Highly Recommended
Recommended
Approved
Not Rated
Redeem

Product Assessment

Report data as at 30 Apr 2020
Rating issued on 02 Jun 2020

Future Generation Investment Company Limited

VIEWPOINT

The Company, listed on the ASX in September 2014, is one of two charitably focused Listed Investment Companies (LICs) created by Geoff Wilson, founder of Sydney-based Wilson Asset Management (Wilson AM). The Company adopts a multi-manager structure consisting of a range of actively managed Australian equity strategies. The underlying fund managers and service providers do not charge a fee for their services. Based on the Company's charitable aim and access to high-quality fund managers, Zenith believes it is an appealing option for socially conscious investors.

The Company is managed by an Investment Committee (IC), which comprises: Wilson (Chairperson), Gabriel Radzyminski, Matthew Kidman, Bruce Tomlinson, David Smythe and John Coombe. The IC is responsible for sourcing and the ongoing monitoring of fund managers. Formally, the IC meets on a quarterly basis to discuss changes to the portfolio. Zenith believes the IC is highly qualified to assess and select fund managers and effectively leverages its extensive network in order to identify high-quality managers.

The fund manager universe is largely derived from the IC's contact list garnered from their positions across the investment industry. The underlying universe consists of long-only, absolute return and market neutral managers. The Company prefers to invest in boutique asset managers, often with a strategy that displays a truly active approach. The Company may also invest in new managers but only those whose key staff have extensive experience and a strong performance track record. Relative to other multi-manager funds, Zenith believes the Company's manager selection and monitoring process is less robust and structured. However, we believe this is yet to demonstrably compromise the Company's ability to source high calibre managers, and the willingness of managers to participate.

The Company's portfolio construction process is the responsibility of the IC and ultimately the Board. In terms of strategic allocations, the IC aims to build a portfolio that is roughly equally weighted between long-only strategies and absolute return/market neutral strategies. Zenith believes the Company's portfolio construction approach is less stringent than other multi-manager funds, who institute tighter bands or constraints to ensure adherence to a more defined manager mix. That said, we believe the Company's approach is aligned with its investment philosophy given it is dedicated to charity and philanthropy.

Zenith views Wilson AM's ongoing commitment to investor communication and engagement programs as best in class. Zenith believes that this is a critical aspect of successful LIC management given the ability of LIC's to materially trade away from their underlying asset values.

Despite Wilson AM's high engagement levels, Zenith believes its reporting of portfolio investment performance is sub-standard in quality. Portfolio performance is reported before allowances for charitable donations are made. Given that these donations reduce shareholder returns similar to management costs, Zenith believes that performance reporting should treat these in a similar manner. Accordingly, Zenith regards this as materially below best practice, out of keeping with contemporary LICs and views it as a detractor from the overall attractiveness of the Company.

COMPANY FACTS

- 1% p.a. of Net Tangible Assets (NTA) is donated to Australian charities focused on youth at risk
- Access to high quality managers that are not typically available to retail investors
- Highly experienced Investment Committee

APIR Code
ASX:FGX

Asset / Sub-Asset Class
Australian Shares
Listed Investment Entities – LICs/LITs

Investment Style
Growth

Investment Objective
To provide a stream of fully franked dividends; to achieve capital growth; and preserve Shareholder capital.

Zenith Assigned Benchmark
S&P/ASX 300 (Accum)

Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
LIC	-0.59	-2.88	-18.70
Benchmark	3.51	1.98	-9.05

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

ABSOLUTE RISK (SECTOR)

VERY HIGH
HIGH
MODERATE
LOW
VERY LOW

RELATIVE RISK (FUND WITHIN SECTOR)

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

INCOME DISTRIBUTIONS PER

MONTH | QUARTER | 6 MONTH | ANNUM

INVESTMENT TIMEFRAME

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

APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

Listed Investment Companies (LIC)

In assessing the performance of the LIC sector, it is vital to understand how their structure affects the final performance figures as it is materially different to unlisted funds. As listed companies, the portfolio returns generated are exposed to additional volatility from share price movements and can trade at significant premiums or discounts to Net Tangible Assets (NTA).

In addition, the impact of pre and post-tax returns needs to be considered because LICs distribute returns net of company tax, whilst benchmark index returns are quoted on a pre-tax basis. Accordingly, it is difficult to accurately compare shareholder returns to either benchmarks which do not account for tax or realised peer group LICs where the timing of company tax on realised gains differs.

As an indication however, a series of return data can be viewed on the basis of the returns generated by:

- Share price and dividends
- Change in pre-tax NTA value and dividends
- Returns generated internally by the investment portfolio

For comparison purposes, the use of the internal portfolio returns versus the benchmark gives the closest measure of the investment manager's skill in generating returns. However, these returns may not be able to be fully crystallised to shareholders given the potential for share price movements.

Caution should be used in the comparison of these figures as share price and pre-tax asset NTA are measures which take into account company tax paid on realised capital gains and unfranked income, whereas benchmark performance is a wholly untaxed measure.

At various times when assessed on a purely quantitative basis, a LIC can trade away from its NTA which may represent good buying or selling opportunities. While these instances may boost investment returns, there is no guarantee that the discount or premium will converge to NTA.

Australian Equities

The sector incorporates both benchmark aware and benchmark unaware strategies but the funds focus predominantly on large capitalisation stocks. The sector is one of the most competitive in the investment landscape, based on the number of managers and strategies available to investors. Despite the competitiveness of the sector, the Australian share market has historically provided many opportunities for active management, with the median active manager outperforming a passive index over the longer term.

The Australian share market, as represented by the S&P/ASX 300 Accumulation Index, is highly concentrated and narrow. Technically, a company is considered large cap if it falls within the S&P/ASX 50 Index, with companies falling between the S&P/ASX 50 and S&P/ASX 100 considered mid cap. All stocks outside of the S&P/ASX 100 Index are considered small capitalisation stocks.

As at 30 April 2020, the Financials and Materials sectors combined represented a significant portion of the S&P/ASX 300 Accumulation Index, with the Financials sector accounting for approximately 26% of the index, and Materials approximately 19%. The split between Industrials and Resources stocks was approximately 80%/20%. The top 10 stocks represented approximately 44% of the weighting of the Index and the top 20 stocks represented over 58%.

In comparison to the S&P/ASX 300 Accumulation Index, the S&P/ASX Emerging Companies Accumulation Index has a much lower weighting to the Financials sector and is represented by a larger weighting to the Resources sector, which reflects the importance of resources related industries to the micro-cap sector. A significant proportion of these resource companies are classified as "exploration" companies, and in many cases are not cash flow positive, can be highly volatile and their fortune can be linked to whether (or not) a resource body is discovered.

The Small and Micro Cap sector typically have a market capitalisation of less than $500 million and the sector is comprised of approximately 1,600 listed companies with a combined total value of circa $110 billion. Over the longer-term, active management in this sector has historically demonstrated an ability to significantly outperform a passive index given it is an "under researched" segment of the market.

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. Therefore, it is recommended that investors adopt a longer time frame when investing in equities.

Investors should also be cognisant of the fact that the Australian equity market only represents approximately 1% of global equity markets (in terms of market capitalisation). Zenith recommends that investors diversify their investments across asset classes, both domestically and globally.

Zenith believes the Company offers investors exposure to a portfolio of well-diversified and actively managed multi-manager Australian equity funds. The Company is largely unconstrained, with each underlying fund being selected based on its ability to outperform its benchmark.

The Company may also suit investors seeking a consistent income stream, with the Board committed to paying a stream of fully franked dividends to shareholders.

From a portfolio perspective, the Company is suitable as a core allocation to Australian equities. However, given the low net market exposure of some of its managers, investors seeking market exposure should consider blending the Company with other long-only Australian equities funds. Given the Company's benchmark unaware approach, Zenith considers it to be a moderate to high-risk proposition with a long-term investment horizon. With the Company’s charitable aim, it is also potentially attractive for socially conscious investors as well as charitable or philanthropic trusts.

One of the benefits of the LIC structure is that the Company, unlike in an unlisted managed fund, does not have to sell holdings to fund redemptions. Zenith believes this feature is a key competitive advantage for the Company given its bias toward less liquid fund managers (monthly liquidity). That is, the Company will not have to sell positions at inopportune times to meet redemption requests.

Despite the relative merit of the strategy, investors should give consideration to the mode of access. While an unlisted fund structure may be less convenient for some investors, accessing a strategy via a listed vehicle will mean that the effectiveness of the strategy may be significantly diminished due to the vehicles own trading movements. That is, investors may not be able to benefit from the portfolio's performance, as the performance of the vehicle is driven by market sentiment.

RISKS OF THE INVESTMENT

SECTOR RISKS

Funds within the “Australian Equities/Listed Investment Entities” sector are exposed to the following broad risks:

MARKET & ECONOMIC RISK: As is the case with all long only Australian Share funds, the biggest risk to performance is a sustained downturn across the Australian share market. In addition, changes in economic, social, technological or political conditions, as well as market sentiment could also lead to negative fund performance. This risk can be significantly reduced by investors adhering to a LIC's/LITs prescribed investment time frame.

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 customer.

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

STYLE BIAS RISK: Australian equity managers will either employ a Growth, Value or Neutral (combination of Value & Growth) styled approach to investing. Each style is conducive to certain market conditions, i.e. Growth should outperform Value in an upward trending market and vice versa in a downward trending market. As with Market Risk, investors should adhere to the LIC's/LITs investment time frame to avoid short-term market movements and style impact.

CAPACITY RISK: High levels of funds under management (FUM) can present additional challenges to an Australian equity manager, as high FUM has the potential to hamper the manager's ability to trade efficiently and/or be forced to disclose substantial shareholdings to the market (most common in smaller companies).

PREMIUM/DISCOUNT TO NET ASSETS: Investors need to be aware that as a LIC/LIT, shares/units will have their own trading patterns and may trade away from their net asset value. This may impact the effectiveness of the investment process and/or expected risk-return profile in the hands of the investor.

COMPANY RISKS

Zenith has identified the following key risks of the Company. 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.

REMUNERATION RISK: As all parties involved in the Company, with the exception of Louise Walsh (Chief Executive Officer) and Emily Fuller (Impact Manager), work on a pro bono basis (including Wilson Asset Management, advisers and the underlying fund managers), Zenith considers the lack of remuneration as a risk that may potentially cause parties to cease involvement due to lack of monetary incentives. This is partly mitigated by the Company limiting capital allocations to each manager at approximately 10% of net assets, with the aim of reducing the impact on managers' profit margins.

SHORT SELLING RISK: Underlying funds that the Company invests in may engage in short selling. Short selling involves borrowing and selling securities the funds do not own. The action of stock borrow creates an obligation to redeliver the securities borrowed (or their equivalent) on an agreed date, or if circumstances change on demand from the stock lender. Short sale positions create an unlimited risk for the portfolio, if the stock price of the security rises and the underlying fund is unable to buy the securities back in the market place. The act of buying securities in a rising market can add to the positive price momentum and add to the losses in the underlying funds and in turn, the Company.

DERIVATIVES RISK: Underlying funds can use various derivatives including options and futures. These investment securities can be volatile, speculative, illiquid and leveraged.

RELATED PARTY RISK: Zenith notes that there are a number of related parties with regards to the underlying fund managers and the members of the Investment Committee and the Board. Although we believe that all activities and decisions are made with the best interest of all the Company's stakeholders, we would prefer fully independent parties in all investment functions. In addition, we note that these parties do not receive any monetary benefit for their services, which further alleviates our concerns.

QUALITATIVE DUE DILIGENCE

ORGANISATION

Future Generation Investment Company Limited (ASX:FGX) is one of two charitably focused Listed Investment Companies (LICs) offered to market by founder Geoff Wilson. The Company was listed on the ASX on 18 September 2014 and offers investors the opportunity to gain access to prominent Australian fund managers.

The Company, the underlying fund managers and the service providers do not charge any fees for managing investments and services. The Company donates 1% of Net Asset Value per year to Australian charities focused on children at risk.

In March 2016, Louise Walsh was appointed Chief Executive Officer of the Company. Walsh is also the CEO of Future Generation Global Investment Company Limited. Walsh and Emily Fuller, Impact Manager, are the Company's only two staff members.

The Board of Directors of the Company comprises the following individuals:

- Jonathan Trollip, Chairman and Non-Executive Director, appointed October 2013
- Geoff Wilson, Non-Executive Director, appointed July 2014

- David Leeton, Non-Executive Director, appointed April 2015
- David Paradice, Non-Executive Director, appointed April 2015
- Gabriel Radzyminski, Non-Executive Director, appointed October 2013
- Kate Thorley, Non-Executive Director, appointed April 2015
- Scott Malcolm, Non-Executive Director, appointed April 2015

Zenith is currently comfortable with the composition of the Board, which is technically independent. Given the high importance of shareholder engagement when operating LICs, Zenith believes the Board will need to ensure this is managed appropriately.

As at 31 March 2020, the Company had a market capitalisation of approximately $A 362 million.

INVESTMENT PERSONNEL

Name	Title	Tenure
Geoff Wilson	Investment Committee Member	5 Yr(s)
Gabriel Radzyminski	Investment Committee Member	5 Yr(s)
Matthew Kidman	Investment Committee Member	5 Yr(s)
Bruce Tomlinson	Investment Committee Member	3 Yr(s)
David Smythe	Investment Committee Member	3 Yr(s)
John Coombe	Investment Committee Member	1 Yr(s)

Investment Committee

Unlike more traditional externally managed LICs, the Company is managed by an Investment Committee (IC), the members of which are listed in the table above.

The IC is responsible for sourcing and the ongoing monitoring of fund managers. Formally, the IC meets on a quarterly basis to discuss the portfolio and potential changes. Members of the IC typically have backgrounds in investment and/or fund manager research as well as investment management. Zenith believes the current IC is highly qualified in the assessment and selection of fund managers. In addition, we believe that the IC effectively leverages its extensive networks in order to identify high-quality managers.

Zenith notes that members of the IC are not solely dedicated to managing the Company. Given the number of strategies available, Zenith believes the Company would benefit from additional resources. However given that underlying manager turnover is expected to be relatively low, current resources are sufficient.

All parties involved in the Company, with the exception of Louise Walsh (Chief Executive Officer) and Emily Fuller (Impact Manager), work on a pro bono basis (including Wilson Asset Management, advisers and the underlying fund managers). Zenith believes this allows for the greatest possible proportion of management costs to be donated to charity, which is in line with the Company's philanthropic objectives.

INVESTMENT OBJECTIVE, PHILOSOPHY AND PROCESS

The Company's investment objective is to deliver investors a stream of fully franked dividends, provide capital growth and preserve capital. Zenith would prefer to see the delineation of a specific outperformance target, as opposed to a descriptive, qualitative objective.

To achieve the Company's investment objective, the IC selects from a range of actively managed Australian equities portfolios. The IC has in the past demonstrated a preference for boutique fund managers over those that are institutionally owned.

The Company has a dual investment objective of delivering shareholder and social returns. Given that all managers will not charge management and performance fees, the Company is fee-ambivalent, which allows for the selection of active managers that display genuine ability to outperform over the medium to long-term.

As a charitable LIC, the Company is not influenced by career or business risk in its decision making, which Zenith believes is conducive to meeting its investment objectives. Furthermore, as the Company donates 1% of net asset value per year to charity, Zenith believes there is a clear philosophical alignment.

SECURITY SELECTION

The fund manager universe is largely derived from the IC’s contact list garnered from their positions within the investment industry. The underlying universe consists of equity long-only, absolute return and market neutral managers.

The Company prefers to invest in boutique asset managers, often with a strategy that displays an active approach. The Company may also invest in new fund managers but only those whose key staff have extensive experience and a strong performance track record from previous businesses.

From a qualitative perspective, the manager selection process is based on an assessment of the underlying manager's investment process, investment team strength, performance history through various market cycles and an assessment of the manager’s performance potential going forward. Other issues considered include fund capacity constraints, organisational stability and liquidity within the fund. The structure of the underlying fund is also important, including its income distribution profile, as wholesale investor redemptions could potentially impact on after-tax returns.

Relative to its multi-manager peers, Zenith believes the Company’s manager selection process is less robust and structured and may fail to deliver optimum investment outcomes. However, we believe this is yet to demonstrably compromise the Company's ability to source high calibre managers, and the willingness of managers to participate.

PORTFOLIO CONSTRUCTION

The Company's portfolio construction process is the responsibility of the IC and ultimately the Board. In terms of strategic allocations, the IC aims to build a portfolio with the following medium-term targets:

- *Long-only strategies*: 50%, with a 30% to 70% range
- *Absolute return strategies*: 25%, with a 15% to 35% range
- *Market neutral strategies*: 20%, with a 10% to 30% range

- *Cash*: 5%, with a 0% to 10% range

As at 31 March 2020, external manager exposure is gained through investments in:

- Bennelong Australian Equity Partners (Long Only)
- Paradice Investment Management (Long Only)
- Regal Funds Management (Long Short)
- Eley Griffiths Group (Long Only)
- Tribeca Investment Partners (Long Short)
- Wilson Asset Management (Long Short)
- Cooper Investors (Long Only)
- L1 Capital (Long Only & Long Short)
- Watermark Funds Management (Market Neutral)
- Sandon Capital (Long Short)
- Bennelong Long Short Equity Management (Market Neutral)
- Firetrail Investments (Long Only & Market Neutral)
- CBG Asset Management (Long Only)
- Vinva Investment Management (Long Only)
- Sage Capital (Long Short)
- LHC Capital (Long Short)
- Centennial Asset Management (Long Short)
- Smallco Investment Manager (Long Only)
- QVG Capital (Long Only)
- Lanyon Asset Management (Long Only)

Since our last review, the IC has made changes to the investment manager line up:

- Removed - ARCO Investment Management (Market Neutral)
- Added - Firetrail Investments (Long Only)
- Added - Sage Capital (Long Short)

The Company's portfolio positioning is weighted according to the IC's conviction regarding the prevailing investment environment. Zenith believes the IC has significantly advanced their assessment capability in recent years regarding blending manager investment styles and analysing manager performance correlations, which we view positively. However, we believe that further refinement of these capabilities is required.

Investors should note that due to a range of factors, including performance generated by underlying managers, the prevailing investment environment and fund cash flows, weights may deviate materially from strategic allocations. Portfolio positions will generally be rebalanced if the underlying fund manager underperforms for a prolonged period of time or displays other operational or organisational issues.

For a manager to be introduced or removed from the Company, unanimous agreement is needed by the IC, who then presents the recommendation to the Board for final approval.

Zenith notes that there are a number of related parties with regards to the underlying fund managers and the members of the IC and the Board. Although we believe that all activities and decisions are made in the best interest of all the Company's stakeholders, we would prefer fully independent parties in all investment functions, along with a formal conflict of interest policies to be in place. However, we note that these parties do not receive any monetary benefit for their services, which alleviates our concerns on this matter.

Zenith believes the Company's portfolio construction approach is less stringent than other multi-manager funds, who typically institute tighter bands or constraints to ensure adherence to a more defined manager mix. That said, we believe the Company's approach is aligned with its investment philosophy given it is dedicated to charity and philanthropy.

RISK MANAGEMENT

Portfolio Constraints	Description
Exposure to a single manager (%)	max: 20%
Cash (%)	max: 100%
ESG Constraints - Excluded Sectors	N/A

Investment risk is considered during the identification and selection of the underlying investment managers. While the IC is willing to accept some investment personnel risk in the belief that highly experienced, well credentialed boutique managers have greater potential to outperform, strong consideration and assessment is made of their risk management and downside protection processes.

In addition, the use of multiple investment managers also mitigates investment risk by diversifying the sources of return and reducing the reliance on any one manager to generate excess returns. Allocations to the underlying managers are also actively managed and capped at 20% at the time of investment to ensure no single manager dominates the portfolio.

The Company invests directly into each underlying manager's unit trust, which, in Zenith's opinion, allows for greater transparency of investments and returns.

While Zenith considers the Company’s risk management process and monitoring to be below that of rated peers, we are cognisant of the limitations imposed by the Company's charitable structure.

Environmental, Social & Governance (ESG)

While the Company does not have any specific ESG investment exclusions in the traditional sense, it's underlying managers may utilise ESG factors as part of their own investment processes.

INVESTMENT FEES

LICs can broadly be categorised into two groups from a management cost standpoint on the basis of whether they are internally or externally managed (operating under an IMA). Typically, internally managed LICs have lower proportional management costs due to a larger asset pool. Externally managed LICs tend to have management costs that are more in-line with unlisted managed funds.

The Company does not charge any management or performance fees. However, an annual donation of 1% of Net Asset Value is donated to Australian charities focused on children and youth at risk. Zenith believes that for the purposes of cost comparisons, the annual donation should be treated as a management cost. On this basis, the Company is a cheaper option than the sector average for Australian focused externally managed LICs.

In addition, investment via the Company gives access to the underlying funds at a materially cheaper cost than if investing directly. In the majority of cases, the underlying funds have annual management fees excess of 1% p.a.

Given the excess return potential of the underlying managers, the performance fee can often be significant. As the underlying managers and service providers do not charge any fees for their services, Zenith believes investors in the Company are well placed to benefit from the strong expected performance of the high-quality manager line-up.

As at 31 March 2020, the charities the Company donates to are:

- Act for Kids
- The Australian Children's Music Foundation
- Australian Indigenous Education Foundation
- DEBRA
- Father Chris Riley's Youth Off The Streets
- Giant Steps
- Lighthouse Foundation
- Mirabel Foundation
- Raise
- Variety
- United Way
- Diabetes Kids Fund

Zenith views the charitable initiative embedded within the fee structure positively, with the aim of engaging the community in a positive manner.

Investment Fees	
Product	Future Generation Investment Company Limited
Asset Class	Australian Equities
Sub-Asset Class	Aust. Equities - Long Short
Management Structure	Externally Managed
Management Cost	0.00%
Performance Fee	Nil

Annual Management Fee Comparision		% p.a.
Australian Equities	Peer Average - LICs/LITs (Internally Managed) [1]	0.55%
	Peer Average - LICs/LITs (Externally Managed)	1.07%

[1] *Internally Managed LICs/LITs data use published Management Cost as a percentage of assets. All other vehicles quote management fees and costs inclusive of GST, less Reduced Input Tax Credits where available.*

PERFORMANCE ANALYSIS

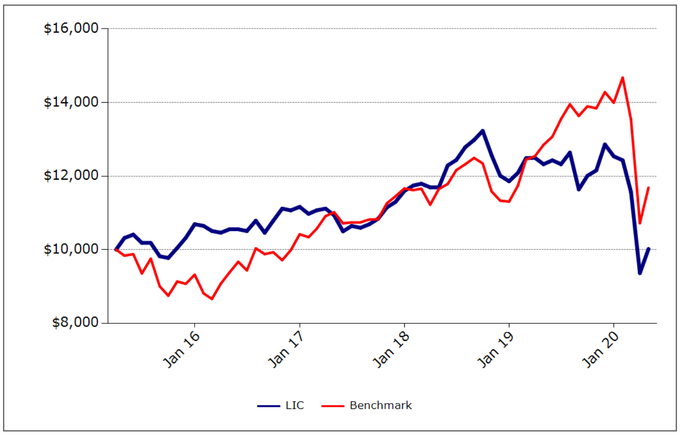
Report data: 30 Apr 2020, product inception: Oct 2014

Monthly Performance History (%, net of fees)

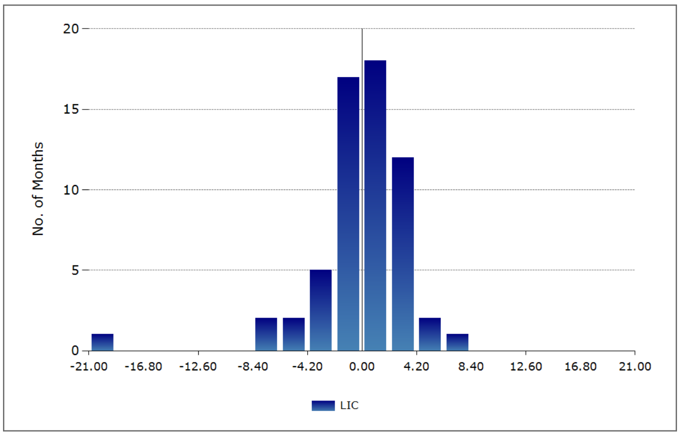
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	LIC YTD	BENCHMARK YTD
2020	-0.86	-6.93	-19.07	7.01									-20.09	-16.49
2019	1.93	3.29	0.10	-1.40	0.85	-0.85	2.56	-7.92	3.17	1.23	5.80	-2.51	5.71	23.78
2018	1.28	0.42	-0.84	0.00	5.08	1.21	2.79	1.55	1.91	-5.02	-4.42	-1.26	2.28	-3.07
2017	-1.71	0.87	0.43	-1.63	-4.00	1.39	-0.46	0.92	1.36	2.87	1.33	2.63	3.86	11.95
2016	-0.43	-1.30	-0.44	0.88	0.00	-0.44	2.68	-3.04	3.14	3.04	-0.43	0.86	4.42	11.80

Benchmark: S&P/ASX 300 (Accum)

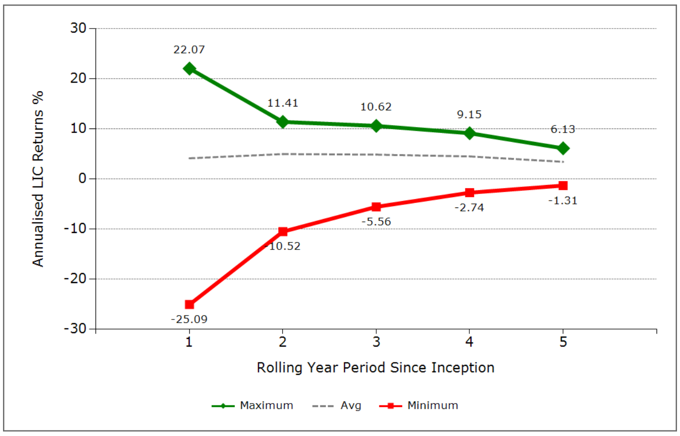
Growth of $10,000



Monthly Histogram



Minimum and Maximum Returns (% p.a.)



ABSOLUTE PERFORMANCE ANALYSIS

Return	Incpt.	5 yr	3 yr	1 yr
LIC (% p.a.)	1.30	-0.59	-2.88	-18.70
Benchmark (% p.a.)	5.20	3.51	1.98	-9.05
Median (% p.a.)	1.30	3.99	0.09	0.90
Ranking within Sector	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund Ranking	3 / 5	4 / 5	7 / 8	10 / 11
Quartile	2nd	3rd	4th	4th
Standard Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
LIC (% p.a.)	12.51	12.81	15.57	23.63
Benchmark (% p.a.)	14.76	15.04	16.54	25.39
Median (% p.a.)	17.96	14.52	17.06	28.90
Downside Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
LIC (% p.a.)	9.50	9.98	12.40	19.00
Benchmark (% p.a.)	10.50	10.99	12.91	20.28
Median (% p.a.)	10.27	9.11	11.45	18.53
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Sharpe Ratio - LIC	-0.05	-0.19	-0.29	-0.84
Sortino Ratio - LIC	-0.06	-0.24	-0.36	-1.04

Readers should note that unless otherwise indicated, all performance, consistency and risk/return data is referenced to the Zenith assigned benchmark (as represented by Benchmark 1 in the above table) with the LIC returns representing those attributable to shareholders (i.e. share price + dividends).

Zenith typically includes the ongoing net returns of a LIC's investment portfolio as we believe this is the best measure of the investment manager's skill. Zenith notes however that the Company has declined to provide this information.

All commentary below is as at 30 April 2020.

The Company's investment objective is to deliver investors a stream of fully franked dividends, provide capital growth and preserve capital. While the Company has no formal benchmark, informally it aims to outperform the S&P/ASX All Ordinaries Accumulation Index, before fees.

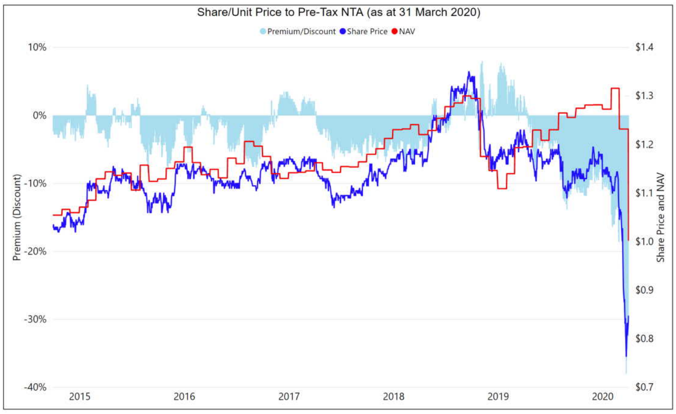
Disappointingly, the Company has significantly underperformed the benchmark over all time periods. However, the Portfolio has outperformed the benchmark over the one, three and five year periods, as well as since inception, before allowances for charitable donations are made.

Zenith believes that transparency of performance reporting is essential for listed investments. As such, we view the Company's public reporting of portfolio investment performance as sub-standard on several measures.

Portfolio performance reporting is done on the basis of typically quoting returns before allowances for charitable donations are made. Given these donations reduce shareholder returns in a manner similar to the impact of management fees in other vehicles, Zenith believes that performance reporting should treat these in a similar manner. Accordingly, Zenith regards this as materially below best practice, out of keeping with contemporary Listed Investment Entities (LICs/LITs) and views it as a detractor from the overall attractiveness of the Company.

Share Price vs. NTA

The following chart shows the Company's premium/discount since inception.



WARNING: Zenith ratings applied to listed vehicles do not explicitly take into account prices relative to net assets and do not represent a buy/sell recommendation based on a listed entity valuation. Potential investors should make their own determination of the appropriateness of prevailing premiums or discounts to net assets when acquiring or disposing of a LIC/LIT.

RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	5 yr	3 yr	1 yr
Excess Return (% p.a.)	-3.90	-4.09	-4.86	-9.65
% Monthly Excess (All Mkts)	46.27	46.67	47.22	41.67
% Monthly Excess (Up Mkts)	33.33	34.21	41.67	28.57
% Monthly Excess (Down Mkts)	68.00	68.18	58.33	60.00
Beta Statistics	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Beta	0.64	0.68	0.82	0.86
R-Squared	0.57	0.63	0.77	0.85

Beta Statistics	Incpt.	5 yr	3 yr	1 yr
Tracking Error (% p.a.)	9.79	9.20	8.08	9.69
Correlation	0.75	0.79	0.88	0.92
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Information Ratio	-0.40	-0.44	-0.60	-1.00

All commentary below is at 30 April 2020.

It is important to note that the Relative Performance Analysis shown above combines the Company's price returns with income reinvested and as such do not directly reflect the performance of the underlying portfolio.

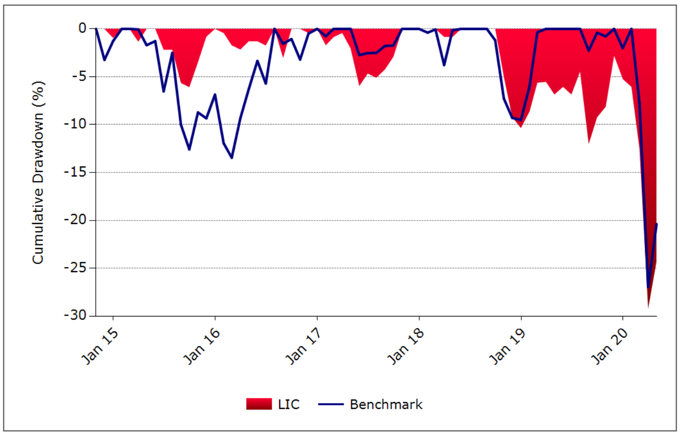
The Company has traditionally demonstrated strong levels of outperformance in down markets, due at least in part to the tenancy to hold high levels of cash.

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	LIC	Benchmark
Max Drawdown (%)	-29.23	-26.97
Months in Max Drawdown	18	2
Months to Recover	-	-

Worst Drawdowns	LIC	Benchmark
1	-29.23	-26.97
2	-6.09	-13.46
3	-5.97	-9.51
4	-3.04	-3.78
5	-2.16	-3.24



All commentary below is at 30 April 2020.

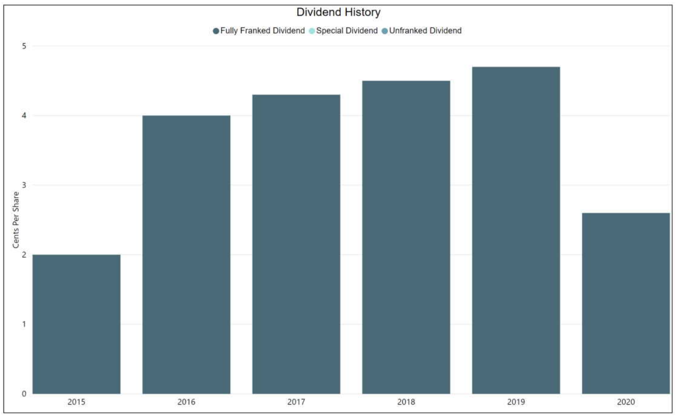
Zenith notes that in some cases, drawdowns experienced by the Company have been higher than the benchmark.

Investors should be aware that accessing a strategy via a listed vehicle will mean that the effectiveness of the strategy may be significantly diminished due to the vehicle's own trading movements. That is, investors may not be able to benefit from the portfolio's performance, as the performance of the Company is driven by market sentiment.

Dividend Policy

The Board is committed to paying a stream of fully franked dividends to shareholders, provided the Company has sufficient profit reserves and franking credits and it is within prudent business practices. Dividends will be made with consideration to cash flow, cash holdings and available franking credits.

The Company has a Dividend Reinvestment Plan (DRP) in operation. Pricing is on the basis of the VWAP (volume weighted average price) of shares sold on an ex-dividend basis, three trading days from the ex-dividend date inclusive of the ex-dividend date.



REPORT CERTIFICATION

Date of issue: 2 Jun 2020

Role	Analyst	Title
Author	Adele O'Shannassy	Investment Analyst
Sector Lead	Dugald Higgins	Head of Real Assets & Listed Strategies
Authoriser	Bronwen Moncrieff	Head of Research

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RATING HISTORY

As At	Rating
2 Jun 2020	Recommended
23 May 2019	Recommended
5 Jun 2018	Recommended
8 Jun 2017	Recommended
6 Jun 2016	Approved

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

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