AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Vaughan Nelson Global Equity SMID Fund (Quoted Managed Fund) (ASX: VNGS)

Initiating Coverage

1 June 2022

INDEPENDENT
INVESTMENT RESEARCH

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6) All staff are not allowed to trade in any stock or accept stock options before, during and after (for a period of 6 weeks) the research process.

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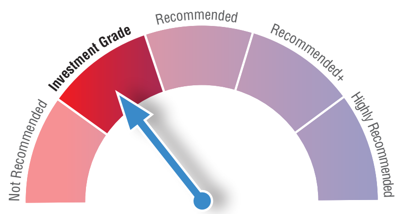
Vaughan Nelson Global Equity SMID Fund (Quoted Managed Fund) (ASX: VNGS)

Note: This report is based on information provided by the Responsible Entity and the Manager.

Rating



Key Investment Information

ASX Code	VNGS
Listing Date	1 June 2022
Responsible Entity (RE)	Investors Mutual Limited
Investment Manager	Vaughan Nelson Investment Management, L.P
Investment Structure	Exchange Traded Managed Fund (ETMF)
Market Maker*	Investors Mutual Limited
Distribution Frequency	Annual
Fees:	
Management Fee (p.a)	1.12% (including GST)
Performance Fee	na

*The RE acts as the Market Maker in units on behalf of the fund. The RE has appointed a Market Making Agent to undertake the market making activities on behalf of the RE.

Key Exposure

Underlying Exposure	Portfolio of global small and mid cap stocks.
FX Exposure	Given the global mandate, the Fund will have direct foreign currency exposure. The Fund does not intend to hedge the foreign currency exposure.

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.

PRODUCT SUMMARY

The Vaughan Nelson Global Equity SMID Fund (Quoted Managed Fund) (the "Fund") is a newly established Exchange Traded Managed Fund (ETMF) with the ASX code VNGS. The Fund provides exposure to the Vaughan Nelson Global SMID Cap strategy, which has an inception date of June 2020. The Fund is the quoted class of the investment strategy with the strategy also being offered through an unlisted unit trust. The Fund seeks to provide exposure to small and mid cap global equities with the objective of outperforming the MSCI ACWI SMID Cap Index, after fees and expenses and before taxes, on a rolling five year basis. The Responsible Entity (RE) of the Fund is Investors Mutual Limited who has appointed Vaughan Nelson Investment Management L.P (the "Manager") as the Manager of the Fund. The Manager is a US based asset manager that was founded in 1970 and provides equity and fixed income strategies with US$15.5b AUM as at 31 December 2021. The Manager has a fundamental, bottom-up investment process with a targeted return approach. The portfolio only incorporates stocks that the Manager believes can generate returns of 50%+ over a three-year period (~15%p.a. compounded), in the event the investment thesis plays out as expected. The Manager seeks to take advantage of short-term inefficiencies to generate excess returns. The portfolio will typically comprise 40-80 positions with the allocation to a single investment typically not exceeding 5% at the time of investment and the top 10 holdings typically accounting for 20%-25% of the portfolio. The strategy is managed in a benchmark unaware manner with the portfolio typically having an active share of greater than 90%. The Manager uses proprietary factor analysis to ensure that the portfolio is diversified across factors and that the strategy does not have unintended factor bets. This allows the Manager to build a relatively concentrated portfolio while being representative of the investment universe from a risk profile perspective. The Manager will be paid a fee of 1.12%p.a (inclusive of the net effect of GST), calculated and accrued daily and paid monthly in arrears. No performance fees are applicable.

INVESTOR SUITABILITY

The Fund provides investors the opportunity to diversify the international equities allocation of their portfolio to include exposure to small and mid cap stocks. The Fund provides investors the opportunity to benefit from the Manager's unique and disciplined investment process that seeks to take advantage of inefficiencies in the market to consistently outperform the relevant market index over the long-term. The ETMF structure provides investors daily liquidity through the ASX with the appointment of a market maker ensuring the Fund trades around the NAV. The ETMF structure also provides high levels of transparency with the portfolio holdings published on a quarterly basis in addition to the iNAV, the intraday NAV, which is published on the Manager's website (www.vaughannelson.com.au). Although we note, given the global mandate there is expected to be little movement in the NAV during the Australian trading day. The Fund would be appropriate as part of the capital growth allocation of an investors portfolio with the Fund seeking to deliver capital growth over the long-term with distributions intended to be paid on an annual basis in the event there is income and realised capital gains available for distribution.

RECOMMENDATION

Independent Investment Research (IIR) has assigned the Vaughan Nelson Global Equity SMID Fund (Quoted Managed Fund) (ASX: VNGS) an **Investment Grade** rating. IIR views the Manager to have a experienced investment team and disciplined investment process. The investment philosophy and process has generated strong outperformance in the US market, however we note the Manager has limited experience in international equities and the Global SMID Cap strategy that the Fund provides exposure to has a limited track record. The Manager has recruited international equity expertise, however they remain relatively new to the team. The Fund is newly established and will have low levels of FUM initially. We expect the Fund to have limited levels of secondary market liquidity initially, however we anticipate this will improve as the size of the Fund grows.

SWOT

Strengths

- The Manager has a disciplined investment process. The focus on undervalued companies with an asymmetric risk/return profile lends itself to generating superior risk-adjusted returns to the benchmark index over the long-term.
- The Manager has a proprietary factor model that provides a unique risk management tool in the portfolio construction process. The factor tool allows for real-time analysis of the diversification of the portfolio and the factors influencing the performance of the stocks in the portfolio. The factor tool ensures the performance of the portfolio is not being driven by any single macroeconomic or style factor but is being driven by idiosyncratic risks.
- The investment team is experienced with the Lead Portfolio Manager, James Eisenman, having over 20 years experience in financial services and has been with the Manager for 15 years. In addition to being the Portfolio Manager of the Global SMID Cap strategy, James is a Portfolio Manager for the US Small Cap Value strategy. James is supported by Kevin Ross and Marco Priani who have significant experience in broader international equity markets.
- The interests of the Manager are aligned with investors with all members of the investment team personally invested in the strategy and compensation designed to align interests.
- Over the long-term, the investment philosophy and process has provided strong risk-adjusted returns as is demonstrated by the Vaughan Nelson Small Cap Value strategy.
- The investment approach allows for the Manager to generate returns for investors in a range of market environments.
- The fees are competitive for an international equity strategy.
- The RE is absorbing the market making agent fee for the first 12-months from inception.

Weaknesses

- The Global SMID Cap strategy has a limited history with an inception date of June 2020. We note the investment strategy uses the same strategy and process implemented across the Manager's US equity mandates. The strategy has performed strongly over its limited history.
- This is a newly established ETMF and as such has small levels of FUM. We expect there to be low levels of secondary market liquidity in the initial period post the Fund's listing.

Opportunities

- The Fund provides investors the opportunity to diversify their international equity exposure to include small and mid cap stocks. The Fund is the only actively managed ETF that will be available on the ASX that focuses on global small and mid cap stocks.
- The Fund provides the opportunity to access an actively managed investment strategy that has shown to outperform the market over the long-term.

Threats

- Given the global mandate, the Fund will have direct exposure to foreign currency. The Fund does not intend to hedge the currency exposure and therefore movements in the Australian dollar compared to the relevant currencies (particularly US dollar) will impact the Australian dollar value of the Fund.
- An important feature for ETMFs is liquidity given the open-ended structure of ETMFs. The Fund will invest in small and mid cap companies and as such will be exposed to companies with lower levels of liquidity than large cap stocks. Given the structure of the portfolio, the risk management process and the small FUM of the strategy at present, we do not expect liquidity to be an issue. The structure of the portfolio from a market cap perspective will be important to watch as the strategy nears capacity.
- The RE will seek to grow FUM over time, however in the event the RE cannot grow the FUM sufficiently the vehicle may be uneconomical to run over the long-term.

PRODUCT OVERVIEW

The Vaughan Nelson Global Equity SMID Fund (Quoted Managed Fund) (the "Fund") is a newly established Exchange Traded Managed Fund (ETMF) with the ASX code VNGS. The Fund provides exposure to the Vaughan Nelson Global Small and Mid (SMID) Cap strategy, which has an inception date of June 2020. The Fund is the quoted class of the investment strategy with the strategy also being offered through an unlisted unit trust. The Fund seeks to provide exposure to small and mid cap global equities with the objective of outperforming the MSCI ACWI SMID Cap Index, after fees and expenses and before taxes, on a rolling five year basis.

The Responsible Entity of the Fund is Investors Mutual Limited who has appointed Vaughan Nelson Investment Management L.P (the "Manager") as the Manager of the Fund. The Manager is a US based asset manager that was founded in 1970 and provides equity and fixed income strategies with US$15.5b AUM as at 31 December 2021.

The Manager has a fundamental, bottom-up investment process with a targeted return approach. The portfolio only incorporates stocks that it believes can generate returns of 50%+ over a three-year period (~15%p.a. compounded), in the event the investment thesis plays out as expected. The Manager seeks to take advantage of short-term inefficiencies to generate excess returns. The medium-to-long term investment horizon is reflected in the expected low to moderate annual portfolio turnover of 30%-50%, although we note the portfolio is actively managed and as such turnover will be driven by market movements.

The Manager has identified three ways in which investors can generate excess returns: (1) Undervalued Earnings Growth; (2) Undervalued Assets; and (3) Undervalued Yield (see Investment Process section for details). Investments in the portfolio fall within one of these categories with the multiple sources of returns providing the Manager the ability to generate returns in a range of market conditions.

The portfolio will be long only and typically comprise 40-80 positions with the top 10 holdings typically accounting for 20%-25% of the portfolio. Individual investments will typically not have an allocation of more than 5% of the portfolio at the time of investment. The strategy is managed in a benchmark unaware manner with the portfolio typically having an active share of greater than 90%. The Manager uses proprietary factor analysis to ensure that the portfolio is diversified across factors and that the strategy does not have unintended factor bets. This allows the Manager to build a relatively concentrated portfolio while being representative of the investment universe from a risk profile perspective.

The mandate is unconstrained with respect to investment style with the Manager able to rotate across traditional growth or value metrics, depending on where the Manager identifies investment opportunities. While the investment style is unconstrained, there is a clear focus on value with the Manager focused on acquiring companies that are considered undervalued. While the Fund is managed in a benchmark unaware manner, the Manager is benchmark aware to some extent, resulting in some broad based limitations that consider the benchmark.

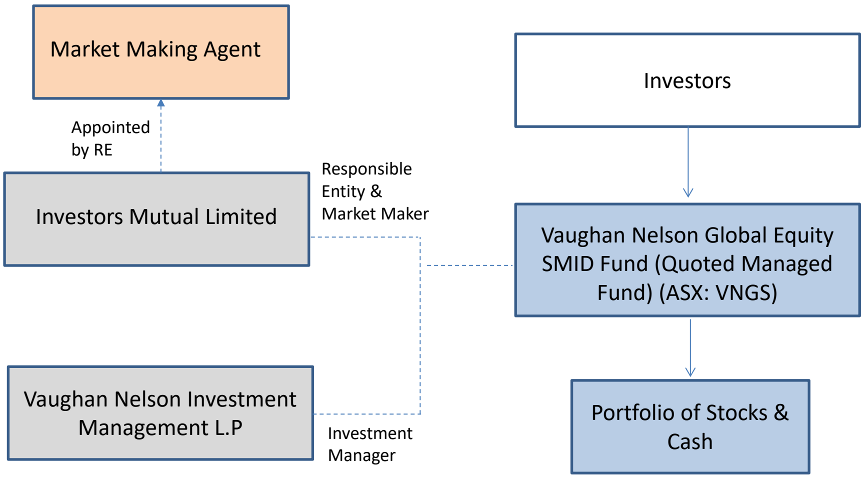
The Global SMID Cap investment strategy is a relatively new strategy for the Manager with the strategy having an inception date of 24 June 2020. The strategy has been established as a result of the Manager expanding the business into international equities. While the strategy is relatively new, the strategy implements the same process and style that is implemented across the Manager's equity mandates, including the Small Cap Value strategy which has been using the investment strategy for over 20 years.

The Fund intends to declare distributions on an annual basis at the end of June each year. The RE may decide to make an interim distribution. Distributions can be made up of income as well as realised capital gains on investments. The Fund will have a Distribution Reinvestment Plan (DRP) available to unitholders.

The RE has appointed a Market Making Agent to provide liquidity for unitholders. The Market Making Agent is paid a fee for their services. The RE is absorbing the market making agent fee for the first 12-months from inception

The Manager will be paid a fee of 1.12%p.a (inclusive of the net effect of GST), calculated and accrued daily and paid monthly in arrears. No performance fees are applicable.

Investment Structure



INVESTMENT MANAGER

The Responsible Entity has appointed Vaughan Nelson Investment Management, L.P ("Vaughan Nelson" or the "Manager") as the Manager of the portfolio. Vaughan Nelson is a US based asset manager that was founded in 1970 and provides equity and fixed income strategies with US$15.5b AUM as at 31 December 2021. Vaughan Nelson is a wholly owned subsidiary of Natixis Investment Managers, L.P, a US based subsidiary of Natixis, a Paris based multinational financial services firm with more than 20 investment management affiliates across the Americas, Europe, Asia and MENA. As with all asset managers owned by Natixis, Vaughan Nelson operates independently from its affiliates.

The Manager has historically had a US focus with regards to its equity strategies. The largest strategy for the Manager is the Select strategy ($6.63b AUM), which is a concentrated, multi-cap, US equity strategy. This is followed by the Small Cap Value strategy ($3.1b AUM), which as the name suggests has a focus on US small caps. The Manager has recently expanded to global equities. As part of its expansion into global markets, the Manager hired Kevin Ross and Marco Priani who were the Portfolio Managers for the International Small Cap Fund at Advisory Research Inc. Kevin and Marco are the Portfolio Managers of the International Small Cap strategy at Vaughan Nelson and provide international equity experience to the Global SMID Cap team.

Assets Under Management (AUM) by Strategy as at 31 December 2021

Strategy	AUM (US$m)
Value Opportunity	2,294
Small Cap Value	3,088
Select	6,628
International Small Cap	40
Emerging Markets	31
Core Fixed Income	132
Limited Maturity	2,454
Intermediate Fixed Income	40
Global Equity (SMID)	114
Misc. Bonds	543
Muni Bonds	117
Total	**15,481**

The Manager is well resourced with 52 employees, including 19 investment professionals, 15 of which are focused on equities. The Global SMID Cap investment team comprises 8 investment professionals, detailed in the below table. The senior members of the investment team have significant industry experience with the Portfolio Manager's having an average of 20 years experience.

James Eisenman is the Lead Portfolio Manager of the strategy and is ultimately responsible for the investment decisions. James has been at the Manager for over 15 years and has over 20 years experience. Marco Priani and Kevin Ross joined the Manager in late 2019. Kevin and Marco bring significant international equity experience to the Manager. Kevin and Marco joined the team after a long search for an international equity team that had a similar investment philosophy to the Manager.

The team has a dedicated Chief Risk Officer who is responsible for monitoring risk as it relates to portfolio construction and factor exposures. The Manager uses the Axioma system for risk management.

Investment Team

Name	Position	Years at Firm	Industry Experience (years)
James Eisenman	Lead Portfolio Manager	17	20
Marco Priani	Senior Portfolio Manager	3	21
Kevin Ross	Senior Portfolio Manager	3	16
Chris Wallis	CEO, CIO, Senior Portfolio Manager	23	30
Benjamin Carrier	Associate	6	8
Sundeep Khanna	Vice President	2	17
Masa Matsumaura	Vice President	2	12
William Wojciechowski	Chief Risk Officer	15	20

INVESTMENT PROCESS

Investment Philosophy

The Manager's investment philosophy is based on a targeted return approach, in which the Manager seeks to identify companies that can generate a return of 50%+ over a three year period. The Manager seeks to take advantage of temporary information and liquidity inefficiencies in the global small and mid cap universe, which provide the opportunity to invest in companies at valuations materially below their long-term intrinsic value. The Manager utilises a disciplined valuation methodology, combined with fundamental, bottom-up research to identify opportunities. The Fund has a focus on stocks with an asymmetric risk/return profile.

The Manager has identified three ways in which investors can generate excess returns with investments required to fall within one of these three categories:

(1) Undervalued earnings growth - companies earning above their cost of capital, with stable to improving returns.

(2) Undervalued assets - companies valued at a 50% discount to a specific asset value.

(3) Undervalued yield - companies with an attractive dividend yield and minimal basis risk.

Investment Objective

The fund seeks to generate capital growth over the long-term with the specific objective of outperforming the MSCI ACWI SMID Cap Index, after fees and expenses and before taxes, on a rolling five year basis.

Investment Process

The Manager has a disciplined investment process which has been implemented by the Manager across its equity strategies for over 20 years. The Manager seeks to identify companies that have the ability to generate returns of 50%+ over a three-year period (15%p.a. compounded).

The Manager identifies investment opportunities from the investment universe (MSCI ACWI SMID Cap Index) through a combination of quantitative screening, the Manager's knowledge database and research networks, as highlighted in the below graphic.

The Manager uses quantitative screening to rank stocks based on quality and value factors. The quality inputs include:

- Return on Invested Capital (ROIC) and Return on Equity (ROE) over 5-year periods;
- Operating margins;

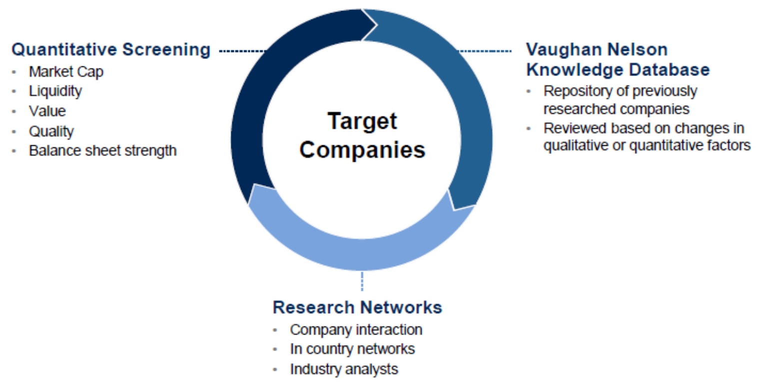
- Variability of returns; and
- Earnings and cash flow stability.

The value inputs include:

- Price to book;
- Price to earnings;
- EV/EBITDA;
- Free Cash Flow Yield; and
- Dividend yield.

The Manager screens for a range of other factors in addition to the above, including 52-week lows, management changes, etc.

Screening Process



Once an opportunity has been identified it is prioritised by the Portfolio Manager's and is assigned to a member of the investment team for initial due diligence. The initial due diligence involves a preliminary assessment of the opportunity to determine whether it meets one of the three investment criteria: (1) Undervalued earnings growth; (2) Undervalued asset; or (3) Undervalued Yield. The key aspects of each of the three investment criteria is detailed below. If it is determined that the opportunity meets one of the three criteria, further due diligence is undertaken to determine an investment thesis and whether the company will be considered for inclusion in the portfolio.

While the investment process is predominantly bottom-up, the Manager does undertake top-down analysis to understand the macroeconomic environment and industry/sector trends. The level of influence the top-down analysis has on investment decisions is dependent on the economic conditions at any given time. During benign periods, investment decisions are less impacted by macro factors, where as during hostile environments, the top-down analysis will have more of an impact on investment decisions. For example, during the credit crisis, the Manager reduced and/or exited positions that were highly dependent on the credit markets to fund their daily operations.

Investment Criteria

1) Undervalued Earnings Growth

- Market not considering the company's ability to continue investing for extended periods of time.
- Management team with strong capital allocation track record.
- Earn same or higher rate of return on redeployed earnings, thus avoiding multiple compression.
- Management understands limit of reinvestment and has other means and willingness to return excess cash to shareholders.

2) Undervalued Assets

- Cyclical industries at valuations reflecting the bottom of the cycle with identifiable industry inflections.
- Corporate asset and/or balance sheet restructuring.
- End markets are stable to improving across cycles, not in secular decline.

- Underlying return characteristics and competitive dynamics are stable and improving, avoiding value traps.

3) Undervalued Yield

- Balance sheet not being liquidated to pay the dividend.
- Stable industry dynamics.
- Majority of expected return to come from dividend.

Portfolio Construction

The Manager constructs the portfolio on a bottom-up basis with investment decisions based on the fundamental research undertaken by the investment team with limited regard for the benchmark index. Investments are selected based on the Manager's belief that the investment can deliver a 50%+ return over a three-year period, assuming the investment thesis plays out as expected. The benchmark unaware nature of the investment process is reflected in the high Active Share that the portfolio typically has. The Lead Portfolio Manager has responsibility for making the investment allocation decisions.

The portfolio will be constructed with regard to some broad based investment guidelines, tabled below. In addition to the below, the Manager seeks to diversify the portfolio by factor. The Manager has a proprietary factor analysis model that is used as part of the investment process to ensure that the portfolio is diversified by factor and is not concentrated to any one factor. We provide further detail below.

Investment Guidelines	
Number of Positions	Typically 40-80 positions with the top 10 positions typically accounting for 20%-25% of the portfolio.
Regional Exposure	Typically focused on developed markets with the portfolio typically weighted to companies listed in the US.
Emerging Market Exposure	Typically less than 10%.
Sector Limits	Generally +/-10% versus the benchmark.
Maximum Position Weighting	Maximum of 5% of portfolio at time of purchase.
Currency Limitations	+/-10% versus benchmark weights
Derivatives	No.
Currency Hedging	No.

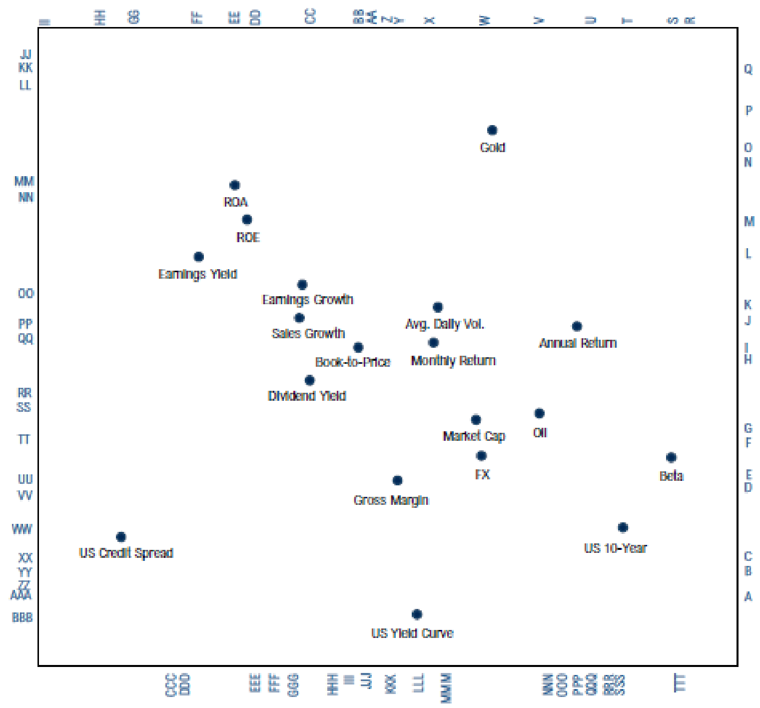
Factor Analysis

The Manager has a proprietary factor analysis tool which provides a unique approach to assessing portfolio diversification. There are a range of macroeconomic and style factors that can explain returns and risks within asset classes. Macroeconomic factors include inflation, GDP growth and the unemployment rate, while style factors include growth versus value, momentum, market cap, industry, liquidity, etc.

The Manager has analysed all the factors and determined that there is typically significant correlation with a number of factors at any given time. At present the Manager has identified that there are about 20 clusters of differentiated factors that are influencing the performance of stocks, however this changes on a regular basis and has been as low as five. The Manager uses this information to ensure the portfolio represents a broad range of the identified factor clusters so as the portfolio is not heavily exposed to any single factor.

The below graph provides an example of the factor diversification of the portfolio. Note the graphic does not represent the actual Global SMID Cap portfolio. The blue codes scattered around the outside represent the stocks while the black dots represent the factors driving performance. The codes on the outside are positioned near the factors that they are most influenced by. The Manager is ultimately seeking to ensure that the portfolio represents a spread of factors and that returns are driven by idosyncratic risks.

Factor Diversification



PORTFOLIO POSITIONING

The portfolio will typically comprise 40-80 companies with the strategy comprising 69-75 companies over its short history. The portfolio provides a moderate level of diversification, however could be considered concentrated given the MSCI All Country World SMID Cap Index comprises over 7,000 constituents.

Top 10 Holdings as at 31 December 2021

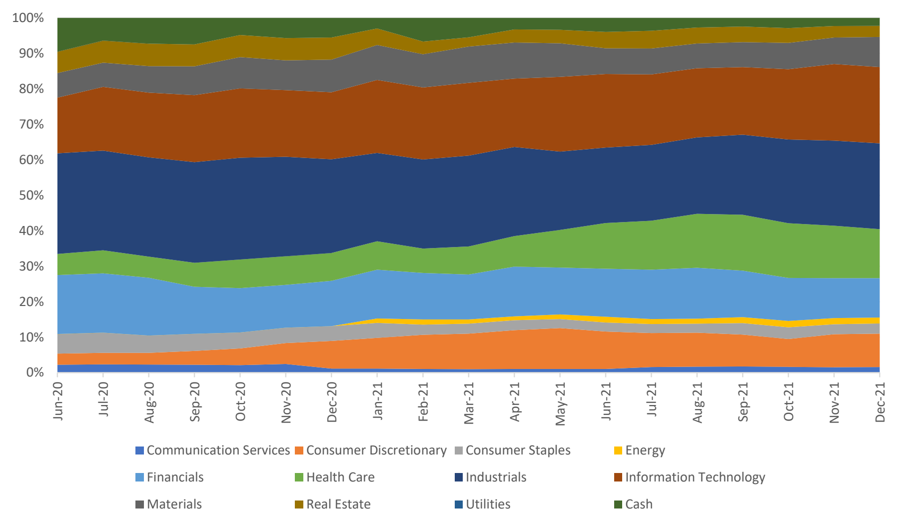
Company	Ticker	Global SMID Cap Weighting
Marlowe Plc	BD8SLV	3.00
Insight Enterprises, Inc.	NSIT	2.89
Brown & Brown, Inc.	BRO	2.86
Avantor, Inc.	AVTR	2.85
Syneos Health, Inc. Class A	SYNH	2.77
Element Solutions Inc	ESI	2.60
ExlService Holdings, Inc.	EXLS	2.58
Atea ASA	B12TR1	2.39
LPL Financial Holdings Inc.	LPLA	2.27
Performance Food Group Company	PFGC	2.21
		26.43

As is highlighted by the below table and chart, the portfolio is diversified by sector. At 31 December 2021, the portfolio was weighted to the Industrials and Information Technology sectors with 45.7% of the portfolio allocated to these two sectors. The Fund is overweight these two sectors when compared to the benchmark by a reasonable margin, 6.7% and 6.8%, respectively. The largest underweight allocation at 31 December 2021 was to the Real Estate sector. The strategy has typically retained an underweight position to this sector, this is not to say this will always be the case.

Sector Allocation as at 31 December 2021

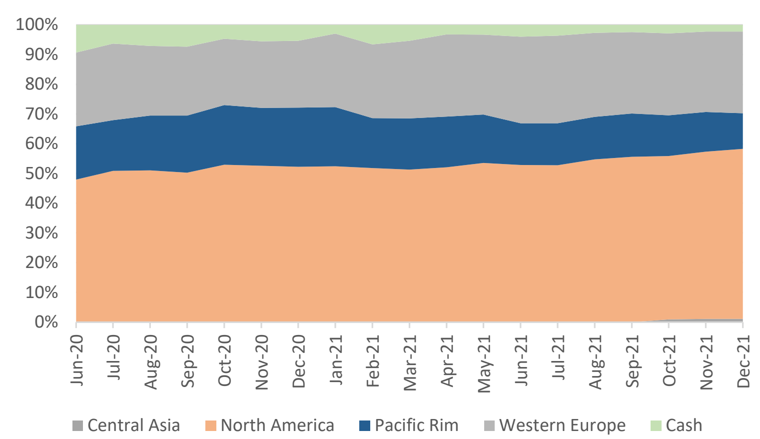
Sector	Global SMID Cap Allocation	Benchmark Allocation	Over/Under Weight
Communication Services	1.59	4.15	-2.56
Consumer Discretionary	9.40	11.82	-2.42
Consumer Staples	2.90	4.41	-1.51
Energy	1.66	3.34	-1.68
Financials	11.13	13.03	-1.91
Health Care	13.80	10.02	3.78
Industrials	24.21	17.47	6.74
Information Technology	21.48	14.69	6.79
Materials	8.48	8.49	-0.01
Real Estate	3.14	8.64	-5.50
Utilities	0.00	3.90	-3.90
Cash	2.22	na	2.22

Historical Monthly Sector Allocation



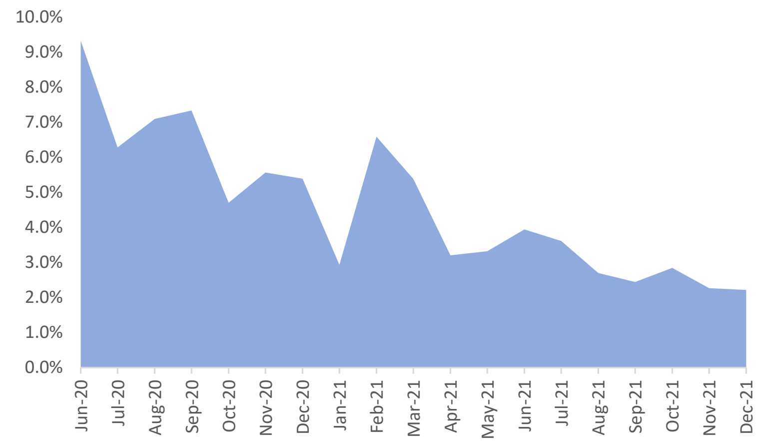
As mentioned above, the global SMID investment strategy was established in June 2020. The strategy will typically be weighted to companies listed in the US, as is highlighted by the below historical regional portfolio weightings. This is to be expected given the US accounts for the largest weighting in the benchmark index. As at 31 December 2021, 57.2% of the portfolio was allocated to the US.

Historical Monthly Regional Allocation



The Manager seek to be largely invested at all times with the portfolio having a maximum cash allocation of 10%. Since its inception, the strategy has had low levels of cash with 2.2% cash at 31 December 2021.

Historical Cash Allocation

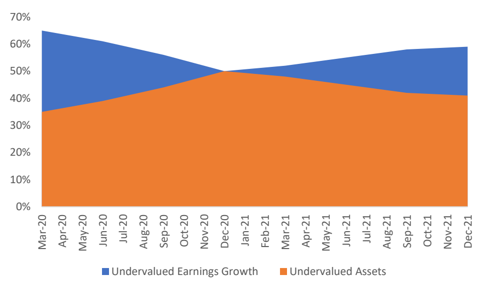


In the Investment Process section above, we highlighted that the Manager seeks to identify companies that fit within one of the three categories - Undervalued Earnings Growth, Undervalued Assets and Undervalued Yield. The portfolio is typically expected to be weighted towards companies that are classified as undervalued earnings growth. This is highlighted by the below two charts, which show the investment category weighting of the Global SMID Cap strategy and the Small Cap Value strategy, which has a track record of in excess of 20 years. The Global SMID Cap strategy has had no exposure to companies classified as Undervalued Yield companies. Investment in companies within this classification will likely be a result of macroeconomic factors that are causing significant dislocation in the market resulting in attractive returns from yields.

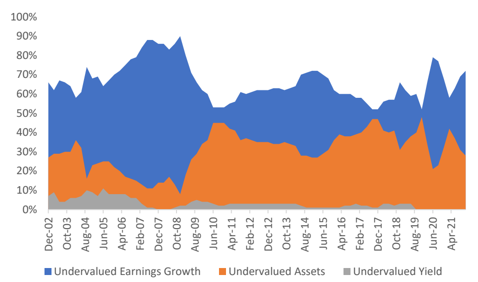
The level of Undervalued Asset companies in the portfolio will typically be driven by cyclical factors and therefore will ebb and flow with the market cycles.

Historical Investment Category Ranges

Global SMID Cap Strategy

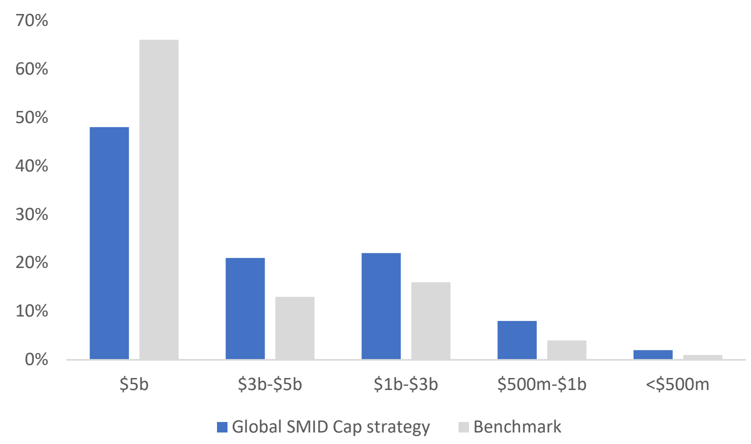


Small Cap Value Strategy



From a market cap allocation standpoint, the Manager invests in companies of all sizes from within the investment universe, as is highlighted below. Liquidity is an important factor for ETMFs given the open-ended structure. 69% of the portfolio at 31 December 2021 was allocated to companies with a market cap of greater than $3b. Given the available capacity of the strategy and the maximum weighting of 5% of the portfolio at the time of investment in a single company, we do not expect liquidity to be a concern.

Market Cap Allocation as at 31 December 2021



PERFORMANCE ANALYTICS

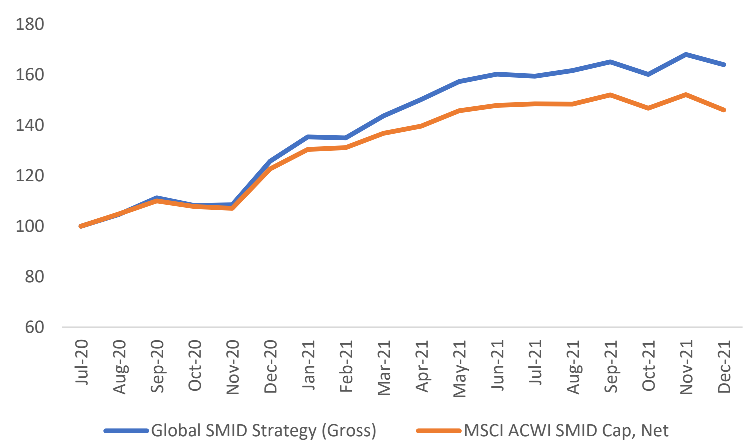
The Fund is a newly established ETMF and therefore has no performance history, however the Fund provides exposure to the Vaughan Nelson Global SMID Cap strategy which has an inception date of June 2020. The below provides the performance analytics of the Global SMID Cap strategy as well as the longer-term track record of the Vaughan Nelson Small Cap Value strategy, which is a US equity focused small cap strategy that implements the same investment philosophy and process that is used for the Global SMID Cap strategy. The Small Cap Value strategy has a track record dating back to 1997. The Small Cap Value strategy provides exposure to a portfolio of 60-80 (typically) US small cap stocks, seeking to generate capital growth over the long-term with the specific objective of outperforming the Russell 2000 Value Index over the long-term. We note all performance data below is in US dollars and is therefore not representative of returns for Australian investors.

Global SMID Cap Strategy

The Global SMID Cap strategy has an inception date of 24 June 2020 and as such has a limited track record. The strategy seeks to outperform the MSCI ACWI SMID Cap Index (after fees and expenses) over rolling five-year periods.

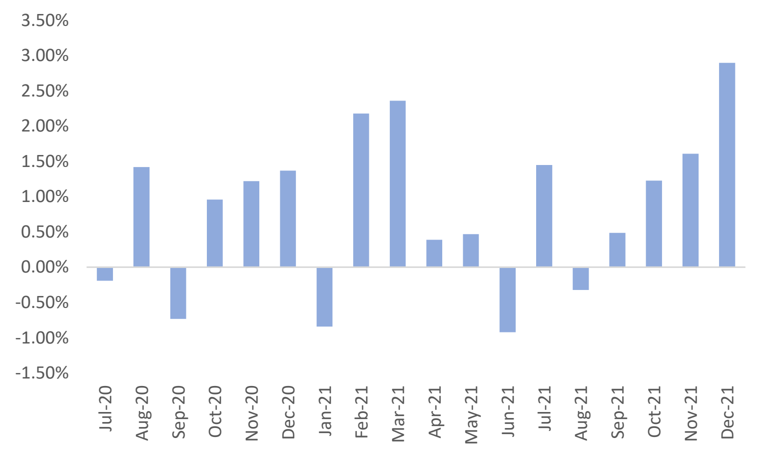
The strategy has performed strongly since inception, generating a return of 45.2%p.a. to 31 December 2021 on a gross basis. The strategy outperformed the benchmark from its inception to 31 December 2021 on a gross basis. As is shown in the below table, the strategy has experienced higher volatility than the benchmark, however the excess returns have offset the additional volatility resulting in the strategy delivering a better risk-adjusted return than the benchmark over the period.

Indexed Cumulative Total Returns



The strategy has outperformed in 72.2% of the monthly periods since inception to 31 December 2021 on a gross basis. While only limited data, the excess performance highlights the potential benefits of active management, particularly through periods of market volatility.

Monthly Excess Returns of Strategy vs. Benchmark



Performance Metrics (as at 31 December 2021)

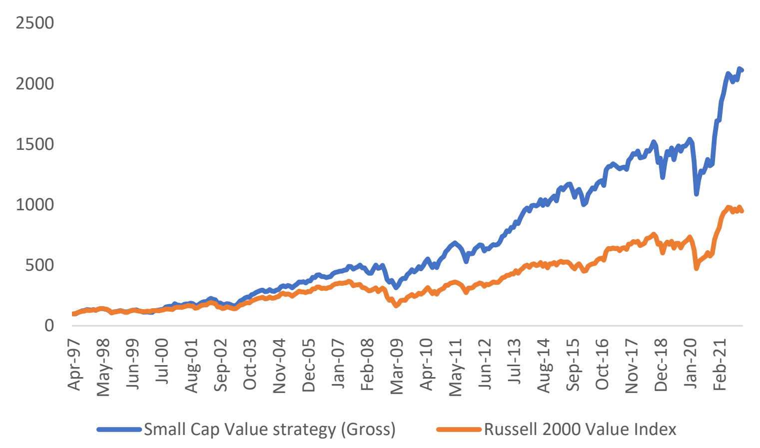
	Global SMID Cap Strategy (Gross)	MSCI ACWI SMID Cap Index, Net	Excess Performance
Cumulative Total Returns:			
1 year	29.3%	16.2%	13.1%
Since Inception (p.a.)	45.2%	31.9%	13.3%
Standard Deviation:			
1 year	11.4%	9.7%	1.7%
Since Inception (p.a.)	16.1%	14.7%	1.4%
Sharpe Ratio:			
1 year	2.44	1.52	0.92
Since Inception (p.a.)	2.72	2.07	0.65

Small Cap Value Strategy

As mentioned above, the Global SMID Cap strategy has a limited track record, however the investment strategy and process implemented by the strategy has been used by the Manager for over 20 years across its US equity mandates. The Small Cap Value strategy is the longest running equity strategy of the Manager and given the small/mid cap mandate of the Fund is the most relevant for investors.

The Small Cap Value strategy has performed strongly over the long-term, as is highlighted by the below chart. The strategy has delivered a superior return to its benchmark index, the Russell 2000 Value Index.

Indexed Cumulative Total Returns (31 March 1997 to 31 December 2021)



The strategy has outperformed over all periods to 31 December 2021 and has done so with lower volatility. This has resulted in the strategy outperforming on a risk-adjusted basis over the long-term.

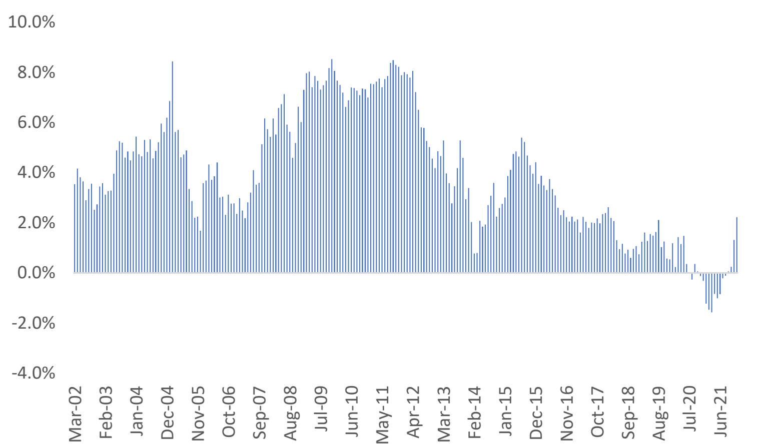
The strategy has had a relatively high tracking error over its history highlighting the benchmark unaware nature of the strategy.

Performance Metrics (as at 31 December 2021)

	Small Cap Value Strategy (Gross)	Russell 2000 Value Index	Excess Performance
Cumulative Total Returns:			
1 year	32.5%	28.3%	4.3%
3 year (p.a)	22.4%	18.0%	4.4%
5 year (p.a)	11.3%	9.1%	2.2%
10 year (p.a)	14.2%	12.0%	2.1%
Since Inception (p.a.)	13.4%	9.7%	3.7%
Standard Deviation:			
1 year	12.3%	13.5%	-1.3%
3 year (p.a)	22.1%	25.4%	-3.2%
5 year (p.a)	19.3%	21.7%	-2.5%
10 year (p.a)	16.3%	18.3%	-2.0%
Since Inception (p.a.)	17.6%	18.9%	-1.4%
Sharpe Ratio:			
1 year	2.53	1.98	0.56
3 year (p.a)	0.94	0.65	0.29
5 year (p.a)	0.51	0.35	0.16
10 year (p.a)	0.78	0.57	0.20
Since Inception (p.a.)	0.68	0.43	0.25
Tracking Error:			
1 year	7.7%	na	na
3 year (p.a)	7.4%	na	na
5 year (p.a)	6.3%	na	na
10 year (p.a)	5.6%	na	na
Since Inception (p.a.)	7.3%	na	na

The Manager seeks to deliver outperformance of the benchmark index on a consistent basis over the long-term. The below, provides the excess return of the strategy to the benchmark index over rolling five year periods on a gross basis. The strategy has outperformed the benchmark over rolling 5 year periods in 95.4% of the periods over its history. The performance highlights that the investment philosophy and investment strategy of the Manager provides for the ability to consistently achieve alpha over the long-term.

Rolling 5 year Excess Returns (annualised) of Strategy vs. Benchmark

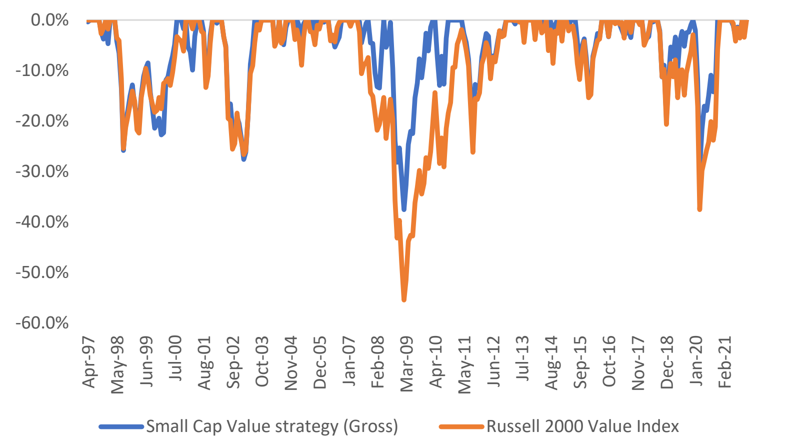


The below table shows the market capture analysis for the strategy. The strategy has provided downside protection in negative markets as you would expect from the investment strategy. The strategy has given up some of the upside as a result, however the downside protection has offset this.

Market Capture Analysis (as at 31 December 2021)	Up Market Capture	Down Market Capture	Market Capture
1 year	0.97	0.54	1.77
3 year (p.a)	0.93	0.74	1.25
5 year (p.a)	0.90	0.78	1.15
10 year (p.a)	0.92	0.77	1.19
Since Inception (p.a.)	0.96	0.79	1.22

The downside protection of the strategy is further highlighted by the below drawdown chart. As is highlighted by the chart, the strategy has typically experienced lower drawdowns than the benchmark.

Drawdown



PEER COMPARISON

The Fund is seeking to provide exposure to the global small and mid cap universe, an area of the market that the RE views is under represented in domestic portfolios. We provide a comparison of the key features of long only global equity ETMFs available on the ASX that are considered peers of the Fund. While there is an unlisted version of the Fund, we focus on the features of the listed peers of the Fund.

There are eight long only, unhedged, global equity ETMFs listed on the ASX that we consider peers of the Fund. The investment strategies of the funds typically have a quality focus and are concentrated when compared to the broader market benchmarks. The Fund (VNGS) is the only ETMF that has a focus on small and mid cap stocks. While the ETMFs in the peer group will provide exposure to small and mid cap stocks they typically have all cap mandates and exposure to large cap stocks.

The Fund's fees are competitive when compared to the peer group with the annual management fee being around the median. The Fund is competitive from a performance fee perspective with no performance fee applicable. This compares to a number of other ETMFs in which the Manager's are eligible for performance fees.

Peer Group

ETMF	Ticker	AUM ($m)*	Management Fee (p.a.)	Performance Fee	Performance Hurdle
Apostle Dundas Global Equity Fund - Class D Units (Managed Fund)	ADEF	13.0	0.90%	na	na
Antipodes Global Shares (Quoted Managed Fund)	AGX1	413.5	1.10%	15%	MSCI All Country Word Index, AUD
Hyperion Global Growth Companies Fund (Managed Fund)	HYGG	2,209.9	0.70%	20%	MSCI World Accumulation Index, AUD
Loomis Sayles Global Equity Fund (Quoted Managed Fund)	LSGE	25.5	0.99%	na	na
Munro Concentrated Global Growth Fund (Managed Fund)	MCGG	0.1	0.70%	10%	MSCI World (Ex Australia) Total Net Return Index, AUD
Magellan Global Fund (Managed Fund)	MGOC	11,217.6	1.35%	10%	MSCI World, Net Total Return Index
Montgomery Global Equities Fund (Managed Fund)	MOGL	73.4	1.32%	15.38%	MSCI World, Net Total Return Index, AUD
WCM Quality Global Growth Fund (Quoted Managed Fund)	WCMQ	314.2	1.25%	10%	MSCI All Country Word Index, AUD
Vaughan Nelson Global SMID	VNGS	na	1.12%	na	na

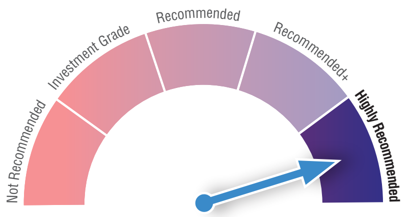
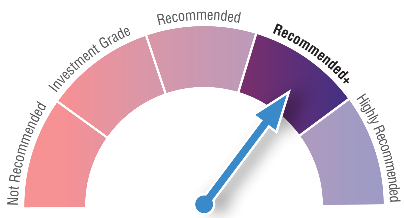
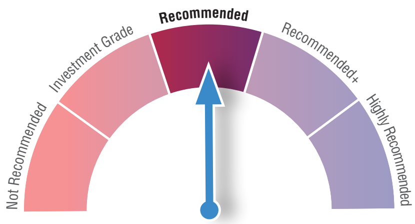
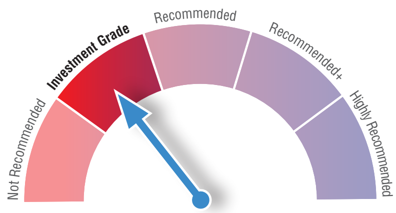
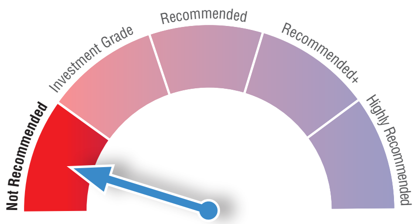
Source:ASX/ETMF disclosure documents.

*As at 31 March 2022.

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system

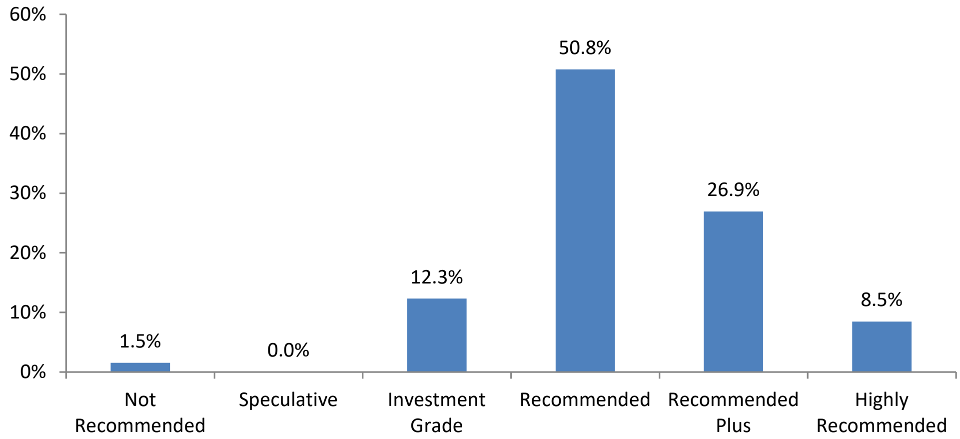
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction;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

LMI Ratings	SCORE
Highly Recommended	**83 and above**
	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.
Recommended +	**79–83**
	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.
Recommended	**70–79**
	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.
Investment Grade	**60-70**
	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.
Not Recommended	**<60**
	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.

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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