

Product Assessment

Smallco Investment Fund

VIEWPOINT

The Fund, managed by Smallco Investment Manager Limited (Smallco), offers a high conviction, long/short exposure to Australian smaller companies. Smallco does not typically invest in the resources sector, biotechnology sector and industries it deems to be structurally challenged. In addition, Smallco is highly selective with regard to short selling and, as such, it is rarely utilised. Zenith has a high regard for Smallco given its experienced investment team 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 March 2022, Smallco managed approximately \$A 843 million firmwide. In response to negative market movements and outflows, Smallco reopened the Fund to new investment in April 2020, after being hard closed since January 2017.

The investment team of seven is led by Hopkins, who is supported by Ryan, Andrew Hokin, Paul Graham, Craig Miller, Adam Simpson and Han Xu. Although Hopkins is the lead portfolio manager for the Fund, Simpson is becoming increasingly involved in day-to-day portfolio management decisions. Despite this, portfolio construction follows a consensus approach. 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 to cover stocks in any sector. Overall, Zenith considers Smallco's investment team to be highly experienced and well resourced to manage the Fund.

Smallco's investment philosophy is centred on the belief that equity markets are inefficient and that rigorous fundamental research can identify opportunities to generate excess returns. Smallco targets quality companies that are likely to exceed consensus earnings expectations and out of favour companies expected to at least meet earnings expectations. Smallco aims to invest in companies with the potential to double in value over a three-year investment period.

The portfolio construction process is primarily driven by fundamental analysis conducted by the investment team. Smallco constructs the Fund through a benchmark unaware approach. Portfolio guidelines, stock liquidity and downside risk are considered to avoid unintended risks.

Whilst Smallco is permitted to vary the Fund's net equity exposure between 0% to 150%, it has typically been approximately 80% given the Fund's long bias. Smallco does not make tactical asset allocation decisions, with the Fund's net equity exposure primarily a result of available investment opportunities, both long and short. 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

- Holds between 25 and 35 securities
- Portfolio turnover expected to be approximately 30% p.a.
- S&P/ASX 100 exposure limited to 20% of the Fund at purchase
- Zenith has assigned the Fund a responsible investment classification of **Aware**

Report data as at 31 May 2022
Rating issued on 23 Jun 2022

APIR Code

ASC0001AU

Asset / Sub-Asset Class

Australian Shares
Long Short

Investment Style

Variable Beta

Investment Objective

To achieve high absolute returns for investors.

Zenith Assigned Benchmark

S&P/ASX 300 (Accum)
Bloomberg AusBond Bank Bill Index

Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
Fund	9.12	2.92	-8.33
Benchmark	8.98	8.02	4.72
Median	9.43	9.10	2.98

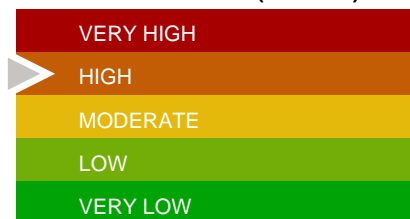
Income (% p.a.)

	Income	Total
FY to 30 Jun 2021	5.59	36.50
FY to 30 Jun 2020	7.97	-8.27
FY to 30 Jun 2019	13.48	9.80

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

Management Cost: 1.55%
Performance Fee: 18.64% of the unit price increase over each 6-month period subject to the recoupment of all prior negative performance.

ABSOLUTE RISK (SECTOR)



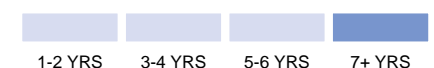
RELATIVE RISK (FUND WITHIN SECTOR)



INCOME DISTRIBUTIONS PER



INVESTMENT TIMEFRAME



APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

The Zenith 'Australian Shares – Long Short' sector consists of long/short funds investing across the market cap spectrum of the Australian equity market. Managers in this sector can short sell equities and/or SPI futures to capture excess return opportunities and manage risk. Over the long term, Zenith expects quality long/short funds to outperform the S&P/ASX 300 Accumulation Index given a manager's ability to generate excess returns from short selling.

Long/short managers can utilise fundamentally-driven and/or quantitatively-driven investment processes with a variety of trading biases. Managers in this sector employ active extension or variable beta investment styles. Active extension funds can be used in place of a traditional long-only fund where the investor wishes to increase the 'activeness' of their fund allocations in equities. That is, the manager can build a higher conviction portfolio by shorting stocks it believes will underperform and using the proceeds to invest long in stocks that it believes will outperform. Variable beta funds can be used by investors seeking to reduce the market risk of investing with a long-only fund that is close to fully invested. Variable beta managers can decrease their market exposures to protect against market falls (by increasing shorts and/or cash holdings). In general, investing in quality variable beta funds should provide investors 'smoother' returns than simply investing in the index.

Zenith benchmarks all funds in this sector against the S&P/ASX 300 Accumulation Index. However, many managers in this sector benchmark themselves 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 equities asset class, 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 within the S&P/ASX 51 to 100 considered mid cap. All stocks outside of the S&P/ASX 100 Index are considered small capitalisation stocks.

As at 31 May 2022, the Financials and Materials sectors combined represented a significant portion of the S&P/ASX 300 Accumulation Index, with the Financials sector accounting for approximately 28% of the Index, and Materials approximately 26%. In addition, the top 10 stocks represented approximately 45% 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 2% 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.

Unlike a traditional long-only Australian equities fund, the Fund utilises a variable beta long/short investment strategy, providing Smallco with greater flexibility to add value for investors. The ability to short sell and hold high levels of cash enables the Fund to profit during a market downturn. Conversely, the Fund may potentially lag long-only strategies during market rallies. However, Zenith notes that Smallco is highly selective with short selling and it is rarely utilised.

Although Smallco has the ability to vary its net equity exposure, it has, over the long term, oscillated around 80%. As a result, Zenith notes that the Fund will generally exhibit similar risk/return characteristics to long-only funds.

The Fund is likely to exhibit characteristics in common with other more traditional growth-orientated offerings. Manager-specific risk can be mitigated by blending the Fund with other Australian equity funds. As such, the Fund could be blended with style-neutral or value-orientated Australian equities products to achieve a more diversified exposure to the Australian equity sector.

The Fund is typically heavily weighted towards small capitalisation companies and will typically exclude or be underweight large segments of the market (resources sector, biotechnology sector and industries Smallco deems to be structurally challenged). Accordingly, Zenith believes that the Fund may be suitable as a satellite holding within a well-diversified Australian equities portfolio and has the potential to enhance a portfolio's risk/return profile.

The Fund's portfolio turnover is expected to be approximately 30% p.a., which Zenith considers to be low. Smallco was not able to provide any insight on the proportion of expected turnover attributed to the resizing of existing positions and that which is due to initiating and closing positions. Given this expected level of turnover, the majority of the Fund's returns are expected to be delivered via capital appreciation in the unit price, rather than through the realisation of capital gains in income distributions. In addition, realised capital gains are highly likely to be eligible for the capital gains tax discount. As such, holding all else equal, the Fund may be more appealing to investors who are high marginal tax rate payers as it will result in superior after-tax return outcomes.

RISKS OF THE INVESTMENT

SECTOR RISKS

Funds within the 'Australian Shares - Long Short' sector are exposed to the following broad risks:

MARKET & ECONOMIC RISK: As is the case with all long-only Australian equities 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 a 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 and growth) style approach to investing, with each style potentially conducive to certain market conditions. As with market risk, investors should adhere to the Fund's investment time frame to mitigate the impact of 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).

SHORT RISK: The ability to short stocks gives rise to losses if the stock rises in value. Additionally, there are regulatory risks associated with shorting as, on occasion, some markets have banned new short selling positions during strong down markets. This may limit the manager's ability to profit from falling markets due to a lack of access to new shorts.

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 any boutique manager, Zenith views key person risk at Smallco to be high. Zenith believes Rob Hopkins, Bill Ryan and Andrew Hokin are critical members of the investment team, with a departure being a significant loss to the firm, triggering an immediate review of the Fund's

rating. Specific to the Fund, Zenith notes Adam Simpson's increasing involvement with regard to the day-to-day portfolio management decisions.

Zenith acknowledges the material equity stake of all four members 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 the 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 March 2022, Smallco managed approximately \$A 843 million firmwide. Overall, Zenith does not believe the Fund is currently impacted by capacity limitations.

In response to negative market movements and outflows, Smallco reopened the Fund to new investment in April 2020 after being hard closed since January 2017. Zenith notes that Smallco has a strong track record of prudently managing capacity, having previously closed the Fund at conservative levels of FUM. Notwithstanding this, Zenith will continue to monitor Smallco's level of FUM to ensure that increasing levels do not begin to negatively impact performance.

RELATIVE PERFORMANCE RISK: Zenith notes that the Fund is more concentrated than many Australian equities peers. Zenith believes that a concentrated portfolio has greater exposure to stock-specific risk than more diversified strategies and, as such, investors should be cognisant that the Fund may experience capital volatility in excess of a more diversified strategy. In addition, given that the Fund follows a benchmark unaware investment approach, its performance may diverge substantially from the benchmark and peers.

TEAM FOCUS RISK: While Zenith believes Smallco's team is sufficiently resourced and experienced, we note that the team is also responsible for other strategies within the business. As such, Zenith believes that the team's research focus may be diluted. However, we note that there is a high level of overlap between the strategies, which somewhat mitigates our concerns.

LEVERAGE RISK: Smallco may short sell stocks and use the proceeds to increase its long exposure. This increases an investor's exposure to Smallco's stock-specific decisions, which can magnify returns and losses. The maximum gross exposure of the Fund is limited to 150% of the value of the Fund's net assets (i.e. the sum of the Fund's long and short exposures).

However, the gross exposure of the Fund has historically remained lower than peers at approximately 80%, with short selling used opportunistically. Notwithstanding this, Smallco has the ability to borrow up to 30% of the Fund's Net Asset Value (NAV) and allow the gearing level to passively drift to 50%. However, Zenith notes that gearing is rarely implemented, with Smallco last utilising its gearing facility in 2006.

COUNTERPARTY RISK: The Fund's custody and counterparty contracts are subject to potential default risk. In

particular, the Fund is exposed to counterparty risk with its securities lender, Macquarie. Assets in the Fund are required to be transferred to Macquarie when borrowing stock for short selling. Assets up to the required collateral amount are held on Macquarie's balance sheet and are not segregated from other Macquarie assets. Should Macquarie become insolvent, there is a risk that the assets posted by the Fund may not be recoverable.

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 while also serving as a staff retention mechanism.

Although Smallco previously engaged Gateway Financial Marketing for the provision of retail distribution services, we note that this partnership ended in early 2020. Zenith believes Smallco would benefit from distribution support, allowing the investment team to focus on research and portfolio management efforts.

As at 31 March 2022, Smallco had approximately \$A 843 million in funds under management.

As at the same date, Smallco managed approximately \$A 249 million in the strategy, all of which was in the Fund.

INVESTMENT PERSONNEL

Name	Title	Tenure
Rob Hopkins	Managing Director/ Portfolio Manager	22 Yr(s)
Bill Ryan	Executive Director / Portfolio Manager	22 Yr(s)
Andrew Hokin	Portfolio Manager	14 Yr(s)
Paul Graham	Portfolio Manager	8 Yr(s)
Craig Miller	Portfolio Manager	17 Yr(s)
Adam Simpson	Portfolio Manager	4 Yr(s)
Han Xu	Portfolio Manager	3 Yr(s)

The investment team of seven is led by Rob Hopkins, who is supported by Bill Ryan, Andrew Hokin, Paul Graham, Craig Miller, Adam Simpson and Han Xu.

Founding members, Hopkins and Ryan, have 36 and 26 years of industry experience, respectively. Hopkins was the Head of Small Companies Research at Macquarie Equities, BT Alex Brown, ANZ Securities and Macintosh. Ryan worked together with Hopkins at ANZ Securities for a number of years.

Prior to joining Smallco in July 2007, Hokin held a senior position within Macquarie Equities. Zenith believes Hokin has improved the rigour of the investment process since his arrival, introducing a quality rating system to the security selection

process.

Graham joined Smallco in June 2014 having held senior positions at Nomura, Credit Suisse and Citigroup.

Miller has over 16 years of industry experience. In addition to his analytical responsibilities, Miller is responsible for a significant portion of the firm's business development, client servicing and compliance responsibilities.

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 Equities for a period of 15 years where he was most recently the Head of Emerging Leaders Research. Xu previously worked 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 to cover stocks in any sector.

Although Hopkins is the lead portfolio manager for the Fund, Simpson is becoming increasingly involved in day-to-day portfolio management decisions. Despite this, portfolio construction follows a consensus approach.

The team has remained stable, with no staff departures since Smallco's inception. 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 over the medium term.

Overall, Zenith considers Smallco's investment team to be highly experienced and well resourced to manage the Fund.

INVESTMENT OBJECTIVE, PHILOSOPHY AND PROCESS

The Fund's objective is to achieve high absolute returns for investors by utilising a relatively concentrated, long/short strategy that is predominantly invested in Australian small capitalisation companies.

Zenith would prefer to see the delineation of a specific outperformance target, as opposed to a descriptive, qualitative objective. Zenith believes this would provide investors with greater transparency with regards to returns expectations and level of risk embedded in the Fund.

Smallco's investment philosophy is centred 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. Smallco aims to invest in companies with the potential to double in value over a three-year investment period.

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 segment of the market 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 with a market capitalisation of less than \$A 100 million) stocks.

Smallco is generally cautious when investing in stocks with market capitalisations of less than \$A 100 million, given the high level of earnings risk and generally less developed financial discipline and reporting. In addition, Smallco typically excludes resources stocks, biotechnology sector and other industries it deems to be structurally challenged as it believes such earning streams 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
- Attractive earnings outlook
- Strong competitive advantage
- Strong board and good management

Meetings with senior company 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 upside.

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

- Price-to-cashflow
- Price-to-earnings
- Earnings before interest, taxes, depreciation and amortisation

To aid idea generation and to serve as a feedback loop, Smallco 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 cyclical nature, with 10 being the most attractive. Smallco introduced the quality rating system after the Fund experienced a significant drawdown during 2008 and 2009.

Candidates for the Fund's short positions are a by-product of the idea generation process for long positions. For a stock to be considered as a short candidate, it must typically fulfil the following criteria:

- Potential return on the short position of 20% to 30%
- Operating in a structurally-challenged industry
- A catalyst or event (e.g. reporting season) where the company is likely to disappoint relative to market expectations in the short term

Portfolio holdings and potential candidates for inclusion or short selling are subject to a rigorous peer-review process.

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 a function of investment opportunities.

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 also considered.

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

The Fund's positions will predominantly be in small cap stocks, with exposures to S&P/ASX 100 stocks limited to 20% of the portfolio. This limit does not apply to small cap positions that have graduated into the S&P/ASX 100 Index due to strong performance.

Short positions are only initiated opportunistically and where they are sufficiently compelling based on the output of the security selection process. As such, Zenith notes that short selling is rarely utilised in the Fund.

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 Fund's total exposure to companies rated 3 or less. Zenith believes the presence of the quality rating system promotes 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 one 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 more appropriate.

The Fund typically holds between 25 and 35 securities. Whilst cash can be held up to a maximum of 50%, 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 has changed
- Availability of superior investments
- To stay within the Fund's portfolio construction constraints

Short positions are subject to stop-loss limits. Whilst Zenith

notes that the use of stop-losses promotes sell discipline, they can lead crystallisation of losses at an inopportune time.

Whilst Smallco is permitted to vary the Fund's net equity exposure between 0% and 150%, it has typically been approximately 80%. Smallco does not make tactical asset allocation decisions, with the Fund's equity exposure primarily a result of available investment opportunities, both long and short. 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.

Smallco also has the ability to employ explicit leverage within the Fund. The portfolio may be geared up to 30% and allowed to drift passively to a maximum of 50%. Zenith notes that Smallco has been relatively conservative in its application of gearing, which has not been used since 2006.

Portfolio turnover is expected to be approximately 30% p.a.

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	25 to 35
Absolute Stock Weight (%)	max: 20% (max: 10% at time of purchase)
Short Exposure (%)	max: 30% (May drift passively to 50%)
Sector Exposures	Must hold stocks across at least 4 sectors
Exposure to Illiquid Stocks (%)	max: 30%
S&P/ASX 100 Exposure (%)	max: 20%
Leverage (%)	max: 30% (May drift passively to 50%)
Cash (%)	max: 50%
Portfolio Turnover (% p.a.)	30% p.a. (Expected)
ESG Constraints - Excluded Sectors	Alcohol, Armaments/Cluster Munitions, Gaming, Tobacco

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 is invested predominantly in 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 less conservative than peers. Investors should be aware that during a significant market event the liquidity profile of the Fund could be sub-optimal, 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.

Stop-losses are applied at the individual stock level. A hard limit is applied where the loss from an individual short position equates to 7% of the portfolio. Whilst Zenith believes this limit is relatively broad and potentially exposes the Fund to an excessive loss from a single position, we note that loss-making short positions are typically removed at the 2% level.

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.

Overall, 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.

Responsible Investment Approach

Smallco does not have an established Responsible Investment Policy and is not a signatory of the United Nations-supported Principles for Responsible Investment (PRI).

In addition to the environmental, social and governance (ESG) exclusions in the table above, Smallco incorporates ESG considerations into its investment process, with a particular focus on governance. 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 its share price. Overall, while we do not believe Smallco considers ESG factors to the same extent as peers, we are comfortable with its approach.

From a classification scale of:

- Impact
- Thematic
- Integrated
- Aware
- Traditional

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

ADMINISTRATION AND OPERATIONS

Operations

The Compliance Committee is responsible for the operational risk framework.

Service Providers

Securities Lender

Macquarie

Administrator

Link Fund Solutions

Custodian

Link Fund Solutions

Auditors

Crowe Horwath

Pricing

The Fund's assets and liabilities are usually valued each business day. Generally, listed securities are valued using the last available market close price quoted on the relevant exchange. Other assets are valued at their recoverable value with liabilities valued at cost.

Personal trading

Personal trading is allowed, however prior approval must be gained from Smallco.

Compliance

Smallco holds an Australian Financial Services Licence (AFSL). Smallco has lodged the Fund's compliance plan with ASIC and established a compliance committee with a majority of external members.

INVESTMENT FEES

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

A management cost of 1.55% p.a. (including expense recoveries) applies to this Fund. The Fund also has a performance fee of 18.64%, payable on any increase in the net asset value of the Fund, subject to the recoupment of all prior negative performance. The performance fee is calculated and paid semi-annually.

Zenith believes the performance fee for the Fund is poorly structured due to the lack of an appropriate benchmark. Given the Fund will typically exhibit equity-like risk/return characteristics, an appropriate benchmark should be used to ensure that any performance fees payable are justified. As it currently stands, Zenith believes that the hurdle applied to the performance fee is too low and not commensurate with the Fund's risk profile.

Overall, Zenith believes the Fund's fee structure is expensive, relative to peers, given its stated objectives. In addition, 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 2021).

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 above are reflective of the flagship version only, fees may differ when the product is accessed through an alternative investment vehicle such as platform).

Fees Type	Fund	Sector Average (Wholesale Funds)
Management Cost	1.55% p.a.	1.08% p.a.
	Description	
Performance Fee	18.64% of the unit price increase over each 6-month period subject to the recoupment of all prior negative performance.	
	Buy Spread	Sell Spread
Buy / Sell Spread	0.45%	0.45%

PERFORMANCE ANALYSIS

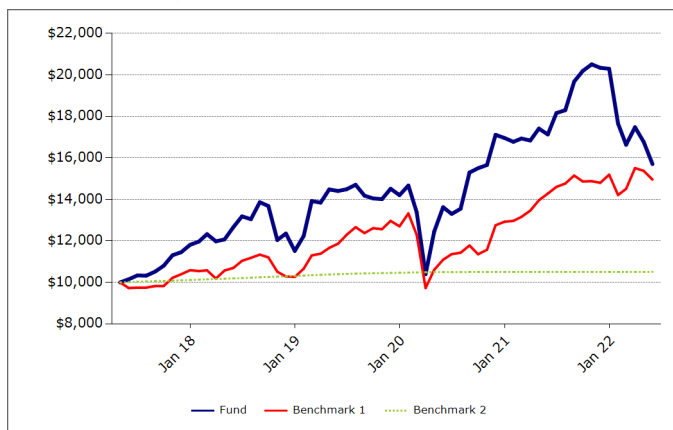
Report data: 31 May 2022, product inception: Nov 2000

Monthly Performance History (% , net of fees)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BM1 YTD	BM2 YTD
2022	-13.03	-5.75	5.09	-4.02	-6.41								-22.63	-1.56	0.03
2021	-1.09	0.95	-0.57	3.41	-1.63	6.03	0.76	7.56	2.60	1.57	-0.82	-0.24	19.66	17.55	0.03
2020	3.28	-8.80	-22.29	19.74	9.45	-2.39	1.87	12.89	1.37	0.99	9.29	-0.89	19.41	1.74	0.37
2019	6.24	13.74	-0.52	4.59	-0.52	0.60	1.48	-3.58	-0.93	-0.23	3.57	-2.14	23.32	23.78	1.50
2018	1.36	2.97	-2.82	0.77	4.93	4.10	-1.05	6.28	-1.35	-11.95	2.58	-6.77	-2.47	-3.07	1.92

Benchmark 1: S&P/ASX 300 (Accum), Benchmark 2: Bloomberg AusBond Bank Bill Index

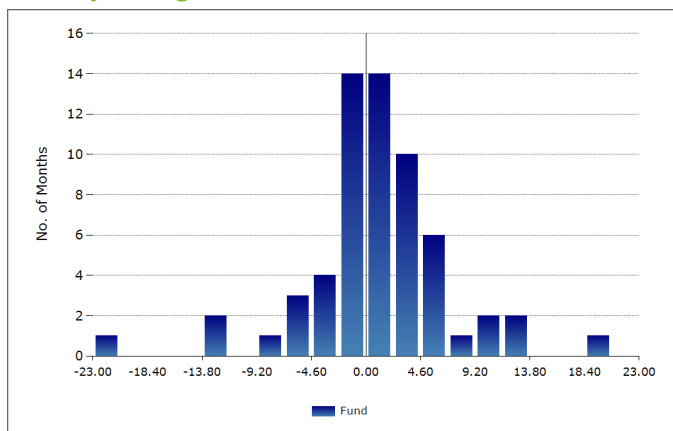
Growth of \$10,000



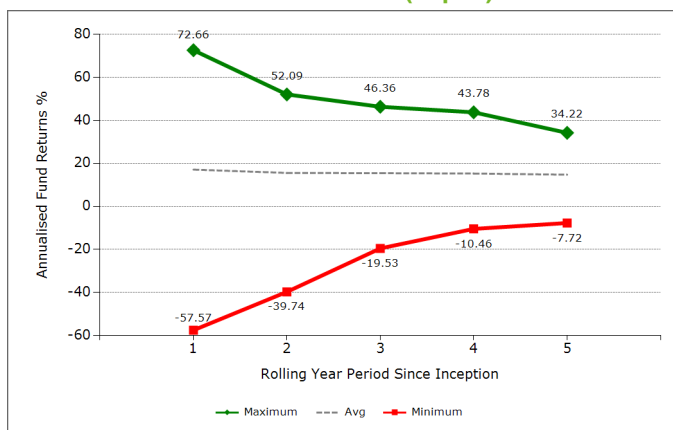
ABSOLUTE PERFORMANCE ANALYSIS

Return	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	12.89	9.12	2.92	-8.33
Benchmark 1 (% p.a.)	8.18	8.98	8.02	4.72
Benchmark 2 (% p.a.)	3.70	0.97	0.36	0.05
Median (% p.a.)	10.20	9.43	9.10	2.98
Ranking within Sector	Incpt.	5 yr	3 yr	1 yr
Fund Ranking	1 / 6	15 / 28	30 / 31	35 / 37
Quartile	1st	3rd	4th	4th
Standard Deviation	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	18.24	21.51	24.23	19.65
Benchmark 1 (% p.a.)	13.35	14.75	17.65	11.12
Median (% p.a.)	14.66	15.42	17.88	10.85
Downside Deviation	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	12.33	14.59	16.97	16.15
Benchmark 1 (% p.a.)	9.42	11.21	13.79	7.33
Median (% p.a.)	9.76	11.22	13.11	7.17
Risk/Return	Incpt.	5 yr	3 yr	1 yr
Sharpe Ratio - Fund	0.50	0.38	0.11	-0.43
Sortino Ratio - Fund	0.75	0.56	0.15	-0.52

Monthly Histogram



Minimum and Maximum Returns (% p.a.)



To ensure consistency, Zenith rates all Australian equities funds against a standard benchmark (S&P/ASX 300 Accumulation Index). Smallco does not benchmark itself against an index.

All commentary below is as at 31 May 2022.

The Fund aims to achieve high absolute returns for investors by utilising a relatively concentrated, long/short strategy that is predominantly invested in Australian small capitalisation companies.

Zenith would prefer to see the delineation of a specific outperformance target, as opposed to a descriptive, qualitative objective. Zenith believes this will provide investors with greater transparency with regards to returns expectations and to the level of risk embedded in the Fund.

The Fund has demonstrated material outperformance relative to Zenith's assigned benchmark and the median manager over the long term.

The Fund's volatility (as measured by Standard Deviation) has been higher than Zenith's assigned benchmark over all assessed periods.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	4.72	0.14	-5.10	-13.05
% Monthly Excess (All Mkts)	55.21	43.33	30.56	33.33
% Monthly Excess (Up Mkts)	53.89	46.51	32.00	42.86
% Monthly Excess (Down Mkts)	57.61	35.29	27.27	20.00
Beta Statistics	Incpt.	5 yr	3 yr	1 yr
Beta	1.01	1.20	1.15	1.30
R-Squared	0.55	0.67	0.70	0.54
Tracking Error (% p.a.)	12.27	12.63	13.45	13.76
Correlation	0.74	0.82	0.84	0.73
Risk/Return	Incpt.	5 yr	3 yr	1 yr
Information Ratio	0.38	0.01	-0.38	-0.95

All commentary below is as at 31 May 2022.

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 its inception.

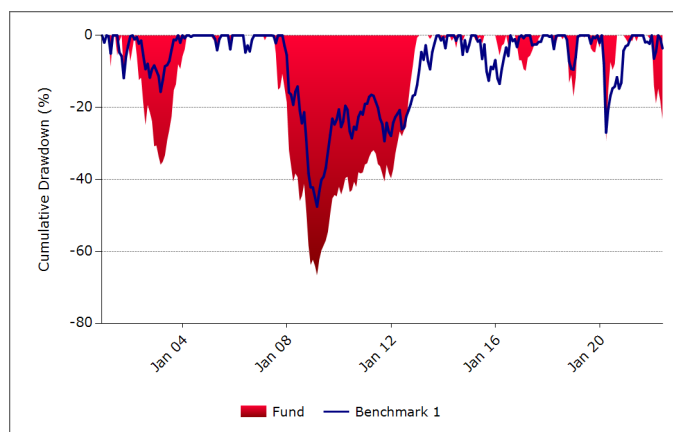
The Fund has displayed stronger consistency of outperformance during falling market conditions since inception.

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 1
Max Drawdown (%)	-66.63	-47.55
Months in Max Drawdown	20	16
Months to Recover	47	56

Worst Drawdowns	Fund	Benchmark 1
1	-66.63	-47.55
2	-35.91	-26.97
3	-29.30	-15.65
4	-23.44	-13.46
5	-16.93	-11.85



All commentary below is as at 31 May 2022.

The Fund experienced drawdowns that were more severe than those of the benchmark in 2002 and 2008. However, the Fund subsequently recovered from its maximum drawdown more swiftly than the benchmark.

Zenith notes that two of the Fund's largest relative drawdowns occurred prior to the introduction of the quality rating system in July 2008, which seeks to prevent the portfolio from holding an excessive number of lower quality stocks. Zenith notes that the Fund has generally demonstrated a propensity to protect investor capital in declining markets since the introduction of the quality rating system.

INCOME/GROWTH ANALYSIS

Income / Growth Returns	Income	Growth	Total
FY to 30 Jun 2021	5.59%	30.91%	36.50%
FY to 30 Jun 2020	7.97%	-16.24%	-8.27%
FY to 30 Jun 2019	13.48%	-3.68%	9.80%
FY to 30 Jun 2018	11.10%	16.40%	27.50%
FY to 30 Jun 2017	8.50%	1.00%	9.50%
FY to 30 Jun 2016	7.20%	13.00%	20.20%
FY to 30 Jun 2015	7.00%	8.70%	15.70%
FY to 30 Jun 2014	0.90%	20.50%	21.40%
FY to 30 Jun 2013	1.12%	56.86%	57.98%
FY to 30 Jun 2012	1.39%	13.15%	14.54%

Investors should be aware that Smallco does not target a specific level of income returns, with distributions made

annually where possible. Zenith would prefer a more frequent distribution profile to alleviate potential issues involved with large distributions at 30 June.

The Fund's portfolio turnover is expected to be approximately 30% p.a., which Zenith considers to be low. Smallco was not able to provide any insight on the proportion of expected turnover attributed to the resizing of existing positions and that which is due to initiating and closing positions. Given this expected level of turnover, the majority of the Fund's returns are expected to be delivered via capital appreciation in the unit price, rather than through the realisation of capital gains in income distributions. In addition, realised capital gains are highly likely to be eligible for the capital gains tax discount. As such, holding all else equal, the Fund may be more appealing to investors who are high marginal tax rate payers as it will result in superior after-tax return outcomes.

REPORT CERTIFICATION

Date of issue: 23 Jun 2022

Role	Analyst	Title
Author	Tom Goodrich	Senior Investment Analyst
Sector Lead	Tom Goodrich	Senior Investment Analyst
Authoriser	Bronwen Moncrieff	Head of Research

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As at the time this report was issued, the Analyst, report Authoriser and/ or the Sector Lead holds interests in either the product, the product issuer or a relevant related party. The Analyst/Authoriser/Sector Lead certifies that the extent of the holding is non-material in nature and has been undertaken in accordance with Zenith's Trading Policy and RG79.149(c).

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RATING HISTORY

As At	Rating*
23 Jun 2022	Recommended
17 Jun 2021	Recommended
9 Jun 2020	Recommended
12 Jun 2019	Recommended

As At	Rating*
14 Jun 2018	Recommended

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

*In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

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