Portfolio Change Alert

1 January 2021

Weinberg – Managed Accounts

Alternatives Review

Funds	Change	Rating	APIR Code
Aspect Diversified Futures - Class A	OUT	Recommended	FSF1086AU
Man AHL Alpha (AUD) - Class B	IN	Recommended	MAN0017AU

Rationale for change

The Aspect Diversified Futures - Class A was incorporated into your portfolio as in interim solution whilst platform approval was sought for the Man AHL Alpha (AUD) - Class B Fund. This has subsequently been achieved, so we are now implementing the switch to align your portfolio with our initial proposals.

Importantly, we continue to view the Man AHL Alpha (AUD) - Class B Fund as a superior offering for the following reasons:

1. **Faster Trend Following Signals**

   The Man AHL Fund has faster trading signals with the shortest trend signal as quick as one to two weeks and the slowest being approximately 12 months which results in an average expected holding period of eight to ten weeks. This contrasts with Aspect's models which are typically skewed towards slower moving signals.

   Whilst a faster trend signal can profit by capturing shorter term trends earlier and provide portfolio protection in the early stages of a market sell-off, it also increases the probability of incurring losses during trend reversals.

   To mitigate the impact of trend reversals, particularly in universal 'risk off' environments, AHL seeks to harvest the 'free lunch' from diversification by investing in a broad cross-section of underlying markets and also targeting those that exhibit low correlation with traditional G10 and financial futures markets. AHL's investable universe includes over 500 markets compared to Aspect's more constrained universe of approximately 180.

   AHL has been a market leader at expanding into non-traditional markets such as emerging market currencies, interest rate swaps, electricity futures etc, introducing additional strategy-level diversification. In our opinion, AHL's breadth of markets traded coupled with its niche in non-traditional markets, offsets the potential weaknesses of trading faster in the prevailing environment.

   In sum, we believe that AHL provides the additional benefit over Aspect of being able to capture shorter term trends without compromising its ability to reduce losses incurred during 'whipsawing' markets.

2. **Risk Weighting of Managed Futures Allocation**
   The switch will result in a reduction of the expected volatility associated with the Managed Futures allocation. This is as AHL are targeting volatility of 10% p.a. whereas Aspect target volatility of 17% p.a.

   Therefore, we expect that the transaction will lower the overall risk associated with the portfolios' Alternatives allocation.

3. **Fee Impact**
   We have high conviction in the Man AHL Alpha Fund, as reflected in the Fund's Recommended rating. However, adding to the Fund's appeal is the highly competitive fees comprising a management cost of 0.80% p.a. and a performance fee of 25%. This compares favourably to Aspect which charges a 1.2% p.a. management fee and a 20% performance fee.

The change is applicable to all portfolios and will be effective as at 1 January 2021.

What is Trend Following?

Trend following strategies attempt to capture gains through analysis of the momentum of an asset price. Trend following strategies can earn profits when prices are trending up (e.g. 'long' positions) and when prices are trending down (e.g. 'short' positions).

These strategies assume that asset prices will maintain their 'trend', through analysis of a variety of different indicators. Some of the more common indicators are listed below:

- Moving averages: these signals demonstrate when an asset's price is moving outside of historical averages to determine when an up/down trend is present. For example, a trend following strategy would enter a 'long' position when a short-term moving average asset price crosses a long-term moving average asset price.
- Momentum indicators: these are used to help determine if an asset is overbought or oversold. The most common indicator is a Relative Strength Index (RSI) which measures the speed and change of price movements. For example, the RSI is considered overbought at '70' so a 'short' position would be entered.
- Technical analysis: this relies on observing trendlines and chart patterns based on price, volume and volatility.

Trends exist in financial markets across various timeframes, geographies and asset classes (e.g. shares, bonds, commodities and currencies). Trend following strategies are attractive as they demonstrate very low correlation to traditional asset classes (e.g. shares and bonds) and historically have provided outperformance during equity bear markets.

Importantly, trend following strategies will incorporate the above analysis and trade on different time horizons – some are faster or slower than others. Zenith's view is that trend followers with a shorter time horizon are best placed to navigate these increasingly volatile investment markets. This means they are able to more quickly adapt to changing 'trends'.

For example, the March quarter drawdown represented the fasted bear market on record, so trend followers relying on shorter term signals were able to quickly change their positioning (e.g. to 'short') and profit during this period. Conversely, trend followers analysing longer-term trends failed to move quickly enough to capitalise on the sharp drawdown as their models were slower moving.

Similarly, trend followers adhering to shorter time horizons were able to quickly identify a trend reversal in late March and shift to 'long' positioning. A trend reversal is simply where the direction of a price trend has changed – in this case from trending downwards to upwards.

Man AHL Alpha (AUD) - Class B

The Fund, managed by London-based Man AHL, provides investors with exposure to a managed futures strategy. AHL employs a fully systematic, research driven, quantitative process that exploits technical and price driven signals through investment in a broad range of futures, forwards markets and over the counter (OTC) derivatives markets. Zenith's conviction in the Fund is underpinned by our high regard for the well-resourced research team and robust risk management and controls to minimise the risk of large shocks impacting the portfolio.

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