Zenith Investment Partners

Product Assessment

Report data as at 31 May 2021
Rating issued on 17 Jun 2021

Auscap Long Short Australian Equities Fund

VIEWPOINT

The Fund, managed by Sydney-based Auscap Asset Management (Auscap), provides investors exposure to Australian equities, through a value and quality-focused, long/short variable beta strategy. 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. Although we continue to believe that the Fund is an attractive investment offering, our conviction is tempered by the significant outflows experienced over the past three years, which has resulted in diminished business and team stability.

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.

The investment team of four is led by Carleton and Parker, who collectively have over 39 years of industry experience. Prior to establishing Auscap, both Carleton and Parker worked at Goldman Sachs from 2008 to 2011 where they 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 solid understanding of the Australian equities market.

The Fund is managed through a co-portfolio manager structure, with Carleton and Parker jointly responsible. The Fund is expected to be long-biased over the long term and is constructed through a benchmark unaware and bottom-up approach, strongly leveraging the stock selection process. For a stock to be included in the Fund, a consensus is needed between Carleton and Parker. Zenith believes Auscap's stock selection process is intuitively sound, drawing on the bottom-up stock selection experience of the investment team.

Portfolio weights are determined based on the conviction of Auscap's investment thesis and stock liquidity, with Carleton and Parker considering market dynamics to determine optimal entry and exit points. The portfolio managers are responsible for dealing, which Zenith believes allows for a better understanding of market forces and sentiment.

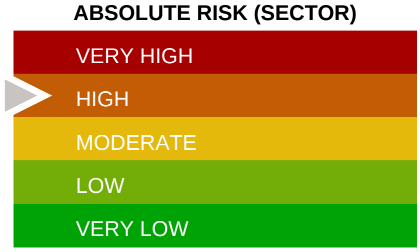
The Fund's long and short exposures are primarily a function of the investment opportunity set, with Auscap having the flexibility to allocate up to 100% to cash, in the absence of compelling investment opportunities. In addition, Auscap may employ derivates for risk management purposes. Zenith is confident in Auscap's portfolio construction approach and believes the portfolio managers are well placed to utilise the Fund's flexible investment mandate to meet its investment objectives.

Effective 1 January 2021, the Fund's performance fee structure includes dual hurdles (S&P/ASX All Ordinaries Index and the RBA Cash Rate). Zenith views the introduction of an equity benchmark for the performance fee in addition to the RBA Cash Rate positively, given the Fund is expected to maintain a substantially long equity bias.

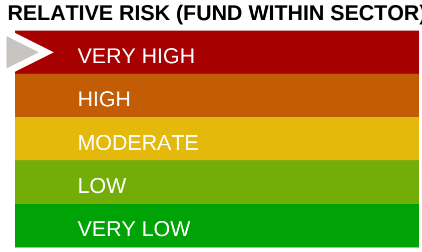
FUND FACTS

- Expected to hold between 40 and 60 stocks (40 to 50 long and 0 to 10 short)
- Net exposure typically ranges between 50% and 130%
- Monthly liquid with one-month redemption notice period (daily liquid class, APIR: ASX6124AU)
- Expected portfolio turnover between approximately 40% p.a. and 50% p.a.
- Zenith has assigned the Fund a Responsible Investment Classification of **Aware**

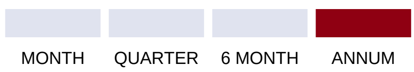
ABSOLUTE RISK (SECTOR)



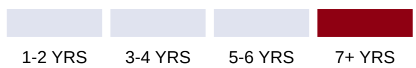
RELATIVE RISK (FUND WITHIN SECTOR)



INCOME DISTRIBUTIONS PER



INVESTMENT TIMEFRAME



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	9.23	9.08	87.27
Benchmark	10.22	10.11	28.74
Median	9.65	9.65	29.63

Income (% p.a.)

	Income	Total
FY to 30 Jun 2020	10.75	-19.90
FY to 30 Jun 2019	3.79	-9.17
FY to 30 Jun 2018	1.74	12.72

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

Management Cost: 1.54%
Performance Fee: 15.375% on outperformance of dual hurdles, the S&P/ASX All Ordinaries Accumulation Index and the RBA Cash Rate

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 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.

Each long/short manager uses vastly different investment processes. Some managers are fundamentally driven, others use quantitative tools, and 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 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 2021, 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 29.9% of the Index, and Materials approximately 20.7%. The split between Industrials and Resources stocks was approximately 76%/24%. The top 10 stocks represented approximately 44.7% of the weighting of the Index, and the top 20 stocks represented over 55% of the Index.

PORTFOLIO APPLICATIONS

Investors should be aware that the Fund has monthly liquidity. In addition, Auscap requires a minimum notice period of one month for redemptions. Zenith notes that a daily liquid unit class of the Fund is 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. Therefore, 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 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, Auscap employs a long/short investment strategy, which provides it with greater flexibility to meet its investment objectives over the long term. Auscap's short selling capability enables the Fund to profit from companies that are expected to fall in price or hedge against declines in the broader market. As such, investors should be aware that the Fund's return profile will likely deviate from the benchmark and peers.

Investors should be aware that the Fund targets its return objective with leverage. The gross exposure (long plus short exposure) of the Fund has varied between 60% and 230% since inception. Zenith believes this is an important measure for investors to understand as it is indicative of the actual leverage in a portfolio, which may amplify losses should Auscap fail to deliver added value from both its long and short components (i.e. gross leverage of greater than 100% magnifies the level of success and failure).

Zenith notes that the Fund's net equity exposure has ranged between 45% and 135% since inception. Relative to variable beta peers, Auscap has been more dynamic in adjusting exposures over shorter discrete periods, subject to the availability of investment opportunities or for risk management purposes.

While Zenith believes the Fund can be held as a standalone exposure to the Australian equities sector, to achieve a more diversified exposure to the asset class, the Fund should be blended with other style-neutral or growth-orientated Australian equities products. Zenith encourages investors of the Fund to adopt a medium to long-term investment timeframe of greater than seven years.

The Fund's portfolio turnover is expected to be between approximately 40% p.a. and 50% p.a., which Zenith considers to be moderate. Auscap 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 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

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

MARKET & ECONOMIC RISK: As is the case with all long-only Australian Share funds, the biggest risk to performance is a sustained downturn across the Australian share market. In addition, changes in economic, social, technological or political conditions, as well as market sentiment could also lead to negative fund performance. This risk can be significantly reduced by investors adhering to 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) styled approach to investing. Each style is conducive to certain market conditions. That is, growth should outperform value in an upward-trending market and vice versa in a downward-trending market. As with market risk, investors should adhere to the Fund's investment time frame to avoid short-term market movements and style impact.

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

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: Auscap is subject to a high level of key person risk. Zenith views Tim Carleton and Matthew Parker as critical to the success of the Fund, with the departure of either triggering an immediate review of the rating on the Fund. However, we acknowledge the material equity ownership of Carleton and Parker in Auscap which we believe mitigates the risk of a departure, at least in the medium-term.

BUSINESS RISK: Business risk is generally higher for boutique firms; however, as is the case with Auscap, it is reduced substantially once profitability is reached. The firm's level of funds under management (FUM) is approximately $A 286 million, as at 31 May 2021. Zenith highlights that there has been a material decline in FUM from a peak of approximately $A 637 million (as at 30 September 2018). Although Auscap maintains significant working capital, we note that business stability has diminished meaningfully. Zenith will continue to monitor business stability going forward.

CONCENTRATION RISK: The Fund holds a concentrated portfolio of stocks (typically 40 to 60 including shorts). Investors should be aware that this may result in higher levels of stock specific risk and as such, performance may deviate from the benchmark and peers.

CAPACITY RISK: Excessive levels of FUM can inhibit a manager's ability to trade portfolio positions effectively and may, therefore, limit outperformance potential. Whilst Zenith does not consider capacity to be a current issue, given strategy FUM of approximately $A 279 million, as at 31 May 2021, Zenith will continue to monitor this risk closely.

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 and 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 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. In November 2019, Auscap expanded its product suite by launching the Auscap Global Equities Fund.

Auscap is independently owned by its founders, with Tim Carleton and Matthew Parker holding 100% of Auscap's equity.

As at 31 May 2021, Auscap had approximately $A 286 million in firmwide funds under management (FUM). As at the same date, Auscap managed approximately $A 279 million in its Australian long/short strategy.

Zenith highlights that there has been a material decline in firmwide FUM from a peak of approximately $A 637 million (as at 30 September 2018). Although Auscap maintains significant working capital, we note that business stability has diminished meaningfully.

INVESTMENT PERSONNEL

Name	Title	Tenure
Tim Carleton	Portfolio Manager	8 Yr(s)
Matthew Parker	Portfolio Manager	8 Yr(s)

The investment team of four is led by Carleton and Parker, who collectively have over 39 years of industry experience. Prior to establishing Auscap, both Carleton and Parker worked at Goldman Sachs from 2008 to 2011 where they managed an Australian equities long/short portfolio using proprietary funds. Zenith views the portfolio managers' prior working relationship as a positive for the Fund.

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. Zenith believes Carleton and Parker have complementary skill sets and focus areas.

Investment support is provided by Gavin Rogers and William Mumford, with Auscap's investment team comprising four individuals. With over 25 years of investment experience, Rogers is based in Melbourne and predominantly acts as a sounding board for Carleton and Parker. Zenith notes that Rogers previously worked with Carleton and Parker at Goldman Sachs. Mumford provides analytical support for the portfolio managers, allowing Carleton and Parker to focus on the key investment issues.

Over the past three years, the investment team has experienced the departures of two analysts who were predominantly involved in the coverage of global stocks. Zenith believes it is important for the investment team to experience a period of consolidation.

Given Carleton and Parker are co-owners of the business, 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 have the requisite experience and expertise to successfully manage the Fund.

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 believes that markets are efficient over the long term, however, due to behavioural biases and the time required for information to be disseminated and fully analysed, inefficiencies can occur over the short 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, whilst seeking to identify stocks with attractive quality attributes. Zenith draws comfort from Auscap's discipline in applying its value style process through a range of market conditions.

SECURITY SELECTION

The Fund's investable universe includes 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
- Balance sheet strength (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 flows

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.

Specific to short-selling opportunities, Auscap seeks the following characteristics:

- Poor cash flows
- 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 an 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 bottom-up stock selection experience of the investment team.

PORTFOLIO CONSTRUCTION

Given the co-portfolio manager structure, Carleton and Parker are jointly responsible for portfolio construction. For a stock to be included in the Fund, a consensus is needed between Carleton and Parker.

The Fund is expected to retain a long bias over the longer term and is constructed through a benchmark unaware and bottom-up approach, which strongly leverages the stock selection process.

The Fund is will typically hold between 40 and 60 stocks, both long and short combined. Specifically, there will generally be 40 to 50 long positions and 0 to 10 short positions. Zenith highlights that during 2020, Auscap increased the number of long positions it is expected to hold (previously 20 to 30) and decreased the number of short positions it is expected to hold (previously 10 to 15).

Portfolio weights are determined based on the conviction of Auscap's investment thesis and stock liquidity. Long positions are typically initiated at weights between 0.5% and 8%, whilst short positions are typically initiated at weights between -0.2% and -2.5%.

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 an understanding of market forces and sentiment. Portfolio turnover is expected to range between 40% p.a. and 50% p.a., which Zenith considers to be moderate.

The Fund's long and short exposures are predominantly a function of the investment opportunity set. However, Auscap has highlighted that they may short futures to hedge the risk of the long portfolio. In addition, the Fund may hold cash (up to 100%) in the absence of compelling investment opportunities or for risk management purposes.

Zenith is confident in Auscap's portfolio construction approach and believes the portfolio managers are well placed to utilise the Fund's flexible investment mandate to meet its investment objectives.

RISK MANAGEMENT

Portfolio Constraints	Description
Number of Stocks - Long	40 to 50 (Soft limit)
Number of Stocks - Short	0 to 10 (Soft limit)
Net Exposure (%)	-150% to 150% (Typically 50% to 130%)
Gross Exposure (%)	max: 400%
Long Exposure (%)	max: 200% (Typically 90% to 140%)
Short Exposure (%)	max: 200% (Typically 20% to 40%)
Cash (%)	max: 100%

Portfolio Constraints	Description
ESG Constraints - Excluded Sectors	N/A

The Fund is managed within the above constraints. Whilst broad, Zenith believes these constraints 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 primarily driven by the investment opportunity set and subject to the above exposure constraints. Zenith believes the gross and net equity exposure constraints are appropriate given the strategy and objective.

Zenith notes that there are no industry, sector or market capitalisation exposure limits, which can potentially lead to high levels of concentration in certain sectors.

Given the asymmetric risk profile of short sold positions, Auscap manages these positions 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 taken in companies with market capitalisations of greater than $A 1 billion. Whilst the Fund's short exposure has typically ranged between 20% to 40% since inception, Zenith highlights that Auscap's use of short positions has been limited over the past twelve months.

Zenith is comfortable with Auscap's risk management process and in particular notes the 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.

Responsible Investment Approach

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

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

While the portfolio has no specific exclusions as outlined in the table above, Auscap incorporates ESG considerations into its research effort. The identification of ESG issues can be reflected in a company's quality assessment and/or valuation, which if deemed to be significant, can preclude the company from 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 Auscap'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**.

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 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

EY

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 receive prior approval and disclose all trade details 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 that 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% on outperformance of dual hurdles, the S&P/ASX All Ordinaries Accumulation Index and the RBA Cash Rate, subject to the recoupment of all prior underperformance. It is calculated and paid monthly.

Prior to 1 January 2021, the Fund's performance fee was paid on outperformance of the RBA Cash Rate. Zenith views the introduction of an equity benchmark for the performance fee in addition to the RBA Cash Rate positively, given the Fund is expected to maintain a substantially long equity bias.

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 2020).

There is also a buy/sell spread of 0.20% 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	1.54% p.a.	1.14% p.a.

	Description	
Performance Fee	15.375% on outperformance of dual hurdles, the S&P/ASX All Ordinaries Accumulation Index and the RBA Cash Rate	
	Buy Spread	Sell Spread
Buy / Sell Spread	0.20%	0.20%

PERFORMANCE ANALYSIS

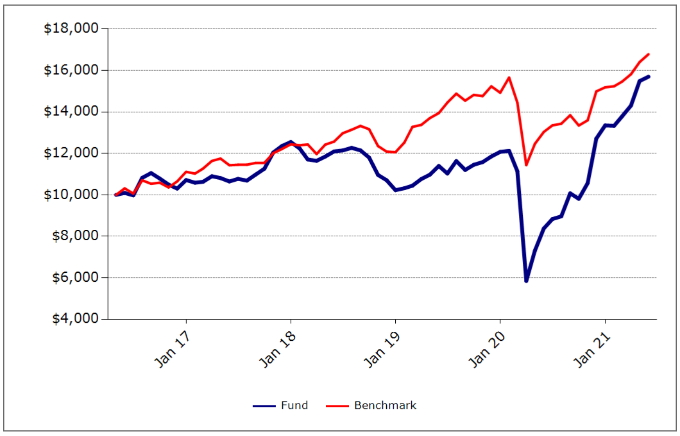
Report data: 31 May 2021, product inception: Dec 2012

Monthly Performance History (%, net of fees)

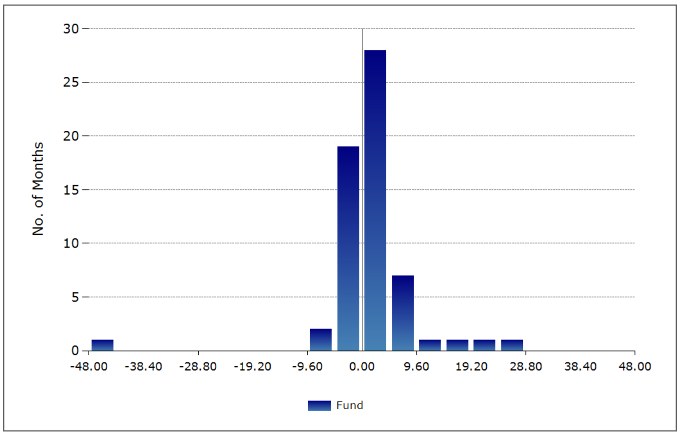
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BENCHMARK YTD
2021	-0.16	3.43	3.77	8.24	1.36								17.58	10.51
2020	0.42	-8.17	-47.44	24.96	14.63	5.41	1.48	12.38	-2.63	7.72	20.29	5.00	10.57	1.74
2019	0.92	1.19	3.08	1.96	3.82	-3.21	5.46	-3.70	2.24	1.13	2.32	1.89	18.06	23.78
2018	-2.50	-4.31	-0.56	1.75	2.11	0.39	1.02	-0.99	-2.85	-7.09	-2.33	-4.49	-18.51	-3.07
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

Benchmark: S&P/ASX 300 (Accum)

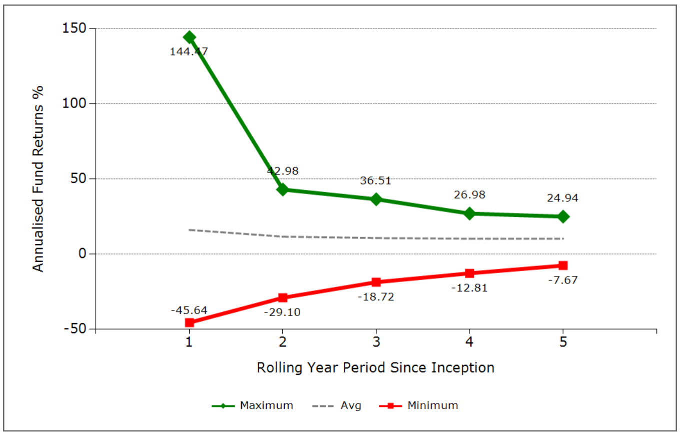
Growth of $10,000



Monthly Histogram



Minimum and Maximum Returns (% p.a.)



ABSOLUTE PERFORMANCE ANALYSIS

Return	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	17.22	9.23	9.08	87.27
Benchmark (% p.a.)	10.07	10.22	10.11	28.74
Median (% p.a.)	10.99	9.65	9.65	29.63
Ranking within Sector	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund Ranking	1 / 15	12 / 20	16 / 25	1 / 30
Quartile	1st	3rd	3rd	1st
Standard Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund (% p.a.)	23.65	29.21	36.74	20.43
Benchmark (% p.a.)	13.71	14.55	17.49	10.42
Median (% p.a.)	14.59	14.63	17.68	10.64
Downside Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund (% p.a.)	17.44	22.28	28.48	2.63
Benchmark (% p.a.)	9.77	10.92	13.67	3.59
Median (% p.a.)	9.70	10.82	13.34	3.58
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Sharpe Ratio - Fund	0.65	0.27	0.22	4.27
Sortino Ratio - Fund	0.88	0.35	0.28	33.10

All commentary is as at 31 May 2021.

The Fund aims to achieve absolute returns of 10% p.a. to 15% p.a. (before fees) over the long term.

Whilst the Fund has achieved its performance objective since inception, it has been unable to do so over the most recent three and five-year periods.

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

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	7.15	-0.99	-1.03	58.53
% Monthly Excess (All Mkts)	54.90	48.33	50.00	83.33
% Monthly Excess (Up Mkts)	50.72	51.16	57.69	81.82
% Monthly Excess (Down Mkts)	63.64	41.18	30.00	100.00
Beta Statistics	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Beta	1.31	1.75	1.89	1.78
R-Squared	0.58	0.76	0.81	0.83
Tracking Error (% p.a.)	15.94	18.02	22.36	11.79
Correlation	0.76	0.87	0.90	0.91
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Information Ratio	0.45	-0.06	-0.05	4.96

All commentary is as at 31 May 2021.

Zenith seeks to identify funds that 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 since inception.

Whilst the Fund has tended to produce greater outperformance consistency in declining markets, this has not continued over the most recent three and five-year periods.

The Fund has produced strong excess returns relative to the benchmark and the cash rate since inception.

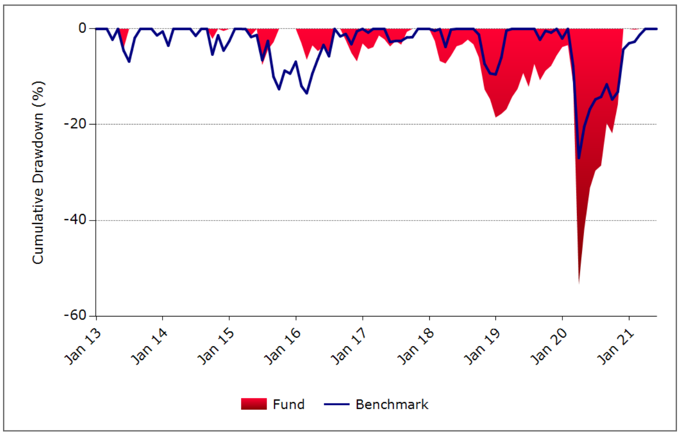
The Fund's Tracking Error has remained high, which is consistent with the Fund's absolute return and benchmark unaware mandate.

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 (%)	-53.37	-26.97
Months in Max Drawdown	27	2
Months to Recover	8	12

Worst Drawdowns	Fund	Benchmark
1	-53.37	-26.97
2	-7.55	-13.46
3	-6.77	-9.51
4	-6.44	-6.83
5	-4.05	-5.37



All commentary is as at 31 May 2021.

Whilst the Fund has historically demonstrated an ability to preserve capital during periods of market stress, Zenith notes this level of capital preservation has not been as prevalent when assessing the Fund's more recent performance. As such, Zenith remains disappointed with Auscap's inability to preserve capital in recent market conditions.

INCOME/GROWTH ANALYSIS

Income / Growth Returns	Income	Growth	Total
FY to 30 Jun 2020	10.75%	-30.65%	-19.90%
FY to 30 Jun 2019	3.79%	-12.96%	-9.17%
FY to 30 Jun 2018	1.74%	10.98%	12.72%
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. 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 between approximately 40% p.a. and 50% p.a., which Zenith considers to be moderate. Auscap 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 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: 17 Jun 2021

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

RATING HISTORY

As At	Rating*
17 Jun 2021	Recommended
9 Jun 2020	Recommended
12 Jun 2019	Recommended
14 Jun 2018	Recommended
31 May 2017	Recommended
21 Jun 2016	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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Full details regarding the methodology, ratings definitions and regulatory compliance are available at
www.zenithpartners.com.au/RegulatoryGuidelines

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This report refers to the Australian unit trust for the fund, and the fund and benchmark returns are all in AUD.

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