Lonsec

Recommended

Product Review
Tyndall Australian Share Income Fund

About this Review

ASSET CLASS REVIEWED	AUSTRALIAN EQUITIES
SECTOR REVIEWED	AUSTRALIAN LARGE CAP
SUB SECTOR REVIEWED	INCOME DIVIDEND FOCUSED
TOTAL FUNDS RATED	15

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	TYNDALL AUSTRALIAN SHARE INCOME FUND
APIR CODE	TYN0038AU
PDS OBJECTIVE	TO PROVIDE A TAX-EFFECTIVE INCOME STREAM THAT EXCEEDS THE BENCHMARK'S DIVIDEND YIELD (GROSSED-UP FOR FRANKING CREDITS) BY 2% P.A. OVER ROLLING FIVE-YEAR PERIODS, BEFORE FEES, EXPENSES AND TAX, PLUS THE POTENTIAL FOR CAPITAL GROWTH OVER THE LONG TERM
INTERNAL OBJECTIVE	AS PER PDS OBJECTIVE
STATED RISK OBJECTIVE	TRACKING ERROR IS MONITORED, BUT NOT EXPLICITLY TARGETED
DISTRIBUTION FREQUENCY	QUARTERLY
FUND SIZE	$158.0M (JULY 2023)
FUND INCEPTION	01-11-2008
ANNUAL FEES AND COSTS (PDS)	0.9% P.A.
RESPONSIBLE ENTITY	YARRA INVESTMENT MANAGEMENT LIMITED

About the Fund Manager

FUND MANAGER	YARRA CAPITAL MANAGEMENT LIMITED
OWNERSHIP	50% AUSTRALIAN EQUITY TEAM AND 50% YARRA CAPITAL MANAGEMENT GROUP
ASSETS MANAGED IN THIS SECTOR	$9BN (JULY 2023)
YEARS MANAGING THIS ASSET CLASS	33

Investment Team

PORTFOLIO MANAGER	JASON KIM, MICHAEL MAUGHAN
INVESTMENT TEAM SIZE	10
INVESTMENT TEAM TURNOVER	LOW
STRUCTURE / LOCATION	PM & ANALYST/SYDNEY

Investment process

STYLE	VALUE
BENCHMARK	S&P/ASX 200 INDEX (GROSS OF IMPUTATION CREDITS)
TYPICAL CAPITALISATION BIAS	MID-TO-LARGE
TYPICAL STOCK NUMBERS	40-70
STOCK POSITION LIMITS	8% ABSOLUTE
SECTOR POSITION LIMITS	20% ABSOLUTE (50% FOR FINANCIALS EX A-REITS WITH BANKS CAPPED AT 30%)

Fund rating history

OCTOBER 2023	RECOMMENDED
OCTOBER 2022	RECOMMENDED
OCTOBER 2021	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 Manager has a disciplined, logical, and time-tested investment process, which is implemented by a highly experienced co-portfolio management team with substantial co-tenure.
- Lonsec considers the investment culture to be cohesive and highly collegiate.
- The Fund has a track record in meeting its after-tax income objectives.

Weaknesses

- With the tendency to 'let winners run', the Manager's sell discipline is less consistently driven by a stock's valuation compared to other value style managers.
- While the Fund has a track record of delivering on its after-tax income objective, Benchmark relative performance outcomes have been disappointing over long-term periods.

Fund Risk Characteristics

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

ANALYST: MATTHEW FREEMAN | APPROVED BY: MATTHEW TURNBULL

Tyndall Australian Share Income 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 Tyndall AM Australian Share Income Fund ('the Fund') is a long-only Australian equities investment strategy. The Fund is managed to a 'relative value' fundamental investment approach, which aims to invest in companies that trade below a conservative estimation of 'intrinsic value'. The primary objective of the 'the Fund' is to generate an income stream that exceeds the dividend yield of the S&P/ASX 200 Accumulation Index (grossed-up for franking credits) ('the Benchmark') by 2% p.a. over rolling five-year periods, before fees, expenses, and tax.
- Yarra use the brand name Tyndall Asset Management ('Tyndall' or 'the Team'), to describe the investment team within the Yarra Group that manages this Fund. Companies that meet the Team's initial screens are ranked according to total expected return, which gives an indication of which companies represent the highest relative value at any given point in the market cycle. Lonsec believes Tyndall takes a more pragmatic approach to value investing and, as a result, the Team's style is not expected to be at the deep end of the value-style spectrum relative to other managers.
- The Fund will have a combination of stocks that are attractive both in terms of relative value and forecast yield, and stocks that offer lower relative value but meet the Fund's yield requirements. This is to be expected given the yield objective of the Fund. Income is targeted by placing an emphasis on companies that generate relatively high levels of franking. This is achieved by investing in stocks that offer fully franked dividends, by observing the 45-day rule for franked dividends and participation in off-market buybacks where possible.
- The Fund's guidelines allow for the use of derivative strategies to enhance income, although historically this has been a minor component of the Fund's total income. Derivatives will be used to manage exposures and not for gearing purposes.
- The portfolio is expected to be well-diversified with 40-70 stocks. Tracking error is monitored for risk management but not targeted. The Fund has a deliberate strategy of being low turnover to make it tax-effective, and it is expected to be in the range of 40-80% p.a. Portfolio construction is on an absolute basis rather than relative to a benchmark. This is a common trait of similar income products. Investors should note that portfolio positioning will deviate significantly from the benchmark.
- Individual stock positions are permitted to be up to 8% of the portfolio. Lonsec observes historically that the bigger portfolio positions have tended to occur in the larger benchmark stocks such as the major banks.
- The Fund's PDS dated 20 March 2023 disclosed Annual Fees and Costs ('AFC') totalling 0.90% p.a., comprising of (1) management fees and costs of 0.85% p.a., and (2) net transaction costs of 0.05% p.a. The Fund does not charge a performance fee. In line with RG97, some fees and costs have been estimated by the issuer on a reasonable basis. Actual fees and costs may vary to these estimates.
- The Fund's buy/sell spread is +0.20/-0.20%. These costs are reflected in the unit price of the Fund and are borne by investors, but they are not paid to the Responsible Entity or the Manager. Buy/sell spreads are subject to change depending on market conditions. Refer to the Manager for current buy/sell spreads. Please refer to the PDS for further details on fees and costs.

Using this Fund

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

- Lonsec notes that the Manager has produced a Target Market Determination (TMD) which forms part of its design and distribution arrangements for the Fund. Lonsec has sighted the TMD that has been provided by the Manager and notes that this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.
- Given the explicit yield and income growth objectives of the Fund, the portfolio is likely to exhibit strong sector and stock specific biases. It is therefore unlikely to provide a broad diversified exposure to the Australian Equity large cap sector alone. Absolute sector limits are used to manage these biases. Lonsec considers the Fund to be suitable to be blended with broader Australian Equity funds. Lonsec recommends that equity investments are suitable for investors with an investment time horizon of at least five years.
- Investors should note that Fund returns are primarily derived from the performance of a portfolio of Australian listed equities. This strategy is distinct from funds within the peer group that actively utilise derivative based strategies, whereby returns may reflect a combination of underlying stock and options portfolio performance.
- The Fund is subject to equity market risks and movements (both positive and negative) in the prices of the underlying securities in the portfolio. Investors should therefore be aware of, and comfortable with, the potential for the Fund to experience periods of negative returns that result in capital losses being incurred on their investment. As such, the Fund will generally sit within the growth component of a diversified investment portfolio.

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.

ANALYST: MATTHEW FREEMAN | APPROVED BY: MATTHEW TURNBULL

Tyndall Australian Share Income Fund

Changes Since Previous Lonsec Review

- Malcolm Whitten announced his retirement from Tyndall after 28 years in November 2022. Jason Kim took on portfolio management responsibilities for the Fund from 1 December 2022 and worked alongside Whitten and Michael Maughan to ensure appropriate handover and continuity.
- Stefan Hansen, Senior Research Analyst, departed in August 2023.
- Tom Hays, Research Analyst, joined the firm in September 2023.
- Lonsec has not been advised of any further changes to the investment team or to the investment process since the previous review.

Lonsec Opinion of this Fund

People and resources

- Brad Potter assumed leadership of the investment team in June 2014 as Head of Australian Equities. Potter has over 29 years of investment experience and 21 years of tenure at Nikko/Tyndall. Senior investors having portfolio management and research responsibilities as part of Tyndall's operating model. Potter has analyst responsibilities for the Banking and Utilities sectors. Lonsec considers him to be a capable investment professional.
- Potter is supported by Tim Johnston as Deputy Head of Australian Equities. Aside from his role as deputy head, Johnston also has analyst responsibilities for small-cap companies. With 25 years of experience with Nikko/Tyndall, Lonsec considers him a highly experienced investor and is impressed with his stock knowledge and ability to articulate the investment process. Lonsec also believes he is a capable investor and deputy.
- Malcolm Whitten announced his retirement from Tyndall after 28 years in November 2022. Given his extensive experience, Lonsec considers Whitten's retirement as a significant loss for the Fund. Pleasingly, Whitten worked until January 2023 to ensure an appropriate handover period to his replacement Jason Kim. Kim took on portfolio management responsibilities for the Fund from December 2022 and given his tenure at Tyndall, Lonsec considers him an appropriate appointment to manage the portfolio with Michael Maughan.
- The Fund is co-managed by Jason Kim and Michael Maughan. Kim and Maughan both have deep investment industry experience with 31 and 24 years, respectively. Both PMs also have a high tenure, with Kim having been at Tyndall for 22 years, and Maughan 15. Lonsec considers both Kim and Maughan to be experienced and well-qualified investors. Maughan has responsibility for the Media, Telecommunications and Transportation/Logistics industries. Kim's research responsibilities are for the Insurance and Diversified Financials sectors.
- Kim and Maughan each have sole discretion for the management of 50% of the Fund's capital and this structure is a common feature of Tyndall's portfolios (although the proportions can vary). A benefit of this structure is its ability to help mitigate key person risk, although given the significant proportions for which Kim and Maughan are each responsible this is to a degree moot. Despite there being a level of individual responsibility, Lonsec notes that Tyndall has a collegiate structure, and the portfolio managers are actively encouraged to discuss portfolio activity ahead of implementing any change. This can dilute accountability to investors as the relative performance of the two sub-portfolios is not disclosed.
- The investment team of 10 investors and an additional dedicated dealer is considered appropriately sized to implement the investment process. The team has historically exhibited a high degree of stability and experience levels across the team are high with an average of 18 years and an average tenure of 13 years.
- That being said, Lonsec considers the departure of Senior Analysts, Malcolm Whitten and Stefan Hansen, during 2023 to be notable losses given their considerable investment experience. Lonsec notes however, the Manager has since hired an additional Research Analyst to bolster the investment team. Nonetheless, Lonsec will continue to monitor the Team's resourcing in future reviews.
- Lonsec considers communication and peer review amongst the investment team to be highly structured and robust. All team members meet multiple times throughout the week to debate and peer review stock research ideas in addition to discussing portfolio construction and broader market matters. Lonsec also considers the investment team demonstrates a high degree of collaboration relative to peers and views this favourably.
- Lonsec believes that a key factor in the stability of the team has been the opportunity for equity ownership in the franchise. Specifically, the Australian Equities business is structured as a joint venture between the investment team and Yarra. Pleasingly, Lonsec notes the high alignment of interest between the investment team and investors with all members of the team being equity holders. While the equity ownership structure is not unique, the breadth of the spread of equity across the team is viewed by Lonsec to be a positive and distinguishing feature of the remuneration structure. Further, variable remuneration is based on individual performance, which holds all team members accountable.
- Lonsec has not observed any material impact on the Tyndall Australian Equities investment team following the acquisition by Yarra and all of Tyndall's investment capabilities maintained their previous levels of autonomy. Having said that, the ownership structure remains a watchpoint and Lonsec will continue to monitor the dynamics between the investment teams.

Tyndall Australian Share Income Fund

Research and portfolio construction

- Tyndall seeks to identify companies that it believes exhibit fundamental intrinsic value. The philosophy gravitates towards companies that demonstrate sustainable earnings, and which can capitalise on these. Tyndall describes its philosophy as value but notes that this does not necessarily mean 'cheap' value as understood from stocks trading at observable discounts (e.g., P/E or P/B) to the broader market or their history. To this end, there is an explicit cap of between four and eight years, depending on the opportunity, applying to the maximum length for which a company's franchise period will be explicitly modelled. Lonsec highlights that the characteristics sought by Tyndall, at a high level, are more consistent with growth at reasonable price ('GARP') investing. Notwithstanding, elements within Tyndall's process act to control factor exposures and deliver a strategy that has exhibited mild value through to more core outcomes over time.
- Lonsec considers the Team's investment process and portfolio construction to be robust and logical. The initial investment universe of the S&P/ASX 200 Accumulation Index is reduced to approximately 150 stocks after a liquidity screen is applied. To prioritise the fundamental research effort, Tyndall then implements an internally generated multi-factor screen to rank companies by value, quality and combined scores before conducting the bottom-up research effort.
- The portfolio managers can invest in names with little or no yield provided these have successfully progressed through the research process. However, it is important to note that this Fund's yield can be enhanced with options strategies and investments into other instruments such as hybrids.
- Analysts are accountable for their recommendations but, importantly, these are required to be peer-reviewed by the whole team. Company research includes, for instance, meeting with company management and reviewing financial disclosures. Findings are presented in a standardised report, which touches on key investment factors like thesis, assumptions, risks, sensitivities, Environment, Social, and Governance ('ESG') and valuation. Lonsec views standardised outputs as good practice helping to support consistency in an investment process.
- The investment team meets on a regular basis each week to discuss the positions in each of the portfolios and to assess fresh investment ideas. Moreover, the meeting also includes in-depth discussions regarding the key quantitative inputs used in the stock valuation process. Lonsec believes this mechanism is a key strength of the investment process as it enhances the overall level of peer review.
- Tyndall's financial analysis involves proprietary modelling of variables across the income and cash flow statements in addition to the balance sheet. Valuation analysis is based on a standardised Internal Rate of Return ('IRR') model, which has a three-year horizon. This can be cross-checked to a DCF analysis, which is where the duration of a company's franchise period is explicitly curtailed. Lonsec considers that Tyndall's valuation approach is reasonable and consistently applied.
- IRRs are ranked, and the general aim is to invest in those companies with the greatest return profile. Portfolio construction is also largely consistent with the output of the Comparative Value Analysis (CVA). Portfolio managers are, however, permitted to continue to hold names that drop in the IRR ranks (i.e. through price appreciation) and no longer rank highly. Tyndall's rationale is that this is consistent with its belief of allowing 'winning stocks to run'. Moreover, Tyndall highlights that it believes value managers generally sell too early. Lonsec is sympathetic to Tyndall's argument, however, believes that is also indicative of Tyndall's flexible relative valuation methodology, potentially holding expensive names, which is not considered by Lonsec to be consistent with value investing. Value investors are typically valuation driven and price sensitive hence the general observation that they may sell too early.
- The portfolio managers each have sole discretion, subject to names having progressed through the investment process, to build their respective sub-portfolios. Each portfolio manager constructs a discrete model portfolio, which is periodically optimised through BARRA. The optimisation process is used as a portfolio construction guideline for the portfolio management team; however, they retain the flexibility to impart their own qualitative views in the final portfolio in accordance with the Fund's risk constraints. Importantly, trade ideas are typically discussed between the two, which Lonsec believes, to a degree, supports the management of the Fund as an aggregate portfolio. Further helping in this regard, the portfolio managers also have access to a range of quantitative risk tools, which are used to actively monitor factor exposures at the aggregate Fund level. Additionally, there will be some differences across the sub-portfolios, however, these are expected to be timing and valuation-related rather than fundamental disagreements on a company's fundamentals.
- The Fund will typically consist of between 40-70 stocks, however, Lonsec observes the composition of the final portfolio has been at the lower end of the prescribed range in recent years.
- The Fund's use of derivatives to enhance income is selective and dependent on market conditions. Lonsec does not expect this aspect of the strategy to be a significant driver of the Fund's income or total return. The Fund can also invest in hybrids but there have been no such investments to date.

ESG integration

- Lonsec's ESG integration assessment considers how rigorous, robust, and structured the ESG process for the Fund is as well as how well it integrates into the overall investment process and the Manager's overall policy and reporting framework. The assessment is not intended to assess the underlying holdings of the Fund's portfolio or the Manager's adherence to any form of impact, green / sustainable or ethical standards.
- At the corporate level Lonsec views the Manager's overall ESG policy framework and disclosure as aligned with peers. The Manager has an articulated commitment to the integration of ESG within their investment process with evidence of public positioning and policy framework. The RI policy, the

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engagement and the proxy voting policies are freely available on the firm's website. The level of disclosure with respect to proxy voting policy and reporting is considered in-line with peers supported by a decent policy framework and strong reporting on voting outcomes, including rationales for dissenting votes. While the engagement policy provides clear objectives, no reporting on engagement outcomes is publicly available.

- The Manager has indicated that their Responsible Investment style is "ESG Integration" and as such they take Environmental, Social and Governance factors into consideration when assessing investment opportunities. With a primary ESG style of "Risk or Value" Managers will determine inclusion based on the balance of overall risk (including ESG risk) and potential return. As a result, this approach may mean that lower quality ESG companies may be included if the return potential is sufficient, and this may conflict with some clients' perception of what a strong ESG process would deliver.
- Within the management of this specific Fund Lonsec notes:
  - The Manager has an appropriately structured approach to the collection and use of ESG specific data. They access multiple data providers; further data collection and storage is robust.
  - There are clear signs of defined ESG elements within the research process for the Fund. Research is undertaken in a structured manner and storage and sharing is robust. Proprietary ESG scoring is an output of the review process.
  - There are clear links from the Manager's research to the stock selection process through adjustment of the appropriate discount rate based on, among other factors, ESG sores. This adjustment is applied on case-by-case basis potentially leading to some lack of uniformity in its application.
  - There is monitoring of ESG characteristics of the portfolio across a number of ESG and sustainability dimensions, however, there are no portfolio level ESG based limits or targets in place for the fund.
  - Engagement is a component of the Manager's approach and engagements are recorded. The Manager could improve its measurement of the success of those engagements, both positive and negative. The Manager is able to demonstrate clear ESG based engagements.
  - ESG does not form a component of the Managers broader compliance framework and overall transparency provided to investors is lagging

Risk management

- The Fund's risk is managed in a relative sense versus the benchmark. Lonsec believes that Tyndall has sufficient risk controls in place to effectively manage the risks within the portfolio (such as stock and sector exposures). A dedicated Investment Risk Manager oversee these.
- The Team has hard absolute limits on both stock and sector constraints. Stocks are managed to an absolute limit of 8%. Absolute sector constraints are 20% for all GICS sectors except for Financials ex A-REITs, which is subject to a 50% limit with banks capped at 30%. The Team will also typically not hold over 10% of a company's issued capital and will invest only in companies with a market capitalisation greater than $300m.
- Risk management is also considered to be inherent in the Team's investment process, focused on quality companies with earnings certainty. Tyndall considers these attributes to be vital for a fund with an income objective that is linked to dividend yield.
- Further, risk management is also considered to be embedded in the research process, with optimisation and scenario analysis undertaken as part of portfolio construction. Tracking Error is not targeted due to the income nature of this product but is regularly monitored.

Capacity management

- Tyndall had approximately $9bn in funds under management ('FUM') across its Australian Equity strategies as of 31 July 2023. Tyndall's most recent capacity analysis was conducted in June 2021 and determined that a hard close would be appropriate at 0.75% of the S&P/ASX200 market capitalisation (currently equivalent to approximately $17bn).
- There are positives and negatives to low or high levels of FUM. However, on balance Lonsec believes managers with smaller FUM are better placed to add value. Larger fund managers typically have better access to key decision makers (e.g., CEOs) and may gain better execution pricing and preferential access to IPOs and secondary offerings. Conversely, managing a large pool of money means that a manager may confront liquidity issues and is likely to be less nimble in the market as it takes longer for a position to be established or sold down.
- While there is no immediate concern regarding the Fund's capacity, Lonsec will continue to monitor for Tyndall's total scale in FUM and assess the ongoing impact on Fund performance.

Fees

- Lonsec considers the AFC (0.90% p.a.) to be moderate, relative to peers.
- Lonsec notes the Fund has disclosed Net Transaction Costs of 0.05% p.a., additionally, the buy/sell spread charged is +/-0.20%.

Product

- The Fund is a long-only Australian equity strategy that invests in primarily listed large cap stocks. Hence, Lonsec does not consider it to be operationally challenging to implement. Additionally, the Manager employs high quality 'tier 1' service providers. However, Lonsec notes that the Fund uses a related-party Responsible Entity ('RE') which may lead to conflicts which need to be managed. Lonsec notes this RE relationship has been stable with no issues since the acquisition of Tyndall by Yarra.

Performance

- Lonsec highlights to investors that the performance data at the back of this report does not include franking credits. Lonsec notes that franking credit capture is a part of the Fund's investment process and objective, and an important source of returns to the Fund's investors.
- The Fund seeks to deliver a tax-effective income stream that exceeds the dividend yield of the S&P/

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ASX 200 Accumulation Index, which has been grossed up for franking credits by 2% p.a. (gross fees) over rolling five years. There is no explicit excess return objective, however, the Fund states that it offers the potential for capital growth over the long-term.

- Notably, for the five years to 31 August 2023, the Fund delivered an excess grossed-up yield, relative to the Benchmark, by 3.6% p.a. (gross of fees) and has, therefore, met its investment objective. However, the Fund's growth return was negative (-0.5% p.a.) over the same period. The Fund generated a total return of 5.5% p.a. (after fees) underperforming the Benchmark by 1.6% p.a. and marginally outperforming the income dividend-focused peer median by 0.1% p.a.
- Over the shorter one-year period to 31 August 2023, the Fund delivered an excess grossed-up yield, relative to the Benchmark, of 1.9% (gross of fees). Over the same time frame, the Fund generated a net total return of 8.5%, underperforming the Benchmark by 1.0%, although outperforming the income dividend-focused peer median by 0.7%.
- Notably, the Fund's volatility of returns (as measured by Standard Deviation) was in line with the peer group median over the three-, five-, and ten-year periods.

Overall

- Lonsec has maintained the Fund's **'Recommended'** rating at its most recent review. Tyndall's experienced investment team underpins the rating, along with its longstanding disciplined and logical investment process.
- That said, Lonsec is mindful of the Team's flexible relative valuation methodology, which could challenge its sell discipline. Malcolm Whitten's departure is a significant loss for the Fund, and Lonsec will monitor the transition to the co-portfolio management team of Jason Kim and Michael Maughan. While Lonsec acknowledges the Team's established ability in meeting its after-tax income objectives, Lonsec highlights the Fund's disappointing relative performance over the medium- and long-term but highlights the strong outperformance over the past three years.

People and Resources

Corporate overview

Yarra Capital Management ('Yarra') acquired Nikko Asset Management Australia ('Nikko AM'), effective 12 April 2021. Yarra is a privately owned and established funds management business based in Melbourne. The combined FUM of the enlarged group is $21 billion, which includes Tyndall's Australian Equities business with FUM of $9bn as of 31 July 2023.

Tyndall's Australian Equity business will continue to be structured as a joint venture between Yarra and the investment team, with each group owning 50% of the operating entity. Investment team functions will run as largely separate entities but share back-office services from the YCM group. Tyndall Asset Management is the brand name for the investment team within the Yarra Group that manages the Fund.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
BRAD POTTER	HEAD OF AUSTRALIAN EQUITIES	29 / 21
TIM JOHNSTON	DEPUTY HEAD OF AUSTRALIAN EQUITIES, PORTFOLIO MANAGER & SENIOR ANALYST	25 / 25
JASON KIM	PORTFOLIO MANAGER & SENIOR ANALYST	31 / 22
MICHAEL MAUGHAN	PORTFOLIO MANAGER & SENIOR ANALYST	24 / 15
JAMES NGUYEN	PORTFOLIO MANAGER & SENIOR ANALYST	19 / 15
CRAIG YOUNG	SENIOR RESEARCH ANALYST	27 / 27
MICHAEL WARD	SENIOR RESEARCH ANALYST	25 / 6
VINCENT LI	RESEARCH ANALYST	9 / 7
TOM HAYS	RESEARCH ANALYST	7 / <1
LILLIE GREINER	JUNIOR RESEARCH ANALYST	1 / 1
DAVID THOMS	DEALER	20 / 13

The team is led by Brad Potter as Head of Australian Equities, with Tim Johnston being his back-up as Deputy Head of Equities. The investment team comprises nine equity investors and one dealer. All members of the investment team have stock research responsibilities (15-20 stocks each) and five of the most senior members have additional portfolio management duties. The specific responsibilities are as follows for the team:

- Brad Potter: Banks, Utilities;
- Tim Johnston: Small Caps, Healthcare;
- Jason Kim: Insurance, Diversified Financials;
- Michael Maughan: Media, Telecommunications, Transportation/Logistics;
- Craig Young: Banks, Retail and Food & Beverage, Telecommunications;
- James Nguyen: Small Caps;
- Michael Ward: Building Materials, Contractors, Metals, Agriculture
- Tom Hays: Mining, Energy;
- Vincent Li: A-REITS, Industrials, Gaming; and
- David Thoms: Dealing.

Remuneration / Alignment of interests

The remuneration principle is to pay a market salary plus attractive short-term incentives (plus long-term incentives via shares in the Joint Venture Company). All investment personnel in the Australian Equities team retain equity ownership. This serves the purpose of providing the investment team with access to profit sharing. Lonsec notes that equity can only be on-sold to another member of the equities team. In addition, there are financial penalties if a team member joins a competitor.

Variable remuneration is based primarily on the overall outperformance achieved by the Fund, team and individual. Bonuses (which are based on rolling two-year performance) are adjusted positively or negatively at the analyst level to reflect individual performance contributions. To facilitate this, the Team uses an internal analyst attribution model, which monitors performance on one and two-year rolling periods.

Research Approach

Overview

INVESTMENT STYLE	INTRINSIC VALUE (INCOME-DIVIDEND YIELD FOCUS)
NO. OF STOCKS IN UNIVERSE	200 (S&P/ASX 200 ACCUMULATION INDEX)
NO. OF STOCKS FULLY MODELED	150
UNIVERSE FILTERING	LIQUIDITY SCREEN: 90-DAY MEDIAN DAILY TURNOVER
RESEARCH INPUTS	FUNDAMENTAL ANALYSIS – FINANCIAL STATEMENTS, COMPANY MEETINGS, ETC.
USE OF BROKER RESEARCH	CONSENSUS EARNINGS USED FOR SCREENING
VALUATION OVERVIEW	PE RELATIVE WITH DCF CROSS CHECK

Tyndall seeks to identify companies that it believes exhibit fundamental intrinsic value. The philosophy gravitates toward companies that demonstrate sustainable earnings, and which can capitalise on these.

The Team operates a research process referred to as Comparative Value Analysis (CVA). Those stocks remaining after the screening process (approximately 150) are then subjected to in-depth fundamental research.

The universe for idea generation comprises all names in the S&P/ASX 200 Index. Research is prioritised through the use of proprietary quantitative screens that screen/rank based on a range of criteria (liquidity, value, quality, and momentum):

- Value (forecast one year);
- Price/Earnings;
- Dividend Yield;
- Enterprise Value multiples;
- Accounting Accruals;
- Retained Earnings/Assets; and
- EBIT/Total Assets.

Those names that screen well are candidates for further fundamental due diligence and research. This typically numbers 130 names. The Team's fundamental research focuses on EBIT drivers, profitability, cash flow and the structure of the company's balance sheet (to try and find value in non-capitalised assets).

The key inputs into the research process include broker reports, company reports, company visits, one-on-one meetings with management and other sources.

Research output is standardised. Additionally, the research is updated on an ongoing basis, with the Team producing forecasts for P&L statements, Balance Sheets, Cash Flow Statements, as well as Ratio Analysis. Proprietary stock models are generally revisited bi-annually (when company results are released) and when warranted by a specific event. This includes the calculation of a three-year internal rate of return ('IRR') for each stock.

All research is subject to team-wide peer review before being completed. Peer review is facilitated through regular analyst meetings held three times per week. Additionally, the Team conducts Portfolio Construction Meetings each week that provide a sounding board for the Portfolio Managers, which is attended by all team members.

Valuation

The formulation of a three-year IRR is a requirement for all stocks considered within Tyndall's investment process. The IRR ranks are a key factor driving a stock's relative attractiveness within Tyndall's process.

To enhance the consistency of the valuation output, the Team utilises standardised inputs (such as beta, risk-free rate of return and gearing) when calculating the weighted average cost of capital for its discounted cash flow models.

Additionally, stock valuations can be cross-checked against an alternative valuation model, usually a DCF, and adjusted for significant developments (such as acquisitions). Other valuation metrics considered include earnings per share (EPS), dividends per share (DPS) and grossed-up dividend yield (GUDY).

Portfolio Construction

Overview

FUND BENCHMARK	S&P/ASX 200 ACCUMULATION INDEX (GROSSED-UP FOR FRANKING CREDITS)
RETURN OBJECTIVE (INTERNAL)	TO EXCEED THE GROSSED-UP DIVIDEND YIELD OF THE BENCHMARK BY 2% P.A. OVER ROLLING FIVE YEAR PERIODS, BEFORE FEES, EXPENSES AND TAX
RISK OBJECTIVE (INTERNAL)	NOT EXPLICITLY TARGETED
PORTFOLIO APPROACH	ABSOLUTE RETURN
PORTFOLIO DECISIONS	JASON KIM & MICHAEL MAUGHAN (50/50)
STOCK SELECTION	>90%
TOP-DOWN INFLUENCE	<10%
TYPICAL NUMBER OF HOLDINGS	40-70
MARKET CAPITALISATION BIAS	MID-TO-LARGE
EXPECTED PORTFOLIO TURNOVER	40-80% P.A.
OBSERVED ACTIVE SHARE	50.5% (JULY 2023)
PORTFOLIO EXPOSURE IN TOP 10 HOLDINGS	50.5% (JULY 2023)

The Team aims to produce a portfolio of 40-70 stocks and with the Fund comprising two sub-portfolios, which are separately managed by two different Portfolio Managers.

From the fully researched universe of approximately 150 stocks, a dividend yield screen is applied to identify companies with the highest forecast dividend yield (grossed-up for franking credits).

The process also considers the IRR of these securities, but this is regarded as secondary measure for identifying suitable opportunities in the management of the Fund. For example, stocks that rank highly based on dividend yield and IRR are typical buy candidates for the portfolio. This contrasts with Tyndall's other strategies, which tend to be led by the IRR ranks.

The qualitative element of the process allows the Team to factor in market dynamics and insight gained from bottom-up analysis in constructing the portfolio. There is no general IRR, which is considered particularly attractive (e.g., minimum acceptable hurdle) with the Team noting this depends on the prevailing market opportunities. The Co-Portfolio Managers may also select stocks that have capital structures where special dividends, off market buy backs or capital returns are likely.

Additionally, this flexibility is further included in the acceptance that the three-year IRR method may miss alpha opportunities in exceptional circumstances (e.g., corporate targets, thematic shifts, successful acquirers, capital raisings and a quick response to changed fundamentals).

Importantly, however, Portfolio Managers must also determine milestones for the performance of these stocks and if they are not met, they are forced to reconsider the position at the Portfolio Construction meetings. In addition, such a position will also be reviewed should it start underperforming the market on a quarterly basis. So far, Lonsec understands that the Team's usage of this discretionary element has been minor to date.

BARRA is used as a quantitative tool in the portfolio construction process. The Team believes it is particularly useful to both help assess the risks within the portfolio and for portfolio optimisation. The optimisation process is based on an efficient frontier of expected Tracking Error and expected Excess Return.

Price and earnings momentum are also considered in the portfolio construction process, with the primary objective being to optimally time stock entries and exits. Price and earnings momentum signals are also used to help identify potential value traps.

The portfolio is stress tested monthly through scenario analysis that allows the Team to test the portfolio against potential market events.

Finally, the portfolio is assessed against value criteria to ensure that it is true to label (e.g., idiosyncratic stock risk is driving the portfolio). The Team relies on both BARRA output for this assessment and on its internal software.

Once implemented the portfolio is subject to ongoing review, with key flags (such as a new stock entering the Top 20 IRR ranking, the stock weighting deviating more than 30% from the model portfolio target, or the stock closing in on fair value) used as triggers for investigation.

Derivative application

The Portfolio Managers have been afforded the flexibility to use derivatives where required to manage the effective exposures within the portfolio and to manage risk. It is important to note that the Fund is not designed to be a buy-write product or to rely heavily on derivatives for income generation. Tyndall has indicated that the primary source of income generated by the Fund will be dividend yield.

Risk Management

Risk limits

SEPARATE INVESTMENT RISK MONITORING	YES
STOCK LIMIT	8% ABSOLUTE (INITIAL MAXIMUM IS 6%)
SECTOR LIMIT	20% ABSOLUTE (50% FOR FINANCIALS EX A-REITS WITH BANKS CAPPED AT 30%)
CASH	MAXIMUM 20% (TYPICALLY 5%)
PURCHASED OPTION PREMIUMS	MAXIMUM 10%
SOLD OPTION PREMIUMS	MAXIMUM 10%
FUTURES CONTRACT EXPOSURE	MAXIMUM 20%

The Fund is permitted to use derivatives for the purposes of managing tax exposures and risk, and as a means of generating income. Derivatives are not used for gearing purposes.

Risk monitoring

All the Fund's trades are monitored on a pre- and post-trade basis and its stock positions are also monitored on a daily basis. There is also a clear separation of duties between investment management and risk management, with compliance reports sent out daily to all Portfolio Managers, the dealer, the Head of Australian Equities, and a separate compliance team.

Risks

An investment in the Fund carries several standard investment risks associated with investment markets. These include performance, liquidity, counterparty, market, and tax risks. These and other risks are outlined in the PDS and should be read in full and understood by potential investors. Lonsec considers the following to be the major risks:

Equity 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.

Derivatives risk

There is scope in the PDS to implement various derivative strategies. However, Lonsec does not expect derivatives to be a widely used given that these are not the intentions of the Team. Derivatives are not intended to be used to speculate and the Fund does not intend to borrow.

Tyndall Australian Share Income Fund

ISSUE DATE 13-10-2023

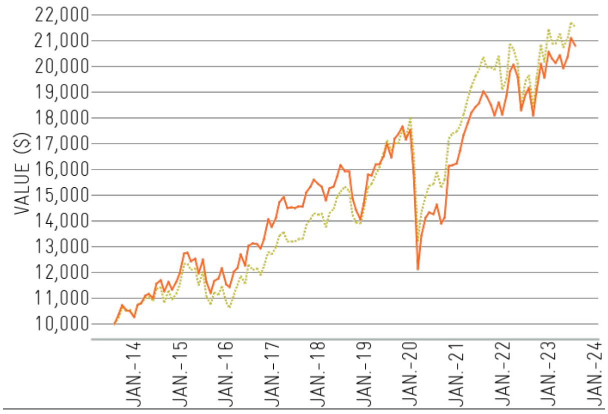
Quantitative Performance Analysis - annualised after-fee % returns (at 31-8-2023)

Performance metrics

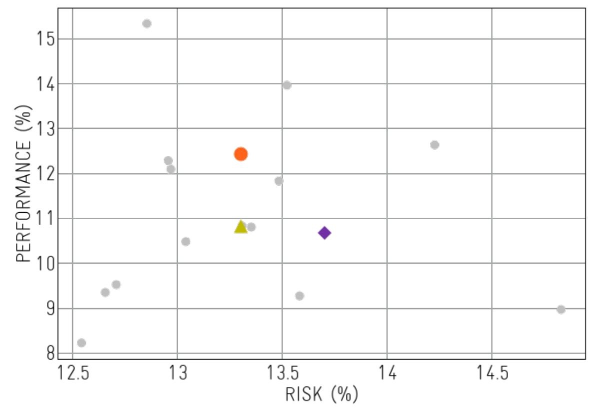
	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	8.53	7.81	12.43	10.83	5.46	5.32	7.59	6.91
STANDARD DEVIATION (% PA)	12.69	13.61	13.30	13.30	17.68	16.63	14.50	13.99
EXCESS RETURN (% PA)	-1.03	-1.79	1.76	0.15	-1.56	-1.73	-0.38	-1.05
OUTPERFORMANCE RATIO (% PA)	50.00	50.00	50.00	47.22	45.00	45.00	49.17	46.25
WORST DRAWDOWN (%)	-5.53	-5.74	-9.76	-11.52	-31.30	-28.40	-31.30	-28.54
TIME TO RECOVERY (MTHS)	2	2	2	4	13	12	13	13
SHARPE RATIO	0.41	0.33	0.84	0.72	0.24	0.24	0.40	0.39
INFORMATION RATIO	-0.39	-0.75	0.34	0.03	-0.30	-0.44	-0.09	-0.33
TRACKING ERROR (% PA)	2.63	2.63	5.11	4.68	5.21	4.24	4.28	3.99

PRODUCT: TYNDALL AUSTRALIAN SHARE INCOME FUND
LONSEC PEER GROUP: AUSTRALIAN EQUITIES - AUSTRALIAN LARGE CAP - INCOME DIVIDEND FOCUSED
PRODUCT BENCHMARK: S&P/ASX 200 TR INDEX AUD
CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

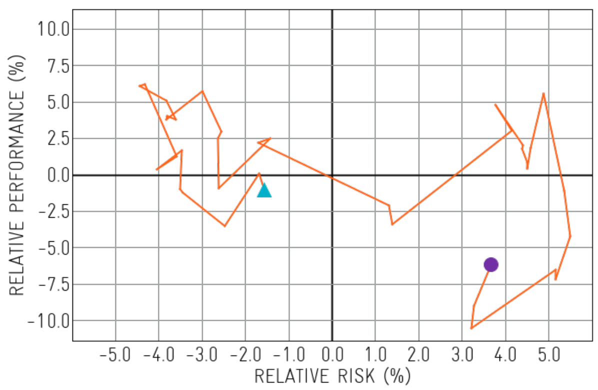
Growth of $10,000 over 10 years



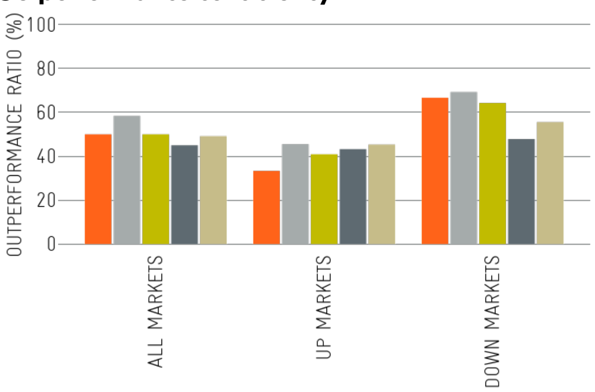
Risk-return chart over three years



Snail trail



Outperformance consistency



ANALYST: MATTHEW FREEMAN | APPROVED BY: MATTHEW TURNBULL

Tyndall Australian Share Income 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.

Analyst Disclosure and Certification

Analyst remuneration is not linked to the research or rating outcome. Where financial products are mentioned, the Analyst(s) may hold the financial product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the matters and financial product(s) to which this document refers.