Zenith Investment Partners

Highly Recommended
Recommended
Approved
Not Rated
Redeem

Product Assessment

Pengana Emerging Companies Fund

Report data as at 31 Jan 2021
Rating issued on 25 Feb 2021

APIR Code

PER0270AU

Asset / Sub-Asset Class

Australian Shares
Small Companies

Investment Style

Neutral

Investment Objective

To outperform the S&P/ASX Small Ordinaries Accumulation Index by 5% p.a. before fees, over a rolling three-year period

Zenith Assigned Benchmark

S&P/ASX Small Ordinaries (Accum)

Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
Fund	10.18	6.30	3.39
Benchmark	11.57	6.68	5.38
Median	11.03	8.07	10.56

Income (% p.a.)

	Income	Total
FY to 30 Jun 2020	3.03	-8.53
FY to 30 Jun 2019	5.59	0.30
FY to 30 Jun 2018	20.96	19.75

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

Management Cost: 1.33%
Performance Fee: 20.5% on positive performance above the S&P/ASX Small Ordinaries Accumulation Index, subject to all prior benchmark underperformance being recouped.

VIEWPOINT

The Fund is managed by Pengana Capital Group Limited's (Pengana) Melbourne-based Emerging Companies team. It offers investors a diversified, fundamentally-driven and benchmark unaware exposure to Australian smaller companies. The Fund does not invest in resource stocks, biotechnology stocks or property trusts, allowing the team to focus solely on its core competencies. Zenith considers portfolio managers Steve Black and Ed Prendergast to be highly experienced and have a firm understanding of Australian small companies. In addition, we view the team's robust investment approach positively, believing it is key to the Fund's strong long-term performance track record.

Pengana is a Sydney-based boutique fund manager founded in 2003 with offices in Melbourne, Brisbane and Perth. In June 2017, Pengana merged with Hunter Hall International Limited (ASX:HHL). As a result, HHL was renamed Pengana Capital Group Limited (ASX:PCG). The combined entity offers a diversified range of equity-based strategies.

The investment team consists of Black and Prendergast, who collectively have over 45 years of industry experience. Prior to establishing the Fund, Black managed the JBWere Emerging Leaders Fund for approximately seven years, while Prendergast was a Director at Citigroup and Head of the Small Companies research team.

Black and Prendergast believe investing is more of an art than a science, with the lack of research coverage over the universe of small companies creating pricing inefficiencies. Both portfolio managers participate in an extensive management visitation program to ensure they have a well-rounded and impartial view of companies. Stocks that are deemed attractive from the research/review process are modelled and valued. The primary valuation tool used is the discounted cash flow (DCF) model, with measures, such as price multiples, used to cross reference valuation estimates. Companies that provide an upside potential of between 30% and 50% over one to two years are targeted for inclusion in the Fund.

Active positions within the Fund are driven by the forecasted return from the team's DCF valuations, with consensus required between Black and Prendergast for a stock to be included in the Fund. If unanimity can not be achieved, the conservative option is taken, and either the stock is not purchased or the lower suggested weight is initiated. The Fund is diversified, holding approximately 60 stocks which are a mix of stable stocks (80%) and cyclical stocks (20%). Overall, Zenith believes the Fund's portfolio construction approach is prudent, with the mix of stable and cyclical stocks providing diversification benefits.

FUND FACTS

- Does not invest in resource stocks, biotechnology stocks or property trusts
- Portfolio turnover expected to be between 40% p.a. and 60% p.a.
- Strong capacity management
- Zenith has assigned the Fund a Responsible Investment Classification of **Aware**

ABSOLUTE RISK (SECTOR)

- ▶ VERY HIGH
- HIGH
- MODERATE
- LOW
- VERY LOW

RELATIVE RISK (FUND WITHIN SECTOR)

- Geared
- ▶ Active - Benchmark Unaware
- Active - Benchmark Aware
- Index - Enhanced/Fundamental
- Index

INCOME DISTRIBUTIONS PER

MONTH | QUARTER | **6 MONTH** | ANNUM

INVESTMENT TIMEFRAME

1-2 YRS | 3-4 YRS | 5-6 YRS | **7+ YRS**

APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

The Zenith 'Australian Shares - Small Companies' sector consists of long-only funds investing in the small capitalisation (small cap) spectrum of the Australian equity market. That is, companies that fall between the S&P/ASX 100 and S&P/ASX 300. This is a competitive sector of the investment landscape, with the number of managers and strategies available to investors having grown in recent years. Over the longer-term, active management in this sector has historically demonstrated a strong ability to outperform a passive index.

Zenith benchmarks all funds in this sector against the S&P/ASX Small Ordinaries Accumulation index. However, investors should be aware that funds in this sector can have a varying allocation to the micro-cap universe i.e. ex-S&P/ASX 300 stocks. The S&P/ASX Small Ordinaries Accumulation index is market-capitalisation weighted, resulting in those companies with the largest market capitalisations receiving the heaviest weightings.

The Australian share market, as represented by the S&P/ASX 300 Accumulation index, is relatively narrow and highly concentrated, with the Materials and Financials sectors representing a material proportion of the index. In comparison to the S&P/ASX 300 index, the S&P/ASX Small Ordinaries Accumulation index is less concentrated and has a much lower weighting to the Financials sector.

Although the small-cap sector is more diversified by constituents and sectors, it comprises companies with less diversified businesses and assets. As such, a higher degree of volatility is expected of the sector relative to its large-cap counterparts.

PORTFOLIO APPLICATIONS

For investors seeking to achieve a well-blended exposure to Australian equities, Zenith suggests Australian small capitalisation funds are best used in combination with a large capitalisation Australian equities fund.

Zenith believes small capitalisation funds are most appropriate for investors with an investment time horizon of seven or more years.

The Fund's style-neutral investment approach makes the Fund an attractive option for investors seeking a single fund exposure to Australian smaller companies. However, investors should note that the Fund does not hold resource stocks, biotechnology stocks or property trusts. The Fund may also hold a material allocation to companies that are outside of the S&P/ASX 300 Index, many of which are micro caps. In general, micro cap stocks tend to exhibit greater volatility than their larger cap peers.

The Fund’s portfolio turnover is expected to be approximately 40% p.a. to 60% p.a., which Zenith considers to be moderate. Pengana has indicated that approximately 50% of the expected turnover is attributed to resizing existing positions and approximately 50% is due to complete sales and new additions. 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 could be beneficial for investors on higher marginal tax rates, although the Fund may be more appealing to investors who are nil/low tax rate payers or high marginal tax rate payers who invest through tax-effective vehicles such as a superannuation fund.

RISKS OF THE INVESTMENT

SECTOR RISKS

The broad risks of investing in Australian small cap equities include:

MARKET RISK: A sustained downturn in the Australian equity market could lead to negative performance. Furthermore, in market downturns, the small cap sector tends to underperform the large-cap sector due to its higher "beta" characteristic. The Resources sector also currently represents approximately 24% of the S&P/ASX Small Ordinaries index. Small resources companies are highly correlated to commodity prices, as such, a fall in commodity prices is likely to have a negative impact on performance returns.

CONCENTRATION RISK: Many small capitalisation funds tend to be concentrated and high conviction, with relatively few risk management constraints. Performance may, therefore, diverge from that of the index, and competitors, over the short-term.

CAPACITY/LIQUIDITY RISK: Excessive levels of funds under management (FUM), particularly in the small capitalisation sector of the market, has the potential to inhibit a manager’s ability to trade portfolio positions effectively, and therefore limit outperformance or excess return generation potential. As a general ‘rule of thumb’ Zenith believes approximately 1% of the market capitalisation of the S&P/ASX Small Ordinaries index is an appropriate capacity target for an Australian small cap strategy, and that above this level it becomes increasingly difficult to generate excess returns. Zenith is cognisant that assessing FUM capacity as a percentage of market capitalisation is a relatively crude measure and that capacity constraints can vary depending on the underlying investment style and approach. Zenith will, therefore, assess capacity limits for each manager and strategy on an individual basis.

REGULATORY RISK: The ASIC Regulatory Guide 97 ‘Disclosing Fees and Costs in Product Disclosure Statements 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 November 2019, ASIC released its final recommendations, with proposed changes to be phased in from 30 September 2020, with all Funds required to be compliant by 30 September 2022.

In its current form, RG97 will not impact the actual costs (or after fee 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: As with most boutique fund managers, key person risk is high at Pengana. Zenith has identified Steve Black and Ed Prendergast as integral members of the Fund, with the departure of either triggering an immediate review of our rating on the Fund. However, offsetting this risk is the significant equity ownership of both Black and Prendergast in the business, which mitigates the risk of their departures over the medium term.

CAPACITY/LIQUIDITY RISK: The Fund has a target capacity limit of approximately 0.5% of the current market capitalisation of the S&P/ASX Small Ordinaries Index ($A 1.4 billion as at 31 December 2020). Zenith believes this limit is highly prudent and should allow the Fund to achieve excess returns. As at 31 December 2020, FUM in the Fund was approximately $A 743 million, which Zenith believes does not present an issue in regards to the Fund's ability to efficiently enter and exit stock positions.

Pengana has advised that further restrictions on Fund entry may be required should the Fund experience significant net inflows. Should the Fund materially exceed its stated capacity, Pengana will engage in a capital return process with has been in place in the past. Capital returns were made as required, in addition to the normal semi-annual distributions, to manage capacity. While Pengana has notified Zenith that capital returns remain an important avenue for capacity management, capital returns will be made as required subject to the level of FUM in the Fund, relative to its capacity estimate at each distribution period.

The higher than normal distribution, which includes a return of capital, effectively reduces FUM in order to bring it closer to the targeted capacity level. However, investors need to be cognisant that a return of capital reduces the cost base of their investment in the Fund, which may result in tax implications.

BENCHMARK RISK: Black and Prendergast do not invest in resources, biotechnology or property trusts as they believe that either these sectors are too speculative or they require a fundamentally different investment process than the one they employ. Zenith notes that the Fund is benchmarked against the S&P/ASX Small Ordinaries Accumulation Index, of which resource stocks comprise a material component. Therefore, Zenith believes the Fund's performance fee is not aligned with a suitable benchmark, with the S&P/ASX Small Ordinaries Industrials Accumulation Index being our preferred option.

CURRENCY RISK: Investments in international markets are exposed to changes in the value of the Australian dollar (AUD) relative to foreign currencies, which may lead to increased levels of volatility. The Fund is permitted to invest in stocks listed on the Australian and New Zealand stock exchanges.

QUALITATIVE DUE DILIGENCE

ORGANISATION

Pengana Capital Group Limited (Pengana) is an Australian funds management boutique founded in 2003. Pengana's goal is to find and support experienced fund managers with long track records. They provide staff and support for its fund managers, leaving the investment staff entirely responsible for the performance of the funds that they manage.

In June 2017, Pengana merged with Hunter Hall International Limited (ASX: HHL). As a result, HHL was renamed Pengana Capital Group Limited (ASX: PCG). The combined entity offers a diversified range of equity-based strategies totaling $A 3.6 billion in funds under management (FUM), as at 31 December 2020.

PCG is majority owned by Pengana staff and Washington H. Soul Pattinson (ASX: SOL). SOL has a 39.25% shareholding in PCG after holding a material interest in Hunter Hall prior to the merger and subsequently purchasing NAB Asset Management's stake in Pengana in March 2017. The majority of equity ownership resides with Pengana staff and directors, which Zenith views positively.

The Fund was established in November 2004 by Steve Black and Ed Prendergast in conjunction with Pengana. Pengana equally shares in the profits generated by the business unit with Black and Prendergast each maintaining 25% exposure.

As at 31 December 2020, Pengana managed approximately $A 743 million in the strategy, all of which was invested in the Fund.

INVESTMENT PERSONNEL

Name	Title	Tenure
Steve Black	Portfolio Manager	16 Yr(s)
Ed Prendergast	Portfolio Manager	16 Yr(s)

Based in Melbourne, the investment team consists of co-portfolio managers, Steve Black and Ed Prendergast, who collectively have over 45 years of industry experience. Prior to establishing the Fund, Black managed the JBWere Emerging Leaders Fund for approximately seven years. Prendergast was a Director at Citigroup and Head of the Small Companies research team, before leaving to establish the Fund with Black.

Having founded the strategy together in 2004, Black and Prendergast have maintained the initial co-portfolio manager structure, allowing for the team to remain extremely stable. Black and Prendergast share all responsibilities and do not allocate workload along sector or industry lines. Furthermore, there is no performance attribution between the two, ensuring ongoing and constructive management of the Fund.

Black and Prendergast have indicated that there is no intention of adding further resources to the team, preferring to maintain full control of portfolio management and research. Although Zenith would prefer to see an additional resource to mitigate the risk of incapacitation of either co-portfolio manager, we note that the existing structure has been successful and allows the co-portfolio managers to focus on managing the Fund.

Black and Prendergast each maintain a 25% exposure to the profits generated by the business unit, in addition to having significant co-investment in the Fund. Zenith believes there is an appropriate alignment of interests between the team and investors.

Overall, Zenith believes Black and Prendergast are highly experienced and have a strong understanding of the Australian small companies industry.

INVESTMENT OBJECTIVE, PHILOSOPHY AND PROCESS

The objective of the Fund is to outperform the S&P/ASX Small Ordinaries Accumulation Index by 5% p.a. before fees, over rolling three-year periods. Although not targeted, the Fund's Tracking Error is expected to be within a range of 6% p.a. to 9% p.a.

Black and Prendergast believe that investing is more of an art than a science, with the lack of research coverage over the universe of small companies creating pricing inefficiencies. Black and Prendergast adopt a valuation-focused and conservative investment style that avoids highly speculative (miners and biotechnology) or heavily-geared companies.

Zenith believes the conservative capacity limit of approximately 0.5% of the S&P/ASX Small Ordinaries Index will allow the Fund to exploit less liquid stocks, where inefficiencies are greatest.

SECURITY SELECTION

The Fund's investment universe includes both stocks outside of the S&P/ASX 50 Index and equivalent-sized companies within the New Zealand Stock Exchange.

The initial filtering process screens out companies based on the following factors:

- Stocks with a market capitalisation of less than $A 25 million
- Unprofitable companies
- Resources stocks
- Biotechnology stocks
- Property trusts
- Illiquidity

Black and Prendergast do not invest in resources, biotechnology or property trusts as they believe that these sectors are either too speculative or they require a fundamentally-different investment process than the process they employ. The Fund may gain resources exposure through quality mining services companies, which hold more defensive characteristics. The initial filter process generally reduces the investment universe to approximately 700 to 800 stocks, which are marked for further research.

Zenith notes that Black and Prendergast have the scope to include securities that do not meet the profitability criteria in select instances, where both revenue growth is present and profitability is expected over the short term. Where applicable, it is expected that such securities will comprise a relatively small proportion of the Fund.

Black and Prendergast believe company management is vital to the success of a company and, as such, they spend a considerable amount of time in company-related meetings. Meetings with company management, competitors, suppliers and customers are conducted to ensure a well-rounded and impartial view of the researched company.

A large part of the research effort is directed in understanding the key profit drivers of the company. Fundamental analysis is conducted on both internal and external factors.

Internal factors include:

- The quality of company management
- Competitive advantage and sustainability
- Quality of products
- Quality of asset base
- Quality of shareholder register
- Growth of free cash flow
- Financial strength

External factors include:

- Barriers to entry of industry
- Behaviour of competitors
- Regulation
- Outlook for the industry

Although Black and Prendergast maintain strong relationships with broker analysts, all research is sourced internally. Black and Prendergast conduct all meetings together to ensure all key assessment factors are covered. The team believes this approach allows for more robust and thorough meetings, ultimately resulting in higher quality research.

Stocks that are deemed attractive from the review process are modelled and valued. Consistent with all aspects of the investment process, the modelling and valuation process is highly collaborative. Both Black and Prendergast must agree upon the model inputs and, where consensus is not reached, the more conservative option is selected. Integrated profit and loss, cash flow and balance sheet models are maintained, which allows for accurate analysis of free cash flow.

The primary valuation tool used is the discounted cash flow (DCF) model, with price multiple used to cross-reference valuation estimates. Black and Prendergast maintain simple DCF models that do not account for potential acquisitions or other speculative factors. Companies that provide an upside potential of between 30% and 50% over one to two years are targeted for inclusion in the Fund.

On occasion, the Fund may invest in stocks within the lower end of the market capitalisation spectrum. However, the required level of upside potential is scaled accordingly, with stocks expected to offer upside of up to 100% to 200%.

Overall, Zenith believes the stock selection process is rigorous with regards to stock research, collaborative and quality-focused, which provides a strong foundation for the portfolio construction process.

PORTFOLIO CONSTRUCTION

The Fund is constructed based on a benchmark unaware and fundamentally-driven investment approach, which leverages strongly off the stock selection process. Active positions within the Fund are driven by forecasted returns from the DCF valuations, which may lead to sector tilts within the portfolio. In addition, consensus is needed between Black and Prendergast for a stock to be included in the Fund. If unanimity can not be achieved, the conservative option is taken, and either the stock is not purchased or the lower suggested weight is initiated. Position sizes are also made with consideration of the underlying stock's liquidity.

The Fund will hold approximately 60 stocks. Although there are no formal sector limits, the aim is to construct a diversified portfolio, with the Fund generally containing a mix of stable stocks (80%) and cyclical stocks (20%). With consideration for market impact and information leakage, positions are usually initiated at 1% and slowly added to. A stock can be held at a maximum active weight of 7% and the Fund cannot own more than 10% of a company's issued capital.

The Fund may invest in listed New Zealand companies. The Fund's New Zealand positions are expected to be small over time, with exposure never having exceeded 8% of the Fund. All positions are maintained on a currency unhedged basis.

The Fund aims to be fully invested over time, with the cash exposure expected to be limited to approximately 2% to 3% at any given time. Zenith views this as a positive as we believe that active long-only managers should remain fully invested and keep cash holdings to a minimum.

Positions can be sold for a number of reasons, including:

- More compelling investments - an existing holding will be replaced by a stock with better upside potential.
- Unfavourable news/announcements - based on the experiences of Black and Prendergast, when a company initially releases bad news, they believe it is typically not the last bad news announcement. Given the importance that the Fund places on capital preservation, stocks are sold promptly in the event of a negative announcement.
- Inclusion in the S&P/ASX 50 Index - a stock holding must be removed from the Fund within 12 months of its promotion into the S&P/ASX 50 Index. Zenith believes this ensures the Fund remains true to its mandate, whilst retaining flexibility of disposal.

The Fund's portfolio turnover is expected to be moderate at between 40% p.a. and 60% p.a., which Zenith considers to be low to moderate.

Overall, Zenith believes the Fund’s portfolio construction approach is prudently structured, with the mix of stable and cyclical stocks providing a diversification benefit.

RISK MANAGEMENT

Portfolio Constraints	Description
Security Numbers	50 to 60
Weight - Security Rel. Index (%)	max: 7%
Weight - Holding Rel. Issued Capital (%)	max: 10%
New Zealand Exposure (%)	max: 15% (Historically less than 8%)
Cash (%)	max: 10% (Typically 2% to 3%)
Market Capitalisation ($)	min: $A 25 million
Portfolio Turnover (% p.a.)	40% p.a. to 60% p.a. (Expected)
Tracking Error (% p.a.)	6% p.a. to 9% p.a. (Not targeted)
ESG Constraints - Excluded Sectors	Armaments, Cluster Munitions, Fossil Fuel Energy Generation, Mining, Tobacco Manufacture

Black and Prendergast view risk management as a subjective task, preferring to utilise their deep knowledge and understanding of underlying stocks and the factors that affect them. As such, the Fund's risk management process is implemented at a stock-specific level that is overlaid by general portfolio constraints (displayed in the table above). The initial filtering process allows Black and Prendergast to focus their efforts on their core competencies. That is, no resources stocks, biotechnology stocks or property trusts.

Zenith is satisfied that the Fund's risk management processes are embedded throughout the entire investment process and that liquidity of holdings is adequately monitored. However, investors should be aware that there is a significant reliance on the judgement and skill of the investment team in mitigating risk in the Fund.

Responsible Investment Approach

Pengana has an established Responsible Investment Policy, last updated in 2020, that guides its investment decisions. In addition, Pengana is a signatory of the United Nations Principles for Responsible Investment (UNPRI), assigned the following scores:

- Strategy and Governance: **A**
- Listed Equity - Incorporation: **B**
- Listed Equity - Active Ownership: **D**

In addition to the environmental, social and governance (ESG) constraints listed in the table above, the investment team takes an active approach to ESG issues. ESG is evaluated as part of the team's fundamental analysis process and where ESG issues are deemed to be significant, they can preclude a company as a potential investment.

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 the team's approach to ESG.

From a classification scale of:

- Impact
- Thematic
- Integrated
- Aware
- Traditional

Zenith has assigned the Fund a Responsible Investment Classification of **Aware**.

INVESTMENT FEES

The sector average management cost (in the table below) is based on the average management cost of all flagship Australian Small Companies funds surveyed by Zenith.

A management cost of 1.33% p.a. applies to this Fund, with a performance fee of 20.5% applied to any outperformance of the S&P/ASX Small Ordinaries Accumulation Index (after fees). Any negative absolute performance is carried forward and must be recouped prior to performance fees being paid. The performance fee is accrued daily and paid semi-annually.

However, Zenith does not believe the Fund's performance fee is aligned with a suitable benchmark, with the S&P/ASX Small Ordinaries Industrials Accumulation Index being our preferred option. In addition, for any fund that charges a performance fee, Zenith would prefer an additional excess return hurdle (i.e. a target return greater than the index plus the management cost) and considers this best practice.

Overall, Zenith believes the Fund's fee structure is fair, relative to peers, given its stated objectives. However, we believe that investors have not been sufficiently compensated by way of risk-adjusted performance given the fees paid over the past three years (ending 30 June 2020).

A buy/sell spread of 0.30% is also charged on Fund entry and exit.

(The fees mentioned above 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	1.33% p.a.	1.10% p.a.
	Description	
Performance Fee	20.5% on positive performance above the S&P/ASX Small Ordinaries Accumulation Index, subject to all prior benchmark underperformance being recouped.	
	Buy Spread	Sell Spread
Buy / Sell Spread	0.30%	0.30%

PERFORMANCE ANALYSIS

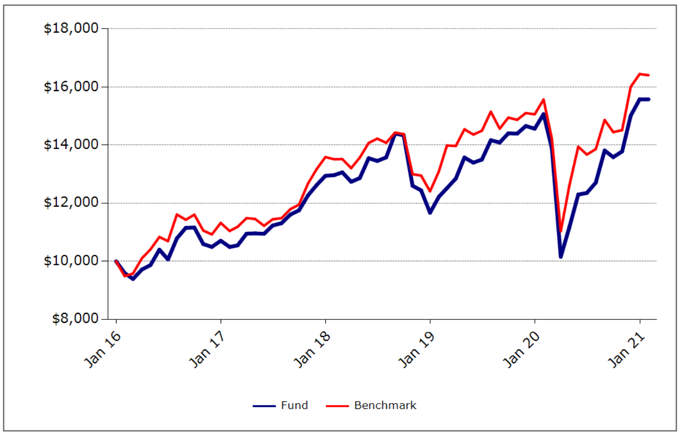
Report data: 31 Jan 2021, product inception: Dec 2004

Monthly Performance History (%, net of fees)

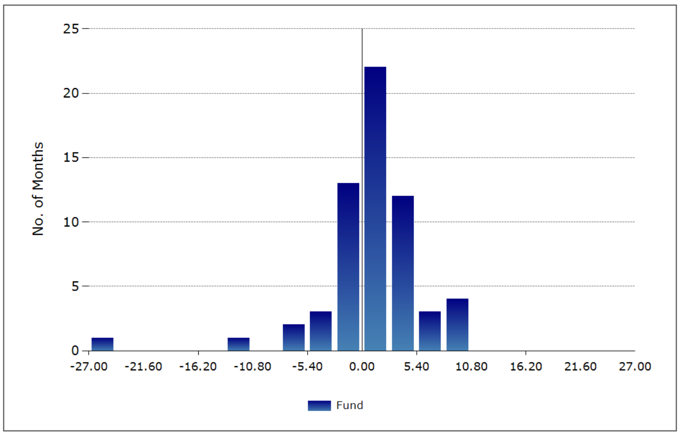
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BENCHMARK YTD
2021	0.01												0.01	-0.25
2020	3.44	-7.86	-26.83	10.00	10.08	0.45	2.86	8.70	-1.65	1.45	8.95	3.73	6.94	9.21
2019	4.72	2.41	2.65	5.62	-1.30	0.80	4.92	-0.55	2.24	-0.06	1.81	-0.63	24.78	21.35
2018	0.19	0.73	-2.49	1.00	5.32	-0.70	0.91	6.04	-0.39	-12.13	-1.29	-6.17	-9.82	-8.66
2017	-2.00	0.53	3.81	0.09	-0.13	2.60	0.73	2.63	1.24	4.33	2.90	2.56	20.87	20.02

Benchmark: S&P/ASX Small Ordinaries (Accum)

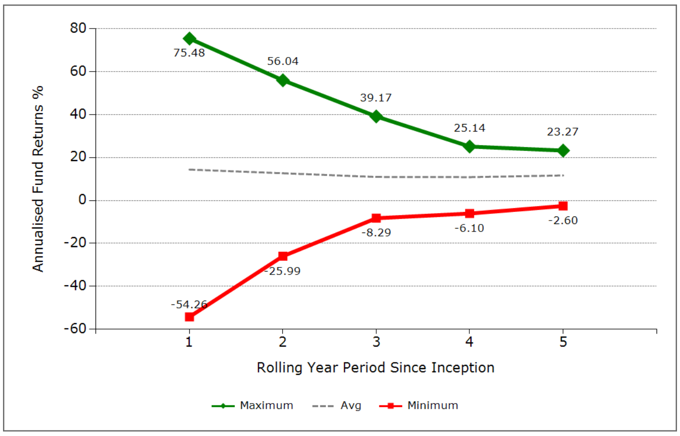
Growth of $10,000



Monthly Histogram



Minimum and Maximum Returns (% p.a.)



ABSOLUTE PERFORMANCE ANALYSIS

Return	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	12.66	10.18	6.30	3.39
Benchmark (% p.a.)	5.16	11.57	6.68	5.38
Median (% p.a.)	9.09	11.03	8.07	10.56
Ranking within Sector	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund Ranking	2 / 19	24 / 34	28 / 38	37 / 46
Quartile	1st	3rd	3rd	4th
Standard Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund (% p.a.)	17.75	18.47	22.52	34.03
Benchmark (% p.a.)	18.60	17.72	21.21	32.58
Median (% p.a.)	17.75	17.81	21.68	33.54
Downside Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund (% p.a.)	11.74	13.65	17.06	25.97
Benchmark (% p.a.)	12.30	11.56	14.39	21.90
Median (% p.a.)	11.40	12.13	15.07	22.81
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Sharpe Ratio - Fund	0.51	0.47	0.23	0.09
Sortino Ratio - Fund	0.77	0.64	0.30	0.12

All commentary below is as at 31 January 2021.

The objective of the Fund is to outperform the S&P/ASX Small Ordinaries Accumulation Index by 5% p.a. (before fees), over rolling three-year periods.

Whilst outperforming the benchmark since its inception, the Fund has been unable to meet its performance objective over the most recent three-year period.

The Fund's risk, as measured by Standard Deviation, has been marginally higher than the benchmark over the medium to short term.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	7.50	-1.39	-0.38	-1.98
% Monthly Excess (All Mkts)	58.25	48.33	52.78	66.67
% Monthly Excess (Up Mkts)	47.37	41.67	55.00	57.14
% Monthly Excess (Down Mkts)	73.75	58.33	50.00	80.00
Beta Statistics	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Beta	0.85	0.98	1.01	1.02
R-Squared	0.80	0.89	0.91	0.95
Tracking Error (% p.a.)	8.37	6.24	6.64	7.35
Correlation	0.89	0.94	0.96	0.98
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Information Ratio	0.90	-0.22	-0.06	-0.27

All commentary below is as at 31 January 2021.

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 since inception. In particular, the Fund has shown a greater level of consistency in outperforming the benchmark in falling market conditions, which Zenith believes is consistent with the disciplined and quality-orientated investment process employed.

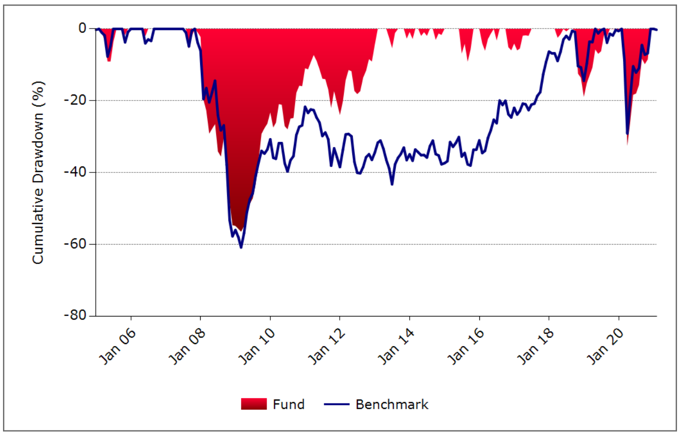
Although not targeted, the Fund's Tracking Error is expected to be between 6% p.a. and 9% p.a. Tracking Error has remained within this range over the medium to long term.

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 (%)	-56.47	-60.87
Months in Max Drawdown	16	16
Months to Recover	47	122

Worst Drawdowns	Fund	Benchmark
1	-56.47	-60.87
2	-32.58	-29.12
3	-18.93	-7.70
4	-9.13	-4.88
5	-9.09	-4.02



All commentary below is as at 31 January 2021.

Consistent with expectations, Zenith notes that the Fund has typically demonstrated a propensity to protect investor capital during declining markets. However, we note that the Fund had a more severe drawdown than the market during the COVID-19 market decline, which is a disappointing outcome.

INCOME/GROWTH ANALYSIS

Income / Growth Returns	Income	Growth	Total
FY to 30 Jun 2020	3.03%	-11.56%	-8.53%
FY to 30 Jun 2019	5.59%	-5.29%	0.30%
FY to 30 Jun 2018	20.96%	-1.21%	19.75%
FY to 30 Jun 2017	12.62%	-1.06%	11.57%
FY to 30 Jun 2016	11.42%	5.48%	16.90%
FY to 30 Jun 2015	13.88%	-0.92%	12.96%
FY to 30 Jun 2014	13.91%	4.95%	18.86%
FY to 30 Jun 2013	6.63%	20.19%	26.82%
FY to 30 Jun 2012	0.53%	-5.50%	-4.97%

The Fund does not target specific income levels.

Distributions will be made semi-annually where possible.

The Fund's portfolio turnover is expected to be approximately 40% p.a. to 60% p.a., which Zenith considers to be moderate. Pengana has indicated that approximately 50**%** of the expected turnover is attributed to resizing existing positions and approximately 50**%** is due to complete sales and new additions. 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 could be beneficial for investors on higher marginal tax rates, although the Fund may be more appealing to investors who are nil/low tax rate payers or high marginal tax rate payers who invest through tax-effective vehicles such as a superannuation fund.

REPORT CERTIFICATION

Date of issue: 25 Feb 2021

Role	Analyst	Title
Author	Harje Ronngard	Investment Analyst
Sector Lead	Stephen Colwell	Investment Analyst
Authoriser	Bronwen Moncrieff	Head of Research

RATING HISTORY

As At	Rating
25 Feb 2021	Recommended
24 Feb 2020	Recommended
25 Feb 2019	Recommended
26 Feb 2018	Recommended
28 Feb 2017	Recommended
Last 5 years only displayed. Longer histories available on request.	

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