

Zurich Investments

Small Companies Fund Class D

Fund Focus - October 2018

Fund commentary

October was a volatile month with a notable derating of high price-to-earnings stocks. The Small Ordinaries Accumulation index was down -9.6% in October, underperforming the S&P/ASX 100. Equities sold off globally on risks including tightening US monetary policy, trade issues, weakness in emerging economies and higher crude oil prices.

The Fund declined in October but outperformed the index by 2.5%.

Performance was positively impacted by Alacer Gold, Decmil Group, IMF Bentham and Ingenia Communities. Alacer Gold reacted positively to higher gold prices and a reduction in political risks in Turkey. Decmil announced a major contract win and increased revenue guidance. IMF Bentham announced a significant capital raising to accelerate its funds management model, with its two existing funds being deployed faster than expected. Ingenia Communities provided a positive market update and earnings growth in-line with the investment team's expectations. Not owning high PE technology stocks Corporate Travel, Afterpay Touch, Wisetech Global and Altium were significant positive contributors to performance.

Fund performance was negatively impacted by Nine Entertainment, Super Retail Group and HT&E. Nine Entertainment declined following a trading update by Nine, Fairfax and Domain prior to releasing the scheme booklet for the Nine/Fairfax merger. The main negative was a weak trading update from Domain with slightly softer trends in television and print. Although the Domain update was a negative, the impact on the valuation of Fairfax was not significant and the investment team continue to remain positive on the merger rationale. Super Retail Group fell after announcing that the chief executive officer (CEO), Peter Birtles, would be leaving the company next year. A trading update from Super Retail Group implying slightly softer sales momentum going into Christmas also negatively impacted the share price. Although the departure of the CEO raises the risk profile for the company, the investment team's view on the remaining management team depth and track record is positive. HT&E fell following a strong run into the payment of the special dividend. The stock remains attractively valued post the sale of Adshel, with a strong balance sheet and robust cash generation from its core radio assets.

A new addition to the Fund in October was Nufarm Limited. The stock was initially sold-off on concerns regarding its glyphosate exposure after a court case in the US. A discounted capital raising provided a suitable entry opportunity by addressing the investment team concerns with the balance sheet and it also provided exposure to a global agricultural chemicals business at reduced costs.

The Fund reflects the small cap value opportunity with traditional valuation metrics remaining compelling versus the market. The Fund is positioned in cyclical sectors which are expected to benefit as earnings bottom and risk appetite increases.

Fund performance after fees'

As at 31 October 2018	1 month %	3 months %	1 year %	3 years %pa	5 years %pa	Since inception %pa
Growth	-7.1	-8.5	n/a	n/a	n/a	-22.9
Distribution	0.0	n/a	n/a	n/a	n/a	14.6
Total	-7.1	-8.5	n/a	n/a	n/a	-8.3
Benchmark	-9.6	-7.7	n/a	n/a	n/a	-8.2

Top 5 holdings as at 31 October 2018

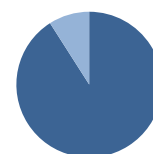
Stock	Sector	%
IMF (Australia) Ltd	Financials	5.2%
Ingenia Communities Group	Real Estate	4.8%
Ozforex Group Ltd	Financials	4.4%
Super Retail Group Ltd	Consumer Discrtr	4.1%
Nine Entertainment Co Hldgs	Consumer Discrtr	3.7%

Sector allocation as at 31 October 2018

Sector	Sector Allocation %	Index Weight %
Consumer Discretionary	15.8	13.1
Consumer Staples	2.8	9.8
Energy	1.0	9.3
Financials	9.6	8.4
Health Care	3.6	6.4
Industrials	9.9	7.3
Information Technology	7.8	9.7
Liquids	9.0	0.0
Listed Property Trusts	9.3	8.8
Materials	10.1	18.0
Utilities	5.5	0.4
Communication Services	10.6	7.8
Real Estate Ex LPT	4.9	0.9

Asset Allocation as at 31 October 2018

	Allocation %
Australian Shares	91.0
Cash	9.0



Investment objective

The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index (net dividends reinvested) over periods of three or more years.

Investment strategy

The Fund generally invests in 30 – 60 securities listed on the Australian Securities Exchange that fall outside of the S&P/ASX 100.

Investment philosophy

Sigma Funds Management Pty Limited believe that by investing in a broad range of undervalued businesses with a bias towards those with lower business risk that they will deliver above-market returns with lower than market risk over the medium to longer term. The investment approach is valuation driven with a clear focus on risk-adjusted returns.

Strategic investment partner

Zurich Investments provides exclusive access to specialists managers recognised as being amongst the best in their area of expertise.

We have appointed Sigma Funds Management Pty Limited to implement the investment management process for this fund.

Sigma is a boutique value manager focused on risk adjusted rates of return. Sigma have a clear, systematic method for evaluating risk and assessing the trade-off between risk and return.

Fund details

APIR	ZUR7150AU
ARSN	136 834 412
Minimum suggested timeframe	7 Years
Inception date	15 Jun 2018
Funds Under Management	\$67.65m
Minimum initial investment	\$5,000
Minimum additional investment	\$1,000
Entry fee	Nil
Exit fee	Nil
Distribution frequency	Half Yearly
Distribution reinvestment plan	Yes
Distribution dates	June & December
Buy / sell spread	0.20% / 0.20%
Total Estimated Management Cost [^]	1.78%

[^] Includes an estimate of a performance fee of 20.5% of outperformance over the S&P/ASX Small Ordinaries Index.

Strategic asset allocation

Asset class	Range %	B'mark %
Australian Shares	80-100	100
Cash	0-20	0

Income distributions for the half year

Date	cents per unit
30 June 2018	16.0030

¹ Performance returns quoted are compound rates of return calculated on exit prices and assume reinvestment of distributions. Returns are calculated net of all ongoing fees and any taxes payable by the fund. Total return includes both growth and distribution returns. Growth return is the change in exit price over the relevant period. The benchmark return shown is a gross return. Please note that figures shown are rounded to one decimal place, therefore some rounding errors may occur.

Past performance is not a reliable indicator of future performance.

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More information

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