Zenith scope of ratings and coverage policy

Scope of ratings

Zenith's ratings and research reports are limited to “General Advice” (as defined by section 766B of Corporations Act 2001) and based solely on the assessment of the investment merits of the financial product. It is not a specific recommendation to purchase, sell or hold the relevant product(s) and does not have regard to the particular circumstances or needs of any specific person who may read it. Zenith advises that individual investors should seek their own independent financial advice before making an investment decision. No part of any research report is a solicitation to buy or sell any investment. Research reports are prepared exclusively for clients of Zenith.

Ratings are specific to the product to which it is issued. That is, Zenith rates products rather than fund managers. Zenith believes that while the skill of the investment management and strength of the organisation is paramount, product design features can differ even within the same investment strategy and so we do not see manager ratings as an effective way to capture these aspects.

Research philosophy

Zenith's research process is fundamentally driven with a strong bias toward researching for quality rather than seeking to provide voluminous coverage of the entire marketplace. Zenith sees itself as a high conviction researcher and is determined to focus our research effort on illuminating those products with merit rather than undertaking in-depth research on all funds (see Coverage Policy).

Coverage policy

Zenith’s coverage policy defines the investment universe of products which are potentially eligible to receive an investment rating. This universe primarily focuses on those products available to financial advisers via the major wrap platforms and master trusts. Products predominantly encompass Unlisted Managed Funds and Exchange Traded Products (ETP's) available via the ASX.

Zenith also includes in its coverage policy products in several asset classes which are traditionally only available directly ‘off-platform’ via a Product Disclosure Statement or Information Memorandum. These asset classes which have limited or nil platform availability include sectors such as Unlisted Direct Property Funds and products in the Alternatives asset class including Hedge Funds and Private Equity Funds.

Zenith regards research coverage based around platforms to be most efficient for the majority of asset classes as anecdotal evidence suggests that approximately 85% of adviser driven fund flows utilise platform products. It should be appreciated however that there is still a potentially large number of funds off-platform that are not being captured in the Zenith universe.

Funds in the investment universe may be divided into ‘Parent’ or ‘Sibling’ funds. This denomination relates to whether a fund is structured for a particular investment platform or not. Parent funds may have multiple sibling funds on one or more platforms. Sibling funds are identical to the parent with the exception of costs. At present Zenith’s total investment universe represents in excess of 1,300 Parent funds (over 3,000 including Sibling funds) and is viewable on the Fund Reports on the Zenith website.

Zenith's investment universe is predominantly made up of products which are open to investment. A small number of products however may periodically be closed to investment or utilise a closed end structure (a limited investment window followed by a fixed investment term). Such products are included for performance monitoring purposes. Products in this category are typically those with ‘Real Assets’ such as real estate or direct ownership of commodities as well as Private Equity funds.

It is important to note that the coverage policy only dictates how the investment universe is compiled and maintained, not how Zenith ratings are assigned and distributed across the investment universe. Zenith does not seek to apply any selection bias within the coverage policy outside the availability requirements listed above. Removal from the investment universe will only occur when a product is terminated and wound up or the minimum requirements regarding information availability cannot be met (see below).

Application of ratings

Investment products can be accessible directly, or via a wrap platform or master trust (i.e. an investor-directed portfolio service - IDPS). Zenith’s ratings are issued to individual investment strategies, and applied to whichever unit class is determined to be the ‘Flagship’ offer by the investment manager. If a product has multiple unit classes available (e.g. due to different investment mandates or fee classes), Zenith will show a ‘sibling’ variant of the product, which will have a different fund identification code (typically an APIR). Flagship products are identifiable by a flag icon in Zenith’s Mosaic platform, as shown in the example below.

Any product classified as a sibling will automatically carry the same ratings history as the Flagship fund it is currently connected to. However, in a small number of cases, IDPS platforms or other market participants may elect to change the Flagship/Sibling relationship between unit classes. For example, a particular APIR may have the strategy it is associated with change from one flagship to another is a different strategy or investment style. In such cases, as Zenith considers the product being rated to be the prevailing flagship, the ratings history of the sibling will automatically be changed to match the current flagship connection, erasing the previous ratings history of the sibling.

Zenith expects these cases to be infrequent and will maintain a register of such changes. However, clients are advised to always check if a particular sibling fund has experienced a recent change to the flagship strategy.

Research schedule

Research coverage is predominantly undertaken on a sector basis (asset class) which operates on an annual cycle. Zenith's research objective is to ensure coverage is formally updated as close to every 12 months as possible. Zenith has the ability to undertake research outside the scheduled cycle when required ('Out-of-Cycle' reviews). Out-of-cycle reviews are at Zenith's discretion and generally only considered where there is either strong client demand or the product is a new offering with compelling attributes. Out-of-cycle reviews are undertaken in accordance with our standard research process.

The exception to the standard research schedule is where funds have adopted a closed-ended structure (as defined above). Given that such funds typically have a comparatively short timeframe in which to raise capital, Zenith will undertake the research process as and when such products are offered to the market. When a non-traded fund with a closed-ended structure ceases raising capital, Zenith will automatically remove the rating in accordance with our methodology. In this scenario, the ratings history will remain viewable but will not be accompanied by a specific client release regarding the capital rating closure.

Funds research process

Zenith's research process (see below) is fundamentally forward looking and relies on both qualitative and quantitative input from analysts.

1. Compile sector universe
2. Conduct preliminary screening
3. Successful candidates issued research agreement
4. If agreement executed, formal due diligence conducted
5. Draft report prepared and peer reviewed
6. Results submitted to Zenith Research Committee for ratification
7. Draft report issued to manager for fact checking (without rating)
8. Report finalised
9. Zenith subscriber clients notified of rating
10. Fund manager notified of rating
11. Ongoing surveillance and data collection
12. Annual review cycle (back to #1.)

The research methodology is divided into two key processes.

1. Sector universe and preliminary screening

Zenith's sector universe is derived from its coverage policy. Zenith maintains propriety in-house data on products which form the basis of our investment universe. This data is collected directly from fund managers and product issuers on a monthly basis. This data (and calculated financial ratios) forms the basis of Zenith's quantitative analysis process.

Screening is undertaken on a sector basis which are typically categorised along asset class and regional lines. The following table shows the relevant peer groups in Zenith's coverage universe. These groups are defined by common asset classes, objectives, investment styles and investment structures.

Peer groups by asset class

Alternatives	Australian fixed interest	Australian shares	Cash	International fixed interest
Debt strategies	Bonds	Absolute return	CMT	Bonds
Exchange traded products – ETPs	Corporate debt	All cap	Exchange traded products - ETPs	Corporate debt
Global macro/absolute return	Exchange traded products - ETPs	Equity income		Diversified
Investment bonds	Listed investment entities – LICs/LITs	Exchange traded products - ETPs		Exchange traded products - ETPs
Listed investment entities – LICs/LITs	Short-term credit	Geared		High income
Managed futures	Specialist	Industrials		Listed investment entities – LICs/LITs
Market neutral		Large companies		Unconstrained
Multi strategy		Listed investment entities – LICs/LITs		
Other		Long short		
Private equity		Micro cap companies		
		Mid cap companies		

		Small companies Specialist		

International shares	Mortgages	Multi asset	Property	Real assets
Asian long short	Conservative	Balanced	Australian securities	Hybrid funds
Country funds	High yield	Conservative	Exchange traded products – ETPs	Infrastructure
Emerging markets		Exchange traded products – ETPs	Global securities	Other
Exchange traded products - ETPs		Growth	Listed investment entities – LICs/LITs	Real estate - Australia
Global hedged		High growth	Specialist	Real estate - global
Global unhedged		Income		
Global long short		Life-stage super		
Listed commodities		Listed investment entities – LICs/LITs		
Listed infrastructure		Moderate		
Listed investment entities – LICs/LITs		Real return		
Regional – Asia Ex-Japan		Specialist		
Small companies				

Specialist Specialist – long short					

Retirement products					
Fixed term annuity Lifetime annuity Other Protection products					

All open products within the universe are subject to the review process with review schedules carried out annually. Each product undergoes a preliminary screening process to determine those candidates which have a strong probability of achieving at least an Investment Grade rating or higher.

The preliminary screening involves a comprehensive, multi-dimensional selection process using quantitative analysis with a qualitative overlay. Only products that pass the preliminary screening become eligible to undertake Zenith's full research process (a Product Assessment). Products that do not pass are ineligible to undertake a Zenith Product Assessment as they have failed to meet the necessary quality parameters. These products which fail the preliminary screening are deemed to be Non-Investment Grade for Zenith clients.

Factual information on these products and their rating status remains visible to Zenith clients until the next annual review when they will again be screened for potential eligibility for a Product Assessment. It is important to note that every product in the universe is screened annually with the presence of an existing rating no guarantee that a product will not be downgraded during the annual review.

2. Full due diligence review & rating

Once a product has been confirmed as passing the preliminary screening process, the product issuer is invited to participate in the formal review process. Once Zenith's Research Agreement is executed, product issuers are contractually committed to the research process and will be issued a Research Rating regardless of the ultimate outcome. This rating will remain valid until the earlier of either:

1. The rating being updated by Zenith (expected annually in accordance with our scheduled Sector Reviews); or

2. The rating is withdrawn.

Once a rating is issued it will remain available for viewing on the Zenith website until it is replaced, updated or withdrawn.

The full due diligence review involves a formal face-to-face meeting with the investment management team and other key management figures to assess the product. These meetings typically take several hours and examine all aspects of the product's objectives, structure and operation. It is at this stage of the process where Zenith probes deeply to understand all the nuances of the investment manager from its overall philosophy and process to the quality, experience and track record of the investment team. Zenith also undertakes a thorough review of all documentation (does not include assessment of advertising and promotional material), and an in-depth "look under the covers" with respect to the investment portfolio and management systems.

For comparison purposes, managers are reviewed amongst both their peers within their sector, but also importantly with other managers of the same style. The research team consider factors which could impede attractively ranked products from repeating strong returns generated in the past. Examples include organisational issues or major staff changes.

Once this due diligence has been finalised, a formal research report is completed and a rating is assigned. Managers are permitted access to a copy of the draft research report (generated as a .pdf file to prevent editing), to identify any factual errors. It is important to note that Zenith retains editorial control at all times and draft reports do not carry a rating.

Once a report is finalised, the rating is assigned and the report published to the Zenith website. Each time a report (or suite of reports) is published, Zenith sends out a communication notifying clients that new research and ratings are available. Only after communicating this information to subscribing clients are product issuers informed of the outcome of the ratings process.

Report Oversight

In accordance with regulatory guidelines, research reports for each rated product contain details on the analyst responsible for authoring the report and the relevant Sector Lead overseeing the sector the product sits within. Ultimate oversite of all ratings sits with an Authoriser. A record of report authorisers is as follows.

Report Authoriser	Timeframe
Bronwen Moncrieff (Head of Research)	November 2012 – August 2024
Dugald Higgins (Head of Responsible Investment & Sustainability)	August 2024 - November 2024
Grant Kennaway (Group Head of Research)	November 2024 - Present

Fund research methodology

Zenith's Fund Research Methodology can be located here: Fund Research Methodology

Ratings methodology

Zenith utilises both quantitative and qualitative factors in its ratings models. Models maximise commonality across different asset classes while retaining flexibility for specialist asset classes and strategies.

The quantitative assessment is flexible in that we do not rely on a set minimum performance history to positively rate a product. Zenith may at its discretion use the history of an investment manager at a previous organisation if required. However, it should be noted that lack of performance history is generally an impediment to conviction and will usually negatively impact on our scoring.

Zenith's ratings are based on the output of a proprietary scoring model. This model and its broad factors are shown in the following diagram. Please note we do not disclose the weightings of factors and sub-factors may change for each sector. This information should be used as a guide only.

Organisation	Investment team	Portfolio management	Investment process
Manager profitability	Depth	Experience	Investment philosophy
Distributor profitability	Structure	Expertise	Universe filter
Strategy profitability	Experience & expertise	Track record	Quantitative/valuation analysis
Corporate stability	Stability		Transitory/qualitative analysis
Long-term commitment to strategy	Culture		
	Track record		

Portfolio construction	Risk management	Product structure
Decision process	Risk management culture	Investment objective
Weightings process	Risk management constraints	Attraction within portfolios
Buy/sell discipline	Risk management systems/models	Fees

Traditional index product research methodology

Zenith's traditional index product research methodology can be found here: Traditional Index Product Research Methodology

Ratings methodology

The following section summarises Zenith's ratings methodology for traditional index products. Traditional index products are those products that:

- track a market-capitalisation/issuer-weighted underlying index; and/or
- track an index that Zenith deems suitable/representative of the sector.

Zenith utilises both quantitative and qualitative factors in its ratings models. Models maximise commonality across different asset classes while retaining flexibility for specialist asset classes and strategies.

Zenith's ratings are based on the output of a proprietary scoring model. This model and its broad factors are shown in the following diagram. Please note we do not disclose the weightings of factors and sub-factors may change for each sector. This information should be used as a guide only.

Organisation	Investment resourcing	Implementation	Risk management	Product structure
Manager profitability	Depth	Markets/ instruments traded and their efficiency	Capacity management	Attraction within portfolios
Distributor profitability	Structure	Return enhancements	Risk monitoring	Fees
Strategy profitability	Experience & expertise	Trade efficiency	Risk tools	Market-making (if applicable)

Corporate stability	Stability	Supporting research	Risk constraints	Tax effectiveness
Long-term commitment to strategy	Culture	Replication methodology		Scale
Environmental, social and governance considerations	Track record	Rebalancing rules		Tracking error/tracking difference statistics

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