Recommended

Product Review
Robeco Emerging Conservative Equity Fund

ISSUE DATE 30-01-2020

About this Review

ASSET CLASS REVIEWED	GLOBAL EQUITIES
SECTOR REVIEWED	GLOBAL EMERGING MARKETS
TOTAL FUNDS RATED	23

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	ROBECO EMERGING CONSERVATIVE EQUITY FUND
APIR CODE	ETL0381AU
PDS OBJECTIVE	TO ACHIEVE CAPITAL GROWTH EQUAL TO OR GREATER THAN THE BENCHMARK WITH LOWER VOLATILITY OVER THE LONG-TERM
INTERNAL OBJECTIVE	MAXIMISE THE FUND'S SHARPE-RATIO
STATED RISK OBJECTIVE	LOWER THAN MARKET RISK BY 20-30% OVER THE CYCLE
DISTRIBUTION FREQUENCY	SEMI-ANNUAL
FUND SIZE	$290.2M (31 DECEMBER 2019)
FUND INCEPTION	12-11-2013
MANAGEMENT COSTS	0.96% P.A. (INCL. INDIRECT COSTS)
RESPONSIBLE ENTITY	EQUITY TRUSTEES LIMITED

About the Fund Manager

FUND MANAGER	ROBECO HONG KONG LIMITED
OWNERSHIP	100% ORIX CORPORATION
ASSETS MANAGED IN THIS SECTOR	$8.1BN (DECEMBER 2019)
YEARS MANAGING THIS ASSET CLASS	14

Investment Team

PORTFOLIO MANAGER	PIM VAN VLIET, ARLETTE VAN DITSHUIZEN, JAN SYTZE MOSSELAAR, MAARTEN POLFLIET, ARNOUD KLEP, YAOWEI XU
INVESTMENT TEAM SIZE	15
INVESTMENT TEAM TURNOVER	LOW
STRUCTURE / LOCATION	PORTFOLIO MANAGERS & RESEARCHERS / ROTTERDAM

Investment process

STYLE	QUANTITATIVE (LOW VOLATILITY)
MARKET CAPITALISATION BIAS	ALL-CAP WITH SMALL-TO-MID CAP BIAS
BENCHMARK	MSCI EMERGING MARKETS NR INDEX AUD
TYPICAL STOCK NUMBERS	150-200
STOCK LIMITS	MAX. 2% (SOFT)
SECTOR / INDUSTRY LIMITS	+/- 10% ACTIVE (SOFT)
COUNTRY / REGION LIMITS	+/- 10% ACTIVE (SOFT)
CURRENCY EXPOSURE	UNHEDGED

Fund rating history

JANUARY 2020	RECOMMENDED
APRIL 2019	RECOMMENDED
JULY 2018	RECOMMENDED

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

- The investment team is highly experienced and has historically been stable.
- The Manager has a significant track record in managed volatility investing dating back to 2006.
- The Manager's investment process integrates an encouraging level of ESG awareness.
- The Manager's emphasis on the low volatility anomaly is differentiated in this sector and may offer 'downside' protection for emerging market investors.

Weaknesses

- The Fund's management cost of 0.96% p.a. is considered relatively high for a quantitative factor-based approach.

Fund Risk Characteristics

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

	LOW		MODERATE		HIGH
RISK TO INCOME		●			

Features and benefits

	LOW		MODERATE		HIGH
COMPLEXITY		●			
ESG AWARENESS			●		

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Robeco Emerging Conservative Equity Fund

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 Robeco Emerging Conservative Equity Fund ('the Fund') is an 'active', 'long- only', quantitative emerging-markets equities strategy. The Fund focuses on 'low-volatility' stocks and aims to deliver returns equal to or greater than the MSCI Emerging Markets NR Index AUD ('the Benchmark') with lower risk than the market (20-30% reduction) over a cycle.
- The portfolio is expected to hold between 150-200 securities with an expected turnover of 25% p.a., and an active share greater than 75%. While the mandate is 'all-cap', the Fund is expected to exhibit a small-to-mid cap bias relative to the Benchmark and has the ability to invest up to a maximum of 30% in off-Benchmark stocks. Portfolio construction is 'benchmark-unaware' and tracking error is not targeted but is generally expected to fall within a range of 3-8% p.a.
- Analysis conducted by Robeco ('the Manager') has shown that low risk stocks (in terms of volatility and beta) are able to generate returns equal to, or greater than, the market with lower associated risks. Therefore within the stock selection process, the Manager first focuses on reducing risk and secondly on enhancing return through proprietary valuation and momentum factors.
- Robeco's stock selection model was initially designed for developed markets in 2006 before being applied to emerging markets in 2011 and soon after resulting in the Fund's launch. Therefore, the Fund leverages the same process as the Manager's developed markets strategy, the 'Robeco Global DM Conservative Equities Fund', which Lonsec also rates.
- The Fund also systematically integrates Environment, Social and Governance (ESG) factors within the portfolio construction process, with the model preferencing those stocks with higher ESG scores. The individual scores for Environment, Social and Governance elements and, therefore the average ESG score of the portfolio, is designed to be at least as high as the individual and overall ESG scores of the Benchmark.
- Currency exposures are unhedged and the stock selection ranking is from a local currency perspective. The Manager conducted research into managing foreign exchange risk in low volatility strategies and concluded that from the perspective of an Australian investor, leaving foreign currency exposures open can help to lower volatility. The Manager also states that the costs and the practicalities of efficiently hedging emerging market positions can be prohibitive. Lonsec considers this appropriate given the research presented.
- As per the Fund's PDS dated 28 June 2019, the Fund has a management cost of 0.96% p.a., comprising a 0.90% p.a. management fee and a indirect costs of 0.06% p.a. The net transaction costs for the Fund are estimated at 0.05% of the NAV. Net transaction costs are costs incurred in managing the fund (including explicit and implicit costs of buying and selling assets, the cost of hedging/protection strategies and/ or when there are applications or redemptions of fund units by investors) that are not covered by the buy/sell spread. The Fund's buy/sell spread is 0.30% upon entry and 0.40% upon exit. Please refer to the Fund's PDS for further details.

Using this Fund

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

- The Fund is a 'long' only, emerging market equity fund and as such will generally sit within the 'growth' component of a diversified and balanced portfolio. As a regional specific fund, Lonsec considers the Fund suitable for high risk profile investors with a minimum five-year investment time horizon.
- Lonsec believes that investors seeking exposure to global equities should primarily invest in well diversified global equities funds able to take advantage of mispricing opportunities across stocks and regions. Investors should also be mindful of monitoring and maintaining a balance on the overall exposure to developing economies within their global equities allocation. On a look-through basis, it is possible that existing broader global equity fund holdings are already providing meaningful emerging-markets exposure (e.g. 10-20%).
- Over the long term, emerging markets indices have delivered higher returns than developed global equities, albeit with higher volatility. Lonsec believes there is a compelling case for including emerging markets within a blended global equities allocation; however, recommends allocations to stand alone emerging markets equities funds only be made to augment a broader global equities exposure dependent on client risk tolerances. Lonsec believes a 10-20% allocation to emerging markets from the overall global equities allocation may be appropriate for certain clients.
- Lonsec believes that specialist emerging markets managers with dedicated resourcing and tailored investment approaches may deliver superior performance outcomes in developing markets versus those global equities managers primarily centred on investing in traditional developed markets.
- The Fund's strategy of seeking to actively manage the 'downside risk' of emerging market equities investment through implicit beta management is also noteworthy. The product may be especially suitable for investors who wish to participate in the potential longer-term growth of emerging market equity investments but at a reduced volatility level. The Fund is expected to deliver superior results during 'falling' markets and lag during strongly 'rising' markets. Accordingly, investors should be particularly mindful of the risks associated in attempting to 'time' the strategy.
- Academic research supports the underlying premise of 'low beta' seeking equity strategies. Nevertheless,

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Robeco Emerging Conservative Equity Fund

Lonsec believes that all investments should be primarily based in terms of price. Volatility protection (through stock implementation) is 'cheapest', on a relative basis, when volatility is low and 'defensiveness' is out of favour. That is, investors need to be (a) mindful of their future expectations regarding market volatility and (b) their tolerance for benchmark under-performance prior to investing in the product.

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

- In November 2019, the Manager announced the sale of RobecoSAM's Corporate Sustainability Assessment ESG data collection to S&P Global. As such, the Fund will continue to collaborate and gain ESG scores from its sister business RobecoSAM, although RobecoSAM have become a client of S&P Global's ESG data, rather than sourcing it from individual corporations and cleaning the data itself. The interpretation and potential augmentation of ESG data will remain at Robeco's discretion and the Fund's ESG integration is unchanged.
- The Manager has not informed Lonsec of any material changes to the Fund's investment team or process since Lonsec's previous review.

Lonsec Opinion of this Fund

People and resources

- The Fund is managed by Robeco's Conservative Equities team (the 'CET') who reside within the Manager's Quantitative Equities group. There are 15 portfolio managers across the group, of which six reside within the CET. The average experience and tenure of the combined portfolio management team is 20 and 16 years respectively, with the group considered to be suitably sized to manage this strategy.
- The CET is headed by Pim van Vliet who joined Robeco in 2005 as a Senior Quantitative Researcher with responsibility for asset allocation research. Lonsec has met with van Vliet and believes he is a motivated and capable investor with extensive experience in low volatility investment and research, having published several academic papers on the subject. Van Vliet, supported by Arlette van Ditshuizen, Jan Sytze Mosselaar, Arnoud Klep, Maarten Polfliet and Yaowei Xu make up the CET and are all portfolio managers ultimately responsible for the Manager's low volatility strategies and function as each other's back-up. Lonsec believes the structure of the team assists in reducing 'key-person risk'.
- The CET are considered an experienced cohort with an average of over 18 years' experience within the industry, with almost all of this attained with Robeco. The portfolio management team has been highly stable through time with the most recent addition being Xu who was internally appointed to the team as a Portfolio Manager in March 2018. Lonsec believes the retention of key investment personnel and decision makers reflects positively on Robeco's culture. Overall, Lonsec considers each portfolio manager to be experienced with complimentary skill sets and strong academic underpinnings.
- In terms of individual responsibilities, Van Vliet takes greater responsibility for ongoing academic research, influencing the research agenda and client interaction while the remaining portfolio managers are more concentrated on managing the operational aspects of the strategy including re-balancing portfolios and maintaining optimisation software and portfolio construction tools. Lonsec notes positively the team's emphasis on individual responsibilities.
- Led by David Blitz, the Quantitative Equity Research (QER) team consists of eight senior Rotterdam-based researchers, a shared junior research talent pool of five and 10 interns. The QER also leverages Robeco's broader credit, trade execution and allocation research teams. Lonsec believes there to be a collegiate culture within Robeco which helps foster a strong and successful working relationship between portfolio managers in the CET and the more broadly focused researchers. While the research team is considered to be suitably experienced, Lonsec notes the team's size is at the smaller end relative to the majority of its quantitative peers.
- The QER team maintains strong relationships with universities which Lonsec views as beneficial in keeping informed and up to date with the latest applicable research developments. That said, the team's research findings are typically published in well-known academic journals and, while helping with external peer review, Lonsec believes this has the potential to erode the benefit of these findings, allowing for differentiated research to be leveraged by other market participants.
- Lonsec believes that quantitative processes inherently engender a lower level of individual accountability. Despite the Fund having six designated portfolio managers, the entire investment team shares responsibility for monitoring and reviewing accounts to ensure investment guidelines are consistently followed and objectives are met.
- Lonsec considers the team's investor alignment to be moderate to high with variable remuneration highly correlated with the performance of the Fund. Pleasingly, the research team is remunerated based on performance across the suite of strategies given their holistic contribution, and deferring a set component of variable remuneration, above a certain threshold, is compulsory.

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Robeco Emerging Conservative Equity Fund

Research and portfolio construction

- Robeco's Conservative Equity stock selection model was first implemented within developed markets in 2006, and was subsequently launched in 2011 in emerging markets. Lonsec believes that Robeco applies a disciplined and repeatable investment process, consistent with many well-executed quantitatively driven investment approaches. The investment philosophy is somewhat different to pure managed volatility strategies as the Manager combines beta, volatility and distress risk effects into a low risk theme and also aims to identify stocks with attractive valuations and positive momentum.
- Lonsec notes positively that there is a dedicated research team responsible for process and model improvements. The research agenda is formally set by the Quantitative Equities Model and Strategy Committee (QEMSC). The agenda is set annually and the QEMSC meets monthly to review research. Ideas are prioritised based on early evidence of alpha potential which is a positive for the efficient use of resources.
- A separate committee comprising of senior portfolio managers and researchers formally approve enhancements to the models which Lonsec considers to be appropriate, providing greater oversight. Factors are designed to be relatively stable with ongoing research of differentiated alpha sources considered less important. Lonsec notes that changes to the models tend to occur on a relatively infrequent basis and the enhancements are more broad-based than some quantitative peers.
- Lonsec notes that the process is highly systematic and model driven. The stock selection model focuses firstly on reducing risk and evaluates a combination of statistical low risk factors including short and long-term historical volatility and beta. The Manager uses forward looking distress risk factors, which considers the probability of default, and credit spreads in order to minimise exposure to low volatility traps. Lonsec believes the Manager's distress risk factors may help limit exposure to companies experiencing extreme financial distress. Finally, the Manager seeks to enhance the risk-return profile by including supplementary insights such as valuation and momentum. Lonsec notes the stock selection model has not been customised for any specific region to avoid the risk of over-fitting the model.
- Stock ranking is run on a daily basis; however, the portfolio is typically implemented on a monthly cycle or as required. The Manager's buy and sell discipline is transparent and logical; the portfolio will own stocks ranked high in the model (top quintile) and will sell a stock when its rank drops to the bottom 40%. Lonsec believes there is sufficient accountability within the team given that final responsibility for trading decisions rest with the six portfolio managers. Further, Lonsec considers the portfolio construction process to be relatively intuitive seeking to preserve the model's risk and return characteristics while limiting portfolio turnover, effectively using cash flows, ensuring diversification, and constraining risk.
- The portfolio managers may modify portfolio positioning as part of their 'human overview', which may be as a result of corporate actions or incidental macroeconomic developments. The Manager has stated that this is only ever used as a tool to reduce risk, and the incidence of overrides is expected to be relatively infrequent. Many other quantitative peers also have similarly limited portfolio management discretion and overall Lonsec is comfortable with the Manager's approach.
- Lonsec believes the Manager has a disciplined monitoring and execution process. The portfolio managers ensure compliance with investment guidelines and pleasingly there is a separate risk and compliance team who provide oversight. In addition, Lonsec has met with members of the dedicated trading team based in Rotterdam and believes Robeco's trading and dealing function to be one of the more advanced in the peer group.
- The degree of ESG integration differentiates the Manager with ESG input sourced from RobecoSAM (a sister business). The team integrates ESG factors within the portfolio construction by ensuring the individual Environmental, Social and Governance scores and the overall weighted sustainability score of the portfolio is at least as high as that of the index. Additionally, the Manager may engage on financially material ESG factors or in cases where companies severely and structurally breach principles of the United Nations Global Compact in the areas of human rights, labor, environment and anti-corruption. During this process, or as an outcome, stocks may be put on a restricted list and excluded from the investment universe, or subject to a half-weight within portfolios. Lonsec considers this to be a positive aspect of the Manager's approach.
- Lonsec has in the past viewed Robeco's systems, many of which are proprietary, including the stock selection model, portfolio construction and trading tools and observes comparable standards and functionality to many larger quantitative peers.

Risk management

- Risk, or the relative reduction in volatility of returns, is the essence of the strategy. Lonsec notes that risk monitoring and management is highly integrated within Robeco's quantitative investment process, in-line with other low-volatility peers.
- The Manager considers risk from an absolute perspective, as the standard deviation of investment returns and (downside) beta rather than relative to a benchmark. Lonsec considers this risk management approach to be prudent and in-line with the Fund's investment objectives. There are formal absolute and benchmark relative constraints including a maximum stock weight of 2%, regions, countries, and sectors are also limited to a 10% relative deviation from the MSCI Index weight. These are 'hard' limits at the time of re-balancing albeit limited 'drift' between re-balances can occur. While factor exposures are closely monitored, the portfolio is generally expected to have persistent overweight to small-to-mid cap stocks relative to the Benchmark.
- In addition, Robeco has a separate risk management department that performs detailed monitoring of the Fund and also oversees market and liquidity risks. Further, there is a compliance department responsible for ensuring portfolio constraints are adhered to. Lonsec believes the risk management

tools and procedures are appropriate for managing the various risks of the Fund.

Funds Under Management

- The Manager had circa A$8.1 billion in funds under management (FUM) specifically within the emerging conservative equities strategy as at 31 December 2019. The Manager estimates capacity for the strategy to be around A$15 billion which was last reviewed in July 2017 and included an adjustment for: 1) growth of the total investable market, 2) the recent inclusion of China A-Shares into the Manager's investable universe; and 3) improvements in the Manager's trading research which meant transaction costs are better controlled for. Nevertheless, Lonsec considers the Manager's estimated capacity limit as relatively high given the portfolio's small-to-mid cap bias. The Manager has stated that the investment process has been designed to comfortably accommodate this level of FUM based on number of considerations including the portfolio's diversification and due to the penalisation of less liquid stocks in the overall ranking system.
- In Conservative equities more broadly comprising global, emerging markets, US, and other various mandates, the Manager had circa A$36.3 billion in FUM as at 31 December 2019. Across all quantitative equity strategies (Conservative Equities, Core Quantitative and Factor Investing) the Manager had around A$112.5 billion in FUM. Lonsec notes that after launching its first low volatility fund in 2006, Robeco is now one of the largest fund managers investing in the space. In aggregate, Robeco's footprint is large and warrants ongoing consideration to ensure the appeal of the strategy is able to be preserved.

Performance

- The Fund focuses on 'low-volatility' stocks and aims to deliver returns equal to or greater than the MSCI Emerging Markets NR Index AUD ('the Benchmark') with lower risk than the market (20-30% reduction) over a cycle. The Fund has been available to Australian investors since November 2013 and has obtained a five-year track record. Over the five-year period (all figures net of fees to 31 December 2019) the Fund returned 8.0% p.a., underperforming the Benchmark by 0.9% p.a. These returns were delivered with a lower volatility (as measured by standard deviation) versus the market, 8.4% p.a. versus the Benchmark's 10.5% p.a., this represents an approximate 20% reduction, in line with the Fund's objective. Pleasingly, the Fund's Sharpe Ratio over the same period was 0.72, versus the Benchmark of 0.65, and Lonsec's peer group median of 0.58.
- Over the short-term, as expected in a strongly rising market, the Fund has struggled to meet or outperform the Benchmark, returning 15.8% (net of fees) versus the market's return of 18.6% over the year to 31 December 2019. Generally, low volatility and value factors struggled to perform during the year, with the Fund's momentum exposure contributing to performance. Pleasingly, the strategy delivered a notable reduction in market volatility over this period with a 6.4% volatility of returns, versus 10.6% for the Benchmark.
- Lonsec notes the Fund is generally expected to underperform in strong upward trending markets and outperform in down markets and should on average keep pace in moderate markets. Lonsec believes the strategy has generally performed in line with expectations and has shown to suffer lower draw-downs than the Benchmark and peers since inception which is viewed positively.

Overall

- Lonsec has maintained the Fund's **'Recommended'** rating. Lonsec considers Robeco to have a strong pedigree in low volatility investing and has a high regard for the experience and stability of the investment team. Lonsec believes the Fund offers investors a logical, well-developed and consistently applied quantitative investment process centered around the low volatility anomaly with a blend of valuation and momentum insights.
- Notably, Robeco's emphasis on low volatility stocks is differentiated and may offer 'downside' protection for conservative emerging market investors. Pleasingly, Lonsec highlights the Fund is the only low volatility offering in the peer group increasing its relative appeal, although notes that the Fund's management cost is considered relatively high for a quantitative factor-based approach. In addition, investors should be aware that the Fund may lag in strong upward trending markets or where volatility is low and 'defensiveness' is out of favour.

People and Resources

Corporate overview

In 2013, Orix Corporation, an integrated financial services group headquartered in Tokyo, acquired a 90.01% equity stake in Robeco from Rabobank with the remaining shares obtained in 2016.

Robeco is one of six other groups under Orix Corporation; CanaraRobeco, Harbor Capital Advisors, Transtrend, RobecoSAM and Boston Partners.

Robeco has over 1,500 professionals located in 14 countries, with specialised investment centres, sales and service teams in Europe, the U.S., the Middle East, Australia and Asia. As at 31 December 2019, Robeco managed A$36.3 billion in conservative equities strategies, including A$8.1 billion in this strategy.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
PIM VAN VLIET	PORTFOLIO MANAGER / HEAD OF CONSERVATIVE EQUITIES	19 / 13
ARLETTE VAN DITSHUIZEN	PORTFOLIO MANAGER	22 / 22
JAN SYTZE MOSSELAAR	PORTFOLIO MANAGER	15 / 15
ARNOUD KLEP	PORTFOLIO MANAGER	18 / 18
MAARTEN POLFLIET	PORTFOLIO MANAGER	20 / 14
YAOWEI XU	PORTFOLIO MANAGER	15 / 5
DAVID BLITZ	HEAD OF QUANTITATIVE EQUITY RESEARCH	24 / 24
PORTFOLIO MANAGERS (TOTAL)	N=15	20 / 16
SENIOR RESEARCHERS (TOTAL)	N=8	15 / 11

Portfolio managers and researchers listed above are included in the total

Robeco Emerging Conservative Equity Fund

Robeco has discretionary and quantitative teams across both fixed interest and equities. The Fund is managed by Robeco's Conservative Equities team (CET) who reside within the Manager's Quantitative Equities group. There are 15 portfolio managers across the group, of which six reside within the CET. The average experience and tenure of the combined portfolio management team is 19 and 15 years respectively.

Led by David Blitz, the Quantitative Equity Research (QER) team also supports the strategy, consisting of eight senior Rotterdam-based researchers, a shared junior research talent pool of five and 10 interns. Further, the QER team leverage Robeco's broader credit, trade execution and allocation research teams. The average experience and tenure of the senior research team is 15 and 11 years, respectively.

Pim Van Vliet, who leads the CET, along with Arlette van Ditshuizen, Jan Sytze Mosselaar, Arnoud Klep, Yaowei Xu and Maarten Polfliet are the portfolio managers ultimately responsible for the Fund and function as each other's back up. The six have primary responsibility for Robeco's Conservative Equities or low volatility strategies with each being responsible for approximately ten separate accounts that bare reasonably high commonality with the Fund.

Van Vliet is the Head of the CET and joined Robeco in 2005 as a Senior Quantitative Researcher with responsibility for asset allocation research. He has published research in various academic journals, is a guest lecturer at several universities and the author of a book on low-volatility investing.

Remuneration

Robeco investment professionals receive a compensation package comprised of a mix of salary and annual bonuses which is described as market competitive. The bonus is predominantly (90%) based on fund performance while the remaining 10% is linked to the profitability of the Manager and other subjective factors. Long-term incentives in the form of Cash Appreciation Rights are available for a select group of longstanding senior members of the team on a deferred basis.

Research Approach

Overview

RESEARCH PHILOSOPHY	QUANTITATIVE, LOW VOLATILITY
TARGET COMPANY	STOCKS THAT HAVE LOW RISK, ATTRACTIVE VALUATION AND POSITIVE SENTIMENT
MINIMUM MARKET CAP	€250M
NO. STOCKS IN UNIVERSE	1,700
NO. STOCKS FULLY MODELED / RESEARCHED	1,400
RESEARCH INPUTS	VARIOUS
BROKER RESEARCH	FOR CONSENSUS DATA ONLY
VALUATION OVERVIEW	VARIOUS, PRIMARILY DIVIDEND YIELD

Universe filtering

The Manager uses the MSCI, FTSE and S&P emerging market indices to establish its initial universe and minimum liquidity rules narrow this list to around 1,700 stocks. The Manager requires a daily trading volume of at least €$1 million per day.

Research process

The CET does not conduct fundamental bottom-up research on companies. The dedicated QER team maintains a regular research programme into new signals and potential enhancements to the existing model. The research agenda is set annually by the Quantitative Equities Model and Strategy Committee (QEMSC) who also meets monthly to review research. Ideas are prioritised based on early evidence of alpha potential. While the models are designed to be stable through time, changes will be made where these are considered to be accretive.

Recent enhancements have included exploring alternative data sources, the addition of news sentiment to the momentum signals and further enhancing portfolio construction algorithms to reduce trading costs. The team is also looking at improving its quantitative infrastructure by migrating to the cloud to increase their back-testing power and speed of computing.

A separate committee consisting of senior portfolio managers and researchers formally approves enhancements to the models and the research agenda for upcoming quarters.

Valuation

Various valuation metrics are used in the quantitative process; however, the Manager prefers defensive methods like dividend yield.

Portfolio Construction

Overview

FUND BENCHMARK	MSCI EMERGING MARKETS NR INDEX AUD
RETURN OBJECTIVE (INTERNAL)	MAXIMISE THE SHARPE RATIO / DELIVER RETURNS EQUAL TO OR GREATER THAN THE MARKET
RISK OBJECTIVE (INTERNAL)	DELIVER LOWER THAN MARKET RISK BY 20-30% OVER THE CYCLE
PORTFOLIO APPROACH	BENCHMARK UNAWARE
INVESTMENT STYLE	LOW VOLATILITY
PORTFOLIO DECISION MAKING	QUANTITATIVE
STOCK SELECTION	BOTTOM-UP
TOP-DOWN INFLUENCE	MINOR CONSIDERATION
TYPICAL NUMBER OF HOLDINGS	150-200
MARKET CAPITALISATION BIAS	ALL-CAP WITH SMALL-TO-MID CAP BIAS
EXPECTED PORTFOLIO TURNOVER	<25% P.A.
OBSERVED ACTIVE SHARE	>75%
% OF PORTFOLIO IN TOP 10 HOLDINGS	15.1% (DECEMBER 2019)

Decision making

Decisions are driven by the quantitative models which also determine the position size for each stock. Robeco's Conservative Equity stock selection model focuses firstly on reducing risk and secondly on enhancing returns. The model looks at a combination of statistical low risk factors including volatility and beta, as well as forward looking proprietary distress risk factors, which consider the probability of default, credit spreads, distance to default and credit default swaps in order to minimise exposure to low volatility traps. To enhance the expected portfolio sharpe ratio, the model includes valuation and momentum factors.

The portfolio and model output is subject to regular oversight and validation. The portfolio construction process seeks to preserve the model's risk and return characteristics while limiting portfolio turnover, ensuring diversification, and constraining risk. A stock's weight is determined through this portfolio construction algorithm and a maximum weight of 2% is allowed. The model can be updated daily but monthly re-balancing is typical. In addition, when substantial transactions are received, the Manager will buy top ranked stocks or sell bottom ranked stocks in an effort to more efficiently re-balance and gain exposure to the model.

Buy / sell drivers

The buy and sell decisions are similarly driven by the quantitative ranking and portfolio construction process. Each stock is allocated to five quintiles based on its relative rank and generally bought when it ranks in the top quintile.

At rebalancing, a position will be sold when:

- The holding limit of 2% is reached (partially sold)
- If there are two stocks with a 50 percentage ranked difference, the lower ranked stock will be sold and the top ranked will be purchased; or
- A stock drops in rank to the bottom 40%.

Risk Management

Risk limits

SEPARATE RISK MONITORING	YES
STOCK LIMIT	2% ABSOLUTE (SOFT)
SECTOR LIMITS	+/- 10% ACTIVE (SOFT)
COUNTRY LIMITS	+/- 10% ACTIVE (SOFT)
CASH LIMIT	UP TO 10% BUT TYPICALLY CLOSE TO FULLY INVESTED

Stock, sector and country limits are 'hard' at the time of rebalancing although the Fund may deviate from these limits in the lead up to the rebalancing date. In order to limit stock-specific risk, individual stocks have a maximum portfolio weight of 2% at rebalancing. Sector and region limits will typically not exceed +/-10% relative to the Benchmark. The Fund will typically be fully invested with only residual cash accrued from time to time.

Risk monitoring

RiskMetrics, is used by portfolio managers and the Risk Management department to monitor the absolute risk in the portfolio, which must not exceed the index (to high statistical confidence). RiskMetrics assists the portfolio managers in the assessment and interactive structuring of tactical allocations across the various stocks, countries and currencies in equity portfolios.

MSCI Barra, is an external risk management system used by the team to confirm the estimates from RiskMetrics. The system is also used to screen for other unintended portfolio biases, such as small- versus large-cap exposure.

Portfolio managers have full look through on portfolio exposures in real-time. Regular oversight is supplemented by separate risk and compliance teams.

Risks

An investment in the Fund carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers major risks to be:

Currency risk

Funds in the Global Equities – Regional Equities sector, such as this one, predominantly invest in assets that are denominated in non-A$ currencies. A rise in the relative value of the A$ vis-à-vis the currencies in which the assets are denominated will negatively impact the market value of the assets (and vice versa) from an Australian investor's perspective. Robeco does not hedge the currency risk.

Market risk

Companies within emerging markets generally have greater market risk (i.e. volatility). Accordingly, investors should be mindful of the potential for sharper movements in market price of these investments.

Liquidity risk

Exposures to emerging market countries can potentially give rise to heightened liquidity risk. Stocks domiciled in emerging markets are generally considered to be less liquid than those domiciled in developed markets, particularly during times of extreme market dislocation. Lonsec notes that the Fund also has a bias to small-cap stocks relative to the benchmark which may also increase liquidity risk.

Robeco Emerging Conservative Equity Fund

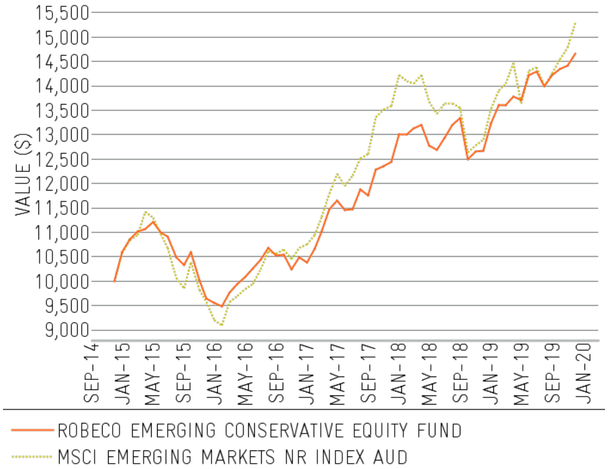
Quantitative Performance Analysis - annualised after-fee % returns (at 31-12-2019)

Performance metrics

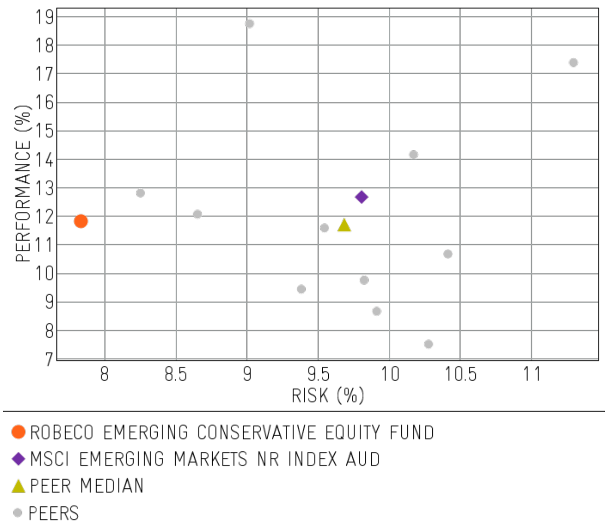
	1 YR		2 YR		3 YR		5 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	15.75	19.24	8.54	7.45	11.83	11.71	7.96	8.23
STANDARD DEVIATION (% PA)	6.35	9.22	8.08	10.37	7.83	9.68	8.42	10.86
EXCESS RETURN (% PA)	-2.86	0.16	2.44	1.31	-0.85	-0.97	-0.91	-0.64
OUTPERFORMANCE RATIO (% PA)	25.00	50.00	50.00	50.00	47.22	44.44	50.00	46.67
WORST DRAWDOWN (%)	-2.08	-3.32	-6.27	-10.33	-6.27	-10.02	-15.48	-18.40
TIME TO RECOVERY (MTHS)	2	1	4	9	4	9	14	6
SHARPE RATIO	2.24	2.06	0.85	0.54	1.29	1.12	0.72	0.58
INFORMATION RATIO	-0.44	0.02	0.48	0.18	-0.18	-0.21	-0.18	-0.12
TRACKING ERROR (% PA)	6.46	5.92	5.13	5.42	4.75	4.69	5.00	5.00

FUND: ROBECO EMERGING CONSERVATIVE EQUITY FUND
LONSEC PEER GROUP: GLOBAL EQUITIES - GLOBAL EMERGING MARKETS
BENCHMARK USED: MSCI EMERGING MARKETS NR INDEX AUD
CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

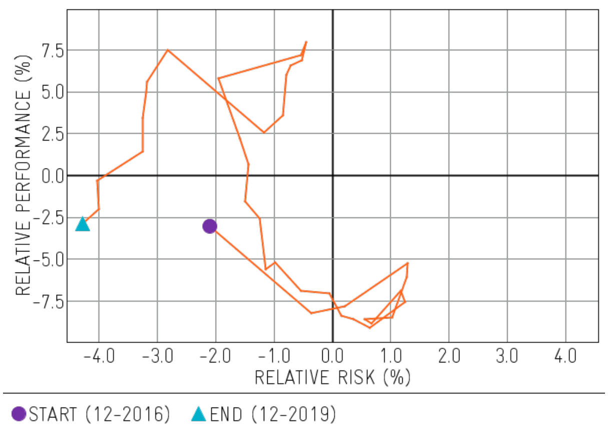
Growth of $10,000 over five years



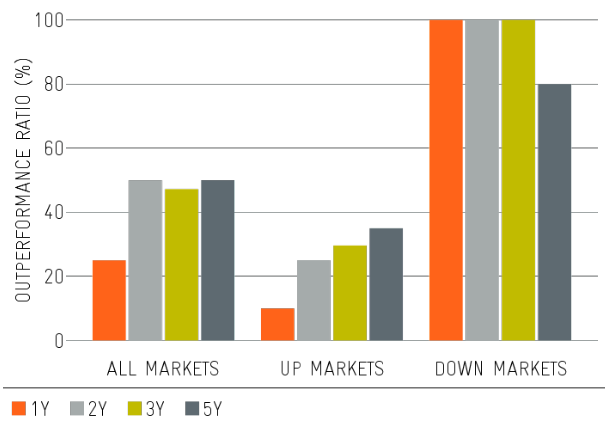
Risk-return chart over three years



Snail trail



Outperformance consistency



ANALYST: MATTHEW O'NEILL | APPROVED BY: SIMONE GAVIN

Robeco Emerging Conservative Equity Fund

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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