Lonsec

Recommended

Product Review
Sandhurst Strategic Income Fund B

About this Review

ASSET CLASS REVIEWED	FIXED INTEREST
SECTOR REVIEWED	SHORT TERM INCOME
TOTAL FUNDS RATED	12

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	SANDHURST STRATEGIC INCOME FUND B
APIR CODE	STL0044AU
PDS OBJECTIVE	TO OUTPERFORM THE PERFORMANCE BENCHMARK (AFTER FEES) OVER ANY TWO YEAR PERIOD.
INTERNAL OBJECTIVE	BENCHMARK PLUS 1.0% P.A. (BEFORE FEES) OVER ANY TWO YEAR TIME PERIOD PLUS PRODUCE A POSITIVE RETURN OVER ANY ROLLING ONE YEAR PERIOD.
STATED RISK OBJECTIVE	INTEREST RATE DURATION LESS THAN ONE YEAR.
DISTRIBUTION FREQUENCY	QUARTERLY
FUND SIZE	$35.6M (AUGUST 2023)
FUND INCEPTION	30-07-2011
ANNUAL FEES AND COSTS (PDS)	0.45% P.A.
RESPONSIBLE ENTITY	SANDHURST TRUSTEES LIMITED

About the Fund Manager

FUND MANAGER	SANDHURST TRUSTEES LIMITED
OWNERSHIP	BENDIGO AND ADELAIDE BANK LTD
ASSETS MANAGED IN THIS SECTOR	$2.9BN (AUGUST 2023)
YEARS MANAGING THIS ASSET CLASS	67

Investment Team

PORTFOLIO MANAGER	ROGER COATS
INVESTMENT TEAM SIZE	7
INVESTMENT TEAM TURNOVER	MODERATE
STRUCTURE / LOCATION	ADELAIDE

Investment process

BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX
DURATION RISK LIMIT	<1 YEAR
MINIMUM CREDIT QUALITY AT PURCHASE	BBB-
MAXIMUM SUB-INVESTMENT GRADE	10%
MAXIMUM SINGLE ISSUER LIMIT	40%
NON AUD EXPOSURE	NO
GEARING / ECONOMIC LEVERAGE	NO
TYPICAL ALLOCATION TO TERM DEPOSITS AND 31 DAY NOTICE ACCOUNTS	20-30%

Fund rating history

SEPTEMBER 2023	RECOMMENDED
AUGUST 2022	RECOMMENDED
AUGUST 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

- Experience of lead Portfolio Manager Roger Coats and CIO Thadeus McCrindle.
- Disciplined and repeatable investment process with a strong focus on liquidity management.
- Consistently met its PDS objective with the exception of the first quarter of 2020.

Weaknesses

- With the exception of Coats and McCrindle, the investment team is considered relatively inexperienced compared to broader peers.
- The fee load of this Fund is towards the upper end of the scale relative to peers in this sector.
- Risk oversight systems less well developed than peers.

Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK	●		
CAPITAL VOLATILITY		●	
CREDIT RISK		●	
FOREIGN CURRENCY EXPOSURE	●		
INTEREST RATE (DURATION) RISK		●	
LEVERAGE RISK	●		
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 3 equates to a Risk Label of 'Low to Medium' and an estimated number of negative annual returns over any 20 year period of 1 to less than 2. 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		●	

ANALYST: ISRIN KHOR | APPROVED BY: MIKE GRDOSIC

Sandhurst Strategic Income Fund B

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 Sandhurst Strategic Income Fund ('the Fund') is a defensive income-focused strategy with a distinct bias towards short-term, high quality floating rate notes, term deposits and residential mortgage-backed securities ('RMBS') denominated in AUD. The Fund aims to deliver a return of 1.0% (before fees) in excess of the Bloomberg AusBond Bank Bill Index ('the Benchmark') over a rolling two year time period.
- The Fund is managed by Sandhurst Trustees Limited ('Sandhurst' or the 'Manager'), a wholly owned subsidiary of Bendigo and Adelaide Bank Ltd.
- As the Fund is expected to exhibit low-moderate volatility, it will seek to deliver alpha by blending debt securities issued by corporates and governments. Additionally, the Fund is permitted to hold up to 40% in asset backed securities ('ABS'). Historically, the Fund has an average exposure of more than 30% to ABS.

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.
- Short Term Income products typically invest in securities which pay regular coupons at margins over the Bank Bill reference rate but have a much greater sensitivity to credit spread movements than cash due to their longer final maturity dates than cash securities. Product risk expectations around: standard deviation, credit risk, liquidity risk and interest rate risk, are therefore expected to be higher than Strategic Cash, though lower credit risk than Alternative Income.
- The Fund may be suitable for investors seeking a regular income higher than that available in cash or cash-like instruments but who are prepared to accept low to moderate volatility in the unit price.
- Short Term Income funds are generally liquid in normal market conditions, though may experience lower liquidity during periods of market dislocation.
- The Fund's PDS dated 31 May 2023, disclosed Annual Fees and Costs ('AFC') totalling 0.45%. This value comprises (1) Management Fees and costs of 0.45% p.a., (2) Net Transaction Costs of 0.0% 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 to these estimates.
- The Fund charges buy/sell spreads set at 0.05%/0.13%. These spreads can be subject to change, most notably during periods of market volatility, and can be sourced from the Manager website.

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

- There has been no material changes to the team or investment process since Lonsec's previous review.

Lonsec Opinion of this Fund

People and resources

- Sandhurst Trustees Limited ('Sandhurst' or the 'Manager') is a wholly owned subsidiary of Bendigo and Adelaide Bank, offering a range of financial services, including asset and fund management across cash, fixed income, equity and diversified asset classes. As at June 2023, Sandhurst had total funds under management of $5.2bn of which $3.9bn was invested in fixed income assets, predominantly in cash, deposits, residential mortgage-backed securities ('RMBS') and loans. While Sandhurst is considered small-to-medium sized compared to other asset management firms, the backing of a financial institution provides some financial support.
- The investment team consists of seven investment professionals. Portfolio Manager Roger Coats has ultimate responsibility on this Fund. Lonsec views both Coats and CIO Thad McCrindle's skills and experience as important factors in Lonsec's level of conviction in the Fund. Coats has been the portfolio manager responsible the Fund since early 2014. Lonsec considers Coats to be highly experienced, with over 30 years of experience largely gained on the 'sell-side' of interest rate markets, where he held a number of senior positions in origination, encompassing the trading and syndication of bonds. McCrindle is a longstanding member of the firm, having joined in 2005, who Lonsec considers to be experienced to act as an overseer for the Fund and the broader team. McCrindle plays an important role in providing the top-down inputs, including fundamental and technical market insights, to determine the target credit duration and sector exposures for the portfolio. He is involved in the analysis, cash flow modelling and stress testing of the RMBS rated below AAA.
- Given Coats' heavy day to day workload for the Fund, Lonsec has a positive view of Assistant PM Blake Cetinich's recent increased responsibility and accountability. Cetinich has six years of industry experience. Since joining the Fund in 2017, Cetinich

has displayed a keen awareness of fixed income markets while being responsible for investment analysis and trading.

- Overall, the level of resourcing and investment experience outside Coats and McCrindle is lower compared to the broader peer group. Lonsec remains mindful of this, and takes comfort in the stability presented by Coats and McCrindle, noting the former has a heavy workload. Given the circumstances outlined above, Lonsec considers there to be high key person risk in both Coats and McCrindle, noting the departure of either would warrant a review of this Fund's rating.
- Lonsec perceives the Fund's remuneration structure as being consistent with other asset managers in this space and considers the alignment of interests to be moderate. Portfolio Manager remuneration is a mixture of product outperformance, profitability and qualitative factors. Analysts have an additional component that tracks value added/detracted by individual security recommendations, which can be subject to deferment. Co-investment is not mandatory, but Lonsec notes some team members are co-invested in the Fund which aligns individual interests with the objectives of the Fund.

Research and portfolio construction

- Lonsec believes the Fund's investment philosophy of capturing market inefficiencies that exist in relation to the assessment of credit risk and views of relative risk between sectors of the credit and cash markets to generate superior returns with less volatility than passive allocation between sectors, is consistent with their strategy.
- Lonsec considers the process to be disciplined and repeatable, albeit not materially different to peers offering similar strategies. The Fund employs a three step process: 1) Combine inputs including market sentiment, economic forecasts, credit fundamentals and pricing. 2) Conduct detailed analysis of interest rates, yield movements and bottom-up credit analysis and determine sector preferences. 3) Construct the portfolio to best reflect the teams' risk/return expectations.
- The Fund is essentially constructed by blending both core and satellite segments. The core consists of highly rated senior bank debt which pays a small margin over bank bills and has only very small interest rate duration exposure. The satellite, which will often possess less liquidity than the core, will consist of term deposits, Floating Rate Notes ('FRNs'), corporate bonds and RMBS. Lonsec notes that the total exposure to asset backed securities (33.6%), corporate FRNs (11.0%) and term deposits (12.3%) were 56.9% as of 30 June 2023. Lonsec has witnessed how the Manager forms the portfolio in practice and considers it to be appropriate for delivering on investment objectives and adhering to liquidity and other risk constraints.
- Lonsec notes that credit coverage breadth, credit research and idea generation lag peers, which is reflective of the level of resourcing and experience of the broader team. The bottom-up credit research begins with the external credit rating followed by the credit assessment which include financial analysis, business risk, industry risk and ESG to identify potential investments with low credit or default risk. Further, the team appears to be heavily reliant on external sources such as Bloomberg, S&P Capital IQ, IBIS research and sell side research for their credit, technical, trade flow and macro views. While pleased with the recent enhancements in the credit process, Lonsec continues to seek further improvements in the quality and rigour of the overall credit research process.
- Despite the higher creditworthiness as reflected by the investment-grade credit rating, Lonsec notes such structured securities tend to exhibit higher than average liquidity risk and price gapping risk. Lonsec considers the proprietary RMBS systems and the teams' analysis of these securities to be consistent with peers who also adopt granular RMBS analysis.
- Historically the Fund has had a material exposure to Bendigo & Adelaide Bank term deposits close to the 20% counterparty limit, which have been a key tool in enabling the Fund to deliver above benchmark returns. Lonsec is conscious that related party exposure may create the perception that objectivity of the investment process could be compromised. However, Lonsec is comforted the portfolio continues to diversify to alternate issuers over the years, with exposure to Bendigo & Adelaide Bank reducing to around 0.1% as of August 2023.
- The team displays a high awareness of liquidity risk within the portfolio. In short, a nuanced approach is taken to assess the liquidity profiles of securities, taking into account maturity profiles, bond factor scoring and diversification benefits. Although proprietary in nature, Lonsec considers this approach is beneficial and serves to illustrate the team's conservative approach to portfolio management. Further supporting this approach is the addition of the Liquidity Fire Rating Risk Model which takes a holistic view of the underlying portfolio assets to produce a projected volatility score. This acts as a guide for portfolio positioning and assesses the level of comfort regarding varying asset exposures within the market environment.
- Lonsec considers the minimum liquidity limits to be relatively low compared to the short term income peers. Having said that, Lonsec notes that approximately 75% of the portfolio can be liquidated within a week, with the remainder of the portfolio within one to 12 months.

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 to Lonsec, however, there is no evidence in their public positioning. While the Manager does not have an ESG policy in place, other ESG elements, such as their proxy voting policy, are

freely available on the firm's website. The level of disclosure with respect to proxy voting policy and outcomes is lagging peers. While reporting on voting outcomes is publicly available and includes rationales for against management votes, the policy framework is generic compared to peers. The Manager does not provide any details on engagement outcomes or policy.

- The Manager has not indicated any ESG approach in their submissions to Lonsec. While the Manager may be undertaking some activities that would be considered ESG integration Lonsec is unable to provide guidance on how that might reflect portfolios
- Within the management of this specific Fund Lonsec notes:
  - Lonsec considers the Manager sources ESG data within their investment process in a structured and thorough manner. Multiple data providers are accessed. Data to enable strong compliance checking is accessed and data collection and storage processes are robust.
  - There are clear signs of defined ESG elements within the research process for the Fund. The process produces a proprietary ESG score which feeds into the overall research process. Research is undertaken in a structured manner although storage and sharing of that research lags leading managers.
  - Transparency on the transmission from research to portfolio construction is more opaque. The Manager has indicated that the ESG research is primarily used to form relative value decisions.
  - While there is monitoring of ESG characteristics of the portfolio across a number of ESG and sustainability dimensions, this plays no clear role in overall portfolio construction. There are no Portfolio level ESG based limits or targets in place for the fund.
  - Engagement is a component of the Manager's approach but is managed in a less structured manner than with some leading peers. There is limited indication that the Manager monitors the success of engagements and evidence of clear engagement activities is light
  - ESG does not form a component of the Managers broader compliance framework and overall transparency provided to investors is lagging.

Risk management

- Lonsec considers the Manager to have adequate risk management processes in place for portfolio construction, albeit the risk oversight systems are less well developed than peers. The Manager utilises Bloomberg PORT as its primary risk management tool on a day-to-day basis. This is supplemented by its own internal proprietary risk tools when monitoring and analysing the Fund's exposure to credit risk, interest rate risk and liquidity risk.
- The pre-trade compliance process involves a daily reconciliation between the custodial report and the front office portfolio monitoring tools such as excel and Bloomberg. While all limits are reviewed by the Investment Team and Product Team daily, the accounting and operations team reviews exposures and reports to the Investment Committee and the Audit and Risk Committee ('ARC Committee') any breaches of the counterparty and portfolio limits, which is viewed favourably by Lonsec.
- Lonsec notes Roger Coats as Portfolio Manager has been instrumental in improving and effectively managing the counterparty risk inherent in this Fund and is pleased with the continued focus in this area.
- Further, Lonsec notes that given Sandhurst is a subsidiary of Bendigo Bank, the risk management framework has APRA oversight. Operational risk management falls under three layers being front line risk management; group risk oversight; and assurance. The investment function also benefits from oversight by a number of internal committees such as the Investment Governance Committee; ARC Committee; and Bendigo Governance & HR Committee. All committees report to the Board.

Capacity Management

- In terms of overall size, the strategy had approximately $35.6m in FUM as of August 2023 compared to the overall firm AUM of A$5.2bn. The Manager has provided an estimate capacity for the Fund at $2bn. Lonsec does not have any immediate capacity concerns based on the Manager's current level of AUM, and will continue to monitor this status.

Fees

- The Fund's fee comprises of management fee of 0.45% p.a., and net transaction costs of 0.0% p.a. Lonsec considers the total fee load for the Fund (AFC of 0.45% p.a.) as relatively high compared to peers.

Product

- The Fund is a registered managed investment scheme ('MIS') for which Sandhurst Trustees Limited is the Responsible Entity (the 'RE'), a related entity. 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 and is expected to have a governance framework in place to deal with any perceived conflicts of interest.
- The size of the Fund is small compared to peers and has experienced outflows over the last 12 months. However, Lonsec believes that the Fund will continue to be supported by the business.

Performance

- The internal performance objective for the fund is to out-perform its benchmark, Bloomberg AusBond Bank Bill Index (before fees) by 1% over any two year period.
- As at 31 August 2023, the Fund returned 1.9% p.a. and 1.9% p.a. net of fees, over the three and five-year periods respectively. The Fund has outperformed the benchmark, met its outperformance target over three and five years but not met its target over a two year period.
- Compared to peers, to 31 August 2023, the Funds returns were above peers over three and five years. In terms of risk, the Funds volatility was in line with the peer median over three years and higher than peers across five years whilst drawdowns were above

peers over five years to 31 August 2023. This led to risk adjusted returns (measured by Sharpe ratio) that were above the the peer median over the same periods.

Overall

- Lonsec has maintained the Fund's **'Recommended'** rating at its most recent review. The favourable rating is based on Lonsec's conviction in lead Portfolio Manager Roger Coats' significant investment experience and skills, further supported by CIO Thadeus McCrindle in his role as overseer for the team. The team has demonstrated a keen awareness of and holistic approach to managing liquidity, following a disciplined and repeatable investment process.
- Lonsec views Sandhurst's breadth of coverage and the corporate credit research are behind peers, reflecting the level of the broader team's experience and resourcing. Coats's workload is considered heavy. Lonsec notes the minimum liquidity limits appear low against short term income peers. The Fund is also one of the more expensive in the peer group.

People and Resources

Corporate overview

Sandhurst Trustees is a wholly owned subsidiary of Bendigo and Adelaide Bank Ltd. Sandhurst offers a range of financial services, including investments and funds management, superannuation, commercial loans, funeral bonds, estate management and custody services.

Sandhurst also acts as the Fund's Responsible Entity ('RE'). Sandhurst had approximately $5.2bn of funds under management ('FUM') (as of August 2023), of which $3.9bn of funds are in fixed income asset class.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
THADEUS MCCRINDLE	CHIEF INVESTMENT OFFICER	22 / 17
ROGER COATS	PORTFOLIO MANAGER	35 / 9
BLAKE CETINICH	ASSISTANT PORTFOLIO MANAGER	6 / 5
NICKY HALL	SENIOR ANALYST LIQUIDITY, INTEREST RATE MANAGEMENT	27 / 27
MALLORY PRICE	JUNIOR ANALYST, CREDIT & REPORTING	12 / 8
JOE WALSH	ANALYST	3 / 3
TODD BEVAN	ANALYST	7 / 7

The investment team consists of seven investment professionals, who all have varying degrees of involvement with this strategy (ranging from 10%-100%). A brief overview of the investment careers of the two most senior members of the team is outlined below.

Thadeus McCrindle (Chief Investment Officer) – McCrindle has spent the majority of his career working within Sandhurst's investment team with over 20 years of experience. In addition to his responsibilities associated with this Fund, he is also responsible for the management of the firm's Diversified strategies. In recent years McCrindle's involvement with this strategy has transitioned lower given his additional responsibilities within the broader team.

Roger Coats (Portfolio Manager) – Since joining the firm, Coats has been responsible for the day to day management of this Fund. Coats has worked in the bond markets for more than 30 years and has held a number of senior positions in origination, structuring, derivatives, sales and distribution.

Research Approach

Overview

The Fund's investment universe comprises of AUD denominated debt securities issued by governments, corporates and securitised assets (i.e. RMBS and ABS).

Top down research

As part of the top-down research process, the Manager assesses the macroeconomic, market valuation, sentiment and technical data including market liquidity to identify the investment outlook. This analysis is used to determine the risk appetite and key portfolio positioning including duration, credit exposure and sector allocation.

Bottom up research

The Manager's bottom-up research effort will largely consist of assessing the credit fundamentals of individual securities and subsequently determining if they are suitable for potential inclusion into this Fund. At times the team may also refer to research undertaken by the Bendigo credit team as an additional layer of due diligence focusing on Australian bank securities and a small number of international bank securities.

When conducting analysis into individual Residential Mortgage Backed Securities ('RMBS') the Manager has developed its own proprietary systems to assess the risk of these securities. Specifically, the systems determine the geographical exposure, loan-to-value ratios, seasoning and expected liquidity of the underlying pool of assets. In addition, the proprietary models also forecast cashflows to support stress testing and their internal ratings.

Portfolio Construction

Overview

PHILOSOPHY	AIMS TO CAPTURE MARKET INEFFICIENCIES THAT EXIST IN RELATION TO THE ASSESSMENT OF CREDIT RISK AND INCORPORATE VIEWS OF RELATIVE RISK BETWEEN SECTORS OF THE CREDIT AND CASH MARKETS
INTERNAL RETURN OBJECTIVE	OUTPERFORM THE BENCHMARK BY 1% P.A. (BEFORE FEES) OVER TWO YEAR PERIODS
FUND BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX
SUB INVESTMENT GRADE	NOT PERMITTED AT PURCHASE (MAX 10% IF DOWNGRADED WHILE HELD)
TYPICAL NUMBER OF ISSUERS	20-40

The portfolio construction process is focused on maximising returns while limiting risks. The key considerations include:

1. Security selection – considers preferred sector exposure with favourable outlook, individual credit research, pricing and total return forecasts, risk and sensitivity forecasts and security liquidity.

2. Risk management – takes into account portfolio risk limits and exposure constraints including interest rate, credit, counterparty limits.
3. Liquidity management – Fund liquidity is monitored and forecasted to ensure all redemptions are honoured.

Risk Management

Risk limits

MINIMUM CREDIT RATING OF ANY ISSUER (AT PURCHASE) AND COUNTERPARTY CREDIT RATING	BBB-, BUT ALLOWS UP TO 10% IN NON-RATED ASSETS
MAXIMUM PORTFOLIO WEIGHT TO ANY ONE ISSUER	40% (EXCEPT FOR COMMONWEALTH GOVT BONDS 80%)
FUND DURATION	<1 YEAR
MAXIMUM SINGLE COUNTERPARTY LIMITS	80% AUSTRALIAN GOVERNMENT, 40% STATE GOVERNMENT, 40% BANKS AA OR HIGHER, 40% BANKS A RATED, 20% BANKS BBB, 10% RMBS ISSUERS
CURRENCY HEDGING	NO
OFFSHORE EXPOSURE	NO
MINIMUM PORTION OF THE PORTFOLIO ABLE TO BE LIQUIDATED WITHIN ONE MONTH	30% (TARGET 45%)

The Fund has a duration limit of less than one year. The Fund typically a minimum credit rating of an issue of BBB-, but can have a maximum exposure to non-rated assets to 10%.

A full liquidity forecast is completed on a daily basis in an effort to maximise returns to investors while considering the liquidity risk. Targeted liquidity ensures that at least: 5% of the portfolio can be liquidated within one day and over 30% can be liquidated (without a haircut) within a month. Short term investments are chosen on the basis that they can be liquidated under most stressed environments.

Risk monitoring

Sandhurst relies on Bloomberg to monitor the risk of the Fund on a day to day basis. This is supplemented by its own proprietary risk models to assess and monitor the inherent credit risk of the portfolio and individual securities; particularly for RMBS. The Fund manages its modified duration with reference to rate forecasts, total return expectations and the Benchmark modified duration.

Additionally, the Fund is managed in accordance with a strict set of guidelines to assist in ensuring the Fund's risk and return characteristics are in line with investors' expectations in normal market conditions.

The team regularly monitors the potential projected volatility of the portfolio using an internal Liquidity Fire Rating Risk Model. The outcome of the model is discussed at the Investment Governance Committee ('IGC') and is used to guide overall positioning within the Fund.

The investment team does a daily check against limits and objectives. The CIO and portfolio manager review and sign off on asset allocation positions on a weekly basis to ensure all positions are within stated limits. Additionally, asset allocations are monitored by back office/accounting team and any breach in policy is reported to the Audit and Risk Committee ('ARC Committee') and IGC. An individual compliance officer from the Wealth compliance team who reports to the Bank's Consumer executive is also assigned to the Income Fund and monitors limits and objectives.

All active asset allocation positions are reported to and discussed with the IGC at least quarterly. The separate Sandhurst Board monitors regulatory compliance, with the support of the 12-person wealth compliance department.

Risks

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

Company-specific (or credit) risk

Credit risk refers to the risk that a party to a credit transaction fails to meet its obligations, such as defaulting under a mortgage, a mortgage-backed security, a hybrid security, a fixed interest security or a derivative contract. This creates an exposure to underlying borrowers and the financial condition of issuers of these securities. The Fund is not permitted to buy sub-investment grade debt.

Concentration risk

Is the risk that poor performance in a group of investments common to a particular section of the market will significantly affect the performance of the Fund.

Counterparty risk

The Fund may use over-the-counter derivatives (e.g. swaps) which exposes the Fund to counterparty risk where there is indirect exposure to a third party (i.e. counterparty) for the completion of a trade or investment. Sandhurst applies its credit research process when assessing counterparties.

Liquidity risk

The risk that assets of the Fund cannot be converted to cash in a timely manner in order to pay withdrawal requests.

Market risk

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

Other risks

Please refer to the Fund's PDS for more details on the following risks further identified by the R/E and Manager:

- Concentration risk
- Currency risk
- Liquidity risk
- Derivatives
- Interest rate risk
- Investment Manager risk
- Responsible Entity risk

Sandhurst Strategic Income Fund B

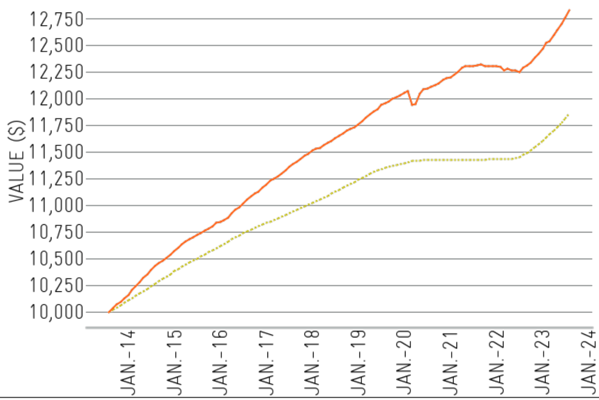
Quantitative Performance Analysis - annualised after-fee % returns (at 31-8-2023)

Performance metrics

	1 YR		3 YR		5 YR		10 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	4.37	4.17	1.93	1.49	1.94	1.61	2.52	2.14
STANDARD DEVIATION (% PA)	0.47	0.49	0.70	0.72	0.84	0.68	0.65	0.52
EXCESS RETURN (% PA)	1.00	0.80	0.68	0.23	0.70	0.36	0.80	0.42
OUTPERFORMANCE RATIO (% PA)	83.33	75.00	75.00	63.89	80.00	70.00	83.33	72.50
WORST DRAWDOWN (%)	0.00	0.00	-0.55	-0.87	-1.08	-1.00	-1.08	-1.00
TIME TO RECOVERY (MTHS)	-	-	3	5	3	4	3	4
SHARPE RATIO	2.13	1.59	0.98	0.30	0.83	0.47	1.25	0.72
INFORMATION RATIO	2.66	2.57	1.42	0.65	0.91	0.79	1.42	1.13
TRACKING ERROR (% PA)	0.38	0.40	0.48	0.48	0.76	0.52	0.56	0.39

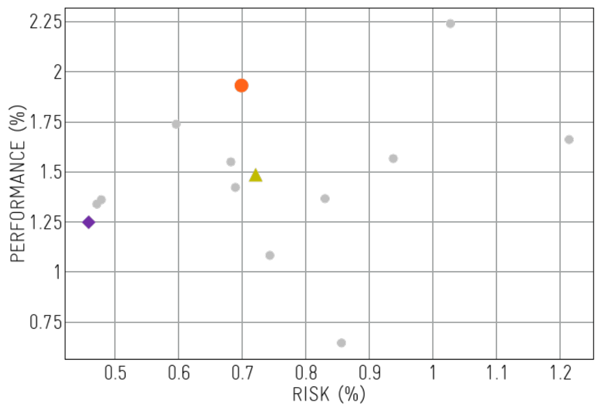
PRODUCT: SANDHURST STRATEGIC INCOME FUND B
LONSEC PEER GROUP: FIXED INTEREST - SHORT TERM INCOME
PRODUCT BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD
TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

Growth of $10,000 over 10 years



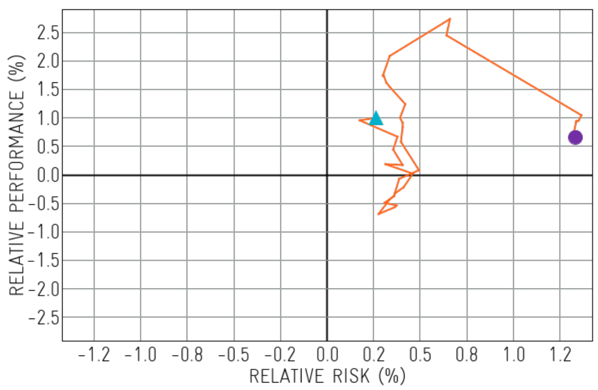
SANDHURST STRATEGIC INCOME FUND B
BLOOMBERG AUSBOND BANK BILL INDEX AUD

Risk-return chart over three years



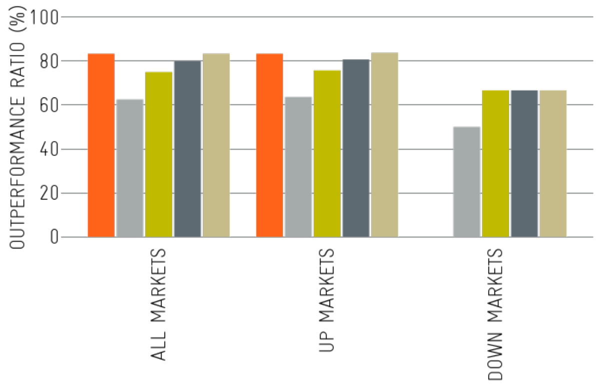
SANDHURST STRATEGIC INCOME FUND B
BLOOMBERG AUSBOND BANK BILL INDEX AUD
PEER MEDIAN
PEERS

Snail trail



START (08-2020) END (08-2023)

Outperformance consistency



1Y 2Y 3Y 5Y 10Y

Sandhurst Strategic Income Fund B

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

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