Zenith INVESTMENT PARTNERS

HIGHLY RECOMMENDED

Product Assessment

Fairlight Global Small & Mid Cap (SMID) Fund

Report data as at 31 Oct 2021
Rating issued on 24 Nov 2021

APIR Code
PIM7802AU

Asset / Sub-Asset Class
International Shares
Small Companies

Investment Style
Neutral

Investment Objective
To outperform the MSCI World SMID Cap (Net) Index $A by 3% p.a. after fees, with lower volatility than the benchmark, over rolling five to seven-year periods.

Zenith Assigned Benchmark
MSCI World ex Aust Small Cap $A

Net Returns (% p.a.)

	2 yrs	1 yr	6 mth
Fund	20.13	32.34	13.21
Benchmark	15.42	36.05	6.04
Median	17.45	35.67	6.74

Income (% p.a.)

	Income	Total
FY to 30 Jun 2021	2.05	32.46
FY to 30 Jun 2020	0.00	6.78

Fees (% p.a., Incl. GST)
Management Cost: 1.30%
Performance Fee: 15% of the excess returns (after management costs) over the MSCI World SMID Index

VIEWPOINT

The Fund, managed by Sydney-based Fairlight Asset Management (Fairlight), offers investors a fundamentally driven, benchmark unaware, smaller companies international equities exposure. Although the strategy has a limited history, Zenith has a high degree of confidence in Fairlight's investment process. Furthermore, we have strong conviction in the portfolio managers, believing that they possess the required expertise to successfully manage the Fund. As a result, the Fund is one of Zenith's preferred choices within its peer group.

Fairlight was founded in November 2017 as a separate account specialist providing services to independent financial advisors, later establishing itself as an independent mid and small company international equity boutique in September 2018. The Fund is distributed by Perennial Partners (PP), a specialist investment management company formed in 2000. Zenith views Fairlight's partnership with PP favourably, as it allows the investment team to focus on research and portfolio management.

Fairlight's investment team of four is led by Nick Cregan, who has over 18 years of investment experience. Before establishing Fairlight, Cregan held portfolio management roles at Evans and Partners and Schroders Investment Management. Supporting Cregan in the management of the Fund is Ian Carmichael, who has over 13 years of investment experience. Before joining Fairlight in October 2018, Carmichael was a portfolio manager at Watermark Funds Management and Platinum Asset Management. Zenith believes that Cregan and Carmichael are both strong investors and capable portfolio managers with complementary skill sets. In addition, we believe the analysts provide solid support for the portfolio managers.

Fairlight invests in companies that can be characterised as high-quality growth, stable compounders, and low-risk turnarounds/special situations. Zenith believes the differentiated characteristics of the investment categories diversifies the Fund, ensuring a more consistent risk/return profile.

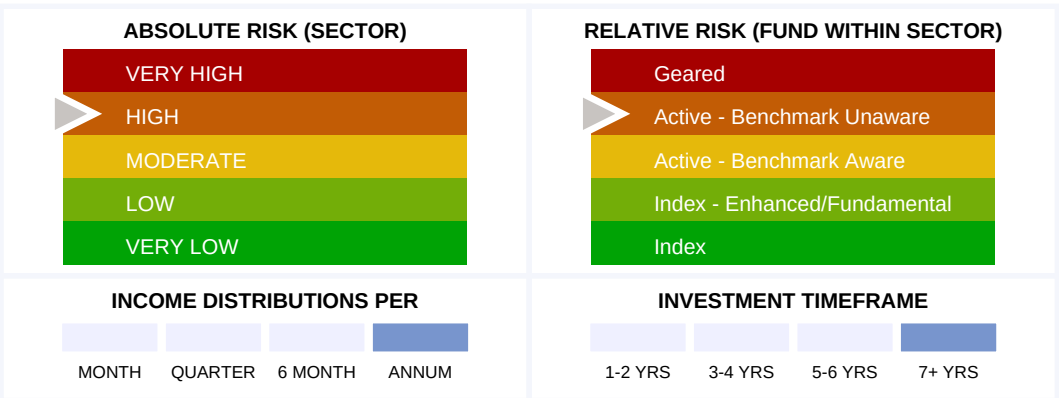
Fairlight employs several quantitative and qualitative screens that narrow the investment universe down to approximately 200 companies broadly operating within the consumer and media, light industrials, niche technology, and healthcare sectors. Zenith believes the quantitative screens effectively focus the investment team's research effort.

Fairlight's due diligence process involves extensive company and industry engagement, often meeting with company management and relevant stakeholders. To value companies, Fairlight's primary valuation technique is a discounted net operating profit less adjusted tax model. Overall, Zenith believes Fairlight's stock selection process is structured in a manner that allows the team to efficiently identify compelling investment opportunities.

Cregan and Carmichael are responsible for portfolio construction, with Cregan holding ultimate decision-making authority. Position sizing is a function of business risk and valuation at the stock level. However, overall portfolio risks are also considered. Zenith believes that the portfolio construction process draws strongly upon the research insights generated by the investment team, resulting in Fairlight's best ideas being reflected in the Fund. Notwithstanding this, the Fund operates within relatively wide constraints, which Zenith believes requires significant reliance on management judgement and skill.

FUND FACTS

- Expected to hold between 30 and 40 companies
- Biased to industrial and technology securities
- Expected portfolio turnover of approximately 40% p.a.
- Zenith has assigned the Fund a Responsible Investment Classification of **Aware**



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APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

International equities offer Australian investors the ability to access a broader opportunity set, with the potential to invest in sectors not represented or not well represented in the Australian market. Given international markets are not perfectly correlated with the Australian market, international equities also affords portfolio diversification benefits.

The Zenith “International Shares – Small Companies” sector consists of long-only funds that invest in global equity markets. The sector incorporates both benchmark aware and benchmark unaware strategies that focus predominantly on international small capitalisation stocks.

Zenith benchmarks all funds in this sector against the MSCI World ex-Australia Small Cap Index. The index is market-capitalisation weighted, resulting in those companies with the largest market capitalisations receiving the largest weightings. The index consists of over 4,250 securities listed in 22 developed markets (Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States) with the United States currently representing approximately 61% of the index, with Japan and the United Kingdom being the next largest constituents, representing approximately 11% and 7% respectively. The index excludes emerging and frontier markets, however many managers retain the mandate flexibility to invest in emerging markets.

The global small cap market, as represented by the MSCI World ex-Australia Small Cap Index, is far more diverse, in terms of sector exposures, than the Australian market. Many sectors not well represented in the Australian market, such as industrials and information technology, are well represented in the global small cap index, with weightings of approximately 19% and 13%, respectively. Despite the market capitalisation weighting methodology, the top 10 index stocks represent approximately 2% of the weighting of the index, reflecting the larger and less top heavy nature of the universe.

The Unhedged classification indicates that funds in this universe are currency unhedged, resulting in their returns being broadly affected by fluctuations in the Australian Dollar (AUD) versus other global currencies. Returns of unhedged funds are positively impacted by a depreciating AUD, whilst an appreciating AUD will negatively impact returns.

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. International equities provide investors with a broad exposure to industries and countries. With such a broad universe, it is expected that managers can deliver superior returns to Australian equities and more conservative asset classes. However, the expectation of greater returns comes with increased volatility, especially when currency movements are considered. Therefore, it is recommended that investors adopt a longer time frame when investing in international equities. It is also recommended that investments in international equities are blended with domestic equities and other non-correlated asset classes such as fixed income to diversify the impact of a downturn in the global economy.

Fairlight's style-neutral investment process means that the Fund should be well suited to delivering outperformance throughout the market cycle. However, Zenith acknowledges that the investment process may lag in momentum-driven bull markets based on Fairlight's quality bias. Given the risks inherent in global small companies, investors are encouraged to adopt a long-term investment time horizon of at least seven years.

The Fund’s portfolio turnover is expected to be approximately 40% p.a., which Zenith considers to be low. Fairlight has indicated that approximately 50% of the expected turnover is attributed to resizing existing positions and approximately 50% is due to complete sales and new additions. Given this expected level of turnover, the majority of the Fund's returns are expected to be delivered via capital appreciation in the unit price, rather than through the realisation of capital gains in income distributions. In addition, realised capital gains are highly likely to be eligible for the capital gains tax discount. As such, holding all else equal, the Fund may be more appealing to investors who are high marginal tax rate payers as it will result in superior after-tax return outcomes.

RISKS OF THE INVESTMENT

SECTOR RISKS

The broad risks of investing in global equities include:

MARKET DOWNTURN: The biggest risk for all global equities based products is a significant downturn across global equities markets, which could lead to periods of negative performance. This risk can be significantly reduced by investors adopting a medium to long-term investment time frame.

AUSTRALIAN DOLLAR (AUD) CURRENCY RISK: The AUD has historically experienced declines during weaker market environments, and appreciation in market upturns. For funds that maintain an unhedged currency exposure, an appreciating AUD is likely to have a negative impact on a fund’s total return. Conversely, an unhedged fund is likely to benefit relative to hedged global equities funds in periods where the AUD depreciates. Zenith believes that over the long-term, the currency impact on performance will be minimal and therefore does not advocate retail investors making active currency decisions based on near-term currency predictions. For investors who are concerned about the short-term risks associated with taking fully unhedged or hedged currency positions, Zenith suggests blending hedged and unhedged global equity exposures to reduce short-term volatility.

REGULATORY RISK: The ASIC Regulatory Guide 97 ‘Disclosing Fees and Costs in Product Disclosure Statements and Periodic Statements' came into effect on 1 October 2017 and seeks to establish a common framework for disclosing fees with respect to registered managed investment schemes issued to retail investors.

In November 2019, ASIC released its final recommendations, with proposed changes to be phased in from 30 September 2020, with all Funds required to be compliant by 30 September

2022.

In its current form, RG97 will not impact the actual costs (or after fee returns) on existing investments. Rather, the guide is focused on providing increased transparency with respect to the costs of management. Given this, it is feasible that under RG97, investors become more sensitive to the costs charged and seek lower cost alternatives, potentially leading to fund outflows.

FUND RISKS

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

KEY PERSON RISK: Zenith would consider the departure of either Nick Cregan or Ian Carmichael as detrimental to the Fund, triggering an immediate review of its rating. Notwithstanding this, Zenith believes that this risk is mitigated through Fairlight's co-portfolio manager structure and collegiate decision-making process, which minimises the reliance on a single investment professional. In addition, Cregan and Carmichael's equity ownership in the business mitigates the risk of their departure over the medium term.

RELATIVE PERFORMANCE RISK: Zenith notes that the Fund is a benchmark unaware and concentrated portfolio, typically holding between 30 and 40 securities. Zenith believes that concentrated portfolios generally have greater 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. In addition, given that the Fund follows a benchmark unaware investment approach, its performance may diverge substantially from the benchmark and peers.

CAPACITY RISK: Excessive levels of funds under management can inhibit a manager's ability to trade portfolio positions effectively, limiting outperformance potential. As at 31 October 2021, Fairlight managed approximately $A 641 million within this strategy. Fairlight has a stated capacity target for the strategy of between $US 4 billion to $US 6 billion. Overall, Zenith does not believe the Fund is currently affected by capacity limitations.

QUALITATIVE DUE DILIGENCE

ORGANISATION

Based in Sydney, Fairlight Asset Management (Fairlight) was founded in November 2017 as a separate account specialist providing services to independent financial advisors, later establishing itself as an independent mid and small company international equity boutique in September 2018. As at 31 October 2021, Fairlight had approximately $A 641 million in funds under management (FUM), a level at which the business is comfortably profitable.

Fairlight is structured as a joint venture between Fairlight employees and Perennial Partners (PP), a specialist investment management company formed in 2000. With respect to Fairlight's 50% interest, all members of the investment team hold equity with Nick Cregan and Ian Carmichael as substantial equity holders.

As part of the Fairlight/PP partnership, PP provides Fairlight with a range of services including marketing, distribution and the provision of various middle and back-office functions. PP has also provided financial support used to supplement working capital requirements. Zenith views Fairlight's partnership with PP favourably, as it allows the investment team to focus on research and portfolio management.

As at 31 October 2021, Fairlight managed approximately $A 641 million in the strategy, approximately $A 440 million of which was invested in the Fund.

INVESTMENT PERSONNEL

Name	Title	Tenure
Nick Cregan	Portfolio Manager	4 Yr(s)
Ian Carmichael	Portfolio Manager	3 Yr(s)

Fairlight's investment team of four is led by Nick Cregan, who has over 18 years of investment experience. Before establishing Fairlight, Cregan spent two years at Evans and Partners as a co-portfolio manager of the International Fund. Prior to Evans and Partners, Cregan worked at Schroders Investment Management for eight years, holding portfolio management and analyst roles covering global and Australian mid, small and micro cap equities.

Supporting Cregan in the management of the Fund is Ian Carmichael, who has over 13 years of investment experience. Before joining Fairlight in October 2018, Carmichael was a portfolio manager at Watermark Funds Management, a long/short boutique fund manager, responsible for the consumer sector. Prior to that, he was a portfolio manager/analyst at Platinum Asset Management, where he was responsible for a $A 100 million portfolio.

Zenith believes that Cregan and Carmichael are both strong investors and capable portfolio managers with complementary skill sets. In addition, we believe they have formed a solid partnership.

Cregan and Carmichael are further supported by analysts Will Dowd and Alvise Peggion. Zenith notes that Dowd previously worked with Cregan at Evans and Partners, which we believe to be beneficial for team cohesion and culture. Zenith has continued to gain further conviction in Dowd and Peggion's ability to provide robust support to the portfolio managers.

Each member of the team has generalist responsibilities. However, analysts will tend to gravitate towards specific areas that draw upon their previous experience and expertise. Zenith believes the generalist research structure allows for greater cross-pollination of ideas and career development for analysts.

Although the team is relatively small by industry standards, Zenith notes that Fairlight's investment process is calibrated to the team's size. That is, there is a high level of screening involved to effectively focus the team's limited resources.

All investment team members have an equity stake in the business. Zenith believes this facilitates alignment and is a strong staff retention mechanism.

Overall, Zenith believes the investment team is sufficiently resourced to provide high levels of analytical research.

INVESTMENT OBJECTIVE, PHILOSOPHY AND PROCESS

The Fund aims to outperform the MSCI World SMID Cap (Net) Index $A by 3% p.a. (after fees), with lower volatility than the benchmark, over rolling five- to seven-year periods. In absolute terms, Fairlight believes this translates to a return of approximately 10% p.a. to 12% p.a. after fees.

Fairlight aims to achieve its investment objectives through a concentrated and benchmark unaware portfolio of high-quality mid and smaller companies that are attractively valued.

Fairlight invests in companies that can be characterised as:

- *High quality growth* - companies that can generate sustained excess earnings growth. Typically, companies that require little capital or companies that can deploy capital at rates that are highly accretive to growth.
- *Stable compounders* - companies that generate modest revenue growth, stable cashflows and the potential for margin expansion.
- *Low risk turnarounds and special situations* - quality companies that are facing short-term difficulties or investment opportunities that arise from corporate actions.

Zenith believes the differentiated characteristics of the investment categories diversify the Fund, ensuring a more consistent risk/return profile.

SECURITY SELECTION

The Fund's investment universe consists of all developed market stocks. However, Fairlight will typically focus on companies with a market capitalisation consistent with MSCI's definition of international mid and smaller companies, which, as of 31 October 2021, ranged from $US 500 million to $US 34 billion.

To reduce the investment universe to a more manageable size, Fairlight employs several quantitative screens that exclude sectors/companies that exhibit the following:

- Low return on invested capital
- Cyclically dependent
- Controversial environmental, social and governance (ESG) characteristics
- Single failure points/binary outcomes
- Return on invested capital less than 15% p.a. over five years
- Earnings growth less than 4% p.a. over five years
- Net debt to earnings before interest, tax, depreciation and amortisation greater than 4.5 times
- Shares on issue growth greater than 3% over five years

The screens narrow the investment universe down to approximately 200 companies, which are typically in the following sectors:

- Consumer and media
- Light industrials
- Niche technology
- Healthcare

Additionally, Fairlight has developed screens for special situations such as initial public offerings and spinoffs to capture opportunities where a supply/demand arbitrage may exist. The output of these quantitative screens is earmarked for further research. Zenith believes the quantitative screens effectively focus the investment team's research effort.

Fairlight will also identifies investment opportunities from qualitative sources such as existing ideas, industry networks and prior experience. Companies with management teams that Fairlight believes have a poor track record of capital allocation are removed.

Companies that pass the quantitative and qualitative screens are subject to an initial due diligence process that involves a two-day research effort and an automated valuation model. Initial due diligence is discussed during investment team meetings, whereby ideas are either discarded or put forward for further research.

For companies that are subject to further research, Fairlight assesses the following key drivers:

- Industry quality
- Business quality
- Durability
- Financial leverage
- Organisational risks
- ESG

Each factor has three underlying drivers that are scored between -1 and 1, except for organisational risks, which is scored between -1 and 0. These scores are used as inputs for the valuation models.

As part of the due diligence process, Fairlight meets with company management and stakeholders, conducting multiple trips abroad throughout the year with no reliance on external parties.

Fairlight's primary valuation technique is a discounted net operating profit less adjusted tax model that is forecast five years forward before a terminal multiple is applied. A normalised price-to-earnings ratio that is adjusted based on qualitative risk factors is also used to supplement company valuations. Stock liquidity is an input in the valuation models, with less liquid companies discounted accordingly.

A detailed research note is produced, with its output discussed in a formal team meeting. Zenith views this peer review process positively, as we believe it results in a greater probability of identifying investment opportunities and risks initially overlooked by individual analysts.

Overall, Zenith believes Fairlight's stock selection process is structured in a manner that allows the team to efficiently focus its resources on identifying compelling investment opportunities.

PORTFOLIO CONSTRUCTION

The Fund is constructed through a benchmark unaware investment approach, which strongly draws from the output of the stock selection process.

Cregan and Carmichael are responsible for portfolio construction. Notwithstanding this, Fairlight operates under a flat decision-making structure, whereby all team members have the opportunity to influence portfolio construction. However, where a consensus is not apparent, Cregan has ultimate decision-making authority. Zenith views this positively, as we

believe it promotes collective accountability and a strong peer-review process.

The Fund generally holds between 30 and 40 securities, with position sizing and portfolio exposures determined by Cregan and Carmichael. While each individual weighting is a function of business risk and valuations at the stock level, the following factors are also considered:

- Portfolio exposures and risks
- Correlations
- Volatility

Although the maximum position size is capped at 10%, the largest positions in the Fund are typically held at 5%. The Fund typically holds 80% in the high-quality growth and stable compounders categories (approximately 40% each), with the balance in low-risk turnarounds/special situations and cash.

Zenith considers Fairlight's position sizing approach to be intuitive. In addition, we believe the consideration of broader portfolio factors and the strong bias towards quality and stable companies should result in a portfolio that produces resilient absolute returns.

Fairlight consistently monitors all portfolio holdings, with any negative or positive developments regarding positions in the portfolio discussed by the investment team. Fairlight removes stocks under the following circumstances:

- The investment thesis has been invalidated
- The stock has reached Fairlight's intrinsic value
- The investment team has identified a better idea

The Fund's portfolio turnover is expected to be approximately 40% p.a., which Zenith considers to be low.

Whilst the Fund is not required to remove a company that appreciates beyond MSCI's definition of international mid and smaller companies, Fairlight will generally hold at least 80% of the Fund within this market capitalisation range. Zenith will continue to monitor the Fund's weighted average market capitalisation, to ensure the Fund remains a true international mid and small company equities exposure.

The strategy's cash exposure has averaged approximately 8.9% since inception and 3.0% over the past 12 months. Cash is limited to a maximum position of 20%. Zenith considers the Fund's cash exposure to be high relative to peers and would prefer the Fund to be close to fully invested.

Zenith believes that the portfolio construction process draws strongly upon the research insights generated by the investment team, resulting in Fairlight's best ideas being reflected in the Fund.

RISK MANAGEMENT

Portfolio Constraints	Description
Number of Stocks	30 to 40
Absolute Stock Weight (%)	max: 10% (5% soft limit)
Exposure to Companies Outside the MSCI SMID Market Capitalisation Range (%)	max: 20%
Cash (%)	max: 20%
ESG Constraints - Excluded Sectors	Alcohol, Armaments, Gaming, Tobacco, Uranium Mining

As can be observed in the table above, the Fund operates within relatively wide constraints. Zenith would prefer to see some more formal constraints as it would provide investors with an expectation of the potential risks embedded in the Fund.

Fairlight operates within a highly disciplined framework at the stock selection stage with a quality assessment compiled on each stock, before a valuation is undertaken that results in a final investment thesis. In Zenith's view, this is an inherent risk management measure as it ensures that a range of individual stock-specific risks are considered before an investment is made.

Positions that fall 15% from the purchase price or previous highs are flagged for immediate review. At the end of the review, the team will either sell the entire position or add to the position. Zenith believes this process ensures conviction in underlying portfolio holdings.

Fairlight uses risk management systems, Factset and Calibre, to monitor the risk of the portfolio at both the stock level and portfolio level (industry risk factors, sector allocations, country allocations, style risks, stock risks, etc.).

Zenith is satisfied that the Fund's risk management processes are embedded throughout the entire investment process and are adequately monitored. However, investors should be aware there is significant reliance on management judgement and skill.

Responsible Investment Approach

Fairlight has an established Responsible Investment Policy, last updated in 2020, that guides its investment decisions. Although Fairlight is a signatory of the United Nations Principles for Responsible Investment (UNPRI), it is yet to receive module ratings. Fairlight expects to receive these imminently.

In addition to the specific mandated environmental, social and governance (ESG) exclusions outlined in the table above, Zenith notes that Fairlight takes an active approach to ESG issues in its analysis. Fairlight assesses ESG risks associated with prospective and existing holdings, assessing a number of issues including but not limited to, a company's environmental impact, risk of modern slavery, workforce diversity, community engagement and governance matters. Companies with higher levels of ESG risk are penalised during the stock selection process and where significant can preclude a company from investment. Zenith believes that this qualitative analysis of a company's operations is crucial on a forward basis, given that a company's performance with regards to ESG considerations is increasingly being reflected in the company's share price. Overall, Zenith is comfortable with Fairlight's approach to ESG.

From a classification scale of:

- Impact
- Thematic

- Integrated
- Aware
- Traditional

Zenith has assigned the Fund a Responsible Investment Classification of **Aware**.

INVESTMENT FEES

The sector average management cost (in the table below) is based on the average management cost of all flagship International Equities - Small Companies funds surveyed by Zenith.

The Fund charges a management cost of 1.30% plus a 15% performance fee applied to the outperformance of the MSCI World SMID Cap (Net) Index $A (after fees), subject to the recoupment of all prior benchmark underperformance. The performance fee is accrued daily and paid semi-annually.

For any fund that charges a performance fee, Zenith would prefer to see in place an additional excess return hurdle (i.e. a target return above the index other than covering the management cost) and considers this best practice.

Overall, Zenith believes the Fund's fee structure is fair, relative to peers, given its stated objectives. However, there is insufficient performance data at this stage to conduct meaningful analysis on whether the fees paid are justified.

The Fund also applies a buy/sell spread of 0.25% to all applications and redemptions.

(The fees mentioned above are reflective of the flagship version only and 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	1.30% p.a.	1.14% p.a.
	Description	
Performance Fee	15% of the excess returns (after management costs) over the MSCI World SMID Index	
	Buy Spread	Sell Spread
Buy / Sell Spread	0.25%	0.25%

PERFORMANCE ANALYSIS

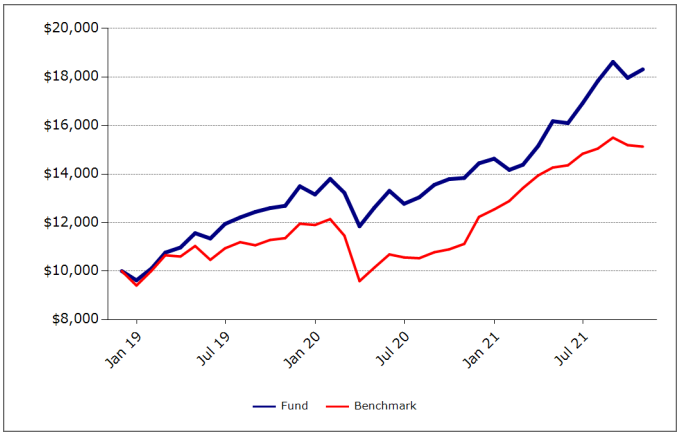
Report data: 31 Oct 2021, product inception: Dec 2018

Monthly Performance History (%, net of fees)

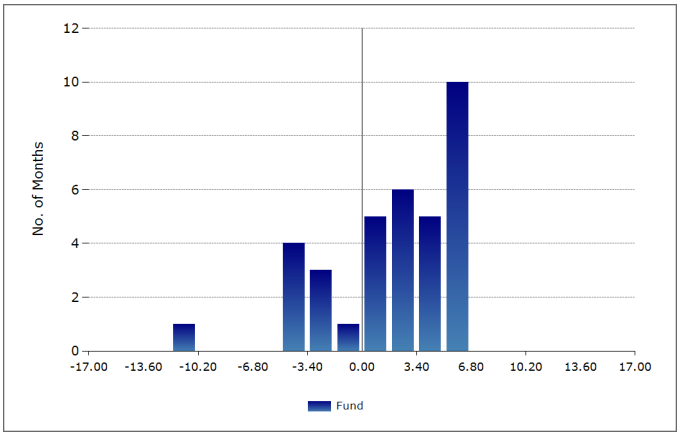
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BENCHMARK YTD
2021	-3.15	1.51	5.35	6.76	-0.48	5.09	5.41	4.42	-3.54	1.96			25.17	20.65
2020	4.89	-4.16	-10.43	6.41	5.56	-4.01	2.08	3.97	1.71	0.35	4.36	1.31	11.21	5.36
2019	5.11	6.44	1.94	5.38	-1.91	5.28	2.27	1.87	1.26	0.75	6.35	-2.52	36.76	26.53
2018												-3.80	-3.80	-5.95

Benchmark: MSCI World ex Aust Small Cap $A

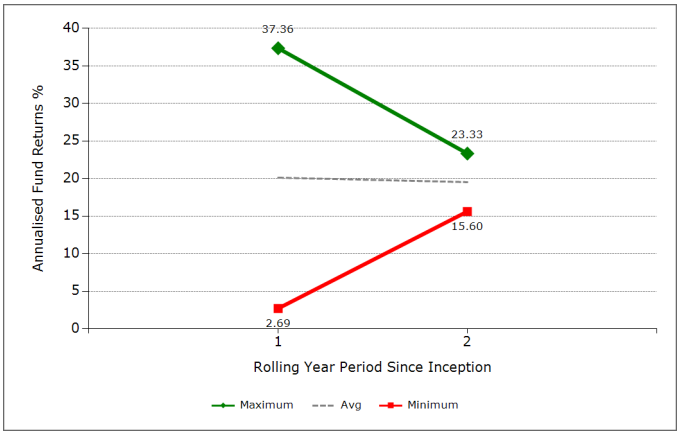
Growth of $10,000



Monthly Histogram



Minimum and Maximum Returns (% p.a.)



ABSOLUTE PERFORMANCE ANALYSIS

Return	Incpt.	2 yr	1 yr	6 mth
Fund (% p.a.)	23.05	20.13	32.34	13.21
Benchmark (% p.a.)	15.25	15.42	36.05	6.04
Median (% p.a.)	14.28	17.45	35.67	6.74
Ranking within Sector	**Incpt.**	**2 yr**	**1 yr**	**6 mth**
Fund Ranking	1 / 12	5 / 14	14 / 19	4 / 19
Quartile	1st	2nd	3rd	1st
Standard Deviation	**Incpt.**	**2 yr**	**1 yr**	**6 mth**
Fund (% p.a.)	13.70	14.87	11.33	11.29
Benchmark (% p.a.)	15.68	16.45	9.73	6.41
Median (% p.a.)	13.67	17.42	10.86	10.35
Downside Deviation	**Incpt.**	**2 yr**	**1 yr**	**6 mth**
Fund (% p.a.)	8.05	9.25	4.76	5.05
Benchmark (% p.a.)	11.23	12.34	2.03	2.87
Median (% p.a.)	8.71	12.83	3.67	4.68
Risk/Return	**Incpt.**	**2 yr**	**1 yr**	**6 mth**
Sharpe Ratio - Fund	1.63	1.34	2.85	1.17
Sortino Ratio - Fund	2.78	2.15	6.79	2.61

To ensure consistency, Zenith benchmarks all funds within the International Shares - Small Companies universe against the MSCI World ex-Australia Small Cap Index $A. In the case of the Fund, Fairlight measures itself against the MSCI World SMID Cap Index $A.

All commentary below is as at 31 October 2021.

The Fund aims to outperform the MSCI World SMID Cap (Net) Index $A by 3% p.a. after fees, with lower volatility than the benchmark, over rolling five to seven-year periods. In absolute terms, Fairlight believes this translates to a return of approximately 10% p.a. to 12% p.a. after fees.

Given the Fund's recent inception in November 2018, it is too early to draw any meaningful conclusions regarding the Fund's performance.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	2 yr	1 yr	6 mth
Excess Return (% p.a.)	7.80	4.71	-3.70	7.17
% Monthly Excess (All Mkts)	65.71	62.50	50.00	66.67
% Monthly Excess (Up Mkts)	62.50	64.71	50.00	75.00
% Monthly Excess (Down Mkts)	72.73	57.14	50.00	50.00
Beta Statistics	**Incpt.**	**2 yr**	**1 yr**	**6 mth**
Beta	0.73	0.73	0.51	1.51
R-Squared	0.69	0.65	0.19	0.73
Tracking Error (% p.a.)	8.75	9.90	11.25	6.70
Correlation	0.83	0.80	0.44	0.85
Risk/Return	**Incpt.**	**2 yr**	**1 yr**	**6 mth**
Information Ratio	0.89	0.48	-0.33	1.07

All commentary below is as at 31 October 2021.

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.

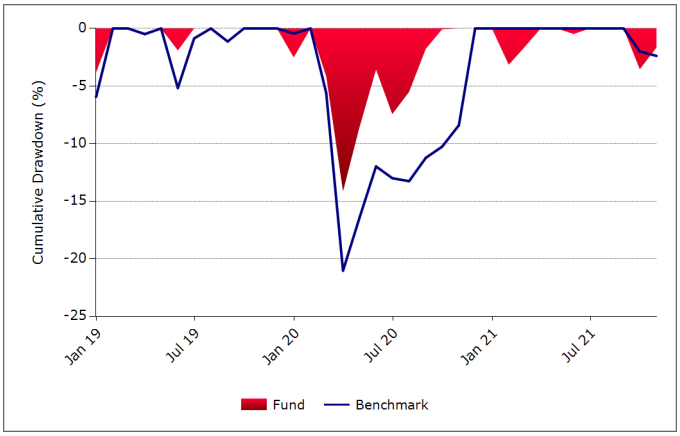
Given the Fund's recent inception in November 2018, it is too early to draw any meaningful conclusions regarding the Fund's performance. However, Zenith expects the Fund to demonstrate greater outperformance consistency in falling market conditions since inception, which we believe can be attributed to Fairlight's quality focus.

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 (%)	-14.15	-21.03
Months in Max Drawdown	2	2
Months to Recover	7	8

Worst Drawdowns	Fund	Benchmark
1	-14.15	-21.03
2	-3.80	-5.95
3	-3.54	-5.17
4	-3.15	-2.39
5	-2.52	-1.14



All commentary below is as at 31 October 2021.

Given the Fund's recent inception in November 2018, it is too early to draw any meaningful conclusions regarding the Fund's performance. However, Zenith expects the Fund to offer greater defensive characteristics relative to the benchmark given Fairlight's quality investment focus.

INCOME/GROWTH ANALYSIS

Income / Growth Returns	Income	Growth	Total
FY to 30 Jun 2021	2.05%	30.41%	32.46%
FY to 30 Jun 2020	0.00%	6.78%	6.78%

Investors should be aware the Fund does not target a specific level of income returns, with distributions made annually where possible. Zenith would prefer a more frequent distribution profile to alleviate potential issues involved with large distributions at 30 June.

The Fund's portfolio turnover is expected to be approximately 40% p.a., which Zenith considers to be low. Fairlight has indicated that approximately 50% of the expected turnover is attributed to resizing existing positions and approximately 50% is due to complete sales and new additions. Given this expected level of turnover, the majority of the Fund's returns are expected to be delivered via capital appreciation in the unit price, rather than through the realisation of capital gains in income distributions. In addition, realised capital gains are highly likely to be eligible for the capital gains tax discount. As such, holding all else equal, the Fund may be more appealing to investors who are high marginal tax rate payers as it will result in superior after-tax return outcomes.

REPORT CERTIFICATION

Date of issue: 24 Nov 2021

Role	Analyst	Title
Author	Harje Ronngard	Investment Analyst
Sector Lead	Quan Nguyen	Head of Equities

Authoriser	Bronwen Moncrieff	Head of Research

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RATING HISTORY

As At	Rating*
24 Nov 2021	Highly Recommended
25 Nov 2020	Recommended
27 Nov 2019	Recommended
19 Sep 2019	Recommended
26 Nov 2018	Not Rated - Screened Out

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

*In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.

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