Zenith Investment Partners

Highly Recommended
Recommended
Approved
Not Rated
Redeem

Product Assessment

Cromwell Phoenix Property Securities Fund

Report data as at 31 May 2018
Rating issued on 05 Jul 2018

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	13.63	9.64	6.77
Benchmark	11.46	7.71	5.69
Median	11.04	7.51	4.86

Income (% p.a.)

	Income	Total
FY to 30 Jun 2017	9.79	-0.53
FY to 30 Jun 2016	8.90	26.23
FY to 30 Jun 2015	5.65	18.86

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

VIEWPOINT

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

Melbourne based Phoenix Portfolios is owned by the Phoenix team of Stuart Cartledge (45%) and Richard Fakhry (10%), and ASX-listed Cromwell Property Group (Cromwell) (45%). Cromwell is a manager of direct property funds based in Brisbane. Portfolio management responsibilities for the Fund rests with Cartledge, who is supported by research analyst Richard Fakhry. Zenith continues to maintain conviction in both Cartledge and Fakhry 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 mis-priced 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 lower capitalisation stocks and securities with property characteristics which are categorised in other sectors such as infrastructure. However, the majority of the portfolio is always invested in A-REITs. This increased investment universe and a significantly lower Funds Under Management (FUM) capacity limit for the strategy, provides the Fund with an enhanced return generation potential.

The resulting portfolio is expected to hold approximately 30 stocks. Zenith has observed a general trend of increasing stock counts in the portfolio over the past five years, (48 as at 31 December 2018). While there is an obvious correlation between the increase in stock numbers and funds under management, we believe Phoenix is seeking to ensure the Fund maintains an ability to generate returns through smaller cap stocks by soft closing the Fund. Portfolio turnover is expected to range between 30% p.a. to 60% p.a. in normal market conditions.

Zenith notes that in the past, Phoenix has been proactive in soft closing the Fund in response to excess capital flows. Zenith believes that this is a prudent measure and seeks to ensure the portfolio can be implemented in an effective manner to capture investment opportunities. While the Fund was re-opened to investment on 29 September 2017, investors should be aware that the Fund is close to capacity.

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** (selected) | 6 MONTH | ANNUM

INVESTMENT TIMEFRAME

1-2 YRS | 3-4 YRS | **5-6 YRS** (selected) | 7+ YRS

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 31 March 2018, the listed Australian property market, as represented by the S&P/ASX 300 A-REIT Index, consists of approximately 31 stocks and is highly concentrated. In terms of constituents, the top 10 stocks, by market capitalisation, represent over 85% of the index. The largest constituents, Scentre Group and Westfield Corp, represent over 30% of the index.

Typically, the 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, childcare, 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.

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. 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 equity based products. As the index is highly concentrated, it is highly recommended that investors diversify their investments across both domestic and global REITs to mitigate concentration risk.

The Fund offers investors a value-orientated, active exposure to the A-REIT sector, while also possessing the ability to invest outside of the benchmark in smaller capitalisation securities and those securities with property characteristics such as Infrastructure.

Zenith believes the Fund may potentially be held as a stand-alone A-REIT exposure for investors with higher risk tolerance within a diversified portfolio. Portfolio turnover is expected to range between 30% p.a. to 60% p.a. in normal market conditions, which Zenith considers to be relatively low when compared to rated peers. It is noted that since inception, annual turnover has been materially below this range, averaging approximately 3% p.a.

Zenith expects the Fund's return profile to consist primarily of long-term capital gains and some income.

RISKS OF THE INVESTMENT

SECTOR RISKS

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

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, with the top 10 holdings representing over 85% of the index as at 31 April 2018. The Westfield split has reduced the concentration slightly, although Scentre Group and Westfield Corp remain the largest stock exposures. 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.

CONCENTRATION RISK: At a sector level, investors should be aware that the S&P/ASX 300 A-REIT Index is highly concentrated, with the top 10 holdings representing approximately 86% of the index as at 31 May 2018.

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 warranting an immediate 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 therefore limit outperformance potential. Given the Fund's ability to invest in companies with lower capitalisation than many of its peers, capacity risk is a material factor. Pheonix managed approximately $A 670 million in the strategy as at 31 May 2018. Pheonix has indicated a capacity limit of 0.5% of the index, equating to approximately $A 673 million as at this date. Phoenix has periodically soft closed the Fund to restrict capital flows. While Zenith views this as prudent, we will continue to monitor the Fund closely to ensure capacity does not materially impact performance.

CONCENTRATION RISK: At a sector level, investors should be aware that the S&P/ASX 300 A-REIT Index is highly concentrated, with the top 10 holdings representing approximately 86% of the index as at 31 May 2018.

QUALITATIVE DUE DILIGENCE

ORGANISATION

The Fund is managed by the Melbourne boutique portfolio 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 2018, Phoenix had approximately $A 1.04 billion in funds under management (FUM) across their strategies, with the majority being in wholesale A-REIT mandates. Pleasingly, Phoenix is profitable at current levels of FUM.

As at the same date, Phoenix managed approximately $A 670 million in the strategy with $A 245 million in the Fund.

INVESTMENT PERSONNEL

Name	Title	Tenure
Stuart Cartledge	Portfolio Manager	12 Yr(s)
Richard Farhry	Analyst	9 Yr(s)
Jordan Lipson	Research Analyst	2 Yr(s)

The Phoenix investment team is led by Managing Director and Portfolio Manager, Stuart Cartledge, who has a wealth of 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 analyst, Richard Fakhry, whom Zenith also holds in high regard. Prior to joining Phoenix, Fakhry held a number of roles at MLC and BlackRock and has specialised in A-REITs since 2006. Cartledge and Fakhry rotate stock coverage each reporting period to ensure both team members remain across all stocks. Zenith believes this is a prudent approach and ensures both members retain a contemporary knowledge of all stocks in the Fund's universe and facilitates a more robust stock analysis discussion.

Fakhry is also responsible for Phoenix's micro-cap strategy. While Zenith believes there are cross-coverage benefits from Fakhry's additional responsibilities, we will continue to monitor the team closely to ensure this does not detract from the research for the A-REIT strategy.

Zenith believes under the leadership of Cartledge, Phoenix has successfully grown to a well established business and a specialist in the management of AREITs.

Currently the team are remunerated based on a fixed salary and performance based bonus structure. In 2012, Fakhry purchased equity (non-voting shares) within Phoenix. Zenith viewed this development as a positive, enhancing Fakhry's alignment of interests with the business and reducing the risk of a departure.

Research Analyst Jordan Lipson joined the team in March 2016 and was formerly a portfolio analyst at BT Investment Solutions. While Lipson is yet to accumulate material experience, Zenith views him favourably as a developing member of the team under the stewardship of Cartledge and Fakhry.

Phoenix also employs an Investment Strategy Group (ISG), which consists of the personnel listed above, as well as Paul Weightman, Cromwell Property Group 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 Cartledge and Fakhry's market view. Zenith views the ISG as a positive feature; however, we would prefer to see a truly independent member included.

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, with a lower level of risk, over a rolling 3 to 5 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 A-REIT sector.

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

Phoenix has limited its capacity for funds under management 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 potential for outperformance and assists with mitigating the inhibiting factor that FUM can have on the ability to implement the portfolio effectively. However, Zenith has noted an increase in the number of holdings, which correlates with an increase in FUM observed over time.

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 50 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, these factors 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

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 is important in ensuring all members maintain contemporary knowledge on the universe of stocks to ensure portfolio discussions remain robust.

Predicated on their value based philosophy, 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, with position sizing exhibiting an incremental bias 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 30 stocks, which has been revised up from 20 stocks previously. Furthermore, stock numbers have continued to rise, with the portfolio comprising approximately 48 stocks as at 31 December 2018. 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 maintains the capacity is in anticipation of a merger or acquisition of a current holding by an international firm, where Phoenix may prefer to remain invested. Zenith views Phoenix’s ability to be exposed to globally listed securities as a logical inclusion. However, we would view the Fund utilising this capacity outside of the stated intention unfavourably.

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 a peer relative context (approximately 12% p.a. in the last five years).

Phoenix executes trades via a number of brokers, with orders monitored for best execution price. The best performing brokers are rewarded with increased order-flow. In an attempt to further secure idea confidentiality, orders are not spread across brokers to minimise the potential information leakage. Zenith considers the Phoenix implementation process to be robust, ensuring the best execution of ideas.

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 30 (expected)
Sector Exposure	Holding across all property subsectors (expected).
Excluded security	Cromwell Property Group

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 portfoliio comprising Phoenix's 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.

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 0.82% p.a., with 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. However, we believe the fees paid over the past three years (ending 30 June 2017) are justified given the Fund's risk adjusted performance over the same period.

(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

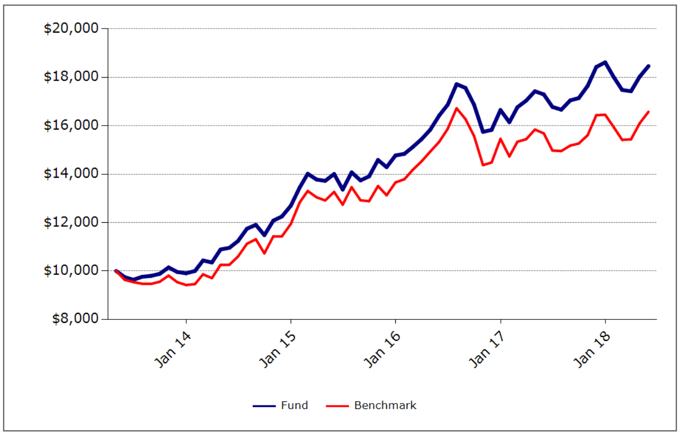
Report data: 31 May 2018, product inception: May 2008

Monthly Performance History (%, net of fees)

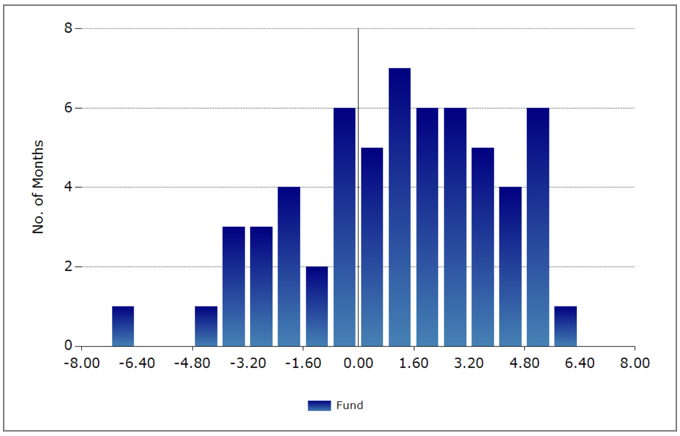
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BENCHMARK YTD
2018	-3.39	-2.82	-0.31	3.43	2.45								-0.83	0.74
2017	-3.02	3.83	1.66	2.24	-0.75	-2.98	-0.68	2.30	0.57	2.95	4.41	1.04	11.84	6.45
2016	0.45	1.89	2.17	2.49	3.69	2.75	5.04	-0.88	-3.96	-6.64	0.52	5.19	12.70	13.18
2015	5.94	4.23	-1.70	-0.40	2.08	-4.61	5.33	-2.36	1.21	4.87	-2.03	3.38	16.38	14.38
2014	0.96	4.33	-0.78	5.17	0.64	2.57	4.50	1.37	-3.56	5.22	1.42	3.60	28.15	26.79

Benchmark: S&P/ASX 300 AREIT

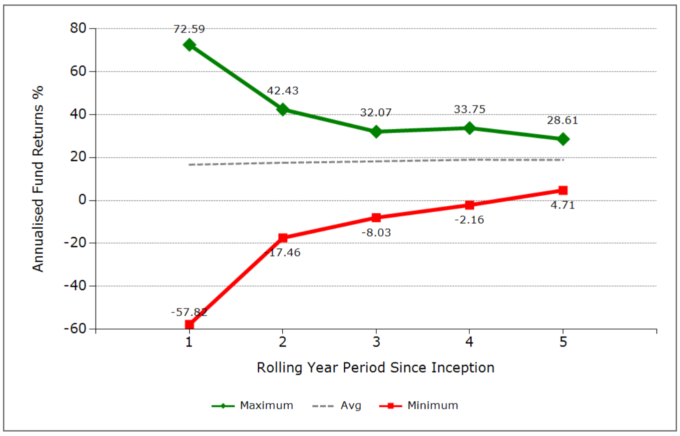
Growth of $10,000



Monthly Histogram



Minimum and Maximum Returns (% p.a.)



ABSOLUTE PERFORMANCE ANALYSIS

Return	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	8.72	13.63	9.64	6.77
Benchmark (% p.a.)	3.57	11.46	7.71	5.69
Median (% p.a.)	3.81	11.04	7.51	4.86
Ranking within Sector	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund Ranking	1 / 39	2 / 42	3 / 43	3 / 43
Quartile	1st	1st	1st	1st
Standard Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund (% p.a.)	17.21	9.91	10.56	8.81
Benchmark (% p.a.)	17.81	11.74	12.23	10.03
Median (% p.a.)	14.11	11.24	11.79	9.86
Downside Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund (% p.a.)	11.75	4.87	5.69	4.51
Benchmark (% p.a.)	12.20	5.96	6.80	5.54
Median (% p.a.)	9.52	5.76	6.69	5.37
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Sharpe Ratio - Fund	0.31	1.15	0.73	0.57
Sortino Ratio - Fund	0.45	2.34	1.35	1.11

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

The following commentary is current as at 31 May 2017.

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

Pleasingly, the Fund has demonstrated consistent performance on an absolute and peer relative basis over all assessed time periods. This has also placed the Fund in the first quartile of assessed managers over all terms. The outperformance has been more pronounced over the long term, which is reflected in the Fund's Sharpe ratio.

Volatility, as measured by Standard Deviation, has been lower than the benchmark and peers over three and five years.

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 performance history as impressive.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	5.15	2.17	1.94	1.08
% Monthly Excess (All Mkts)	58.68	50.00	44.44	50.00
% Monthly Excess (Up Mkts)	43.48	29.73	26.09	50.00
% Monthly Excess (Down Mkts)	78.85	82.61	76.92	50.00
Beta Statistics	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Beta	0.93	0.82	0.84	0.85
R-Squared	0.94	0.95	0.95	0.94
Tracking Error (% p.a.)	4.50	2.97	2.98	2.56
Correlation	0.97	0.98	0.98	0.97
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Information Ratio	1.14	0.73	0.65	0.42

The following commentary is current as at 31 May 2017.

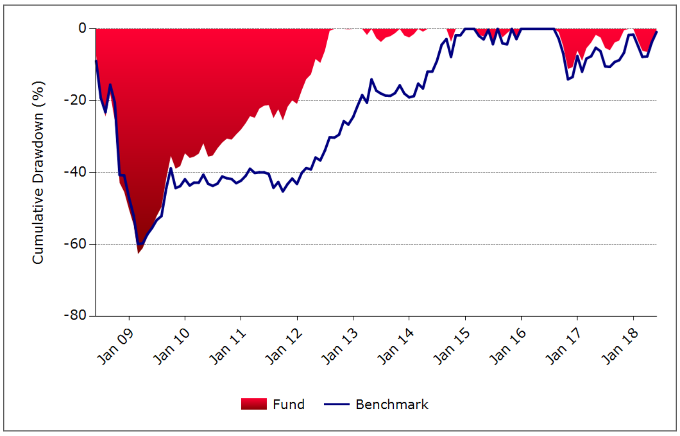
Zenith seeks to identify funds that can achieve an outperformance ratio above 50% of months in all market conditions as we believe this is representative of manager skill. The Fund has achieved an outperformance ratio greater than 50% over all periods except over three years. The Fund has traditionally 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	-11.12	-14.04
3	-6.42	-4.29
4	-4.66	-4.25
5	-3.63	-2.83



The following commentary is current as at 31 May 2017.

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. However, the Fund's recovery from this drawdown has been much steeper than that of the benchmark, which Zenith believes is reflective of the risks associated with the strategy.

INCOME/GROWTH ANALYSIS

Income / Growth Returns	Income	Growth	Total
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.

REPORT CERTIFICATION

Date of issue: 5 Jul 2018

Role	Analyst	Title
Author	Dugald Higgins	Head of Property & Listed Strategies
Sector Lead	Dugald Higgins	Head of Property & Listed Strategies

Authoriser	Bronwen Moncrieff	Head of Research

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RATING HISTORY

As At	Rating
5 Jul 2018	Highly Recommended
17 Jul 2017	Highly Recommended
5 Jul 2016	Highly Recommended
7 Jul 2015	Highly Recommended
16 May 2014	Highly Recommended
16 Jul 2013	Highly Recommended

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

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