Zenith Investment Partners

Highly Recommended
Recommended
Approved
Not Rated
Redeem

Product Assessment

Regal Investment Fund

Rating issued on 26 Apr 2019

VIEWPOINT

The Trust is a newly incorporated Listed Investment Trust (LIT), managed by a Sydney-based Regal Funds Management (RFM). The Trust offers investors exposure to RFM's investment strategies, which are predominantly managed under an Australian and Asian equity long/short framework. Although Zenith has a high regard for RFM's investment personnel and underlying investment capabilities, we will look to build conviction in RFM's asset allocation skills.

RFM was founded in 2004 and has offices in Sydney and Singapore. As at 31 March 2019, RFM managed approximately $A 1.6 billion in funds under management.

RFM's Chief Investment Officer, Philip King, leads an investment team comprising 24 investment professionals. Zenith considers the investment team to be well resourced and experienced to manage RFM's suite of strategies. Zenith maintains a high opinion of King and considers him to be a strong long/short investor.

RFM's investment philosophy is based on the belief that the market is broadly correct in valuing companies. However, due to a range of factors, such as human emotion, temporary supply and demand imbalances, the market can misprice companies. RFM seeks to identify these mispricings and the factors driving the market's view.

RFM's investment process is typically centred on a four-step stock selection process that includes the following: Valuation; Macroeconomic analysis; Catalyst Identification; and Insight. In Zenith's opinion, RFM's security selection process is less formalised compared to peers, instead relying on the stock selection skills of the portfolio managers and analysts, particularly King.

A dedicated Investment Committee (IC), comprising key RFM investment members, is responsible for constructing the Trust. The IC determines strategy weightings with regard to prevailing market conditions. Each strategy will be considered on the basis of current and expected return and volatility expectations, correlations between strategies, market valuations and consideration of the impact on the overall portfolio's return and risk outlook in the context of the Trust's objective.

While overall the portfolio construction process lacks the rigour of peers, the underlying investment strategies are of high quality. Zenith acknowledges that King has demonstrated a strong track record over the long-term from several of the key investment strategies included in the Trust and he has historically generated impressive investment outcomes

Investments in the Trust are restricted to strategies that are implemented by a member of RFM. Where practical, the Trust will mirror the underlying investments of RFM's strategies rather than investing directly into RFM's unit trusts. The majority of investments will be held directly by the Trust, with the exception being exposure to a RFM close-ended fund. Zenith considers RFM's method of access to its underlying strategies to be best practice as it avoids the potential for conflicts of interest.

On listing, Trust units are expected to have a net asset value equal to the listing price. This is achieved by RFM directly absorbing the initial establishment costs, which Zenith views as best practice. RFM is seeking to raise a minimum of $A 100 million under the offer, with a maximum of $A 500 million with no oversubscriptions. The closing date of the general offer is 29 May 2019.

FUND FACTS

- LIT providing exposure to a selection of alternative and long short equities strategies
- Exected to typically hold approximately 1,000 securities, generally with more long positions than short positions
- Maximum gross market exposure of 300% with net market exposure typically between 0%-100%
- Expected portfolio turnover to be approximately 1,000% p.a.

APIR Code
ASX:RF1

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

Investment Style
Long / Short

Investment Objective
To provide investors with exposure to a selection of alternative investment strategies managed by Regal, with the aim of producing attractive risk adjusted absolute returns over a period of more than five years with limited correlation to equity markets.

Zenith Assigned Benchmark
RBA Cash Rate
RF1 Net Portfolio Returns

Fees (% p.a., Incl. GST)
Management Cost: 1.79%
Performance Fee: 22% of net performance over the RBA Cash Rate.

ABSOLUTE RISK (SECTOR)	RELATIVE RISK (FUND WITHIN SECTOR)
VERY HIGH	Geared
▶ HIGH	▶ Active - Benchmark Unaware
MODERATE	Active - Benchmark Aware
LOW	Index - Enhanced/Fundamental
VERY LOW	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 Trusts (LITs)

In assessing the performance of LITs, it is vital to understand how their structure affects the final performance figures as it is materially different to unlisted funds. As listed vehicles, the portfolio returns generated are exposed to additional volatility from unit price movements and can trade at significant premiums or discounts to Net Asset Value (NAV).

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

- Unit price and distributions
- Change in NAV and distributions
- 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 for holders given the potential for unit price movements on the ASX.

At various times when assessed on a purely quantitative basis, a LIT can trade away from its NAV 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 NAV, therefore, gains cannot be crystallised.

LITs differ in several important ways from Listed Investment Companies (LICs). Of particular note, owing to the trust structure used by LITs, 100% of net trust income must be paid as a distribution in the year it is earned. As a company, LIC's will pay dividends at the election of the Board in accordance with the LIC's dividend policy. LIC profits may be retained in order to create a more even flow of dividends.

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.

Zenith benchmarks all strategies in this space against the S&P/ASX 300 Accumulation Index, believing it is a fair representation of the investment universe for the underlying managers. However, many managers in this category benchmark their funds against the S&P/ASX 200 Accumulation Index. Both indices are market-capitalisation weighted, resulting in those companies with the largest market capitalisations receiving the heaviest weightings within the index. Over the longer-term, Zenith believes there will be minimal difference between the return profiles of these indices.

The Australian share market, as represented by the S&P/ASX 300 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 28 February 2019, the Financials and Resources sectors combined represented a significant portion of the S&P/ASX 300 Accumulation Index, with the Financials sector accounting for approximately 32% of the index, and Materials approximately 19%. The split between Industrials and Resources stocks was approximately 80%/20%. The top 10 stocks represented approximately 42% of the weighting of the Index, and the top 20 stocks represented over 57% of the Index.

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.

The Trust employs a multi-strategy approach. That is, the Trust invests solely in RFM's internal investment strategies, which generally operate under a long/short framework.

The Trust will typically maintain a net equity exposure between 0% and 100%. Although the Trust's net exposure is expected to remain below 100%, which generally results in lower levels of volatility relative to long-only Australian equity peers, Zenith notes that the Trust employs leverage. The gross exposure (total long plus total short positions) of the Trust is expected to be between 200% and 300% over the long-term, with a maximum of 300%. This is an important measure for investors to understand as it indicates the real leverage in a portfolio, which may amplify losses should RFM be unable to deliver added value from both its long and short components. That is, gross leverage of greater than 100% magnifies the level of success and failure. As such, Zenith encourages investors to adopt a medium to longer-term investment timeframe of more than five years when investing in the Trust.

Given the Trust's differentiated underlying investments, which includes market neutral, active extension long/short and unlisted equities strategies, Zenith believes the Trust's return profile will be significantly different to that of its long-only peers. That is, we believe the Trust will provide diversification benefits for an investor's existing Australian equities exposure, which has the potential to enhance the overall risk/return profile of a portfolio.

The Trust's portfolio turnover is expected to be approximately 1,000% p.a., which Zenith considers to be very high. Given this expected level of turnover, the majority of the Trust's returns are expected to be delivered via the realisation of capital gains in income distributions, rather than through capital appreciation in the unit price. In addition, realised capital gains are highly unlikely to be eligible for the capital gains tax discount, which can have a further negative impact on the after-tax outcomes for high tax paying investors. As such, holding all else equal, the Trust may be more appealing to investors who are nil/low tax payers or high marginal tax rate payers who invest through tax-effective vehicles such as a superannuation fund.

Investors also need to be aware that as a LIT, the units will have its own trading patterns and may trade away from net tangible assets, which may impact the effectiveness of RFM's investment process and/or expected risk-return profile.

RISKS OF THE INVESTMENT

SECTOR RISKS

Fund's 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.

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: As with most boutique fund managers, key person risk is considered high. Zenith's rating is predicated on Phil King's ongoing involvement in the investment process, and should this change, Zenith would immediately reassess the Fund's rating. However, we believe that King's equity ownership in the business mitigates the risk of his departure over the medium-term.

LEVERAGE RISK: The Trust has the ability to short sell stock and use the proceeds to increase its long exposure. This increases an investor's exposure to RFM's stock specific decisions and can magnify returns and losses. The maximum gross exposure, the sum of the Trust's long and short exposures, is limited to 300% of the value of the Trust's net assets.

SHORT SELLING RISK: These strategies engage in short selling. Short selling involves borrowing and selling securities a fund does 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 RFM 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 a portfolio.

TRACK RECORD RISK: Zenith continues to have a high level of confidence in King's capabilities as a long short investor. However, Zenith notes that management of a multi-strategy approach has not traditionally formed part of the skill set of King or the RFM business.

CAPACITY RISK: Excessive levels of funds under management (FUM) can inhibit RFM's ability to trade portfolio positions effectively, and therefore limit outperformance potential. The capacity target for the Trust is subject to the capacity constraints of the underlying strategies. At current levels of FUM across the strategies and that available to the Trust based on full subscription, Zenith does not believe the Trust is impacted by capacity limitations. Although Zenith considers the capacity limit to be reasonable, we will monitor the level of FUM in the strategies.

FOCUS RISK: In addition to the Trust, King is involved in the management of a number of RFM's strategies. Whilst there is a risk that King's other portfolio commitments may have the potential to draw his focus away from the Trust, Zenith notes that there is a high degree of overlap between the strategies, somewhat mitigating this risk.

UNLISTED INVESTMENT RISK: The Trust may gain exposure to unlisted securities that are expected to list within 12 months of purchase. While unlisted securities offer investors the potential for extraordinary returns upon listing, Zenith believes they are subject to high levels of risk, in particular, the illiquidity profile that is associated with unlisted investments. While units in the Trust can be traded on the ASX, illiquid positions in the portfolio could impede optimal asset allocation should there be material movement in values of the liquid portfolio.

DERIVATIVES RISK: The Trust may use derivatives for hedging and non-hedging (e.g. to gain short-term exposure to the market) purposes and losses may occur from adverse movements in the underlying security. The Trust may trade a list of instruments including options, futures and swaps. Several of these instruments the Trust can trade are not exchange traded (i.e. they are traded Over-The-Counter).

PRIME BROKER AND COUNTERPARTY RISK: The Trust intends to use the following prime brokers: UBS AG Australia Branch; Credit Suisse Securities (Europe) Limited; Merrill Lynch International (Australia) Limited; and Morgan Stanley &

Co. International plc. The Trust is required to transfer collateral to its prime brokers in respect of the securities that are borrowed to be sold short. The collateral is not required to be segregated, and in the event of an insolvency, may not be recoverable in full. The Trust will rank as an unsecured creditor in the event of an insolvency with one of its prime brokers and it may not be able to recover amounts due to it in full. This means that the Trust has exposure to counterparty risk with the above-mentioned entities.

LIQUIDITY RISK: There is a risk that positions cannot be exited readily due to infrequently traded securities or limited volumes. This means that the strategy may experience losses. Access to liquidity is highly important in a market neutral strategy where illiquidity issues can expose the strategy to unintended market and sector risks (i.e. the strategy is unable to remain market and sector neutral). Where positions cannot be readily exited, the strategy may risk not being implemented properly (i.e. will not be able to hedge positions due to illiquidity on either the long or short side).

BENCHMARK RISK: The Trust invests in stocks, however, Zenith notes that the Trust is benchmarked against the RBA Cash rate, on which a performance fee is measured against. Therefore, Zenith believes the Trust's performance fee is not aligned with a benchmark that is reflective of its investment opportunity set.

REGULATORY RISK: Legal, tax and regulatory developments may adversely impact a strategy. In recent years there has been an increase in regulatory scrutiny of hedge fund activity particularly short selling. In September 2008, in response to global market conditions, the Australian Securities and Investment Commission (ASIC) temporarily banned short-selling in ASX listed companies. The ban has since been lifted but the Government has introduced additional short selling reporting requirements.

QUALITATIVE DUE DILIGENCE

ORGANISATION

Regal Funds Management (RFM), founded by Philip and Andrew King in January 2004, is based in Sydney and employs a fundamental investment strategy across a number of investment capabilities.

RFM has an office in Singapore where an investment team focused on the Asian component of RFM's strategies is based.

RFM is majority owned by Andrew King and Phil King, who collectively hold a 100% equity stake. In July 2010, Ascalon Capital Managers Ltd (Ascalon) acquired a 30% equity stake in the business, however, this stake was reacquired by RFM in October 2018. In late 2018, senior staff were invited to participate in an Employee Share Ownership Plan.

The Trust is seeking to raise a minimum of $A 100 million under the offer, with a maximum of $A 500 million, with no oversubscriptions. RFM will cover the costs of the offer so that upon listing, Fund units are expected to have Net Asset Value (NAV) equal to the listing price.

INVESTMENT PERSONNEL

Name	Title	Tenure
Phil King	Chief Investment Officer / Portfolio Manager	12 Yr(s)

RFM's investment team comprises 24 investment professionals and is led by Phil King.

Prior to joining RFM, King held senior investment roles at De Putron Funds Management in London and Macquarie Bank on the sell side. Zenith maintains a high opinion of King and considers him to be a strong long/short investor.

RFM has appointed new investment personnel in recent years to strengthen the depth of the overall team. This includes portfolio managers that are responsible for managing the discrete strategies across the business. RFM has also sought to focus its hiring efforts on analysts with sector specialisations.

King, in his role as RFM's Chief Investment Officer, holds ultimate accountability for the Trust. A dedicated Investment Committee (IC), comprising key investment members, is responsible for constructing the Trust. These members comprise Deepan Pavendranathan (Head of Events & Trading), Jovita Khilnani (Portfolio Manager), Todd Guyot (Portfolio Manager), Brendan O'Connor (Chief Executive Officer).

The IC will meet formally at least quarterly to discuss the portfolio positioning, risk management and any tactical changes to strategy exposures.

RFM's compensation structure is aligned with the end investor, with the team receiving a base salary and a bonus based on a combination of: firm profitability; portfolio performance; and contribution to the broader team. In addition, RFM introduced an employee share ownership plan in 2018, which we believe will further align the investment team with investors.

Zenith considers the investment team to be well resourced and experienced to manage RFM's suite of strategies. King remains critical to the process and Zenith's assessment of RFM and the Trust is premised on him remaining with the business.

INVESTMENT OBJECTIVE, PHILOSOPHY AND PROCESS

Through a selection of internally managed RFM investment strategies, the Trust aims to produce attractive risk adjusted absolute returns with limited correlation to equities markets over a period of greater than five years. Zenith would prefer to see the delineation of specific investment objectives, as opposed to descriptive, qualitative objectives. Zenith believes this will provide investors with greater transparency with regards to returns expectations and to the level of risk embedded in the Trust.

RFM's investment philosophy is based on the belief that the market is broadly correct in valuing companies. However, due to a range of factors, such as human emotion, temporary supply and demand imbalances, the market can misprice companies. RFM seeks to identify these mispricings and the factors driving the market's view.

RFM uses a combination of fundamental research, market experience and knowledge to form high conviction ideas and ultimately generate outperformance. These ideas are expressed through a long/short framework.

SECURITY SELECTION

Investments in the Trust are restricted to strategies managed by a member of RFM, which are equities focused and managed under a long/short framework.

The following investment strategies are representative of the Trust's initial exposures:

- *Equity Market Neutral* - Provides a market neutral portfolio of equities with a general focus on Australia and Asia. These strategies are implemented primarily using a combination of individual equities, total return swaps and stock index futures.
- *Active Extension Long/Short Equity* - Provides long and short exposures to Australian equities (large and small capitalisation stocks), using a combination of individual equities and stock index futures. These strategies are long biased and typically have full market exposure.
- *Event Driven* - Attempts to capitalise on price discrepancies and returns generated by passive and low cost investment products as well as corporate activity such as mergers and acquisitions in Australian and international equities.
- *Unlisted Investments* – Investments in unlisted companies that are expected to list in the near term.

While the investment universe varies between each strategy, RFM's investment process is generally consistent and begins with a stock filter or review of the investable universe.

The stock selection process is subjective and involves the fundamental research team visiting companies, liaising with sell-side analysts and building financial models. The filter will identify ideas that are then subject to RFM's four-step stock selection process. The stock selection process incorporates the following four steps:

- *Valuation* - RFM will value a company depending on what it determines the most relevant measure, i.e. DCF, P/E Multiple, P/E Relativities etc. Typically the team is seeking to identify companies that are undervalued (for longs) or overvalued (for shorts) by more than 30%.
- *Macro* - RFM is focused on identifying macro factors that could impact a company achieving its share price re-rating or decline. As part of this process, RFM will consider other hedging opportunities, either at the stock level or the portfolio level.
- *Catalyst identification* - The analyst team is required to identify a catalyst(s) that will contribute to a re-rating of a stock.
- *Insight* - The analyst team is expected to articulate where the market is making a mistake in valuing the company.

RFM holds a weekly investment committee meeting where analysts will put forward stock recommendations for consideration. Following rigorous debate, the portfolio managers will ultimately decide if a stock is added to (or removed from) the portfolio and the appropriate position sizing.

While the majority of RFM's investment strategies are fundamentally driven, the Global Alpha strategy (which is a standalone investment strategy as well as a component of the market neutral strategy) is quantitatively driven. The investment process for the Global Alpha strategy follows the four steps below:

- *Idea generation* - Identifying potential sources of market inefficiencies or mis-pricing through observation of market dynamics. Such sources may include low fee investing, capital market activities and other events such as index events.
- *Back-testing* - Analysing the inefficiency in greater detail and back-testing the investment hypothesis by using historical data and comparable situations.
- *Trade sizing and portfolio construction* - Sizing of trades based on expected market impact, then construct the portfolio
- *Hedging and Isolating Alpha* - Minimising any unwanted risks such as country, sector, currency or commodity risk within the identified trade portfolio, with the aim of isolating and gaining exposure to the inefficiency.
- *Risk Management* - Ongoing monitoring of market dynamics and portfolio analysis.

Overall, Zenith believes RFM's security selection process is less formalised compared to peers, instead relying on the stock selection skills of the portfolio managers and analysts, particularly King.

PORTFOLIO CONSTRUCTION

King, in his role as RFM's Chief Investment Officer, holds ultimate responsibility for the Trust. The Trust has a dedicated Investment Committee (IC) comprising key members largely drawn from each of the RFM strategies being used to construct the Trust. The IC determines strategy weightings with regard to prevailing market conditions. Each strategy will be considered on the basis of each strategy's investment objective, as well as current and expected:

- Return and volatility expectations
- Correlation between strategies
- Market valuations

The impact that each strategy may have on the overall portfolio's return and risk outlook is also considered.

Initially, the Trust will have the following exposure targets:

- Market Neutral strategy - 50% of the Trust
- Global Alpha strategy - 12.5% of the Trust
- Active Extension strategy - 12.5% of the Trust
- Australian Small Companies strategy - 12.5% of the Trust
- Emerging Companies strategy - 12.5% of the Trust

All strategies are capped at a maximum weight of 25% with the exception of the Market Neutral strategy, which is capped at 60%.

While RFM has the potential to include other strategies at a later date, their inclusion is required to be accretive to the overall expected investment outcomes of the Trust.

Investments in the Trust are restricted to strategies that are internally managed by RFM. Where practical, the Trust will mirror the underlying investments of RFM's strategies rather than investing directly into RFM's unit trusts. The majority of investments will be held directly by the Trust, with the exception being an exposure to RFM's close-ended Emerging Companies strategy. Zenith considers RFM's method of access to its underlying strategies to be best practice as it avoids the potential for conflicts of interests.

Specifically for the Emerging Companies strategy, the Trust will be invested in the Regal Emerging Companies Fund III (ECF III). EFC III is an unlisted, illiquid wholesale fund that is subject to a five year lock up. On maturity, EFC III will wind up and return assets to all unitholders, including the Trust. RFM has indicated that it intends to launch new EC funds on a regular basis going forward. Once all capital from ECF III is returned, RFM intends to deploy the Trust's capital into another iteration of the EC Fund at the time of its capital raising.

Zenith notes that deploying capital within the Trust to an illiquid vehicle may create the potential for mismatches in asset allocation. RFM has indicated that will try to minimise slippage between selling down ECF III and the new ECF series in five years time. Zenith will monitor these developments closely to ensure slippage is minimised.

The Trust is expected to hold approximately 1,000 positions, generally with more long positions than short positions. Rather than offsetting long and short positions across strategies, RFM aims to invest opportunistically, with the net market exposure of the Trust an outcome of the process.

The Trust's maximum net exposure is 150%, however, it is expected to range between 0% and 100%. Maximum gross exposure is capped at 300% and will typically be maintained between 200% and 300%.

RFM estimates that it may take up to three months from the Trust's listing on ASX to be fully invested. The level of portfolio turnover for the Trust is expected to be high, approximately 1,000% p.a.

In Zenith's opinion, RFM's portfolio construction process relies heavily on King's investment and timing skills. While overall the portfolio construction process lacks the rigour of peers, the underlying investment strategies are of high quality. Zenith acknowledges that King has demonstrated a strong track record over the long-term from several of the key investment strategies included in the Trust and he has historically generated impressive investment outcomes.

RISK MANAGEMENT

Portfolio Constraints	Description
Single Industry Exposure Limit	+/- 30% of NAV
Geographic Exposure Limit - Emerging	+/- 30% of NAV
Geographic Exposure Limit - Frontier	+/- 10% of NAV
Gross Exposure	Typically 200% to 300%. Maximum 300%
Net Exposure	Typically 0% to 100%. Maximum 150%
Single Security Limit - Listed	+/- 10% of NAV
Single Security Limit - Unlisted	2% of NAV
Market Neutral	Target 50% (40% - 60%)
Global Alpha	Target 12.5% (max. 25%)
Active Extension	Target 12.5% (max. 25%)
Australian Small Companies	Target 12.5% (max. 25%)
Emerging Companies	Target 12.5% (max. 25%)
ESG	N/A

As specified in the table above, the Trust has a number of hard limits regarding strategy allocation, gearing and holding limits. In addition, RFM uses a number of soft limits or guidelines to manage the portfolio and all breaches are addressed promptly by the risk committee. Soft limits can be changed by the same risk committee that meets formally on a quarterly basis.

The Trust is expected to hedge foreign currency risk if net gearing to a particular currency exceeds 5% of the Funds NAV. Sector (based on GICS), market cap, and factor exposures are not expected to be fully neutralised and can have negative or positive net exposures.

RFM uses Sungard APT in conjunction with an in-house built risk system. These risk systems track the portfolio and position risks in real time and are monitored daily. The system sends email warnings of any breach of any limits to all members of the risk committee for immediate attention. In addition, the risk system allows RFM to report accurate historical exposures and is able to simulate shocks to the portfolio through scenario analysis.

RFM has indicated that it will utilise external parties to undertake regular stress testing of the portfolio to assess the robustness of the portfolio regarding a number of factors including market sensitivity, liquidity, sizing relative to volatility and individual security level volatility. Zenith views positively RFM's commitment to engage with independent parties for risk management purposes.

Overall, Zenith believes that RFM has a risk management framework in place to achieve its risk objective.

Environmental, Social and Governance (ESG)

Zenith notes that while Environmental, Social and Governance (ESG) considerations are considered within some of RFM's underlying strategies, ESG consideration does not form part of the Trust's mandate.

ADMINISTRATION AND OPERATIONS

Service Providers

The Trust is expected to use the following service providers:

Administrator

Hong Kong and Shanghai Banking Corporation Limited Australia Branch (HSBC) will provide fund accounting, including valuation of the Trust's assets.

Prime Brokers and Custodians

UBS AG Australia Branch, Credit Suisse Securities (Europe) Limited, Merrill Lynch International (Australia) Limited and Morgan Stanley & Co. International plc will provide prime brokerage and custodial services for the Trust.

Auditor

Ernst & Young

Legal

Kardos Scanlon

Unit Pricing

Unit pricing is calculated by HSBC as the administrator. HSBC has developed a formal written policy in relation to the guidelines and relevant factors taken into account when exercising any discretion in calculating unit prices (including determining the value of assets and liabilities).

The Trust's holdings are primarily Australian and Asian stocks that are exchange-traded, with the exception of non-exchange traded derivative instruments the Trust may trade.

Transparency

The Trust is yet to deploy capital, so transparency on positions is not yet available. Zenith believes that RFM has been transparent on all other required areas during the due diligence process.

Personal Trading

All staff are required to have written approval by both management and compliance prior to trading financial securities.

Disaster Recovery

RFM has a formal business continuity plan that analyses various risks and outlines strategies to manage unforeseen events. RFM's Chief Executive Officer Brendan O'Connor has ultimate responsibility for the implementation of the business continuity plan.

Compliance

RFM holds an Australian Financial Services Licence (AFSL) and Capital Markets Services Licence (CMSL) that is suitable for its Trust's offering.

Lazorne Group provides independent regulatory services including oversight and sits on RFM's compliance committee. The Australian and Singapore based businesses of RFM have dedicated compliance committees.

RFM has a formal compliance breach policy and log, and breaches are viewed in the compliance monitoring program on site.

In June 2015, RFM was subject to an investigation by the Australian Securities Investment Commission (ASIC) regarding a specific trade. RFM acknowledged ASIC's concerns, and entered into an Enforceable Undertaking (EU). As part of the EU, RFM's securities trading policies and procedures were reviewed and deemed to be adequate by an independent compliance expert. RFM subsequently implemented best practice enhancements as recommended by the independent compliance expert. Zenith is fundamentally disappointed with the conduct of RFM and the resulting EU.

INVESTMENT FEES

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

The Trust will pay RFM a management cost of 1.79% p.a. including GST. A performance fee of 22% including GST (20% excluding GST) of performance above the RBA cash rate is applicable in a financial year if the portfolio return is both positive and ahead of the benchmark. If the benchmark is negative in a year, a performance fee will only be paid on the positive component of the outperformance. The performance fee is calculated and accrued monthly and payable six monthly ending 30 June or 31 December. Performance fees are calculated on NAV so as to remove the management cost.

Zenith believes the performance fee for the Trust is poorly structured due to the lack of an appropriate benchmark. Given the Trust will typically exhibit some equity-like risk/return characteristics, an appropriate benchmark is required to ensure that any performance fees payable are justified. As it currently stands, Zenith believes that the hurdle applied to the performance fee is too low and not commensurate with the Trust's risk profile.

It should be noted that a comparison of the Trust's fee structure relative to peers in the Zenith LICs/LITs peer group is unrealistic given the strategy for that of the Trust. Notwithstanding, Zenith considers the fees charged to be highly uncompetitive in an absolute sense. However, we note that the underlying RFM strategies have generally delivered strong performance.

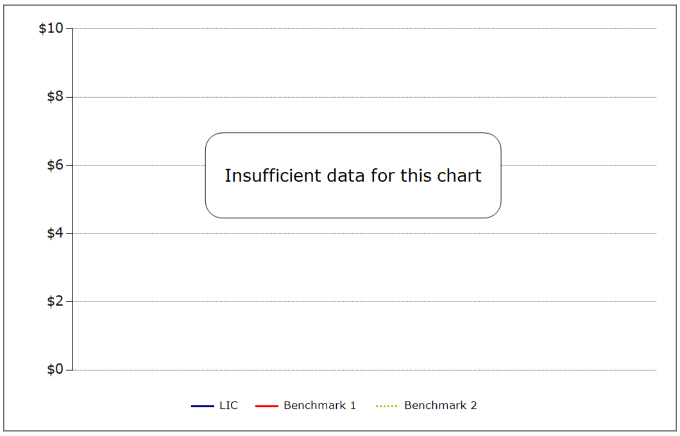
Investment Fees		
Product		Regal Investment Fund
Asset Class		Australian Equities
Sub-Asset Class		Aust. Equities - Long Short
Management Structure		Externally Managed
Management Cost		1.79%
Performance Fee		22% of the portfolio's outperformance against the RBA cash rate, subject to a high water mark
Annual Management Fee Comparision		**% p.a.**
Australian Equities	Peer Average - LICs/LITs (Internally Managed) [1]	0.60%
	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 managementfees and costs inclusive of GST, less Reduced Input Tax Credits where available. Source: ASX, Zenith.*

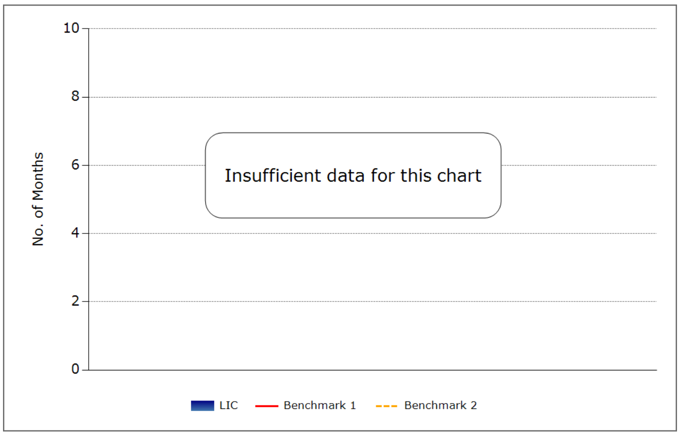
PERFORMANCE ANALYSIS

Monthly Performance History (%, net of fees)

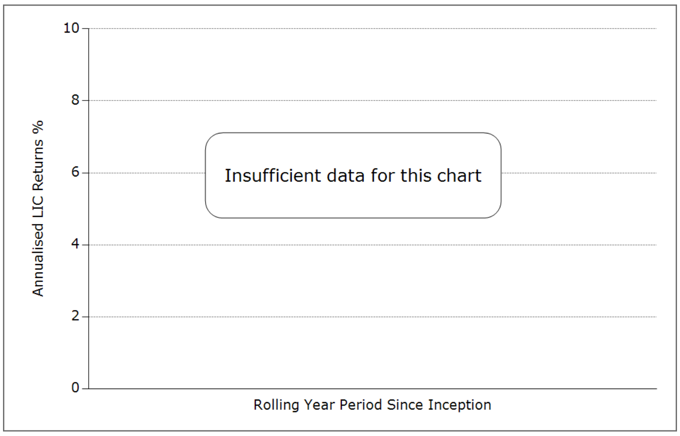
Growth of $10,000



Monthly Histogram



Minimum and Maximum Returns (% p.a.)



ABSOLUTE PERFORMANCE ANALYSIS

The following commentary is effective as at XX April 2019.

The Fund aims to provide exposure to a selection of alternative investment strategies, managed by a member of RFM, with the aim of producing attractive risk adjusted absolute returns over a period of more than five years with limited correlation to equity markets. Zenith would prefer to see the delineation of a specific performance target, as opposed to a descriptive, qualitative objective.

Given the Trust's anticipated inception date of 17 June 2019, there is currently no performance history. However, we acknowledge that the underlying strategies have generally delivered significant outperformance.

RELATIVE PERFORMANCE ANALYSIS

The following commentary is effective as at XX April 2019.

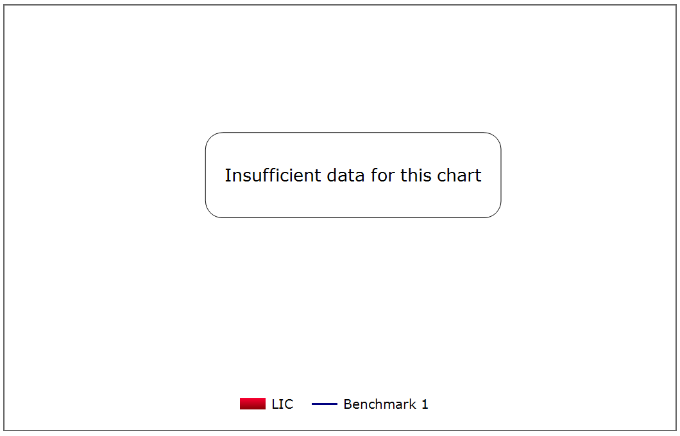
It is important to note that the Relative Performance Analysis shown above combines the LITs unit price returns with dividends to give the reader detail on the investor experience. However, these statistics will not give a true accounting of the managers' skill level, which is best viewed using analysis of net portfolio returns.

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 Trust's anticipated inception date of 17 June 2019, there is currently no performance history.

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.



The following commentary is effective as at XX April 2019.

Given the Fund's anticipated inception date of 17 June 2019, there is currently no performance history.

Despite the relative merit of a strategy, investors should give consideration to the method of access. Accessing through a LIT will mean that the effectiveness of the strategy may be significantly diminished due to the Trust's own trading movements. That is, investors may not be able to benefit fully from the portfolio's performance, as the performance of the Trust may be impacted by market sentiment.

Distribution Policy

The Trust intends to distribute all distributable income annually, but it may do so more frequently at its discretion. The Trust intends to establish a Distribution Reinvestment Plan. To date, no distributions have been paid.

REPORT CERTIFICATION

Date of issue: 26 Apr 2019

Role	Analyst	Title
Author	Dugald Higgins	Head of Property & Listed Strategies
Sector Lead	Dugald Higgins	Head of Property & Listed Strategies
Authoriser	Bronwen Moncrieff	Head of Research

RATING HISTORY

As At	Rating
26 Apr 2019	Recommended
Last 5 years only displayed. Longer histories available on request.	

DISCLAIMER AND DISCLOSURE

Zenith Investment Partners (ABN 27 103 132 672) is the holder of Australian Financial Services Licence 226872 and is authorised to provide general financial product advice. This Product Assessment Report (report) has been prepared by Zenith exclusively for Zenith clients and should not be relied on by any other person. Any advice or rating contained in this report is limited to General Advice for Wholesale clients only, based solely on the assessment of the investment merits of the financial product. This report is current as at the date of issue until it is updated, replaced or withdrawn and is subject to change at any time without notice in line with Zenith's regulatory guidelines. Zenith clients are advised to check the currency of reports and ratings via Zenith's website for updates. Any advice contained in this report has been prepared without taking into account the objectives, financial situation or needs of any specific person who may read it. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Investors should seek their own independent financial advice, obtain a copy of, and consider any relevant PDS or offer document and consider the appropriateness of this advice in light of their own objectives prior to making any investment decision. Zenith charges an upfront flat fee to the Product Issuer, Fund Manager or other related party to produce research on funds that conform to Zeniths Research Methodology. Zenith's fee and Analyst remuneration are not linked to the rating outcome in any way. Views expressed in Zenith reports accurately reflect the personal, professional, reasonable opinion of the Analyst who has prepared the report. Zenith may also receive a fee for other non-research related services such as subscription fees for Zenith's research services and/or for the provision of investment consultancy services. Conflicts management arrangements are in place where Zenith provides research services to financial advisory businesses who provide financial planning services to investors and are also associated entities of the product issuers, with any such conflicts of interest disclosed within reports as appropriate. Full details regarding such arrangements are outlined in Zenith's Conflicts of Interest Policy
www.zenithpartners.com.au/ConflictsOfInterestPolicy

Zenith's research process seeks to identify investment managers considered to be the 'best of breed' through a comprehensive, multi-dimensional selection process. 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 selection process is rigorous in both its qualitative and quantitative analysis and each component is equally weighted. Zenith does not manage any proprietary assets and as such Zenith is able to choose investment managers with absolute independence and objectivity. More detailed information regarding Zenith's research process, coverage and ratings is available on Zenith's website
www.zenithpartners.com.au/ResearchMethodology

This report is subject to copyright and may not be reproduced, modified or distributed without the consent of the copyright owner. The information contained in this report has been prepared in good faith and is believed to be reliable at the time it was prepared, however, no representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented in this report. Except for any liability which cannot be excluded, Zenith does not accept any liability, whether direct or indirect arising from the use of information contained in this report. Past performance is not an indication of future performance.

Full details regarding the methodology, ratings definitions and regulatory compliance are available at
www.zenithpartners.com.au/RegulatoryGuidelines

Zenith has charged Regal Funds Management a fee to produce this report.