

Product Assessment

Auscap Long Short Australian Equities Fund

Report data as at 30 Apr 2018
Rating issued on 14 Jun 2018

VIEWPOINT

The Fund is a variable beta Australian equity long/short fund managed by Sydney based Auscap Asset Management (Auscap). Zenith's conviction in the Fund is underpinned by the high calibre of the investment team and the attractiveness of the underlying investment philosophy and process, which we believe to be prudent and robust.

Auscap was established in 2012 as a boutique Australian equities focused long/short investment manager. Auscap is independently owned by founders Tim Carleton and Matthew Parker. As at 31 May 2018, Auscap had approximately \$A 627 million in funds under management, all of which was in the Fund.

The investment team consists of co-portfolio managers Carleton and Parker, who collectively have over 30 years' industry experience. Prior to establishing the Fund, both Carleton and Parker worked at Goldman Sachs from 2008 to 2011 where they each managed an Australian equities long/short portfolio using proprietary funds. Zenith views the portfolio managers' prior working relationship as a positive for the Fund. In addition, Zenith believes Carleton and Parker are highly experienced and have a firm understanding of the Australian equities market.

Co-portfolio managers Carleton and Parker are jointly responsible for the Fund. The Fund is expected to be long biased over the long-term and is constructed based on a benchmark unaware and bottom-up investment approach which leverages strongly off the stock selection process. For a stock to be included in the Fund, a consensus is needed between Carleton and Parker.

Weightings for portfolio positions are determined based on the level of conviction in the idea and the liquidity of the stock. Carleton and Parker will consider market dynamics to determine optimal entry and exit points. The portfolio managers are responsible for dealing, which Zenith believes allows for better understanding of market forces and sentiment.

Unlike its long/short peers who dynamically adjust market exposures through derivatives, the Fund's aggregate gross long and short exposures are a function of the investment opportunity set. In addition, the Fund can hold cash (up to 100%) in the absence of compelling absolute return investment opportunities or for risk management purposes, which Zenith believes to be consistent with Auscap's capital preservation focus. Zenith is confident in Auscap's portfolio construction approach and believes the portfolio managers are well experienced to utilise the full range of the Fund's flexible investment mandate to add value to investors.

FUND FACTS

- Typically holds between 25 and 45 stocks (20 to 30 long positions and 5 to 15 short positions)
- Maximum gross market exposure of 400%
- Although expected to be long biased, net exposure can range between -150% and 150%
- Portfolio turnover is expected to be high at approximately 100% p.a. to 200% p.a.
- Monthly liquid with a one month redemption notice period (a daily liquid unit class is available, APIR: ASX6124AU)

APIR Code

ASX0001AU

Asset / Sub-Asset Class

Australian Shares
Long Short

Investment Style

Variable Beta

Investment Objective

To achieve absolute returns of 10% p.a. to 15% p.a. (before fees) over the long-term, with an overarching philosophy of capital preservation.

Zenith Assigned Benchmark

S&P/ASX 300 (Accum)

Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
Fund	20.39	11.26	9.57
Benchmark	7.52	5.80	5.71
Median	8.88	6.56	9.18

Income (% p.a.)

	Income	Total
FY to 30 Jun 2017	5.29	7.98
FY to 30 Jun 2016	16.38	20.13
FY to 30 Jun 2015	3.14	16.81

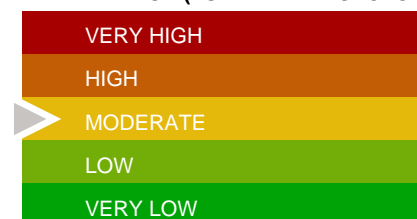
Fees (% p.a., Incl. GST)

Management Cost: 1.54%
Performance Fee: 15.375% over RBA cash rate

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. These funds are able to 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.

Each long/short manager uses vastly different investment processes, with some managers being fundamentally driven, others using quantitative tools, while others have trading style biases. Funds 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 fund can build a higher conviction portfolio by shorting stocks that it thinks will underperform and use the proceeds to invest long in stocks that may outperform. Variable beta funds can be used by investors to reduce the market risk of investing with a long only fund that must be close to fully invested. Variable beta funds can decrease their market exposures to protect against market falls (by increasing shorts 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 category benchmark their funds against the S&P/ASX 200 Accumulation Index. Both indices are market-capitalisation weighted, resulting in those 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 2018, 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 30% of the Index, and Materials approximately 18%. The split between Industrials and Resources stocks was approximately 80%/20%. The top 10 stocks represented approximately 40% of the weighting of the Index, and the top 20 stocks represented over 52% of the Index.

PORTFOLIO APPLICATIONS

Investors should be aware that the Fund has monthly liquidity, whilst Auscap also applies a minimum of one month notice period for redemptions. Zenith notes that a daily liquid unit class of the Fund is now available (APIR: ASX6124AU). However, investors can only access this investment option via select investment platforms.

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. As such, it is recommended that investors adopt a longer time frame when investing in equities.

Investors should also be cognisant of the fact that the Australian equity market only represents approximately 1% of global equity markets (in terms of market capitalisation). Zenith recommends that investors diversify their investments across asset classes, both domestically and globally.

Unlike a traditional long-only Australian equities fund, the Fund utilises a concentrated long/short investment strategy which provides Auscap with greater flexibility to meet its investment objective and add value for investors over the long-term. The short selling capability enables the Fund to profit from companies which are expected to fall in price or hedge against declines in the market and therefore, potentially offer a different return profile to most long-only Australian equity funds. As a result, the Fund will be exposed to higher levels of stock specific risks and as such, performance that can deviate from the Fund’s historical averages or mainstream equity benchmarks.

Zenith notes that Auscap has demonstrated extensive use of the flexibility within the mandate, with the net equity exposure of the Fund ranging between 45% and 135% since inception. Auscap have proven to be more dynamic than peers in adjusting exposures to a greater extent over shorter discrete periods subject to the availability of investment opportunities or for risk management considerations. This active use of the mandate is also evident in the gross exposure of the Fund (combined long and short positions), which has varied between 60% and 250% since inception. This is consistent with Auscap’s focus on generating absolute returns and preserving capital.

While the Fund can be held as a standalone exposure to the Australian equities sector for investors who have a low tolerance for volatility and capital losses, Zenith believes the Fund should be blended with other Australian equities funds. The Fund can be blended with other style-neutral, value and/or growth orientated Australian equities products to achieve a more diversified exposure to the asset class and has the potential to enhance the overall risk/return profile of a portfolio.

The Fund is expected to exhibit a high level of portfolio turnover (100% p.a. to 200% p.a.). Given this expected level of turnover, the majority of the Fund’s returns are expected to be delivered via the realisation of capital gains in income distributions, rather than through capital appreciation in the unit price. In addition, the capital gains component of the distributions that are paid is highly unlikely to be eligible for the capital gains tax discount, which can have a further negative impact on the after-tax outcomes for high tax paying investors. As such, holding all else equal, 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. However, Zenith notes that the Fund has generated a strong and consistent level of capital growth since inception, the majority of which would be subject to the capital gains tax discount.

RISKS OF THE INVESTMENT

SECTOR RISKS

Funds within the "Australian Long Short" sector are exposed to the following broad risks:

MARKET & ECONOMIC RISK: A risk to the performance of funds in the sector 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 timeframe.

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, buyers/sellers can significantly impact the price of a security when attempting to quickly enter/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 timeframe 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).

SHORT RISK: Australian long/short funds have the ability to borrow securities and sell them on market (i.e. shorting). Given that such securities will need to be returned to the lender eventually, the short seller may be required to re-purchase the securities on market at a higher price, thereby incurring a loss. Such losses can potentially be unlimited given that there is no theoretical limit on how much the price of a security can rise.

REGULATORY RISK: This is the risk that the value of an investment or effectiveness of the Fund's trading strategy is affected by changes in government regulations and policies. For example, in September 2008, ASIC temporarily banned short selling during the GFC. Should periods of heightened market volatility arise in the future, a short selling ban may be implemented which can potentially impair the investment strategies of Australian long/short funds.

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: Auscap is subject to a relatively high

level of key person risk. Zenith views Tim Carleton and Matthew Parker as being critical to the management of the Fund. A departure of either would trigger an immediate review of our rating on the Fund, however, Zenith acknowledges the material equity ownership of Carleton and Parker in the business and we believe that this mitigates the risk of a departure, at least in the medium-term.

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. Zenith does not consider capacity to be a current issue given strategy FUM stands at approximately \$A 627 million as at 31 May 2018, however, this is an area that Zenith will continue to monitor closely given the rapid growth in FUM experienced by Auscap.

MARKET EXPOSURE RISK: Like most funds in this asset class, one of the key risks to the Fund's performance is a sustained downturn in the Australian equities market, however, given the Fund's focus on capital preservation Zenith expects a return profile that is less sensitive to market downturns.

CONCENTRATION RISK: The Fund holds a concentrated portfolio of stocks (typically 25 to 45 including shorts). Investors should be aware that this may result in higher levels of stock specific risks and as such, performance can deviate from the Fund's historical averages or mainstream equity benchmarks.

LEVERAGE RISK: The Fund has the ability to short sell stocks and use the proceeds to increase its long exposure to stocks. This increases an investor's exposure to Auscap's stock specific decisions and can magnify returns and losses. The maximum gross exposure, namely the sum of the Fund's long and short exposures, is limited to 400% of the value of the Fund's net assets.

DERIVATIVE RISK: The Fund can use derivatives such as options and futures and these investment securities can be volatile, speculative, illiquid and leveraged. The use of derivatives is limited to hedging purposes with index/stock puts used to hedge physical stock positions, whilst futures are used to adjust the market exposure of the portfolio. However, the Fund can only use exchange traded derivatives and cannot use them to leverage up the Fund.

ACCESSIBILITY RISK: The Fund offers investors monthly liquidity. Zenith notes that this is inconsistent with peers and would prefer more favourable liquidity terms given that a large portion of the investments in the Fund and their historical return generation are predominately from trading in a relatively liquid segment of the Australian equity market (S&P/ASX 200). In addition, Auscap also applies a one month minimum notice period for redemptions.

Zenith notes that a daily liquid unit class of the Fund is now available (APIR: ASX6124AU). However, investors can only access this investment option via select investment platforms.

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 Prime Broker, Citigroup Global Markets Limited (CGML). Assets of the Fund are required to be transferred to CGML when borrowing stock for short selling. Assets up to the required collateral amount are held on CGML's balance sheet

and are not segregated from other CGML assets.

Should CGML become insolvent, there is a risk that the assets posted by the Fund may not be recoverable.

QUALITATIVE DUE DILIGENCE

ORGANISATION

Based in Sydney, Auscap Asset Management (Auscap) was established in 2012 as a boutique Australian equities focused long/short investment manager. Auscap is independently owned by its founders, Tim Carleton and Matthew Parker.

As at 31 May 2018, Auscap had approximately \$A 627 million in funds under management, all of which was in the Fund.

INVESTMENT PERSONNEL

Name	Title	Tenure
Tim Carleton	Portfolio Manager	5 Yr(s)
Matthew Parker	Portfolio Manager	5 Yr(s)

The investment team consists of co-portfolio managers Tim Carleton and Matthew Parker, who collectively have over 30 years industry experience. Prior to establishing the Fund, both Carleton and Parker worked together at Goldman Sachs from 2008 to 2011 where they each managed an Australian equities long/short portfolio using proprietary funds. Zenith views the portfolio managers' prior working relationship as a positive for the Fund as it reduces team cohesion risk typically associated with a start-up investment boutique.

Zenith believes Carleton and Parker have complementary skill sets and focus areas. For example, Carleton typically begins his company research through analysing financial statements while Parker will start with trying to understand the consensus views on the stock.

Having founded the strategy together in 2012, Carleton and Parker have maintained the initial co-portfolio manager structure since inception. Carleton and Parker 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.

Carleton and Parker have indicated that there is no intention of adding further resources to the team, preferring to maintain full control over portfolio management and research. Although Zenith would prefer to see an additional resource to mitigate the risk of potential incapacitation of either co-portfolio manager, we note that the existing structure has been successful and allows for the sole focus on core competencies. That is, the co-portfolio managers can fully focus on managing the Fund without staff management distractions.

Carleton and Parker are co-owners of the business. As such, Zenith believes the ownership structure of Auscap aligns the interests of the investment team to the performance of the Fund and the overall success of the business.

Overall, Zenith believes Carleton and Parker are highly experienced and have a firm understanding of the Australian equities market.

INVESTMENT OBJECTIVE, PHILOSOPHY AND PROCESS

The Fund aims to achieve absolute returns of 10% p.a. to 15% p.a. (before fees) over the long-term. Auscap maintains an equal focus on meeting its performance and capital preservation objectives. Zenith notes that Auscap is conservative and measured in its investment approach, which we believe is conducive for the management of an absolute return/variable beta strategy.

Auscap believes that markets are efficient in the long-term, however, due to behavioural biases and the time required for information to be disseminated and fully analysed, inefficiencies can occur in the shorter-term. These inefficiencies result in the deviation of stock valuations from their intrinsic value. Auscap attempts to exploit these inefficiencies through the use of a concentrated, long/short strategy that is driven primarily by fundamental analysis. Auscap adopts a value style approach to investing with a bias towards stocks exhibiting quality attributes.

SECURITY SELECTION

The Fund's investable universe is all Australian listed equities, however, Auscap will tend to focus predominantly on stocks within the S&P/ASX 200 Index.

The stock selection process begins with the identification of attractively priced potential investment opportunities. Auscap screens the universe on the following metrics:

- Forecast earnings yield
- Anticipated earnings growth
- Price to earnings ratio (P/E)
- Price to cash flow ratio (P/CF)
- Enterprise value to earnings before interest and tax ratio (EV/EBIT)
- Dividend yield
- Price to net tangible assets (P/NTA)

In addition to the quantitative screen, Auscap also considers opportunities from a variety of sources such as:

- Industry data
- Company meetings and site visits
- Discussions with management
- Discussions with sector & stock analysts
- Review of external research reports and valuation work

Once an investment opportunity is identified, it is subject to both quantitative and qualitative analysis. The portfolio managers rely on internal fundamental research which includes financial analysis and a company visitation program.

Quantitative analysis includes an assessment of the following metrics:

- Historic cash flow generation and conversion
- Current strength of balance sheet (Debt/EBIT, Interest coverage ratio and Debt to market capitalisation)
- Return on invested capital (ROIC)
- Return on assets (ROA)
- Return on equity (ROE)
- Historic, near-term and sustainable revenue and earnings growth

- Historical profitability
- Sector and stock revenue growth drivers
- Volatility of revenues, earnings and cash flow

Qualitative analysis involves the assessment of the following factors:

- Quality and strength of management
- Industry feedback and perception
- Simplicity of the business model
- The nature of the goods and services offered
- Investigative and anecdotal evidence
- Testing of the investment thesis against similar and contrary opinions

In addition, Auscap also has access to numerous brokers for external investment research reports, broker research reports and corporate access.

More specifically for short selling opportunities, Auscap seeks the following characteristics:

- Poor cash flow
- A weak balance sheet
- Declining earnings and/or cash flows
- Complex business models
- Questionable accounting practices
- Poor cash flow conversion (as a percentage of reported profits)
- Undisciplined, inexperienced or poor management
- A market capitalisation that significantly exceeds a reasonable estimate of fair value
- Market sentiment, investor psychology and technical indicators that suggest downside price risk

Overall, Zenith believes Auscap's stock selection process is intuitively sound, drawing on the strength of the investment team's experience in bottom-up stock selection.

PORTFOLIO CONSTRUCTION

Co-portfolio managers Carleton and Parker are jointly responsible for portfolio construction. The Fund is expected to be long biased over the long-term.

The Fund is constructed based on a benchmark unaware and bottom-up investment approach which leverages strongly off the stock selection process. For a stock to be included in the Fund, a consensus is needed between Carleton and Parker.

Weightings for portfolio positions are determined based on the level of conviction in the idea and the liquidity of the stock. The Fund is relatively concentrated and will typically hold between 25 and 45 stocks, both long and short combined. More specifically, there will generally be 20 to 30 long positions and 5 to 15 short positions.

Carleton and Parker will consider investor psychology and market sentiment to determine optimal entry and exit points. Individual positions will be exited when one of the following occurs:

- The investment thesis becomes invalidated by new data, changing circumstances and/or a change in Auscap's view
- The position trades above (for long positions) or below (for short positions) Auscap's view of intrinsic value

- Poor technical indicators suggest a continued deterioration in the share price is probable without an appropriate justification for continued investment

The portfolio managers are responsible for dealing, which Zenith believes allows for better understanding of market forces and sentiment. Portfolio turnover is expected to be high at approximately 100% p.a. to 200% p.a.

Unlike its long/short peers who dynamically adjust market exposures through derivatives, the Fund's aggregate gross long and short exposures are a function of the investment opportunity set. In addition, the Fund can hold cash (up to 100%) in the absence of compelling absolute return investment opportunities or for risk management purposes, which Zenith believes to be consistent with Auscap's capital preservation focus.

Zenith is confident in Auscap's portfolio construction approach and believes the portfolio managers are well experienced to utilise the full range of the Fund's flexible investment mandate to add value to investors.

RISK MANAGEMENT

Portfolio Constraints	Description
Security Numbers - Long	20 to 30 (typically)
Security Number - Short	5 to 15 (typically)
Gross Exposure - Total (%)	max: 400% (hard)
Gross Exposure - Long (%)	max: 200% (hard)
Gross Exposure - Short (%)	max: 200% (hard)
Net Exposure (%)	-150% to 150% (hard)
Cash (%)	max: 100% (hard)

The Fund is managed within the above listed risk management constraints. Whilst broad, Zenith believes these risk limits provide the Fund with sufficient flexibility to achieve its investment objective, whilst maintaining a disciplined approach to investing.

At the individual security level, Zenith believes that risk management is well incorporated in the detailed fundamental research process undertaken by Auscap.

The gross and net equity exposures of the portfolio are dependent on the investment opportunity set and subject to the portfolio limits. Zenith believes the gross and net equity exposure constraints are appropriate given the Fund's strategy and objective.

Zenith notes that whilst there are no industry, sector or market capitalisation exposure limits, which can potentially lead to high levels of concentration in certain sectors, this is consistent with the Fund's absolute return focus.

Given the asymmetric risk profile of short sold positions, Auscap manages them more actively than their long

counterparts. Short sold positions will typically be smaller than corresponding long positions. Greater consideration is given to liquidity and high levels of short interest, with short positions typically in companies with market capitalisations of greater than \$A 1 billion. Short positions will typically constitute 20% to 40% of the Fund.

Zenith is comfortable with Auscap's risk management process and in particular notes the conservative and disciplined approach undertaken by the portfolio managers. However, investors should be aware there is significant reliance on the judgement and skill of Carleton and Parker.

ADMINISTRATION AND OPERATIONS

The Fund has no redemption fees or gates.

The Fund provides monthly liquidity with a one month redemption notice period. Zenith notes that a daily liquid unit class of the Fund is now available (APIR: ASX6124AU). However, investors can only access this investment option via platforms.

Operations

The Auscap Compliance & Risk Management Policies set out Auscap's approach to risk management and capture Auscap's legal, regulatory and commercial obligations.

In conjunction with launching a retail version of the Fund in 2016, the Compliance Committee now comprises a majority of independent members whereas previously it was a subcommittee of the Auscap Board. This committee is ultimately responsible for the ongoing monitoring of compliance, audit, and risk management functions.

Service Providers

The Fund has appointed the following independent service providers:

Prime Broker

Citigroup Global Markets Limited

Administrator

Link Fund Solutions Pty Ltd

Custodian

Citigroup Global Markets Limited

Auditors

Ernst & Young

Legal

Norton Rose Fulbright

Pricing

The Fund's holdings are liquid Australian stocks that trade on the ASX. The portfolio is linked to live prices and runs live each trading day. The Fund Net Asset Value (NAV) is calculated by the administrator.

Transparency

Auscap has provided Zenith with the documentation that we have requested and we are comfortable with the level of transparency that Auscap has provided.

Disaster recovery

Auscap has a detailed business continuity and disaster recovery plan. Auscap has a disaster recovery office located away from the city with separate computers and internet access. Files are stored on a network drive located in a secure temperature controlled room onsite. The files are backed up daily to the Cloud (which is secure and accessible remotely) and weekly to an external hard drive stored offsite. Key staff reconvene at the external disaster recovery office, download the company files and resume operations remotely.

Personal trading

Personal dealing is permitted but before trading the trader must disclose all the details of the trade to the Executive Directors. All employees must sign a Securities Trading Declaration on commencement at Auscap.

Compliance

Auscap maintains a detailed Operations & Compliance Manual in addition to a Compliance Plan which has been lodged with ASIC.

In terms of monitoring regulatory changes or other compliance developments Auscap employs an in-house legal and compliance capability, whilst they also utilise the services of external legal and compliance services.

The Principals of Auscap do not have any other active business interests. There are no outstanding legal, criminal, civil or regulatory proceedings against Auscap or the investment principals.

Personal dealing is permitted but before trading the trader must disclose all the details of the trade to the Executive Directors. All employees must sign a Securities Trading Declaration on commencement at Auscap.

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.

The Fund charges a management cost of 1.5375% p.a. and a performance fee of 15.375%. The performance fee is charged against the net excess returns over the performance hurdle (RBA Cash Rate) and is subject to all prior underperformance being recouped. It is calculated and accrued monthly and paid semi-annually.

Zenith notes that whilst the fee structure is in line with standard practice, Zenith notes that the hurdle provided by the RBA Cash Rate is less than what it has been historically. For an absolute return strategy that charges a performance fee, Zenith would prefer to see in place a flat and fixed performance hurdle; a structure we consider to be best practice.

Overall, Zenith believes the Fund's fee structure to be expensive, relative to peers, given its stated objectives. However, we believe the fees paid over the past three years (ending 30 June 2017) are justified given the Fund's risk adjusted performance over the same period.

There is also a buy/sell spread of 0.2% charged on Fund entry

and exit, which is in place to protect existing investors from applications and redemptions, with any excess proceeds retained in the Fund.

(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	1.54% p.a.	1.11% p.a.
	Description	
Performance Fee	15.375% over RBA cash rate	
	Buy Spread	Sell Spread
Buy / Sell Spread	0.20%	0.20%

PERFORMANCE ANALYSIS

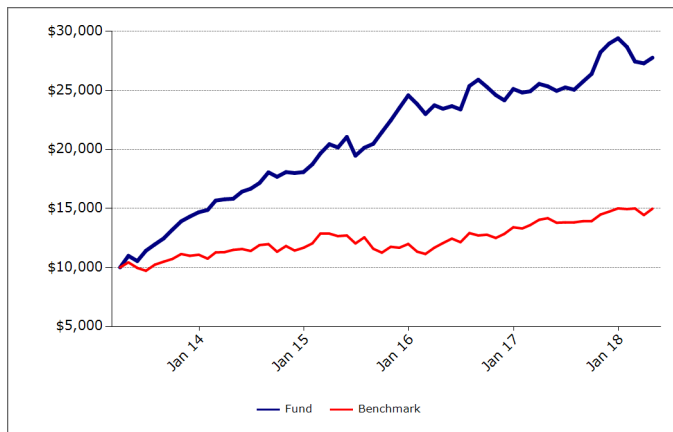
Report data: 30 Apr 2018, product inception: Dec 2012

Monthly Performance History (% , net of fees)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BENCHMARK YTD
2018	-2.50	-4.31	-0.56	1.75									-5.60	-0.14
2017	-1.20	0.42	2.52	-0.81	-1.52	1.18	-0.77	2.75	2.53	6.96	2.58	1.56	17.11	11.95
2016	-3.01	-3.54	3.22	-1.24	0.96	-1.19	8.48	2.13	-2.37	-2.72	-1.83	4.00	2.20	11.80
2015	3.65	4.90	3.98	-1.36	4.43	-7.55	3.46	1.64	4.82	4.65	4.69	4.56	35.96	2.79
2014	1.32	5.32	0.70	0.29	3.82	1.48	2.95	5.24	-2.09	2.25	-0.43	0.44	23.18	5.30

Benchmark: S&P/ASX 300 (Accum)

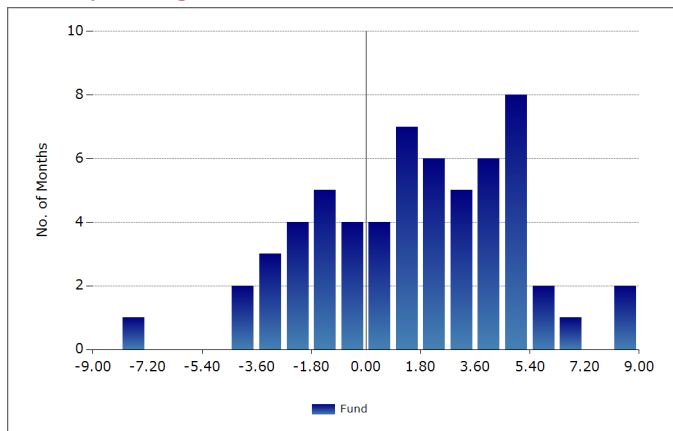
Growth of \$10,000



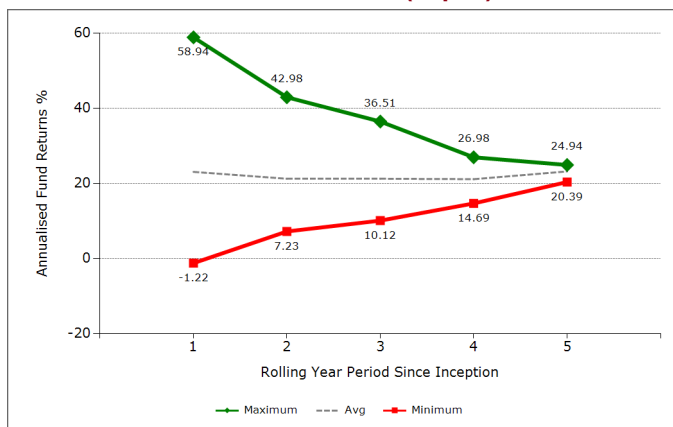
ABSOLUTE PERFORMANCE ANALYSIS

Return	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	21.82	20.39	11.26	9.57
Benchmark (% p.a.)	9.96	7.52	5.80	5.71
Median (% p.a.)	11.37	8.88	6.56	9.18
Ranking within Sector	Incpt.	5 yr	3 yr	1 yr
Fund Ranking	1 / 17	1 / 18	4 / 21	11 / 25
Quartile	1st	1st	1st	2nd
Standard Deviation	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	11.38	11.26	11.60	9.81
Benchmark (% p.a.)	11.21	11.08	11.04	7.50
Median (% p.a.)	11.81	10.92	10.99	7.50
Downside Deviation	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	4.75	4.90	5.59	4.50
Benchmark (% p.a.)	5.92	6.07	6.46	4.20
Median (% p.a.)	6.25	5.91	5.90	3.62
Risk/Return	Incpt.	5 yr	3 yr	1 yr
Sharpe Ratio - Fund	1.71	1.61	0.80	0.80
Sortino Ratio - Fund	4.10	3.70	1.66	1.74

Monthly Histogram



Minimum and Maximum Returns (% p.a.)



All commentary is as at 30 April 2018.

The Fund aims to achieve absolute returns of 10% p.a. to 15% p.a. (before fees) over the long-term. Auscap maintains an equal focus on meeting its performance objectives and capital preservation.

With the exception of the last year, the Fund has been able to achieve the performance objective over all assessed trailing return periods since inception.

The Fund has achieved its returns with a level of volatility, as measured by Standard Deviation, that is marginally higher than that of the S&P/ASX 300 Accumulation Index over all assessed periods.

On a risk-adjusted basis, the Fund has also achieved strong Sharpe and Sortino Ratios since inception, thus investors have been generally rewarded for the risk inherent in the Fund's strategy.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	11.86	12.87	5.46	3.86
% Monthly Excess (All Mkts)	56.92	58.33	47.22	58.33
% Monthly Excess (Up Mkts)	45.24	47.37	39.13	55.56
% Monthly Excess (Down Mkts)	78.26	77.27	61.54	66.67
Beta Statistics	Incpt.	5 yr	3 yr	1 yr
Beta	0.53	0.55	0.57	0.81
R-Squared	0.28	0.30	0.30	0.38
Tracking Error (% p.a.)	11.01	10.65	10.82	7.86
Correlation	0.53	0.55	0.54	0.62
Risk/Return	Incpt.	5 yr	3 yr	1 yr
Information Ratio	1.08	1.21	0.51	0.49

All commentary is as at 30 April 2018.

Zenith seeks to identify funds which can outperform their index in greater than 50% of months in all market conditions, as we believe this represents a persistence of manager skill. The Fund has achieved this outcome over the medium to longer-term periods. The Fund has tended to produce greater outperformance consistency in declining markets over all assessed periods, which Zenith believes demonstrates Auscap's focus on capital preservation.

The Fund has produced very strong excess returns relative to the Australian equity market index and the cash rate over all longer-term rolling periods and since inception.

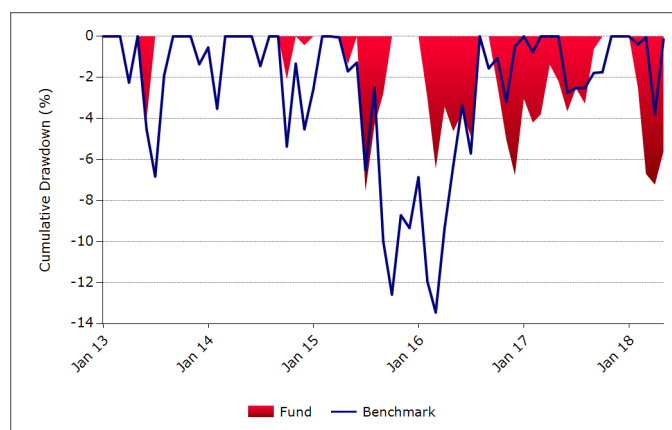
Investors should be aware that the Fund is generally expected to lag the Index during periods of strong market performance. However, this has not always been the case over the life of the Fund.

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 (%)	-7.55	-13.46
Months in Max Drawdown	1	12
Months to Recover	3	5

Worst Drawdowns	Fund	Benchmark
1	-7.55	-13.46
2	-7.23	-6.83
3	-6.77	-5.37
4	-6.44	-3.78
5	-4.05	-3.52



All commentary is as at 30 April 2018.

Since inception, the Fund has demonstrated an ability to preserve capital during periods of market stress. Zenith expects the Fund's drawdowns to typically be more muted relative to the Australian sharemarket given its prudent investment process.

INCOME/GROWTH ANALYSIS

Income / Growth Returns	Income	Growth	Total
FY to 30 Jun 2017	5.29%	2.69%	7.98%
FY to 30 Jun 2016	16.38%	3.75%	20.13%
FY to 30 Jun 2015	3.14%	13.67%	16.81%
FY to 30 Jun 2014	34.25%	11.76%	46.01%
FY to 30 Jun 2013	6.83%	12.89%	19.72%

The Fund does not target specific income levels.

Where applicable, distributions are paid annually.

The Fund is expected to exhibit a high level of portfolio turnover (100% p.a. to 200% p.a.). Given this expected level of turnover, the majority of the Fund's returns are expected to be delivered via the realisation of capital gains in income distributions, rather than through capital appreciation in the unit price. In addition, the capital gains component of the distributions that are paid is highly unlikely to be eligible for the capital gains tax discount, which can have a further negative impact on the after-tax outcomes for high tax paying investors. As such, holding all else equal, 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. However, Zenith

notes that the Fund has generated a strong and consistent level of capital growth since inception, the majority of which would be subject to the capital gains tax discount.

REPORT CERTIFICATION

Date of issue: 14 Jun 2018

Role	Analyst	Title
Author	Quan Nguyen	Head of Equities
Sector Lead	Jacob Smart	Investment Analyst
Authoriser	Jacob Smart	Investment Analyst

RATING HISTORY

As At	Rating
14 Jun 2018	Recommended
31 May 2017	Recommended
21 Jun 2016	Recommended
25 Jun 2015	Not Rated - Screened Out
2 Jul 2014	Not Rated - Screened Out
28 Nov 2013	Not Rated - Screened Out

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

DISCLAIMER AND DISCLOSURE

Zenith Investment Partners (ABN 27 103 132 672) is the holder of Australian Financial Services Licence 226872 and is authorised to provide general financial product advice. This Product Assessment Report (report) has been prepared by Zenith exclusively for Zenith clients and should not be relied on by any other person. Any advice or rating contained in this report is limited to General Advice for Wholesale clients only, based solely on the assessment of the investment merits of the financial product. This report is current as at the date of issue until it is updated, replaced or withdrawn and is subject to change at any time without notice in line with Zenith's regulatory guidelines. Zenith clients are advised to check the currency of reports and ratings via Zenith's website for updates. Any advice contained in this report has been prepared without taking into account the objectives, financial situation or needs of any specific person who may read it. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek their own independent financial advice, obtain a copy of, and consider any relevant PDS or offer document and consider the appropriateness of this advice in light of their own objectives prior to making any investment decision. Zenith charges an upfront flat fee to the Product Issuer, Fund Manager or other related party to produce research on funds that conform to Zenith's Research Methodology. Zenith's fee and Analyst remuneration are not linked to the rating outcome in any way. Views expressed in Zenith reports accurately reflect the personal, professional, reasonable opinion of the Analyst who has prepared the report. Zenith may also receive a fee for other non-research related services such as subscription fees for Zenith's research services and/or for the provision of investment consultancy services. Conflicts management arrangements are in place where Zenith provides research services to financial advisory businesses who provide financial planning services to investors and are also associated entities of the product issuers, with any such conflicts of interest disclosed within reports as appropriate. Full details regarding such arrangements are outlined in Zenith's Conflicts of Interest Policy www.zenithpartners.com.au/ConflictsOfInterestPolicy

Zenith's research process seeks to identify investment managers considered to be the 'best of breed' through a comprehensive, multi-dimensional selection process. Zenith utilises both quantitative and qualitative factors in its ratings models. Models maximise commonality across different asset classes while retaining flexibility for specialist asset classes and strategies. The selection process is rigorous in both its qualitative and quantitative analysis and each component is equally weighted. Zenith does not manage any proprietary assets and as such Zenith is able to choose investment managers with absolute independence and objectivity. More detailed information regarding Zenith's research process, coverage and ratings is available on Zenith's website www.zenithpartners.com.au/ResearchMethodology

This report is subject to copyright and may not be reproduced, modified or distributed without the consent of the copyright owner. The information contained in this report has been prepared in good faith and is believed to be reliable at the time it was prepared, however, no representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented in this report. Except for any liability which cannot be excluded, Zenith does not accept any liability, whether direct or indirect arising from the use of information contained in this report. Past performance is not an indication of future performance.

Full details regarding the methodology, ratings definitions and regulatory compliance are available at www.zenithpartners.com.au/RegulatoryGuidelines

© 2018 Zenith Investment Partners. All rights reserved.

Zenith has charged Auscap Asset Management a fee to produce this report.