



# Fund Review

## Spire Copper Rock Capital Global Smaller Companies Fund

ISSUE DATE 06-03-2017

### About this Review

ASSET CLASS REVIEWED	GLOBAL EQUITIES
SECTOR REVIEWED	GLOBAL SMALLER COMPANIES
SUB SECTOR REVIEWED	FUNDAMENTAL
TOTAL FUNDS RATED	5

### About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	SPIRE COPPER ROCK CAPITAL GLOBAL SMALLER COMPANIES FUND
APIR CODE	ETL0410AU
PDS OBJECTIVE	TO OUTPERFORM THE MSCI WORLD SMALL CAP INDEX BY 2% TO 3% P.A. GROSS OVER A FULL MARKET CYCLE (E.G. FIVE TO SEVEN YEARS)
INTERNAL OBJECTIVE	BENCHMARK + 2% TO 3% P.A. GROSS OVER ROLLING FIVE-YEAR PERIODS
STATED RISK OBJECTIVE	TRACKING ERROR WITHIN A 3-6% P.A. RANGE
DISTRIBUTION FREQUENCY	ANNUAL
FUND SIZE	AS\$65M
FUND INCEPTION	01-07-2014
MANAGEMENT FEE	1.38% P.A. (MANAGEMENT COST)
PERFORMANCE FEE	15% OF NET RETURN ABOVE THE BENCHMARK (HIGH WATER MARK APPLIES)
RESPONSIBLE ENTITY	EQUITY TRUSTEES LIMITED

### About the Fund Manager

FUND MANAGER	COPPER ROCK CAPITAL PARTNERS, LLC
OWNERSHIP	65% OM ASSET MANAGEMENT; 35% INVESTMENT TEAM
ASSETS MANAGED IN THIS SECTOR	US\$5.1B [US\$2.4B GLOBAL SMALLS]
YEARS MANAGING THIS ASSET CLASS	8

### Investment Team

PORTFOLIO MANAGER	STEPHEN DEXTER
INVESTMENT TEAM SIZE	8
INVESTMENT TEAM TURNOVER	NIL
STRUCTURE / LOCATION	COMBINED ANALYST & PM / BOSTON

### Investment process

STYLE	CORE / GROWTH
TYPICAL CAPITALISATION BIAS	SMALL CAP
BENCHMARK	MSCI WORLD SMALL CAP INDEX AS
TYPICAL NO. OF STOCKS	80-120
STOCK LIMIT	5% (ABSOLUTE)
SECTOR / INDUSTRY LIMITS	± 6%
COUNTRY / REGION LIMITS	± 6%
EMERGING MARKETS LIMIT	15% (SOFT)
CURRENCY EXPOSURE	UNHEDGED

### Fund rating history

MARCH 2017	RECOMMENDED
FEBRUARY 2016	RECOMMENDED
JANUARY 2015	INVESTMENT GRADE

### What this Rating means

The 'Recommended' rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

### Strengths

- High calibre, experienced investors capably led by CIO Stephen Dexter.
- Tight knit culture developed from long working relationship of senior team members and strong alignment to investors.
- Boutique organisational structure, backed by a large institutional parent, benefits the team with the operational support similar to that of a institutional manager.

### Weaknesses

- The research process is not standardised and is highly dependent on individual analyst methodologies.
- Although resourcing has recently improved, the investment team is considered to be modest in size given the width of the Manager's investment universe and number of strategies managed.
- The Fund's fee load is at the upper-end of the scale within Lonsec's Global Small Cap peer group.

### Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY			●
FOREIGN CURRENCY EXPOSURE			●
SECURITY LIQUIDITY RISK		●	
SECURITY CONCENTRATION RISK		●	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

### BIometrics

Aggregated risks	1	2	3	4	5	6	7
STD RISK MEASURE						●	

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with AFSA/FSC guidelines.

### Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG AWARENESS		●	

We strongly recommend that potential investors read the product disclosure statement or investment statement. Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL. No. 421445. This information must be read in conjunction with the warning, disclaimer and disclosure at the end of this document. This report supersedes all prior reports.

ANALYST: JAMES KIRK | APPROVED BY: RUI FERNANDES

# Spire Copper Rock Capital Global Smaller Companies Fund

## Fee profile

	LOW	MODERATE	HIGH
FEE VS. LONSEC UNIVERSE			●
FEE VS. ASSET CLASS			●
FEE VS. SUB-SECTOR			●

Fee Biometrics are a function of expected total fee as a percentage of expected total return.

## What is this Fund?

- The Spire Copper Rock Capital Global Smaller Companies Fund ('the Fund') is an actively managed long-only global equities product focused on those companies with small market capitalisation floats (typically <US\$2bn). Investments are made across both Developed and Emerging Markets (not typically expected to exceed 15%).
- The Fund is managed by Copper Rock Capital Partners (Copper Rock or 'the Manager'), and portfolio decisions are driven by 'bottom-up' stock research with portfolio construction being relatively benchmark unaware although assisted by an optimisation process. The sector and regional constraints are modestly wide but allow some flexibility. Lonsec believes that the Fund may exhibit moderate to high expected Tracking Error versus the benchmark. The Fund's fee load is at the upper-end of the scale within Lonsec's Global Small Cap peer group.

## Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- The Fund provides investors exposure to global equity stock markets (small cap companies) and accordingly may experience both positive and negative, at times sharp, movements in the value of capital invested. Notably, small cap companies, due to their nature, tend to be less liquid and more volatile than their large cap peers.
- The Fund, managed with benchmark relative constraints, will invest in between 80 and 120 names and is moderately concentrated given the niche market segment of the strategy. Lonsec believes small cap products should be used to complement, rather than replace, large cap global equity exposures. Lonsec believes that any exposure to small cap products should be mindful of the relative risk of the sector and accordingly be limited in size. Furthermore, the minimum investment timeframe for this Fund would be five to seven years.

## Suggested Lonsec risk profile suitability

SECURE	DEFENSIVE	CONSERVATIVE	BALANCED	GROWTH	HIGH GROWTH
		●	●	●	●

For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

## Changes Since Previous Lonsec Review

- Copper Rock transitioned their front and middle office investment management systems to Charles River for improved compliance reporting and trade reconciliation mid-2016.
- The investment team was expanded in February 2017 through the appointment of senior research analyst, Tom Grant. Grant is responsible for fundamental research coverage and generating investment ideas for all four of the firm's existing equity strategies with a particular emphasis on emerging markets.

## Lonsec Opinion of this Fund

### People and resources

- Stephen Dexter is the Fund's portfolio manager and leads Copper Rock as the firm's global equities CIO since joining in 2008 and following the closure of the US equities business in 2014. Dexter is a highly experienced investor who has over 32 years' experience. Notably, Dexter has demonstrated a track record of building successful investment management businesses at Putnam Investments and Kemper Funds prior to founding the Manager's global equities franchise. Lonsec has met with Dexter as part of this review and has found him to be a high calibre, passionate and knowledgeable investor. Importantly, with a team which numbers only seven investors, Dexter also has stock research responsibilities and a second portfolio management assignment, EAFE small caps. Surprisingly, Dexter's own portfolios exhibit very modest stock overlap (under 10 names) between strategies. Lonsec has been advised that this is for risk management purposes. The Fund is constructed under a sole portfolio manager structure in Dexter which Lonsec believes delivers increased accountability and transparency in the decision-making process.
- Dexter established Copper Rock's global equities business with two former colleagues who joined him from Putnam Investments; Denise Selden and David Shea. While this group of three has worked together since 2006 when Shea was recruited by Dexter to Putnam as a quantitative analyst, Dexter and Selden share a deeper working relationship. Specifically, Dexter and Selden have worked together for over 17 years after meeting at Putnam in 1999 when he joined that firm. Dexter reinvigorated the global equities business at Putnam from 2002. Lonsec considers the longevity of the working relationship between the three key portfolio managers a positive and notes this to be particularly important given the small size of the team and the fast-paced investment process. Close-knit teams may be more likely to leverage-off each others knowledge and skillset, and this is especially important where information may not be as readily available.
- Selden is the lead portfolio manager for the Fund and has a noteworthy 32 years of industry experience with a relatively equal mix from both the sell-side and buy-side. Selden has a demonstrable track record of managing all cap strategies both at Copper Rock and her previous employer Putnam Investments dating back to 2002. Lonsec has met with Selden on a number of occasions over the years, with Lonsec

considering her to be a highly capable investment professional.

- Similar to Selden, Shea's industry experience is noteworthy at 27 years however Shea's career has predominantly been tilted towards quantitative research and with his joining Copper Rock has been reorientated to fundamental research. Shea is responsible for the firm's emerging markets strategy as lead portfolio manager. Lonsec has previously met with Shea and believes he is a capable investment professional. Lonsec notes that both Selden and Shea's strategies represent Copper Rock's greatest opportunity for business growth with notable capacity runways.
- The portfolio management team was expanded in February 2015 with the addition of Tim Codrington. The expansion of the team is viewed positively, not only from a resourcing perspective but also succession planning. Codrington has 17 years' of investment experience including global equity portfolio management roles at AGF Management Limited Canada and Putnam Investments. Currently, Codrington has portfolio management responsibilities across all four strategies with the Manager, however there is a greater emphasis on the global all cap and emerging market small cap strategies. Having met with Codrington previously, Lonsec believes he has become a valuable addition to the wider investment team.
- Stock research responsibilities are broadly organised along global sector lines, although in practice, analysts operate as generalists, with the team centralised in Boston. The four portfolio managers are supported by three senior research analysts. Matthew Shumway and Chris Martin joined the Manager in 2009 and 2010 respectively, with the team being recently expanded in February 2017 following Tom Grant's appointment. Lonsec notes all analysts have at least 12 years of prior related experience. Lonsec has met with Shumway and Martin previously and views them as valued members of the investment team. Lonsec welcomes the recent expansion helping to spread the research load among the team. Further expansion to the team may also assist in producing a greater depth of research.
- The core investment team of seven is further supported by a dedicated senior quantitative analyst, Brandon Farr. Farr joined the Firm in March 2015 and was previously with State Street Global Advisors where he was primarily responsible for preparing and presenting equity risk analyses. Prior to that, Farr had also worked in Putnam as an Investment Risk Analyst on risk and performance attribution. In Lonsec's opinion, the addition of Farr to the investment team was a material improvement relieving Shea of day-to-day quantitative tasks which included the maintenance of the multi-factor model. While Lonsec considers Farr to be an important member of the team, adding rigour and robustness to the team's portfolio construction meetings, Lonsec is wary however of the potential for quantitative factors to over influence fundamental decision making.
- Although Lonsec looks positively on small team sizes within small caps investing, the team has considerable responsibilities given the breadth of the portfolio managers' roles (Dexter – Global &

EAFE; Selden – All Cap; Shea – Emerging Markets) and the diversity of their portfolios invariably placing pressure on research coverage. Additionally, Lonsec has been advised there is minimal overlap in holdings between the Firm's various global equity strategies which creates few synergies between the strategies. Further, when factoring for the portfolio turnover of the four strategies 55% to 80% p.a. the stock count becomes considerable.

- Stock research responsibilities are logically organised along global sector lines, although in practice, analysts operate as generalists, with the team also centralised in Boston. The Boston location is particularly important to the Firm as it maintains an 'open door policy' to meet with effectively any company.
- Key person risk is considered to be very high in all three portfolio managers, especially with Dexter being with respect to this Fund and more broadly to the firm given he is responsible for a significant majority of the firm's AuM. Lonsec notes there is also a high degree of dependence on the analysts with the volume of work and cultural fit required. The equity that the three senior members of the portfolio management team hold and the potential for this to flow to the analysts is also considered a key mitigant. The remuneration structure, with top quartile industry salary and bonus potential, are also thought to mitigate the risk of voluntary departures.
- Lonsec is satisfied with the alignment of interests between the team and its investors. Bonus payments are tied to both the individual contribution and the performance of the Firm's strategies. Equity participation also serves to align the senior members of the investment team.

### Research and portfolio construction

- The investment process involves a blend of quantitative and fundamental research. This is a well-established model that Dexter established in 2002 at Putnam prior to joining Copper Rock. A Multi-factor model guides analyst research although they are not exclusively obliged to only cover names that screen well. Analyst research and presentation is highly individualistic. Stock discussions are team based however portfolio construction decisions rest with Dexter. Lonsec considers that the investment process is satisfactory although is highly dependent on the familiarity of the team with the process and preservation of the current culture.
- The multi-factor quantitative model used to rank the universe was largely outsourced some three years ago to a third party for maintenance coinciding with Shea's increased fundamental research and portfolio construction responsibilities. The multi-factor quantitative model used to rank the universe has a significant weighting to both valuation and earnings momentum factors (40% each). While Lonsec considers the inclusion of valuation factors into the model to be logical, it diverges from the 'growth' driven investment philosophy, and may unnecessarily limit potential ideas. That said, its inclusion balances the high degree of momentum that the investment process engenders via the earnings momentum factors.

- The stock universe for the Fund is between US\$100m and US\$5bn in market capitalisation in addition to liquidity requirements. Although the majority of initial investments are in companies with a market capitalisation below US\$2bn, Lonsec notes the screening for names between US\$2bn and US\$5bn is considered less appealing and detracts from the small cap purity of the strategy.
- Lonsec considers the Manager's quantitative multi-factor model to be the backbone of the investment process, directing the research effort complementing the Manager's differentiated 'open door' policy to meeting company management. Despite the pressure this places on Copper Rock's workflow, Lonsec considers this to be a key aspect of the investment process allowing for the development and maintenance of market intelligence across sectors. Importantly, meeting with companies prior to investments being made is a core component of Copper Rock's process. The team also maintains an active travel schedule.
- The research process is not standardised and is highly dependent on individual analyst methodologies. This is viewed negatively given the volume of meetings typically held by the team (c. 1,000 company meetings per year) and the c. 700 stocks actively researched by the team of six. The research process is largely centred on understanding a business's strategy and whether this can be fulfilled. Although Lonsec is mindful that the team is experienced, and this is one of the key aspects of the strategy which investors would be accessing, the workflow is nevertheless significant and the standardisation of the fundamental research output would be considered valuable. The financials tear sheet is one of the few standardised aspects of the investment process.
- Similarly, valuation methodology is analyst dependent. Lonsec believes that the use of company specific valuation methodologies will likely provide a better fit and more accurate valuation analysis. This being said, in light of the high volume of the research process, Lonsec considers that the use of a house standard valuation methodology would be helpful in establishing base cases at the minimum. All research is reviewed by the whole team at a weekly meeting which helps facilitate discussion.
- Stock ideas are formally presented weekly to the whole team at the Monday afternoon stock selection meetings. Lonsec considers team based peer reviews to be an important mechanism to ensure consistency across the research process. Ultimately though, the portfolio managers decide which names they wish to invest in. The Manager has implemented Bloomberg Notes as a central tracking of ideas and company research notes which have been generated by the portfolio managers / analysts. To this end, Lonsec views the centralisation and increased communication of this research favourably.
- The 'Alert List', a simple mechanism which flags when stocks have underperformed is considered particularly important for Copper Rock's investment process; not only for preserving the growth characteristics of the portfolio but also to minimise the risk of being caught in significant collapses. This is considered to a pertinent risk given not only the volume of research but also its fast paced nature. Copper Rock's discipline with respect to the 'Alert List' and sales more generally is considered a competitive advantage versus peers.
- The maintenance of vastly different portfolios across the firm's strategies, as noted earlier, is curious. Lonsec acknowledges the ambition for all portfolio managers to have full ownership of their portfolios, however it would normally be expected that, subject to constraints, good ideas could populate more than one portfolio. The most surprising aspect was the comparison between the global and EAFE (global ex-US) small caps strategies which are both managed by Dexter. Lonsec was advised that there was minimal overlap between these two product lines. A high degree of customisation is viewed most positively when backed by comparable resourcing which is not readily evident at Copper Rock. Lonsec believes that the maintenance of such unique portfolios places significant pressure on the research process and the investment team. Further, although the Manager has indicated that this is a function of risk management, Lonsec is uncertain whether the Fund is receiving the firm's highest conviction ideas.
- The use of the quantitative models to generate an optimal model portfolio which the portfolio manager considers as part of the portfolio construction process is not completely unique in actively managed fundamental strategies. Nonetheless, this does appear to be slightly at odds with the highly active, bottom-up, fundamentally driven growth philosophy at Copper Rock. Portfolio optimisation can be an effective way to manage a high volume of information and ensuring that a portfolio's desired characteristics are maintained.
- Lonsec is particularly sympathetic of the price driven aspect of the sell-discipline. In conversations with Copper Rock, it has been made clear that price targets are critical in the management of the Fund. Further, that the formulation of realistic price targets, where analysts are expected not to be shy and to fully express their conviction, should deliver more useful information for which to evaluate stocks and manage the Fund. Accordingly, Lonsec has been advised that Copper Rock does not tend to re-value stocks when they reach their price targets rather these are sell candidates. Lonsec believes that this discipline can assist in avoiding falling in love with names.

**Funds under management**

- The global small capitalisation strategy is now 'hard' closed to institutional investors having reached its US\$2bn limit. The Fund is one of the few available methods of accessing this capability with a total of c. US\$200m in remaining capacity. While this is considered to be a modest amount, it is noteworthy that small caps tend to be more of a niche in investor portfolios with accordingly more modest flows. The key issue, however, is the potential increase in the All-Cap and Emerging Markets strategies as the few opportunities for continued business growth outside the ordinarily complementary EAFE smalls. Lonsec in mindful that significant growth in these strategies will further divert the team's already scarce resources away from small caps.



**Risk management**

- Risk management is considered satisfactory. The Fund is managed with a range of hard benchmark relative constraints. The portfolio managers are responsible for their respective portfolios and the team regularly discusses, on a weekly basis, the portfolios’ risk characteristics. This is supported by the firm’s quantitative tools. In addition, Copper Rock benefits from being a part of the OMAM group of asset managers which means that the firm can access the group’s centralised risk management resources.

**Performance**

- The Fund was launched in July 2014 and accordingly does not have a meaningful track record (five-to-seven years). That said, the Fund invests into the US Dollar institutional class with a track record since April 2010. The performance has been solid, since inception, to December 2016, returning 13.1% p.a. (gross fees) versus its index’s 10.4% p.a.
- Performance over two years to December 31, 2016 has delivered an absolute return of 7.7% p.a. In relative terms, the Fund has underperformed the benchmark (MSCI World Small Cap NR Index AUD) by 5.0% p.a. Lonsec notes a majority of this relative underperformance has been derived in the past year, with the Fund materially underperforming through 2016 by 8.0% against the benchmark.
- Copper Rock explain the underperformance as a result of heightened volatility and a sharp change in investor style preferences (‘growth’ stocks to ‘value’ stocks). Lonsec notes the investment process has an inherit momentum bias which also contributed to the underperformance. Further, the Fund’s stock picking contributed to the underperformance. Throughout this period, the high degree of volatility caused a record number of stocks to hit the Manager’s ‘Alert List’. For the most part, the Fund maintained its positions in these stocks as it was believed the market was acting irrational.
- The Fund is managed with a performance fee. The base fee of 1.38% p.a. is at the upper-end of the scale relative to peers. This is further increased with the 15% performance fee attached to the net returns that exceed the benchmark. The performance fee is subject to a high water mark (higher of the unit price when the performance fee was last paid or if this has never been paid, the initial unit price). The performance fee is payable annually. Lonsec considers that the performance fee is appropriately structured, however believes that the quantum of the ongoing management cost is high in the overall context of the fee mix. Lonsec believes that where performance fee structures are in place that the constant management cost should be notably lower. In saying that, Lonsec acknowledges the recently revised management cost of the Fund.

**Overall**

- Lonsec has maintained the Fund’s ‘Recommended’ rating at this review. Underpinning this rating is Lonsec’s high regard for Chief Investment Officer, Stephen Dexter and the calibre of the investment team that he leads. Although the team size remains modest, Lonsec believes the additions made to the team over the past 24 months will be highly beneficial given the heavy workload prescribed by the investment process.
- That said, Lonsec continues to believe the investment process could benefit from increased structure. The research process is not standardised and is highly dependent on individual analyst methodologies. Furthermore, although the Fund’s management cost has been recently revised, the total fee load remains at the upper-end of the peer group.

**People and Resources**

**Corporate overview**

Spire Capital Pty Ltd is an Australia-based funds management distribution business that has engaged Copper Rock Capital Partners, LLC. (Copper Rock), as the Fund’s investment manager. The Fund forms part of the Spire Global Investment Series which includes separately managed products in the global property asset class. Equity Trustees Limited has been engaged as the Responsible Entity.

Copper Rock is a Boston-based boutique asset manager which was founded in February 2005. Copper Rock forms part of the OM Asset Management (OMAM) stable of investment firms. OMAM was floated on the NYSE in October 2014 having been partially divested by Old Mutual PLC (an LSE-listed South African life insurance conglomerate). OMAM owned 65% of Copper Rock with the remainder held by members of the investment firm. Copper Rock became solely focused on non-US strategies in 2014 following the closure of its US equities franchise. Across its range of strategies, Copper Rock was responsible for some US\$5.1b in AuM as at 31 December 2016.

**Size and experience**

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
STEPHEN DEXTER	CIO / PORTFOLIO MANAGER (GLOBAL & EAFE)	32 / 8
DENISE SELDEN	PORTFOLIO MANAGER (ALL-CAP)	32 / 8
DAVID SHEA	PORTFOLIO MANAGER (EMERGING MARKETS)	26 / 8
TIM CODRINGTON	PORTFOLIO MANAGER	17 / 1
MATTHEW SHUMWAY	SENIOR RESEARCH ANALYST	12 / 7
CHRIS MARTIN	SENIOR RESEARCH ANALYST	13 / 6
TOM GRANT	SENIOR RESEARCH ANALYST	12 / 0
BRANDON FARR	SENIOR QUANTITATIVE ANALYST	12 / 1

The team are supported by an additional two traders.

# Spire Copper Rock Capital Global Smaller Companies Fund

ISSUE DATE 06-03-2017

Stephen Dexter joined Copper Rock in 2008 as the Firm's CIO for Global Equities as well as the lead portfolio manager for Copper Rock's Global and International Small Cap strategies. Dexter has over 32 years of experience and left Putnam Investments, along with Denise Selden, to launch the global equities franchise at Copper Rock continuing his practice of building global equities businesses similar to his time with Putnam in Boston (joined in 1999) and, before that, Kemper Funds (joined in 1986) (now part of Deutsche Asset and Wealth Management).

Denise Selden joined Copper Rock to establish the Firm's global equity franchise with Dexter and later establishing Copper Rock's all cap strategy in December 2009. Selden has over 32 years of experience which includes a long-standing working relationship with Dexter where they met at Putnam Investments in 1999. Prior to Putnam, Selden was the lead global analyst for the Healthcare sector on the sell-side at Lehman Brothers.

David Shea also joined Dexter and Selden in leaving Putnam for Copper Rock. Shea joined Dexter's team at Putnam in 2006 as a quantitative analyst and followed them in 2008 to conduct a similar role at Copper Rock. Over time, Shea increasingly took on fundamental research and subsequently portfolio management responsibilities for the International Small Cap strategy and later establishing Copper Rock's Emerging Market Small Cap strategy. Prior to Putnam, Shea was a Director in the Quantitative Research Group at Citigroup Asset Management and has held consulting / quantitative roles at other firms.

Tim Codrington possesses 17 years' of investment experience, including global equity portfolio management roles at AGF Management Limited Canada and Putnam Investments prior to joining Copper Rock in February 2015. Codrington currently has portfolio management responsibilities across all four of the Manager's strategies.

Matthew Shumway and Chris Martin joined the team in June 2009 and March 2010 respectively. Shumway was a buy-side equity analyst at Wellington Management Company before joining Copper Rock. Martin also joined from Wellington Management Company but has had experience at other firms.

Tom Grant is the most recent addition to the Copper Rock Investment team, joining as a Senior Research Analyst in February 2017 with a particular emphasis on emerging markets. Prior to joining Copper Rock, Grant spent nearly ten years as an analyst with The Boston Company Asset Management contributing to the emerging markets small cap strategy. Previous to this, Grant was a Small and Micro cap analyst at Sirios Capital Management and Adams, Harkness & Hill.

Brandon Farr joined the Firm in March 2015 as the Firm's first dedicated quant resource in the role of Senior Quantitative Analyst. Farr possesses 12 years' quantitative and portfolio risk management experience. Prior to Copper Rock, Farr was employed at State Street Global Advisors where he was an Investment Risk Analyst. Farr was also previously known to the team through six years at Putnam Investments.

Equity trading is conducted by the Firm's two dedicated traders: Jeffery Stought, Head of Trading, and Julie Fjeldheim. Stought joined in June 2010 and Fjeldheim,

joining in June 2007, was at the Firm when Dexter launched the global equities business.

## Team structure

Dexter leads the team as CIO, although all members largely operate autonomously. The investment team of eight are all based in Boston with seven members responsible for stock research, including all portfolio managers. The investment team are more or less generalists with Dexter, Selden and Shea have loose, overlapping sector responsibilities. Additionally, some team members having greater focus on Emerging Markets or small caps (e.g. Shea for EM, Dexter for Smalls). Selden as lead portfolio manager of the global all cap strategy is fully accountable for the strategy.

## Remuneration

Remuneration is a mix of salary, annual cash bonus and long-term incentive plan. The cash bonuses depend on the performance of both the Firm's strategies relative to their respective benchmarks and peer groups over a trailing one and three-year basis and an individual's personal performance / research contribution. The salary and bonuses are generally set by the Firm at the top-quartile versus the industry with the use of a compensation consultant. Senior members of the team also have equity ownership in the business. These individuals are Dexter, Selden and Shea. The Manager has indicated that Codrington may be entitled to some equity in the near term as his portfolio management responsibilities/contribution increase.

## Research Approach

### Overview

RESEARCH PHILOSOPHY	BOTTOM-UP, COMBINED FUNDAMENTAL AND QUANTITATIVE
TARGET COMPANY	COMPANIES WITH RESILIENT AND DEFENSIBLE BUSINESS MODELS, CHARACTERISED BY UNDERLYING UNIT GROWTH, MARKET SHARE GAINS, HIGH PROFITABILITY AND SIGNIFICANT INTERNAL CASH GENERATION
MINIMUM MARKET CAPITALISATION	US\$100M
NO. STOCKS IN MANAGER'S UNIVERSE	7,000
NO. STOCKS FULLY MODELED / RESEARCHED	C. 700
RESEARCH INPUTS	VARIOUS - COMPANY FINANCIALS AND MEETINGS, SELL-SIDE ANALYSTS, ETC.
BROKER RESEARCH	IMPORTANT
VALUATION OVERVIEW	VARIOUS METHODOLOGIES - ANALYST DEPENDENT

### Universe filtering

The stock universe for the Fund is between US\$100m and US\$5bn in market capitalisation in addition to liquidity requirements. A quantitative screen is used to score and rank the universe of approximately 7,000 stocks. The underlying multi-factor alpha model considers three headline factors (1) valuation (40%), (2) earnings momentum (40%) and (3) growth sustainability and quality (20%). There are 13 underlying sub-factors. Stocks are scored, 1 (high) to 5 (low), and then is segmented into quintiles. The research process is designed to focus on those names that rank highly, however there is freedom to investigate poorly ranked names which the team considers are not being properly evaluated by the sell-side. Maintenance of the model has been largely outsourced to a specialist unit of Markit—a third party data and technology provider.

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The quantitative model is designed to guide analysts, however they are ultimately free to choose which names to investigate. The general expectation is that they will focus on the workflow generated by the quantitative model with any deviation needing a good reason. Additionally, Copper Rock's 'open door' policy of meeting any company management also generates stock ideas outside the quantitative screen.

## Research process

The nature of the fundamental research is analyst dependent and likewise with the final research submissions. While there is a standardised financial information tear sheet which is system generated, the fundamental research is not standardised. The research process is designed to be quick with output succinct and highlighting the key issues on a two page note.

Meeting with company management features as an active part of the research process. In a typical year, Copper Rock holds some 1,000 meetings with companies and a further 300 meetings with sell-side analysts. A high degree of these meetings tend to be generated by the firm's 'open door' policy of accepting virtually any company meeting request. Further, a travel programme also features as part of the investment process. This will include sell-side organised industry conferences as well as company visitations. This said, the firm primarily seeks to leverage its Boston location to facilitate meetings.

The aim of the research process is to determine whether a company is still a growth company (e.g. strength of revenue and earnings growth); whether this growth is sustainable (e.g. proven management, market share gains and margin expansion), and; whether this growth is already priced into the market. (e.g. industry valuation and macroeconomic inputs)

There are daily morning meetings which are used to track the research progress and discuss global markets. There are a further two meetings which are held weekly--Monday's stock selection meeting and Tuesday's portfolio construction meeting. The stock selection meeting represents the culmination of the research process. At this weekly meeting, stocks are pitched by the analyst, or stock sponsor in this setting, to the portfolio managers in addition to reviewing the quantitative model output and the 'alert list'.

Target prices are of critical importance to the process. The culture is for analysts to apply what they believe are genuine price targets and not self-censor themselves, e.g. for fear of ridicule.

## Valuation

Valuation analysis is the responsibility of the stock sponsor. Analysts have the freedom and flexibility to select the valuation methodology which they believe best suits the company being considered (e.g. price multiples or EV/EVITDA). Valuations are compared across the stock's own history, its country or regional peers and global sector. Additionally, the valuation horizon is similarly flexible and can typically 12 months or longer depending on the analyst / company circumstance. Ultimately, valuation analysis at Copper Rock is about determining what the 'market' is fixed on and whether this is beatable based on the bottom-up analysis.

## Portfolio Construction

### Overview

FUND BENCHMARK	MSCI WORLD SMALL CAP INDEX IN AS
EMERGING MARKETS PERMITTED	YES
INTERNAL RETURN OBJECTIVE	BENCHMARK + 2% TO 3% P.A. (GROSS) OVER ROLLING FIVE YEAR PERIODS
INTERNAL RISK OBJECTIVE	TRACKING ERROR: 3-6% P.A.
PORTFOLIO MANAGEMENT APPROACH	RELATIVELY BENCHMARK UNAWARE
INVESTMENT STYLE	CORE / GROWTH
PORTFOLIO DECISION MAKING	SOLE PORTFOLIO MANAGER, ASSISTED BY QUANTITATIVE TOOLS
STOCK SELECTION	BOTTOM-UP
TOP-DOWN INFLUENCE	MINOR CONSIDERATION
TYPICAL NUMBER OF HOLDINGS	80-120
MARKET CAPITALISATION BIAS	SMALL CAP
EXPECTED PORTFOLIO TURNOVER	75% P.A.
OBSERVED ACTIVE SHARE	>95% (TYPICAL)
PORTFOLIO EXPOSURE IN TOP 10 HOLDINGS	16.5% (DECEMBER 2016)
MAXIMUM MARKET CAPITALISATION	US\$5BN

Portfolio construction decisions are solely at the discretion of the portfolio manager. That said, reliance on quantitative tools carries through to the portfolio construction stage of the investment process with a mean-variance optimisation process used to generate a recommended portfolio. Optimisations are performed twice weekly (one with modest change baked in and the second 'as if new').

New stock positions are typically commence at 0.75% with increments of 0.30% thereafter. Position sizing in general is driven by portfolio manager conviction as well as other elements such as: probability of objectives being achieved; upside to fair value, and; the relative risk of the stock's sector. Positions tend to range between 0.50% and 2.00% to 3.00%.

A portfolio review is conducted by the whole team on a weekly basis (e.g. optimisation output, current positioning and risk analysis). Notably, the portfolio tends to be comprised of between 10% and 15% 'poorly ranked' names. While this appears to belie the discipline projected by the use of the quantitative models, these tend to be names which have experience some change which is not being adequately reflected in the quantitative data and in which the analysts have a good degree of confidence.

Sector and regional positioning is driven by the bottom-up portfolio construction with guideline limits of  $\pm 6\%$  relative to the benchmark for both sector and regional positions. The number of stocks may range between 80 and 120, however the Fund is expected to be tighter at 80 to 90 stocks.

### Buy / sell drivers

Stocks are bought where the portfolio manager has sufficient conviction in its ability to achieve the analyst expectations. Generally, a minimum upside of 50% is required before a stock can be a candidate for the portfolio.

Target prices are a key element in portfolio management and the firm has a culture of selling names when the target is reached rather than conducting additional analysis and a re-valuation upwards. That said, high

conviction winners are allowed to run up to US\$10bn however these will be sold-down from US\$7bn.

Stocks may also be sold where there is a deterioration in fundamentals; early indications of a weakening business model; deterioration of a stock's quantitative score, and; an increase in a stock's specific risks.

Copper Rock also maintains an 'alert list' which is a straightforward price based tool. Simply, stocks which underperform either their sector or region by 10% over a period of time are flagged for review. Names which are flagged as part of this process must be reviewed and either the position is eliminated completely or topped up.

### Risk Management

#### Risk limits

SEPARATE INVESTMENT RISK MONITORING	NO
STOCK LIMIT	5%
SECTOR / INDUSTRY LIMITS	± 6%
COUNTRY / REGION LIMITS	± 6%
EMERGING MARKETS LIMIT	15% (SOFT)
CASH LIMIT	10%

The Fund is managed with a range of hard constraints which are benchmark relative in nature. These constraints apply to individual position sizes, country exposures as well as sector and more granular industry levels.

#### Risk monitoring

Investment risk monitoring is conducted by the investment team. A BARRA quantitative risk management tool is used to assess the portfolio's factor exposures. Tracking error tends to be expected within the range of 3% p.a. to 6% p.a.

#### Currency management

The Fund is unhedged. Views on currency can at times, however, influence portfolio exposures.

### Risks

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

#### Currency risk

The Fund predominantly invest in assets that are denominated in non-A\$ currencies. A rise in the relative value of the A\$ vis-à-vis the currencies in which the assets are denominated will negatively impact the market value of the assets (and vice versa) from an Australian investor's perspective. The Fund is not hedged for currency risk.

#### Market risk

Companies with smaller market capitalisations generally have greater market risk (i.e. Beta). Accordingly, investors should be mindful of the potential for sharper movements in market price of these investments.

#### Liquidity risk

The Fund is a small cap product. Companies with small market caps (i.e. typically less than US\$2bn) are generally considered less liquid relative to large cap companies (i.e. greater than US\$10bn) given single transactions can represent a greater proportion of their smaller free float.



# Spire Copper Rock Capital Global Smaller Companies Fund

ISSUE DATE 06-03-2017

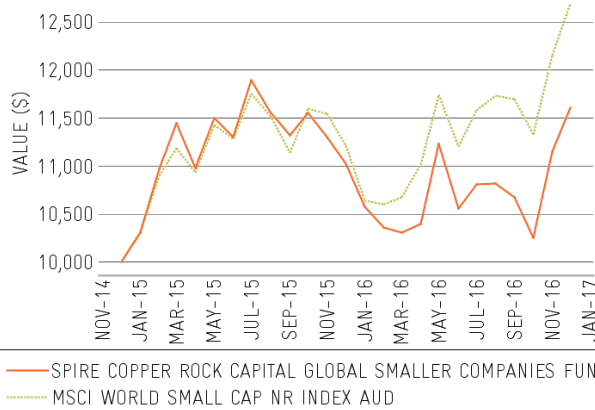
## Quantitative Performance Analysis - annualised after-fee % returns (at 31-12-2016)

### Performance metrics

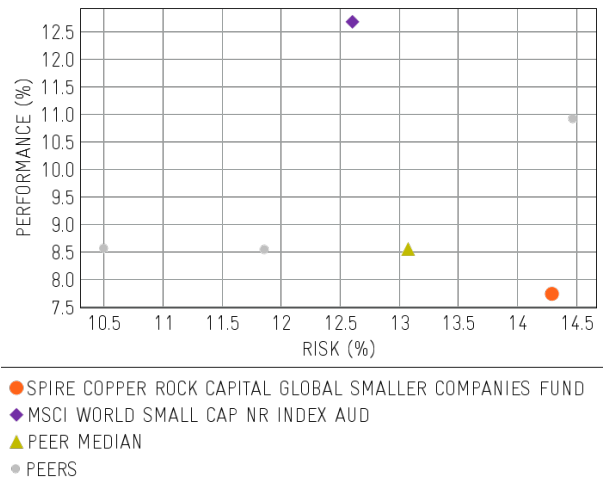
	1 YR		2 YR		3 YR		5 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	5.23	8.10	7.74	8.56	-	-	-	-
STANDARD DEVIATION (% PA)	15.95	12.90	14.29	13.07	-	-	-	-
EXCESS RETURN (% PA)	-8.02	-5.15	-4.95	-3.33	-	-	-	-
OUTPERFORMANCE RATIO (% PA)	25.00	41.67	37.50	43.75	-	-	-	-
WORST DRAWDOWN (%)	-8.64	-7.31	-13.76	-13.85	-	-	-	-
TIME TO RECOVERY (MTHS)	2	2	NR	NR	-	-	-	-
SHARPE RATIO	0.20	0.40	0.39	0.57	-	-	-	-
INFORMATION RATIO	-1.89	-1.44	-1.14	-0.77	-	-	-	-
TRACKING ERROR (% PA)	4.24	3.57	4.33	4.12	-	-	-	-

FUND: SPIRE COPPER ROCK CAPITAL GLOBAL SMALLER COMPANIES FUND  
 LONSEC PEER GROUP: GLOBAL EQUITIES - GLOBAL SMALLER COMPANIES - FUNDAMENTAL  
 BENCHMARK USED: MSCI WORLD SMALL CAP NR INDEX AUD  
 CASH BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD  
 TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

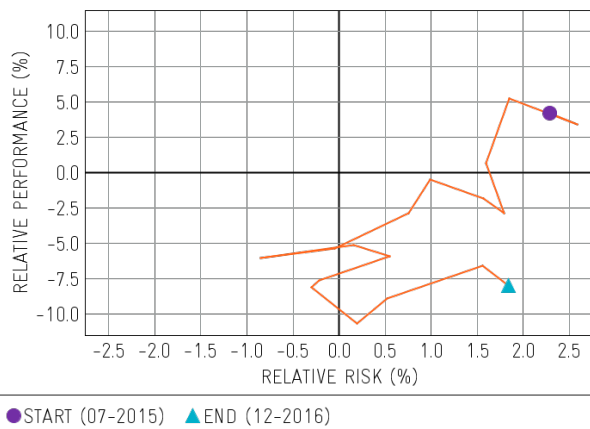
### Growth of \$10,000 over two years



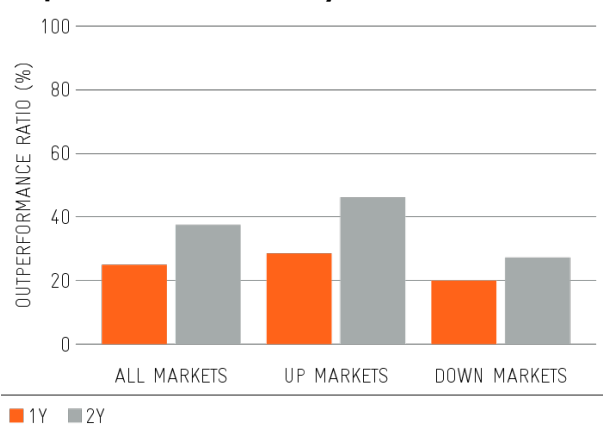
### Risk-return chart over two years



### Snail trail



### Outperformance consistency



ANALYST: JAMES KIRK | APPROVED BY: RUI FERNANDES

**Glossary**

**Total return** ‘Top line’ actual return, after fees  
**Excess return** Return in excess of the benchmark return  
**Standard deviation** Volatility of monthly Absolute Returns  
**Tracking error** Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)  
**Sharpe ratio** Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)  
**Information ratio** Relative reward for relative risk taken (Excess Returns / Tracking Error)  
**Worst drawdown** The worst cumulative loss (‘peak to trough’) experienced over the period assessed  
**Time to recovery** The number of months taken to recover the Worst Drawdown  
**Snail Trail** A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

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