

# Product Review

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

ISSUE DATE 26-06-2018

### About this Review

ASSET CLASS REVIEWED	GLOBAL EQUITIES
SECTOR REVIEWED	GLOBAL LARGE CAP
SUB SECTOR REVIEWED	QUANTITATIVE
TOTAL FUNDS RATED	18

### About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	ROBECO GLOBAL DM MULTI-FACTOR EQUITIES ALPHA FUND (AUD)
APIR CODE	ETL7610AU
PDS OBJECTIVE	DELIVER HIGHER RISK-ADJUSTED RETURNS THAN THE BENCHMARK OVER A FULL ECONOMIC MARKET CYCLE (5-7 YEARS).
INTERNAL OBJECTIVE	OUTPERFORM THE BENCHMARK BY 2-3% P.A. (GROSS) OVER A FULL ECONOMIC MARKET CYCLE (5-7 YEARS).
STATED RISK OBJECTIVE	SIMILAR VOLATILITY (STANDARD DEVIATION) AS THE BENCHMARK OVER A FULL ECONOMIC MARKET CYCLE (5-7 YEARS).
DISTRIBUTION FREQUENCY	SEMI-ANNUAL
FUND SIZE	\$5M (MAY 2018)
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% ORIX CORPORATION
ASSETS MANAGED IN THIS SECTOR	\$14.8BN (MAY 2018)
YEARS MANAGING THIS ASSET CLASS	4

### Investment Team

PORTFOLIO MANAGER	JOOP HUIJ, SIMON LANSDORP, DANIEL HAESEN & ROB VAN BOMMEL
INVESTMENT TEAM SIZE	25
INVESTMENT TEAM TURNOVER	LOW-MODERATE
STRUCTURE / LOCATION	PMS & RESEARCHERS / ROTTERDAM

### Investment process

STYLE	CORE (VALUE, MOMENTUM AND QUALITY FACTOR PREMIUMS)
TYPICAL CAPITALISATION BIAS	ALL-CAP WITH SMALL-TO-MID CAP BIAS
BENCHMARK	MSCI WORLD NET RETURN INDEX IN AUD
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	UNHEDGED

### Fund rating history

JUNE 2018	INVESTMENT GRADE
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### 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

- Managed by an experienced and stable team;
- The investment process is logical, well-developed and consistently applied; and
- 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 mechanistic, quantitative factor-based approach;
- The Fund has a short performance track record, given it only launched in May 2018; and
- In Lonsec's view, the Fund's alpha target is considered to be relatively high given the style of Fund.

### 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 or investment statement. Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL. No. 421445. 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: JAMES KIRK | APPROVED BY: RUI FERNANDES

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## 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 ('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 by combining well-known and persistent factor premiums within the market. The Fund combines three factor sleeves consisting of 'value', 'momentum' and 'quality' with the aim of outperforming the MSCI World Net Return Index ('the Benchmark') gross of fees by 2-3% p.a. over a full market cycle (five to seven years).
- The final portfolio is expected to hold between 450-500 securities with an expected turnover of 50% p.a., and an active share >75%. While the mandate is 'all-cap', the Fund will exhibit a small-to-mid cap bias relative to the benchmark and has the ability to invest up to a maximum of 20% in off-benchmark securities (typically expected to be smaller cap companies from MSCI World Countries).
- 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 average ESG score of the portfolio is designed to be at least as high as the ESG score of the Benchmark.
- Lonsec believes that the Fund may exhibit moderate-to-high expected Tracking Error versus its benchmark and may suit investors seeking a 'benchmark-unaware' exposure to developed markets. Tracking error is not targeted but anticipated to be in the range of 3-5% p.a.
- As per the PDS dated 8 February 2018, the fee disclosure for the Fund is as follows: management cost of 0.65% p.a. The net transaction costs for the Fund are estimated at 0.09% of the NAV of the Fund. Net transaction costs are costs incurred in managing the fund (including explicit and implicit costs of buying and selling assets 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 0.23% (round-trip). Please refer to the Fund's PDS for further details.
- The management cost, in absolute terms, is relatively competitive within the wider global equity peer group. However, in Lonsec's view, the fee load is relatively high in the context of the quantitative factor-based approach applied and similar factor based solutions rated by Lonsec.

## 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 positive exposures to value, quality, growth and momentum style factors, the strength of which however may vary depending on market cycles.

## 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

- This is Lonsec's initial review of the Fund.

## Lonsec Opinion of this Fund

### People and resources

- Robeco's Global Investment team is divided into two groups; Fundamental Investing and Quantitative Investing. The Fund is managed by the Factor Investing Team (the 'FIT') who reside within the Robeco Quantitative Equities team. There are 15 portfolio managers across the Quantitative Equities team, 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 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. Lonsec highlights that Huij also holds a part-time position as Associate Professor (with tenure) of Finance at Rotterdam School of Management. Lonsec considers Huij to be an experienced investment professional and academic who is well placed to lead the FIT team.
- Simon Lansdorp is the assigned portfolio manager for this Fund. Lansdorp joined Robeco in 2009 as a researcher conducting factor related work, during this time contributing to the development and enhancement of the factors used by the Fund. Lonsec met with Lansdorp during the review and believes he is an experienced and capable investment professional to manage the Fund.
- The FIT team is rounded out by portfolio managers Rob van Bommel and Daniel Haesen. The four portfolio managers have primary responsibility for Robeco's factor investing strategies. All portfolio managers are ultimately responsible for the strategy and function as each other's back up. Responsibilities are split by accounts of the same strategy. Lonsec

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believes the structure of the team assists in reducing 'key-person risk'.

- The FIT is supported by a Quantitative Equity Research team made up of eight senior Rotterdam-based analysts, led by David Blitz who are further supported by a Research talent pool consisting of five investment professionals and 10 interns. While the size of the research team is sufficient, Lonsec notes the team size is at the smaller end relative the majority of its quantitative peers, Lonsec considers this to align to Robeco's universal broad-based research philosophy. The research team's primary focus is to conduct and disseminate equity-related quantitative research within the firm. Pleasingly, Robeco as a firm is considered to maintain strong relationships with universities which Lonsec views as important in keeping informed and up to date with the latest applicable research developments. The research team is considered appropriately experienced and stable. Lonsec notes continuity is an important factor for the research team given the close links their research has with portfolio construction. Lonsec believes the collegiate culture to help foster a strong and successful working relationship between portfolio managers and researchers. The average experience and tenure of the research team is 13 and nine years respectively.
- Lonsec believes that quantitative processes inherently engender a lower level of individual accountability. This is because portfolio construction is largely systematic and the research effort tends to be a fusion of the insights of a number of individuals. 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 current alignment of investor interests with those of the investment team to be moderate to high. Lonsec notes that variable remuneration is highly correlated with performance of the Fund, which is positive. Deferring a set component of variable remuneration, above a certain threshold, is compulsory. Only senior members of the investment team are eligible for long-term incentives and, while the team may co-invest alongside any strategy, they will generally only allocate to the strategies in which they are ultimately accountable for. Pleasingly, the research team is remunerated based on performance across the suite of strategies given their holistic contribution.

## Research and portfolio construction

- The Fund seeks to harness common market factor premiums (value, momentum and quality) and effectively combine these factors into a single portfolio, ensuring factor 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.
- Lonsec highlights that the Manager has a very limited track record for the Fund and strategy in its current format. That said, Lonsec gains comfort from Robeco's experience in blending similar multi-factor portfolios since 2014, albeit a different combination of factors. Additionally, Lonsec gains comfort that

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.

- Lonsec considers Robeco to apply a pragmatic approach to its systematic investment process. In recognising a factor premium, Robeco require each factor to be persistent, proven, explainable, generate 'alpha' and be executable. The Fund combines three 'return-focused' factors in value, momentum and quality while leaving out the 'risk-focused' low-volatility factor which is offered as a standalone Fund by the Manager. By way of example of Robeco's more pragmatic approach, 'size' is not considered strong enough as a standalone factor premium, contrary to many market participants. Instead, Robeco consider the size factor to only enhance returns of other factors such as value. In doing so, the Fund is expected to have a small-mid cap bias to ensure effective capture of the factor premiums in the market.
- Lonsec highlights that those investors seeking exposure to common market factor premiums are able to do so easily in a cost-effective manner from Index providers. With that said, Lonsec notes the Fund's competitive advantage lies within how the Manager defines the respective factors in addition to how these factors are combined into a portfolio, ensuring factor exposures are maintained, which may lead to higher expected returns than from index providers.
- Lonsec notes that the Manager's approach to capturing common market factor premiums is differentiated and considered well-devised relatively to those available by low-cost providers. Specifically, the Fund's momentum factor not only consists of generic price momentum, but also a proprietary 'residualised momentum' which attempts to isolate stock specific momentum by removing geographic, sector and style momentum which may lead to an enhanced capture of the premium. Lonsec gains comfort that the Manager's approach effectively captures momentum as a premium, having displayed a reasonable track record since 2012 compared to its respective index. Additionally, Lonsec gains greater comfort that the Manager's residual momentum is supported by research from Robeco's research team which has been published in well-known financial academic journals.
- In capturing each respective factors, Lonsec notes that the Manager adopts a holistic approach, incorporating elements of other factors to develop a more-rounded and risk adjusted capture of the factor while assisting in the portfolio construction process, ensuring the factor tilts flow through to the final portfolio. Specifically, the Fund's value factor is defined by several price oriented metrics such as book values, earnings measures, yield and cashflow metrics which is expected, however the Manager's stock selection model of the value factor also includes momentum, low-volatility and quality metrics which closely mirror those techniques used to capture the momentum and quality factors. Lonsec notes this helps the portfolio maintain the factor exposures within the aggregate portfolio. Lonsec considers the Manager's approach to be intuitive and well-devised.

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- The Fund's objective of delivering a positive factor exposure is evident by its structure, with the Fund utilising three separate sleeves which are equally-weighted at the aggregate portfolio level. Position sizing has a blanket rule, assigning a weight of a stock's benchmark weight (if applicable) plus 0.60% to top-ranked stocks within each sleeve, while also accounting for stock liquidity. Lonsec notes there is no differentiation between the highest ranked stock against the lowest ranked stock within a sleeve, with position sizing differing only due to their benchmark weight. Each sleeve contains approximately 150-200 stocks, these combine to create an aggregate portfolio of 450-500 stocks, with some stocks appearing in multiple sleeves. Portfolio construction seeks to preserve the model's style characteristics while limiting portfolio turnover, ensuring diversification, and accounting for risk limits. Lonsec believes that Robeco applies a disciplined and repeatable investment process, consistent with many well-executed quantitatively driven investment approaches.
- Lonsec notes the construction process is continuously monitored. For example, the team conducts 'plausibility checks' where stocks exhibit large or sudden ranking changes. The universe is also checked for stocks that may be strongly driven by any factors external to model themes, for example takeover bids or regulatory risk. The risk is partly captured in the distressed risk factors but will also be monitored by the portfolio managers. In addition, Robeco has a broad fundamental equities team, that can provide insights across both Developed and Emerging Markets.
- Lonsec believes there is sufficient accountability within the team given that final responsibility for trading decisions rests 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 Manager's buy and sell discipline is also transparent and logical; each sleeve will own stocks ranked high in the model (top quintile) and will sell a stock when its rank drops to the bottom 40%. A maximum stock weight of 2% is used to constrain stock-specific risk. Regions, countries, and sectors are limited to 10% relative deviation from the MSCI Index weight. At the time of review, the portfolio had an overweight to small-to-mid cap stocks relative to the MSCI benchmark and this is expected to be a persistent bias. The Manager seeks to limit turnover to less than 50% p.a. and the Fund is expected to be fully invested with only residual cash held.
- Lonsec believes the Manager has a disciplined 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 also had interaction 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.
- Lonsec notes positively that there is a dedicated research team responsible for ongoing exploration into new factors and methodologies designed to improve the process and models. The research agenda is formally set by the Quantitative Equities Model and Strategy Committee (QEMSC). The agenda is set at the beginning of each year 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 approves enhancements to the models. Lonsec considers the process for making changes appropriate. Lonsec notes that while changes to the models tend to be minor refinements, Robeco is committed to enhancing the process where considered appropriate. For example, over the year, credit momentum was introduced into the stock selection model's momentum factor given the belief that credit signals contain information not yet captured in stocks. Lonsec considers Robeco's research effort to be relatively structured and appropriate for the strategy albeit more broad based than quantitative peers. Further, the broad-based research and portfolio approach alongside the pace of expected change to the models is considered by Lonsec to be more akin to a mechanical, 'smart beta' strategy than more intricately researched and actively managed quantitative peers.
- The Manager is also differentiated by the degree of integration of ESG assessment in the investment process. With ESG input sourced from RobecoSAM (a sister business), the team integrates ESG factors within the portfolio construction process by ensuring that the weighted sustainability score of the portfolio is at least as high as that of the index. If the portfolio scores below average on sustainability, the portfolio construction tool will select stocks that improve its sustainability profile. Additionally, the Manager places a strong emphasis on governance and will often look to engage with companies to improve management practices in the interests of shareholder value. Lonsec considers this to be a positive aspect of the Manager's approach.
- The portfolio managers have the ability to modify weightings in the portfolio as part of their 'human overview', which may be as a result of regulatory changes, corporate actions or incidental macroeconomic developments. The incidence of overrides is expected to be relatively infrequent with the Manager's primary aim to follow the investment directives dictated by the model. Lonsec highlights that a number of other quantitative managers in the sector also have similar limited discretion to implement some form of manual override as part of the process. Overall, Lonsec is comfortable with this where there is a formal process and it is appropriately applied. Lonsec believes this to be the case with Robeco.
- 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.



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## 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 notes that there are formal sector and country constraints relative to the benchmark which are 'hard' limits at the time of rebalancing albeit limited 'drift' intra-rebalancing can occur. The Fund's Active Share has been comparable to active peers, averaging >75% over the life of the strategy.
- 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 the purposes of managing various risks of the Fund.

## Funds Under Management

- The Manager had circa A\$13.7 billion in funds under management (FUM) specifically within Multi-Factor strategies as at 31 March 2018. Lonsec highlights that Robeco manage A\$19.2 billion in FUM within their Factor Investing sub-unit of the broader Robeco Quantitative Equities unit which collectively manages A\$74.9 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 A\$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 has stated that the investment process has been designed to comfortably accommodate this level of FUM given the strategy lends itself to higher liquidity being in developed markets and due to the penalisation of less liquid stocks in the overall ranking system. Lonsec notes there is considerable headroom within the strategy and will conduct greater analysis into the strategy's capacity if/when necessary.

## Performance

- The Fund aims to outperform the Benchmark (MSCI World Net Return Index in A\$) by 2-3% p.a. (gross) over a full market cycle (five to seven years). In Lonsec's view this is considered to be a relative high objective given the style of Fund.
- The Fund (and strategy in this form) were only both recently established (May 2018) and therefore 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). The respective factors have outperformed against their respective

MSCI Factor benchmarks and broader MSCI World benchmarks since inception in EUR terms (gross). Lonsec also notes the Robeco factors delivered alpha with favourable volatility characteristics relative to their respective benchmarks.

- Additionally, Lonsec notes that Robeco have managed Multi-Factor equity strategies since May 2014 albeit with a different combination of factor constituents to deem relevant for this Fund. Nonetheless, Lonsec gains comfort that Robeco has some experience in blending factors within a single portfolio.

## Overall

- Lonsec has assigned the Fund an '**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, the Fund's fee load is considered relatively high for the mechanistic quantitative factor-based approach and when compared to similar factor-based solutions and some more active managed quantitative strategies.
- Additionally, Lonsec highlights the Fund has a limited track record. Lonsec will be seeking to gain greater conviction that the Fund can meet its investment objectives and consistently deliver a portfolio with the desired factor exposures in varying market conditions.

## People and Resources

### Corporate overview

The Investment Manager is Robeco Hong Kong (Robeco), a part of Orix Corporation Europe NV (Orix Corporation). Robeco was founded in 1929 in Rotterdam, the Netherlands, and is a global asset manager that manages US\$180 billion globally (September 2017) and delivers investment solutions 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 and Asia Pacific. As at March 2018, Robeco managed A\$19.2 billion in factor equity strategies, including A\$4.8 billion in this strategy.

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## Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
JOOP HUIJ	HEAD OF FACTOR INVESTING EQUITIES, PORTFOLIO MANAGER AND HEAD OF FACTOR INDEX EQUITY RESEARCH	16 / 11
SIMON LANSDORP	PORTFOLIO MANAGER	10 / 9
ROB VAN BOMMEL	PORTFOLIO MANAGER	28 / 28
DANIEL HAESEN	PORTFOLIO MANAGER	15 / 15
DAVID BLITZ	HEAD OF QUANTITATIVE EQUITY RESEARCH	23 / 23
PORTFOLIO MANAGERS (TOTAL)	N=15	19 / 15
RESEARCHERS (TOTAL)	N=10	13 / 9

Portfolio managers and researchers listed above are included in the total

Robeco's Global Investment team is separated into two groups; Fundamental Investing and Quantitative Investing. The Fund is managed by the Factor Investing Equity team which is one of three teams that reside within the Quantitative Investing team.

The Quantitative Investing team is organised along functional lines and comprises 25 investment professionals across portfolio management (15) and quantitative equities research (10). The Factor Investing Equity team makes up four of the 15 portfolio managers with a further two researchers responsible for Robeco's Factor Indices. The average experience and tenure of the combined portfolio management team is 19 and 15 years respectively with 13 and nine years for the research team.

Joop Huij, Simon Lansdorp, Rob Van Bommel 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 being responsible for approximately ten separate accounts with reasonably high commonality.

Huij leads the team as portfolio manager, Head of the Factor Investing Equity and Head of Factor Index Research. Huij also holds a part-time position as Associate Professor (with tenure) of Finance at Rotterdam School of Management. He has published in various academic journals including the Journal of Banking and Finance, Journal of Empirical Finance, Journal of Financial Markets, and Financial Analyst Journal. Huij joined Robeco in 2007.

Simon Lansdorp commenced his career at Robeco in 2009. Within the Factor investing research team, Lansdorp conducted factor-related research; developed the value, momentum and quality factor strategies and multi-factor indexes; and built tailored factor solutions. Lansdorp has also published research in academic journals such as the Journal of Financial Markets.

## 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 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.

The portfolio seeks to 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 attempt 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.
- 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.

### Research process

As it is a quantitative process, the Manager does not conduct fundamental research on companies. The dedicated Quantitative Equity Research team does however maintain a regular research programme for investigating both new signals and potential enhancements to the existing model.

The research agenda is formally set by the Quantitative Equities Model and Strategy Committee (QEMSC).

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The agenda is set at the beginning of each year and the committee meets monthly to review research. Ideas are prioritised based on early evidence of alpha potential. The Manager considers a strict and disciplined process as the best defense in turbulent markets so the degree of change to the models is expected to be relatively minimal through time. The team is, however, committed to enhancing the process where appropriate. Some relatively recent enhancements have included the inclusion of a quality factor, more sophisticated measures of distress risk, adjustments to the delivery of momentum insights and a positive ESG screen.

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 IN AS
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
EXPECTED PORTFOLIO TURNOVER	APPROX. 50% P.A.
OBSERVED ACTIVE SHARE	>75%
PORTFOLIO EXPOSURE IN TOP 10 HOLDINGS	5.8% (DECEMBER 2017)

## Decision making

Decisions are outcomes of the proprietary quantitative model. The same quantitative process is applied across each factor sleeve of value, momentum and quality.

Essentially each 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 consisting of approximately 150-200 securities. A universal stock weighting rule is then applied, that is, a stock's benchmark weight plus 0.60% with liquidity also taken into consideration. A stock may reside in multiple factor sleeves and therefore leads to a larger absolute weight within the portfolio. The maximum stock weight is however 2%.

There is continuous monitoring and control by portfolio managers through this process and also checks by the Quantitative Equity Research team to 'validate' the rank. An optimal portfolio is determined from the validated rank which controls portfolio turnover and ensures diversification. The Manager can run the model daily but monthly re-balancing is typical. In addition, when substantial cash in or out flows are received, the manager will buy top ranked stocks or sell bottom ranked stocks in an effort to efficiently re-balance and provide better exposure to the model. 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% or first quintile of a portfolio sleeve (value, momentum or quality).

At rebalancing, a position will be sold when:

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

## Risk Management

### Risk limits

SEPARATE RISK MONITORING	YES
STOCK	2% ABSOLUTE (SOFT)
SECTOR	+ 10% ACTIVE (SOFT)
COUNTRY	+ 10% ACTIVE (SOFT)
EMERGING MARKETS	NIL
CASH	UP TO 2% BUT TYPICALLY CLOSE TO FULLY INVESTED

Stock, sector and country limits are 'hard' at the time of rebalancing. While uncommon, 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 both the portfolio managers and the Risk Management department to monitor the absolute risk (97.5% confidence level) in the portfolio, which must not exceed the absolute risk (standard deviation) of the index. 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.

ANALYST: JAMES KIRK | APPROVED BY: RUI FERNANDES

**Risks**

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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-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. Robeco does not hedge the currency risk, a separate hedged version of the strategy is available.

**Quantitative Performance Analysis**

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The Product commenced on 9/5/2018. As Lonsec prefers to consider performance over longer time periods, it will continue to monitor the performance of the Product as a more significant track record develops.



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

## 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.

## Analyst Disclosure and Certification

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