

# Product Assessment

## Smallco Broadcap Fund

Report data as at 31 May 2017  
Rating issued on 29 Jun 2017

### VIEWPOINT & RATING

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

Smallco is a Sydney based boutique fund manager established in 2000 by Rob Hopkins and Bill Ryan, which specialises in managing Australian equity strategies. As at 30 April 2017, Smallco managed approximately \$845 million firm wide. In response to the high level of FUM, Smallco has hard closed the Fund. Zenith has been aware of Smallco's intentions for capacity management over the past few years as its funds under management have grown. As a result, Zenith believes Smallco's decision to hard close the Fund is prudent. Given the strength of the investment team and process, Zenith believes that Smallco can continue to deliver upon its investment objectives.

The investment team of five is led by Hopkins. Hopkins is supported by four other portfolio managers, Ryan, Andrew Hokin, Craig Miller and Paul Graham. Hokin is the lead portfolio manager for the Fund and has sole authority over all investment decisions. All team members hold stock coverage responsibilities, with a number of key sectors allocated across the team. Outside of the key sectors, team members are given the freedom and flexibility to cover any stocks in any sector.

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

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

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

The portfolio construction process is primarily driven by the fundamental bottom-up 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 unnecessary risks within the process.

Zenith believes the Fund's fee structure is competitive in comparison to its peers. However, Zenith would prefer to see a performance fee hurdle in place, i.e. a target return above the index in addition to the management cost.

### FUND FACTS

- Concentrated portfolio holding between 20 and 30 securities
- Portfolio turnover expected to be approximately 100% p.a.
- Can hold up to 50% cash if viable investment opportunities cannot be identified

#### ABSOLUTE RISK (SECTOR)



#### RELATIVE RISK (FUND WITHIN SECTOR)



#### INCOME DISTRIBUTIONS PER



#### INVESTMENT TIMEFRAME



### APIR Code

ASC0003AU

### Asset / Sub-Asset Class

Australian Shares  
All Cap

### Investment Style

Growth

### Investment Objective

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

### Zenith Assigned Benchmark

S&P/ASX 300 (Accum)

### Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
Fund	22.54	11.42	7.53
Benchmark	11.70	6.04	10.80
Median	15.79	8.88	6.05

### Income (% p.a.)

	Income	Total
FY to 30 Jun 2016	3.70	9.30
FY to 30 Jun 2015	11.60	17.00
FY to 30 Jun 2014	10.62	27.20

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

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

## APPLICATIONS OF INVESTMENT

### SECTOR CHARACTERISTICS

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

Zenith benchmarks all strategies in this space against the S&P/ASX 300 Accumulation Index, believing it is a fair representation of the investment universe for the underlying managers. 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 2017, 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 36% of the index, and Materials approximately 16%. The split between Industrials and Resources stocks was approximately 80%/20%. The top 10 stocks represented approximately 46% of the weighting of the Index, and the top 20 stocks represented over 56% 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 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 1% of global equity markets (in terms of market capitalisation). Therefore, to mitigate this concentration risk it is highly recommended that investors diversify their investments across asset classes, both domestically and globally.

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

The Fund offers a unique opportunity to diversify a portfolio, given its concentrated nature and benchmark unaware approach. The Fund is expected to exhibit significantly different risk/return characteristics and less correlation to other traditional large cap managers throughout different stages in the investment cycle. Zenith therefore believes the Fund would blend well with large cap Australian equity funds, or funds that directly hold investments in the ASX top 20 stocks.

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

Portfolio turnover is expected to be approximately 100% p.a., which Zenith considers to be high. Investors should therefore be aware that a larger portion of the Fund's returns are likely to be delivered via short-term capital gains, which high tax paying investors will need to pay particular attention to. All things being equal, the Fund may be more appealing to investors who invest through tax-effective vehicles such as superannuation in order to maximise their after-tax returns.

## RISKS OF THE INVESTMENT

### SECTOR RISKS

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

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

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

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

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

**CAPACITY RISK:** High levels of funds under management (FUM) can present additional challenges to an Australian equity manager, as high FUM has the potential to hamper the

manager's ability to trade efficiently and/or be forced to disclose substantial shareholdings to the market (most common in smaller companies).

**FUND RISKS**

Zenith has identified the following key risks associated with the Fund; this is not intended to highlight all possible risks:

**CONCENTRATION RISK:** Zenith notes that the Fund is highly concentrated, holding between 20 and 30 securities. 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.

**KEY PERSON RISK:** Zenith views key person risk at Smallco to be moderate to high as per any boutique manager. Rob Hopkins, Bill Ryan and Andrew Hokin are critical members of the investment team and a departure would be a significant loss to the firm. Zenith acknowledges the material equity stake all three members maintain in the business and we believe that this mitigates the risk of a departure in the medium-term. In addition, Zenith notes that there have not been any departures from the firm since its inception. The departure of Hopkins, Ryan or Hokin would result in a review of the Fund's rating.

**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 30 April 2017, Smallco managed approximately \$845 million firm wide. In response to the high level of FUM, Smallco has hard closed the Fund. Zenith has been aware of Smallco's intentions for capacity management over the past few years as its funds under management have grown. As a result, Zenith believes Smallco's decision to hard close the Fund is prudent. Given the strength of the investment team and process, Zenith believes that Smallco can continue to deliver upon its investment objectives.

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

**QUALITATIVE DUE DILIGENCE**

**ORGANISATION**

Smallco Investment Manager Limited (Smallco) is a Sydney based boutique fund manager established in 2000 by Rob Hopkins and Bill Ryan, which specialises in managing Australian equity strategies. During 2014, Smallco extended equity ownership to Andrew Hokin and Craig Miller. Equity ownership in Smallco currently stands at: Hopkins (45.3%), Ryan (31.7%), Hokin (13%) and Miller (10%). Zenith notes that Paul Graham has a profit sharing agreement.

Smallco has engaged White Outsourcing to managed fund administration, whilst Gateway Financial Marketing is responsible for the provision of retail distribution services. Overall, Zenith believes the outsourcing of such responsibilities enables the investment team to concentrate on excess return

generation.

As at 30 April 2017, Smallco managed approximately \$845 million in FUM on a firm wide basis.

As at the same date, Smallco managed approximately \$220 million in the Fund all of which is in the strategy.

**INVESTMENT PERSONNEL**

Name	Title	Tenure
Rob Hopkins	Managing Director/ Portfolio Manager	17 Yr(s)
Bill Ryan	Executive Director / Portfolio Manager	17 Yr(s)
Andrew Hokin	Portfolio Manager	9 Yr(s)
Craig Miller	Portfolio Manager	12 Yr(s)
Paul Graham	Portfolio Manager	3 Yr(s)

The investment team consists of five investment professionals and is led by Portfolio Manager and Managing Director Rob Hopkins. Hopkins is supported by four other portfolio managers, Bill Ryan, Andrew Hokin, Craig Miller and Paul Graham.

Hopkins has over 30 years of industry experience. Prior to founding Smallco, Hopkins was the Head of Small Companies Research at Macquarie Equities, BT Alex Brown, ANZ Securities and Macintosh. Hopkins also held various roles at other sell-side firms. Ryan has over 20 years of industry experience. Prior to founding Smallco, Ryan worked together with Hopkins at ANZ Securities for a number of years.

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

Miller has over 10 years of industry experience and joined Smallco in June 2005. Prior to 2014, Miller was responsible for a significant portion of the firm's business management requirements, which included business development, client servicing and compliance. Since the firm's partnership with Gateway Financial Marketing, Miller has been able to increase his analytical responsibilities and overall contribution to the investment process. Graham joined Smallco in June 2014 and has over 20 years of industry experience. Prior to joining Smallco, Graham held senior positions at a number of prominent sell-side firms such as Nomura, Credit Suisse and Citigroup.

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

The team has remained stable, with no staff departures since the inception of the firm, which Zenith believes is evidence of strong team culture. Where applicable, each team member is entitled to a profit sharing arrangement that is commensurate

with their equity/shadow equity holding, providing them with a strong incentive to remain with the firm at least in the medium-term.

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

## INVESTMENT OBJECTIVE AND PHILOSOPHY

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

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

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

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

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

## SECURITY SELECTION

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

Smallco is generally cautious about investing in stocks with a market capitalisation of less than \$100 million, given their higher level of earnings forecast risk and that they often do not have well developed financial discipline and reporting.

Smallco will typically exclude or be underweight stocks from the resources sector, biotechnology sector and other structurally challenged industries as it believes their earnings are too difficult to forecast with sufficient accuracy.

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

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

Company visits and meeting with senior management form a

key part of the security selection process. The aim of the research process is to produce an internally generated target price that reflects the company's long-term intrinsic value. Target prices are compared against current market prices to determine a stock's level of attractiveness.

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

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

In order to aid in idea generation and to serve as a feedback loop, Smallco also utilises a top-down overlay where an assessment of the macro economy is made.

A quality rating system is utilised to prevent the portfolio from holding an excessive amount of lower quality stocks. Every stock considered by the investment team is assigned a numerical rating ranging from 0 to 10 based on its quality and cyclicity. The rationale behind the quality rating system, was the significant drawdown experienced by Smallco's flagship long/short Australian equities fund during the 2008-2009 period.

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

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

## PORTFOLIO CONSTRUCTION

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

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

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

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

Zenith is cognisant that Smallco is already at its stated capacity limit for securities outside the S&P/ASX 100. Zenith will continue to monitor Smallco's level of funds under management (FUM) in ex-S&P/ASX 100 stocks to ensure that increased FUM does not begin to drag on performance or compromise potential investment opportunities in the lower end of the market cap spectrum where we believe Smallco has a competitive advantage.

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, which is what Smallco assesses as the market average. In addition, Smallco employs a separate 25% limit on total exposure to companies rated 3 or less. Zenith believes the presence of the quality rating system promotes portfolio discipline and mitigates the risk of the portfolio being overly exposed to lower quality stocks.

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

The Fund typically holds between 20 and 30 securities with portfolio turnover expected to be approximately 100% p.a. The Fund can also hold a maximum of 50% in cash.

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

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

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

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

## RISK MANAGEMENT

Portfolio Constraints	Description
Security Numbers	20 to 30
Weight - Holding Rel. Portfolio (%)	max: 20% maximum 15% at time of purchase
Minimum GICS Sector Exposures	required to hold stocks across at least 4 GICS sectors
Securities under \$1 billion market cap (%)	max: 40%
Exposure to Illiquid Stocks (%)	max: 30%
Cash (%)	0% to 50%
Expected Portfolio Turnover (%)	100% p.a.

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

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

Smallco defines illiquid holdings as holdings in which they own greater than 75% of the securities average monthly market volume. Zenith believes that Smallco's assessment of stock liquidity is not as conservative as peers. Investors should be aware that during a significant market event the liquidity profile of the overall portfolio could be low, leading to potential capital impairment.

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

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

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

## INVESTMENT FEES

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

The Fund charges a management cost of 1.2% p.a. A performance fee of 15% is also payable on the net returns exceeding the S&P/ASX 300 Accumulation Index. The performance fee is subject to a non-resettable high water mark. The performance fee is calculated daily and paid semi-annually. For any fund that charges a performance fee, Zenith would prefer to see a performance fee hurdle in place, i.e. a target return above the index in addition to the management cost.

Given its stated objectives, Zenith believes the Fund's fee structure to be competitive relative to peers. In addition, we believe the fees paid over the past three years (ending 30 June 2016) are justified given the Fund's performance over the same period.

There is also a 0.45% buy/sell spread applicable to all applications and redemptions.

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

Fees Type	Fund	Sector Average (Wholesale Funds)
Management Cost	1.20% p.a.	1.14% p.a.
	Description	
Performance Fee	15% of the net outperformance over the S&P/ASX 300 Accum. Index subject to a high water mark	
	Buy Spread	Sell Spread
Buy / Sell Spread	0.45%	0.45%

**PERFORMANCE ANALYSIS**

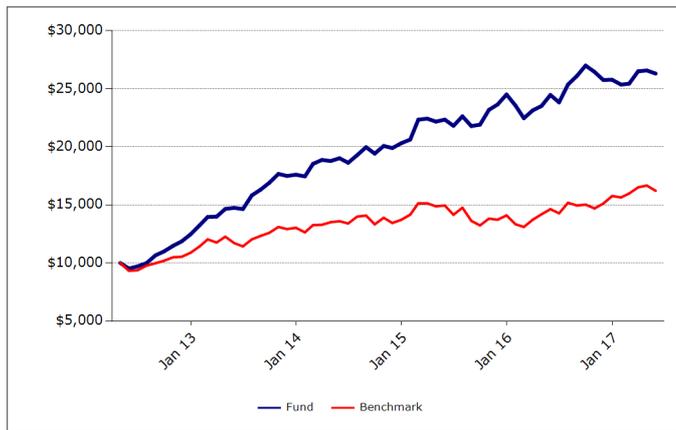
Report data: 31 May 2017, product inception: Aug 2008

**Monthly Performance History (% , net of fees)**

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BENCHMARK YTD
2017	-1.61	0.33	4.17	0.28	-1.01								2.08	2.85
2016	-3.89	-4.63	3.04	1.60	4.04	-2.60	6.45	2.92	3.41	-2.03	-2.61	0.05	5.17	11.80
2015	1.53	8.32	0.39	-1.15	0.77	-2.40	3.77	-3.73	0.57	5.83	1.99	3.63	20.64	2.79
2014	-0.81	6.17	1.84	-0.50	1.28	-2.04	3.48	3.58	-2.78	3.40	-0.91	2.10	15.42	5.30
2013	6.16	5.41	0.22	4.75	0.62	-0.70	8.04	3.18	3.62	4.44	-0.97	0.59	41.04	19.68

Benchmark: S&P/ASX 300 (Accum)

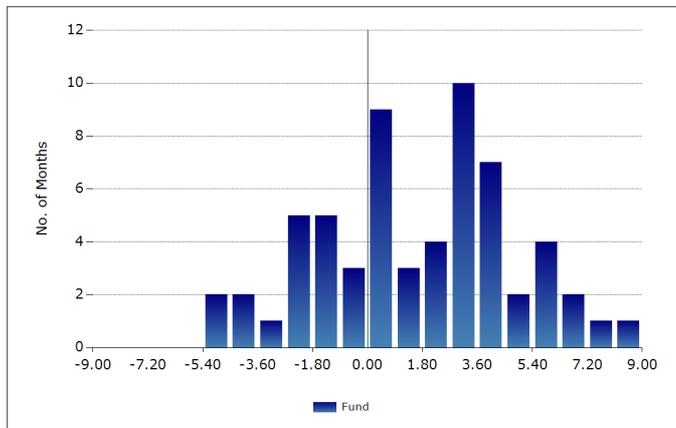
**Growth of \$10,000**



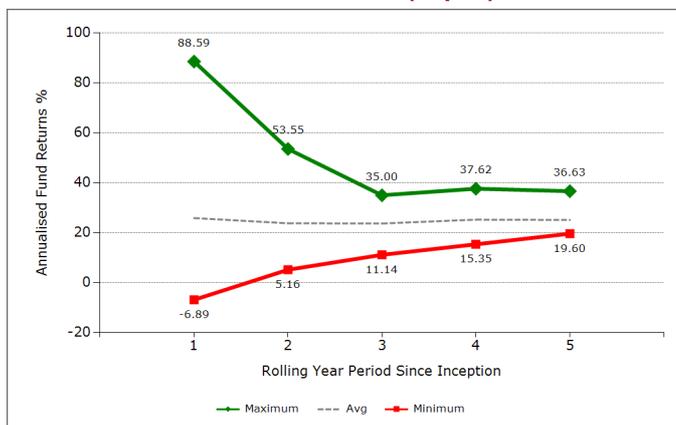
**ABSOLUTE PERFORMANCE ANALYSIS**

Return	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	19.04	22.54	11.42	7.53
Benchmark (% p.a.)	6.19	11.70	6.04	10.80
Median (% p.a.)	12.78	15.79	8.88	6.05
Ranking within Sector	Incpt.	5 yr	3 yr	1 yr
Fund Ranking	1 / 6	1 / 7	3 / 10	4 / 10
Quartile	1st	1st	1st	2nd
Standard Deviation	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	15.87	10.59	10.73	9.78
Benchmark (% p.a.)	14.01	11.43	12.34	9.77
Median (% p.a.)	10.61	9.76	10.76	9.64
Downside Deviation	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	8.36	3.85	4.63	3.63
Benchmark (% p.a.)	8.35	5.98	6.77	3.66
Median (% p.a.)	5.70	4.49	5.34	4.84
Risk/Return	Incpt.	5 yr	3 yr	1 yr
Sharpe Ratio - Fund	0.98	1.89	0.85	0.58
Sortino Ratio - Fund	1.86	5.19	1.98	1.57

**Monthly Histogram**



**Minimum and Maximum Returns (% p.a.)**



The commentary below is as at 31 May 2017.

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

The Fund has achieved its investment objective when assessed over the most recent three year rolling period. Zenith notes that the Fund has demonstrated material outperformance relative to the median manager over all periods of assessment except during the most recent twelve-month period.

Due to the Fund's concentrated nature and material exposure to small capitalisation stocks, it has exhibited higher levels of volatility (as measured by Standard Deviation) relative to the median manager over the longer-term.

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

## RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	12.84	10.84	5.37	-3.27
% Monthly Excess (All Mkts)	75.47	71.67	61.11	50.00
% Monthly Excess (Up Mkts)	74.60	66.67	50.00	42.86
% Monthly Excess (Down Mkts)	76.74	80.95	75.00	60.00
Beta Statistics	Incpt.	5 yr	3 yr	1 yr
Beta	1.00	0.74	0.69	0.56
R-Squared	0.78	0.64	0.63	0.31
Tracking Error (% p.a.)	7.37	6.97	7.55	9.16
Correlation	0.89	0.80	0.79	0.56
Risk/Return	Incpt.	5 yr	3 yr	1 yr
Information Ratio	1.74	1.56	0.71	-0.36

The commentary below is as at 31 May 2017.

Zenith seeks to identify funds that can outperform in over 50% of months in all market conditions, as we believe this represents consistency of manager skill. The Fund has achieved this outcome over all periods of assessment.

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

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

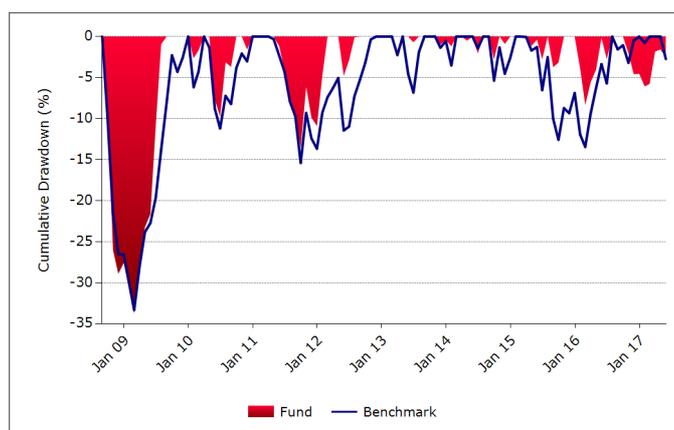
The Fund's Information Ratio has been impressive over the longer-term, indicating Smallco's ability to provide investors with solid, risk adjusted returns.

## DRAWDOWN ANALYSIS

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

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

Drawdown Analysis	Fund	Benchmark
Months to Recover	6	10
Worst Drawdowns	Fund	Benchmark
1	-33.75	-33.32
2	-13.53	-15.41
3	-9.75	-13.46
4	-8.34	-11.20
5	-6.08	-6.83



The commentary below is as at 31 May 2017.

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

## INCOME/GROWTH ANALYSIS

Income / Growth Returns	Income	Growth	Total
FY to 30 Jun 2016	3.70%	5.60%	9.30%
FY to 30 Jun 2015	11.60%	5.40%	17.00%
FY to 30 Jun 2014	10.62%	16.58%	27.20%
FY to 30 Jun 2013	3.02%	47.78%	50.80%
FY to 30 Jun 2012	3.17%	6.03%	9.20%

The Fund does not target specific income levels.

Where applicable, distributions are paid annually.

Portfolio turnover is expected to be approximately 100% p.a., which Zenith considers to be high. Investors should therefore be aware that a larger portion of the Fund's returns are likely to be delivered via short-term capital gains, which high tax paying investors will need to pay particular attention to. All things being equal, the Fund may be more appealing to investors who invest through tax-effective vehicles such as superannuation in order to maximise their after-tax returns.

## REPORT CERTIFICATION

Date of issue: 29 Jun 2017

Role	Analyst	Title
Author	Thushani De Silva	Investment Analyst
Sector Lead	Quan Nguyen	Senior Investment Analyst
Authoriser	Bronwen Moncrieff	Head of Research

## RATING HISTORY

As At	Rating
29 Jun 2017	Recommended
9 Jan 2017	Recommended
30 Jun 2016	Recommended
12 Jan 2016	Recommended
25 Jun 2015	Recommended
1 Jul 2014	Approved
4 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](http://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](http://www.zenithpartners.com.au/ResearchMethodology)

This report is subject to copyright and may not be reproduced 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](http://www.zenithpartners.com.au/RegulatoryGuidelines)

© 2017 Zenith Investment Partners. All rights reserved.

Zenith has charged Smallco Investment Manager a fee to produce this report.