



# NorthStar Impact Australian Equities Fund

This report has been prepared for financial advisers  
and wholesale clients only



**Superior**

February 2025

# INTRODUCTION

## Key Principles

SQM Research considers (but is not restricted to) the following key review elements within its assessment:

1. Business profile - product strategies and future direction
2. Marketing strategies and capabilities, market access
3. Executive Management / Oversight of the investment management firm
4. Corporate Governance / fund compliance / risk management
5. Investment team and investment process
6. Fund performance, investment style, market conditions, investment market outlook
7. Recent material portfolio changes
8. Investment liquidity
9. Investment risks
10. Fund/Trust fees and expenses

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## Currency of Reports

This Research Report is current as at the date on the report until it is replaced, updated or withdrawn. SQM Research reports are generally valid for a term of approximately 12 months but may be replaced, withdrawn or changed at any time as judged appropriate by SQM Research.

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Investment products are awarded a star rating out of a possible five stars and placed on the following website:  
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This general advice will not take into account you, or your clients, objectives, financial situation or needs and will not be provided in respect of any other financial products. Accordingly, it is up to you and your clients to consider whether specific financial products are suitable for your objectives, financial situations or needs.

## Report Date: 5 February 2025

Star Rating**	Description	Definition	
4½ stars and above	Outstanding	<b>Highly suitable for inclusion on APLs</b> <i>SQM Research believes the Fund has substantial potential to outperform over the medium-to-long term. Past returns have typically been very strong. Product disclosure statement (PDS) compliance processes are high-calibre. There are no corporate governance concerns. Management is extremely experienced, highly skilled and has access to significant resources.</i>	Highest Investment Grade
4¼ stars	Superior	<b>Suitable for inclusion on most APLs</b> <i>SQM Research considers the Fund has considerable potential to outperform over the medium-to-long term. Past returns have tended to be strong. PDS compliance processes are high-quality. There are no material corporate governance concerns. Management is of a very high calibre.</i>	High Investment Grade
4 stars	Superior	<b>Suitable for inclusion on most APLs</b> <i>In SQM Research's view, the Fund has an appreciable potential to outperform over the medium-to-long term. Historical performance has tended to be meaningful. PDS compliance processes are strong. There are very little to no material governance concerns. Management is of a high calibre.</i>	High Investment Grade
3¾ stars*	Favourable	<b>Consider for APL inclusion</b> <i>SQM Research concludes the Fund has a moderate potential to outperform over the medium-to-long term. Past performance has tended to be reasonable. Management is experienced and displays investment-grade quality, however they may not be yet fully tested. As a result the manager/product may have higher risks attached compared to peers.</i>	Investment Grade
3½ stars*	Acceptable	<b>Consider for APL inclusion</b> <i>In SQM Research's view, the potential for future outperformance in the medium-to-long term is uncertain. Historical performance has tended to be modest or patchy. Management is generally experienced and displays investment-grade quality, however they may not be yet fully tested. As a result the manager/product may have higher risks attached compared to peers. SQM Research has identified material weaknesses which need addressing in order to improve confidence in the Manager. There might be some corporate governance concerns.</i>	Low Investment Grade
3¼ stars	Caution Required	<b>Not suitable for most APLs</b> <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is very uncertain. Historical returns have tended to be disappointing or materially below expectations. PDS compliance processes are potentially substandard. There might be material corporate governance concerns. Management quality is not of investment-grade standard.</i>	
3 stars	Strong Caution Required	<b>Not suitable for APL inclusion</b> <i>In SQM Research's opinion, the potential for future outperformance in the medium-to-long term is unlikely. Historical performance has tended to be unacceptable. There could be material corporate governance concerns. SQM Research has a number of concerns regarding management.</i>	
Below 3 stars	Avoid or Redeem	<b>Not suitable for APL inclusion</b> <i>SQM Research has multiple material concerns surrounding the Fund.</i>	
Event-driven Rating		Definition	
<b>Withdrawn</b>		<i>The rating is no longer applicable. Significant issues have arisen since the last report was issued, and investors should avoid or redeem units in the fund. The manager, after agreeing to be reviewed, has pulled out of the process and/or has not responded to our questionnaire.</i>	
<b>Hold</b>		<i>Rating is suspended until SQM Research receives further information. A rating is typically put on hold for a period of two days to four weeks. Dealer groups should not be making further investments into this fund until SQM has completed its additional investigations.</i>	

\* It is strongly recommended advisers conduct additional due diligence over and above base requirements when considering such rated funds.

\*\* The definitions in the table above are not all encompassing and not all individual items mentioned will necessarily be relevant to the rated Fund. Users should read the current rating report for a comprehensive assessment.

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**SQM Rating** ★★★★★

*Superior. Suitable for inclusion on most APLs.*

<b>Fund Description</b>	
Fund Name	NorthStar Impact Australian Equities Fund
APIR code	ETL6826AU
Asset Class	Australian Small/Mid Companies
<b>Management and Service Providers</b>	
Fund Manager	NorthStar Impact Pty Ltd
Responsible Entity	Equity Trustees
<b>Fund Information</b>	
Fund Inception Date	31-Jan-17
Fund Size	\$34.2 million (as of Dec 2024)
Return Objective (per PDS/IM)	Generate an attractive investment return over the long term.
Internal Return Objective	Positive absolute returns over 3+ years
Risk Level (per PDS/IM)	High
Internal Risk Objective	N/A
Reference Index	S&P/ASX Small Ordinaries Industrials Index
Number of stocks/positions	50-60
Fund Leverage	Nil
Portfolio Turnover	7.79%
Top 10 Holdings Weight	43.6%
<b>Investor Information</b>	
Management Fee	1.03%
TCR (Total Cost Ratio)	1.39%
Buy Spread	0.40%
Sell Spread	0.40%
Performance Fee Rate	20.50%
Minimum Application	\$10,000
Redemption Policy	Daily
Distribution Frequency	Annually
Investment Horizon	5 Years
Currency Hedging Policy	N/A

## SUMMARY

### Fund Summary

#### Description

The **NorthStar Impact Australian Equities Fund** (NorthStar Impact or the Fund) is a retail-managed investment scheme. The Fund seeks to invest in ASX-listed companies where the core business activity positively impacts society or the environment and where the long-term investment case is strong. The objective is to generate attractive returns and outperform the ASX/S&P All Ordinaries Accumulation Index over the long term.

The Fund is constructed bottom-up and is Benchmark unaware. The portfolio comprises micro-small cap stocks, with a smaller number of mid and large-cap holdings.

#### Fund Rating

The Fund has achieved the following rating:

Star Rating	Description	Definition	Investment Grading
4.00 stars	Superior	Suitable for inclusion on most APLs	High Investment Grade

**Previous Rating: 4.00 stars (Issued February 2024)**

### SQM Research's Review & Key Observations

#### About the Manager

Northstar Impact Pty Ltd ("Northstar"), ABN 56 635 773 974, is the Investment Manager of the Fund and is an authorised representative of Longreach Alternatives Pty Limited (AFSL 246 747). It was formally known as Inspire Australian Equities Pty Ltd (Inspire AE) until a rebranding in July 2022.

The fund was established in 2017 as impact-first, seeking to make positive social and environmental impacts and a positive financial return. It was founded by Kerry Series, who has remained the Lead Portfolio Manager of the fund through periods working with 8IP (early stages), Inspire Impact, the social impact arm of Liverpool Partners, and Small Giants, the family office of Danny Almagor and Berry Liberman. In 2022, Inspire Australian Equities rebranded as NorthStar Impact. Mr Series owns 50% of the equity in the firm, Small Giants and Dragonfly Enviro Capital have 20% ownership each, and both Claudia Kwan and Michael van Niekerk hold 5%. NorthStar Impact is based in Sydney and employs three investment professionals.

NorthStar Impact has \$100.0 million in funds under management (FUM) as of 30 September 2024. The firm targets retail investors, family offices, foundations, and high-net-worth investors.

#### Investment Team

Kerry Series is the **Chief Investment Officer** and **Lead Portfolio Manager** with ultimate investment responsibility for the Fund. Mr. Series has over three decades of industry experience, and is regarded as a pioneer of impact investing in listed equities in Australia. Mr Series is supported by a small but experienced investment team, which includes Claudia Kwan and David Macri, who are both **Co-Portfolio Managers** for the Fund. All team members are based in Sydney. All investment team members have additional qualifications and/or professional experience in ESG-focused funds, which helps the fund stay true-to-label.

Mr Series predominantly covers the Communities and Education segments of the Portfolio, with Ms Kwan covering the Environment segment and Mr Macri covering the Healthcare segment. In practice, SQM Research notes that the research process is highly collaborative, and ideas are shared and debated by all members of the team.

**SQM observes that for a small firm dependent on fundamental analysis of micro-small cap stocks, there is a small element of key person risk with Mr Series. However, as the founder and significant shareholder, he is highly incentivised to stay, and is aligned with investors to see the Fund succeed. Ms Kwan and Mr Macri act as Co-Portfolio Managers, and are appropriately qualified to replace Mr Series.**

#### 1. Investment Philosophy and Process

##### Investable Universe

The NorthStar Impact Australian Equities strategy universe comprises predominantly of stocks listed on the Australian Securities Exchange ("ASX") which it deems to be positive impact stocks. The Fund can also allocate up to 10% of the Fund to global stocks.

NorthStar Impact also explicitly excludes several industries. This means that it will not invest in a company that has any exposure to the following industries, even if their core business activity is positively impactful:

- Alcohol
- Fossil fuels

## SUMMARY

- Gambling
- Logging of old forests
- Nuclear
- Pornography
- Weapons

NorthStar Impact will also seek to avoid companies engaged in practices that it regards as unethical or socially or environmentally harmful.

### Philosophy / Process / Style

NorthStar Impact is an impact investment fund. It believes that the capitalist system needs to address social and environmental problems, and impact investing helps drive capital more effectively to companies that contribute to the solutions to these problems. Impact investors believe positive impact companies will, in the long term, experience superior financial outcomes and share price performance due to the increasing need for their environmental and social solutions. They believe that addressing climate change, inequality, and other broad issues will eventually require that government and regulators support and incentivise solutions provided by positive impact companies, which will support their growth.

NorthStar Impact believes the industry sectors that are represented in its impact universe have significant growth tailwinds, which means that the companies in these sectors that can execute successful strategies are likely to grow revenue and earnings in excess of GDP. It is expected that this will support premium valuations and share price outperformance. Additionally, the Manager believes there is a developing trend for people to prefer “purposeful” companies – a trend that will continue to grow and support positive outcomes for impact companies.

NorthStar believes that their role as impact investors goes beyond simply allocating capital. They seek to support their companies to grow and scale their positive impact. They do this by engaging with companies to identify opportunities to collaborate via impact projects, network connections, and events. This engagement also gives the Manager additional insights into the companies and the issues they’re working to solve, which is a potential source of “impact alpha”.

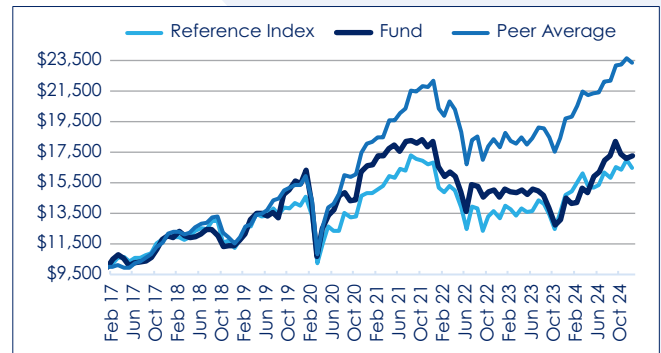
## 2. Performance & Risk

### Return Objective

The return objective stated in the PDS is: “The Fund’s investment objectives are to invest in companies with a positive social or environmental impact, while seeking to generate an attractive investment return over the long term.”

As per the PDS, the Fund is Benchmark unaware. SQM notes that the hurdle rate for performance fees is the “S&P/ASX All Ordinaries Accumulation Index”. **However, for comparative purposes, the reference index referred to in this report, and in NorthStar’s own reporting, is the “S&P/ASX Small Industrial Index”, as this is where the Manager typically tends to invest, due to the nature of impact companies.**

Fund Excess Returns %: Half-yearly (net of fees)



### Length of Track Record

The Fund has a history of 7.8 years (or 83 months).

Observations and analysis of returns will have meaningful statistical meaning as a result of the sample size of observations.

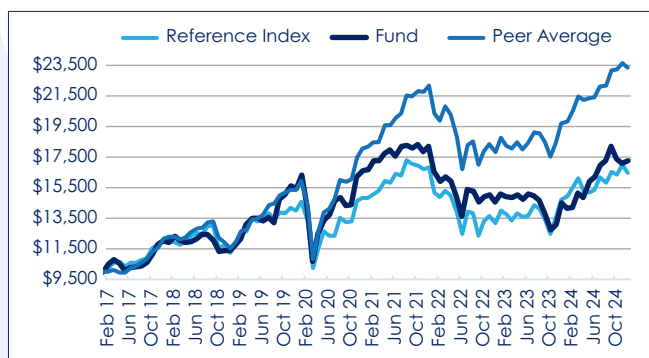
### Risk Objective

The Fund’s PDS states that the risk level of the Fund is “High”.

Fund Performance to 31 December 2024 (% p.a.)							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	0.89	-5.26	6.51	19.20	-1.76	2.24	7.14
Reference Index	-3.07	-0.39	7.12	12.10	-0.77	3.31	6.51
Peer Average	-1.25	0.72	8.89	18.63	1.66	8.44	11.02
Alpha	3.96	-4.87	-0.61	7.11	-0.99	-1.07	0.63

With distributions reinvested. Returns beyond one year are annualised. Return history starts Feb-2017  
 Reference Index: S&P/ASX Small Industrial TR

**Growth of \$10,000**



**Strengths of the Fund**

- A highly experienced Portfolio Manager.
- A true-to-label investment process with a well-structured research and stock selection approach centred around established and documented impact investing themes.
- The benchmark unaware nature of the Fund allows NorthStar to focus on the best positive impact companies without being constrained by index-relative factors.
- The low turnover of the fund makes it attractive from a tax perspective.

**Weaknesses of the Fund**

- There are few constraints governing portfolio risk. This has allowed for high-conviction ideas to have an outsized impact on returns, both to the benefit and the detriment of the Fund.

- The exclusion of several industries from the investment universe acts as a permanent style bias. This, combined with the benchmark unaware nature of the strategy, can result in notable underperformance against the broader Australian equity market, especially when cyclical stocks outperform.
- As with many boutiques, there is a small element of key person risk with Mr. Series as the founder and Portfolio Manager. However, SQM Research believes that Mr Series is highly incentivised to stay and is aligned with investor outcomes, while there is also sufficient backup in the form of Co-Portfolio Managers Ms Kwan and Mr Macri.

**Other Considerations**

- The Fund has high exposure to micro-caps and early-stage companies. The ability to exploit micro-cap stocks currently works at low levels of FUM. This may not be sustainable over the long term as FUM increases.
- Though the Fund benchmarks itself against the S&P/ASX All Ordinaries Index for the performance fee, it invests primarily in the mid to small-cap end of the market. Hence, it is possible for the Fund to underperform against the benchmark against which it references itself while still generating a performance fee (and vice-versa).
- Given the long-term themes of this strategy, investors need to be patient and stay the course during periods of market volatility.
- The Fund can invest up to 10% in overseas securities.

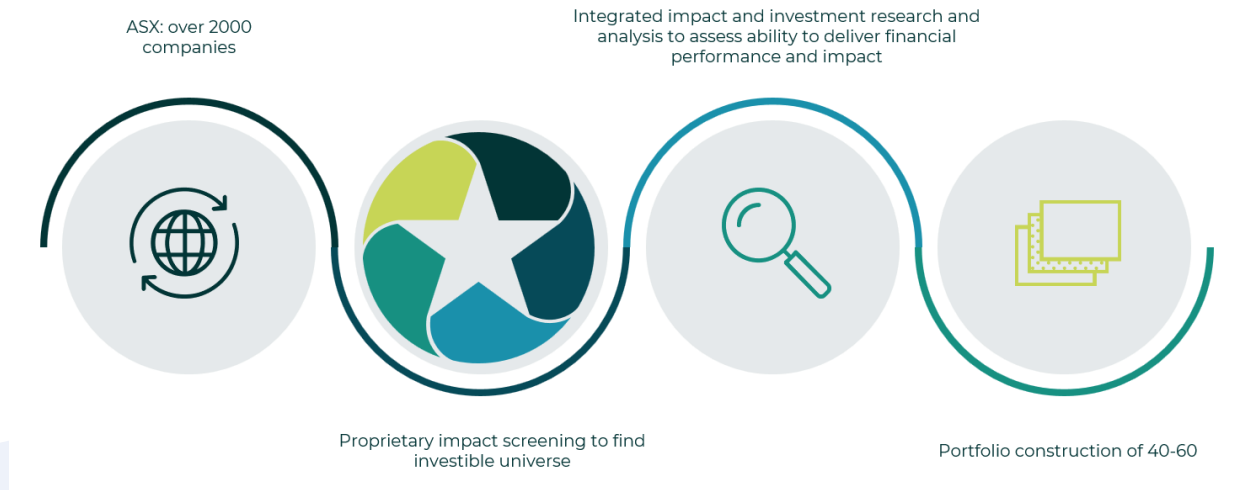
- The Fund remains the only Australian listed equities impact fund that has received certification from the Responsible Investment Association of Australasia. This results in an investor base that is generally slightly more tolerant of poor returns than normal, reducing liquidity risk for the fund.

### **Key Changes Since the Last Review**

- There has been some turnover in the investment team, with David Macri joining as a Co-Portfolio Manager, while Michael van Niekerk (Chief Impact Officer) has departed NorthStar, having first taken a non-executive director role because of the successful integration of NorthStar's impact and investment processes. A junior member of the investment team has left.



Investment Process Diagram



Process Description

Investment Process

Research and Portfolio Construction Process

Idea Generation

NorthStar uses its proprietary impact process, which begins with analysing the globally accepted UN Sustainable Development Goals (SDG) framework for addressing social and environmental problems as the basis for identifying candidate sectors and securities. Through analysis of the SDGs Goals and their Targets, NorthStar identifies areas suitable for investment, which are grouped into NorthStar's ten investment themes.

The Impact Universe is relatively small, and daily news flow is monitored for constituents to trigger further research. Quarterly and interim results announcements are of particular interest to identify financial improvements for stocks in the universe. In addition, there is a focus on putting new capital into companies, and, therefore, IPOs and placements can be triggers for assessing new opportunities.

Ideas are generated from a range of sources. These include NorthStar's professional network and external sources, including broker research.

Stock Selection

There are three focus areas for research in order of priority:

- Ongoing monitoring of portfolio companies – typically prioritised at the release of quarterly, interim, and final results or in the event of a material announcement.
- New ideas from the existing Impact Universe – typically the result of share price movement, capital raising, or results announcements.
- New ideas for inclusion in the Impact Universe – typically due to IPO and occasionally due to restructuring of core business activity (incl. reverse takeovers).

## Investment Process

### Research and Portfolio Construction Process

*...continued*

The Portfolio Manager conducts proprietary, bottom-up research focused on company fundamentals. This includes an assessment of business strategy, financial history and forecasts, and valuation metrics. The investment process analyses each sector to determine the relevant impact metrics of target companies. The Portfolio Manager and Chief Impact Officer seek to understand the social or environmental impacts of the core business and their links to financial outcomes. The Impact Universe (built via bottom-up company research) provides the basis for security selection and focuses efforts on positive impact companies with growth tailwinds.

Company visits and meetings are an important part of the research process. NorthStar conducts around 300 company visits or contacts with management each year. Engagement with management is typically to understand long-term strategy rather than focusing on short-term earnings outlooks.

Security analysis is primarily bottom-up, with a long-term investment perspective. Each stock is analysed to determine the investment case and risk, as well as the impact case and metrics. An investment note is produced and maintained for each portfolio stock. This includes full financial analysis (P&L, balance sheet, and cash flow) for at least two years' history and a two-year forward forecast. Broker research is used to supplement the team's insights, and NorthStar uses paid and unpaid expert networks where relevant.

A valuation range is set, typically based on a multiple using two years' forward forecasts. The most common multiple is the P/E ratio, but appropriate alternative multiples, such as dividend yield or EV/EBITDA, will be used if P/E is inappropriate. The valuation approach identifies good points of entry ("cheap to fair"). It allows stocks to re-rate before having to reduce or exit the position (at an "expensive" valuation looking at least two years forward).

Top-down economic and macro issues are considered during the research process in so far as they may identify emerging investment themes but are not significant in the stock selection process.

The research process results in a list of securities that demonstrate the preferred characteristics:

- Deep positive social or environmental impact.
- A strong link between positive impact and financial outcomes.
- Ability to scale impact (and therefore achieve financial outcomes).
- Fast-growing, recurrent revenue.
- High gross profit margin.
- Profitable or close to breakeven (with a clear path to strong profitability).
- Conservative balance sheet / well-funded to achieve breakeven.
- Low capital intensity.
- Experienced, credible management with a clear strategy.

## Investment Process

### Research and Portfolio Construction Process

The Portfolio Manager then allocates a conviction rating of A, AA, or AAA (A = lowest, AAA = highest) to each stock. The rating reflects the Portfolio Manager's confidence in the strength of the investment case, available liquidity, the current valuation, balance sheet strength and the upside to the Expensive Target Price.

### *...continued*

### Investment Focus

For each of its investment focus areas, NorthStar creates a Theory of Change to best understand the issues, possible solutions to problems (particularly those that can best be addressed through investment) and priority areas for engagement. This allows for a deeper understanding of the impact different companies are able to have and guides the engagement work NorthStar does with companies. Impact considered includes:

- **Environmental Impacts:** NorthStar invests directly in renewable energy, energy storage, and efficiency to drive positive environmental impact. They also look at the portfolio's direct and indirect negative environmental impacts. Where relevant, companies are encouraged to be more sustainable and reduce their environmental impact in areas such as procuring and generating renewable energy and improving energy efficiency, improving recycling, sourcing materials from sustainable producers, and reducing transportation impacts.
- **Social Impacts:** The Fund invests in companies operating across a range of key social sectors. However, in addition to their direct social impacts, indirect social impacts across the portfolio, both positive and negative, are considered. The aim is to increase the positive social impacts in areas such as enhancing equity in all facets of employment and work conditions, ensuring there is no slave labour in company operations and supply chains, paying company taxes at the statutory corporate rate to effectively support the Government's funding of public services, improving employee engagement scores and promote sustainable workplaces and developing active corporate social responsibility programs.
- **Economic Impacts:** Provide additional capital to grow companies, and their core impact has positive economic benefits such as job creation and sector development. This can be seen in local employment and the economic 'multiplier effect' of the spending of salaries and wages and in supply chain spending.

### Investment Strategy

The strategy is to identify stocks from the Impact Universe that are trading below fair valuation and have an attractive long-term growth profile (to scale impact and drive revenue and earnings). The aim is to be a long-term investor, engaging with the company regarding its impact and the opportunities to scale it.

The key market inefficiencies that are being exploited include:

- **Long-term.** With markets increasingly focussed on the short-term, long-term megatrends are missed, and high execution costs are incurred.
- **Small-cap under-research.** The market fails to recognise positive developments in small and micro-cap stocks due to the lack of quality research. These stocks are often mispriced as a result.

## Investment Process

### Research and Portfolio Construction Process

*...continued*

- Liquidity premia. The low FUM capacity limit enables larger positions in relatively illiquid stocks and to participate in placements by micro- and small-cap companies at significant discounts.
- Activism. As the Fund becomes bigger, it is expected that engagement may develop into activism to unlock the impact scaling. This may include acting as a cornerstone investor in IPOs and placements.

The investment strategy is expected to outperform when there are stable/positive market conditions that are positive for alpha generation. Given the lack of energy, financial, and materials exposure, weaker to stable global economic conditions would also be positive for outperformance. It appears that sharply adverse market conditions are negative for alpha generation. Strong global economic recovery periods favouring energy, financial, and materials stocks would be negative for the relative performance of the Fund.

### Sell Discipline

Reducing / selling positions may occur for the following reasons:

- Related to liquidity (to meet internal guidelines) and movement above the target weight.
- Lowered conviction rating due to increased valuation or weakened investment case.
- Corporate activity leading to exclusion from the Impact Universe (e.g., acquiring fossil fuel production assets).

### Risk Management

The primary portfolio risks considered are permanent loss of capital and illiquidity at the stock and portfolio level, especially relative to the daily redemptions facility. Although the Fund uses a benchmark as the hurdle for the performance fee and aims to outperform over the long term, there is no consideration of the Benchmark in portfolio construction.

There is no formal downside risk management strategy but share price falls may trigger additional research to understand the causes. Given the long-term investment strategy, share price declines may be used to rebalance the position to target weight.

The only mandated risk limits are:

- No more than 10% in any single stock at the time of purchase.
- No gearing.
- Maximum cash exposure of 20%.
- No short selling.
- Maximum 10% in foreign listed stocks.

## Investment Process

### Research and Portfolio Construction Process

*...continued*

The portfolio manager monitors these mandated limits daily, and compliance is reported by Apex for each month.

Any breaches would be rectified by the portfolio manager promptly and reported to the Compliance Manager.

Internal guidelines include:

- Maximum exposure to illiquid stocks (more than 30 days to trade, assuming 1/3<sup>rd</sup> ADV) is 30%.
- Maximum exposure to Early-Stage stocks is 25%.

Operational Risk is low given the outsourcing of key compliance and settlement functions.

## Portfolio Characteristics

### Portfolio Biases/Preferences

The Fund holds a bias towards small and micro-cap stocks. This is driven by the impact-first approach, which sees most ASX-listed positive impact companies sitting in the micro- and small-cap range and the investment team's philosophy that these stocks are generally underresearched and, as such, are susceptible to mispricings.

### Portfolio Turnover and Active Share

Trade frequency and portfolio turnover are low. The stated expected turnover is below 30% p.a., but the actual turnover has averaged around 10% p.a. over each of the previous 3 years. The Fund aims to have a holding period of at least 3-5 years. This approach tends to generate tax-effective returns due to the long average investment holding period.

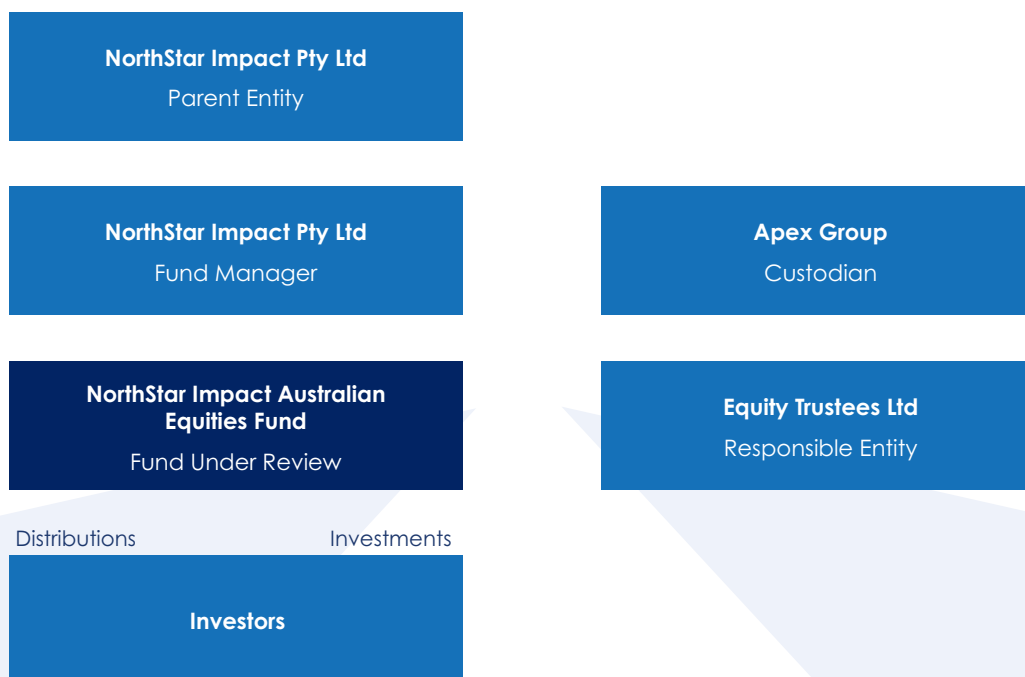
### Liquidity

The soft guideline is that no more than 30% of the portfolio is in stocks that take longer than 20 days to sell, assuming 1/3<sup>rd</sup> of daily turnover.

### Leverage

This Fund does not employ direct leverage (through borrowing by the Fund) **or** economic leverage (through the use of derivatives).

## Key Counterparties



## Parent Company/Fund Manager

NorthStar Impact Pty Ltd ("Northstar"), ABN 56 635 773 974, is the Investment Manager of the Fund and is an authorised representative of Longreach Alternatives Pty Limited (AFSL 246 747). It was formally known as Inspire Australian Equities Pty Ltd (Inspire AE) until a rebranding in July 2022.

The fund was established in 2017 as an impact-first organisation seeking to make positive social and environmental impacts, and a positive financial return. It was founded by Kerry Series, who has remained the Portfolio Manager of the fund through periods working with 8IP (early stages), Inspire Impact, the social impact arm of Liverpool Partners, and Small Giants, the family office of Danny Almagor and Berry Liberman (2021-2023). In 2022, Inspire Australian Equities rebranded as NorthStar Impact. Mr Series owns 52.5% of the equity in the firm; Dragonfly Enviro Capital holds a 22.5% ownership stake, Small Giants has a 20% stake, and Claudia Kwan holds 5%. NorthStar Impact is based in Sydney and employs three investment professionals.

NorthStar Impact has \$100 million in funds under management (FUM) as of September 2024. The firm targets retail investors, family offices, foundations and, high-net-worth investors.

## Governance

### Responsible Entity

The Responsible Entity is Equity Trustees Limited (EQT), established in 1888. EQT is a wholly-owned subsidiary of EQT Holdings Limited (EQTHL), a financial services company, which is headquartered in Melbourne and has been listed on the Australian Securities Exchange (ASX) since 1985. EQTHL provides a range of products and services to a diverse client base, including fund managers, managed funds, superannuation funds, and financial planning. EQT acts as a Responsible Entity or Trustee for over 100 Australian and international investment managers.

The Board of Directors of the Responsible Entity (RE) includes **five** directors who are **independent** of the Fund Manager.

The Board's principal responsibility regarding EQT's Responsible Entity activities is to ensure the company has adequate systems of internal controls and appropriate monitoring of compliance activities.

The EQTHL Board Charter (June 2020) mandates that the Board adhere to the following principles:

- The Board will comprise an appropriate number of directors, of whom a **majority are independent non-executive directors** and ordinarily reside in Australia.
- The Board will be led by an independent chair who is not the same person as the Managing Director.
- Directors, collectively, are to have the appropriate balance of skills, knowledge, experience, independence, and diversity to enable them to discharge their duties and responsibilities effectively.
- The Board assesses at least annually whether its directors are independent.
- Board meetings are to take place at least quarterly.
- Two members of the Board form a quorum.

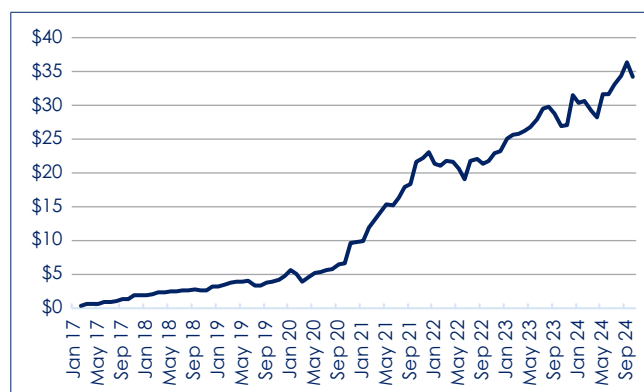
## Management Risk

Funds management businesses rely on the operational capabilities of key counterparties. A critical element is the ability of the Responsible Entity to monitor operational performance and to meet the regulatory and statutory responsibilities required. For any investment fund, there is a risk that a weak financial position or management performance deterioration of key counterparties could temporarily or permanently compromise their performance and competency. This can adversely affect financial or regulatory outcomes for the Fund or associated entities.

*Based on the materials reviewed, SQM Research believes that The Manager and associated key counterparties are appropriately qualified to carry out their assigned responsibilities. Management risk is rated as modest.*

## Funds under Management (FUM)

### FUM for Fund under Review (\$mill)



### Distributions

Distributions occur on an annual basis, subject to the availability of distributable income. In a scenario where the Fund's realised losses and expenses exceed income in a distribution period, the Fund may elect not to make a distribution during that time.

Distribution Date	Distribution CPU
Jun-17	2.42
Jun-18	0.14
Jun-19	6.82
Jun-20	1.69
Jun-21	0.06
Jun-22	0.07
Jun-23	0.46
Jun-24	0.25



Name	Responsibility / Position	Location	Years at Firm	Years in Industry
Kerry Series	Chief Investment Officer	Sydney	4.0	35.0
Claudia Kwan	Portfolio Manager	Sydney	3.6	16.0
David Macri	Portfolio Manager	Sydney	0.0	26.0

## Investment Team

Kerry Series is the **Chief Investment Officer** and **Lead Portfolio Manager** with ultimate investment responsibility for the Fund. Mr Series has over three decades of industry experience, and is regarded as a pioneer of impact investing in listed equities in Australia. Mr Series is supported by a small but experienced investment team, which includes Claudia Kwan and David Macri, who are both **Co-Portfolio Managers** for the Fund. All team members are based in Sydney. All investment team members have additional qualifications and/or professional experience in ESG-focused funds, which helps the fund stay true-to-label.

Mr Series predominantly covers the Communities and Education segments of the Portfolio, with Ms Kwan covering the Environment segment and Mr Macri covering the Healthcare segment. In practice, SQM Research notes that the research process is highly collaborative, and ideas are shared and debated by all members of the team.

**SQM observes that there is a small element of key person risk with Mr Series. However, as the founder and significant shareholder, he is highly incentivised to stay, and is aligned with investors to see the Fund succeed. Ms Kwan and Mr Macri act as Co-Portfolio Managers, and are appropriately qualified to replace Mr Series.**

## Meeting Schedule

The table below shows regular meetings that form an essential part of the overall process.

Meeting	Agenda	Frequency	Participants
<b>Investment</b>	Review portfolio, update engagement register, discuss stock research	Weekly	Investment Team
<b>Impact</b>	Review impact focus areas and/or specific stock impact targets	Weekly	Investment Team

*SQM Research believes the practice of constant communication and the broad-based inclusion of team members in decision-making is a vital ingredient to the success of the process. Interactive peer review and collaboration across a tightly knit group of experienced investors will likely make the best use of their combined intellectual property and shared history.*

## Staffing Changes

Departures			
Date	Name	Responsibility	Reason for Departure
30-Jun-23	Olivia MacDonald	Investment Analyst	Graduation
31-Jul-24	Sophia Carson Edwards	Investment Analyst	T-Corp role

Additions / Hires			
Date	Name	New Responsibility	Previous Position / Employer
17-Oct-22	Olivia MacDonald	Investment Analyst	Intern
15-May-23	Sophia Carson Edwards	Investment Analyst	Polar Capital LLP
11-Nov-24	David Macri	Portfolio Manager	Head of Asset Allocation, Mason Stevens

*SQM Research observes that the levels of investment experience and company tenure are strong across the investment team. The size and nature of staff turnover are not an issue of concern, in SQM's view.*



## Remuneration and Incentives

The base salary for staff is around market rates. Mr Series' salary will be steadily increased towards the market rate as the burn rate of the business decreases. Reviews take place annually.

A bonus policy will be developed in time, but at present, the key element is equity ownership. All senior executives are equity partners or are likely to become equity partners.

The investment team are the majority owner of the firm, which gives strong alignment with clients. Remuneration will increase with FUM, so this also provides alignment.

*SQM Research believes remuneration in the form of firm equity and client-focused performance bonuses act as strong incentives for optimising staff engagement, retention, and productivity. The intention (and SQM believes the effect) is to align staff performance with client and shareholder objectives. It focuses on the customers' needs and medium to long-term results.*

Fees and Costs	Fund	Peer Avg**
Management Fee % p.a.	1.03%	1.09%
Expense Recovery/Other Costs % p.a.	0.36%	–
Performance Fee %	20.50%	10.84%
Total Cost Ratio TCR % p.a.	1.39%	1.53%
Buy Spread %*	0.40%	0.28%
Sell Spread %*	0.40%	0.28%

\* This spread is the difference between the Fund's application price and withdrawal price and reflects transaction costs relating to the underlying assets.

\*\* Peer average is based on data provided by SQM's data provider. SQM is not responsible for any errors or omissions.

### Management Fee

The management fee includes GST and is net of any applicable Reduced Input Tax Credits (RITC).

### Performance Fee

There is a performance fee charged as follows:

- 20.5% of the amount by which the Fund's investment returns (**after** base management fees have been deducted) exceed the Benchmark returns (S&P/ASX All Ordinaries Index)
- Including GST and the impact of RITC (Reduced Input Tax Credit).
- The fee is accrued daily and (if applicable) paid to the Manager six months in arrears.
- The fee is adjusted for any prior accumulated negative performance fee. Underperformance in a previous performance period must be made up for before a performance fee is payable. This creates a permanent high-water mark.

#### *SQM Research observes that:*

- *The Fund management fee is 1.03% p.a., which is 6 basis points lower than the peer group average of 1.09% p.a.*
- *The Total Cost Ratio (TCR) is 1.39% p.a., which is 14 basis point lower than the peer group average of 1.53% p.a.*

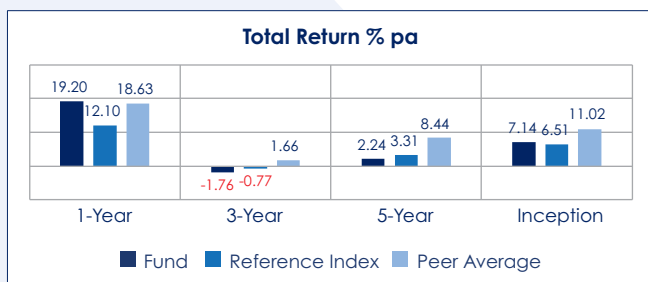
Risk/Return Data to 31 December 2024							
Total Return	1-Month	3-Month	6-Month	1-Year	3-Year	5-Year	Inception
Fund	0.89	-5.26	6.51	19.20	-1.76	2.24	7.14
Reference Index	-3.07	-0.39	7.12	12.10	-0.77	3.31	6.51
Peer Average	-1.25	0.72	8.89	18.63	1.66	8.44	11.02
Alpha	3.96	-4.87	-0.61	7.11	-0.99	-1.07	0.63
Metrics				1-Year	3-Year	5-Year	Inception
Tracking Error (% p.a.) - Fund				14.30	11.06	11.70	11.21
Tracking Error (% p.a.) - Peer Average				8.77	8.87	9.89	9.54
Information Ratio - Fund				0.50	-0.09	-0.09	0.06
Information Ratio - Peer Average				0.79	0.30	0.55	0.05
Sharpe Ratio - Fund				1.12	-0.29	0.01	0.28
Sharpe Ratio - Peer Average				1.55	-0.09	0.30	0.49
Volatility - Fund (% p.a.)				13.12	17.10	21.49	18.51
Volatility - Peer Average (% p.a.)				9.38	16.97	21.70	18.51
Volatility - Reference Index (% p.a.)				11.52	18.88	21.15	18.16
Beta based on the stated Reference Index				0.38	0.74	0.86	0.83

Distributions reinvested. Returns beyond one year are annualised. Return history starts Feb 2017  
 Reference Index: S&P/ASX Small Industrial TR

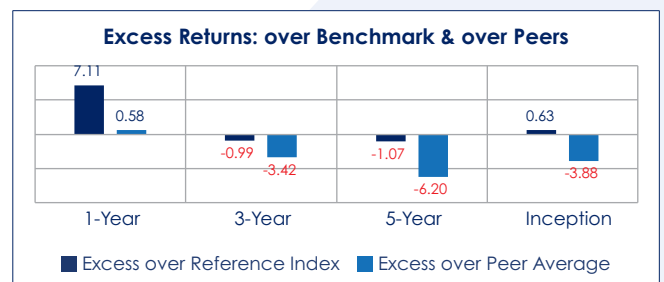
### Quantitative Insight<sup>1</sup>

Note: Unless otherwise stated, all return and risk data reported in this section are **after-fees** and for **periods ending Dec-2024**.

#### Returns



#### Excess Returns (Alpha)

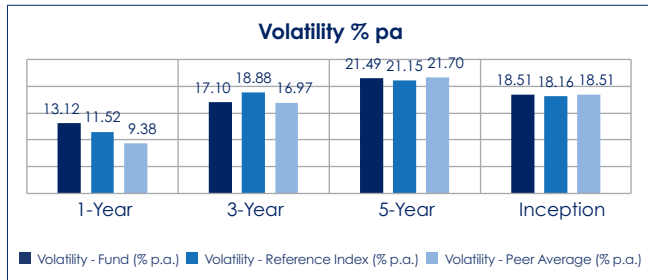


The Fund has had mixed performances compared to the reference index since inception, outperforming in the longer and short-dated periods but underperforming in the medium term. The has underperformed against its peers in all periods except for the 1-year period, though SQM Research notes that this is a specialist Fund where there are not a lot of comparable specialist funds.

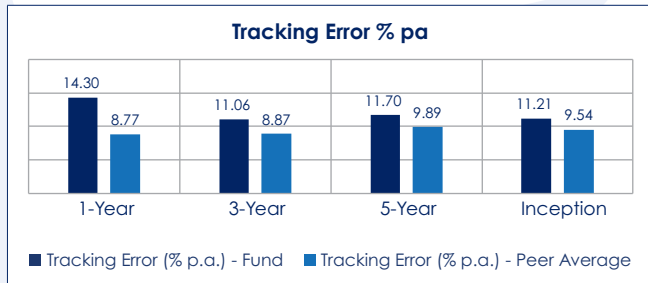
The **return outcomes** as described above, are consistent with the PDS objective and consistent with SQM's expectations for the Fund relative to its fee level and volatility.

<sup>1</sup> Note: Sharpe and Information Ratios are not reliable comparison tools in periods where both the Fund and its peers/benchmark record a negative result

**Risk**



The Fund's **volatility** (annualised standard deviation of monthly returns) has tended to be around both the reference index and the peer group.



The Fund's **tracking error** (annualised standard deviation of monthly excess returns) has tended to be higher than its peers.

The **risk outcomes** as described above regarding volatility and tracking error are in line with the PDS statements about risk and are consistent with SQM's expectations for this Fund.

**Drawdowns**

Drawdown Summary			
Drawdown Size (peak-to-trough)			
	Fund	Bench	Peers
Average	-7.72%	-7.11%	-8.23%
Number	12	12	11
Smallest	-0.26%	-0.51%	-0.44%
Largest	-34.39%	-29.79%	-33.76%
Length of Drawdown (in months)			
	Fund	Bench	Peers
Average	4.2	3.8	6.7

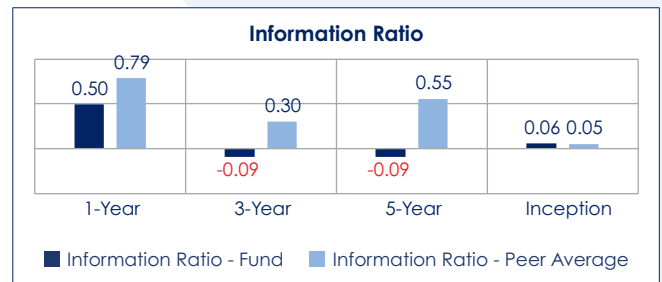
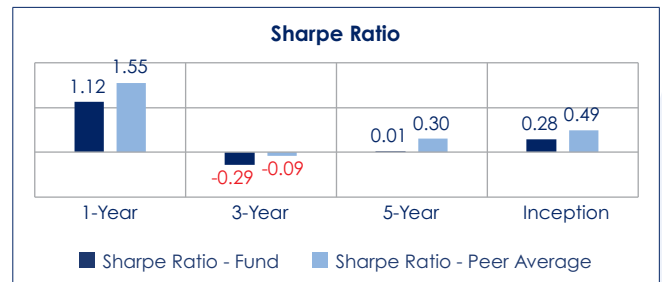
Length of Drawdown = time from peak to trough and back to the previous peak level

**Average** drawdowns have been modestly worse than the reference index and modestly better than the peer average.

**Upside/Downside Capture**

	Downside Capture		Upside Capture	
	3 years	Inception	3 years	Inception
Fund	68.6%	63.6%	64.8%	77.1%
Peer Average	73.0%	62.1%	81.1%	89.6%

**Risk-Adjusted Returns**



The Fund's risk-adjusted returns (as measured by Sharpe and Information ratios) have been slightly below the peer average since inception but trailed significantly over the last few years.

**Correlation of Fund to Asset Classes**

Market	3 years	Inception	Market Indexes
Aust Bonds	+61.2%	+26.7%	Bloomberg AusBond Composite 0+Y TR
Aust Equity	+76.2%	+82.1%	S&P/ASX 300 TR
Global Bonds	+65.9%	+43.8%	Bloomberg Global Aggregate Hdg AUD
Global Equity	+53.7%	+55.5%	MSCI World Ex Australia NR AUD

**Correlation Key**

Low	High	Description
0%	20%	low, weak
20%	40%	modest, moderate
40%	70%	significant, material
70%	90%	strong, high
90%	100%	substantial

**Tail Risk**

*(The analysis in the table below looks at the **tail risk performance relationship of the Fund to the ASX300**, a practice that SQM has set as common across asset classes in Fund reviews. This approach recognises that for the large bulk of financial planner clients, their key traditional asset class **risk** regarding **size** and **volatility** is to Australian equities. Exploring that relationship is useful regardless of the asset class of the Fund itself, as it is helpful to understand how a Fund has acted in times of Australian equity market stress in terms softening or exaggerating the negative performance experienced at such times.)*

The table below details the **largest negative monthly returns** for the ASX 300 **since the inception of the Fund**. This is compared to the Fund's performance over the same months.

Extreme Market Returns vs Fund Return Same Month				
Index: S&P/ASX 300 TR		From Feb-17 to Dec-24		
Rank	Date	Market	Fund	Difference
1	Mar-20	-20.83%	-24.86%	-4.03%
2	Jun-22	-8.97%	-8.75%	+0.22%
3	Feb-20	-7.76%	-12.68%	-4.92%
4	Jan-22	-6.45%	-8.99%	-2.54%
5	Sep-22	-6.29%	-4.38%	+1.91%
6	Oct-18	-6.16%	-5.83%	+0.33%
7	Oct-23	-3.80%	-8.29%	-4.49%
8	Mar-18	-3.73%	-2.13%	+1.60%
9	Sep-20	-3.59%	-3.29%	+0.30%
10	Dec-22	-3.29%	-3.06%	+0.23%
<b>Totals</b>		<b>-70.88%</b>	<b>-82.26%</b>	<b>-11.38%</b>

			No. of Months
<b>Correlation</b>	+93.7%	Positive Return	0
<b>Capture</b>	+116.1%	Outperform	6

**Tail Risk Observations:**

The data in the table above indicate that the Fund displays weak **defensive characteristics** in the face of extreme Australian equity tail risk.

**Snail Trail**

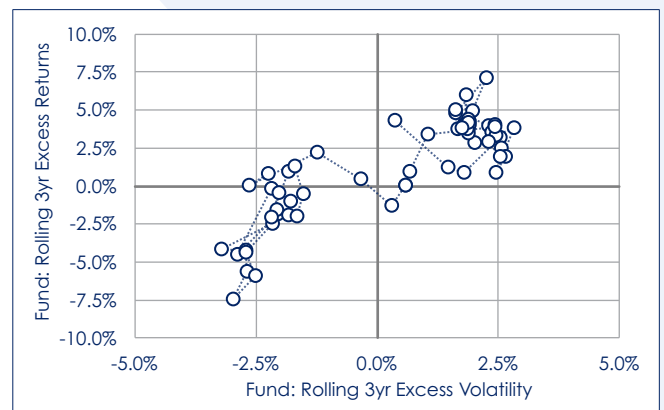
The snail trail chart and tables below show the combination of the Fund's rolling 3-year excess returns and rolling 3-year excess volatility.

There are 60 observations in total.

The two tables below display the distribution of these observations and their overall frequency across the risk/return quadrants.

Snail Trail Distribution			
Frequency	Lo-Vol	Hi-Vol	Total
<b>Hi-Return</b>	<b>6</b>	36	42
<b>Lo-Return</b>	17	1	18
<b>Total</b>	<b>23</b>	<b>37</b>	<b>60</b>

60 rolling 3-year observations			
% of Total	Lo-Vol	Hi-Vol	Total
<b>Hi-Return</b>	<b>10.0%</b>	60.0%	70.0%
<b>Lo-Return</b>	28.3%	1.7%	30.0%
<b>Total</b>	<b>38.3%</b>	<b>61.7%</b>	<b>100.0%</b>



In assessing a snail trail it is important to note the following:

**Q1 upper left-hand quadrant** - higher return than the Fund's market index with lower volatility (less risk). This is the optimal position.

**Q2 upper right-hand quadrant** - higher return than the Fund's market index with higher volatility (more risk). This can often be a desirable position depending on the attractiveness of the Sharpe ratios produced in this zone. It is important to note that in the case of inflation or cash-style benchmarks, the Q1 top left-hand quadrant is unachievable as it is not possible to deliver lower volatility than what is virtually zero for the benchmark. In such cases, the Q2 zone is the optimal position.

**Q3 lower left-hand quadrant** - lower return than the Fund's market index with lower volatility (less risk). Less than ideal, and Sharpe ratios can assist in assessing the risk/return trade-off in this zone.

**Q4 lower right-hand quadrant** - lower return than the Fund's market index with higher volatility (more risk). The least desirable outcome.

**Consistency**

The more "bunched together" the cluster of dots, the more consistent is the performance. A second indicator of consistency is the trail's nomadic nature. Trails that roam across multiple quadrants over time are indicating **low consistency** in the Fund's risk-return profile. The quadrant that **contains the bulk** of the Fund's snail trail is likely to be more representative of the Fund's risk/return characteristics and identity.

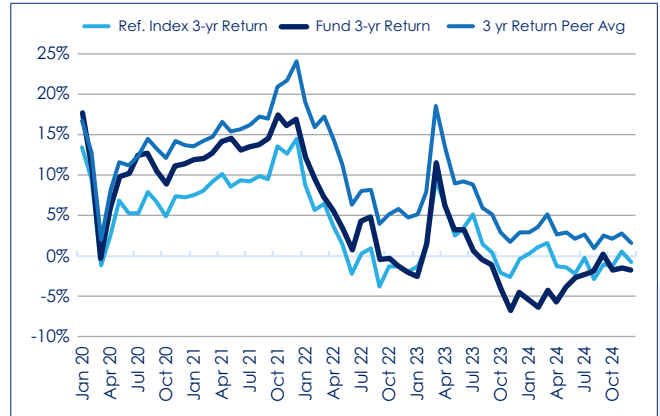
**Annual Returns**

Year	Fund	Benchmark	Peer Avg	vs. Bench	vs. Peers
2018	-5.25	-6.49	-5.49	+1.24	+0.24
2019	+35.66	+24.50	+33.40	+11.16	+2.26
2020	+7.69	+5.93	+17.63	+1.76	-9.94
2021	+9.39	+13.67	+22.92	-4.28	-13.53
2022	-20.00	-21.76	-19.56	+1.75	-0.45
2023	-0.56	+11.41	+10.37	-11.97	-10.92
Dec-24	+19.20	+12.10	+18.44	+7.11	+0.77

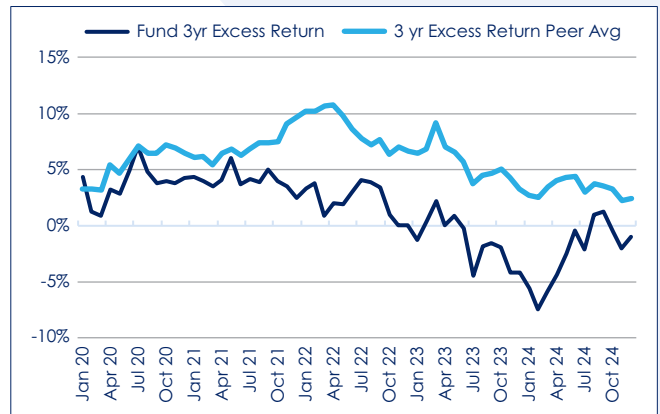
2024 data = 12 months ending Dec-24

**Return and Risk**

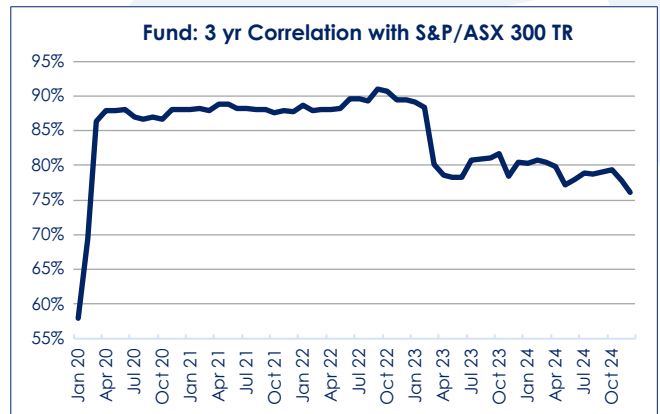
**Rolling Returns**



**Rolling Excess Returns**

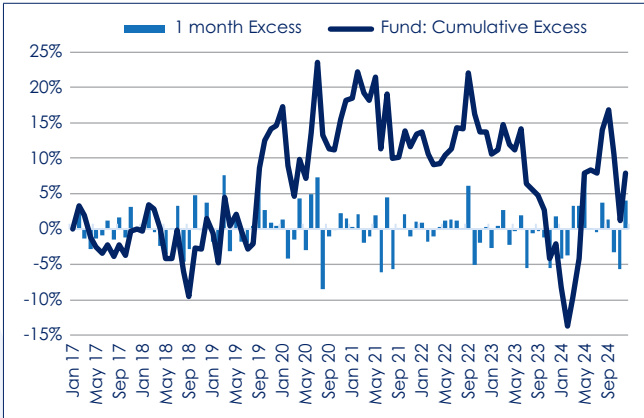


**Rolling Correlation**

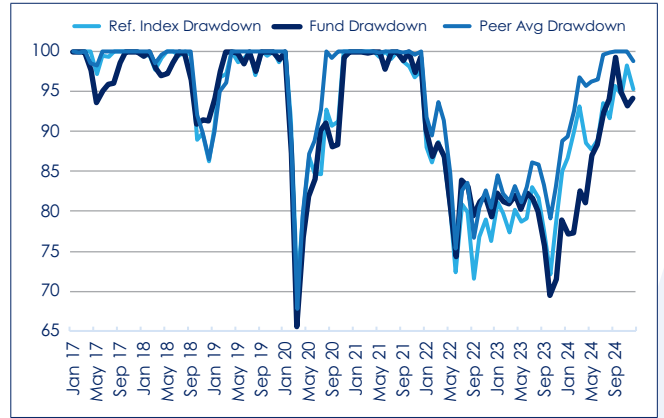


Return and Risk

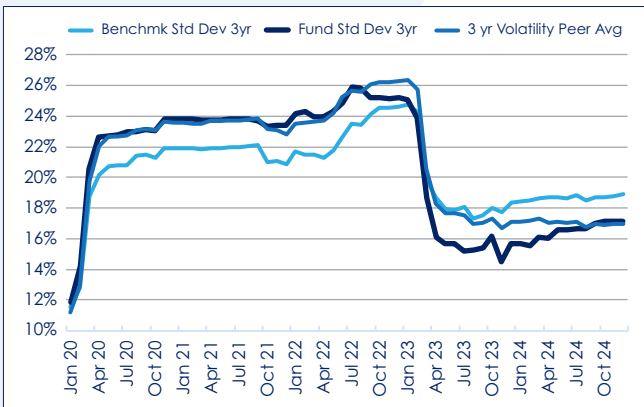
Cumulative Excess Returns



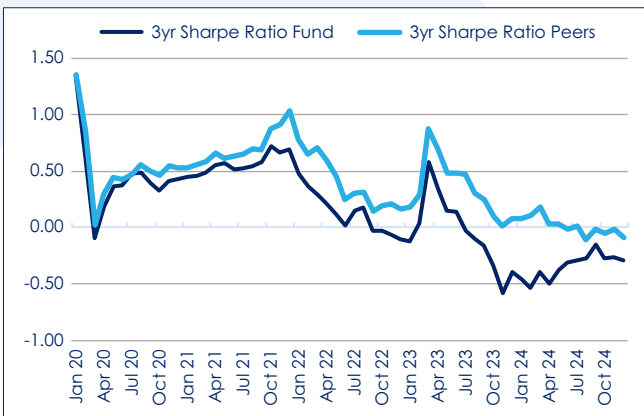
Drawdowns



Rolling Volatility



Rolling Sharpe Ratio



The table below outlines limits on the Fund's asset allocation and other risk parameters:

Fund Constraints and Risk Limits	Permitted Range or Limit
Constraint or Risk Limit 1	Maximum individual stock weight 10%
Constraint or Risk Limit 2	No gearing
Constraint or Risk Limit 3	Maximum cash weight 20%
Constraint or Risk Limit 4	Maximum listed securities 100%
Constraint or Risk Limit 5	No short selling
Constraint or Risk Limit 6	Maximum unlisted securities 0%
Constraint or Risk Limit 7	Maximum foreign listed companies 10%

#### Top 5 Holdings\*

Ticker	Holding	Sector	Weight (%)	Country
CU6	Clarity Pharmaceuticals Ltd	Healthcare	6.49	AUS
EGL	The Environmental Group Ltd	Industrials	6.48	AUS
APZ	Aspen Group Ltd	Real Estate	4.58	AUS
ARF	Arena REIT	Real Estate	4.55	AUS
GEM	G8 Education Ltd	Consumer Defensive	3.67	AUS

\* As reported to SQM at report date – holdings will change over time.



**Drawdown**

A drawdown tracks the path of the Fund's accumulated NAV (with dividends reinvested). It is measured over the period of a peak-to-trough decline and the subsequent recovery back to that previous peak level. The total return over that entire period is, of course, zero. The metric of interest, the drawdown itself, is quoted as the percentage change between the peak and the trough over that period. Funds typically have multiple drawdowns of varying size and length over their lifetime. The table above shows how many drawdowns have occurred and their average peak-to-trough size.

**Alpha**

SQM defines **Alpha** as the excess return compared to the Benchmark and is calculated as

$$\text{Alpha} = \text{Fund Return} - \text{Benchmark Return}$$

**A General Note on Distributions for Managed Funds**

The Responsible Entity of a Managed Fund will provide for a regular schedule of distributions, such as monthly/quarterly/semi-annual or annual. This is subject to the Fund having a sufficient distributable income. The official total distributable income available to pay to investors is determined for the period of that Fund's financial year. By distributing the net taxable income of the Fund to investors each year, a Fund itself should not be liable for tax on its net earnings.

If a Fund makes distributions more frequently than once over the financial year, those distributions will be based on estimates of the distributable income for that distribution period. The final total amount of distributable income available for passing on to investors can only be calculated after the close of the financial year, based on the Fund's taxable income for that year.

If the total distributions a Fund pays out exceed total taxable income for that particular financial year, the excess amount may be treated as a return of capital rather than income. This will possibly have tax implications for the investor.

Due to the considerations outlined above, there may be periods in which no distributions are made or a Fund may make additional distributions

A Fund's ability to distribute income is determined by the performance of the Fund and general market conditions. Accordingly, there is no guarantee that a Fund will make a distribution in any distribution period.

**Total Cost Ratio (TCR)**

**Managed Investment Schemes:** The TCR for Managed Investment Schemes, Exchange Traded Products and Investment Bond funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, and the impact of dollar-based fees.

**Superannuation funds:** The TCR for Superannuation and Pension funds is an addition of the Investment Management Fees and Costs (including admin fees), Performance Fee Costs, Administration Fees and Costs, the impact of dollar-based fees and a deduction of Super OTC Derivative Costs.

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