as a positive and believes Ausbil has the autonomy needed to operate the Fund and service clients prudently.

## Comment on assets under management, fund flow and capacity.

### Manager Statement:

As of 31 December 2023, the Ausbil Global Small Cap strategy has a FUM of $98.483m.

As of 31 December 2023, the CYTD Net FUM flow for the Ausbil Global Small Caps strategy is -7,364.872m.

Ausbil is responsible for 54 accounts, which is broken up between trusts, mandates and SMAs. Specific to the Ausbil Global SmallCap team, the portfolio managers manage 1 strategy together.

The expected capacity for the strategy is $4b AUD.

### Research IP Opinion:

Small caps are naturally less liquid than large cap stocks in the global universe, however Research IP believes the Manager has the necessary settings in place to measure and monitor liquidity risk in the portfolio. Management of liquidity risk is built into the Manager's investment process through weighting stocks in the portfolio by liquidity (average daily trading volume over the last 3 months) rather than investment preference.

The Manager has shared with Research IP a number of recent business developments which appear positive for fund growth and demonstrate Ausbil's ongoing support and commitment to the product and the team.

- Marlborough Group in the UK is white labelling the fund on UK platforms
- A UCITS vehicle has been set up under the Candriam umbrella with some initial seed capital from NY Life
- Ausbil conducted a successful Investor Roadshow in October 2023. They acknowledge that flows in equities have been difficult over the last 12 months, however, relative returns have been good and will hopefully assist future flows.

# The RIPPL Effect

For important Fund Facts, please view the **RIPPL Effect report**:

Investment Fund

click here to access dynamic report

RIPPL Effect

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This report is based on publicly available information and/or data sourced directly from the Fund Manager.
Any views or opinions expressed in this document are believed to be accurate at the time of publishing.

Glossary of Terms – please explain the jargon in this report

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Research IP has grown its team and footprint by utilising the specialist skills of its analysts which include;

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- equity, bond and alternative asset specialists
- portfolio managers
- asset allocation analysts
- and ratings specialists.

Our experience has been gained in well over 20 years of roles across different facets of the industry, so we understand the key drivers and challenges for managers, as well as the impact for investors and the Financial Advice industry.

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