

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

SelfWealth SMSF Leaders ETF (ASX: SELF)

October 2019

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Independent Investment Research, "IIR", is an independent investment research house based in Australia and the United States. IIR specialises in the analysis of high quality commissioned research for Brokers, Family Offices and Fund Managers. IIR distributes its research in Asia, United States and the Americas. IIR does not participate in any corporate or capital raising activity and therefore it does not have any inherent bias that may result from research that is linked to any corporate/ capital raising activity.

IIR was established in 2004 under Aegis Equities Research Group of companies to provide investment research to a select group of retail and wholesale clients. Since March 2010, IIR (the Aegis Equities business was sold to Morningstar) has operated independently from Aegis by former Aegis senior executives/shareholders to provide clients with unparalleled research that covers listed and unlisted managed investments, listed companies, structured products, and IPOs.

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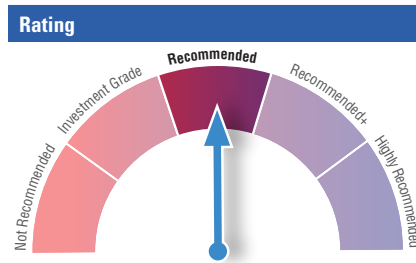
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- 2) Our analyst has independence from the firm's management, as in, management/ sales team cannot influence the research in any way;
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Note: This report is based on information provided by the Manager as at October 2019.



Key Investment Information	
Name of ETF	SelfWealth SMSF Leaders ETF
Issuer and Responsible Entity	ETFs Management (Aus) Limited
Index Provider	SelfWealth Limited
Investment Type	ETF
ASX Code	SELF
Seed Capital/Initial FUM	\$100m
Dividend	Quarterly
FX Exposure	None
Benchmark	Solactive A200 (SOLAUBNMG) Index
Management Costs	0.88 p.a.
Performance Fee	None

Fees Commentary

The MER of the ETF is 88 basis points. While this is not dissimilar to a host of ASX-listed mFunds, actively managed ETFs and LICs / LITs, it is notably higher than many of the larger and better known (passive) ETFs. That said, given the proprietary and unique nature of the core IP of the Index and its inherent potential for material alpha, we believe the MER should be compared to the former peer group.

Portfolio Characteristics & Key Stats	
Index Ticker (Bloomberg)	SELF Index
Number of Securities	25 - 75
Weighting Factor	Equal
Rebalancing Frequency	Quarterly
Country / Region	Australia

OVERVIEW

The SelfWealth SMSF Leaders ETF (ASX: SELF or 'the ETF') is designed in turn to replicate the SelfWealth SMSF Leaders ETF Index (the 'Index'). The Index provider is SelfWealth Limited (ASX: SWF), a provider of a flat-fee brokerage service and a community-driven insights tool that pools information from around 80,000 Australian investor portfolios. The Index aims to represent the performance of a portfolio of ASX-listed ordinary shares assembled by applying a rules-based selection criteria to SelfWealth's database of SMSF portfolios. The methodological basis for the portfolio construction of the Index utilises a combination of time weighted performance, equal weighting diversification, valuation and a Solactive A200 Index filter (a replication of the S&P/ASX 200 Index), with all stocks outside the ASX 200 excluded. The construction methodology is based on the Top 10% of the circa 80,000 SMSF portfolios (equating to around 8,000 SMSF portfolios) through a commercial agreement with BGL Corporate Solutions Pty Ltd (BGL), Australia's largest SMSF Administration and ASIC compliance software provider. It is expected the ETF portfolio will typically comprise 30-60 Solactive A200 Index securities (minimum and maximum of 25-75), and which will be rebalanced on a quarterly basis. Importantly, in what is a very strong endorsement of the underlying construction methodology and appeal of the product, the ETF has received an A\$100m seeding from ETFs Capital (originally ETFs Securities, founded by Graham Tuckwell). In independently undertaken and verified back-tested performance the Index has generated 326 basis points of outperformance per annum over the S&P/ASX 200 Total Returns Index over a seven-year period. IIR notes that given the rules based methodology the historic back testing should have a very high degree of accuracy.

INVESTOR SUITABILITY

SWF's marketing pitch for the ETF is effectively a product that is 'powered by SMSFs, for SMSFs'. IIR believe this is appropriate for a number of important reasons. First, portfolio turnover can be expected to be reasonably high, as evident by the historic back testing. A material number of constituent stocks can be expected to be in the portfolio for less than 12-months, and therefore not eligible for the CGT discount. As such, the ETF is highly likely to be materially more efficient for low marginal tax rate investors (SMSFs and retirees) on an after tax basis. Second, IIR suspects that a disproportionate number of the portfolios, being based on SMSFs, are for investors approaching and/or in the retirement stage of their investment lifecycle. It is not unreasonable to assume that the Index will exhibit a behavioural bias to more established growth and income oriented stocks versus the higher risk (typically ASX100-200 constituents) as indeed has been borne out through the back testing. With respect to dividends, over the back tested period the Index generated almost the precisely the same degree of income as the S&P/ASX 200 Index despite the zero exposure to A-REITs and underweight exposure to the Financials sector. In effect, the Index has delivered materially superior capital growth without compromising yield.

RECOMMENDATION

IIR ascribes a **"RECOMMENDED"** rating to the SelfWealth SMSF Leaders ETF. The ETF is a globally unique product and service offering, in effect made possible by the unique attributes of the Australian superannuation market (and BGL's dominant market position). The seed investment by Graham Tuckwell's ETFs Capital provides immediate FUM scale for the ETF and reassuring third-party confirmation of the strength of the underlying methodology. We believe the fundamental basis of the Top 10% component of the underlying IP as an investment strategy is sound. Successful SMSF investors are typically smart, highly self-interested, risk averse, and long-term investors, all of which provides a sound underpinning for any investment strategy. Reassuringly, attribution analysis reveals the vast majority of outperformance was derived from selecting the right stocks rather than sector selection. This suggests a basis for persistence of outperformance moving forward - i.e. there is an empirical validity to the methodology.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

SWOT ANALYSIS

Strengths

- ◆ A globally unique Index methodology and one with a sound underlying fundamental basis given the typical attributes of successful SMSF investors. The 5-year strategic agreement with BGL Corporate Solutions (which would be expected to be extended thereafter) is critically important in this regards and represents a very substantial barrier to entry for any participant potentially seeking to emulate the core model portfolio IP.
- ◆ Historic backtesting indicates 326 basis points per annum of outperformance over the S&P/ASX 200 Total Returns Index over the seven year back tested period. Additionally, there has been a general consistency in outperformance over rolling annual periods, specifically 98% of rolling 3-year periods, albeit a lesser 79% of rolling 1-year periods. This degree and consistency of outperformance may be attributed to several factors including periodic rebalancing, the equal weighting attribute of the methodology, the exclusion / inclusion of underperforming / outperforming securities respectively, and the inherent fundamental merit of the Top 10% aspect of the underlying methodology.
- ◆ Reassuringly, the back testing indicates the vast majority of outperformance over the seven period was derived from successful stock selection (versus sector selection). This is arguably the strongest empirical endorsement of the fundamental basis of the Top 10% component of the Index methodology.
- ◆ Given the BGL database of approximately 80,000 SMSF portfolios, it is reasonable to assume that the eligible Top 10% of portfolios may exhibit a behavioural bias suited to the needs of the target investor market, specifically SMSF portfolios which generally have a capital preservation emphasis (the inclusion of less risky stocks) and, if in the retirement stage on the investment lifecycle, a balance of yield and growth.
- ◆ The seed investment by Graham Tuckwell's ETFs Capital provides immediate FUM scale for the ETF and reassuring third-party confirmation of the strength of the underlying methodology.

Weaknesses

- ◆ While the rules based methodology is perfectly transparent, the necessary anonymity of the Top 10% of eligible investor portfolios means there is no transparency in relation to the fundamental investor motivation for quarterly portfolio positioning.
- ◆ The MER of the ETF is 88 basis points. While this is not dissimilar to a host of ASX-listed mFunds, actively managed ETFs and LICs / LITs, it is notably higher than many of the larger and better known (passive) ETFs. It remains to be seen how the investing public will react to the 88 basis point MER.

Opportunities

- ◆ The key opportunity for low marginal tax rate investors is to participate in a global unique ETF and one in which has a sound fundamental basis. Specifically, successful SMSF investors are typically smart, highly self-interested, risk averse, and long-term investors, all of which provides a sound underpinning for any investment strategy.
- ◆ The equal weighting component serves to partly rectify the significant sectoral biases in the Australian equities markets, most notably to the Financials sector.

Threats

- ◆ The contract with BGL Corporate Solutions is critically important for SelfWealth. However, any potential re-contracting risks have been substantially mitigating by the relatively long-dated remaining five year term as well by way BGL Corporate Solution's founders material shareholding in SelfWealth.
- ◆ In the unlikely event of the insolvency of SelfWealth, the ETF would cease to operate and all proceeds returned to investors. While this would not lead to a loss associated with this outcome, it would create market exit timing risks for investors. SelfWealth has consistently recorded material improvements in operational and financial metrics over the last 12-18 months and, for reasons explained in this report, IIR believes is on a clear path to profitability and, in this context, has adequate cash reserves.
- ◆ SelfWealth's business operations involve the storage of its clients' confidential, personal and sensitive information. The Index could be materially disrupted by privacy breaches which may impact the confidentiality of client information / data.

PRODUCT OVERVIEW

The methodological basis for the portfolio construction of the SelfWealth SMSF Leaders Index utilises a combination of time weighted performance, diversification, valuation and inclusion of Solactive A200 Index stocks only (all stocks outside the A200 are excluded). Additionally, all listed collective investment vehicles, such as A-REITs, infrastructure trusts, and ETFs, are excluded from the Index on 'philosophical' grounds, with the Index portfolio designed to reflect evidence of corporate stock selection. The construction methodology will be based on the Top 10% of the circa 80,000 SMSF portfolios currently under BGL, equating to around 8,000 SMSF portfolios. It is expected the ETF portfolio will typically comprise between 30-60 Solactive A200 Index securities (minimum and maximum of 25-75), and which will be rebalanced on a quarterly basis.

The methodology has been back tested for a seven year period, during which it delivered a substantial 326 basis points of outperformance over the S&P/ASX 200 Index. The backtesting and methodology has been independently scrutinised and verified by two separate parties, one being ETFS Capital.

The outperformance has likely been driven by a combination of factors. Specifically, the periodic quarterly rebalancing, the fact that within the Index there is typically outliers of underperformance and outperformance (more of the former excluded and more of the latter included is the design of the methodology), and finally the portfolio is based on the investment acumen of the best performing investors within a pool (SMSF investors) that in itself have generally successfully accumulated wealth. The very significant proportion of back tested outperformance attributable to stock versus sector selection (97%) provides validation of the investment skills of the Top 10% and time weighted components of the Index methodology.

IIR finds the basis of the methodology as having fundamental underlying merit. The typical SMSF investor may have anything from \$1m to \$3m in assets. That is, they have been reasonably successful financially speaking and it is reasonable to assume exhibited a degree of investment acumen. Tied to this, this investor group has a high degree of vested interest and a strong focus on preserving capital. On top of this, the Top 10% of this group is selected, and then SelfWealth's diversification, valuation, and Solactive A200 Index filters are applied.

In what we understand to be the largest ETF seeding ever in Australia, Graham Tuckwell's ETFS Capital will seed SELF with \$100m (and for which ETFS Capital will receive a component of the MER as effectively a return on the seed capital component). This seeding and investment by Graham Tuckwell is an extremely strong endorsement of the ETF and the underlying methodology. The seeding was also deemed important in getting scale, as IFAs tend to have less trust in small scale ETFs (currently the majority of those listed on the ASX).

Globally, this is a unique concept and a unique ETF. In turn, its uniqueness stems from the unique aspects of the Australian superannuation market. Furthermore, the high degree of concentration that BGL has of the Australian SMSF market provides a unique data set.

To the extent that there is any income received by the ETF, it is expected that it will be distributed to Holders quarterly in respect of periods ending 31 March, 30 June, 30 September and 31 December in each year. Holders can choose to have their distributions paid directly into a nominated bank account in cash or participate in the Distribution Reinvestment Plan.

The MER is 0.88%. By ETF standards, this is high, albeit less so for fundamental alpha seeking and 'smart beta' ETFs. However, it is generally in-line with other ASX-listed investment vehicles, such as mFunds and LICs / LITs. Given the proprietary and unique nature of the core IP of the ETF and its inherent potential for material alpha, we believe the MER should be compared to the latter peer group. However, it remains to be seen whether to what degree investors may balk at the MER of 0.88% given it is an ETF.

Of the 0.88% MER, SelfWealth derives 0.48%. The residual is split between the Responsible Entity (ETFS Australia Pty Ltd) and effectively a return to ETFS Capital on the \$100m in tied up seed capital. In relation to the latter, investors should note that they are effectively paying an ongoing fee for the benefit of the \$100m in seed capital. However, the other way to look at this is that a highly experienced participant in the global ETF sector has not only 'approved' the methodology and ETF on the basis of detailed due diligence but that approval has been backed up by a significant proportion of its own money and that ETFS Capital has a strong vested interest in the success and FUM growth of SELF.

KEY PARTIES

There are a number of key parties in the design, maintenance, execution, and oversight of the Index and ETF. A summary of the key roles and responsibilities is provided below. SelfWealth is aware of, In short, IIR is satisfied that appropriate control processes for the Index combined with input from external index experts that the risks posed by inadequate governance, conflicts of interest and a lack of transparency in the management of indices have been addressed.

IIR also notes Moorgate Benchmarks, a regulated benchmark administrator, expressed the formal opinion that SelfWealth's policies and procedures relating to the governance and administration of its Index comply with the International Organisation of Securities Commissions (IOSCO) recommended practices regarding the establishment, operation and oversight of financial benchmarks.

Summary Table of Roles & Responsibilities

Role	Name	Responsibilities/Functions
Index Administrator	SelfWealth Limited (SWF)	Overall responsibility for the administration and publication of the indices, devolved to the Index Management Committee. Responsible for index reviews.
Index Management Committee	Chairman – SWF Ltd nominee Members – up to three members nominated from SelfWealth Ltd staff and/or professional advisers, in addition to an independent expert in Index administration and governance and one representative of the Calculation Agent in a non voting capacity	Responsible for the management and implementation of the Index Methodology, its continued fitness for purpose and any periodic amendments thereto; oversight of the Index Calculation Agent.
Calculation Agent	Solactive AG	Calculation and dissemination of the index
Oversight	SelfWealth Audit and Risk Committee	Oversight over SelfWealth's administration of the index.
Data provider	BGL Limited	Provision of underlying SMSF data.

SELFWEALTH LIMITED

The index has been designed by and is maintained by SelfWealth Ltd. SelfWealth is the Benchmark Administrator for the Index.

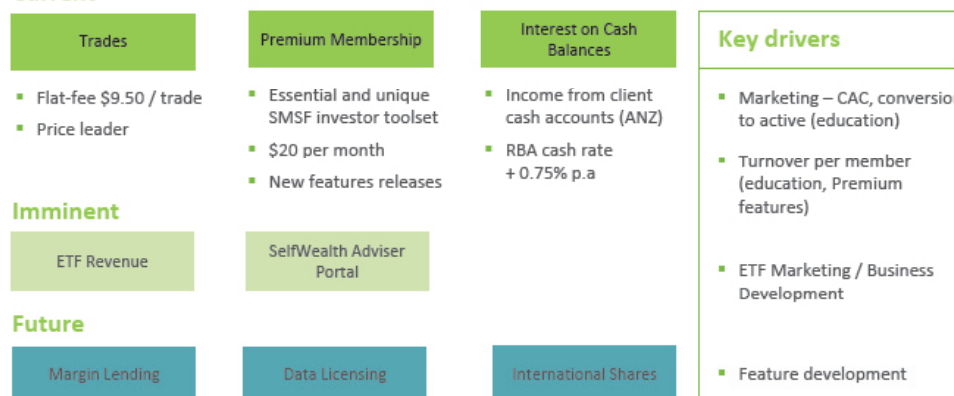
SelfWealth was established in 2012 by Andrew Ward, who remains the CEO and largest shareholder in the Company. In 2013, the Company established a strategic agreement with BGL Corporate Solutions after Andrew approached the principal owner, Ron Lesh, and outlined his concept of providing self-directed investors insight into what other self-directed investors are doing, particularly SMSF investors.

SelfWealth is a fintech service provider that provides Australian investors with a range of services. Specifically, the Company provides:

- ◆ A flat fee online brokerage service at \$9.50 per trade, irrespective of trade size, representing Australia's lowest cost retail brokerage service;
- ◆ A Peer to Peer network for clients to track the portfolio performance of other clients (in real time) on a depersonalised-basis as well as a Leaders Model Portfolio based on a select slice of the portfolios of the top 10 best performing clients;
- ◆ SelfWealth Adviser Platform (SWAP), launched recently in September 2019;
- ◆ Australia's first representative SMSF ETF (the SelfWealth SMSF Leaders ETF), powered by data from around 80,000+ SMSF portfolios through a commercial agreement with BGL Corporate Solutions and with an A\$100m seeding from ETFs Capital.

Revenue

Current



SelfWealth.

In the unlikely event that SelfWealth were to become insolvent or cease to exist, given the dependency on the data and IP, the Index would cease to exist and the ETF would be wound up and closed with funds redeemed and returned to unitholders based on their holding.

As noted above, IIR view this as very much an unlikely event given the consistently improving fundamental and financial metrics of SelfWealth plus an adequate capital / cash buffer in which to fund the company's expansion strategy. In relation to the latter, IIR completed an in-depth equities research review on SelfWealth as at November 2018. This research note is available at: <http://www.independentresearch.com.au/>.

Based on that review, over the medium term IIR views the following as the key growth drivers for SelfWealth:

- ◆ Improved online trading functionality;
- ◆ Effective targeted marketing spend, increasing word of mouth referrals and cross promotion (BGL, ASX);
- ◆ The ETF launch in itself and the broader awareness of the SelfWealth service offering;
- ◆ Educational collateral to raise awareness and provide a better understanding of the SelfWealth functionality;
- ◆ Commercial rollout of the SelfWealth Adviser Platform (SWAP).

SelfWealth management themselves have expectations of achieve cashflow breakeven as at Q1 2020.

BGL CORPORATE SOLUTIONS PTY LTD

The collection and storage of SMSF holdings data is outsourced to BGL Corporate Solutions Pty Ltd. BGL Corporate Solutions is a leading Australian SMSF software provider to SMSF Accountants and Administrators. Founded in 1983, BGL now provides services to over 380,000 SMSFs, representing in excess of 60% of the SMSF market and making them the clear market leader in the SMSF data space. They employ more than 130 staff in Australia, Hong Kong and Singapore. As part of the agreement, BGL Corporate Solutions also become a major shareholder in SelfWealth, currently owning 7.5% of issued capital.

Integrally important to the Index and ETF is the long-term distribution agreement (expiry March 20 2024) SelfWealth entered with BGL Corporate Solutions Pty Ltd (the 'BGL Distribution Agreement'). Under the BGL Distribution Agreement, BGL's SMSF clients have the ability to gain access to the SelfWealth Premium service through this SMSF Accountants and Administrators distribution channel.

The BGL relationship is a critically important for SelfWealth as it provides the data foundation which powers several of SelfWealth's diagnostic tools and is the basis of its differentiating core IP. It also establishes relationships for SelfWealth with Australia's accountancy industry. In terms of the stability of this relationship, again we note the vested interest that founder and 90% BGL shareholder Ron Lesh has in the success of SelfWealth through his 7.5% equity stake in the Company.

SelfWealth and BGL have worked together for seven years to build the SelfWealth database. Data added to the database by SelfWealth is actual trading data taken directly from the activities of its members after member ID is anonymised. BGL data is sourced from the SMSF Accountants, who input their clients' holdings data as part of their use of BGL's services. This data is again anonymised then sent via secure API connection to SelfWealth.

As a result, all data in the SelfWealth database is either derived from transactions data received direct from the source, or holdings data provided to BGL by regulated and professionally qualified individuals. As the number of SMSF Funds using BGL's services continues to grow the depth of SMSF portfolio data that SelfWealth's database holds therefore grows, giving SelfWealth a robust representation of the SMSF pool and a robust set of investment insights.

MOORGATE BENCHMARKS LTD

Moorgate Benchmarks Ltd worked with SelfWealth Ltd to build its governance and administration structures and procedures, and to assist it in making this statement of IOSCO Compliance.

Moorgate Benchmarks is an independent service provider to the index industry. The company is regulated by the UK Financial Conduct Authority (FCA) as a benchmark administrator. Moorgate provides index research and design, index strategy consultancy and various index governance services, including the provision of "legal representation" of non-EU index providers acting within the EU, and "endorsement" of non-EU indices used within the EU.

The company leverages years of experience in designing, successfully launching and managing indices, to help clients build passive management strategies, design and finalise index concepts, and plan and implement index governance systems. Its principals have held senior roles at the world's major index providers, including FTSE Russell, S&P and Thomson Reuters (now Refinitiv).

SOLACTIVE AG

SelfWealth outsources the calculation of its Index and the dissemination of the Index values, to its calculation agent, Solactive AG. Daily operational matters regarding Index management are delegated to

Solactive AG, which follows the Index methodology in calculating the Index. Where a deviation is necessary documentation in place requires it to be communicated to SelfWealth after the event and confirmed by the SelfWealth Index Management Committee.

Solactive AG is a global index calculation agent and index provider domiciled in Germany and founded in 2007. The company provides calculation of externally administered indices, and a suite of indices developed by itself. Both are extensively used as the underlying indices for investment products such as investment funds, ETFs and derivatives.

Solactive AG maintains extensive due diligence processes and a control framework that details its arrangements for ensuring the accuracy and reliability of indices it calculates.

INDEX METHODOLOGY

The SelfWealth SMSF Leaders Index was created to serve as a benchmark of the investment performance of successful Australian SMSFs which invest in ASX-listed stocks consistently with the statutorily mandated investment strategy and other requirements for self-managed superannuation funds.

The index methodology is based on a defined, predetermined set of methodology and objective criteria to select and rebalance constituents to ensure the index meets the above objective. The Index is derived from the holdings of SMSF portfolios held on SelfWealth's fund database, measured by the application of SelfWealth's proprietary "Performance Score".

The best-performing 10% of the SMSF portfolios from the SelfWealth database (with the top 10% equating to approximately 8,000 eligible portfolios) by reference to the SelfWealth Performance Score as at each Calculation Date are selected based on their demonstrated persistent out-performance. These portfolios are the "SelfWealth SMSF Leaders".

The SelfWealth Performance Score is calculated by reference to a portfolio's out-performance over the Benchmark Index over the below five different time periods. Each time period contributing a specific percentage to the overall SelfWealth Performance Score:

Summary Table of Roles & Responsibilities	
Performance Time Frame	Percentage Contribution to Performance Score
1 Month	10%
3 Month	15%
6 Month	25%
12 Month	30%
Annualised	20%

To determine the Index Constituents, the Selection Universe is reduced by removing securities that are not held by at least 45 portfolios out of the SelfWealth SMSF Leaders.

Where the remaining number of securities is no fewer than 25 nor greater than 75, those securities comprise the Index Constituents. Where greater than 75 securities remain, those securities are ranked in order of full market capitalisation and the largest 75 will comprise the Index. Where fewer than 25 securities remain, the two steps described above are repeated using securities that are held by at least 25 of the SelfWealth SMSF Leaders.

The composition of the index as well as the respective weightings of index constituents will be published on a retrospective basis in respect of each rebalance date on the business day immediately following the next rebalance date, on etf.selfwealth.com.au

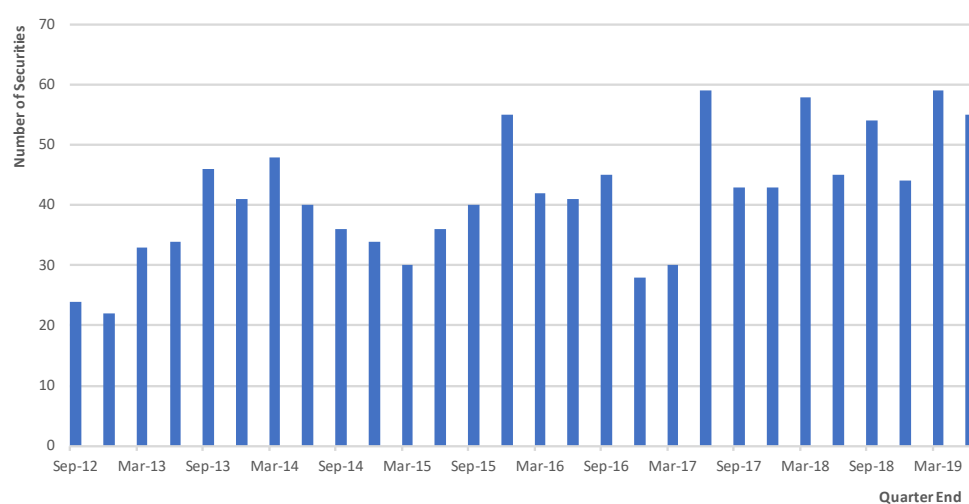
Portfolio Construction

The portfolio is constructed on the basis of the methodology described above. While there is an oversight committee, the construction of the portfolio on a quarterly basis is rules-based and not subject to a subjective oversight.

In practice, the methodology results in several key characteristics:

- ◆ Historic back-testing reveals a reasonable degree of turnover on a quarterly basis. This will have ramifications both in relation to transaction costs (how much are these) and the applicability of the CGT discount, depending on whether the holding period for any particular security is greater or less than 12-months. It is for this reason IIR empathises that the ETF is best suited to low marginal tax rate investors, specifically SMSFs and/or those in the retirement stage of their investment lifecycle.
- ◆ The degree of concentration / diversification of the portfolio can be expected to vary materially over the course of time. The historic back-tested reveals a minimum, maximum and median of 25, 59, and 42 securities, respectively. The variability, and by implication the degree of portfolio turnover, is illustrated in the chart below.

Back-tested Index Portfolio by Number of Securities by Quarter



- ◆ Stock selection and the equal weighting attribute have the ability to create over-/under-weight exposures relative to the Solactive A200 Index both by sector and market cap category, as tabled below. Historic back testing indicates the degree of sector over-/under-weighting has been relatively marginal. Relatively material and persistent under weights occur in Financials (partly attributable to the equal weighting attribute and Financials significant allocation in the Solactive A200 Index) and Real Estate due to the exclusion of A-REITs. More material and generally persistent over-/under-weights exist by market cap category, with the ASX 50 underweight and the ASX 50-100 typically

overweight. Again, this is partly a function of the number of stocks in the portfolio and equal weighting attribute.

Average Sector & Market Cap Weightings over Back Tested Period (%)			
Sector	Self Index	S&P/ASX 200	Difference
Financials	32.62	36.64	-4.01
Materials	20.17	17.02	3.15
Consumer Discretionary	9.39	6.75	2.64
Energy	7.88	5.37	2.50
Industrials	7.80	6.99	0.80
Health Care	7.46	6.48	0.97
Consumer Staples	6.75	4.34	2.41
Communication Services	3.73	5.47	-1.75
Utilities	2.14	2.17	-0.02
Information Technology	2.07	0.99	1.08
Real Estate	0.00	7.53	-7.53
By Market Cap Category			
Large Cap (ASX <50)	74.31	83.06	-8.75
'Mid Cap' (ASX >50 <100)	19.84	10.10	9.74
'Small Cap' (ASX >100 <200)	5.85	6.83	-0.99

PERFORMANCE

The back-tested performance of the Index is presented below and the key takeaways discussed.

- ◆ Broadly speaking, the Index has generally outperformed as at 30 September 2019. On a risk adjusted basis, the Index has outperformed over the seven year back-testing period, with the slightly higher degree of volatility (expected based on a more concentrated portfolio) more than offset by the higher returns profile. Furthermore, the Index has exhibited a slightly superior degree of downside protection / capital preservation, as reflected by relative drawdown profiles (see below). While the Index materially outperformed over the seven year back tested period, the degree of alpha varied materially on a rolling 3-year basis, with a maximum of 6.5% p.a. outperformance to a minimum of -0.3% p.a. of underperformance.

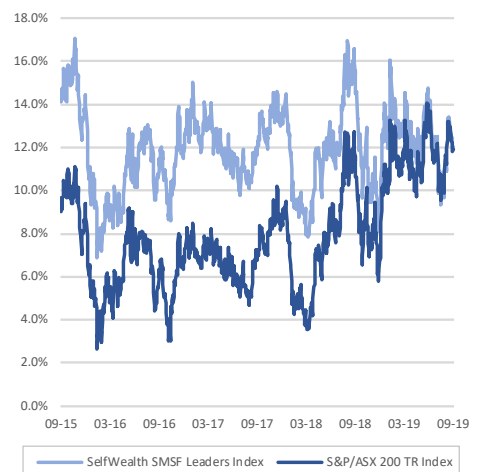
Back-tested Performance Summary (as at 30 Sept 2019)			
Time Period	SWF SMSF Leaders Index	S&P/ASX 200 TR	Alpa (p.a.)
1-yr	8.1%	12.5%	-4.4%
2-yr	12.2%	13.2%	-1.0%
3-yr	19.1%	16.6%	2.6%
5-yr	12.1%	9.5%	2.6%
7-yr	14.2%	11.0%	3.3%
Volatility	13.2%	12.5%	n/a
Max Drawdown	-16.0%	-17.4%	n/a
Sharpe Ratio ¹	0.81	0.60	n/a
Tracking Error	4.0%	n/a	n/a
Beta	1.01	n/a	n/a
Correlation	0.95	n/a	n/a

1) Assumes a Risk Free rate of 3.5%

Back Tested Returns Time Series (as at 30 Sept 2019)

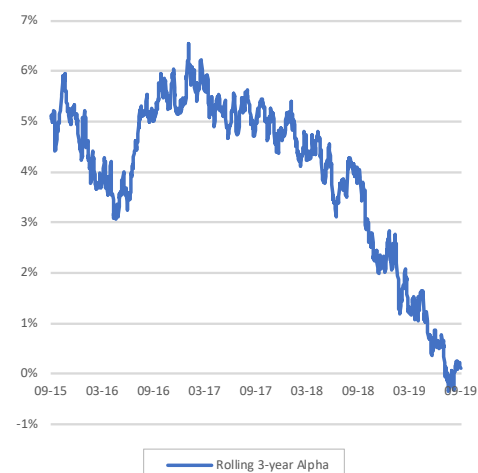


Rolling 3-year Returns (to 30 Sept 2019)

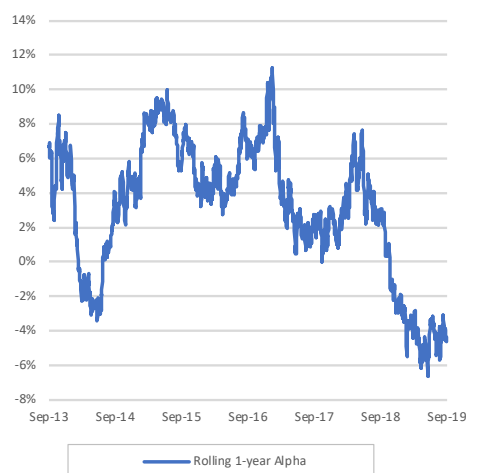


◆ The two charts below illustrate the rolling 3- and 1-year alpha of the Index versus the S&P/ASX 200 TR Index. These charts highlight the variability of alpha (especially over the shorter rolling 1-year period basis) and, secondly, that there has been a distinct and material trend decline in outperformance over the last 12-month period commencing from approximately October 2018 to September 2019. IIR attributes this recent trend decline most likely to the strong appreciation in a range of higher risk (and some on very high valuation multiples) stocks in the ASX 100-200 category, a market cap segment typically under weight in the Index. If this suspicion is correct, then effectively the decline in alpha is ‘true to style’, in that it may reflect a behavioural bias of those managing the SMSF portfolios that constitute the Index.

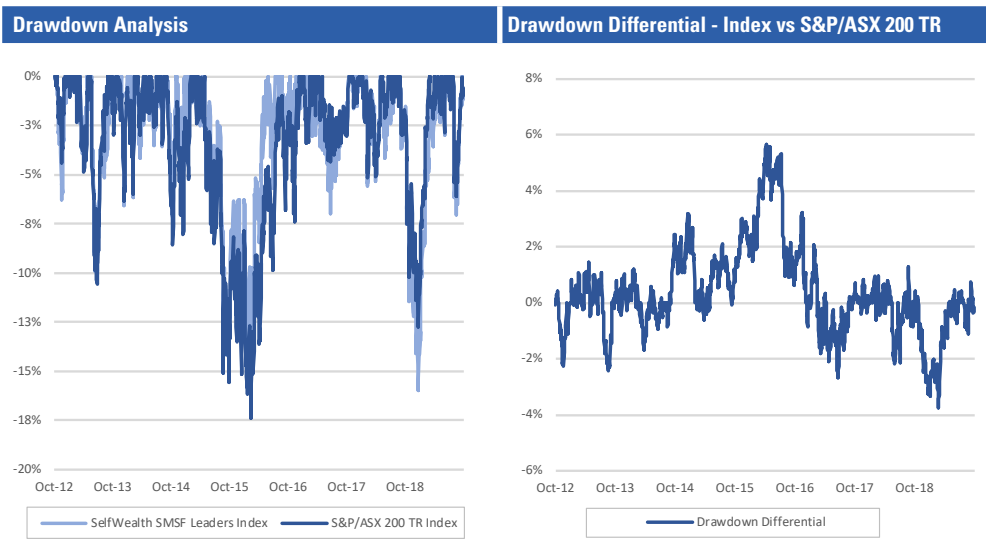
Rolling 3-year Alpha (to 30 Sept 2019)



Rolling 1-year Alpha (to 30 Sept 2019)



◆ The two charts below illustrate a relative drawdown analysis, with the first chart illustrating the absolute drawdown amounts of both the Index and the S&P/ASX 200 TR Index and the second the relative differential between the two. The only conclusion IIR can draw from this analysis is the Index on a back tested basis has exhibited roughly the same capital preservation character of the S&P/ASX 200 Index itself.



- ◆ With respect to dividends, over the back tested period the Index generated almost the precisely the same degree of income as the S&P/ASX 200 Index despite the zero exposure to A-REITs and underweight exposure to Financial. In effect, the Index has delivered materially superior capital growth without compromising yield.
- ◆ The table below details an attribution analysis by sector over the back tested seven year period, highlighting where alpha was gained or lost by sector selection¹ and by stock selection². Importantly, in what is a strong validation of the underlying philosophy of the Index methodology, the Top 10% of portfolios have added the vast majority of alpha by way of their stock selection abilities. This suggests a basis for persistence of outperformance moving forward - i.e. there is an empirical validity to the methodology. This provides IIR with conviction that, over the longer term, the Index has a sound basis in which to record alpha.

Attribution Analysis Back Tested Period						
Sector	Total Return			Total Alpha %		Selection Effect %
	Self Index	ASX 200	Difference	Self Index	ASX 200	
Total	151.09	105.62	45.47	45.47	7.57	37.91
Financials	41.37	37.72	3.65	3.29	1.31	1.97
Materials	43.93	14.73	29.20	30.85	7.38	23.47
Consumer Discretionary	12.12	8.22	3.90	2.30	1.46	0.84
Energy	1.55	0.94	0.61	-2.37	-3.72	1.35
Industrials	21.86	9.88	11.97	12.13	1.36	10.77
Health Care	15.82	12.64	3.19	-0.47	1.44	-1.91
Consumer Staples	7.46	3.98	3.48	2.69	0.84	1.85
Communication Services	1.46	3.64	-2.18	-1.90	-2.01	0.11
Utilities	3.18	2.66	0.52	0.92	0.51	0.40
Information Technology	2.34	1.77	0.57	-0.07	0.89	-0.95
Real Estate	0.00	9.14	-9.14	-2.07	-2.07	0.00
Not Classified	0.00	0.31	-0.31	0.17	0.17	0.00

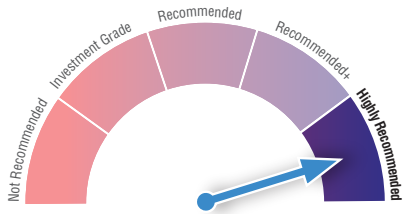
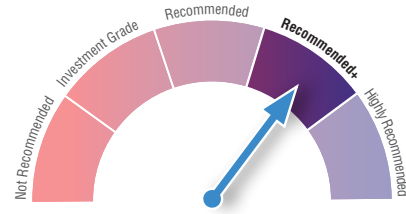
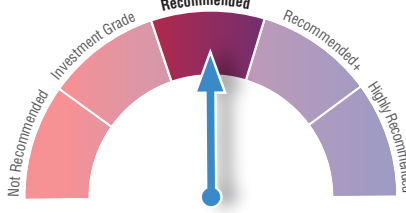
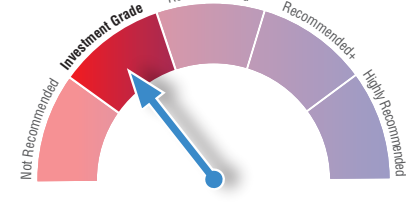
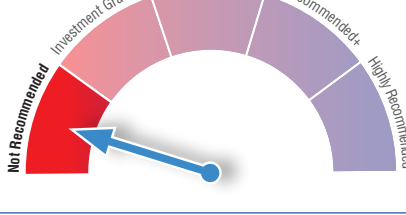
1) Allocation Effect - The active return attributed to asset allocation decisions (e.g., sectors, countries, or market caps) that differ from the benchmark. The allocation is generally positive when the fund is overweight for a sector in which the benchmark return exceeds the total benchmark return.

2) Selection Effect - The active return attributed to security selection decisions that differ from the benchmark. When the portfolio sector returns exceed the benchmark return, a positive number is posted.

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd “IIR” rating system

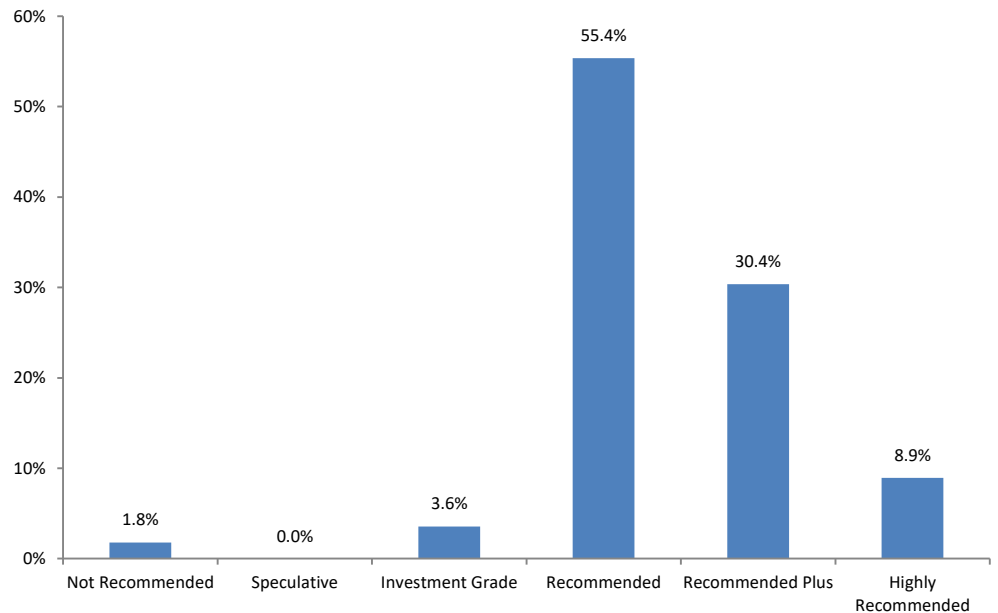
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–83</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>70–79</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Investment Grade</p> 	<p>60–70</p> <p>This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes that despite the product’s merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



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