Zenith Investment Partners

Highly Recommended
Recommended
Approved
Not Rated
Redeem

Product Assessment

Report data as at 31 May 2020
Rating issued on 25 Jun 2020

Cromwell Phoenix Property Securities Fund

VIEWPOINT

The Fund offers investors a benchmark unaware exposure to Australian listed property securities, including small-cap securities. The Fund is managed by the Melbourne-based boutique investment manager, Phoenix Portfolios (Phoenix). Despite recent performance lagging peers, Zenith's conviction in the Fund remains predicated on our high regard for the Portfolio Manager, Stuart Cartledge and the well-established investment process.

Melbourne-based Phoenix Portfolios is a boutique fund manager who invests across Australian Property Securities and small cap Australian equities. Phoenix is owned by investment team members Stuart Cartledge (45%) and Richard Fakhry (10%), and ASX-listed Cromwell Property Group (ASX:CMW) (Cromwell) (45%). Cromwell is a specialist property investment and funds management business, with $A 11.9 billion in real estate funds under management, as at 31 December 2019.

Portfolio management responsibilities for the Fund rests with Cartledge, who is supported by research analysts, Richard Fakhry and Jordan Lipson. Zenith continues to maintain conviction in Cartledge and the team owing to their extensive experience and investment skills.

The Fund employs a value styled investment philosophy with a long-term investment horizon. The team seeks to build a benchmark unaware portfolio, using bottom-up analysis to identify mispriced securities. Phoenix employs a Discount Dividend Model (DDM) as their primary valuation tool. The DDM is based on the team's cash flow forecasts, which are derived from the in-depth proprietary research. Sum Of The Parts (SOTP) is used as a secondary valuation metric, providing a cross check for the DDM.

Phoenix has a comparatively larger investment universe, which includes securities outside the benchmark, enabling the Fund to invest in smaller capitalisation stocks and securities with property characteristics which are categorised in other sectors such as infrastructure. However, the majority of the portfolio remains invested in A-REITs.

Zenith continues to regard the in-depth security selection process highly, and we believe the consistent use of two valuation methods adds rigour to the process, reducing the potential for analyst error. The resulting portfolio is expected to hold approximately 30 stocks, however Zenith notes that over the past few years, the portfolio stock number has been above this expected range. Portfolio turnover is estimated to be approximately 30% p.a. in normal market conditions.

Phoenix has limited its capacity for FUM by implementing soft closes to new investors at various points over the Fund's life, which enables the Fund to continue to actively invest in smaller capitalisation securities. Zenith believes the constrained level of FUM provides for greater outperformance potential and assists with mitigating the inhibiting factor that FUM can have on the ability to implement the portfolio effectively.

FUND FACTS

- Benchmark unaware strategy
- Value-orientated manager
- Capacity to invest outside the index

ABSOLUTE RISK (SECTOR)

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

RELATIVE RISK (FUND WITHIN SECTOR)

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

INCOME DISTRIBUTIONS PER

MONTH | QUARTER | 6 MONTH | ANNUM

INVESTMENT TIMEFRAME

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

APIR Code
CRM0008AU

Asset / Sub-Asset Class
Property
Australian Securities

Investment Style
Active

Investment Objective
The Fund aims to provide a total return (after management fees) in excess of the S&P/ASX 300 AREIT Accumulation Index while delivering lower total risk (as measured by volatility of returns) over the medium to long term.

Zenith Assigned Benchmark
S&P/ASX 300 AREIT

Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
Fund	3.67	-1.02	-18.63
Benchmark	4.13	1.17	-16.40
Median	3.46	0.23	-16.54

Income (% p.a.)

	Income	Total
FY to 30 Jun 2019	8.78	12.50
FY to 30 Jun 2018	8.25	12.01
FY to 30 Jun 2017	9.79	-0.53

Fees (% p.a., Incl. GST)
Management Cost: 0.97%
Performance Fee: N/A

APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

The Zenith "Property – Australian Securities" sector consists of all long-only funds investing in the listed Australian property market. The sector incorporates both benchmark aware and benchmark unaware strategies. In terms of fund managers, investment strategies and index constituents, the sector has contracted considerably following the global financial crisis.

To ensure consistency, Zenith benchmarks all funds in the sector against the S&P/ASX 300 A-REIT Index, which corresponds with the benchmark employed by many funds within this sector. The index is market-capitalisation weighted, resulting in companies with the largest market capitalisations receiving the heaviest weightings.

As at 30 April 2020, the listed Australian property market, as represented by the S&P/ASX 300 A-REIT Index, consists of 29 stocks and is highly concentrated. In terms of constituents, the top 10 stocks, by market capitalisation, represent 82% of the index. The largest constituents, Scentre Group and Goodman Group, represent approximately 34% of the index.

Typically, listed Australian property securities can be placed into the following categories:

- Industrial – investment in warehouses, factories, and industrial parks
- Office – investment in large to medium scale office buildings generally in and around major cities
- Retail – investment in shopping centres
- Diversified – investment in a mixture of Industrial, Office, Hotel and Retail
- Other – hotels, cinemas, healthcare, child care, retirement and storage.

Given the rental income focus of the listed Australian property sector, it is expected to display greater distribution consistency than the broader equities market. Despite this, it should be noted that several key stocks in the index derive material income from activities other than rents, such as property development and funds management. As such, these stocks can exhibit higher income volatility.

PORTFOLIO APPLICATIONS

In general, compared to most other asset classes, A-REITs offer investors the opportunity for higher income with some capital growth over the longer-term and diversification benefits. However, the total return expectation of A-REITs has historically been associated with higher volatility. Therefore, it's recommended that investors adopt a longer time frame when investing in A-REITs. As the A-REIT index is highly concentrated, Zenith recommends investors blend both domestic and global REIT exposures to increase diversification across sub-sectors, regions and economic drivers.

The Fund offers investors a diversified, benchmark unaware exposure to Australian listed property securities, including small cap securities.

The Fund's portfolio turnover is expected to be approximately 30% p.a., which Zenith considers to below low on an absolute basis. Cromwell did not provide information on the proportion of expected turnover attributed to the resizing of existing positions and that which is due to initiating and closing positions.

The Fund's returns are expected to come in the form of income and capital appreciation. Given the expected level of turnover, realised capital gains may be eligible for the capital gains discount.

Zenith believes the Fund may potentially be held as a stand-alone A-REIT exposure or as part of an investor's well-diversified portfolio.

RISKS OF THE INVESTMENT

SECTOR RISKS

Funds within the Zenith "Property – Australian Securities" sector are exposed to the following broad risks:

BUY/SELL SPREAD INCREASES: Global markets are experiencing significant volatility due to the COVID-19 situation. As a result, the cost of transacting has risen significantly. In addition, funds employing currency hedging have also been impacted with an increase in foreign exchange transaction costs. In response to this, many managers have been frequently adjusting the buy/sell spreads for many funds, often daily. In some cases, the adjustments have been material. Zenith encourages all advisers/investors to reconfirm the buy/sell spread on each fund prior to making any investment decision and prior to issuing trade instructions. As markets stabilise, Zenith expects spreads to revert to historical levels, however, this may take several months.

MARKET & ECONOMIC RISK: As is the case with all Australian property funds, a significant risk to performance is a sustained downturn in the domestic share market. In addition, changes in economic, social, technological or political conditions, as well as market sentiment could also lead to negative fund performance.

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 tenant.

LIQUIDITY RISK: This is the risk that a security or asset cannot be traded quickly enough in the market to prevent loss (or make the necessary profit). When trading volumes are low, sellers can significantly impact the price of a security when attempting to quickly exit a material position.

CONCENTRATION RISK: At a sector level, investors should be aware that the S&P/ASX 300 A-REIT Index is highly concentrated. For example, the top 10 holdings will typically represent over 80% of the Fund, and historically the largest sector exposures in the index are retail and office. Investors can minimise concentration risks by maintaining a diversified strategic asset allocation.

SECTOR RISK: There are a number of factors which may affect the real estate sector, which include the cyclical nature of real estate values, oversupply and increased competition, increases in property taxes and operating expenses, demographic trends and variations in rental income, changes in the appeal of properties to tenants, increases in interest rates, the level of gearing in the property market, and other real estate capital market influence.

GEARING RISK: Some companies may borrow funds to increase potential returns, a technique that can magnify both returns and losses.

INCOME RISK: Income levels may vary over time and investors should note that past distributions are not a guarantee of future distributions. Investors should also be aware that some funds have the capacity to distribute capital periodically.

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 all proposed changes to be implemented by 30 September 2020.

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: A significant level of key person risk exists at Phoenix Portfolios regarding Stuart Cartledge. If Cartledge were to depart, Zenith would view this as having a material impact on the Fund and warrant an immediate review of the Fund's rating.

PERFORMANCE RISK: Although the benchmark unaware, high conviction approach is an appealing feature of the Fund, it could lead to materially different performance from that of the Fund's assigned benchmark and peers. This may result in underperformance over certain periods.

SMALL CAP RISK: Zenith believes that Small cap A-REITs and property companies display lower levels of liquidity and potentially higher volatility when compared with larger, more liquid securities. Zenith notes the Fund has typically maintained a material exposure to securities at the lower end of the market capitalisation spectrum including non-benchmark stocks

CAPACITY RISK: Excessive levels of funds under management (FUM) can inhibit a manager's ability to trade portfolio positions effectively, and therefore limit outperformance potential. Phoenix has indicated a capacity limit of $A 550m. Phoenix currently has FUM of approximately $A 342 million, with $A 233 million managed in the Fund (as at 31 May 2020). Although Zenith does not believe the Fund is currently impacted by capacity limitations, we will continue to monitor Phoenix closely to ensure that excessive FUM does not impact the Fund's performance and ability to invest across the market capitalisation spectrum.

QUALITATIVE DUE DILIGENCE

ORGANISATION

The Fund is managed by the Melbourne-based boutique investment manager Phoenix Portfolios, which is owned by the investment team consisting of Stuart Cartledge and Richard Fakhry, and ASX-listed Cromwell Property Group. Equity in Phoenix is split 45% each to Cartledge and Cromwell, with Fakhry holding 10% in a non-voting class of shares. Voting rights are split evenly between Cartledge and Cromwell.

Cromwell is a direct property manager based out of Brisbane. Cromwell supports Phoenix with business functions such as compliance, accounting and finance. Phoenix also leverage from Cromwell's knowledge base with representatives from Cromwell forming part of the Investment Strategy Group.

Phoenix Portfolios was formed in 2006, with the launch of the Australian Listed Property product for individually managed accounts in the wholesale market being made available in September 2006. As at 31 May 2020, Phoenix had approximately $A 342 million in funds under management (FUM) across their strategies, with the majority being in A-REITs.

Phoenix has limited its capacity for FUM by implementing soft closes to new investors at various points over the Fund's life, which enables the Fund to continue to actively invest in smaller capitalisation securities. Zenith believes the constrained level of FUM provides for greater outperformance potential and assists with mitigating the inhibiting factor that FUM can have on the ability to implement the portfolio effectively.

As at the same date, Phoenix managed approximately $A 294 million in the strategy with $A 233 million in the Fund.

INVESTMENT PERSONNEL

Name	Title	Tenure
Stuart Cartledge	Portfolio Manager	14 Yr(s)
Richard Fakhry	Research Analyst	11 Yr(s)
Jordan Lipson	Research Analyst	4 Yr(s)

The Phoenix investment team is led by Managing Director and Portfolio Manager, Stuart Cartledge, who has over 25 years experience managing A-REIT portfolios. Previously, Cartledge held roles such as Head of Property Securities at Citigroup Asset Management. Zenith regards Cartledge highly owing to his extensive experience and investment knowledge.

Cartledge is supported in the research effort by research analysts, Richard Fakhry and Jordan Lipson. Prior to joining Phoenix, Fakhry held a number of roles at MLC and BlackRock and has specialised in A-REITs since 2006. Fakhry is also responsible for Phoenix's micro-cap strategy.

Lipson joined the team in March 2016 and was formerly a portfolio analyst at BT Investment Solutions. Since joining Phoenix, Zenith has witness his continued development as an analyst under the stewardship of Cartledge and Fakhry.

Cartledge, Fakhry and Lipson rotate stock coverage each reporting period to ensure all team members remain across all stocks. Zenith believes this is a prudent approach and ensures all members retain a contemporary knowledge of all stocks in the Fund's universe and facilitates a more robust stock analysis discussion.

Phoenix also employs an Investment Strategy Group (ISG), which consists of the personnel listed above, as well as Paul Weightman, Cromwell Property Group Chief Executive Officer (CEO). The ISG meet monthly to discuss relevant market issues, portfolio performance, positions and changes. While the ISG is not responsible for portfolio decisions, it acts as a forum for different perspectives to help develop market view. Zenith views the ISG as a positive feature; however, we would prefer to see a truly independent member included.

Currently the team are remunerated based on a fixed salary and performance-based bonus structure. In addition, Cartledge and Fakhry are further incentivised by their equity stakes in Phoenix. Zenith believes that Phoenix appropriately aligns the interests of the investment team with that of investors.

Overall, Zenith maintains conviction in the Phoenix investment team given the collective experience of Cartledge and Fakhry, their long-standing working relationship and investment acumen.

INVESTMENT OBJECTIVE, PHILOSOPHY AND PROCESS

The Fund aims to deliver a total return (after fees) in excess of the S&P / ASX 300 A-REIT Accumulation Index by 3%, with a lower level of risk, over a rolling three to five-year period.

Phoenix's investment philosophy is based on the belief that a benchmark unaware approach helps avoid the significant level of concentration risk associated with the AREIT sector.

The Fund employs a value-style investment approach with a long-term investment horizon. The team seeks to build a benchmark unaware portfolio, using bottom-up analysis to identify mispriced securities. This fundamental analysis is supported by the team's top-down macro assumptions, which helps to develop inputs such as the beta used in company valuation models. Overall, Zenith believes the team's philosophy is based on sound investment principles.

SECURITY SELECTION

The Fund has an investment universe of around 70 to 75 stocks. This relatively larger investment universe includes securities outside the benchmark, such as lower capitalisation stocks and securities with property characteristics that are categorised in other sectors such as infrastructure. However, the majority of the portfolio is invested in A-REIT securities. The team actively covers around 65 securities of their extended universe, with the remaining only partially covered.

The first stage of the process is the research effort, which entails the building and maintenance of detailed financial models, projecting the future cash flow generation of each security. In forecasting cash flows, the team takes into account both historic and anticipated company performance and industry conditions.

Information is gathered from a number of sources including annual reports, company presentations, management meetings, industry research, broker research and press articles.

When analysing the securities, the team makes a qualitative assessment on factors which they believe to have a material effect on their cash flow forecasts, which include:

- Portfolio characteristics: asset quality, location and leasing structure
- Management capability: track record, experience and turnover
- Financing structure; use of FX and hedging derivatives
- Other business activities such as development and funds management
- ESG: current outcomes, trend/change in outcomes and tail risks

Phoenix assumes that by forecast year six, all businesses are operating at mid-cycle. In an attempt to accurately assess securities at a mid-cycle level, the analysts focus on factors such as gearing, cost of debt, vacancy levels and maintenance capital expenditure, and make adjustments to reflect the analysts' view of sustainable and comparable levels.

Zenith regards the research effort in generating forecasts to be a thorough and disciplined process. Furthermore, Zenith believes the frequent stock rotation between analysts is important in ensuring all members maintain contemporary knowledge on the universe of stocks to ensure portfolio discussions remain robust.

The second stage of the security selection process is the building and maintenance of two valuation tools, Discounted Dividend Model (DDM) and a Sum Of The Parts (SOTP) for all actively covered securities.

Discounted Dividend Model

The team uses a three phase DDM, based on the cash flow forecasts from the research effort mentioned above.

Phase one - first six years: Dividends are entered directly from the analysts’ cash flow forecast model.

Phase two - next 12 years: Analyst assume the business is operating at a mid-cycle level, with a constant and sustainable dividend growth rate based on the cash flow forecast.

Phase three - beyond year 18: Terminal assumptions are used to discount all future earnings.

In determining the discount rate used in the DDM, the team uses the Capital Asset Pricing Model, which is calculated using the Australian ten-year bond yield as the risk-free rate and standardised methodology for the market risk premium and the individual security betas.

Sum Of The Parts

The SOTP calculation is used as a secondary valuation metric, to provide a cross check to the primary DDM. The SOTP calculation is based on the following components:

Trust Assets - valued on an adjustment to book value of investment property basis.

Corporation - EBITDA multiples are applied to the corporate earnings with forecasts on a divisional basis.

The SOTP is used for scenario testing, through the valuation impact of multiple adjustments, the team use this to identify potential downside risk.

Zenith continues to regard the in-depth security selection process highly, and we believe the consistent use of two valuation methods adds rigour to the process, reducing the potential for analyst error.

PORTFOLIO CONSTRUCTION

Phoenix employs a benchmark unaware approach to portfolio construction, with the portfolio skewed towards securities with the most attractive valuations.

The two main factors that Phoenix considers when determining portfolio positions are discount to valuation and market capitalisation. Position sizing is biased towards good value and large market capitalisation securities.

Based on the internal security valuation process, all covered securities are ranked according to their discount to valuation. The list of securities is then approximately divided into thirds, those that represent good value, medium value and poor value. The Fund never invests in securities that rank within the poor value section.

For stocks that are within the medium and good value range on the ranking list, Phoenix has soft individual security allocation limits, which are dependent on each security's capitalisation.

For securities that are within the medium value range, the Fund may invest up to:

- 10% in large capitalisation stocks (over $1 billion)
- 5% in medium size stocks (between $250 million and $1 billion)
- 2% in small capitalisation stocks (under $250 million)

For stocks that are within the good value range, the Fund will generally invest within the ranges of:

- 10% to 20% in large capitalisation stocks
- 5% to 10% in medium size stocks
- 1% to 5% in small capitalisation stocks

Phoenix also includes a range of other factors in the decision-making process, such as: portfolio and stock level risk; transaction costs; and corporate activity.

The resulting portfolio is expected to hold approximately 15 to 35 stocks, which has been revised upwards. Furthermore, Zenith notes that over the past few years the portfolio stock number has been above this expected range. Historically, the Fund has generated returns through smaller cap securities as this has traditionally been an area where the team have identified value. As such, Zenith will continue to monitor the Fund's stock numbers, as we prefer it to remain a true-to-label high conviction portfolio.

Phoenix’s sell discipline is based on a number of dynamic factors, such as:

- The appreciation of a security’s market price to valuation
- The emergence of a more attractive investment opportunity
- Risk constraints

The Fund has the capacity to invest in property related securities listed internationally. Phoenix has indicated that it does not research global REITs with a view of initiating a position, with the capacity in place more as a precaution.

Phoenix does not target a specific level of portfolio turnover. However, Phoenix expects the process to result in a low portfolio turnover. Zenith notes that historical turnover has been low in an absolute context (approximately 15% p.a. in the last five years).

Overall, Zenith believes the portfolio construction process is rigorous and leverages the portfolio managers significant experience.

RISK MANAGEMENT

Portfolio Constraints	Description
Cash (%)	max: 20%
Weight - Stock Rel. Portfolio (%)	max: 20%
Listed Property (%)	min: 50%
Security Numbers	15 to 35 (expected)
Excluded security	Cromwell Property Group
ESG Constraints - Excluded Sectors	N/A

Risk management at both the individual security and the overall portfolio level is an integral part of the investment process. As detailed above, the portfolio constraints provide a sound foundation, whilst retaining flexibility for the team's best ideas to be reflected in the portfolio. Given the benchmark unaware approach, the Fund has relatively less restrictions, which Zenith believes is logical, with Phoenix afforded a sufficient level of flexibility to construct the portfolio comprising their best ideas.

Phoenix is transparent in its belief that risk should be managed through diversification and not through the complete elimination of risk. Zenith notes this is explicitly considered through position sizing within a portfolio construction context.

At the individual security level, the team employs in-depth valuation techniques to ensure the Fund receives a sufficient discount to valuation. This discount is viewed as the margin for safety.

At the portfolio level, the Fund's allocation limits ensure the Fund remains diversified and avoids the concentration issues associated with the underlying index. Phoenix constantly monitors the portfolio for any unintended biases. The team applies a 'look through' analysis of the portfolio's: gearing level, sector exposure and regional earnings (including both onshore and offshore).

To ensure that potential trades are in line with risk constraints, pre-trade analysis is undertaken to determine total transaction costs including market impact and opportunity costs. To further ensure that the implementation of orders is executed in accordance with instructions, trades are monitored against the Volume Weighted Average Price (VWAP). In Zenith’s opinion, the pre- and post-trade review process enables Phoenix to obtain best execution and remain within its risk constraints.

To avoid the appearance of a conflict of interest, the Fund cannot invest in the listed securities of Cromwell Property Group.

Overall, Zenith believes that Phoenix has a comprehensive understanding of the risks associated with underlying investments. That said, the mitigation of these risks is largely reliant on the skill and judgement of Cartledge as portfolio manager.

Environmental, Social and Governance (ESG)

Phoenix believes that corporate governance is a key aspect in determining a security's intrinsic value. Specifically, Phoenix will assess a company's capital allocation history and decisions, reinvestment opportunities and alignment of interests with senior management.

Since Zenith's last review, the team implemented an assessment of social and environmental issues into the process. This involves Phoenix assessing environmental and social risks independently of each other, leading to an environmental and social rating which now compliment the governance score. Each of the scores are made up of three components which include current outcomes, trend/change in outcomes and tail risks, which are scored on a scale of one to five based on the accumulation of evidence. These three scores combine to create a Phoenix ESG rating for each firm under coverage, which are actively considered in the portfolio construction process.

Phoenix also takes an active approach to proxy ownership. This is done through a formal process such as proxy voting and also through company engagement where Phoenix believes that current practices are not in investors' best interests. Zenith believes Phoenix has a robust incorporation of corporate governance into the investment process. Furthermore, we believe that the recent developments with regards to incorporating environmental and social issues into the portfolio construction process are logical and brings them in line with the peer group.

INVESTMENT FEES

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

The Fund charges a management cost of 0.97% p.a., which includes an administration cost recovery capped at 0.15% p.a. and no performance fee.

The Fund also applies a buy/sell spread of 0.20% to all applications and redemptions.

Overall, Zenith believes the Fund's fee structure to be 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 2019).

(The fees mentioned in this report reflect 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	0.97% p.a.	1.03% p.a.
	Description	
Performance Fee	N/A	

	Buy Spread	Sell Spread
Buy / Sell Spread	0.20%	0.20%

PERFORMANCE ANALYSIS

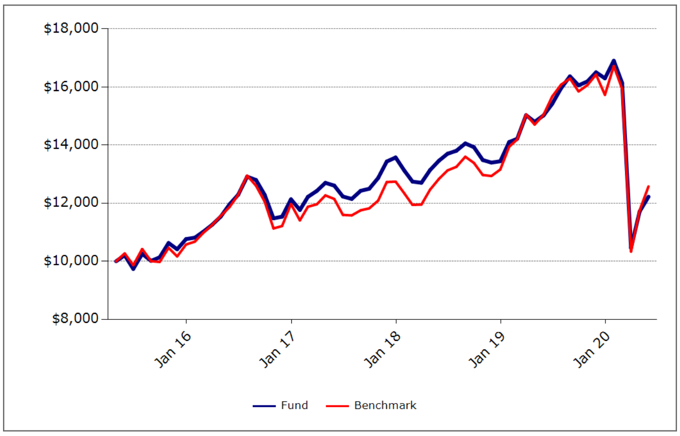
Report data: 31 May 2020, product inception: May 2008

Monthly Performance History (%, net of fees)

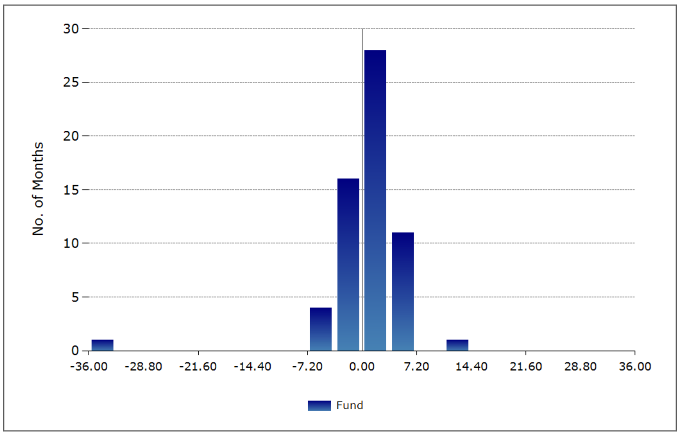
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BENCHMARK YTD
2020	3.72	-4.52	-35.19	11.98	4.35								-25.01	-20.05
2019	4.93	0.78	5.72	-1.52	1.50	2.64	3.49	2.58	-1.90	0.84	1.94	-1.26	21.24	19.55
2018	-3.39	-2.83	-0.30	3.44	2.45	1.78	0.76	1.83	-0.91	-3.19	-0.65	0.33	-0.96	3.26
2017	-3.02	3.83	1.66	2.25	-0.75	-2.99	-0.67	2.30	0.57	2.95	4.41	1.04	11.86	6.45
2016	0.46	1.88	2.17	2.50	3.69	2.75	5.05	-0.88	-3.96	-6.64	0.52	5.19	12.72	13.18

Benchmark: S&P/ASX 300 AREIT

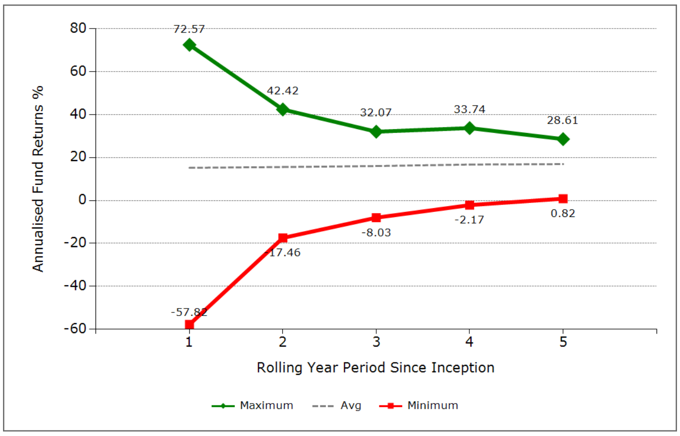
Growth of $10,000



Monthly Histogram



Minimum and Maximum Returns (% p.a.)



ABSOLUTE PERFORMANCE ANALYSIS

Return	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	6.38	3.67	-1.02	-18.63
Benchmark (% p.a.)	2.80	4.13	1.17	-16.40
Median (% p.a.)	2.79	3.46	0.23	-16.54
Ranking within Sector	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund Ranking	1 / 32	21 / 44	31 / 44	35 / 45
Quartile	1st	2nd	3rd	4th
Standard Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund (% p.a.)	19.41	19.47	23.32	38.21
Benchmark (% p.a.)	20.15	20.76	24.53	39.85
Median (% p.a.)	16.62	20.32	23.86	38.86
Downside Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund (% p.a.)	14.60	16.07	20.08	33.33
Benchmark (% p.a.)	14.92	16.34	20.20	33.18
Median (% p.a.)	11.80	15.92	19.82	32.85
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Sharpe Ratio - Fund	0.17	0.10	-0.11	-0.51
Sortino Ratio - Fund	0.22	0.12	-0.13	-0.59

Investors should note that for consistency purposes Zenith benchmarks all Australian listed property funds against the S&P / ASX 300 AREIT index. All performance, consistency and Risk/Return data is referenced to the Zenith assigned benchmark.

The following commentary is current as at 31 May 2020.

The Fund aims to deliver a total return (after fees) in excess of the S&P / ASX 300 AREIT Index over the medium to long term (3 to 5 years) with lower overall risk.

Disappointingly Fund has failed to outperform the Zenith assigned benchmark over a range of time periods. The Fund has also delivered mixed performance relative to the median manager placing it in the lower quartiles of the peer group.

Volatility, as measured by Standard Deviation, has been lower than the benchmark over all periods of assessment.

Investors should note that the Fund changed from a benchmark aware strategy to a benchmark unaware strategy in July 2009. The since inception performance figures are therefore less relevant.

Zenith regards the Fund's long-term performance history as impressive despite shorter term challenges.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	3.58	-0.46	-2.19	-2.23
% Monthly Excess (All Mkts)	53.79	38.33	36.11	41.67
% Monthly Excess (Up Mkts)	37.65	20.51	25.00	25.00
% Monthly Excess (Down Mkts)	76.67	71.43	58.33	75.00
Beta Statistics	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Beta	0.94	0.92	0.94	0.95
R-Squared	0.95	0.97	0.98	0.98
Tracking Error (% p.a.)	4.55	3.61	3.81	5.53
Correlation	0.97	0.99	0.99	0.99
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Information Ratio	0.79	-0.13	-0.58	-0.40

The following commentary is current as at 31 May 2020.

Zenith seeks to identify funds that can achieve an outperformance ratio above 50% of months in all market conditions as we believe this is representative of manager skill.

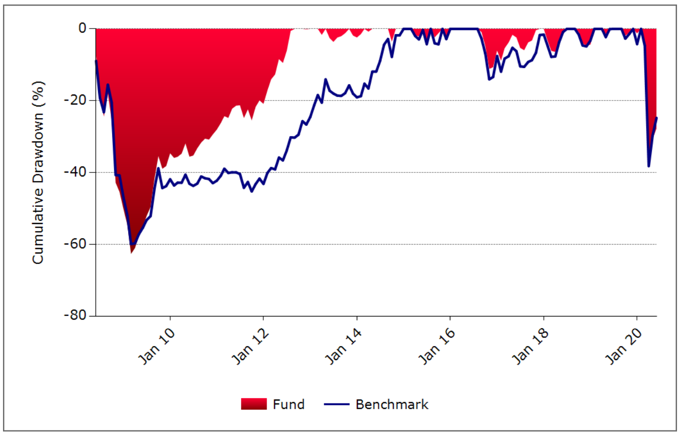
The Fund has struggled to achieve an outperformance ratio greater than 50% over all periods the short to medium term. The Fund has traditionally demonstrated materially stronger performance in down trending markets.

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 (%)	-62.68	-59.90
Months in Max Drawdown	10	10
Months to Recover	42	70

Worst Drawdowns	Fund	Benchmark
1	-62.68	-59.90
2	-38.12	-38.20
3	-11.13	-14.04
4	-6.41	-4.88
5	-4.69	-4.29



The following commentary is current as at 31 May 2020.

As noted in the drawdown chart above, the Fund's worst drawdown to date was 62% during the GFC, which is slightly greater than the benchmark. Post-GFC, the Fund has shown mixed drawdown outcomes when compared with that of the benchmark.

INCOME/GROWTH ANALYSIS

Income / Growth Returns	Income	Growth	Total
FY to 30 Jun 2019	8.78%	3.72%	12.50%
FY to 30 Jun 2018	8.25%	3.76%	12.01%
FY to 30 Jun 2017	9.79%	-10.32%	-0.53%
FY to 30 Jun 2016	8.90%	17.33%	26.23%
FY to 30 Jun 2015	5.65%	13.21%	18.86%
FY to 30 Jun 2014	6.12%	10.52%	16.64%
FY to 30 Jun 2013	7.90%	21.23%	29.13%
FY to 30 Jun 2012	6.15%	13.11%	19.26%

Given the nature of the sector, Zenith expects income to be a portion of the Fund's total return outcome. However, investors should note the Fund does not target a specific level of income.

Distributions will be paid quarterly where possible.

The Fund's portfolio turnover is expected to be approximately 30% p.a., which Zenith considers to be low on an absolute basis. Cromwell did not provide information on the proportion of expected turnover attributed to the resizing of existing positions and that which is due to initiating and closing positions.

The Fund's returns are expected to come in the form of income and capital appreciation. Given the expected level of turnover, realised capital gains may be eligible for the capital gains discount.

REPORT CERTIFICATION

Date of issue: 25 Jun 2020

Role	Analyst	Title
Author	Thomas Bernard	Associate Investment Analyst
Sector Lead	Dan Cave	Senior Investment Analyst
Authoriser	Bronwen Moncrieff	Head of Research

RATING HISTORY

As At	Rating
25 Jun 2020	Highly Recommended
28 Jun 2019	Highly Recommended
5 Jul 2018	Highly Recommended
17 Jul 2017	Highly Recommended
5 Jul 2016	Highly Recommended
7 Jul 2015	Highly Recommended

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

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