



Product Review

Bendigo High Growth Index

ISSUE DATE 15-03-2023

About this Review

ASSET CLASS REVIEWED	MULTI-ASSET
SECTOR REVIEWED	81-100% GROWTH ASSETS
SUB SECTOR REVIEWED	LOW-COST DIVERSIFIED
TOTAL FUNDS RATED	18

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	BENDIGO HIGH GROWTH INDEX
APIR CODE	STL0035AU
PDS OBJECTIVE	TO DELIVER INVESTMENT RETURNS AFTER FEES IN EXCESS OF 5% ABOVE INFLATION OVER A FULL MARKET CYCLE (TYPICALLY SEVEN TO 10 YEARS).
INTERNAL OBJECTIVE	TO EXCEED THE PERFORMANCE OF THE FUND'S SAA (BEFORE FEES) AND MORNINGSTAR - MULTI-SECTOR AGGRESSIVE FUND PEER MEDIAN (AFTER FEES).
STATED RISK OBJECTIVE	TRACKING ERROR VERSUS SAA BELOW 1.5%.
DISTRIBUTION FREQUENCY	SEMI-ANNUAL
FUND SIZE	\$78.2M (JANUARY 2023)
FUND INCEPTION	30-09-2011
ANNUAL FEES AND COSTS (PDS)	0.53% P.A.
RESPONSIBLE ENTITY	SANDHURST TRUSTEES LIMITED

About the Fund Manager

FUND MANAGER	SANDHURST TRUSTEES LIMITED
OWNERSHIP	100% OWNED BY BENDIGO AND ADELAIDE BANK LIMITED
ASSETS MANAGED IN THIS SECTOR	\$1.8BN (SEPTEMBER 2022)
YEARS MANAGING THIS ASSET CLASS	21

Investment Team

PORTFOLIO MANAGER	TOM NITSCHKE
INVESTMENT TEAM SIZE	5
INVESTMENT TEAM TURNOVER	LOW
STRUCTURE / LOCATION	PM & ANALYSTS / ADELAIDE
ASSET CONSULTANT	MERCER, STRATEGAS, INTERNAL TEAMS

Investment process

ASSET ALLOCATION	STRATEGIC, TACTICAL (ACTIVE ASSET ALLOCATION)
SECTOR EXPOSURE	PASSIVE
GROWTH / DEFENSIVE SPLIT %	97/3
USE OF ALTERNATIVES	YES

Fund rating history

MARCH 2023	RECOMMENDED
FEBRUARY 2022	RECOMMENDED
MARCH 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

- A dedicated multi-asset team focused on strategic and active asset allocation processes as the dominant driver of returns.
- Pragmatic and repeatable investment process supported by the Manager's culture of process improvement.
- Sound fundamental research capability driving a dynamic asset allocation style with a willingness to back high conviction views.

Weaknesses

- High key person risks in Tom Nitschke, Lead Portfolio Manager, and Thadeus McCrindle, CIO, who together hold the majority of the team's experience in asset allocation, portfolio construction and risk management.
- The investment team is light on resources, relative to Lonsec-rated peers, although leveraging inputs from various internal teams and external consultants partially mitigates this.
- Team incentive and remuneration structure could be better aligned, with greater weighting toward performance outcomes.

Fund Risk Characteristics

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

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Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG	●		

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 Bendigo High Growth Index Fund ('the Fund') is a 97%/3% growth/defensive low-cost diversified offering that provides access to a broad range of asset classes (including equities, fixed income, listed property, infrastructure and alternatives) via a portfolio of passively managed funds from Vanguard Investments ('Vanguard'). The Fund aims to provide investment returns (after fees) in excess of 5.0% above inflation over a full market cycle (typically seven to ten years).
- The Fund is managed by Sandhurst Trustees Limited ('the Manager or 'Sandhurst'). Sandhurst is a fully-owned subsidiary of Bendigo Bank. Sandhurst has adopted an active investment style based on the belief that asset allocation is the dominant driver of long-term returns within a multi-asset portfolio. Diversification by blending asset classes is used as a risk and volatility management strategy.
- The Manager seeks to provide investors with superior long-term returns through both Strategic Asset Allocation ('SAA') and Active Asset Allocation ('AAA'). The Manager believes using an Active Asset Allocation approach incorporating the factors of value, momentum and sentiment can provide better risk-adjusted returns through the cycle. In addition, the Manager recognizes that each asset class has its moment in the market cycle, and that understanding what stage the market is entering, assessing liquidity and positioning accordingly, can generate alpha.
- The Fund's PDS dated 14 September 2022 disclosed Annual Fees and Costs ('AFC') totalling 0.53% p.a. This value comprises (1) Management Fees and Costs of 0.47% p.a. and (2) Net Transaction Costs of 0.06% p.a. In-line with RG97, some fees and costs have been estimated by the issuer on a reasonable basis. Actual fees and costs may vary from these estimates.
- The Fund charges buy/sell spreads set at 0.09% / 0.09%. These spreads can be subject to change, most notably during periods of market volatility, and can be sourced from the Manager's website.

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 the Responsible Entity's Design and Distribution Obligations for the Fund. Lonsec has collected 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
- The Fund is a 97% growth-based portfolio with minimal exposure to income assets. It has a strong emphasis on maximising capital growth over the long term. Investors should expect high short-term fluctuations in values and a higher chance of capital loss. However, they are prepared to accept this as a trade-off in achieving their long-term investment objective.

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

- No material changes to the investment process or philosophy since the previous Lonsec review.
- The Manager has made changes to the SAA lower and upper bounds since the previous review.
- Dom Chiucholo was promoted from Investment Analyst to Senior Investment Analyst.
- In 2022, the Investment Governance Committee appointed Vicki Carter as the Chairman of the Investment Committee and Luke Davidson, Bendigo Group Treasurer as a committee member.

Lonsec Opinion of this Fund

People and resources

- Sandhurst forms part of the Bendigo Wealth division within Bendigo & Adelaide Bank. Sandhurst has approximately 60 employees and is responsible for approximately \$5bn in funds under management ('FUM') at the time of this review. Lonsec considers the current position of the business and growth to be strong with the ownership of the bank providing additional financial support.
- The investment team responsible for the diversified, multi-asset funds is led by Chief Investment Officer ('CIO'), Thadeus McCrindle. McCrindle is supported in the day-to-day management of the Fund by Portfolio Manager, Tom Nitschke. Lonsec considers Nitschke and McCrindle to have the relevant experience and expertise to execute the Fund's strategy and achieve its investment objectives. Nitschke has approximately 17 years of industry experience with the last nine as lead portfolio manager of the Sandhurst diversified funds. Nitschke primarily holds the lead decision-making role in the team, with manager selection and active asset allocation as his core functions. McCrindle, as CIO, provides macro and strategic perspectives in the decision-making process, leveraging his widespread and varied experience base. Notably, both individuals have worked together for more than a decade. Lonsec considers these two team members to be the primary

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key-person risks for the Fund and considers this risk to be high.

- In addition to Nitschke and McCrindle, the team comprises a further three analysts and utilises inputs from a wide range of internal and external consultants. Lonsec considers the team to have solid capability but is mindful that beyond the two senior managers, the team co-tenure and experience are relatively modest. While the experience of the three analysts is light, they have demonstrated a level of competence that is sufficient to support the portfolio managers. Lonsec will continue to monitor the performance and rigour of work generated by the analyst team in future reviews.
- The team size is also considered to be low relative to other peers. However, the use of consultants partially mitigates this, as does the team's culture of process improvement. Lonsec notes that in recent years, there has been a focus on more predictive market indicators, relative valuation measures and improved scenario-testing models. In addition, the asset allocation process is a generally quantitatively-driven framework, therefore alleviating the need for a large team. The investment team also leverages internal resources within the group, including the Fixed Income, Superannuation and Economics teams. Nonetheless, Lonsec notes that there is scope to add additional resources if, or when, complementary skillsets are identified to further strengthen the team's internal capability and reduce the reliance on external consultants. Moving forward, Lonsec will continue to monitor the team's workload and capacity, functional structure and team co-tenure.
- Positively, an advantage of the investment team (aside from the CIO) is that they do not have business management or marketing responsibilities. This allows the team to focus solely on investment management and the performance of the Fund rather than profitability and/or broader management issues.
- Overall, Lonsec considers the alignment of interests to be lower than its peers and has scope for improvement. The investment team members' variable remuneration is assessed on both qualitative and quantitative factors with weighting skewed towards non-investment outcomes. Employees will be eligible to performance-linked variable remuneration if both of the gateways are passed: (i) Group performance has reached a certain level of profitability; and (ii) Employees display values, follow all corporate policies and complete all compliance training. The variable component takes up a small proportion of employee total remuneration.

Asset allocation

- Lonsec believes the SAA process is a logical and robust process that produces portfolio outcomes in line with the expectations of the strategy. Sandhurst consider asset allocation to be the dominant driver of long-term returns within a multi-asset class portfolio. The majority of the investment team's focus is on the Active Asset Allocation framework which drives the SAA-anchored investment process.
- The starting point for asset allocation discussions is the investment policy itself which stipulates the investment objectives, desired risk tolerances and

investment limits. The Manager formulates the SAA from historical asset class volatility, correlations and normalised returns. The SAA, which is reviewed every three years, forms the neutral position of the Fund from which the AAA is derived.

- The changes made in the last review in 2021 saw an increased allocation to Australian and global equities whilst reducing global small-cap equities and infrastructure, emerging markets, and A-REITs. Lonsec believes these changes were in line with the Manager's long-term investment approach and represented a logical evolution of allowing room for greater global diversification.
- As stated, in between SAA reviews, the main driver of the investment process is the AAA approach which aims to take an intra-cycle view, typically for the upcoming 12-18 month period. The two main inputs into the process are (i) value, momentum and sentiment signals, and (ii) a 'four-phases' style business and market cycle framework which also considers liquidity. The quantitative scores are generated from the signals and cross analysed with the output from the cycle analysis. Lonsec believes this to be an intuitive approach founded on well-known signals that are supported by academic evidence. In addition, Lonsec believes the focus on tilting the portfolio towards assets that are favoured at certain points in the market cycle is logical. While the results are promising and the decision-making framework appears robust, Lonsec notes the updated parts of the process have evolved over recent years and therefore will continue to be assessed in future reviews.
- The Fund has a 97%/3% growth/defensive asset allocation diversified across asset classes (including equities, fixed income, listed property, infrastructure and alternatives) via underlying index tracking funds managed by Vanguard Investments.

Research approach

- Lonsec considers the Sandhurst asset allocation research process to be thorough (in terms of the information gathered and assessed), robust and clearly articulated. The team's focus on fundamentals integrates valuation-based elements which add a level of capital preservation. This is complemented by momentum and sentiment factors which incorporate asset-class beta into the framework.
- Ongoing research has been dedicated to incorporating the latest market signals and valuation concepts within the AAA framework. Historically, the Manager has also included additional analysis of global liquidity conditions into the process as they have identified a material influence on market returns. In addition, the Manager also incorporates research from external parties (e.g. Mercer and Strategas Research) who provide input into market cycle analysis.
- While viewing the continual process enhancements as a positive, Lonsec is conscious of the small team size which results in a potentially lower diversity of perspective, less robust peer reviews and elevated key-person decision risks. Overall, Lonsec considers the Manager's research approach to be fundamentally sound and sufficiently robust to achieve its intended outcomes.

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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 lagging peers. The Manager has articulated a commitment to the integration of ESG within their investment process however there is little evidence in their public positioning. While the Manager does not have an ESG Policy in place, other ESG elements, for example proxy voting policy, are freely available on the firm's website. The level of disclosure with respect to proxy voting policy and outcomes is in-line with peers with particular credit paid to reporting of voting outcomes. The Manager does not provide any details on engagement outcomes or policy.
- The Manager has indicated that their Responsible Investment style is "Sustainability". Lonsec highlights that this ESG review is not a measure of the sustainability of either the companies in the portfolio or the portfolio itself is but is an assessment of the process the Manager undertakes to assess the degree to which Environmental, Social and Governance factors are considered when assessing investment opportunities. This may be a completely separate and additional capability on top of any sustainability thematic within the portfolio. Lonsec recommends investors review the Lonsec Sustainability report for this product, if it has been contracted by the Manager, to assist with measuring portfolio impact. The Manager has indicated that they are not integrating any additional ESG considerations into the investment strategy for this fund, beyond the sustainability focus.
- Lonsec's review of ESG integration for Multi Asset Funds such as this, reviews only the ESG components of the selection of underlying strategies or managers. It does not review the ESG integration at the level of each of the underlying funds or strategies.
- The Manager does not appear to have ESG integration in their overall process.
- There are no signs that company engagement on ESG issues is a component of the Manager's current investment approach for this Fund.
- ESG does not form a component of the Managers broader compliance framework and overall transparency provided to investors is lagging.

Portfolio construction

- The Manager constructs portfolios by assigning the appropriate asset class weightings in accordance with the SAA and AAA outcomes. There are both quantitative and qualitative elements in this process, informed by a level of judgement and diversity of views. Sound fundamental research drives the asset allocation style, and there is a willingness to back high-conviction views. Final portfolio outcomes are also influenced by relative risk-return and pragmatic forward-looking approaches which are favourable in longer-term upward-trending markets. Lonsec considers this flexibility in approach and style to be a key advantage of the team.
- Vanguard Investments has been appointed as the team's strategic partner to manage the underlying asset class allocations, except for cash which is managed internally. Lonsec has high regard for Vanguard, particularly in the domestic and global equities asset classes. While the market capitalisation weighted indexing methodology is relatively simplistic in nature, the approach is cost-effective, highly liquid and intuitively appealing. The underlying Vanguard funds are backed by strong experienced teams, who have successful track records in replicating benchmark-like performance at low costs.
- Lonsec notes that the Fund includes the Alternatives asset class and views this positively. Lonsec believes the Alternatives exposure increases the Fund's downside protection properties, however, the Fund's low-cost fee budget and liquidity priorities may be a constraint to this asset class allocation.

Risk management

- Lonsec believes that the Sandhurst investment team implements a reasonable and robust risk management process within a clear framework. Sandhurst adopts reasonably wide constraints in the management of diversified strategies. Daily monitoring, regular holdings analysis, aggregated risk exposure monitoring and scenario analysis form part of the risk management process. The team uses quantitative proprietary models to analyse credit risk, interest rate risk, liquidity, asset class valuations, momentum, reinvestment and macroeconomic risks.
- Sandhurst also has a dedicated Risk and Compliance team focused on regulatory compliance and operational risks. A Middle Office team separately monitors portfolio and derivatives exposures via third-party risk tools on a regular basis. Lonsec considers Sandhurst's risk management practices to be sufficiently robust.

Fees

- The Fund's fee comprises a management fee of 0.47% p.a. and net transaction costs of 0.06% p.a. Lonsec considers the total fee load for the Fund (AFC of 0.53% p.a.) to be high relative to the low-cost diversified multi-manager peer group.

Product

- The Fund is a relatively vanilla multi-manager strategy that invests across a range of traditional asset classes. Hence, Lonsec does not consider it to be operationally challenging to implement. Additionally,

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the Manager employs high-quality 'tier 1' service providers.

- The Fund is a registered managed investment scheme ('MIS') for which Sandhurst Trustees Limited is the Responsible Entity ('RE'). The RE is responsible for operating and managing the MIS, holds an AFSL and as such is required to comply with its AFSL and RE obligations as outlined under the Corporations Act. Lonsec notes the RE has built experience in operating and managing a number of schemes over an extended period of time.
- The Fund has been in outflow over the short-to-medium term which heightens the potential for wind-up risk if this trend was to materially accelerate. That said, Lonsec acknowledges that Bendigo's index suite of products is already large scale with the Manager remaining fully committed to this product.

Performance

- The Fund aims to provide returns after fees of 5.0% above inflation over a full market cycle (typically seven to 10 years).
- The Fund has delivered a total return (net of fees) of 3.4% p.a. and 6.4% p.a. and 9.1% p.a. over the three, five and ten-year periods respectively to 31 January 2023. The three and five-year figures were slightly below the peer median, whilst the ten-year returns were in line with the peer group median.
- The Fund has failed to achieve its return objectives over the medium and longer-term horizons. Although, this is primarily due to the broader market downturn coupled with the materially higher CPI figures over the past 12 months.
- The Fund's volatility (as measured by standard deviation) were marginally lower than the peer median over three and five years, but higher than the peer median over the ten-year periods to 31 January 2023. The drawdown has been larger than the peer median over three, five and 10 years.
- As a result of the Fund's total performance and the standard deviation, the Fund's Sharpe Ratio was in line with the peer group median over the 10 years, but marginally lower than the peer median over three and five years to 31 January 2023.

Overall

- Lonsec has maintained the Fund's **'Recommended'** rating. The investment team led by Thadeus McCrindle (CIO) and Tom Nitschke (Lead Portfolio Manager) is capable and is considered to 'punch above their weight' given the smaller investment team relative to the broader multi-asset peer group. The Fund's performance has been strong on a peer-relative and risk-adjusted basis since its inception. Lonsec notes the team has adopted a pragmatic and repeatable investment process that is founded on a robust decision-making framework.
- However, beyond McCrindle and Nitschke, the team's asset allocation and portfolio construction experience are low relative to peers and represent an elevated level of key person risk. Further, the evolving active asset allocation process requires continued assessment over time and Lonsec will continue to monitor this in future reviews.

People and Resources

Corporate overview

Sandhurst Trustees Limited is the investment management services group within Bendigo and Adelaide Bank. The Manager's focus is on active asset allocation and risk management, implemented via a multi-manager and multi-index fund allocation process across a range of asset classes. As at January 2023, Sandhurst managed approximately \$5bn across a suite of multi-asset class products. Sandhurst Trustees is also the Responsible Entity of the Fund.

Sandhurst Trustees Ltd, established in 1888, has evolved beyond its traditional trustee roots into a full-service wealth manager offering managed funds, superannuation, commercial loans, corporate trustee and custodial services. In 1992, Sandhurst Trustees merged with the Bendigo Building Society, which became Bendigo Bank, which in turn merged into Bendigo and Adelaide Bank in 2007. Sandhurst is a wholly-owned subsidiary of Bendigo and Adelaide Bank, Australia's fifth-largest bank, listed on the ASX (ASX: BEN).

Size and experience

NAME	POSITION	EXPERIENCE
		INDUSTRY / FIRM
TOM NITSCHKE	PORTFOLIO MANAGER	17 / 17
THAD MCCRINDLE	CIO/HEAD OF INVESTMENTS	21 / 17
MICHAEL CROSER	SENIOR INVESTMENT ANALYST	9 / 1
DOM CHIUCHIOLLO	SENIOR INVESTMENT ANALYST	7 / 5
SHIRLEY HE	INVESTMENT ANALYST	5 / 5

The Sandhurst Diversified Funds investment team is responsible for the investment strategy, asset allocation, passive strategy selection and ongoing monitoring of the Fund. Profiles of the five team members are below:

Tom Nitschke is the Lead Portfolio Manager of the Sandhurst Diversified Funds. Nitschke has over 17 years of industry experience with the last nine as the lead portfolio manager of the Sandhurst Diversified Funds. His responsibilities include active asset allocation, portfolio performance, investment strategy and manager selection. He has a background in manager research and selection, SAA/TAA, capital markets research and asset allocation process improvement. Nitschke held roles at Adelaide Managed Funds (part of Adelaide Bank), before its merger with Sandhurst, and was part of the pioneering team which launched and managed the Bendigo Index funds in 2011. In 2014, he was appointed to the current position of Lead Portfolio Manager.

Thadeus McCrindle, Chief Investment Officer at Sandhurst, has over two decades of industry experience. McCrindle has prior experience in credit and fixed income portfolio management, multi-asset portfolio management, manager and capital markets research, active asset allocation and portfolio construction. His tenure covers roles at JP Morgan and Bendigo and Adelaide Bank. McCrindle holds a return-generation and strategy oversight function within the team. He is also responsible for fixed income funds and superannuation products at Sandhurst, and spends

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approximately half his time with the Diversified Funds team.

Michael Croser, Senior Investment Analyst, joined the Bendigo and Adelaide Bank group in 2022. Croser spent six years as an equity analyst with Perpetual Investments and two years on the sell-side with Taylor Collison. During Croser’s time at Perpetual, he primarily covered the Health Care sector whilst also having coverage responsibilities across Media, Building Materials and the Mining Services industries. Croser primarily focuses on growth assets, performance reporting and asset allocation. Croser has a Bachelor of Pharmacy and Masters in Finance and Economics, from the University of Adelaide.

Dom Chiuchiolo, Senior Investment Analyst, joined the Bendigo and Adelaide Bank Group in 2016 in the Graduate Program. Further, Chiuchiolo spent time in the Statutory and Regulatory reporting and Securitisation division. Chiuchiolo joined the investment team in 2018 and primarily focuses on the defensives asset class, performance reporting and asset allocation. Chiuchiolo is a CFA Charterholder.

Shirley He, Investment Analyst, joined the Sandhurst Investment Team in 2018. She has an academic background, having graduated with a Bachelor of Finance, and then stepping into teaching and research assistant role at the University of Adelaide’s Business School. Her current responsibilities include responsible investments, trading, strategic and tactical asset allocation research.

All analysts also contribute to the manager research, selection and manager performance reviews. For manager considerations, Mercer asset consultants will provide a shortlist of recommended managers, which will then be researched by the team, including site/ personnel visits before being selected for portfolio inclusion. The analyst team conducts asset allocation research projects as directed by the two senior team members.

Remuneration / alignment of interests

The investment team’s remuneration structure comprises fixed and variable components. The variable component is weighted accordingly: 25% weighting to investment outcomes and performance; 25% weighting to behavioural aspects and qualitative factors; 25% weighting to the profitability of the Manager and; 25% weighting to the profitability of the parent organisation. The structure is designed to incentivise investment performance and align investor and investment staff interests.

Asset consultant

The Sandhurst investment team draws on a wide range of consultants as part of their research into asset allocation and manager selection decisions. These include Mercer, Strategas and also the internal resources of the bank, which include Group Treasury, Economics and Market Research, and the Fixed Income team. External asset consultants can be used, both for idea generation and asset allocation matters. In particular, Sandhurst benchmarks its expected risk and return assumptions against external consultants’ capital market assumptions and peers as a sense check.

Asset Allocation

Strategic asset allocation

Reviewed every three years, the process of Strategic Asset Allocation is to construct a neutral investment plan for the full market cycle (approximately seven to ten years). The SAA forms the neutral position in which active asset allocation references. An SAA review is presented to the Sandhurst Investment Committee, with changes recommended for approval by the committee.

The SAA process starts with setting capital market assumptions, based on past asset and market information on return, volatility and correlation. The model assumes historical volatility and correlations persist in the market cycle ahead, however, the investment team normalises returns for believed anomalies. Capital market assumptions are cross analysed with inputs from consultants (Mercer, Strategas) as well as various market and research participants including the bank’s internal teams and Vanguard. Optimisation of the SAA, calibrating risk-return within a set of constraints is undertaken, applying progressive risk-level exposures across the five growth-defensive profiles. As a risk control measure, the resilience of the portfolios is tested in various conditions including hypothetical shocks. Finally, the portfolio’s diversification levels are cross-checked against industry peers.

The Fund’s asset allocation has a 97%/3% Growth/ Defensive profile and as at 31 December 2022 is summarised in the table below.

Asset allocation

ASSET CLASS	SAA BENCHMARK	MIN	MAX	CURRENT ALLOCATION
AUSTRALIAN EQUITIES	39%	20%	65%	32.4%
GLOBAL EQUITIES	58%	30%	75%	38.7%
PROPERTY AND INFRASTRUCTURE	0%	0%	25%	12.0%
ALTERNATIVES	0%	0%	20%	0%
AUSTRALIAN FIXED INTEREST	0%	0%	10%	0%
GLOBAL FIXED INTEREST	0%	0%	10%	0%
CASH	3%	0%	20%	13.6%

Tactical/Dynamic asset allocation

The Manager’s Active Asset Allocation process takes an intra-market cycle view of 12 to 18 months, based on outcomes from the investment team’s monthly meetings.

The Active Asset Allocation decision outcomes are fundamentally anchored, incorporating five major factors, Valuation, Momentum, Sentiment, Liquidity and Quadrant (economic regime). The final two factors were added recently and weightings were recalibrated. Valuation (15% weight) for each asset class is conducted monthly and a five-level valuation score is assigned. Momentum and Sentiment factors (10% weight each) are also measured, guiding position entry and exits. Liquidity (20% weight) and Quadrant (45% weight) factors are also strongly considered as evidenced by the higher allocation to these factors. Each tradeable asset class is assigned a score that guides its overall weighting. Asset class tilt decisions are then made by the Portfolio Manager in conjunction with the CIO.

Macro data flow and liquidity conditions help build their view of the current market cycle. The analysis of

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macro data flow formulates the team's views of where the market cycle is positioned within a four-quadrant growth-inflation regime framework. This also guides their over/underweights to specific asset/sub-asset class positions. Finally, market risk analysis is conducted to assess positions against extreme events. Returns are regularly monitored versus a select peer group.

The team uses a range of dashboarding signals (both micro and macroeconomic indicators) as backward, current and forward-looking indicators to monitor markets. These signals include liquidity conditions, economic region's growth metrics, asset class indicators/inflection points, and short and medium-term trends. The Bloomberg systems are used as the primary tool for this. The weightings within the asset allocation process can change relative to the conviction of the signals of these factors.

Research Approach

The Manager has both a quantitative and qualitative research approach in its SAA and AAA process. Research is fundamentally anchored, informed by a wide range of metrics and dashboarding tools, and complemented by internal and external consultant views.

As a diversified product, with an investment philosophy predicated on strategic and active asset allocation invested into index funds, underlying fund manager research does not play a role in the management of the Fund.

Portfolio Construction

Overview

Portfolio construction is undertaken by the lead portfolio manager with the objective of balancing risk and return budgets within the SAA framework and AAA outcomes. The quantitative optimisation process informs the sub-asset class allocations and qualitative judgement is also applied. In constructing the portfolio, the investment team aims to eliminate diversifiable macro-risks, control beta and balance sub-asset class and currency risk exposures, within the context of return targets.

Diversification levels are calibrated within the risk management framework and compared against industry peers. The team, informed by fundamental research, has the flexibility to take high-conviction positions. In addition, scenario modelling of potential changes is conducted to ensure a meaningful contribution to the portfolio. The lead portfolio manager implements portfolio changes only with approval from the CIO.

Underlying manager allocation

Sandhurst has selected Vanguard as its passive management partner. Vanguard manages the index tracking component of the suite of Sandhurst's Managed Wholesale Index Funds. Cash allocations are internally managed by the investment team. Lonsec's rating on each strategy, where applicable, is provided in parentheses below.

Australian Equities

- Vanguard Australian Shares Index Fund (Highly Recommended)

The Fund aims to match the performance of the S&P/ASX 300 Accumulation Index before fees, expenses and tax.

Global Equities

- Vanguard International Shares Index Fund (Highly Recommended)

The Fund aims to match the performance of the MSCI World Ex Australia Index (with net dividends reinvested) in Australian dollars before fees, expenses and tax.

- Vanguard International Shares Index Fund (Hedged) (Highly Recommended)

The Fund seeks to track the return of the MSCI World ex-Australia Index (with net dividends reinvested) hedged into Australian dollars before taking into account fees, expenses and tax.

- Vanguard Emerging Markets Shares Index Fund (Recommended)

The Fund aims to track the return of the MSCI Emerging Markets Index (with net dividends reinvested) in Australian dollars before fees, expenses and tax.

Vanguard MSCI International Small Companies Index ETF (Recommended)

The Fund aims to track the return of the MSCI World ex-Australia Small Cap Index (with net dividends reinvested) in Australian dollars before taking into account fees, expenses and tax.

Property and Infrastructure

- Vanguard Australian Property Securities Index Fund (Highly Recommended)

The Fund aims to match the performance of the S&P/ASX 300 A-REIT Accumulation Index before fees, expenses and tax.

- Vanguard Global Infrastructure Index Fund (Recommended)

The Fund aims to match the performance of the FTSE Developed Core Infrastructure Index (with net dividends reinvested) in Australian dollars, before fees, expenses and tax.

Australian Fixed Interest

- Vanguard Australian Fixed Interest Index Fund (Highly Recommended)

The Fund aims to track the return of the Bloomberg AusBond Composite 0+ Yr Index before taking into account fund fees, expenses and tax.

- Vanguard Australian Corporate Fixed Interest Index Fund (Recommended)

The Fund aims to track the return of the Bloomberg AusBond Credit 0+ Yr Index before taking into account fund fees, expenses and tax.

- Vanguard Australian Government Bond Index Fund (Recommended)

The Fund aims to track the return of the Bloomberg AusBond Govt 0+ Yr Index before taking into account fund fees, expenses and tax.

- Vanguard Australian Inflation-Linked Bond Index Fund (Recommended)

The fund aims to track the return of the Bloomberg AusBond Inflation Treasury 1+ Yr Index before taking into account fees, expenses and tax.

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International Fixed Interest

- Vanguard International Fixed Interest Index Fund (Hedged) (Highly Recommended)

The fund aims to track the return of the Bloomberg Barclays Global Treasury Index (Hedged to \$A) before fees, expenses and tax.

- Vanguard International Credit Securities Index Fund (Hedged) (Recommended)

The fund aims to match the performance of the Bloomberg Barclays Global Aggregate Government-Related And Corporate Index in Australian dollars, before fees, expenses and tax.

Alternatives

- Gold

Risk Management

Risk limits

The Sandhurst investment team believes that strong risk management starts with a detailed understanding of the underlying exposures together with a deep appreciation of current and potential market conditions. The investment team controls risk at a broad level by diversifying across asset classes within predetermined range limits. Asset allocations are monitored daily where +/-1% movements from targets are flagged and a tolerance of +/-2% is set to ensure targeted asset allocations are maintained.

Quarterly, the team assesses underlying risk exposures via holdings analysis. Analysis into equity positions is conducted in Bloomberg, where the team analyse total look-through exposures such as geography, sector, and fundamentals. Holdings analysis for fixed income incorporates fund/asset class duration analysis, regional and sector exposures and yield analysis, as well as credit risk assessments. The outputs are aggregated at the asset class level to form aggregate risk positions for the Fund. Asset class risk exposure metrics include equity and credit betas, duration and currency exposures.

Risk analysis reviews current and potential positions and takes holdings analysis outputs to analyse expected portfolio outcomes against a range of potential economic scenarios. This process occurs concurrently with the AAA process and can shape asset allocation outcomes. Scenario analysis and stress testing are conducted with Bloomberg PORT.

Risk monitoring

Sandhurst works within the Bendigo and Adelaide Bank's governance and risk management framework; incorporating compliance, operational risk management, credit and market risk. The Governance framework is clearly defined with roles and responsibilities clearly articulated and evidenced by a range of regular meetings and reporting.

The Sandhurst Investment Governance Committee acts as another separate layer of risk and governance oversight, which ensures that the Fund operates within the product disclosure and Board approved SAA ranges and associated operational ranges. The committee approves changes to major investment policies, SAA range limits and represents the investor by holding the Manager accountable for decisions, reviewing performance and ensuring the delivery of objectives.

Portfolio positions are additionally monitored by the middle office and internal legal and compliance teams.

Implementation

The Fund invests in a combination of externally managed passive index funds, with a minor allocation to internal products for its cash allocation. Sandhurst uses futures for the majority of tactical positions and cash flows are primarily used to rebalance asset class allocations. Rebalancing is flagged when weightings move 1.0% from target levels and are actioned within the +/-2.0% tolerance limit. To the extent possible, the investment team uses the overlay of derivatives/futures to gain necessary exposures in order to minimize transaction and taxation costs.

Currency management

The investment team can employ derivatives to hedge currency exposures at targeted levels within their risk-management frameworks. Some of the underlying funds that the Fund invests in, employ currency hedging through the use of forward foreign exchange contracts to manage currency risk. The returns of those underlying funds that employ currency hedging are thus relatively unaffected by currency fluctuations.

Risks

An investment in the Fund carries a number of 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:

Market risk

Investment returns are influenced by the performance of the market as a whole. This means that investments can be affected by things like changes in interest rates, investor sentiment and global events, depending on which markets or asset classes are invested in and the time frame considered.

Currency risk

There is a chance that the value of an unhedged foreign investment, measured in Australian dollars, will decrease because of unfavourable changes in currency exchange rates. In the case of hedged investments, currency hedging involves costs and implementation risks due to the volatility of currency and securities markets, and there are impacts for the income distributions from those underlying funds. When the Australian dollar is appreciating relative to other currencies, the gains from currency hedging may result in significant additional income being distributed. Conversely, when the Australian dollar is depreciating relative to other currencies, the losses from currency hedging can totally offset other income received, resulting in no income distribution from those underlying funds (that employ currency hedging) for the period. This may impact the Fund's distribution to investors.

Derivative risk

The primary risks associated with the use of derivative contracts are: the values of the derivative may fail to move in line with the underlying asset (a performance

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difference); the potential lack of liquidity of the derivative; the Fund or underlying funds may not be able to meet payment obligations for the derivative contracts as they arise; and the counterparty to the derivative contract may not meet its obligations under the contract.

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Quantitative Performance Analysis - annualised after-fee % returns (at 31-1-2023)

Performance metrics

	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	-3.03	-0.89	3.37	4.56	6.38	6.90	9.13	9.13
STANDARD DEVIATION (% PA)	13.33	15.33	14.44	14.75	12.39	12.67	10.55	10.51
EXCESS RETURN (% PA)	-2.40	-0.29	-1.01	0.08	-1.05	-0.54	-0.58	-0.58
OUTPERFORMANCE RATIO (% PA)	41.67	41.67	47.22	50.00	48.33	48.33	52.50	52.50
WORST DRAWDOWN (%)	-11.13	-11.80	-19.59	-18.95	-19.59	-19.08	-19.59	-18.81
TIME TO RECOVERY (MTHS)	NR	NR	10	8	10	8	10	8
SHARPE RATIO	-0.34	-0.16	0.19	0.26	0.43	0.45	0.71	0.71
INFORMATION RATIO	-1.31	-0.20	-0.52	0.04	-0.59	-0.33	-0.34	-0.34
TRACKING ERROR (% PA)	1.83	2.54	1.94	2.17	1.78	2.03	1.72	1.28

PRODUCT: BENDIGO HIGH GROWTH INDEX

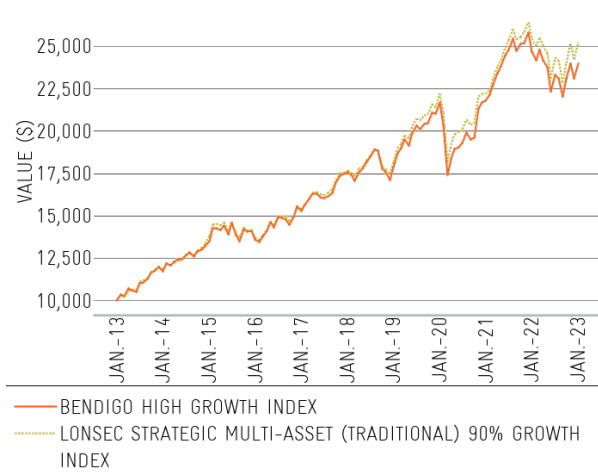
LONSEC PEER GROUP: MULTI-ASSET - 81-100% GROWTH ASSETS - LOW-COST DIVERSIFIED

PRODUCT BENCHMARK: LONSEC STRATEGIC MULTI-ASSET (TRADITIONAL) 90% GROWTH INDEX

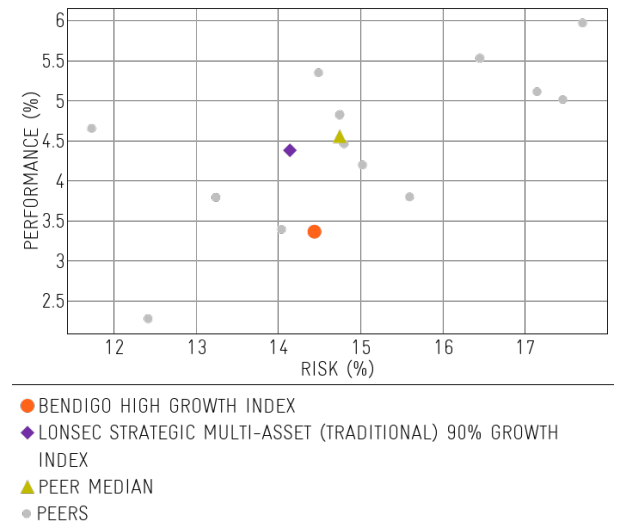
CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD

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

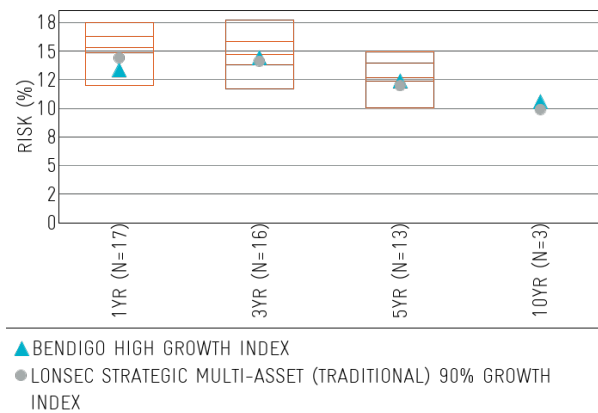
Growth of \$10,000 over 10 years



Risk-return chart over three years

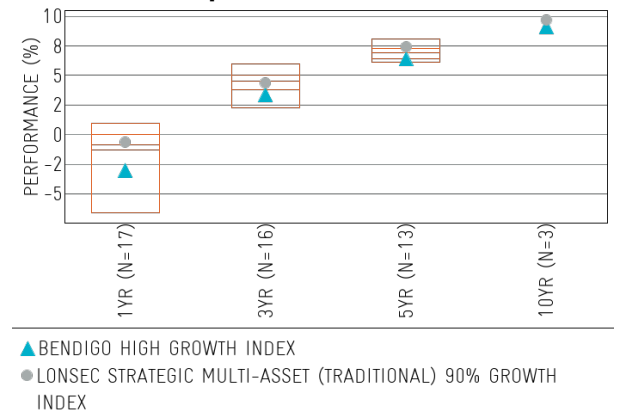


Quartile chart — risk



N: NUMBER OF ACTIVE FUNDS

Quartile chart — performance



N: NUMBER OF ACTIVE FUNDS

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Bendigo High Growth Index

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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