



# Product Review

## Robeco Global DM Multi-Factor Equities Alpha Fund (AUD Hedged)

ISSUE DATE 30-01-2020

### About this Review

ASSET CLASS REVIEWED	GLOBAL EQUITIES
SECTOR REVIEWED	GLOBAL LARGE CAP
SUB SECTOR REVIEWED	QUANTITATIVE (CURRENCY HEDGED)
TOTAL FUNDS RATED	8

### About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	ROBECO GLOBAL DM MULTI-FACTOR EQUITIES ALPHA FUND (AUD HEDGED)
APIR CODE	ETL6318AU
PDS OBJECTIVE	HIGHER RISK-ADJUSTED RETURNS THAN THE BENCHMARK OVER A FULL ECONOMIC MARKET CYCLE (5-7 YEARS).
INTERNAL OBJECTIVE	ALPHA OF 2-3% P.A. (GROSS) OVER A FULL ECONOMIC MARKET CYCLE (5-7 YEARS).
STATED RISK OBJECTIVE	SIMILAR VOLATILITY AS THE BENCHMARK OVER A FULL ECONOMIC MARKET CYCLE (5-7 YEARS).
DISTRIBUTION FREQUENCY	SEMI-ANNUAL
FUND SIZE	\$31.3M (31 DECEMBER 2019)
FUND INCEPTION	09-05-2018
MANAGEMENT COSTS	0.65% P.A.
RESPONSIBLE ENTITY	EQUITY TRUSTEES LIMITED

### About the Fund Manager

FUND MANAGER	ROBECO HONG KONG LIMITED
OWNERSHIP	100% DRIX CORPORATION
ASSETS MANAGED IN THIS SECTOR	\$20.2BN (DECEMBER 2019)
YEARS MANAGING THIS ASSET CLASS	18

### Investment Team

PORTFOLIO MANAGER	JOOP HUIJ, SIMON LANSDORP, DANIEL HAESSEN & VIOREL ROSCOVAN
INVESTMENT TEAM SIZE	15
INVESTMENT TEAM TURNOVER	LOW
STRUCTURE / LOCATION	PMS & RESEARCHERS / ROTTERDAM

### Investment process

STYLE	CORE
TYPICAL CAPITALISATION BIAS	ALL-CAP WITH SMALL-TO-MID CAP BIAS
BENCHMARK	MSCI WORLD NET RETURN INDEX (AUD HEDGED)
TYPICAL STOCK NUMBERS	450-500
STOCK LIMIT	MAX. 2% (SOFT)
SECTOR / INDUSTRY LIMIT	+/- 10% ACTIVE (SOFT)
COUNTRY / REGION LIMIT	+/- 10% ACTIVE (SOFT)
EMERGING MARKETS	NOT PERMITTED
CURRENCY EXPOSURE	HEDGED

### Fund rating history

JANUARY 2020	INVESTMENT GRADE
MARCH 2019	INVESTMENT GRADE
JUNE 2018	INVESTMENT GRADE

### What this Rating means

The 'Investment Grade' rating indicates that Lonsec has conviction the financial product can generate risk adjusted returns in line with relevant objectives. However, if applicable, Lonsec believes the financial product has fewer competitive advantages than its peers.

### Strengths

- The investment team is highly experienced and has historically been stable.
- The investment process is considered logical, well developed and consistently applied.
- The Manager's investment process integrates an encouraging level of ESG awareness.

### Weaknesses

- The Fund's management cost of 0.65% p.a. is considered relatively high for a quantitative factor-based approach.
- The Fund has a short performance track record, given it only launched in May 2018.

### Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY			●
FOREIGN CURRENCY EXPOSURE		●	
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			●

We strongly recommend that potential investors read the product disclosure statement Lonsec Research Pty Ltd ABN 11 151 658 561 • AFSL No. 421 445 • This information must be read in conjunction with the warning, disclaimer, and disclosure at the end of this document. This report supersedes all prior reports.

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

# Robeco Global DM Multi-Factor Equities Alpha Fund (AUD Hedged)

## 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 Multi-Factor Equities Alpha Fund (AUD Hedged) ('the Fund') is an 'actively-managed', 'long-only', quantitative equity strategy which invests in global developed markets. The Fund seeks to provide a diversified portfolio of global securities. Currency exposures are substantially hedged back to the Australian dollar. The Fund combines three factor sleeves consisting of 'value', 'momentum' and 'quality' with the aim of outperforming the MSCI World Net Return Index (AUD hedged) ('the Benchmark') gross of fees by 2-3% p.a. over a full market cycle (five to seven years).
- The portfolio is expected to hold between 450-500 securities with an expected turnover of 50% p.a., and an active share greater than 75%. While the mandate is 'all-cap', the Fund is designed to have a mid-to-small cap bias relative to the Benchmark and has the ability to invest up to a maximum of 20% in off-benchmark securities (developed market securities only and generally smaller cap companies). Portfolio construction is 'benchmark-unaware' and tracking error is not targeted but has historically been around 3-5% p.a.
- The Fund also systematically integrates Environment, Social and Governance (ESG) factors within the portfolio construction process, with the model preferring 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.
- As per the Fund's PDS dated 28 June 2019, the Fund has a management fee of 0.65% p.a., with no indirect costs. The net transaction costs for the Fund are estimated at 0.11% 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 0.13% upon entry and 0.10% upon exit. Please refer to the Fund's PDS for further details.
- Robeco also offers a currency unhedged version of this Fund to investors.

## 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 provides investors exposure to global equity stock markets and accordingly may experience both positive and negative, at times sharp, movements in the value of capital invested. Lonsec recommends that equity investments, given their volatility, are best suited for investors with an investment time horizon of at least five years.
- The Fund is best described as a 'core' style fund which is expected to display persistent positive exposures to value, quality and momentum style factors.

## 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

- Portfolio Manager, Rob van Bommel, transferred internally having been promoted to the Head of the Client Portfolio Management team. Viorel Roscovan, who joined Robeco in May 2015 as a researcher dedicated to the Factor Investing team, was promoted to Portfolio Manager, replacing van Bommel.
- Jean Paul van Brakel, who has been with Robeco since 2016, has now joined the Factor Investing team as a researcher, replacing Roscovan.
- 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 has 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 process since Lonsec's previous review.

## Lonsec Opinion of this Fund

### People and resources

- The Fund is managed by Robeco's Factor Investing Team (the 'FIT') who reside within the Manager's Quantitative Equities group. There are 15 portfolio managers across the group, of which four reside within the FIT, which is supported by a further two dedicated researchers. 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.
- Joop Huij is the leader of Robeco's FIT across both Factor Investing Equity and Factor Index sub-units. Huij joined Robeco in 2007 as a researcher and has been a key contributor and architect of Robeco's factor investing approach, having co-authored a number of studies across factor premiums in well respected academic journals. Huij also holds a part-time position as Associate Professor (with tenure) of Finance at Rotterdam School of Management. Lonsec

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considers Huij to be an experienced investment professional and academic who is well placed to lead the FIT.

- Simon Lansdorp is the assigned Portfolio Manager for this Fund. Lansdorp joined Robeco in 2009 as a researcher and contributed to the development and enhancement of the factors used by the Fund. Lonsec has met with Lansdorp during the review process and believes he is an experienced and capable investment professional.
- The FIT is rounded out by portfolio managers, Viorel Roscovan and Daniel Haesen. The four portfolio managers share responsibility for Robeco's factor investing strategies and function as each other's back up. Responsibilities are split by accounts of the same strategy. Lonsec believes the structure of the team assists in reducing 'key-person risk'.
- 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 FIT 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 four 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.

## Research and portfolio construction

- The Fund seeks to harness common market factor premiums (value, momentum and quality) and combine these into a single portfolio. A key emphasis of Robeco's approach is ensuring exposures don't offset each other. Lonsec considers the philosophy of the Fund to be intuitively appealing, implemented by a highly systematic, research supported investment process. Overall, Lonsec believes that Robeco applies a disciplined and repeatable investment process, consistent with many well-executed quantitatively driven investment approaches.
- 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.
- The Manager has a limited track record with the current factor blend. Lonsec gains comfort, however, from Robeco's experience in blending similar multi-factor portfolios since 2014, albeit being a different combination of factors. Additionally, the stock selection model used throughout the Fund's investment process has a similar pedigree to the longer running Conservative Equity process which was first implemented within developed markets in 2006.
- Robeco requires each factor to be persistent, proven, explainable via an economic rationale, generate 'alpha' and be executable. Lonsec generally considers Robeco to apply a pragmatic approach to its systematic investment process. Notably, in contrast to some peers, 'size' is not considered as a standalone factor premium but the other factor premiums are stronger down the capitalisation spectrum. Therefore, the Fund is designed to have a small-to-mid cap bias to capture the stronger factor premiums, this bias is consistent with most quantitative strategies.
- Lonsec notes that the Manager adopts a holistic approach to factor investing, as each portfolio sleeve, a natural standalone portfolio, also considers other factors aiming to deliver a relatively pure expression of each headline factor. Lonsec considers this approach to be differentiated and well-devised, aiding in the portfolio construction process by ensuring the factor exposures are not off-set and effectively flow through to the final portfolio.
- The Fund's objective of delivering a positive factor exposure to each factor is evident by its structure, with the portfolio typically having an equal weight to each of the three separate factor sleeves (each 150-200

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stocks). The aggregate portfolio may range between 450-500 stocks as some stocks can appear in multiple sleeves.

- Portfolio construction seeks to preserve the model's style characteristics while limiting portfolio turnover, ensuring diversification, and accounting for risk limits. As such, factor exposures can vary up to +/-3.3% (10% of their strategic allocation) away from their initial equal-weight as the portfolio is allowed to drift. While mindful of the Manager's aim to control turnover, the 'drift' allowed is reasonable and not wholly consistent with the objective for constant factor exposures.
- Each sleeve will own stocks ranked high in the model (top quintile) with a starting position size of 0.60% and adjustments made for each stocks benchmark weight and liquidity. Stocks will be sold when its rank drops to the bottom 40%. Therefore, Lonsec notes there is little differentiation between the highest ranked stock against the lowest ranked stock within a sleeve, with position sizing differing largely due to their benchmark weight and liquidity. Lonsec believes this approach is considered in-line with other more benchmark-aware quantitative peers.
- Lonsec believes there is sufficient accountability within the team given that final responsibility for trading decisions rest with the four portfolio managers. Stock ranking is run on a daily basis; however, the portfolio is typically implemented on a monthly cycle or as required. 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

- The Manager considers risk from both an absolute and relative perspective, aiming to deliver a similar standard deviation of investment returns as the Benchmark. Lonsec notes the Manager incorporates risk metrics such as beta, volatility and distress risk signals into the underlying factors of the Fund which helps minimise risk from an absolute point of view. Similar to other quantitative processes, risk management is fully integrated in all stages of the investment process.
- Lonsec considers this risk management approach to be prudent. 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, at the time of review, the portfolio had an overweight to small-to-mid cap stocks relative to the Benchmark and this is expected to be a persistent bias.
- 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 \$20.2 billion in funds under management (FUM) specifically within Multi-Factor strategies as at 31 December 2019. Lonsec highlights that Robeco managed \$33.9 billion in FUM at the same date within their Factor Investing sub-unit of the broader Robeco Quantitative Equities unit which collectively managed A\$112.5 billion across Core Quant, Conservative Equities and Factor Investing. The Manager's internal review determined the capacity for the Multi-Factor strategy to be at least \$75 billion. Lonsec considers this a reasonably high level given the portfolio's small-to-mid cap bias.
- Additionally, Lonsec highlights that holdings crossover between the standalone factor and Multi-Factor strategies is expected to be high and therefore needs to be taken into consideration when analysing the capacity of the strategy. The Manager highlights that the strategy has been designed to accommodate this level of FUM given the greater liquidity in developed markets and the penalisation of less liquid stocks in the overall ranking system. Lonsec notes however that there is considerable headroom within the strategy and will conduct greater analysis into the strategy's capacity if / when necessary.

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## Performance

- The Fund aims to outperform the MSCI World Net Return Index (AUD hedged) ('the Benchmark') by 2-3% p.a. (gross) over a full market cycle (five to seven years). Lonsec notes that the Fund and strategy were only more recently established and do not have a meaningful track record.
- That said, Lonsec notes the underlying factors which the Fund is built on have longer dated track records; Momentum (August 2012), Value (January 2014) and Quality (October 2016). Performance for the respective factors since inception in EUR terms (gross) versus the broader MSCI World Index has been mixed with value significantly underperforming, momentum delivering returns largely in line with the MSCI Index and quality outperforming strongly. That said, performance relative to their respective MSCI Factor benchmarks has been poor with all three underperforming since inception.
- Additionally, Lonsec notes that Robeco have managed Multi-Factor equity strategies since May 2014 albeit with a different combination of factor constituents relative to this Fund. Nonetheless, Lonsec gains comfort that Robeco has some experience in blending factors within a single portfolio.
- While short, the Fund has now gained a one-year track record, returning 18.5% after fees to 31 December 2019, underperforming the Benchmark 8.2%. As expected, the value factor has been the largest detractor of returns, although the Fund's exposures to momentum and quality have also weighed on returns.

## Overall

- Lonsec has maintained the Fund's 'Investment Grade' rating. Lonsec believes the Fund benefits from a logical, well-developed and consistently applied quantitative investment process which attempts to harness common market factor premiums and effectively combine these factors into a single portfolio. Lonsec considers the philosophy of the Fund to be intuitively appealing, implemented by a stable and experienced team.
- That said, Lonsec highlights the Fund and strategy have a limited track record and the Fund's fee load is considered relatively high when compared to similar factor-based solutions and some more actively managed quantitative strategies. While performance outcomes to date have been disappointing, Lonsec will seek to observe the Fund's performance over a longer time-frame.

## People and Resources

### Corporate overview

Robeco Hong Kong (Robeco), a part of Orix Corporation Europe NV (Orix Corporation) is the Investment Manager. Robeco was founded in 1929 in Rotterdam, the Netherlands, and is a global firm managing A\$298 billion (June 2019) across a broad range of asset classes. 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 Pacific. As at 31 December 2019, Robeco managed A\$33.9 billion in factor equity strategies, including A\$20.2 billion specifically within Multi-Factor strategies

### Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
JOOP HUIJ	HEAD OF FACTOR INVESTING EQUITIES, PORTFOLIO MANAGER AND HEAD OF FACTOR INDEX EQUITY RESEARCH	17 / 12
SIMON LANSDORP	PORTFOLIO MANAGER	11 / 10
DANIEL HAESSEN	PORTFOLIO MANAGER	16 / 16
VIOREL ROSCOVAN	PORTFOLIO MANAGER	16 / 4
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 has discretionary and quantitative teams across both fixed interest and equities. The Fund is managed by Robeco's Factor Investing Equity team (FIT) who reside within the Manager's Quantitative Equities group. There are 15 portfolio managers across the group, of which four reside within the FIT, with a further two dedicated to Factor Index work. 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.

Joop Huij as Head of the Factor Investing Equity and Head of Factor Index Research leads the FIT, who along with Simon Lansdorp, Viorel Roscovan and Daniel Haesen are the portfolio managers ultimately responsible for the Fund and function as each other's back up. These four have primary responsibility for Robeco's Factor Investing strategies, with each responsible for approximately ten highly similar separate accounts.

Huij joined Robeco in 2007 and also holds a part-time position as Associate Professor (with tenure) of Finance at Rotterdam School of Management and has been published in various academic journals.

Simon Lansdorp, the lead portfolio manager for this Fund, commenced his career at Robeco in 2009. Within the Factor investing research team, Lansdorp has conducted a range of research and development. He has also published research in academic journals.

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## 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 - FACTOR BASED
TARGET COMPANY	STOCKS THAT EXHIBIT ONE OR ALL OF THE FOLLOWING: MOMENTUM, ATTRACTIVE VALUATIONS AND QUALITY BUSINESS CHARACTERISTICS.
MINIMUM MARKET CAPITALISATION	€500M
NO. STOCKS IN UNIVERSE	4,000
NO. STOCKS FULLY MODELED / RESEARCHED	N/A
RESEARCH INPUTS	VARIOUS
BROKER RESEARCH	FOR CONSENSUS DATA ONLY
VALUATION OVERVIEW	VARIOUS (INC. BOOK VALUES, EARNINGS, YIELD AND CASH-FLOW METRICS)

### Universe filtering

The Manager uses a set of broad developed market indices (S&P Broad Market Index and MSCI) to establish its initial universe and minimum liquidity rules narrow this list to around 4,000 names from circa 8,400. The Manager requires an average daily trading volume of at least €2 million.

### Research process

The FIT does not conduct fundamental bottom-up research on companies. Instead, the portfolio seeks to quantitatively capture well known equity premiums within global markets, otherwise known as 'factors'. The Fund consists of three standalone sleeves, one sleeve for each Factor. Robeco believes that systematic mispricing, resulting from a mix of both rational behavior and behavioral biases among investors, explain why these factor premiums exist; rather than factor premiums being a compensation for risk. Robeco attempts to capture the respective factor premiums in the following ways:

- Value: Using price to fundamental ratios such as book values, earnings, yield and cashflows. The factor also contains momentum (price momentum, analyst revisions), low risk (volatility, beta, distress risk) and quality metrics (profitability, accruals and change in shares outstanding) to avoid value traps and avoid off-setting factor exposure at an aggregate portfolio level. The avoidance of distress risk stocks which offer no additional premium is also included.
- Momentum: Utilises several measures of momentum including price momentum, analyst revisions, credit momentum and residualised price momentum variables. Residualised price momentum seeks to isolate idiosyncratic stock momentum by removing market and sector momentum. Additionally value, risk and quality metrics are also included into the factor ranking

of stocks to avoid off-setting factor exposure at an aggregate level.

- Quality: Financial metrics such as gross profitability of operations, levels of accruals and net share buybacks are used as a gauge of a company's quality. Additionally value and momentum metrics are also included into the ranking of stocks to avoid off-setting factor exposure at an aggregate level.

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 including book values, earnings, yield and cashflows.

## Portfolio Construction

### Overview

FUND BENCHMARK	MSCI WORLD NR INDEX (AUD HEDGED)
EMERGING MARKETS PERMITTED	NO
INTERNAL RETURN OBJECTIVE	OUTPERFORM THE BENCHMARK BY 2-3% P.A. (GROSS) OVER A FULL ECONOMIC MARKET CYCLE (5-7 YEARS).
INTERNAL RISK OBJECTIVE	SIMILAR VOLATILITY (STANDARD DEVIATION) AS THE BENCHMARK OVER A FULL ECONOMIC MARKET CYCLE (5-7 YEARS).
PORTFOLIO APPROACH	BENCHMARK UNAWARE
INVESTMENT STYLE	CORE (VALUE, MOMENTUM AND QUALITY FACTOR PREMIUMS)
PORTFOLIO DECISION MAKING	QUANTITATIVE
STOCK SELECTION	BOTTOM-UP
TOP-DOWN INFLUENCE	MINOR CONSIDERATION
TYPICAL NUMBER OF HOLDINGS	450-500 STOCKS
MARKET CAPITALISATION BIAS	ALL-CAP WITH SMALL-TO-MID CAP BIAS
EMERGING MARKETS EXPOSURE	APPROX. 50% P.A.
OBSERVED ACTIVE SHARE	>75%
PORTFOLIO EXPOSURE IN TOP 10 HOLDINGS	7.7% (DECEMBER 2019)

### Decision making

Decisions are driven by the quantitative models with the same quantitative process applied across each factor sleeve (value, momentum and quality). Essentially each

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stock within the investable universe is ranked within each factor sleeve. Stocks are assessed across several metrics specific to a factor sleeve. These metrics are combined to calculate a stock rank between 0-100% (zero being the best). The top-ranked stocks are then selected from each sleeve, with each sleeve representing a natural standalone portfolio consisting of approximately 150-200 securities. Each top ranked stock receives an equal weight of 0.60%, which is then adjusted for the stocks liquidity and Benchmark weight. A stock may be present in more than one sleeve leading to a larger absolute portfolio weight. The maximum stock weight is 2%.

The portfolio and model output is subject to regular oversight and validation. An optimal portfolio is determined from the validated rank, controlling for portfolio turnover and ensuring diversification. The model can be updated daily but monthly re-balancing is typical. In addition, when substantial transactions are received, the Manager can facilitate an intra-month re-balance. Further, factor sleeve weights are re-balanced when a sleeve exceeds its maximum allowable range (+/-10% of its strategic 33.3% weight), the portfolio is then adjusted to the mid-point to minimise turnover while also allowing for momentum within factors.

## Buy / sell drivers

The buy and sell decisions are similarly driven by the quantitative ranking and portfolio construction process. A stock is bought when it ranks in the top 20% of an individual portfolio sleeve.

At rebalancing, a position will be sold when:

- The holding limit of 2% is reached (partially sold); or
- A stock drops in rank to the bottom 40% of its respective factor sleeve.

## Risk Management

### Risk limits

SEPARATE RISK MONITORING	YES
STOCK LIMIT	2% ABSOLUTE(SOFT)
SECTOR LIMITS	+/- 10% ACTIVE (SOFT)
COUNTRY LIMITS	+/- 10% ACTIVE (SOFT)
EMERGING MARKETS	NOT PERMITTED
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.

### Currency management

Robeco's philosophy is to select stocks on their local currency volatility, and to consider the possible hedging of the resulting portfolio currency exposures as a separate investment decision.

Robeco aims to 'fully' hedge the Fund to the extent practicable using benchmark currency exposures via one month currency forwards (deliverable) with a tolerance band of +/-5%. This means that the AUD hedge is managed within a 95% - 105% bandwidth at the total portfolio level. There are also guidelines on individual currency levels. Robeco predominantly hedges the following basket of currencies: USD, JPY, EUR, CAD, CHF and GBP.

Currency hedging is implemented separately from Robeco's portfolio management team as a dedicated function.

### 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:**

#### Market risk

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

#### Liquidity risk

Lonsec notes that the Fund has a bias to small and mid-cap stocks relative to the benchmark. Exposures to smaller companies can potentially give rise to heightened liquidity risk.

#### Currency risk

Funds in the Global Equities - Quantitative 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. The Fund aims to fully hedge currency risk.

# Robeco Global DM Multi-Factor Equities Alpha Fund (AUD Hedged)

ISSUE DATE 30-01-2020

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

### Performance metrics

	3 MTH		6 MTH		9 MTH		12 MTH	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	7.68	7.38	7.73	7.39	7.89	9.43	18.50	20.79
STANDARD DEVIATION (% PA) *	-	-	-	-	-	-	14.45	12.86
EXCESS RETURN (% PA)	0.36	-0.12	-1.07	-1.38	-4.72	-2.82	-8.24	-5.40
OUTPERFORMANCE RATIO (% PA)	66.67	50.00	50.00	41.67	33.33	33.33	33.33	33.33
WORST DRAWDOWN (%)	0.00	0.00	-4.04	-3.05	-7.90	-6.54	-7.90	-6.54
TIME TO RECOVERY (MTHS)	-	-	2	2	6	4	6	4
SHARPE RATIO *	-	-	-	-	-	-	1.18	1.63
INFORMATION RATIO *	-	-	-	-	-	-	-2.12	-1.89
TRACKING ERROR (% PA) *	-	-	-	-	-	-	3.89	2.52

FUND: ROBECO GLOBAL DM MULTI-FACTOR EQUITIES ALPHA FUND (AUD HEDGED)

LONGSEC PEER GROUP: GLOBAL EQUITIES - GLOBAL LARGE CAP - QUANTITATIVE (CURRENCY HEDGED)

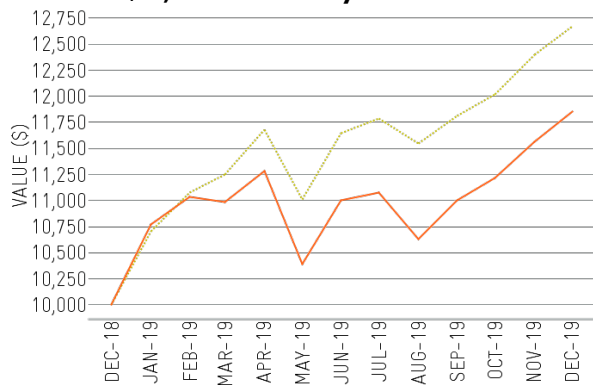
BENCHMARK USED: MSCI WORLD NR INDEX (AUD HEDGED)

CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD

\* PERIODS LESS THAN 12 MONTHS ARE NOT CALCULATED

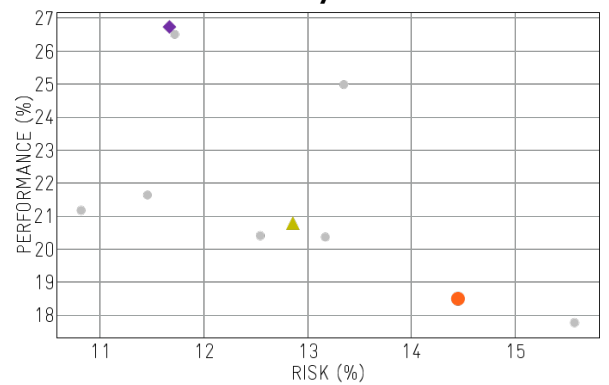
TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

### Growth of \$10,000 over one year



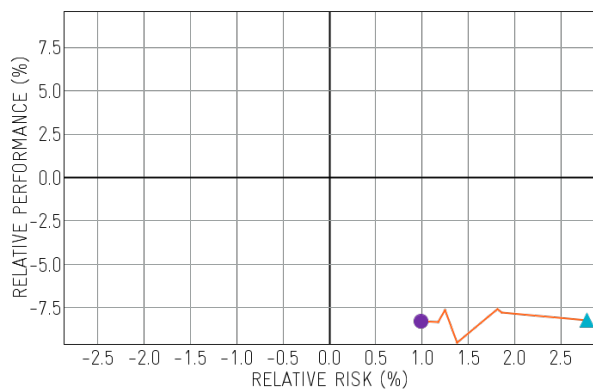
— ROBECO GLOBAL DM MULTI-FACTOR EQUITIES ALPHA FUND (AUD HEDGED)  
 - - - MSCI WORLD NR INDEX (AUD HEDGED)

### Risk-return chart over one year



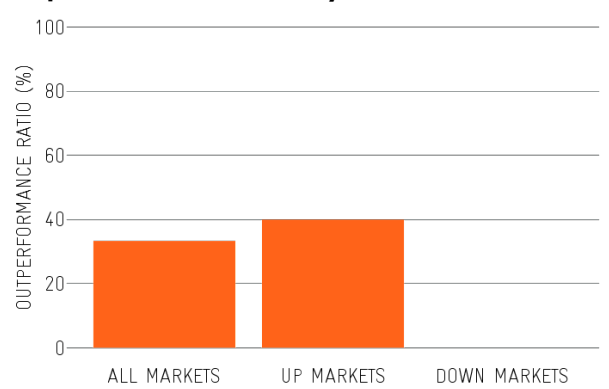
● ROBECO GLOBAL DM MULTI-FACTOR EQUITIES ALPHA FUND (AUD HEDGED)  
 ◆ MSCI WORLD NR INDEX (AUD HEDGED)  
 ▲ PEER MEDIAN  
 ● PEERS

### Snail trail



● START (05-2019) ▲ END (12-2019)

### Outperformance consistency



■ 1Y

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



# Robeco Global DM Multi-Factor Equities Alpha Fund (AUD Hedged)

## 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

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