

Zenith research methodology

The below summarises Zenith's proprietary research methodology and process. We follow a structured ratings process that involves assessment of the following quantitative and qualitative factors.

* Please note we do not disclose the weightings of factors and this should be used as a guide.

** Please note that factors for Investment Process and Portfolio Construction can change according to specialist sector being assessed.

1. Investment process

1.1. Overview

Zenith offers its subscribers access to its manager research database which includes fundamental ratings and responsible investment (RI) classifications across a broad range of products (managed funds, ETFs, LICs/LITs, models implemented in managed accounts, and other financial products), both active and index-orientated. Through a multi-step process that combines fundamental and quantitative considerations, Zenith seeks to identify strong investment propositions, offered across multiple access points, therefore catering to the needs of a wide range of investors.

As one of Australia's longest-standing research providers, Zenith is able to produce informed opinions based on its analysis, while enforcing internal policies and procedures to ensure separation is maintained between the Research and Portfolio Solutions divisions of the business.

Our philosophy and commitment is simple. By exploring the investment landscape in a diligent and detailed fashion, Zenith can uncover the best opportunities on behalf of clients.

1.2. Screening process

An effective screening process is critically important to the overall research method. It ensures greater efficiency by directing the research team to concentrate their efforts on strategies with superior qualitative and quantitative parameters.

The process begins by dividing the universe into broad asset class categories including:



Asset Class	Sub-asset class	Asset Class	Sub-asset class	Asset Class	Sub-asset class
Cash	CMT	International Shares	Country	Alternatives	Debt Strategies
Australian Fixed Interest	Bonds		Emerging Markets		Global Macro/Absolute Return
	Corporate Debt		Global (Hedged & Unhedged)		Market Neutral
	Short-Term Credit		Geared		Managed Futures
	Private Credit		Global Long Short		Multi Strategy
	Specialist		Small Companies		Other
International Fixed Interest	Bonds		Commodities	Real Assets	Private Equity
	Corporate Debt		Listed Infrastructure (Hedged & Unhedged)		Investment Bonds
	Diversified		Small & Mid Cap Companies		Other
	Flexible		Regional - Asia Ex-Japan		Real Estate - Australia
	Private Credit		Specialist		Real Estate - Global
	High Income		Specialist - Long Short		Infrastructure
Australian Shares	Large Companies	Multi-Asset	Conservative		Hybrid funds
	Mid Cap Companies		Balanced	Property	Australian Securities
	Small Companies		Moderate		Global Securities (Hedged & Unhedged)
	Micro Cap Companies		Growth		Specialist
	Absolute Return		High Growth	Retirement Products	
	All Cap		Real Return		
	Equity Income		Specialist		
	Long Short	Retirement Products	Lifestage Super		
	Resources		Fixed Term Annuity		
	Industrials		Lifetime Annuity		
	Geared		Protection Products		

Zenith considers all Australian-registered managed funds, ETFs, LICs/LITs and unregistered products. To avoid entering multiple strategies for each investment manager, where appropriate, a ‘flagship fund’ is used as a proxy for a particular strategy.

We generate data surveys from our extensive database. We begin with the broadest universe to avoid any selection bias at this early stage. Data is collected directly from the investment managers. Although the collection of in-house propriety data is rare within research houses, Zenith considers this to be an important source of value add. We believe the early identification of quality fund managers is one of our key competitive advantages.

1.3. Quantitative screen

From its database, Zenith selects a list of leading contenders who pass the initial performance and risk screens. These quantitative screens include a mix of:

- Absolute return (total, income & capital gains)
- Information ratio
- Sharpe ratio
- Sortino ratio
- Consistency of outperformance ratios (total, rising & falling markets)
- Beta
- Alpha
- Number of negative performance months



- Maximum drawdown
- Tracking error
- Standard deviation
- R-squared
- t statistic

All quantitative measures are examined over rolling three-year and five-year periods.

Strategies which utilise indexation may utilise other metrics around investability. A small number of strategies may also move directly to the 'Qualitative Screen' stage, where strategies are being newly launched or where data is available but not yet formally loaded into Zenith's database and has been referred to separately.

Where multiple unit classes of a strategy sit across different sub-asset classes (e.g. for multi-asset strategies), quantitative screening can permit an entire suite of unit classes to pass, as long as the majority of results receive positive outcomes through the screen.

1.4. Qualitative screen

Whilst the first stage of the investment process focuses on the manager's risk-adjusted and absolute performance, the second stage incorporates an important qualitative overlay. The initial quantitative filter may identify a strongly performing manager who subsequently fails the qualitative filter given Zenith's view on the team, organisation or process. Conversely, the quantitative filter may look less attractive if the current market conditions do not suit the manager's investment style.

The use of a rolling three-year timeframe as the benchmark review period aims to smooth out style biases that can often lead to distortions.

If the Zenith team does not have prior knowledge of the credentials of investment personnel but the manager looks attractive on the quantitative filter, it will source a view from its network of industry contacts. If negative commentary does not arise, we will undertake a preliminary meeting to determine the appropriateness of this manager's representation on the list.

1.5. Detailed due diligence

After a shortlist has been constructed, detailed due diligence is undertaken with the investment manager. At this stage, we thoroughly examine every aspect of the manager, from the overall philosophy and process to the people behind it. This level of due diligence is only achieved through detailed meetings, a thorough review of all investment documentation and an in-depth look at the portfolio's construction. Note that reviewed documentation does not include any assessment of advertising or promotional materials to any groups or individuals outside the Zenith Research team.

The meeting with the investment manager is regarded as a critical component of our investment process. Our process extends beyond meeting with the lead portfolio managers; other members of



the investment team, regardless of seniority, are interviewed. This aspect of the interview process is important as it provides us with a better understanding of team dynamics, the spread of responsibility and team depth.

During the review process an assessment is undertaken on three key attributes: organisation, philosophy & process, and personnel. This section of the review is qualitatively driven.

1.6. Responsible Investment (RI) classification

Our RI classification involves an assessment of three broad indicators:

- Does an investment strategy take into account RI and if so, to what extent is this embedded in the investment process?
- Are fund managers acting as active owners of securities?
- What is the extent to which formalised policies and procedures govern the integration of RI issues for the strategy?

To generate these classifications, we rely on information derived during manager meetings as part of our due diligence process as well as the provision of formal investment documentation from managers (does not include assessment of advertising and promotional material). Classifications reflect an absolute view, not a peer-relative assessment.

Products which hold a current Zenith investment grade rating (refer to Section 3) are assigned an RI classification using our proprietary system. View more detailed information about our RI classifications [here](#).

How can the classification be used?

The RI classification can be used as a filter on our online tool, Zenith Mosaic. This allows users to search for funds not only on aspects such as asset classes, styles and ratings, but also on which RI category a user might prefer.

1.7. Organisation assessment

We examine a mix of the following points:

- Ownership structure – global alliance, overseas parent, joint venture, staff equity ownership (particularly relevant for boutiques)
- Organisational structure – whether the business is solely focused on asset management or operates in broking, investment/retail banking or financial planning
- Management team structure – board composition, reporting lines (domestic, regional and/or global basis)
- Executive team analysis – CEO, CIO, Board of Directors, Asset Allocation Committee
- Organisational history – timeline of major events (acquisitions, restructures etc)
- Funds under management – total, split by wholesale, retail & asset class, history of gross inflows/outflows and decomposition of mandate and client type



- Remuneration & contractual structure
- Administration – back-office capabilities, client reporting
- Communication – access to portfolio managers, sales/distribution staff

On the organisational front, Zenith is looking for clean reporting lines, a commitment to the domestic business, an experienced/highly credentialled executive team, effective administration and strong communication. Zenith also seeks to identify any business-related factors that may impact the ongoing operation of the product.

1.8. Investment philosophy & process assessment

We examine a mix of the following points:

- What is the manager's underlying investment philosophy?
- How does this philosophy seek to exploit inefficiencies in the market and is it aligned with the investment process?
- Has the manager's philosophy changed over time?
- Does this philosophy differ at various stages of the business cycle and/or between sectors?
- Is the majority of the research internally or externally organised?
- What is the frequency of formal and informal meetings amongst the investment team?
- How is the universe of securities filtered to arrive at an investable universe?
- What information sources/data feeds are used?
- Is a standard template used for building stock models or is this left to analyst discretion?
- Are analysts required to assign levels of conviction to recommendations? (i.e. target price, quantitative score or suggested over/under weight position)
- Does the process make use of model portfolios?
- What is the investment process' sell discipline?
- What is an indicative level of turnover per annum within the product?
- How concentrated is the portfolio?
- How are the portfolio position weights decided?
- Is there a minimum-security weighting on entry into a portfolio?
- At what funds under management size would the manager consider closing the strategy due to capacity constraints?
- Has the investment process or style changed as funds under management has increased?
- How does the manager define risk?
- How is portfolio risk managed?
- Is tracking error actively monitored and is this formally constrained?



- Who is responsible for risk management and what is the process?
- For strategies executed as multi-asset separately managed accounts (SMAs) we may also assess:
 - How has portfolio construction been optimised for the structure?
 - Does the level of funds under management (FUM) impact optimal allocations e.g. enough scale to achieve desired allocations?
 - Liquidity profile of underlying allocations
 - Governance (including but not limited to separation of responsibilities, governance around related-parties, documentation of policies and processes, and granularity of performance reporting)
 - Portfolio rebalance approach and tolerances, as well as tax efficiency
 - Is there a mechanism to monitor performance slippage? What system is used to monitor this? What is an acceptable level of slippage from the model portfolio?
 - Can consistent outcomes be achieved across investment platforms?
- For portfolios executed as direct equity separately managed accounts (SMAs) we may assess:
 - How has portfolio construction been optimised for the structure?
 - Is the number of holdings, trade frequency and minimum trade size appropriate?
 - Suggested minimum investment amount for efficient outcomes?
 - Does the manager understand the underlying Platform's approach to SMA trading? Is consideration given to the interplay between portfolio rebalancing across multiple platforms?
 - Is there a mechanism to monitor performance slippage? What system is used to monitor this? What is an acceptable level of slippage from the model portfolio?
 - Implications of SMA on broader product suite's capacity?

On the philosophy and process front, we are looking for a fundamentally sound investment philosophy, a consistent and discipline investment approach, transparent portfolio construction and robust risk management.



1.9. Investment personnel

We examine a mix of the following points:

- Does the investment team have sufficient resources to implement its stated investment process?
- What is the depth of experience and track record of the investment team?
- How are responsibilities split (security, sector, mandate/portfolios, committee involvement, etc) within the team?
- How many securities does each analyst cover?
- Do portfolio managers also have security coverage responsibility?
- Is a succession plan in place and do any key personnel risk issues exist?
- Recent personnel changes and the reasons why?
- What is the frequency and nature of formal and informal meetings within the investment team?
- How are personnel remunerated?

On the personnel front, we are looking for a well-resourced, highly credentialed investment team with a solid track record of delivering on objectives. A spread of responsibility within the team should limit key person risk, whilst an appropriate remuneration structure should incentivise all members of the team.

1.10. Quantitative portfolio attribution

In addition to the qualitative assessment undertaken as part of detailed due diligence, a more in-depth analysis is performed on portfolio attribution.

Whilst the quantitative data gathered from the initial filter process is re-examined in the detailed due diligence phase, it is the testing of the manager's portfolio that drives this part of the process.

Key information sought by Zenith to undertake this task may include:

- Full portfolio holdings
- Portfolio exposures (driven by asset class e.g. may include marked capitalisation, sector exposure, regional exposure, credit quality, leverage etc)
- Portfolio turnover data
- Rolling monthly portfolio holdings
- Attribution analysis, dissecting portfolio performance and risk, highlighting the key contributors to both

The data gathered from this quantitative review is then compared with responses from the qualitative interview process with managers on process and philosophy. During this process we



are looking for consistent responses. For example, does the portfolio trading data match the manager's response to a query on an indicative level of portfolio turnover?

Important trends and themes we look for in the quantitative analysis include:

- Is the strategy consistently meeting its objectives?
- Can the manager successfully pick winners as well as avoid the 'blow-ups'?
- Has the manager added value across all market sectors or does a sectoral trend exist, allowing for style biases?
- Has any style drift occurred over time?
- Does the manager's style favour a certain market condition (e.g. cyclical recovery)?
- Has the manager been successful at timing entry and exit points on securities along with identifying undervalued opportunities?
- Does the manager need to turn the portfolio over regularly to add value?
- Does the manager hold positions which may be difficult to exit, due either to the size of the position and/or liquidity of the security?

1.11. Summary

We believe our key competitive advantage is that we are highly selective with which investment strategies we recommend for our clients. Initially we apply both qualitative and quantitative screens to identify strategies worthy of further consideration, with detailed due diligence undertaken on the resulting short list. This involves a highly comprehensive review process that encompasses an assessment of key criteria including the organisation's structure, the investment philosophy and process, the calibre of the investment personnel and an in-depth portfolio attribution analysis.

2. Ongoing manager evaluation

Zenith prides itself on the regularity and depth of its continual vigilance over investment managers. This extends from those managers already represented within the product and/or service to those on the 'radar screen' for possible inclusion.

Should there be a significant personnel departure and/or process change, Zenith will meet immediately with the manager to evaluate the impact of the change and recommend a course of action to the Ratings Committee.

Below we have detailed the specific data reviewed.

Monthly

- Monthly Performance Update – all underlying managers in the database and Zenith products versus their peers



Quarterly

- Zenith Research maintains a live data feed on all funds, reviews the full Approved Product List quarterly with a focus on underperforming funds

Annually

- Monthly & Quarterly Data as above
- Due diligence update – review existing managers and any new managers deemed worthy of addition
- Screening update – identifies any new managers worthy of further due diligence and any existing manager who now fails the initial screen
- Update database – flows through to the qualitative component of the investment process

3. Ratings

Zenith undertakes thorough screening of each asset class to identify quality managed investment opportunities.

This is followed by an extensive due diligence process, where strategies are assigned a rating. This rating is based on Zenith's proprietary scoring system.

Each strategy is assigned an overall score/rating:

Rating	Score
Highly Recommended	= / > 80%
Recommended	70 - 79%
Approved	55 - 69%
Not Rated – Screened Out	< 55%

All ratings undergo ratification from Zenith's Ratings Committee prior to being publicly released. The Ratings Committee is composed of all senior members of the Zenith research team and ensures appropriate due diligence has occurred to assess and rate investment strategies.

Zenith's full list of investment rating designations and definitions can be found here:

<https://www.zenithpartners.com.au/our-solutions/investment-research/fund-ratings/>

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