

Product Characteristics

Product characteristics are determined by Lonsec Research and included on the Review and Viewpoint reports for rated products and provide advisors with information to support product comparison and decision making. These characteristics are a key input into the assessment and rating methodology Lonsec Research uses to determine a products rating.

In addition to the product review report, the characteristics are available on iRate for rated products (for reports in new format only):

- Business life cycle
- Product wind-up risk
- Key Person Risk
- Tenure of Decision Makers
- Complex (RG240)
- ESG Approach
- Peer Relative Fees and Costs
- The Product Search function in iRate

Business Life Cycle - a measure of where an investment manager is in their firm's life cycle:

- **Mature** – established and profitable local or global investment manager with strong AUM growth and FUM > \$50b, track record of operating over a significant period.
- **Growing** – boutique with strong and sustainable AUM growth, operating over the medium term to long term.
- **Newly established** – boutique with up to three years track record, low or no AUM growth, executive or investment teams have business track record.

Product wind-up risk - the level of risk of a product being wound up in the near term:

- **Low** – steady year-on-year net flows, fund size > \$50m and growing; distribution supported by tier 1 provider.
- **Medium** – new funds have been seeded and supported by a meaningful distribution strategy.
- **High** – new fund that is not well supported, not backed by a tier one distribution provider and not seeded; existing fund which has successive years of net outflow coupled with weak performance.

Key Person Risk - how reliant the product is on a particular member of the investment team.

- **Low** – minimal risk of continuity issues without presence of key person(s) and credible succession plan or high level of mitigants in place.
- **Medium** – moderate level of risk of investment process continuity issues without presence of key person(s), reasonable succession plan in place.
- **High** – high level of risk with no mitigants present, poor succession planning in place. The continuity of the investment process is at high risk without the presence of the key person.

Tenure of Decision Makers - the track record of the product's current decision makers successfully implementing the investment process.

- **High** – demonstrable track record generated by well tenured investment team or co-tenure from a previous employer.
- **Medium** - Successful track record and co-tenure growing and important milestones reached, or the team has a demonstrable track record and co-tenure from a previous employer.
- **Low** – Recent or new start up team with limited or no prior relationships or co-tenure, or evidence of relevant track record.

Complex (RG240) - Products which are considered complex are subject to additional disclosure requirements under RG240.

ESG Approach – the primary approach the manager uses to integrate ESG for the product

- **Risk or Value** – Manager understands the ESG issues a company faces and considers how these risks may impact the future value of the stock or credit quality of the bond they are buying. This value approach means weighing up the ESG risk associated with the investment against the expected return and deciding whether or not to proceed with the investment.
- **Best in class** – Manager uses a quantitative approach to ESG integration where companies are rated based on an ESG score. Companies are ranked based on their sector and only the top X% are available for inclusion in the portfolio.
- **Rising Stars** – Manager takes a long-term value creation approach to stock selection of companies that have a significant potential to improve their ESG management over time. By improving their ESG management, the underlying companies are likely to deliver better risk outcomes and potentially generate alpha from ESG.
- **Filters/Screens** – Manager presents their ESG credentials purely on the application of blanket industry or activity filters based on ethical, environmental or other norms-based criteria. Typically, these filters are applied before any investment analysis takes place.
- **Minimum Standards** - Detailed ESG analysis is undertaken at the company level that allows the exclusion of companies that don't meet a specified threshold from the investment universe. This approach usually employs a standardised benchmark so that companies can be assessed against the same criteria irrespective of industry or sector.
- **Stewardship** – Manager applies strong stewardship principles, such as active company engagement and proxy voting to further ESG objectives. While stewardship approaches are common across most managers, they often form the key ESG strategy employed by passive managers where index tracking prevents the use of more detailed ESG analysis at the stock selection stage of the investment process.
- **Benchmark Selection** – Manager has adopted an ESG benchmark for their portfolio. While similar to the Filter/Screening approach, this Benchmark style applies the screen to the underlying benchmark and subsequently to the investible universe. While Lonsec acknowledges the wide use of exclusionary screening, and the value placed on these screens by clients, they do not see this as a complete ESG approach.

Peer Relative Fees and Costs: a comparison of a product's annual fees and costs against the product's peer group median.

- **Below median**
- **In line with median**
- **Above median**