

Product Assessment

Smallco Broadcap Fund

VIEWPOINT

The Fund, managed by Smallco Investment Manager Limited (Smallco), provides investors with an exposure to a concentrated portfolio of Australian equities. The Fund has relatively wide portfolio constraints and invests across the market capitalisation spectrum. Zenith has a high regard for Smallco given its experienced team of investment professionals and robust investment process.

Established in 2000 by Rob Hopkins and Bill Ryan, Smallco is a Sydney-based boutique fund manager that specialises in managing Australian equity strategies. As at 31 May 2019, Smallco managed approximately \$A 895 million firmwide. In response to the high level of funds under management (FUM), Smallco hard closed the Fund in January 2017, which we believe was prudent. Given the strength of the investment team and process, Zenith believes that Smallco can continue to deliver upon its objectives.

The investment team of seven is led by Hopkins, who is supported by six other portfolio managers: Ryan; Andrew Hokin; Paul Graham; Craig Miller; Adam Simpson; and Han Xu. Whilst Hokin is the lead portfolio manager for the Fund, a consensus approach to decision making is employed for the purposes of portfolio construction. All team members hold stock coverage responsibilities, with a number of key sectors allocated across the team. Outside of the key sectors, team members are given the freedom and flexibility to cover any stocks in any sector.

Smallco's investment philosophy centres on the belief that equity markets are inefficient and that rigorous fundamental research can identify opportunities to generate excess returns. Smallco targets quality companies likely to exceed consensus earnings expectations or out of favour companies expected to at least meet earnings expectations. By targeting these features, Smallco aims to invest in companies it believes will double in value over a three-year investment period.

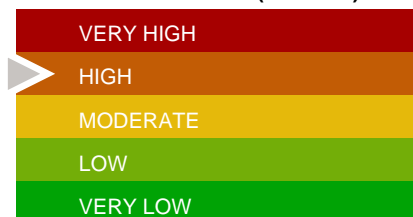
In July 2016, Smallco changed the investment strategy to allow the Fund to invest up to 40% in securities with market capitalisations under \$A 1 billion. Previously, the Fund was permitted to invest 40% outside the S&P/ASX 100 Index. Smallco specified that this change was to enable the Fund more flexibility in its security selection. Specifically, larger stocks outside the S&P/ASX 100 were unable to be held at optimal weights due to the 40% limit being utilised by other attractive opportunities further down the market capitalisation spectrum. Zenith believes this change was appropriate and retains conviction in Smallco's ability to generate excess returns.

The portfolio construction process is primarily driven by fundamental analysis conducted by the investment team. Smallco constructs the Fund through a benchmark unaware approach, with portfolio guidelines, stock liquidity and downside risk considered to avoid unnecessary risks within the process. Zenith is comfortable with Smallco's portfolio construction approach, believing it ensures a strong connection between the output of the security selection process and the resultant weight of the stock in the portfolio.

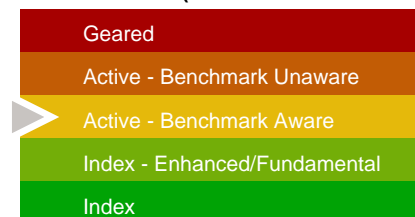
FUND FACTS

- Concentrated portfolio holding between 20 and 30 securities
- Portfolio turnover expected to be approximately 50% p.a.
- Can hold up to 50% cash if viable investment opportunities cannot be identified

ABSOLUTE RISK (SECTOR)



RELATIVE RISK (FUND WITHIN SECTOR)



INCOME DISTRIBUTIONS PER



INVESTMENT TIMEFRAME



Report data as at 31 May 2019

Rating issued on 20 Jun 2019

APIR Code

ASC0003AU

Asset / Sub-Asset Class

Australian Shares
 All Cap

Investment Style

Growth

Investment Objective

To achieve a return of 5% p.a. over the S&P/ASX 300 Accumulation Index (after fees) over rolling three year periods.

Zenith Assigned Benchmark

S&P/ASX 300 (Accum)

Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
Fund	13.18	13.02	12.94
Benchmark	7.78	10.57	10.92
Median	9.49	8.47	1.56

Income (% p.a.)

	Income	Total
FY to 30 Jun 2018	20.80	21.50
FY to 30 Jun 2017	3.00	12.90
FY to 30 Jun 2016	3.70	9.30

Fees (% p.a., Incl. GST)

Management Cost: 1.20%
 Performance Fee: 15% of the outperformance (after fees) of the S&P/ASX 300 Accum. Index subject to a high water mark

APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

The Zenith "Australian Shares - Large Companies" sector consists of long-only strategies investing in the Australian equity market. The sector incorporates both benchmark aware and benchmark unaware strategies and focuses predominantly on large capitalisation stocks. The sector is one of the most competitive in the investment landscape, based on the number of managers and strategies available to investors. Despite the competitiveness of the sector, the Australian share market has historically provided many opportunities for active management, with the median active manager outperforming a passive index over the longer term.

Zenith benchmarks all funds in this sector against the S&P/ASX 300 Accumulation Index. However, many managers in this category benchmark their funds against the S&P/ASX 200 Accumulation Index. Both indices are market-capitalisation weighted, resulting in companies with the largest market capitalisations receiving the heaviest weightings within the index. Over the longer term, Zenith believes there will be minimal difference between the return profiles of these indices.

The Australian share market, as represented by the S&P/ASX 300 Index, is highly concentrated and narrow. Technically, a company is considered large cap if it falls within the S&P/ASX 50 Index, with companies falling between the S&P/ASX 50 and S&P/ASX 100 considered mid cap. All stocks outside of the S&P/ASX 100 Index are considered small capitalisation stocks.

As at 31 May 2019, the Financials and Resources sectors combined represented a significant portion of the S&P/ASX 300 Accumulation Index, with the Financials sector accounting for approximately 31% of the Index and the Materials sector approximately 19%. The split between Industrials and Resources stocks was approximately 80%/20%. The top 10 stocks represented approximately 43% of the weighting of the Index and the top 20 stocks represented over 57% of the Index.

PORTFOLIO APPLICATIONS

In general, compared to most other asset classes, equities offer investors the opportunity for higher capital growth over the longer term with some income. However, this higher growth is also often associated with higher volatility. Therefore, it is recommended that investors adopt a longer timeframe when investing in equities.

Investors should also be cognisant of the fact that the Australian equity market is relatively concentrated, with the Materials and Financials sectors dominating the market. The market also only represents approximately 1% of global equity markets (in terms of market capitalisation). Therefore, to mitigate this concentration risk it is highly recommended that investors diversify their investments across asset classes, both domestically and globally.

Zenith classifies the Fund as "All Cap". When compared to Large Cap funds, All Cap funds will typically invest across a broader market capitalisation spectrum, i.e. large through small, in addition to having relatively wide portfolio constraints.

The Fund offers a unique opportunity to diversify a portfolio, given its concentrated nature and benchmark unaware

approach. The Fund is expected to exhibit significantly different risk/return characteristics and less correlation to other traditional large cap managers throughout different stages of the investment cycle. As such, Zenith believes the Fund would blend well with large cap Australian equity funds, or funds that directly hold investments in S&P/ASX 20 stocks.

Investors should note that whilst the majority of the Fund's positions will be in larger capitalisation stocks, it will typically hold a material exposure to stocks outside the S&P/ASX 100 Index (long-term average stands at approximately 35% of the portfolio). Smallco will also typically exclude or be underweight stocks from the resources sector, biotechnology sector and structurally challenged industries.

In order to curtail FUM inflows, Smallco hard closed the Fund in January 2017. In December 2017, Smallco engaged in an out-of cycle distribution. The higher than normal distribution, which included a return of capital, reduced FUM in order to bring it closer to the targeted capacity level. However, investors must be cognisant that a return of capital reduces the cost base of their investment in the Fund, which may result in tax implications.

The Fund's portfolio turnover is expected to be approximately 50% p.a., which Zenith considers to be moderate. Given this expected level of turnover, the Fund's returns are expected to be delivered via both capital appreciation in the unit price and the realisation of capital gains in income distributions. In addition, realised capital gains are likely to be eligible for the capital gains tax discount. As such, holding all else equal, this should provide more optimal after-tax outcomes for investors on higher marginal tax rates, although the Fund may be more appealing to investors who are nil/low tax payers or high marginal tax rate payers who invest through tax-effective vehicles such as a superannuation fund.

RISKS OF THE INVESTMENT

SECTOR RISKS

Funds within the "Australian Large Cap" sector are exposed to the following broad risks:

MARKET & ECONOMIC RISK: As is the case with all long only Australian Share funds, the biggest risk to performance is a sustained downturn across the Australian share market. In addition, changes in economic, social, technological or political conditions, as well as market sentiment could also lead to negative fund performance. This risk can be significantly reduced by investors adhering to the Fund's prescribed investment time frame.

SPECIFIC SECURITY RISK: This is the risk associated with an individual security. The price of shares in a company may be affected by unexpected changes in that company's operations such as changes in management or the loss of a significant customer.

LIQUIDITY RISK: This is the risk that a security or asset cannot be traded quickly enough, due to insufficient trading volumes in the market. When trading volumes are low, sellers can significantly impact the price of a security when attempting to quickly exit a material position.

STYLE BIAS RISK: Australian equity managers will either

employ a Growth, Value or Neutral (combination of Value & Growth) styled approach to investing. Each style is conducive to certain market conditions, i.e. Growth should outperform Value in an upward trending market and vice versa in a downward trending market. As with Market Risk, investors should adhere to the fund's investment time frame to avoid short-term market movements and style impact.

CAPACITY RISK: High levels of funds under management (FUM) can present additional challenges to an Australian equity manager, as high FUM has the potential to hamper the manager's ability to trade efficiently and/or be forced to disclose substantial shareholdings to the market (most common in smaller companies).

REGULATORY RISK: The ASIC Regulatory Guide 97 'Disclosing Fees and Costs in PDSs and Periodic Statements' came into effect on 1 October 2017 and seeks to establish a common framework for disclosing fees with respect to registered managed investment schemes issued to retail investors.

In January 2019, ASIC released a Consultative Paper (CP), seeking feedback with respect to proposed changes to the existing fee and cost disclosure regime. The consultation period ends in April 2019, following which, ASIC will collate feedback and structure final recommendations, notifying of an intended implementation period.

In its current form, RG97 is not expected to impact the actual costs (or net returns) on existing investments. Rather, the guide is focused on providing increased transparency with respect to the costs of management. Given this, it is feasible that under RG97, investors become more sensitive to the costs charged and seek lower cost alternatives, potentially leading to fund outflows.

FUND RISKS

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

KEY PERSON RISK: Zenith views key person risk at Smallco to be moderate to high, as per any boutique manager. Zenith views Rob Hopkins, Bill Ryan and Andrew Hokin to be critical members of the investment team and a departure would be a significant loss to the firm, triggering an immediate review of the Fund's rating. However, Zenith acknowledges the material equity stake all three members maintain in the business and we believe that this mitigates the risk of a departure over the medium term. In addition, we believe there is sufficient depth in the team to take over daily management of the Fund should Smallco experience a material departure. Zenith notes that there have not been any departures from the firm since its inception.

CAPACITY RISK: Excessive levels of funds under management (FUM) can inhibit a manager's ability to trade portfolio positions effectively and may therefore limit outperformance potential. As at 31 May 2019, Smallco managed approximately \$A 895 million firmwide. In response to the high level of FUM, Smallco had closed the Fund in January 2017. Prior to this, Zenith was aware of Smallco's intentions for capacity management as FUM increased. As a

result, Zenith believes Smallco's decision to hard close the Fund was prudent. Given the strength of the investment team and process, Zenith believes that Smallco can continue to deliver upon its objectives.

CONCENTRATION RISK: Given the Fund is more concentrated and less diversified than many Australian equities peers, it is exposed to a higher degree of stock specific risk. Risk in the absolute and relative sense will likely be higher than a more diversified fund. These additional risks may be offset through blending the Fund with other funds with complementary investment styles.

BUSINESS RISK: Whilst Zenith acknowledges that Smallco is profitable at current levels of FUM, we note that it has a relatively concentrated client base, with a material proportion of firmwide FUM sourced from a single client. Whilst the loss of this client could materially impact the firm's profitability and longevity, Smallco has noted that, at current levels of FUM, they would remain profitable if this were to occur.

SECTORAL BIAS RISK: The Fund may be skewed to certain industries as a consequence of its investment process and philosophy. This may potentially cause the Fund to exhibit a different risk/return profile to its stated benchmark, either to the benefit or detriment of investors.

QUALITATIVE DUE DILIGENCE

ORGANISATION

Established in 2000 by Rob Hopkins and Bill Ryan, Smallco Investment Manager Limited (Smallco) is a Sydney-based boutique fund manager that specialises in managing Australian equity strategies. Smallco's boutique structure allows for equity participation amongst the broader team, which Zenith believes is a positive as it allows for closer alignment of interests between the investment team and investors in the Fund and also serves as a staff retention mechanism.

Smallco engages Link Fund Solutions to manage fund administration, whilst Gateway Financial Marketing is responsible for the provision of retail distribution services. Overall, Zenith believes the outsourcing of such responsibilities enables the investment team to concentrate on excess return generation.

As at 31 May 2019, Smallco had approximately \$A 895 million in funds under management.

As at the same date, Smallco managed approximately \$A 204 million in the strategy, all of which was in the Fund.

INVESTMENT PERSONNEL

Name	Title	Tenure
Rob Hopkins	Managing Director/ Portfolio Manager	19 Yr(s)
Bill Ryan	Executive Director / Portfolio Manager	19 Yr(s)
Andrew Hokin	Portfolio Manager	11 Yr(s)
Paul Graham	Portfolio Manager	5 Yr(s)
Craig Miller	Portfolio Manager	14 Yr(s)

Name	Title	Tenure
Adam Simpson	Portfolio Manager	1 Yr(s)
Han Xu	Portfolio Manager	7 Mth(s)

The investment team consists of seven investment professionals and is led by Portfolio Manager and Managing Director Rob Hopkins. Hopkins is supported by six other portfolio managers: Bill Ryan; Andrew Hokin; Paul Graham; Craig Miller; Adam Simpson; and Han Xu.

Hopkins has over 30 years of industry experience. Prior to founding Smallco, Hopkins was the Head of Small Companies Research at Macquarie Equities, BT Alex Brown, ANZ Securities and Macintosh. Hopkins also held various roles at other sell-side firms.

Ryan has over 20 years of industry experience. Prior to founding Smallco, Ryan worked together with Hopkins at ANZ Securities for a number of years.

Hokin has over 20 years of industry experience and joined Smallco in July 2007. Prior to joining Smallco, Hokin held a senior position within Macquarie Equities. Zenith believes Hokin has improved the rigour of the investment process since his arrival, whereby a quality rating system was introduced to the security selection process.

Graham joined Smallco in June 2014 and has over 20 years of industry experience. Prior to joining Smallco, Graham held senior positions at a number of prominent sell-side firms such as Nomura, Credit Suisse and Citigroup.

Miller has over 10 years of industry experience and joined Smallco in June 2005. Prior to 2014, Miller was responsible for a significant portion of the firm's business management requirements, which included business development, client servicing and compliance. Since the firm's partnership with Gateway Financial Marketing, Miller has been able to increase his analytical responsibilities and overall contribution to the investment process.

Simpson and Xu are the latest additions to the team, having joined Smallco in July 2017 and November 2018, respectively. Prior to joining Smallco, Simpson worked at Macquarie for a period of 15 years where he was most recently the Head of Emerging Leaders Research at Macquarie Equities. Xu worked previously as an analyst at Ellerston Capital for three years and, prior to that, a sell-side analyst at UBS for nine years. Zenith notes that Smallco has continued to bolster team resourcing, which we view favourably.

All team members hold stock coverage responsibilities, with a number of key sectors allocated across the team. Outside of the key sectors, team members are given the freedom and flexibility to cover any stocks in any sector.

Whilst Hokin is the lead portfolio manager for the Fund, a consensus approach to decision making is employed for the purposes of portfolio construction, with all team members being involved in the process.

The team has remained stable, with no staff departures since the inception of the firm. Where applicable, each team member is entitled to a profit-sharing arrangement that is commensurate with their equity/shadow equity holding, which

Zenith believes provides a strong incentive to remain with the firm at least in the medium term.

Overall, Zenith considers the Fund's investment team to be well experienced and well resourced in the management of Australian equities.

INVESTMENT OBJECTIVE, PHILOSOPHY AND PROCESS

The Fund's objective is to achieve a return of 5% above the S&P/ASX 300 Accumulation Index (after fees) over rolling three year periods. Smallco intends to achieve this investment objective whilst delivering an Information Ratio in excess of 1.

Smallco's investment philosophy centres on the belief that equity markets are inefficient and that rigorous fundamental research can identify opportunities to generate excess returns.

At the core of the investment process is the use of fundamental research to identify attractive investment opportunities that are trading at a discount to their intrinsic value.

Smallco targets quality companies likely to exceed consensus earnings expectations or out of favour companies expected to at least meet earnings expectations. By targeting these features, Smallco aims to invest in companies it believes will double in value over a three-year investment period. The resultant portfolio is expected to exhibit growth characteristics.

Whilst the Fund's investment process is predominantly fundamental in nature, Smallco also seeks to add value via a macroeconomic overlay that is used as a source of idea generation and feedback loop.

SECURITY SELECTION

Smallco focuses its research on stocks with market capitalisations between \$A 100 million and \$A 500 million, as it believes this is a segment of the market that is both relatively under researched and possesses sufficient liquidity. In addition, Smallco maintains coverage on a selection of larger cap (constituents of the S&P/ASX 100 Index) and micro cap stocks (stocks with a market capitalisation of less than \$A 100 million). However, Zenith notes that Smallco's traditional core competency is in the research of small capitalisation securities.

Smallco is generally cautious when investing in stocks with market capitalisations of less than \$A 100 million, given their higher level of earnings forecast risk and generally less developed financial discipline and reporting. In addition, Smallco typically excludes stocks from the resources sector, biotechnology sector and other structurally challenged industries from further due diligence as it believes their earnings are too difficult to forecast with sufficient accuracy.

Smallco seeks to identify quality companies that exhibit the following characteristics:

- Strong cash flow
- High Return on Funds Employed (ROFE)
- Attractive earnings outlook
- Strong competitive advantage
- Strong board and good management

Company visits and meetings with senior management form a key part of the security selection process. The aim of the research process is to produce an internally generated target

price that reflects the company's long-term intrinsic value. Target prices are compared against current market prices to determine a stock's level of attractiveness.

Smallco's valuation process incorporates a combination of the following metrics that are based on three-year forecasts:

- Price-to-cashflow
- Price-to-earnings ratio (PE Ratio)
- Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA)

To aid idea generation and to serve as a feedback loop, Smallco informally utilises a macroeconomic overlay to make an assessment of the economy.

A quality rating system is utilised to prevent the portfolio from holding an excessive number of lower quality stocks. Every stock considered by the investment team is assigned a numerical rating from 0 to 10 based on its quality and cyclicity, with 10 being the most attractive.

Smallco introduced the quality rating system after its flagship long/short Australian equities fund experienced a significant drawdown during 2008 and 2009.

Portfolio holdings and potential candidates for inclusion are subject to a rigorous peer review process as part of the monthly portfolio review.

Overall, Zenith believes the security selection process adopted by Smallco is sufficiently robust and that the research conducted by the investment team is comprehensive.

PORTFOLIO CONSTRUCTION

The portfolio construction process is primarily driven by fundamental analysis conducted by the investment team. Smallco constructs the Fund through a benchmark unaware approach, with the number of positions and weightings determined by investment opportunities rather than the relative benchmark composition.

The portfolio construction approach allows for the team's best ideas based on their risk/return profiles and the team's conviction levels to be represented in the Fund. Portfolio guidelines, stock liquidity and downside risk are considered to avoid unnecessary risks within the process.

The size of an individual position is mainly dependent upon its target price and the quality rating. As a guide, initial position sizes of 3%, 5% or 7% will be implemented based on a combination of these two factors.

In July 2016, Smallco changed the investment strategy to allow the Fund to invest up to 40% in securities with market capitalisations under \$A 1 billion. Previously, the Fund was permitted to invest 40% outside the S&P/ASX 100 Index. Smallco specified that this change was to enable the Fund more flexibility in its security selection. Specifically, larger stocks outside the S&P/ASX 100 were unable to be held at optimal weights due to the 40% limit being utilised by other attractive opportunities further down the market capitalisation spectrum. Zenith believes this change was appropriate and retains conviction in Smallco's ability to generate excess returns.

As part of the portfolio construction process, an overall weighted average quality rating is calculated for the portfolio.

The weighted average portfolio rating is not permitted to fall below 4; Smallco's assessment of the market average. In addition, Smallco employs a 25% limit on the total exposure to companies rated 3 or less. Zenith believes the presence of the quality rating system promotes portfolio discipline and mitigates the risk of the portfolio being overly exposed to lower quality stocks.

Zenith notes that in 2016 the Fund's investment strategy was changed to allow the Fund's exposure to illiquid stocks to increase to 30%, which was previously 25%. Smallco defines an illiquid holding as a holding in which it owns greater than 75% of the security's average monthly market volume. Given the Fund typically holds a material exposure to small capitalisation securities, Zenith believes the previous limit of 25% was sufficient and more appropriate.

The Fund typically holds between 20 and 30 securities, with portfolio turnover expected to be approximately 50% p.a. While the Fund can hold a maximum of 50% in cash, it has averaged approximately 20%. Zenith believes that actively managed equities funds should remain fully invested and that the asset allocation decision should be left to the individual investor.

Portfolio holdings will be sold, reduced or reviewed under the following circumstances:

- Smallco's valuation target has been achieved
- The investment thesis for a stock changes
- Availability of superior investments
- To avert a breach in any of the Fund's portfolio construction constraints

Smallco does not tactically make asset allocation decisions, with the Fund's equity exposure primarily a result of available investment opportunities. Zenith notes that this differs from some of the Fund's peers, where tactical allocations between equities and cash can be made to suit the prevailing market conditions as an additional source of value add.

Zenith is comfortable with Smallco's portfolio construction approach, believing it ensures a strong connection between the output of the security selection process and the resultant weight of the stock in the portfolio.

RISK MANAGEMENT

Portfolio Constraints	Description
Security Numbers	20 to 30
Weight - Holding Rel. Portfolio (%)	max: 20% maximum 15% at time of purchase
Minimum GICS Sector Exposures	required to hold stocks across at least 4 GICS sectors
Securities under \$A 1 billion market cap (%)	max: 40%
Exposure to Illiquid Stocks (%)	max: 30%
Cash (%)	0% to 50%
Expected Portfolio Turnover (%)	50% p.a
ESG Constraints - Excluded Sectors	N/A

The Fund's formal risk management constraints, as outlined above, are broad and provide Smallco with significant scope to achieve its investment objective.

Investors should be aware of the concentrated nature of the Fund and relatively generous limit relating to maximum individual security weights. Given the Fund typically holds a material exposure to small capitalisation securities, Zenith believes a more conservative position limit should be in place.

Smallco defines an illiquid holding as a holding in which it owns greater than 75% of the security's average monthly market volume. Zenith believes that Smallco's assessment of stock liquidity is not as conservative as peers. Investors should be aware that during a significant market event the liquidity profile of the Fund could be low, leading to potential capital impairment.

Smallco's detailed fundamental approach to stock selection, including the quality rating system, acts as the main tool for mitigating the risk of poor stock selection.

Formal internal meetings occur on a monthly basis to monitor the portfolio's characteristics, exposures and market events. However, given the flat investment team structure, Zenith notes that communication amongst the team occurs on an ongoing basis.

Notwithstanding the issues noted above, Zenith believes Smallco's risk management processes are adequate, particularly given the detailed due diligence conducted as part of the security selection process. However, investors should be aware there is a significant reliance on the judgement and skill of Smallco's investment team in managing investment risk.

Environmental, Social and Governance (ESG)

While the portfolio has no specific exclusions, as outlined in the table above, Smallco takes an active approach to ESG issues. ESG is evaluated as part of the team's fundamental analysis process with any concerns discussed amongst the team. Zenith believes that this qualitative analysis of a company's operations is crucial on a forward basis, given that a company's performance with regards to ESG considerations is increasingly being reflected in the company's share price. Overall, Zenith is comfortable with Smallco's approach to ESG.

INVESTMENT FEES

The sector average management cost (in the table below) is based on the average management cost of all flagship Australian Shares - All Cap funds surveyed by Zenith.

The Fund charges a management cost of 1.2% p.a. A performance fee of 15% is also payable on returns (after fees) exceeding the S&P/ASX 300 Accumulation Index. The performance fee is subject to the recoupment of all prior benchmark underperformance and is calculated daily and paid semi-annually. For any fund that charges a performance fee, Zenith would prefer to see a performance fee hurdle in place (i.e. a target return above the index greater than the management cost).

Overall, Zenith believes the Fund's fee structure is attractive relative to peers, given its stated objectives. In addition, we believe the fees paid over the past three years (ending 30 June 2018) are attractive given the Fund's risk-adjusted performance

over the same period.

There is also a 0.45% buy/sell spread applicable to all applications and redemptions. Zenith believes the buy/sell spread is high on an absolute and relative basis. As such, we believe there is scope for this to be reduced.

(The fees mentioned below are reflective of the flagship version only, fees may differ when the product is accessed through an alternate investment vehicle such as a platform.)

Fees Type	Fund	Sector Average (Wholesale Funds)
Management Cost	1.20% p.a.	1.17% p.a.
Description		
Performance Fee	15% of the outperformance (after fees) of the S&P/ASX 300 Accum. Index subject to a high water mark	
Buy Spread		Sell Spread
Buy / Sell Spread	0.45%	0.45%

PERFORMANCE ANALYSIS

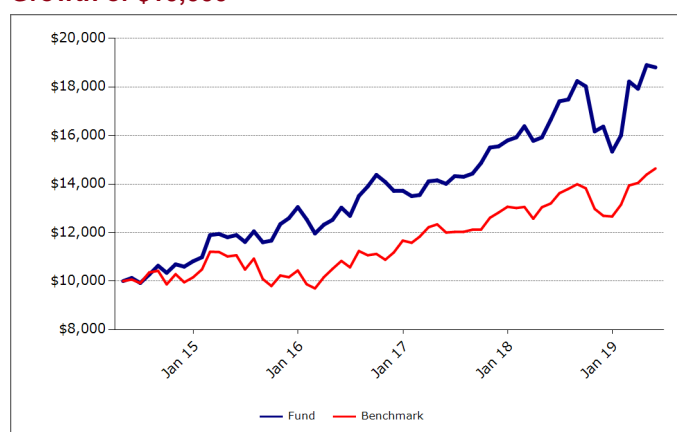
Report data: 31 May 2019, product inception: Aug 2008

Monthly Performance History (% , net of fees)

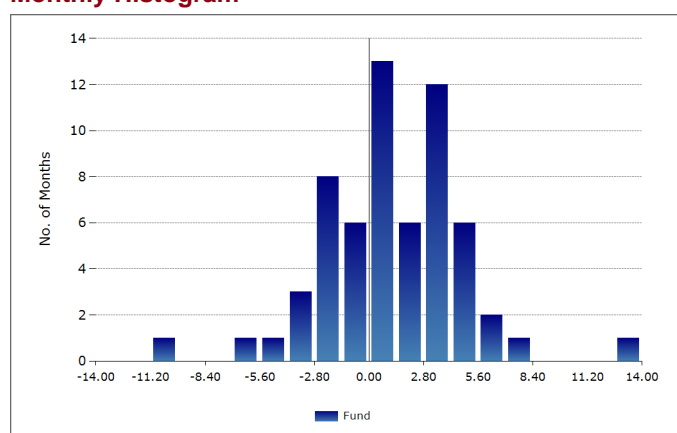
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BENCHMARK YTD
2019	4.36	13.86	-1.65	5.44	-0.49								22.62	15.63
2018	0.82	2.86	-3.67	0.90	4.60	4.55	0.42	4.33	-1.19	-10.29	1.23	-6.29	-2.89	-3.07
2017	-1.61	0.33	4.17	0.28	-1.01	2.27	-0.19	0.91	3.03	4.28	0.32	1.56	15.10	11.95
2016	-3.89	-4.63	3.04	1.60	4.04	-2.60	6.45	2.92	3.41	-2.03	-2.61	0.05	5.17	11.80
2015	1.53	8.32	0.39	-1.15	0.77	-2.40	3.77	-3.73	0.57	5.83	1.99	3.63	20.64	2.79

Benchmark: S&P/ASX 300 (Accum)

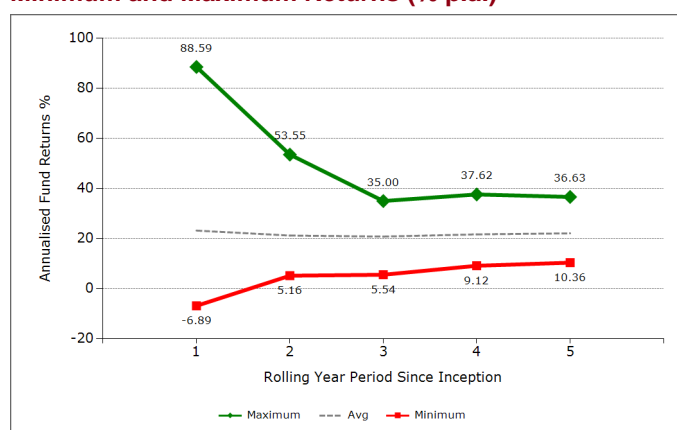
Growth of \$10,000



Monthly Histogram



Minimum and Maximum Returns (% p.a.)



ABSOLUTE PERFORMANCE ANALYSIS

Return	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	18.45	13.18	13.02	12.94
Benchmark (% p.a.)	6.97	7.78	10.57	10.92
Median (% p.a.)	12.60	9.49	8.47	1.56
Ranking within Sector	Incpt.	5 yr	3 yr	1 yr
Fund Ranking	1 / 5	2 / 7	1 / 7	1 / 7
Quartile	1st	1st	1st	1st
Standard Deviation	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	15.77	12.78	13.77	20.36
Benchmark (% p.a.)	13.21	11.07	9.11	10.43
Median (% p.a.)	11.28	9.95	9.36	10.05
Downside Deviation	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	8.36	6.39	7.15	10.81
Benchmark (% p.a.)	7.92	6.23	4.62	6.02
Median (% p.a.)	5.81	5.29	5.31	6.89
Risk/Return	Incpt.	5 yr	3 yr	1 yr
Sharpe Ratio - Fund	0.97	0.87	0.81	0.54
Sortino Ratio - Fund	1.83	1.73	1.56	1.01

The commentary below is as at 31 May 2019.

The Fund's objective is to achieve a return of 5% p.a. over the S&P/ASX 300 Accumulation Index (after fees) over rolling three year periods.

The Fund has achieved its investment objective over the medium to long term. In addition, Zenith notes that the Fund has demonstrated material outperformance relative to the median manager over all periods under assessment.

The Fund's volatility (as measured by Standard Deviation) has been above the benchmark over all assessed periods, which is expected given its concentrated nature and material exposure to small capitalisation stocks.

The Fund has achieved strong Sharpe and Sortino ratios over all periods of assessment, representing solid risk/return characteristics.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	11.48	5.39	2.45	2.01
% Monthly Excess (All Mkts)	72.31	60.00	55.56	50.00
% Monthly Excess (Up Mkts)	71.60	55.26	56.00	62.50
% Monthly Excess (Down Mkts)	73.47	68.18	54.55	25.00
Beta Statistics	Incpt.	5 yr	3 yr	1 yr
Beta	1.03	0.87	1.07	1.68
R-Squared	0.75	0.56	0.50	0.74
Tracking Error (% p.a.)	7.93	8.57	9.73	12.54
Correlation	0.86	0.75	0.71	0.86
Risk/Return	Incpt.	5 yr	3 yr	1 yr
Information Ratio	1.45	0.63	0.25	0.16

The commentary below is as at 31 May 2019.

Zenith seeks to identify funds that can outperform in over 50% of months in all market conditions, as we believe this represents consistency of manager skill. The Fund has achieved this outcome over all periods of assessment, with the exception of the most recent 12-month period.

Given the growth bias of the Fund, Zenith expects that it would exhibit a greater propensity to outperform during rising markets. However, the Fund has shown consistency of outperformance in both up and down markets over the medium to long term.

The Fund has experienced a relatively high level of Tracking Error compared to typical long-only Australian Large Capitalisation equity funds. Zenith is comfortable with this result given the Fund's benchmark unaware investment approach.

The Fund's Information Ratio has been impressive over the longer term, indicating Smallco's ability to provide investors with solid, risk-adjusted returns.

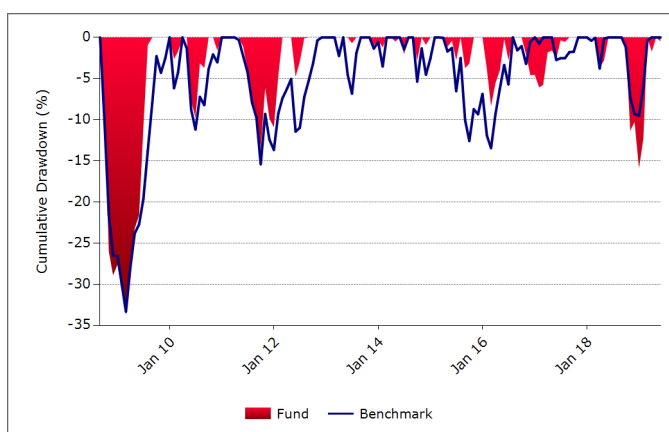
DRAWDOWN ANALYSIS

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.

Drawdown Analysis	Fund	Benchmark
Max Drawdown (%)	-33.75	-33.32
Months in Max Drawdown	6	6

Drawdown Analysis	Fund	Benchmark
Months to Recover	6	10

Worst Drawdowns	Fund	Benchmark
1	-33.75	-33.32
2	-15.91	-15.41
3	-13.53	-13.46
4	-9.75	-11.20
5	-8.34	-9.51



The commentary below is as at 31 May 2019.

The Fund has typically produced drawdowns that are greater than those of the benchmark. This is an expected outcome given the Fund's bias toward smaller companies, which tend to be susceptible to greater volatility in market downturns.

INCOME/GROWTH ANALYSIS

Income / Growth Returns	Income	Growth	Total
FY to 30 Jun 2018	20.80%	0.70%	21.50%
FY to 30 Jun 2017	3.00%	9.90%	12.90%
FY to 30 Jun 2016	3.70%	5.60%	9.30%
FY to 30 Jun 2015	11.60%	5.40%	17.00%
FY to 30 Jun 2014	10.62%	16.58%	27.20%
FY to 30 Jun 2013	3.02%	47.78%	50.80%
FY to 30 Jun 2012	3.17%	6.03%	9.20%

The Fund does not target specific income levels.

Where applicable, distributions are paid annually.

In December 2017, Smallco engaged in an out-of cycle distribution. The higher than normal distribution, which included a return of capital, reduced FUM in order to bring it closer to the targeted capacity level. However, investors must be cognisant that a return of capital reduces the cost base of their investment in the Fund, which may result in tax implications.

The Fund's portfolio turnover is expected to be approximately

50% p.a., which Zenith considers to be moderate. Given this expected level of turnover, the Fund's returns are expected to be delivered via both capital appreciation in the unit price and the realisation of capital gains in income distributions. In addition, realised capital gains are likely to be eligible for the capital gains tax discount. As such, holding all else equal, this should provide more optimal after-tax outcomes for investors on higher marginal tax rates, although the Fund may be more appealing to investors who are nil/low tax payers or high marginal tax rate payers who invest through tax-effective vehicles such as a superannuation fund.

REPORT CERTIFICATION

Date of issue: 20 Jun 2019

Role	Analyst	Title
Author	Tom Goodrich	Investment Analyst
Sector Lead	Quan Nguyen	Head of Equities
Authoriser	Bronwen Moncrieff	Head of Research

RATING HISTORY

As At	Rating
20 Jun 2019	Recommended
21 Jun 2018	Recommended
29 Jun 2017	Recommended
9 Jan 2017	Recommended
30 Jun 2016	Recommended
12 Jan 2016	Recommended
25 Jun 2015	Recommended
1 Jul 2014	Approved

Last 5 years only displayed. Longer histories available on request.

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