

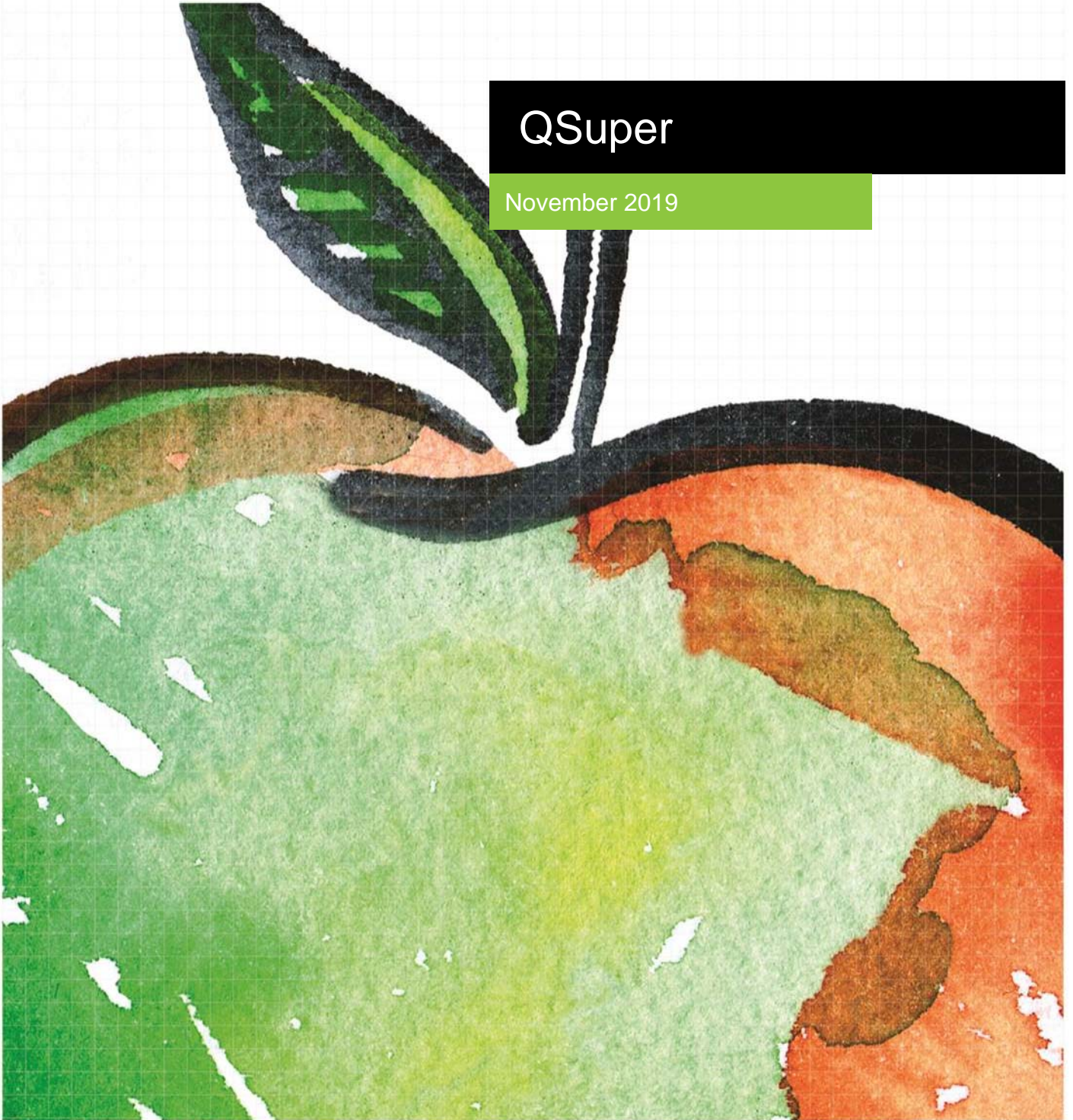


Chant West

Multi-Manager Rating

QSuper

November 2019



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Comparing Apples  with Apples.



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Ratings Methodology and General Disclosures

The Attachment to this report provides an explanation of our ratings methodology, a description of our ratings and other important disclosures. Additional information about Chant West is available on our website (www.chantwest.com.au).

QSuper has retained us to rate its ability to construct multi-manager investment options for its members. We have charged QSuper a fixed fee for this service.

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Analyst: Mano Mohankumar

Release Authorised by: Ian Fryer

Contact Details

Chant West

Office: Suite 1003 Level 10 45 Clarence Street Sydney NSW 2000

Phone: 02 + 9361 1400

Email: research@chantwest.com.au



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Attachment

Ratings Methodology and General Disclosures

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1. Multi-Manager Rating

1.1 Overall Rating

We have awarded QSuper our **5 Apples** 'highest quality' overall rating. This refers to QSuper's overall ability to construct quality multi-manager investment options for its members.



The [Attachment](#) provides an explanation of our ratings methodology, a description of what the different ratings signify and other important disclosures. It forms part of this report and should be read with the report.

This report is dated [November 2019](#) and, to the best of our knowledge, unless otherwise stated, the information in this report is accurate at [that date](#).

1.2 Individual Investment Option Ratings

[Table 1](#) shows our rating of each investment option considered in this report. These ratings may differ from the overall rating as they take into account the specific characteristics of each option.

Table 1: QSuper Options Rated

Single Sector	Rating (Apples)	Diversified	Rating (Apples)
Australian Shares	3½	Lifetime	5
International Shares	3½	Moderate	5
Diversified Bonds	4	Balanced	5
Cash	4½	Aggressive	5
		Socially Responsible	4



2. Summary

2.1 Business Overview

QSuper is a public sector fund that became public offer in July 2017. It manages assets of about \$85 billion (excluding defined benefit money) and has 565,000 members with about \$225 million in monthly net contributions.

At November 2019, the Trustee Board of QSuper (the Board) comprised nine directors: one independent Chair (Karl Morris), four employer representatives (Walter Ivessa, Mary-Anne Curtis, Steve Christie and Sandra McCullagh) and four-member representatives (Beth Mohle, Ruth McFarlane, Shane Maxwell and Kate Ruttiman). However, some changes are expected in the coming months.

Michael Pennisi, the fund's CEO, heads a team of about 1,415, of which, about 1,385 are based in Brisbane. His Executive Committee comprises eight senior executives – Charles Woodhouse (Chief Investment Officer), Jason Murray (Chief of Member Experience), Kim Hughes (Chief of QInvest), Karin Muller (Chief of IT), Kulwant Singh-Pangly (Chief Financial Officer), Paul Landy (Chief of People and Transformation), Phil Fraser (Chief of QInsure) and Anne Finney (Chief Risk Officer).

Charles Woodhouse, who recently took over as Chief Investment Officer, heads a team of 43 investment professionals. While QSuper doesn't have a primary asset consultant, it employs a specialist consultant, Townsend Group (owned by Aon) for real estate. It also appoints consultants on an ad-hoc process for specific projects. Additionally, Fiona Trafford-Walker provides advice to the Investment Committee.

QSuper has a well-defined investment decision-making process that involves considerable interaction between the Trustee Board, Investment Committee (IC) and internal investment team. This report considers the roles of each of those parties.

Table 2 summarises QSuper's assets under management at June 2019.

Table 2: AUM at June 2019

Asset Sector	\$Billion	%
Australian equities	5.9	7
International equities	16.0	19
Private equity	4.0	5
Property	4.9	6
Infrastructure	10.5	12
Fixed interest	21.3	25
Cash	17.2	20
Other	5.2	6
Total	85.0	100



2.2 Investment Beliefs

QSuper believes that portfolio strategies should be related to risk. Diversification should be achieved by seeking an appropriate balance of risk factors and should be employed to reduce risk without sacrificing return. It should not be used solely as a means of reducing risk at the expense of return.

QSuper believes that selecting the most efficient mix of betas is the main driver of portfolio diversification and that the risky asset weight should then be increased based on desired risk and return to provide a number of diversified investment options along the capital markets line. QSuper believes that assets with similar risk have similar long-term expected returns when valuations are around normal levels. However, these valuations of assets fluctuate over time and this principle may not hold even over the long time periods. Strategies should change dynamically to reflect this impact when it is material. QSuper believes that overall return and risk will be improved by holding significant exposures to international assets.

Compared to its peers, QSuper has a significantly lower allocation to listed equities (about 27% versus 51% for peers in its Balanced option). However, this doesn't mean it has significantly less invested in risky assets. It has a meaningful strategic allocation to long-duration bonds (21% in its Balanced option). These bonds carry equity-like risk but are a better diversifier against equity market falls than traditional bonds.

2.3 Research

QSuper sources research primarily from its internal team supported by insights from data subscriptions, incumbent external investment managers and specialist consultant input. QSuper engages specialist property consultant, Townsend Group for real estate investments and StepStone as a specialist consultant for infrastructure. In addition, QSuper appoints consultants on an ad-hoc basis for specific projects.

The Investment Strategy team is responsible for assessing the initial asset class research, initiating any further research as appropriate, discussing it with QSuper's IC and then determining the final target allocations. The Funds Management and Capital Markets teams are then responsible for implementing target allocations and policy positions within guidelines.

2.4 Long-Term Performance

QSuper's Balanced option returned 9.5% per annum over the 10 years to June 2019. It outperformed the Chant West multi-manager median return of 8.7% per annum, and ranked 6th out of 59 options. It also outperformed its return objective (CPI + 3.5%) of 5.6% per annum.

2.5 Strengths

QSuper's main strengths are:

- High quality investment governance framework with the investment team having broad but appropriate delegation which enables it to move promptly to take advantage of investment opportunities that may arise.
- Stable and high-quality internal investment team with a particularly strong Investment Strategy team
- It has a particularly unique approach to managing volatility mainly through investing much less in equities and maintaining a meaningful amount in long-duration bonds. This has provided members with a smoother return stream than other leading superannuation funds since the implementation of its current investment strategy in 2010.
- Scale that allows for wide diversification
- Strategic commitment to, and significant experience in, investing in unlisted assets
- Strategic partnerships with global best practice managers at non-market standard terms
- Strong investment performance
- QSuper Lifetime (QSuper's MySuper default solution) has a glide path that takes into consideration both age and account balance. All other lifecycle solutions in Australia currently only take into account age.



2.6 Issues

Issues that investors need to be aware of include:

- Given its absolute return focus, which has seen top tier long term returns and better return for risk outcomes compared to other similar options, it has a lower peer-relative strategic allocation to shares (about 27% versus 51% for peers) which means that QSuper's performance is likely to lag that of peers during periods when share markets perform strongly.
- While Lifetime's glide path takes into consideration age and account balance, members are switched to a different portfolio on a particular day. A more gradual decrease in the allocation to growth assets would reduce the potential for crystallising losses at the wrong time.

3. Manager and Asset Research

3.1 Resources and Coverage

The internal team of 43 headed by Charles Woodhouse comprises five areas – Investment Strategy led by Damian Lillcrap, Funds Management led by Elizabeth Kumaru, Capital Markets led by Herbert Chang, Asset and Liability Management (ALM) led by Brnic van Wyk, and Policy & Governance led by Philip Greenheld. [Table 3](#) lists staff in each of those teams.

Table 3: Senior Internal Investment Staff

Staff	Asset Sector / Role	Experience
Charles Woodhouse	CIO	32 / 10
Damian Lillcrap	Head of Strategy	25 / 10
Andrew Morgan	Senior Portfolio Manager – Fixed Interest	24 / 5
Greg Hall	Senior Portfolio Manager / Economist	13 / 9
Alex Waschka	Senior Portfolio Manager / Economist	17 / 9
Jimmy Louca	Senior Economist	17 / 2
Rob Leck	Senior Portfolio Manager	16 / 2
Andrew Pech	Economist / Portfolio Manager Support	12 / 6
Emily Fang	Manager, Non-Core Markets	16 / 2
Chris Parfitt	Investment Analyst	12 / 5
Pamela Dodd	Economist / Portfolio Manager Support	6 / 2
Katrina Hibberd	Portfolio Analyst	8 / 6
Matt Davis	Portfolio Analyst / Quantitative Solutions	15 / 1
Daniel Rigney	Portfolio Analyst / Quantitative Solutions	4 / 1
Darren O'Shea	Portfolio Analyst / Equities	12 / 1
Hossein Rad	Portfolio Analyst	12 / 2
Webster Chin	Portfolio Analyst	6 / 2
Fred Gibson	Portfolio Analyst	8 / 1
Elizabeth Kumaru	Head of Funds Management	22 / 10
Gavin Brearley	Senior Portfolio Manager	19 / 9
Raymond Chan	Senior Portfolio Manager	22 / 8
Adam Murphy	Senior Portfolio Manager	10 / 3
Vacant	Portfolio Manager	
Hans Holmen	Senior Portfolio Manager	18 / 2
Brian Clapham	Investment Analyst	13 / 10
Christine Tatum	Investment Analyst	15 / 5
Michael Pedler	Investment Analyst	13 / 11
Herbert Chang	Head of Capital Markets	28 / 10
Dan Elder	Senior Portfolio Manager	24 / 5
Tony Kepczyk	Portfolio Manager	9 / 5
Damien Egan	Portfolio Manager	13 / 9
Andrew Feeney	Portfolio Manager	22 / 9
Rory O'Connor	Portfolio Manager	11 / 1
Phoebe Davidson	Analyst	5 / 5
Brnic Van Wyk	Head of ALM	25 / 10
Matt Armstrong	Reporting and Monitoring Mgr.	10 / 10
Daniel Marshall	Data Analyst	3 / 3
Kathryn Spragg	ALM Strategy Mgr.	16 / 6
Zoe Zheng	ALM Strategist	11 / 1
Philip Greenheld	Snr Mgr. – Policy and Governance	33 / 14
Chris Parks	Sustainable Investment Strategist	13 / 3
Hunter Page	Sustainable Investment Strategist	11 / 1
Kate Griffin	Investment Risk & Compliance Mgr.	18 / 7

Note: Experience: years in the investment industry / years with QSuper



The Investment Strategy team is responsible for driving QSuper's investment strategy, portfolio construction, capital markets research and analysis, asset allocation and currency decisions within delegated ranges, risk budgeting and researching new investments/asset sectors.

The Funds Management team is responsible for researching external managers as well as direct and co-investment opportunities. It also uses a specialist consultant, Townsend Group for real estate and other independent third-party inputs such as Mercer GIMD and Green Street Advisors. The Funds Management team also has a deep relationship and strategic partnership with some of its key investment managers.

The Capital Markets team's primary responsibility is for rebalancing asset and currency positions, maintaining appropriate levels of liquidity and implementing the Strategy team's active asset allocation decisions. It also has some direct portfolio management responsibilities – fixed interest completion portfolio (High Duration Bonds Trust), Australian inflation-linked bonds (Risk Hedge Asset Portfolios) and QSuper's cash portfolios, including the stand-alone Cash option.

The ALM team is responsible for setting policy for the initial and ongoing design of the QSuper Lifetime option. This involves understanding the liabilities of the membership and using this to recommend cohorts or groups with relevant investment objectives and strategies for default members.

The Policy & Governance team is responsible for providing investment oversight and advice to the Board, IC, and the QSuper Limited Executive on policy development, stakeholder management, administration and oversight. It also has specific policy responsibilities, most notably QSuper's Sustainable Investment Policy.

3.2 Process

The Investment Strategy team designs each of the strategies for the diversified investment portfolios and underlying asset class portfolios. It then engages the Funds Management team to undertake the manager or asset search within set parameters. During the analysis of an external manager or asset search, there is ongoing dialogue between the Investment Strategy and Funds Management teams.

Funds Management may appoint and terminate external investment managers as well as approve direct investments and co-investments without requiring IC approval. However, Funds Management provides bi-annual reports to the IC on the profile and investment performance of external managers. In addition, updates are provided to the IC within the regular CIO Report, Annual Private Asset Policy reviews and Annual Deal team case study. This is supplemented by opportunities for individual managers providing presentations to the IC several times a year at the IC's request.

Any appointment or termination of an internally managed mandate requires approval from the IC. The Funds Management team has no involvement in the appointment or ongoing review of internal teams. This rests with the CIO and supplementary assurance reviews.

Key to QSuper's success in building its unlisted asset exposures is the wide but appropriate delegation given to the Funds Management team. This has enabled QSuper to act promptly on attractive investment opportunities.

With both new manager appointments and investments in new assets, the Funds Management team coordinates QSuper's deal team comprising specialist input from other areas within QSuper to review proposals through representatives from Legal & Secretariat, Taxation Services, Group Finance, Investment Performance & Operations and Group Risk & Compliance. This provides an important layer of governance.

Townsend Group is used primarily in the early stage of a property manager search to determine a long-list of managers. QSuper's Funds Management team then undertakes site visits with potential managers, undertaking in-depth analysis to determine a short-list and subsequently the manager appointment. Townsend Group and GreenStreet Advisors are also used to provide independent data observations for individual real estate asset opportunities.

In the case of other asset classes, specialist investment consultant input and/or external manager databases such as Mercer GIMD are used to identify the potential long list of managers. Again, the Funds Management team then undertakes the due diligence on potential managers and approves the manager appointment.



4. Capital Markets Research

QSuper's capital markets research emanates from the Investment Strategy team which is responsible for all of QSuper's economic research, forecasts, scenario analysis and stress testing. Its Asset Factor Model is a tool that captures economic and asset risk/return forecasts to inform QSuper's Investment Scorecards and probabilities. The Investment Scorecards are management tools that reflect the Board's investment objectives, including return objectives, peer risk considerations, portfolio risk relative to QSuper's Balanced option, and portfolio performance in down markets.

Table 4 summarises QSuper's core investment beliefs.

Table 4: Core Investment Beliefs

Overview	QSuper believes that fund strategies should be related to risk. Diversification should be achieved by seeking an appropriate balance of risk factors and should be employed to reduce risk without sacrificing return. It should not be used solely as a means of reducing risk at the expense of return.
Asset Allocation	<p>QSuper believes that selecting the most efficient mix of betas is the main driver of portfolio diversification and that the risky asset weight should then be increased based on desired risk and return to provide a number of diversified investment options along the capital markets line. QSuper believes that assets with similar risk have similar long-term expected returns when valuations are around normal levels. However, these valuations of assets fluctuate over time and this principle may not hold even over the long time periods. Strategies should change dynamically to reflect this impact when it is material. QSuper believes that overall return and risk will be improved by holding significant exposures to international assets.</p> <p>Compared to its peers, QSuper has a significantly lower allocation to listed equities (about 27% versus 51% for peers in its Balanced option). However, this doesn't mean it has significantly less invested in risky assets. It has a meaningful strategic allocation long-duration bonds (21% in its Balanced option). These bonds carry equity-like risk but are a better diversified against equity market falls than traditional bonds. QSuper is an advocate of maintaining a meaningful allocation to unlisted assets in its portfolios.</p>
Dynamic Asset Allocation	QSuper's takes dynamic asset allocation (DAA) positions within permissible ranges as risk/return expectations change via a disciplined, quantitative, contrarian and fundamentally-based DAA framework. The DAA process is driven by fundamental valuations with the aim being to manage price risk in portfolios, holding less of an asset when it is expensive and more when it is cheap. It builds positions gradually within ranges as valuations evolve and aims to be at the edges of ranges when valuations are at extremes.
Currency Policy	QSuper believes that under appropriate market conditions, holdings in select foreign currency, independent of any underlying assets, may improve portfolio risk or return. In the absence of such perceived benefits, foreign currency exposure resulting from offshore investing should be hedged to reduce uncertainty in the return stream.
Active vs Passive	QSuper believes that alpha is accessible but not reliably across the board for all asset classes.
Sector Portfolio Construction	QSuper believes that non-cap weighted equity and bond structures exhibit superior risk-adjusted returns to cap-weighted portfolios.



5. Portfolio Management

5.1 Resources

QSuper's internal investment team is responsible for both research and portfolio management (see Manager Research for details of internal investment staff). This includes making recommendations to the Investment Committee (IC) on each investment option's risk and return objectives, asset allocation, currency policy and portfolio structure.

The Fund has an experienced IC with particular experience in economic policy and investment in alternative assets. At November 2019, the IC, which meets approximately six times a year, comprised five members from the Board – Stephen Christie (Chair), Karl Morris, Walter Ivessa, Beth Mohle and Sandra McCullagh and two independent members – Chris Condon and Michael Drew. However, some changes are expected in the coming months.

5.2 Process

QSuper's Board is responsible for approving investment objectives and investment strategy at the fund and investment option level, and monitors whether the investment objectives are being met. This includes QSuper's investment beliefs, its investment objective scorecards, delegations as well as the asset allocation ranges (both PDS and operational).

All investment options (diversified and single sector) are reviewed annually addressing individual investment option scorecards, investment objectives, strategies and other key investment-related matters (liquidity, fees and standard risk measures). QSuper's MySuper Lifetime strategic risk levels for each cohort are also reviewed at least annually. A number of comprehensive cohort reviews, including membership analytics, strategy, performance monitoring and attribution analysis are provided to the IC, with summaries provided to the Board.

The IC provides investment guidance to the Board and is responsible for approval of the investment framework (alpha/beta management), intra-asset class guidelines, dynamic asset allocation positions that fall outside the operational range but within the PDS range, strategic risk management overlays, guidelines for any of QSuper's active management programs, policy implementation guidelines, manager selection guidelines and the appointment of any internally managed strategy. All decisions approved by the IC are endorsed by the Board.

QSuper's investment team, through the Investment Strategy team, can make dynamic asset allocation decisions within set operational ranges. Operational ranges for the Lifetime building block portfolios are generally wider than for the traditional diversified options (eg. the Balanced option). As an example, for the Lifetime Aspire 1 cohort, the operational range for equities is between 10% and 60% whereas for the Balanced option, the permissible operational range is between 30% and 50%. An Investment Strategy Report is prepared in advance of each IC meeting, covering the outlook for the economy and individual asset classes as well as recording all recent DAA decisions. This is supplemented by a biannual Investment Strategy Report, which contains information including performance relative to long-term objectives, current asset allocations and projected performance against scorecard objectives.

To inform its DAA decision-making, the Investment Strategy team uses its proprietary portfolio positioning tool which adopts a systematic approach that is guided by economic views, valuations, asset class ranges and betas. It takes into account daily valuation changes, unlisted asset weights and currency movements. The portfolio positioning tool recommends active asset allocation positions. However, a judgement overlay is also applied. In addition to analysing the value added from decisions, the Investment Strategy team records and tracks the opportunity cost of recommendations that it chose not to implement.

The Capital Markets team is responsible for implementation of QSuper's investment strategy and managing investment risk. This includes rebalancing QSuper's portfolios towards desired asset allocations, managing foreign currency exposures to targets, maintaining optimal liquidity levels to meet ongoing financial obligations, and efficiently allocating capital to existing and new investments. Where it makes sense, several portfolios are internalised and managed by the Capital Markets team, providing agility in implementation and fee savings. The Capital Markets team currently manages about a third of QSuper's investments.



6. Portfolio Structure

6.1 Products Offered

QSuper offers a MySuper Lifetime option as well as three traditional diversified options and four asset class options. QSuper also offers an ethically-focussed diversified option, its Socially Responsible option, that gains its investment exposure entirely through AMP Capital's Ethical Leader Balanced option.

6.2 Diversified Options

QSuper's MySuper Lifetime option is a lifecycle strategy. The glide path design of the strategy takes into account both a member's age and account balance. [Table 5](#) summarises how members in MySuper Lifetime transition across different risk categories throughout their life and shows actual growth asset allocations at [June 2019](#).

Table 5: Summary of Lifetime's glidepath

Portfolio	Age	Lifetime Balance	Objective	Actual Growth Asset Allocation (%)
Outlook	Under 40	Any balance	CPI +4.5%	67
Aspire 1	40 – 49	Less than \$50,000	CPI +4.5%	67
Aspire 2	40 – 49	\$50,000 or more	CPI +4%	53
Focus 1	50 – 57	Less than \$100,000	CPI +4%	54
Focus 2	50 – 57	\$100,000 to less than \$250,000	CPI +3.75%	47
Focus 3	50 – 57	\$250,000 or more	CPI +3.5%	40
Sustain 1	58 or over	Less than \$300,000	CPI +2.5%	33
Sustain 2	58 or over	\$300,000 or more	CPI +2%	20

Note: The return objectives are net of investment fees and tax.

Investment exposures for each cohort is through a combination of a common Growth Asset Pool (GAP) and one of the Risk Hedge Asset Pools (RHAPs). The GAP's investment exposure is in line with QSuper's Aggressive option. The Outlook and Aspire 1 portfolios currently invest solely in the GAP. For the other six cohorts, the combination of the GAP and RHAP is driven by asset liability management analysis of each cohort's estimated average projected retirement income. There are three RHAPs – a 20-year duration inflation-linked portfolio, a 10-year duration inflation-linked bond portfolio and a cash portfolio.



Table 6 shows the actual asset allocations at June 2019 for each of the building block portfolios within QSuper's MySuper Lifetime strategy.

Table 6: MySuper Lifetime Portfolios – Asset Allocations and Key Statistics

Risk / Return Objectives ¹	Outlook	Aspire 1	Aspire 2	Focus 1
Risk/Return Objectives				
CP+	4.5%	4.5%	4%	4%
Over rolling periods of	10 years	10 years	10 years	5 years
Chance of a -ve annual return	3 to 4 times over 20 years	3 to 4 times over 20 years	3 to 4 times over 20 years	2 to 3 times over 20 years
Actual Asset Allocation (%)				
Equities				
Australian	6.9	6.9	5.5	5.6
International	23.4	23.4	18.7	18.9
Private Markets				
Private Equity	6.3	6.3	5.0	5.1
Real Estate	7.6	7.6	6.1	6.1
Infrastructure	16.4	16.4	13.1	13.3
Other Alternatives	6.6	6.6	5.3	5.3
Commodities	1.5	1.5	1.2	1.2
Fixed Interest	23.7	23.7	38.1	37.9
Cash	7.6	7.6	7.0	6.6
Total				
Key Statistics				
Growth / defensive assets ²	67 / 33	67 / 33	53 / 47	54 / 46
Active / passive growth assets ³	36 / 30	36 / 30	29 / 24	29 / 25
Active / passive defensive assets	26 / 8	26 / 8	40 / 7	40 / 6
Active / passive overall ³	62 / 38	62 / 38	69 / 31	69 / 31
Internal / external	17 / 83	17 / 83	33 / 67	33 / 67
Listed / unlisted assets ⁴	70 / 30	70 / 30	76 / 24	76 / 24
Currency exposure ⁵	13.2	13.2	10.5	10.7

Notes

1. Return objectives are after fees and tax
2. Defensive assets include 100% of cash and fixed interest and 25% of other alternatives
3. 'Passive' includes market cap and smart beta exposures
4. Unlisted assets include private equity, real estate and infrastructure
5. Currency exposure represents % of the total portfolio



Table 6: MySuper Lifetime Portfolios –Asset Allocations and Key Statistics (Continued)

Asset Sector	Focus 2	Focus 3	Sustain 1	Sustain 2
Risk / Return Objectives ¹				
CPI +	3.75%	3.5%	2.5%	2%
Over rolling periods of	5 years	5 years	2 years	2 years
Chance of a -ve annual return over	2 to 3 times over 20 years	2 to 3 times over 20 years	0.5 to 1 times over 20 years	0.5 to 1 times over 20 years
Actual Asset Allocation (%)				
Equities				
Australian	4.9	4.2	3.5	2.1
International	16.4	14.1	11.7	7.0
Private Markets				
Private Equity	4.4	3.8	3.1	1.9
Real Estate	5.3	4.6	3.8	2.3
Infrastructure	11.5	9.9	8.2	4.9
Other Alternatives				
	4.6	4.0	3.3	2.0
Commodities				
	1.1	0.9	0.8	0.4
Fixed Interest				
	45.7	53.2	11.9	7.1
Cash				
	6.1	5.3	53.7	72.3
Total	100	100	100	100
Key Statistics				
Growth / defensive assets ²	47 / 53	40 / 60	33 / 67	20 / 80
Active / passive growth assets ³	26 / 21	22 / 18	18 / 15	11 / 9
Active / passive defensive assets	47 / 6	55 / 5	13 / 54	8 / 72
Active / passive overall ³	73 / 27	77 / 23	31 / 69	19 / 81
Internal / external	41 / 59	50 / 50	54 / 46	69 / 31
Listed / unlisted assets ⁴	79 / 21	82 / 18	85 / 15	91 / 9
Currency exposure ⁵	9.3	7.9	6.6	3.9

Notes

1. Return objectives are after fees and tax
2. Defensive assets include 100% of cash and fixed interest and 25% of other alternatives
3. 'Passive' includes market cap and smart beta exposures
4. Unlisted assets include private equity, real estate and infrastructure
5. Currency exposure represents % of the total portfolio



Table 7 shows the actual asset allocations at June 2019 for QSuper's three diversified choice options – Moderate, Balanced and Aggressive options.

Table 7: Diversified Choice Options – Risk / Return Objectives, SAAs and Key Statistics

Asset Sector	Moderate	Balanced	Aggressive
Risk / Return Objectives ¹			
CPI +	2.5%	3.5%	4.5%
Over rolling periods of	3 years	10 years	10 years
Chance of a -ve annual return over	0.5 to 1 times in 20 yrs	2 to 3 times in 20 yrs	4 to 6 times in 20 yrs
Actual Asset Allocation (%)			
Equities			
Australian	3.1	6.2	6.9
International	10.6	21.2	23.3
Private Markets			
Private Equity	2.9	5.7	6.2
Real Estate	3.5	6.9	7.5
Infrastructure	7.6	14.9	16.3
Other Alternatives	3.0	6.0	6.5
Commodities	0.7	1.4	1.5
Fixed Interest	10.7	21.1	23.7
Cash	57.9	16.6	8.1
Total	100	100	100
Key Statistics			
Growth / defensive assets ²	30 / 70	60 / 40	66 / 34
Active / passive growth assets ³	17 / 14	33 / 27	36 / 30
Active / passive defensive assets	12 / 58	23 / 17	26 / 8
Active / passive overall ³	28 / 72	56 / 44	62 / 38
Internal / external	56 / 44	25 / 75	17 / 83
Listed / unlisted assets ⁴	86 / 14	72 / 28	70 / 30
Currency exposure ⁵	6.0	11.9	13.2

Notes

1. Return objectives are after fees and tax
2. Defensive assets include 100% of cash and fixed interest and 25% of other alternatives
3. 'Passive' includes market cap and smart beta exposures
4. Unlisted assets include private equity, real estate and infrastructure
5. Currency exposure represents % of the total portfolio

6.3 Sector Portfolios

The broad structure of the fund's asset sector portfolios is summarised below.

(a) Global Listed Equities

In managing diversified portfolios' equities exposure, QSuper aims to capture global equity market beta and deliver superior risk-adjusted returns to a global market capitalisation portfolio by producing similar returns, lower volatility and improved downside event outcomes. QSuper seeks diversification by balancing exposures across countries, sectors, factor/styles and stocks. It does this mainly via a smart beta approach. QSuper's strategy team constructs a portfolio within set country ranges which is provided to MSCI for distribution to State Street as an index. State Street effectively implements the portfolio constructed by QSuper. The portfolio is rebalanced on a quarterly basis or as deemed appropriate.

QSuper views global listed equities as a single asset class incorporating both Australian (currently 22.5%) and international equities (currently 77.5%). Additionally, rather than classifying countries as developed and emerging, QSuper constructs its portfolio through exposures to core (Australia, US, UK, France and Germany) and non-core (potentially any other country or region, notably Latin-America, Asia and non-core Europe). The split between core and non-core is currently 76%/24%.

The smart beta approach is applied to the Australia, US, UK, France and Germany. For other countries a market capitalisation index approach is used. This is also managed by State Street.

QSuper's stand-alone Australian Shares and International Shares options are invested in capitalisation-weighted passive portfolios managed by State Street.

(b) Fixed Interest

The fixed interest strategy within QSuper's diversified portfolios reflects QSuper's particularly unique approach to managing portfolio risk. To maintain its desired weight to risky assets in its diversified portfolios, QSuper's core fixed interest exposure is long-duration in nature. Long-duration bonds exhibit equity-like risk but are a better diversifier against equity market falls than traditional bonds. The core fixed interest exposure targets a 15-year duration by using a combination of physical bonds and futures. From time to time it may include some inflation-linked bonds and/or credit.

In the case of six of the eight Lifetime portfolios, there is an additional fixed interest exposure to risk hedge asset pools (RHAPs) comprising either inflation-linked bonds or cash.

JP Morgan manages all physical sovereign bond exposures, credit derivatives and US inflation-linked bonds while QSuper's Capital Markets team manages all fixed interest futures and Australian inflation-linked bonds.

The stand-alone fixed interest option is managed by a single external active manager – QIC. This portfolio is a relatively low risk traditional fixed interest portfolio. This option seeks to match the return of a 40% Bloomberg AusBond Composite Bond Index All Maturities, 30% Citigroup World Government Bond Index (A\$ hedged) and 30% Citigroup World Investment Grade Corporate Bond (A\$ Hedged) after fees and tax.

(c) Real Estate

QSuper believes that direct real estate is a scalable asset class that offers true diversification from listed equities and a linkage to CPI inflation without sacrificing the probability of achieving other scorecard objectives. QSuper's \$4.7 billion real estate portfolio consists of approximately 60% Australian and 40% international assets. QSuper acknowledges that Australian real estate represents a strong match to its objectives given their direct linkage to Australian inflation however over the longer term QSuper seeks to diversify geographic exposure.

QSuper utilises leading global managers to source and operate the assets with a preference to invest through non-discretionary separately managed mandates where QSuper retains approval over acquisitions and divestments. The portfolio comprises QIC Australian retail (56%), QIC Australian Office (5%); CIM Group – Value Add US (16%); AEW – Europe (10%); Invesco – US (10%) and Jamestown – US (3%). QSuper's exposure to the QIC Australian Property Fund (retail) (56%) is through a discretionary fund but the remaining 44% of the portfolio is managed via non-discretionary mandates to enable QSuper to focus on specific types of assets that offer a high probability of meeting stated objectives.

The portfolio has approximately 60% invested in retail property, 35% in office assets and the residual in other assets. Additional acquisitions will seek to diversify sector exposures.

(d) Infrastructure

QSuper believes that direct infrastructure is a scalable asset class that offers true diversification from listed equities and a linkage to CPI inflation without sacrificing the probability of achieving other scorecard objectives. The \$10.7 billion infrastructure portfolio holds approximately 55% Australian assets, 30% European assets with the remaining 15% spread across the USA and the rest of the world. Within Australia, QIC and Global Investment Partners (GIP) have non-discretionary separately managed mandates operating mostly core assets across industry sectors. QSuper invests in international assets through various GIP Funds and co-investments and has a separately managed account with Alinda in the UK. Overall, QIC accounts for 47% of the portfolio, GIP 33% and Alinda 20%. Total directly held assets account for 87% of the infrastructure portfolio.

The portfolio is mostly made up of core assets totaling approximately 60%. Transport assets dominate with 37% in airports (20% regulated), 31% in seaports and another 8% in toll roads and car parks. The remaining 24% is invested in energy utilities including regulated and contracted assets across the globe.

(e) Private Equity

QSuper's \$4.2 billion private equity portfolio consists of 98% international investments, primarily the US and Europe, and 2% Australian investments. Buyout investments account for the majority of the portfolio (82%) with small allocations to special situations (9%), growth (6%) and venture (3%).

Partners Group manages 93% of QSuper's portfolio. Partners Group's mandate is a global mandate spanning primary, secondary and direct equity investments. QSuper also co-invests alongside Partners Group which has been an increasing focus and now accounts for 15% of the portfolio. The remainder of QSuper's private equity portfolio (7%) is invested with QIC in a global fund-of-funds mandate. However, this mandate is winding down.

(f) Alternatives

The Alternatives portfolio within QSuper's diversified portfolios is opportunistic in nature, comprising a range of asset sectors that display materially different risk and return characteristics from the equities, unlisted assets and bonds. Approved strategies within the Alternatives asset sector include risk parity, multi-asset carry, multi-asset class momentum, endowments, alpha, timber and private credit. At 30 June 2019, the exposure was split across risk parity (46%), momentum (42%), endowments (7%) and alpha (5%). However, since then, QSuper has terminated its risk-parity mandates. Additionally, it should be noted that the endowments investments have been in wind down mode since 2015.

(g) Commodities

The purpose of commodities exposure in QSuper's diversified portfolios is to provide protection from periods of unexpected inflation while seeking to deliver a return stream in excess of cash investments over the long-term. It is expected to provide valuable diversification benefits with its low correlation to equities and bonds. The exposure is through a single manager – First Quadrant.

(h) Cash

The cash exposure in QSuper's diversified portfolios, which is managed internally, has a high level of liquidity with the bulk of proceeds available within three months with minimal risk of capital loss. In June 2018, the Board approved an international cash mandate with QSuper's diversified portfolios permitted to invest up to 25% of their cash exposure in international markets, subject to liquidity and market conditions.

The stand-alone Cash option is managed by QSuper's Capital Markets team. It invests purely in domestic cash and seeks to match the Bloomberg AusBond Bank Bill Index after fees and tax.



Table 8 lists the underlying managers in QSuper's diversified portfolios at 30 June 2019.

Table 8: Investment Managers – 30 June 2019

Asset Sector	Manager	Actual % of Sector	Style
Equities	SSgA	100	Smart beta/passive
Fixed Interest	JP Morgan	62	Global fixed income
	QSuper	38	Global fixed income
Real Estate	Australia (61%)		
	QIC	61	Retail office
	US (29%)		
	CIM	16	Value add
	Invesco	10	Core
	Jamestown	3	Value add
	Europe (10%)		
	AEW	10	Core plus / value add
Infrastructure	Australia (49%)		
	GIP	9	n.a
	QIC	40	n.a.
	International (51%)		
	Alinda	20	n.a.
	GIP	24	n.a.
	QIC	7	n.a
	Private Equity	Partners Group	93
QIC	7	Fund-of-funds	
Alternatives	Graham	42	Momentum
	Bridgewater	23	Risk parity
	AQR	23	Risk parity
	Bridgewater	5	Alpha
	Other	7	n.a
Commodities	First Quadrant	100	Balanced risk
Cash	QSuper	100	Cash



6.4 Manager Changes

Table 9 shows the manager changes since June 2018

Table 9: Manager changes since June 2018

Date of Change	Sector	Manager Hired	Manager Terminated
March 2019	Fixed Interest	JP Morgan	
March 2019	Fixed Interest	-	Goldman Sachs
March 2019	Fixed Interest	-	Wellington
June 2019	Fixed Interest	-	QIC
September 2019	Infrastructure	GIP IV	GIP III (sold on secondary market)
September 2019	Alternatives	-	AQR
October 2019	Alternatives	-	Bridgewater (risk parity)
October 2019	Listed Options	-	State Street
October 2019	Alternatives	ADM Capital	-



7. Performance

7.1 Diversified Options

Table 10 shows the performance of three QSuper diversified options over several periods to June 2019. To illustrate absolute risk, it shows the five year standard deviation. The table compares fund performance with the median of a universe of multi-manager funds. The figures in brackets in both tables represent excess returns relative to the Chant West Multi-Manager Median.

Performance of QSuper's diversified options has been ahead of peers over most periods to June 2019. This has been due to the strong performance of its long-duration fixed interest portfolio, its relatively higher allocation to unlisted assets and the strong performance of these unlisted assets.

Additionally, based on the evidence since the implementation of its current investment strategy in 2010, even against the 'better-performing', large superannuation funds, QSuper has delivered comparable investment performance with lower volatility of returns.

Table 10: Choice Diversified Options – Returns to June 2019 (% pa)

Option	1 Year	3 Years	5 Years	7 Years	10 Years	Std Dev
Aggressive (66/34)	10.9 (+3.4)	10.5 (+0.1)	10.0 (+1.0)	11.7 (+0.6)	10.8 (+1.2)	4.4
Multi-Manager Median	7.5	10.4	9.0	11.1	9.6	6.3
Objective	6.1	6.4	6.1	6.4	6.6	-
Balanced (60/40)	9.9 (+2.9)	8.4 (-0.5)	9.0 (+1.0)	9.7 (+0.0)	9.5 (+0.8)	3.3
Multi-Manager Median	7.0	8.9	8.0	9.7	8.7	4.8
Objective	5.1	5.4	5.1	5.4	5.6	-
Moderate (30/70)	5.8 (+0.3)	5.1 (+0.2)	5.5 (+0.3)	6.1 (+0.2)	6.4 (+0.2)	1.6
Multi-Manager Median	5.5	5.3	5.2	5.9	6.2	2.2
Objective	4.1	4.4	4.1	4.4	4.6	-

Notes

1. Returns are net of investment fees and tax. Standard deviation is over five years
2. Multi-Manager Median refers to the relevant Chant West Performance Survey Media
3. Even though the Aggressive option has a 66% growth asset allocation, we have compared its performance to our High Growth category (81% to 95% growth assets) as its average growth asset allocation over the 10 years has been over 80%.



Table 11 shows the performance of the eight portfolios used in QSuper's MySuper Lifetime strategy over several periods to June 2019.

Table 11: MySuper Lifetime Portfolios – Returns to June 2019 (% pa)

Option	1 Year	3 Years	5 Years	7 Years	10 Years	Std Dev
Outlook (67/33)	10.8 (+3.7)	8.8 (-0.3)	9.6 (+1.4)	-	-	3.6
Multi-Manager Median	7.1	9.1	8.2	-	-	4.6
Objective	6.1	6.4	6.1	-	-	-
Aspire 1 (67/33)	11.0 (+3.9)	9.0 (-0.1)	9.7 (+1.5)	-	-	3.6
Multi-Manager Median	7.1	9.1	8.2	-	-	4.6
Objective	6.1	6.4	6.1	-	-	-
Aspire 2 (53/47)	11.5 (+4.0)	8.1 (+0.7)	9.0 (+2.0)	-	-	3.9
Multi-Manager Median	7.5	7.4	7.0	-	-	3.4
Objective	5.6	5.9	5.6	-	-	-
Focus 1 (54/46)	10.5 (+3.0)	7.9 (+0.5)	8.6 (+1.6)	-	-	3.3
Multi-Manager Median	7.5	7.4	7.0	-	-	3.4
Objective	5.6	5.9	5.6	-	-	-
Focus 2 (47/53)	10.2 (+2.7)	7.3 (-0.1)	8.0 (+1.0)	-	-	3.2
Multi-Manager Median	7.5	7.4	7.0	-	-	3.4
Objective	5.3	5.6	5.4	-	-	-
Focus 3 (40/60)	9.9 (+2.4)	6.7 (-0.7)	7.3 (+0.3)	-	-	3.1
Multi-Manager Median	7.5	7.4	7.0	-	-	3.4
Objective	4.5	4.9	4.6	-	-	-
Sustain 1 (33/67)	6.4 (+0.7)	5.4 (+0.2)	5.8 (+0.7)	-	-	1.8
Multi-Manager Median	5.7	5.2	5.1	-	-	2.0
Objective	4.1	4.4	4.1	-	-	-
Sustain 2 (20/80)	4.5 (-1.2)	3.8 (-1.4)	4.2 (-0.9)	-	-	1.1
Multi-Manager Median	5.7	5.2	5.1	-	-	2.0
Objective	3.6	3.9	3.6	-	-	-

Notes

1. Returns are net of investment fees and tax. Standard deviation is over five years
2. Multi-Manager Median refers to the relevant Chant West Performance Survey Median
3. Even though Focus 3 has a 40% growth asset allocation, we have compared its performance to our Balanced category (41% to 60% growth assets) as for most of the time since inception, its growth asset exposure has been slightly above 40%.



Chart 1 shows the rolling 12 month returns over the 5 years to June 2019 for the Balanced option and the Chant West Multi-Manager median. The chart shows that QSuper provides a smoother return journey when compared to peers. Chart 2 shows the rolling 12 month excess returns relative to the Chant West Multi-Manager median over the same period.

Chart 1: QSuper Balanced – Rolling 12 Month Returns

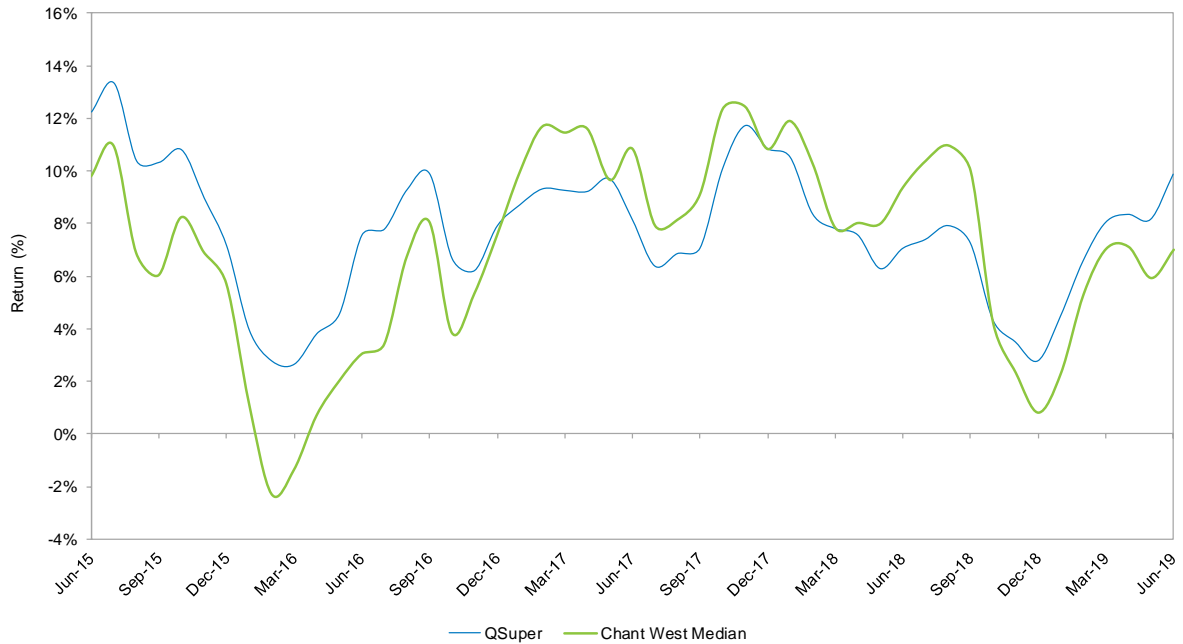
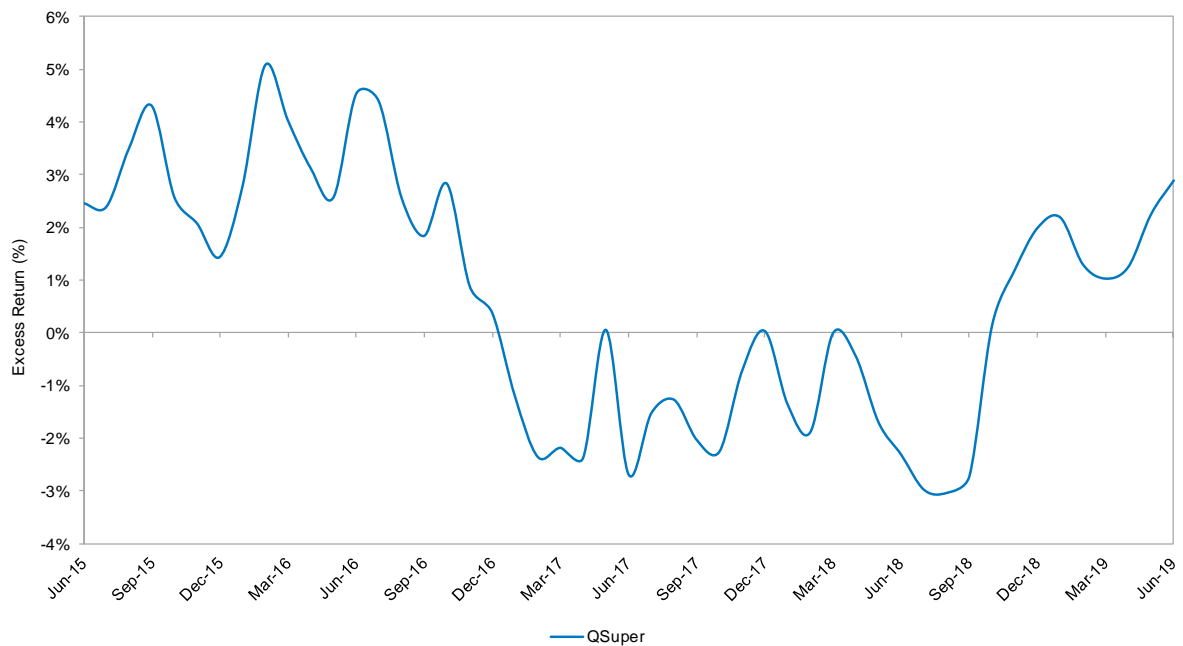


Chart 2: QSuper Balanced – Rolling 12 Month Excess Returns





7.2 Single Sector Options

Table 12 below summarises the performance of QSuper's single sector options, comparing them against their objectives which are market indices adjusted for tax. The returns shown for QSuper's investment options are net of investment fees and tax. However, the objectives are actually after tax but before fees performance relative to objectives are understated.

Despite the market indices used as objectives being reflected gross of fees, QSuper's International Shares option has outperformed its objective over all periods shown to June 2019. The performance of the Australian Shares option is slightly below its objective over all periods shown. The performance of the Diversified Bonds option has been in line with or slightly ahead of its objective.

Table 12: Choice Single Sector Options – Returns to June 2019 (% pa)

Option	1 Year	3 Years	5 Years	7 Years	10 Years	Tracking Error
Australian Shares	11.4	12.5	9.5	12.0	-	0.3
Objective	12.0	12.8	9.7	12.3	-	-
International Shares	6.9	12.0	9.1	12.4	-	0.3
Objective	6.0	11.4	8.8	12.2	-	-
Diversified Bonds	6.6	3.0	4.0	4.6	-	0.3
Objective	6.5	2.8	4.0	4.2	-	-
Cash	1.8	1.8	1.9	2.1	2.7	0.0
Objective	1.7	1.6	1.8	2.0	2.5	-

Notes

1. Returns for QSuper's options are net of investment fees and tax but objectives are based on market indices below that are shown net of tax but gross of fees. Tracking error is over three years.
2. Market index for Australian Shares is the S&P/ASX 200 Accumulation Index
3. Market index for International Shares is the MSCI World Ex Australia Index
4. Market index for Diversified Bonds is 40% Bloomberg AusBond Composite Bond Index / 30% Citi World Government Bond Index Hedged A\$ / 30% World Broad Investment Grade Bond Corporate Index 1-10 years Hedged A\$
5. Market index for Cash is the Bloomberg AusBond Bank Bill Index



Attachment

Ratings Methodology and General Disclosures



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1. Overview






Our multi-manager ratings, which represent the views of Chant West formulated on the basis of the ratings methodology described below, include an overall rating for the product issuer and separate ratings for each of its products (investment options) covered in our report.

Our overall rating refers to the issuer's ability to construct multi-manager products that represent industry best practice and have a high likelihood of achieving their stated risk/return objectives. By industry best practice, we mean portfolios that focus on generating superior long-term investment outcomes for investors as opposed to those that are overly focused on short-term business risks. Those portfolios typically reflect the issuer's 'best ideas'.

The ratings of individual portfolio take their specific characteristics into account and may differ from the overall rating. We are not rating the underlying investment managers. We are primarily rating the ability of the issuer to construct well-diversified portfolios and to select and combine managers and take into consideration the extent to which the issuer's best investment ideas are incorporated into the portfolio.

Our ratings range from 5 Apples, our highest rating, to 1 Apple, our lowest rating. The full range and their descriptions are set out in the table below.

Description of Ratings

Product	Rating
	Highest quality
	High quality
	Fair quality
	Low quality
	Lowest quality

A Chant West overall rating takes into account four main criteria: portfolio management (35%), capital markets and manager research (30%), investment governance (20%) and past performance (15%). We determine a score for each of these criteria and then weight them to provide an overall rating. For each of the main criteria, we have a further sub-set of criteria. The criteria and weightings we use have been developed over a period of 22 years and reflect our considerable experience in evaluating multi-manager products.

A key aspect of our ratings is that we focus on the issuer's investment governance regime, the quality of the internal investment team, the quality of the primary investment consultant, and the structure of the investment portfolios. Investment beliefs and processes, and the quality and integrity of the people involved, are more important to us than past performance.

Our ratings are based on information that is either publicly available or is provided directly to us by the issuers themselves. Issuers review our report for the accuracy of the information, but we do not have the information audited or independently verified.

All overall multi-manager ratings, and therefore the spread of multi-manager ratings we have given, are published on our website (www.chantwest.com.au).



2. Scope and Expertise

Chant West was established in 1997 as an independent, specialist provider of superannuation research and consultancy services to employers wishing to outsource their superannuation arrangements. We conduct research on most of the leading superannuation products in Australia. This research is highly regarded in the industry and is purchased by most of Australia's leading superannuation product issuers and financial adviser groups. Chant West holds an Australian Financial Services Licence (No. 255320). In December 2015, we were acquired by Enzumo Limited, a listed Australian company. In November 2017, Enzumo Limited changed its name to Chant West Holdings Limited.

Some product issuers (currently 12) commission us to rate their multi-manager investment products. We have provided this service since 2006. We also rate about 300 superannuation and pension products included in our research. This requires us to have a thorough understanding of their investments (which accounts for 40% of our overall evaluation). To understand the funds' investments, we require them to complete an investment governance questionnaire and provide us with key investment policy documents and copies of regular reporting. We also conduct extensive research on all leading asset consulting firms in Australia that consult to these funds. We publish investment performance surveys on a monthly basis and asset allocation surveys on a quarterly basis. Where we rate multi-manager investment products, we meet with the product issuer at least once a year and review all significant asset allocation and sector review documents.

Mano Mohankumar, Senior Investment Research Manager, has been involved in the financial services industry for 20 years and has been with Chant West for over 13 years. He is responsible for setting the firm's investment research agenda, leading the investment ratings process and having responsibility for all investment surveys. He has a Bachelor of Economics from the University of Western Sydney and a Master of Commerce from the University of New South Wales.

Ian Fryer, Head of Research, has been involved in the superannuation industry for over 20 years and has been with Chant West for 15 years. He has overall responsibility for the firm's research and consulting services. Ian is a qualified actuary (AIAA) and has a range of actuarial, administration and consulting experience. He has a Bachelor of Science (Hons) from Sydney University, a Master of International Relations from Macquarie University and a Master of Arts (Theology) from the Australian College of Theology

Mark Jenkins, Senior Research Manager, has been involved in financial services industry for over 20 years and joined Chant West in 2019. He is involved in the firm's superannuation research, investment research, and consulting services. He is a CFA charterholder, has a Master of Business Administration (MBA) from California State University and two Bachelor of Arts (Economics-Public Policy, and Business Administration) degrees from Trinity University.

Tom Irwin, Research Analyst, has been involved in the financial services industry for ten years and has been with Chant West for nearly five years. He is involved in the firm's investment and superannuation research including ratings and investment surveys. He has a Bachelor of Business (Finance) from Charles Sturt University and a Master of Applied Finance (Financial Markets) from Kaplan.

3. Coverage and Filters

Chant West only rates the multi-manager investment products of product issuers that request this service (currently 12). We rate the products of most leading retail institutions and implemented asset consultants in Australia. We also rate the investment products of several not-for-profit funds. We do not rate single manager investment products. As such, in rating multi-manager products, we are not expressing an opinion on the underlying investment managers.



4. Conflicts Management

Where a product issuer commissions us to rate its multi-manager investment options, we charge a fixed fee for this service. This creates a potential conflict of interest as our rating might be influenced by (a) the fee we receive for the service and (b) any revenue we receive where the product issuer buys research from us.

Our overall approach to managing these conflicts of interest is to have a robust and transparent ratings process that is undertaken by senior experienced staff and appropriately peer reviewed by the Head of Research, who is not involved in the ratings process.

In addition, our conflicts management policy includes the following measures:

- We disclose whether a multi-manager rating report has been commissioned by a product issuer.
- We charge a fixed fee for a multi-manager rating report pursuant to a written engagement with the product issuer. This fee is not dependent on the report findings / ratings or any other services that may be provided to the product issuer.
- Apart from the fixed fee, we receive no other benefits for the report from the product issuer. However, we may receive fees for providing other research services.
- Our agreement with product issuers obliges them to provide all necessary information for the purposes of the report / rating.
- We publish all ratings (regardless of the outcome).
- We have documented conflicts management arrangements that include back testing procedures to test integrity of our product issuer ratings.
- The product issuer reviews our report for the accuracy of the information but is otherwise not involved in the preparation of the report.
- Our staff remuneration is not connected to revenue generated from research reports or ratings.
- Chant West does not have a trading policy as it researches institutional multi-manager investment products that are not tradeable.
- No one staff member is responsible for the entirety of the research or testing in connection with the preparation of a report or determination of a rating.
- We disclose any material interests in the products being rated. These interests must be approved in accordance with our internal processes.

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