

Company Review

Plato Income Maximiser Limited

ISSUE DATE: 6-03-2017

About this Company

LIC REVIEWED	PLATO INCOME MAXIMISER LIMITED
ASX CODE	PL8
PROSPECTUS OBJECTIVE	GENERATE INCOME (INCLUDING FRANKING CREDITS) IN EXCESS OF THE S&P/ASX 200 FRANKING CREDIT ADJUSTED DAILY TOTAL RETURN INDEX (TAX EXEMPT) ('THE INDEX'). OUTPERFORM THE INDEX IN TOTAL RETURN TERMS INCLUDING FRANKING CREDITS OVER EACH INVESTMENT CYCLE.
EXPECTED COMPANY SIZE (POST IPO)	\$75M TO \$220M WITH OPTION TO RAISE ADDITIONAL \$110M IN OVER SUBSCRIPTIONS
BOARD OF DIRECTORS	5
INDEPENDENT DIRECTORS	3
IPO PRICE	\$1.10
INITIAL NET ASSET VALUE (POST IPO)	\$1.076 - \$1.08 (DEPENDENT ON LEVEL OF SUBSCRIPTIONS)
OPTIONS	'FREE' LISTED OPTION ON A 1-FOR-1 BASIS (EXERCISE PRICE \$1.10, EXPIRY ON OR BEFORE 29 APRIL 2019)
FEES - MER (P.A.)	0.8% OF NET ASSET VALUE (NAV); EXCLUDES EST. COMPANY RUNNING COSTS
DIVIDEND FREQUENCY	MONTHLY (ANTICIPATED FROM JULY 2017)
INVESTMENTS	100% INVESTED IN 'FEE FREE' CLASS OF UNITS IN THE PLATO AUSTRALIAN SHARES INCOME FUND

About the Investment Manager

INVESTMENT MANAGER	PLATO INVESTMENT MANAGEMENT LIMITED
OWNERSHIP	PINNACLE INVESTMENT MANAGEMENT 48%, 52% PLATO INVESTMENT STAFF
ASSETS MANAGED IN THIS SECTOR	\$3.5B
YEARS MANAGING THIS ASSET CLASS	10

Investment team

TEAM SIZE	8
PORTFOLIO MANAGER	DON HAMSOM AND PETER GARDNER
STRUCTURE / LOCATION	CENTRALISED / SYDNEY

Investment process ('look through')

STYLE	INCOME, TAX EFFECTIVE
TARGETED VALUE ADD ABOVE INDEX (P.A.)	3%
RISK OBJECTIVE (INTERNAL)	EX ANTE TRACKING ERROR 1-4% P.A.
TYPICAL STOCK NUMBERS	50-120
TYPICAL CAPITALISATION BIAS	LARGE/MID
STOCK POSITION LIMIT	INDEX =/ < 5%
SECTOR POSITION LIMIT	INDEX =/ < 6%
CAPACITY LIMIT	0.1% OF THE INDEX

Fund rating history

MARCH 2017	HIGHLY RECOMMENDED
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What this Rating Means

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

Strengths

- The Company will be managed by a high quality and experienced investment manager in Plato.
- The underlying investment strategy has specifically been designed for 0% tax payers by capturing a high level of franking credits.
- Plato has developed strong Australian-centric academic research which underpins the quantitative investment process.
- Expected monthly fully franked dividend payments will provide investors with a regular income stream and should act to support 'after market' liquidity.

Weaknesses

- As the Company is yet to list on the ASX, there is no discernible track record of performance.
- The overall capability post the PL8 raising and options exercise will be close to its stated capacity limits.
- The likely fee load of the Company (expected 0.9% p.a. of NAV after internal costs) is higher than some other internally-managed and income-focused LICs.

Scope of this Rating

- Lonsec has used its Managed Funds research process in forming a 'point-in-time' opinion on this Listed Investment Company's ('LIC') ability to meet its investment objectives as outlined in the Prospectus. This research process, however, does not include any assessment of the Company's ability to minimise any divergence between the share price and the Net Asset Value (NAV) per share beyond acknowledging that the Company is committed to doing. Lonsec considers an investment in the LIC sector to be suitable for investors with a long-term (5+ years) investment horizon.
- The Lonsec rating will expire upon the listing of Plato Income Maximiser Limited ('PL8') on the Australian Stock Exchange (ASX).

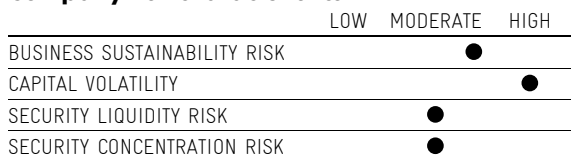
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Suggested Lonsec risk profile suitability



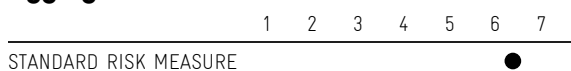
Company risk characteristics



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

BIOmetrics

Aggregate Risk Measure

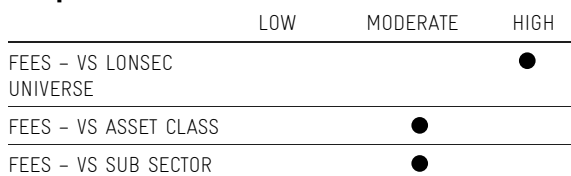


A Standard Risk Measure score of 6 equates to a Risk Label of ‘High’ and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with AFSA/FSC guidelines.

Features and benefits



Fee profile



What is this Company?

- Plato Income Maximiser Limited (PL8 or ‘the Company’) is a LIC with the dual objectives of generating income including franking credits in excess of the S&P/ASX 200 Franking Credit Adjusted Daily Total Return Index (Tax Exempt) (‘the Index’) and outperforming the Index (after fees) on an after tax basis over an investment cycle. In this context, an investment cycle is defined to be 3 – 5 years.
- Subscribers to the IPO will be issued with a ‘free’ option on a 1-for-1 basis that will be listed (ASX code – PL8O). The attached option will be exercisable at \$1.10 on the 29 April 2019.
- PL8 will be a long-term investor in the existing Plato Australian Shares Income Fund (‘the Underlying Fund’) and this will be its sole investment. PL8 will be a minority and non-controlling investor in the Underlying Fund. PL8 will be issued with a separate class of units that will not attract any management fees. The reason for this structure is that it allows PL8 to treat the

investment as being long-term in nature which means that all realised / unrealised gains and losses can be booked to a balance sheet reserve rather than the Company’s profit and loss statement. This will allow for greater certainty and consistency in PL8 profitability which will allow it to pay a predictable and timely monthly dividend.

- Lonsec cautions that PL8’s revenue will be solely sourced from the distributions paid out from the Underlying Fund. Such distributions are paid at the discretion of the Responsible Entity or RE of the Underlying Fund. Should the RE suspend the payment of distributions, then this would significantly impact the ability of PL8 to pay dividends.
- Lonsec also notes that a key part of the Plato approach is the capture of ‘excess’ franking credits. These, along with franking generated within PL8 when paying company tax, will be credited to its franking account and then paid out as fully franked dividends as these are declared. Lonsec notes that should PL8 not be able to pay such credits out on a timely basis, then this could lead to the franking account balance building substantially within PL8. Under this scenario, this value would only be released to share-holders via a special dividend which the Board may approve from time-to-time.
- Plato Investment Management Limited (‘Plato’ or ‘the Manager’) has been appointed as the Investment Manager of PL8. Plato is a specialised quantitative investment manager and is also the manager of the Underlying Fund. The investment management agreement with Plato is for an initial five-years with the option of an additional five years.
- The Underlying Fund is a tax effective and ‘style neutral’ Australian equity product. Its investment objectives line-up with the Prospectus objectives of the LIC, namely outperforming the S&P/ASX200 Accumulation Index (‘the Benchmark’) by 3% p.a. and distribute a 3% higher yield than the Benchmark. Risk is managed within a 1-4% p.a. Tracking Error range and the portfolio is broadly diversified (50-120 stocks).
- Plato seeks to generate income through investing in fully franked dividend yielding stocks in the run-up period to the ex-dividend dates. Outside of this period, the Manager additionally invests in stocks using its standard alpha generation approach, selecting stocks based on proprietary quality, value and momentum signals.
- The Underlying Fund has been specifically designed to be tax effective in the hands of a 0% rate tax payer by capturing Franking Credits and exhibiting high portfolio turnover (~150% p.a.).
- The portfolio is managed in a reasonably ‘benchmark aware’ fashion. However, Lonsec notes the activeness of the Underlying Fund has increased in recent years and the Active Share is now consistently above 70%.
- The Company will incur an annual management fee of 0.80% of Net Asset Value (NAV), which is slightly above average for Lonsec’s Income Dividend Focused Sub-Sector. It is also

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substantially above the management expense ratio of some competing internally-managed LICs that have a similar focus on paying fully franked dividends. The Company's running costs outside of the management fee are estimated to be 0.1% of NAV.

- The independent directors of PL8 will be paid an annual directors fee of \$30,000 while the independent Chair will receive \$40,000. Non-independent directors will not receive a separate directors fee from PL8. Lonsec considers this fee structure to be commensurate with other recent LIC IPOs that it has reviewed.
- As with all LICs, a key consideration for investors is the expected propensity for a new LIC to trade at a premium or discount to its portfolio's NAV. In particular, investors should consider what mitigating features that may prevent an LIC from trading at a significant (+10%) discount to its NAV for a prolonged period of time.
- For PL8, Lonsec considers there to be a number of such mitigating features. The first is the realistic expectation that PL8 will start to pay monthly fully-franked dividends within the first 3-6 months of its listing. The Underlying Fund also has a reasonably diversified stock portfolio and will be fully invested in the local market. PL8 is also expected to be of a decent size (starting market cap. above \$150m) and will have a healthy 'free float'. PL8 is also expected by Lonsec to demonstrate good governance practices due to a majority of independent directors and a Board with a diverse and relevant range of skills. Finally, Plato's part owner and back-middle office service provider Pinnacle has experience in running similar LICs (i.e. Antipodes) and understands the importance of good 'after market' support.

Using this LIC

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

- PL8 is an Australian equity product which will be nearly fully invested and aims to deliver a 'style neutral' approach. As such, Lonsec believes the Company will generally sit within the growth component of a diversified investment portfolio. Lonsec considers the Company suitable for blending with other Australian equities strategies, including 'value' and 'growth' style funds, as well as absolute return and small cap products.
- The Company is subject to equity market risks and movements (both positive and negative) in the prices of the underlying securities in the portfolio. Potential investors should, therefore, be aware of, and be comfortable with, the potential for the Company to experience periods of negative absolute returns which may result in capital losses being incurred on their investment.
- Lonsec recommends advisors consult the Lonsec Risk Profile Review and / or the Lonsec Risk Profile Definitions document(s) for guidance on appropriate asset allocations to Australian Equity within a diversified investment portfolio. Lonsec

recommends that equity investments are suitable for investors with an investment time horizon of at least five years.

- The Company's emphasis on securing franked income makes it more suitable for investors seeking a tax effective income stream. It is important to note that the Company's distributable income is derived from a portfolio of listed assets, and as such, distributions can fluctuate.
- The Company is managed from the point of view of a 0% tax payer. While it may still accrue tax benefits for investors in other tax brackets, portfolio construction and investment decisions have been optimised for 0% tax payers. Investors should also note that all Franking Credits received are embedded in the Fund's unit price.

Changes since Previous Lonsec Review

- This is Lonsec's initial review of PL8.

Lonsec Opinion of this LIC

Board of Directors – PL8

- PL8 will have its own separate Board of Directors (BOD) that will consist of five members, with three of these being independent. The independent directors are Jonathan Trollip (Chair), Lorraine Berends and Katrina Onishi. The non-independent directors consist of Alex Ihlendfeldt (COO / CFO of Pinnacle Investment Management and Director of Plato) and Dr Don Hamson (Managing Director of Plato). Lonsec considers maintaining a majority of independent directors, including an independent Chair, to be best practice from a LIC governance perspective.
- The BOD's composition is considered by Lonsec to be reasonably sized for the task at hand. Lonsec has gained further comfort in the Board's exclusive responsibility being the corporate governance of the Company itself while the investment management oversight and day-to-day management of the portfolio has been delegated. Having said that, Lonsec highlights that Don Hamson straddles this segregation of duties by being both a director of PL8 and a key Plato investor and executive.
- In Lonsec's view, the Board is comprised of a mix of individuals with both the experience and skills in financial services and funds management, to allow PL8 to meet its investment objectives. Being ASX-listed, PL8 will also need to comply with the stringent listing rules of the ASX.

People and resources – investment manager

- The investment management of the LIC's underlying strategy is conducted by Plato. The Plato investment team comprises of eight investment professionals led by Dr Don Hamson. The team size of eight is around average when compared to other local quantitative style managers assessed by Lonsec. However, Lonsec highlights the relatively high level of industry experience within this team as a strong competitive edge.

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- Hamson is the Managing Director for Plato as well as being the lead Portfolio Manager of the Underlying Fund. Lonsec regards Hamson as being a seasoned investor with a well-established track record given his 24 years of investment experience running quantitative-style Australian equity strategies (including index, active, and long / short). Prior to co-founding Plato in 2006, Hamson led the investment team at State Street Global Advisors ('SSgA'). He has also held the roles of CIO of Westpac Investment Management, a senior investment analyst at QIC and spent time in academia. Lonsec is impressed with the diversity of organisations and investment roles that Hamson has held to date as well as the mix of industry and academic pursuits.
- The Plato investment team features a number of investment professionals with 'hands on' experience as portfolio managers of quantitative equity products (Hamson, Dr Peter Gardner, Manoj Wanzare, Todd Kennedy and Dr Mark Thompson). Lonsec is impressed with the industry experience of the team; the average industry tenure was 17 years with no team member having less than a decade of experience. A core of the team has also had at least five years of co-tenure at Plato with Hamson, Wanzare and Gardner now having worked together at Plato for a decade. A number of team members have also worked together previously at SSgA.
- Plato lacks the global research links and resources of some of its larger global competitors. However, while fewer resources can be a disadvantage, Lonsec believes that Plato has a competitive edge in having a strong pedigree in developing and managing Australian equity strategies and researching quantitative models specific to the local market.
- In contrast, Lonsec has at times observed that the cohort of larger global managers has shown a willingness to mould global research with their Australian models. The differentiated characteristics of the Australian market (such as the tax system, concentrated nature, biases inherent in the market and the nuances of investor base) means that some of the research generated by the large global managers has less relevance in the local context.
- Lonsec generally considers 'key person risk' (KPR) to be relatively low in quantitative strategies, given that much of the insight and proprietary research is captured in the quantitative models. However, Lonsec considers KPR at Plato to be moderate-to-high and centred on Hamson. This is mainly due to his leadership role in the team, his investment experience and his role in developing this strategy and founding the firm. While Lonsec cannot make an assessment of the likelihood of a staff member departing in the future, a higher KPR assessment means that the rating of a capability is more susceptible to downgrade in the event of the departure of the key person.
- Lonsec notes a number of mitigating factors in its KPR assessment. This includes Hamson's substantial equity holding in Plato and the depth

of the investment team, most of whom also hold some level of equity in the business. Further, Lonsec notes that Todd Kennedy, Senior Portfolio Manager, has previously managed a quantitative style investment team.

- The investment team collectively own 52% of the equity of the firm, with 48% of the business owned by Pinnacle Investment Management ('Pinnacle'). The ownership percentage split is slated to change slightly from August 2017, as equity is granted to more members of Plato's investment team. Pinnacle provides Plato with distribution and infrastructure, which allows the investment team to focus on investing.
- The remuneration and performance target structure is very clear with 100% of each person's variable remuneration directly linked to investment performance. Equity owners in the firm also receive dividends when business profitability allows, with a key driving factor being FUM flows driven by the meeting of investment objectives. Lonsec believes that the remuneration structure enhances the Manager's alignment of interests with investors.

Research approach and portfolio construction – investment manager

- Plato's stock selection process ranks stocks using both short and long-term models. A core alpha model, employing Value, Momentum and Quality signals, underpins the capability's core longer term holdings while Dividend Yield and Dividend Run Up models are more short term and tactical in nature. A Dividend Trap model is also applied to discount stocks which rank well on alpha and yield but have a high probability of having their dividends cut. Following this process, the 'Plato yield ranking' determines which stocks are viewed favourably relative to others in terms of yield and alpha.
- Lonsec considers the design whereby stocks will be held for at least 45 days across their dividend dates to make sense in terms of tax efficiency given the eligibility rule around Franking Credits.
- Lonsec notes that the key differences between Plato's research effort and those of its larger quantitative peers lie in two areas. As previously mentioned, Lonsec believes that Plato's research effort is more targeted and specific to the Australian market and its taxation system. In addition, Lonsec's general observation is that larger managers tend to commit more resources to general 'blue sky' research (which tends to be more esoteric and less immediately applicable in nature). Lonsec believes 'blue sky' research, while appropriate to faster twitch quantitative strategies, is less relevant to Plato's core alpha and dividend run-up models, which are relatively more stable in nature.
- That said, Lonsec has been pleased by Plato's commitment to continual improvement of its underlying signals/models. Plato's research effort has been supported by the recent addition of Jonathan Whiteoak. Whiteoak joined the Manager as a Senior Quantitative Researcher and his focus

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lies with research and development of the Manager's quantitative factors. The Manager is currently working on incorporating research recently developed for its global equity income strategy (e.g. price-drop-ratio model within the dividend run-up model, alternative measures for quality) into its domestic income strategy.

- Lonsec believes the 0% tax orientation of the Underlying Fund has enhanced the portfolio construction part of the process. In a more mainstream product, fund managers do not have knowledge of the tax situation of the unit-holders, which may result in compromised investment decisions from a tax perspective. In this instance, the assumption is made that all investors are in the 0% tax bracket and this means that the investment team can always make the optimal tax effective decision. For example, the assessment of buy back opportunities may yield different outcomes for different tax levels. For Plato, the assessment of these opportunities is more straightforward.
- Like most quantitative processes, portfolio construction is systematic and reliant on optimisation and quantitative risk management tools such as BARRA. The Underlying Fund has relatively tight active stock (max. +5% active) and sector (max. +6%) position limits compared to peers, and with a Tracking Error target of 1-4% p.a., is one of the more benchmark aware equity income capabilities in the sector.
- Portfolio construction takes into account the alpha model's return forecasts and then optimises the portfolio to maximise alpha while minimising risk, subject to portfolio constraints, transaction costs and stock liquidity. Lonsec considers Plato's portfolio construction process to be logical and consistent.

Funds under management – investment manager

- Over the last year the Manager has continued to grow FUM significantly. FUM now sits at approximately \$3.5b across income, low volatility, tax-exempt and ESG strategies. Plato has a healthy mix of retail and institutional clients. Further, Plato's institutional investor base is diversified across consultants and types of clients (including industry superfunds, family office, government super fund and others).
- Capacity for Plato's domestic income strategy is estimated by the Manager to be 0.1% of the market capitalisation of the S&P/ASX300 Index (or approximately \$1.7b). The strategy has approximately \$1.2b in FUM (c. \$500m remaining). The strategy is currently hard closed to institutional investors, with the remaining capacity reserved for retail investors including this PL8 raising. The Manager is currently undertaking steps to 'free up' capacity to retail clients by migrating some of its institutional clients onto its other strategy offerings.
- Lonsec considers the most significant limiting factor to capacity to be the Underlying Fund's shorter term dividend run-up model. By its nature, this model generates a high level of turnover,

which may be more difficult to implement (particularly when exiting positions) in smaller, less liquid stocks. To date, Lonsec has not seen any evidence of capacity issues and believes the Plato has been consistent and transparent in managing capacity. Capacity will continue to be a closely watched issue in future reviews.

- A complicating factor is that investors do not know at this stage how much FUM will be raised in the IPO or what percentage of the options will be exercised. Lonsec cautions that should the IPO be over-subscribed and should all the options be exercised, then FUM would increase by \$660m (at the IPO price). This could start to place pressure on the capacity limits for this capability.

Risk management – company and investment manager

- PL8 will have a separate BOD that will provide it with an additional overlay of risk management and independent scrutiny of compliance. It will also be required to meet the stringent listing rules of the ASX.
- The Underlying Fund has a strong focus on risk management, with risk primarily considered in a relative sense (i.e. versus benchmark).
- At the Underlying Fund level, Plato's portfolio construction guidelines aim to manage risk through appropriate diversification by incorporating two layers of risk control, portfolio limits, and a low tracking error target.
- Plato has limits in place for active security and sector positions which are relatively narrow for equity income type capabilities. The use of an optimiser in portfolio construction and monitoring also means that risk constraints and transaction costs are embedded into the portfolio construction process.

Performance – company and investment manager

- As the Company is yet to list, there is no performance data available.
- Lonsec covers the unit trust version of this product, the Plato Australian Shares Income Fund, which is a different class of units in the same Underlying Fund that the Company will be invested in. Lonsec notes that the primary objective of the Underlying Fund is to provide its investors with a gross yield that is 3% above its benchmark over rolling three-year periods. This objective has been consistently achieved.
- However, Lonsec notes that the Underlying Fund has been cycling some tougher numbers over the short-term. As at 31 January 2017, it returned 13.74% and under-performed the S&P/ASX 300 Acc. Index by 3.6%. Lonsec notes that the benchmark return in this instance is pre the franking benefit. The market typically generates a franking benefit of 1.5% p.a.
- Lonsec notes that the Underlying Fund has now passed its five-year performance history anniversary. Over the five-years' to 31 January 2017, it returned 11.08% p.a., exceeding the pre-franking benefit benchmark return by 0.51% p.a.

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With an annual standard deviation of 11.45%, this has translated into a strong Sharpe Ratio of 0.73.

Overall

- Lonsec has assigned PL8 with an initial rating of 'Highly Recommended'. Lonsec has a high regard for the tax aware design of the Underlying Fund in which PL8 will solely invest. Lonsec considers it to be an equity income product that is highly tax efficient for 0% tax payers. Lonsec also considers the capability to be free from some of the structural biases inherent in some other equity income products.
- Lonsec has a positive view of both the Plato investment team and the Board of Directors of PL8. In terms of the investment team, while being somewhat smaller versus some competing teams, it is one of the most experienced team in Lonsec's broader universe. Lonsec is also impressed with the leadership and quantitative pedigree of Dr Don Hamson.
- Lonsec notes that the potential success of this raising will ensure that the wider Plato equity income capability is very close to its capacity limits. Investors should be aware of this risk given the reliance of the quantitative models on high turnover levels.

People and Resources

PL8 Board of Directors

NAME	POSITION / STATUS	YEARS EXPERIENCE
JONATHAN TROLLIP	CHAIRMAN / INDEPENDENT	31
KATRINA ONISHI	INDEPENDENT	+30
LORRAINE BERENDS	INDEPENDENT	31
DR DON HAMSON	NON-INDEPENDENT	24
ALEX IHLENFELDT	NON-INDEPENDENT	26

The Company has established its own Board of Directors (BOD) consisting of five members. The majority (three) of its members, including the Chair, have been designated as being 'independent' under the ASX listing rules. Pinnacle Investment Management Limited ('Pinnacle'), which has a minority interest in Plato, has appointed its own representative to the BOD. The BOD is rounded out by Plato executive and the Portfolio Manager of the Underlying Fund, Dr Don Hamson.

The BOD has the responsibility for ensuring that the Company is properly managed so as to protect shareholder interests in a manner that is consistent with the Company's obligation to all stakeholders. This includes meeting its Prospectus investment objectives.

The BOD has elected not to create sub-committees and will consider all functions (e.g. Audit and Risk) during its meetings.

Jonathan Trollip

Jonathan Trollip has over 30 years' experience in commercial, corporate, governance, legal and

transaction matters. Trollip is currently Non-Executive Chairman of Global Value Fund (ASX: GVF) and Future Generation Investment Company (ASX: FGX) and Non-Executive Director of Elemental Minerals Limited (ASX: ELM). He is also a Director of two commercial operations (a) Meridian International Capital Limited and (b) BCAL Diagnostics Pty Ltd. Trollip has worked as a principal of Meridian for the past 23 years and has both a legal background and qualifications.

Katrina Onishi

Katrina Onishi is an ex-Director of 'boutique' fund manager Concord Capital Limited. She also has had an extensive career in funds management before founding Concord. Katrina is currently on the Board of Vitaco Holdings where she is the Chair of the Audit and Risk Committee.

Lorraine Berends

Lorraine Berends has over 30 years' experience across financial services and has actuarial qualifications. Berends currently serves as a Director of the BT Financial Group REAT Board and chairs the Investment Committee along with being a member of the Audit and Risk Committee. She has previously served on the Boards of (a) the Association of Superannuation Funds of Australia and (b) the Investment Management Consultants Association in Australia. Berends was also responsible for US-based Marvin & Palmer Associates' Australia and Asia business.

Alex Ihlenfeldt

Alex Ihlenfeldt has over 25 years' commercial experience in investment management and holds accounting qualifications. Ihlenfeldt currently serves as the COO and CFO of Pinnacle Investment Management Limited. He is a Director across a range of Pinnacle subsidiaries and investments, including Antipodes Partners Limited.

PL8 Board remuneration

The Company's Constitution requires a minimum of five Board members with each independent Director receiving an annual salary. The Chairman will receive \$40,000 per annum and the other two independent Directors will each receive \$30,000 per annum. An aggregate limit of \$250,000 per annum will apply to the Board's compensation.

Investment Manager

Plato is a quantitative boutique fund manager based in Sydney. Plato offers active, index, and equity income strategies, predominantly to institutional clients. Plato was founded by Ian Macoun (Chairman) and Dr Don Hamson (Managing Director) in September 2006. Plato has eight staff, five of which are dedicated to investment management. The firm is own by staff (52%) and Pinnacle Investment Management (48%). Plato's funds under management has increased to over \$3.5 billion as of February 2017.

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Pinnacle holds equity interests in a number of specialist investment managers and, in conjunction with its parent company, Pinnacle Investment Management Group Limited (ASX:PNI), provides capital, seed funding, and infrastructure and other support services. The Pinnacle stable currently houses seven specialist managers, which together manage +\$20 billion across a range of asset classes.

Investment team

NAME	POSITION	YEARS INDUSTRY / FIRM
DR DON HAMSON	MD, SENIOR PM	24 / 10
MANOJ WANZARE	SENIOR PM	18 / 9
TODD KENNEDY	SENIOR PM	22 / 5
DR PETER GARDNER	SENIOR PM	11 / 10
DR MARK THOMPSON	P'FOLIO MANAGER	14 / 5
JONATHAN WHITEOAK	SENIOR QUANT ANALYST	17 / 1
WILSON THONG	QUANT ANALYST	14 / 1
DANIEL PENNELL	SENIOR PM (GLOBAL)	15 / 1

Portfolio Manager Don Hamson is chiefly responsible for implementing the strategy and is responsible for the Underlying Fund's performance. Hamson founded Plato and has over 20 years of investment experience including senior quantitative roles at State Street Global Advisors, Westpac Investment Management, and Queensland Investment Corporation. He was also a Lecturer in Finance at the University of Queensland and has since written a number of white papers on after-tax investing.

Plato operates a flat team structure, with all members of the team contributing to the research of new signals and quantitative models. The majority of back-office functions are outsourced to Pinnacle.

Remuneration

Base salaries are set at or below market (for equity holders). A large part of the investment team are also equity-holders in Plato and receive dividends from these holdings. There is also a discretionary bonus pool available to all staff.

Research Approach – Underlying Fund

Overview

TARGET COMPANY	ATTRACTIVE INDUSTRY, GOOD VALUE, HIGH QUALITY, HISTORY OF DIVIDENDS, GOOD BUSINESS MOMENTUM, STRONG MANAGEMENT
RESEARCH INPUTS	INTERNAL RESEARCH TO FIND AND REFINE QUNATIFIABLE FACTORS WHICH INFLUENCE FUTURE SHARE PRICE PERFORMANCE
BROKER RESEARCH	VALUATIONS – EARNINGS DISCOUNT MODEL
VALUATION APPROACH	EV/EBITDA, DIVIDEND YIELD, DCF, EARNINGS DISCOUNT MODEL

Plato's research process is based on a range of quantitative signals which are reflected in the Manager's different factor models. These are listed below.

1. Yield model - Forecast dividend yields model (includes Franking Credits).
2. Alpha model - Valuation signals using diversified and sector specific valuation models. Momentum signals using price momentum and earnings revisions. Quality signals using diversified and sector specific quality models
3. Dividend Run Up Forecast model - Forecast stock returns around dividend ex dates (capital return and income forecasts).
4. Dividend Trap model - Forecast probability of dividends being cut.

Portfolio Construction – Underlying Fund

Overview

FUND BENCHMARK	S&P/ASX 200 FRANKING CREDIT ADJUSTED DAILY TOTAL RETURN INDEX (TAX EXEMPT)
RETURN OBJECTIVE (INTERNAL)	OUTPERFORMANCE OF 3% P.A. OVER ROLLING 3-YEAR PERIODS
RISK OBJECTIVE (INTERNAL)	EX ANTE TRACKING ERROR OF 1.5-4% P.A.
INVESTMENT STYLE	INCOME / TAX EFFECTIVE
PORTFOLIO DECISIONS	QUANTITATIVE
TYPICAL NUMBER OF HOLDINGS	50-120
TOP-DOWN INFLUENCE	LIMITED
MARKET CAPITALISATION BIAS	LARGE-TO-MID
EXPECTED PORTFOLIO TURNOVER	150%
EXPECTED ACTIVE SHARE	+70% P.A.
% OF STOCKS IN 'TOP 10'	EXPECTED 50%

Plato employs a BARRA based portfolio optimiser in its portfolio construction process. The primary inputs are each stocks ranking and expected return forecast or alpha derived from the quantitative model, but the model also takes into account risk constraints and transaction costs.

Individual active position sizes are limited to a maximum of +5% versus the benchmark weight. Sector weights (using GICS classifications) are restricted to a soft limit of +6% by the optimiser. In addition, the optimiser takes into account market caps for each stock to ensure that the portfolio does not have any particular cap biases. Cash is limited to no more than 5% of the Underlying Fund.

In terms of managing and monitoring transaction costs in the process, Plato uses internally developed tools to estimate intraday stock liquidity in conjunction with external transaction cost models. Actual transaction costs are compared to estimates to monitor efficiency. The trading systems also control for trade sizes to limit market impact.

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Risk Management – Underlying Fund

Risk limits

SEPERATE RISK MONITORING	YES
INDIVIDUAL STOCK LIMITS	INDEX +/-5%
INDUSTRY / SECTOR LIMITS	INDEX +/- 6%
CONSTRAINTS ON DERIVATIVE	DERIVATIVES WILL NOT BE USED TO GEAR THE UNDERLYING FUND (OR THE COMPANY)
PORTFOLIO BETA	NOT TARGETED

Risk Monitoring

Stock positions are maintained by Plato within a structured and controlled framework. In line with industry practices individual stock and sector exposures are monitored daily. Biases and contributors to Tracking Error are managed using BARRA.sk is managed largely through fundamental research and a system of hard sector and stock limits.

Risks

An investment in the LIC 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 Prospectus and should be read in full and understood by investors. Lonsec considers major risks to be:

Equity market

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

Market

Being an LIC, its securities may trade on the ASX at a discount to its NAV for extended periods of time.

Derivatives

Plato has scope, via its investment mandate with PL8, to implement various derivative strategies with the objective of mitigating equity market risks. Lonsec does not expect this to be a widely adopted strategy and will generally be restricted to using futures as a method of investing residual cash balances. Derivatives cannot be used to leverage the Underlying Fund or the Company.

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Glossary

Absolute Return 'Top line' actual return, after fees

Excess Return Return in excess of the benchmark return (Alpha)

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

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Date prepared

March 2017

Analyst

Peter Green

Release authorised by

Adrian Hoe

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