AUSTRALIAN
RESEARCH
INDEPENDENT INVESTMENT RESEARCH

Regal Investment Fund (ASX: RF1)

April 2019

INDEPENDENT
INVESTMENT RESEARCH

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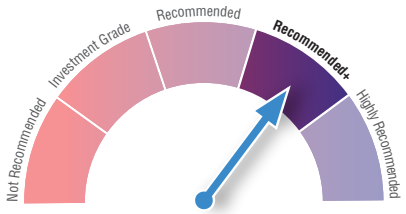
INDEPENDENT INVESTMENT RESEARCH

Regal Investment Fund (ASX: RF1)

Note: This report is based on information provided by the company as at April 2019 and based on the Product Disclosure Statement (PDS).

Rating



Key Investment Information

Name of LIT	Regal Investment Fund
Investment Manager	Regal Funds Management Pty Ltd
Responsible Entity	Equity Trustees Limited
Investment Type	LIT
ASX Code	RF1
Offer Open	29 April 2019
Broker Firm Offer Close	24 May 2019
General Offer Close	29 May 2019
ASX Listing Date	17 June 2019
NTA (Pre-tax)	$2.50
Day 1 NTA	$2.50
Min / Max IPO Raise	$100 / $500m
Units on Issue	40 / 200m
Options Outstanding (m)	Nil
Distribution Policy	At least annually, subject distributable income
Benchmark	RBA Cash Rate
FX Exposure	Actively managed
MER	1.5%
Performance Fee	20% of net return in excess of benchmark

Fees Commentary

Fees amongst Australian focused absolute return LICs / LITs on the ASX vary, but the Trust is broadly in-line with the peer group average. However, the peer group as a whole is expensive when compared more broadly, and has been one reason that globally hedge fund fees have been trending downwards (the other being pressure stemming from relatively poor performance). Fees are not charged at the Underlying Strategies level (no 'double dipping')..

Portfolio Allocation & Characteristics

Market Neutral Strategy	50%
Global Alpha Strategy	12.5%
Australian Long Short	12.5%
Australian Small Companies	12.5%
Emerging Companies	12.5%
Net Gearing	0-150% NAV
Gross Gearing	100-300% of NAV

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

OVERVIEW

The Regal Investment Fund (RF1 or 'the Trust') is seeking to list on the Australian Stock Exchange (ASX) on 17 June 2019 by raising between A$100m to a hard cap limit of $500m. The Trust will be managed by Regal Funds Management Pty Ltd (the 'Manager'), a specialist funds manager of alternative investment strategies founded in 2004 with a superior track-record in both bull and bear markets and with approximately $1.6 billion in funds under management (FUM). The Trust will initially provide exposure to five diversified alternative investment strategies managed by Regal (the 'Underlying Strategies'). Specifically, the expectation (subject to market conditions at the time of investment) is that the initial portfolio will be allocated across the Regal Investment Strategies in accordance with the following: 50% Market Neutral Strategy; 12.5% Global Alpha Strategy; 12.5% Australian Long Short Strategy; 12.5% Australian Small Companies Strategy, and; 12.5% Emerging Companies Strategy. The relative weighting given each strategy may be tactically varied across the market cycle, but any such reweightings are likely to be more tilts and a function of gross leverage at the underlying strategy level more so than the dynamic reallocation of capital. The theme that unites the Underlying Strategies, in addition to strong track-records and a firm-wide investment philosophy and process, is all represent relatively differentiated investment strategies with a focus on absolute returns that together, have a low correlation to equity markets. In short, the Trust will provide exposure to diversified alternative investment strategies which: have a track record of generating superior absolute returns; allow access to strategies not generally available to retail investors; provides diversification with low correlation to equity markets; has the ability to tactically take advantage of volatile markets; and is managed by one of Australia's leading investment managers.

INVESTOR SUITABILITY

Investors should note long-short strategies are leveraged investment vehicles, and with that comes increased risk / volatility and the potential for material downside risk. Historically, all but one of the Underlying Strategies has exhibited greater volatility than the respective benchmarks. With a 50% initial allocation, the Trust has been anchored around the Market Neutral Strategy (beta zero). The rationale is to provide risk-adjusted returns attractive to investors, without being cornered into equity markets given the strategy's limited correlation. This reflects a range of market dynamics combined with the Manager's view. Specifically, market volatility is rising, equity markets have been trending up for ten years and there are several red flags about excessive valuations, the outlook for EPS growth of major Australian listed companies is relatively poor, and many investment vehicles are highly correlated. By blending the Market Neutral Strategy with a range of alternative strategies the Trust gains equity market exposure but through strategies that have exhibited the correlation sought from long/short strategies - positive correlation in rising markets and negative correlation in falling markets. The mix of the strategies seeks to provide the risk mitigating benefits of diversification by security, market capitalisation, sector, geography and style while the ability to tactically reweight is designed to enable investors to benefit from where the Regal investment team perceive the best opportunities across the cycle as well as providing a convenient all-in-one alternative investment vehicle for retail investors.

RECOMMENDATION

IIR ascribes a "**RECOMMENDED PLUS**" rating to The Regal Investment Fund. The Underlying Strategies have, without exception, track records of generating superior absolute returns. The creation of RF1 has come after a period of Regal building out its capabilities over recent years, with the team depth supporting the management of the multiple underlying investment strategies as well as supporting a LIT investment vehicle. IIR view Regal as one of the most experienced fund managers on short side investment, a view supported by a performance track record of an asymmetry of alpha from shorts versus longs and returns true to the absolute returns style. Our primary reservation is the high fees which characterise the hedge fund sector.

SWOT ANALYSIS

Strengths

- A 24-member investment team is well resourced, stable, experienced, open to continuously evolving and improving processes, has a proven track-record and has a strong alignment of interest with investors based on equity ownership and performance measurement. Further, Regal has expanded its capability in recent years not only across multiple strategies but in a way that creates synergies and a symbiotic relationship across the market capitalisation and geographic spectrum. The Trust has been issued at this point in time based on this expanded strategy and capability set.
- Solid performance track-record in the underlying investment strategies. In IIR's view, the stand-out strengths of the multi-award winning Manager include one of the most experienced domestic investment managers on the short side, consistent out-performance, a deep and broad team, risk management processes, especially on short side investing, and a long and proven track record over full economic and market cycles.
- The Manager generates twice the alpha on the short side to the long side in the market neutral strategy, with a view that effective short side investing is a lot less competitive relative to long investing in the domestic market. Additionally, short investing permits the Manager to invest with greater conviction on the long side, given the ability to create gross long exposure greater than 100%.
- Structurally, the Trust is a fund of investment strategies rather than a fund-of-fund (with the exception of the Emerging Companies Strategy). The important distinction is that the allocation of monies to each underlying investment strategy represents a separate sleeve and based on a close-ended trust structure, rather than being invested directly into the existing open-ended fund vehicles. This removes the redemption risk issue that exists in each of the underlying open-ended fund vehicles (the Emerging Companies Strategy is a close-ended investment vehicle).
- The Trust incorporates best-of-breed structural aspects in the LIT / LIC sector. Specifically, issue costs will be borne by the Manager (Day 1 NTA will equal the issue price), no issuance of 'loyalty options', and a hard cap on the upper limit of the capital raise to ensure capacity constraints on the Underlying Strategies are not close to being breached.
- The ability to tactically allocate across the Underlying Strategies mitigates the risk of performance being adversely effected by an investment strategy that may have fallen out of favour at a particular time in the market cycle.
- Most surveys demonstrate that long-short funds outperform long-only funds. Long-short investing can provide an investment manager an informational advantage due to the need to continuously stay across companies in the investment universe.

Weakness

- Fees amongst Australian focused absolute return LICs / LITs on the ASX vary, but the Trust is broadly in-line (albeit at the top end) with the peer group average. However, the peer group as a whole is expensive when compared more broadly, and has been one reason that globally hedge fund fees have been trending downwards (the other being pressure stemming from relatively poor performance). We also note that the RBA Cash Rate benchmark for the performance fee is not commensurate with the risk profile of the Trust. Fees are not charged at the Underlying Strategies level (no 'double dipping').
- The Manager has a long track record and 50% of the expected initial allocation is to the investment strategy with the longest track record, the Market Neutral Strategy. However, it must be noted that a number of the other strategies have relatively short track records and the Market Neutral Strategy has continued to evolve. That said, the inherent risks of this are somewhat offset by a firm-wide investment philosophy and oversight by founder and CIO, Philip King.
- More a feature than a weakness, investors should note that there will be limited, or no ability, to tactically reweight in and out of the less liquid small-, micro-cap and unlisted strategies, specifically the Australian Small Companies Strategy and the Emerging Companies Strategy.

Opportunities

- The Trust is a unique addition to the LIT/LIC sector, providing diversified alternatives exposure to, primarily, Australian and Asian equities managed by one of Australia's leading alternatives managers with a long pedigree of generating attractive returns. The goal is to provide attractive returns with low correlation to equity markets. For investors

with significant equity exposure, the Trust may serve as an effective source of portfolio diversification.

- The permanent capital structure of an LIT provides strengths and opportunities over an open ended vehicle, particularly in the situation of a downturn as well as in the smaller market capitalisation strategies. Regal has a strong track record of generating strong returns following a market downturn.
- Given Regal's track-record, reputation and size (especially in the pre-IPO segment), the Manager benefits from a strong network and access to deals.

Threats

- There is key person risk with the highly regarded CIO and co-founder Philip King. This is both at the investment level, notwithstanding the substantial depth in the investment team and rigorous and defined processes, as well as in terms of market perception of potential impact and the consequent risk of adverse business impacts. Philip King is central to each underlying strategy in terms of investment selection, portfolio construction, risk management and events trading.
- While the Trust benefits from the diversification of investing in multiple underlying strategies, we note that historically some strategies overlap in terms of both underlying long and short positions, somewhat offsetting these diversification benefits.
- In a poor market environment and in which hedge funds in particular have fared poorly, there are heightened risks particularly on crowded short positions given hedge fund deleverage. That said, we believe Regal prudently addresses this risk.
- Investors should be aware that the portfolio's shorting and currency positions may result in heightened stock, sector and geographic-specific risks and volatility.

PRODUCT OVERVIEW

The Regal Investment Fund is seeking to list on the ASX on 17 June 2019, raising between $100m and a hard limit amount of $500m. The hard limit is important, removing the risk of approaching capacity constraints on the Underlying Strategies. The Trust will initially invest in five of the Manager's underlying investment strategies. Over time, the underlying strategies will likely increase should the Manager launch new investment strategies. This is consistent with a key tenet of the Trust, specifically to provide a portfolio with strong diversification benefits and low correlations to equity markets. The Trust's investment portfolio is managed by Regal Funds Management Pty Ltd, a specialist alternative asset funds manager founded in March 2004 by Philip and Andrew King, the former whom had considerable prior long/short experience, primarily in the UK.

The Trust's investment objectives is to provide investors with exposure to a selection of alternative investment strategies managed by Regal that will be actively managed with a focus on market / asset cycles, with the aim of producing attractive risk adjusted absolute returns over a period of more than five years with limited correlation to equity markets. The initial portfolio allocation is expected to be based on the default strategic asset allocations of: 50% Market Neutral Strategy; 12.5% Global Alpha Strategy; 12.5% Australian Long Short Strategy; 12.5% Australian Small Companies Strategy, and; 12.5% Emerging Companies Strategy. On an ongoing basis, the Investment Committee will be responsible for determining the capital allocated to each underlying strategy, ensuring that the portfolio complies with the Fund's investment guidelines (refer to Investment Team section for more information on the members of the Investment Committee). The Manager will use its experience in investing through the various market cycles to tactically determine, based on prevailing market conditions, the relative weighting given to each underlying strategy subject to compliance with minimum and maximum allocations.

The Underlying Strategies are broadly based on a firm-wide investment philosophy. We would characterise this as based on a strong research philosophy, seeking asymmetric payoffs, exploiting market inefficiencies, and a focus on identifying, limiting and managing risk. Hedging at the underlying strategy level and portfolio construction is managed by the CIO, Philip King.

While there has been pent-up underlying demand and interest from sectors of the Australian investing community for some time for Regal to launch an LIT/LIC, the launch of the Trust coincides with Regal having the necessary resources in place. The team now comprises 43 members with 24 investment staff with offices in Sydney and Singapore and six differentiated investment strategies each with a track record of superior returns. Chief

Executive Officer Brendan O'Connor and a Head of Australian Distribution Aidan Kelleher have also been appointed in recent years, as well as the creation of an Investor Relations position, and are well aware of managing products specifically targeted to the retail sector. Combined with a clear commitment from Philip King regarding active communication to the investor market (yet having sufficient support not to be overly diverted from the key portfolio management responsibilities), we believe Regal will effectively manage the share price to NTA risk inherent in LITs/LICs.

Structurally speaking, the Manager has sought to adopt best practices. Costs of the capital raise will be borne by the Manager, there is a hard cap on the upper limit of the capital raising, an on-market buyback will be implemented if required, the expected FUM of the LIT means it has sufficient size to be 'market relevant', and the Manager has shown it will be strongly committed to maintaining strong investor communications. Further, the Trust is a fund of investment strategies rather than a fund of funds. That is, the monies will be invested in separate portfolio sleeves that replicate the portfolios of each of the Underlying Strategies rather than investing in the funds directly (the exception being the Emerging Companies Strategy which has a 5-year fixed investment term). This removes the issue of redemption risk that is inherent in unlisted managed funds as well as any potential CGT issues arising from cumulated gains / losses in these unlisted managed funds.

The premise of the Trust is to build a diversified portfolio of alternative investment strategies that provide differentiated returns with low correlation to equity markets. The addition of the Emerging Companies and Global Alpha strategies were important additions, particularly in regards to diversification as the three other strategies historically have had some commonality of holdings and will potentially do so moving forward. Should Regal launch additional strategies in the future it is quite possible they could be added to the Trust, on the condition that they meet this initial premise of the Trust.

In relation to fees, the MER is equal to 1.50% p.a. (plus GST) of the value of the portfolio. In addition to the management fee, there is a performance fee equal to 20% p.a. (plus GST) of the portfolio's outperformance relative to the Benchmark cash rate over each 6 month period subject to recoupment of prior underperformance. All IPO costs will be borne by the Manager, which should provide investors confidence that the Trust will not trade below the issue price on Day 1.

MANAGEMENT GROUP PROFILE

Regal Funds Management Pty Ltd was established in 2004 by Andrew and Philip King. Shortly thereafter the Atlantic Absolute Return Fund and subsequently the Amazon Market Neutral Fund and the Zambezi Absolute Return Fund were established with Philip King as Portfolio Manager. In May 2007, the Tasman Market Neutral Fund was established, an Australian domiciled version of the Amazon Market Neutral Fund. In July 2009, Regal launched two new products; the Regal Australian Long Short Equity Fund and the Regal Asian Quantitative Fund. In March 2011, the Regal Long Short Australian Equity Fund was launched. (retail feeder Fund for the Regal Australian Long Short Equity Fund). The Regal Australian Small Companies Fund and the Regal Emerging Companies Fund were launched in February 2015 and November 2016, respectively and the Regal Emerging Companies Fund II was launched in April 2018.

In terms of co-investment across the firm, staff and founding capital is significant. Additionally, Philip King, and the Regal balance sheet, has seeded each of the Underlying Strategies. The staff are heavily encouraged and incentivized to invest in the Regal products. The staff invest without fees, and they have a portion of their bonuses over a certain amount to invest in the Underlying Strategies. As such, there is a high degree of alignment with investors at both the founding capital and staff level.

The fact that founding capital is a significant portion of Regal's assets under management facilitates the Manager maintaining conviction on investments given this 'patient' capital mitigates redemption risks as well as being better placed to invest after a down turn.

We note that in 2015 ASIC had launched a civil investigation into the professional conduct of Philip King among other parties. Philip King and Regal complied with all undertakings. IIR has no reason to believe the investigation reflects any cultural issues with Regal and see the risk of this occurring again as no greater than any other high calibre investment manager.

As at March 2019, Regal managed approximately $1.6 billion on behalf of individual investors and institutions, both in Australia and offshore.

INVESTMENT TEAM

Regal has a 24-member investment team with 13 members having portfolio manager responsibilities. What differentiates Regal at a high level is that each portfolio manager is responsible for managing a sleeve within a broader portfolio / investment strategy. For example, the Australian Small Companies strategy has two portfolio managers solely dedicated to that strategy, in addition to Philip King. Each of the three portfolio managers will manage a separate sleeve, with Philip King also having overall responsibility for portfolio construction and risk management.

While this structure may appear to emphasise individualism over team collaboration and consensus, in practice this is far from the case. All investment ideas and portfolio holdings are discussed by the members of a particular investment strategy while risk management is conducted at the whole-of-portfolio level. Further, staff are co-invested at the investment strategy level, rather than in relation to their own separate portfolio sleeve. The advantage of the structure is the accountability and representation each portfolio manager has.

In what we view as neither a negative nor a positive, the structure does mean the investment strategies have a significant number of holdings and relatively long tails. For example, the Australian Small Companies strategy generally has about 50-60 long positions and 25-30 short positions, and the larger cap mandates even a greater number. At the Trust level, the portfolio will comprise a number of holdings well into the hundreds.

Portfolio managers and analysts are a mix between generalists and sector specialists, as befits the strategy they are involved in. The team has been expanded in recent years, most notably with the addition to the investment team in the Singapore office and the appointment of Deepan Pavendranathan as Head of Events Trading (and portfolio manager of the Global Alpha strategy). At the portfolio manager level, these newer appointments are predominantly involved in the flagship Market Neutral strategy. An argument could be made that this introduces additional risk into the strategy, with relatively new team members now accounting for up to 20% of the market neutral strategy. However, in our view, the strong oversight by Philip King and management of the portfolio construction and risk management of each and every strategy tied with the firm-wide investment philosophy and fundamental process greatly mitigates this. Nevertheless, the performance of the Market Neutral strategy over the next few years warrants monitoring from this perspective.

The growth of the team, and launch of new strategies based on that expansion of abilities and expertise, also provides firm-wide benefits. For example, the emerging companies expertise has the potential to ultimately benefit the Small Companies Strategy which also in turn may ultimately benefit the larger market cap Australian Long-Short Strategy. The beefing up of resources in Asia, which represents Australia's key trading area, can also provide informational advantages for the domestic strategies. Regal has built itself into a diverse investment team in a way that has the potential to create strong synergies from a market capitalisation and geographic perspective. And the Trust represents the investment vehicle in which retail investors can capitalise upon these strengths.

As noted, the Investment Committee will be responsible for determining the capital allocated to each underlying strategy. The Fund's Investment Committee is comprised of Philip King (CIO), Deepan Pavendranathan (Head of Events and Trading), Jovita Khilnani (PM), Todd Guyot (PM), and Brendan O'Connor (CEO).

The key members of the investment team are detailed below.

- **Philip King - CIO, PM.** Philip King is the Chief Investment Officer at Regal and is responsible for the Portfolio Management of the individual funds. Prior to joining Regal in January 2006, Philip worked for De Putron Fund Management (DPFM) in London as a hedge fund manager specialising in relative value and special situations. At that time DPFM managed nearly $2 billion in hedge funds. Prior to joining DPFM in 2000, Philip was an equities analyst at Macquarie Bank for over five years. Philip also worked at KPMG from 1987 to 1994 as a chartered accountant.
- **Craig Collie - PM, Market Neutral Strategy.** Previous experience: Head of Healthcare Equity Research, Macquarie Securities Group (Sydney 2010 - 2016); Boston Consulting Group (Sydney / New York 2007 - 2010); Medical doctor (Aust / NZ / UK 2000 - 2005).
- **Todd Guyot - PM, Australian Small Companies Strategy.** Previous experience: Head Growth / Smaller Companies, Moelis Australia (Sydney 2010 - 2014); Partner / Managing Director, Foresight Securities (Sydney 2004 - 2010); Head Growth / Smaller Companies, BBY (Sydney 2002 - 2004); Head Growth / Smaller Companies, BNP Paribas (Sydney 1998 - 2002).

- **Dane Roberts - PM, Australian Small Companies Strategy.** Previous experience: Research Analyst, PM Capital (Sydney 2011 - 2014); Research Analyst, Australian Ethical Investments (Sydney 2009 - 2011); Research Analyst, Aegis Equities Research (Sydney 2006 - 2009).
- **Deepan Pavendranathan - Head of Events Trading, Global Alpha Strategy.** Previous experience: Managing Director, Head of Asia Pacific Portfolio Trading and the Australian Equities Market team, Goldman Sachs; Director, Equities Portfolio Trading, Citi Bank; Equities Trading Software Development, Deutsche Bank.
- **Jovita Khilnani - PM, Australian Long Short Strategy.** Previous experience: Investment Analyst, Maple-Brown Abbott (Sydney 2008 - 2014); Investment Analyst, Aberdeen Asset Management / Deutsche Asset Management (Sydney 2007 - 2008).
- **Tim Elliot - Senior Resources Analyst.** Previous experience: Glencore Plc / Xstrata Plc, Executive General Manager, Business Development & Strategy (2010 - 2017); Deutsche Bank, Investment Banker (2006 - 2010); King & Wood Mallesons, Banking & Finance (2003 - 2006).
- **Glen Barnes - Head of Asian Equities, Market Neutral Strategy.** Previous experience: Portfolio Manager, Searchlight Capital (Sydney 2012 - 2015); Investment Manager, Matthews Capital (Sydney 2010 - 2012); Portfolio Manager, Satellite Asset Management (London 2006 - 2009); Greenhill & Co. (London 2005 - 2006); Deutsche Bank AG (Sydney 2001 - 2005).
- **Hiral Patel - PM (India).** Previous experience: Portfolio Manager, Indea Capital; Analyst, Abu Dhabi Investment Company.
- **Lorcan Burke - PM (Asia).** Previous experience: Portfolio Manager, Matterhorn Investment Management (Hong Kong 2011 - 2017); ASEAN Research Analyst, Global Long/Short Fund (London 2009 - 2011).
- **Ben McCallum - PM Emerging Companies Strategy.** Ben joined the Manager's team in 2015. Prior to that, Ben was an Investment Manager at M.H. Carnegie & Co in Sydney, a Director of Lime Energy in New York and an Associate at Macquarie Group in Sydney and London.
- **Julian Babarczy - PM Emerging Companies Strategy.** Julian joined the Manager's team in May 2006. Julian began his career at Equity Capital Markets as Research Analyst (sell-side) and was involved in equity capital raisings and providing merger and acquisition advice. Julian then moved into Investment Banking at Lazard in Sydney, working predominately in merger and acquisitions and general corporate work.
- **Jessica Farr-Jones - Investment Analyst Emerging Companies Strategy.** Jessica joined the Manager's team in April 2018. Prior to that, Jessica was an Associate in J.P. Morgan's investment banking division, working across both the New York and Sydney offices for over 4 years on M&A and capital markets transactions.

Name, Position	Strategy Focus	Experience with Regal (yrs)
Philip King, CIO	All Underlying Strategies	15
Craig Collie, PM	Market Neutral Strategy	3
Todd Guyot, PM	Australian Small Companies Strategy	5
Dane Roberts, PM	Australian Small Companies Strategy	5
Deepan Pavendranathan, Head of Events & Trading	Global Alpha Strategy	1
Jovita Khilnani, PM	Australian Long Short Strategy	5
Tim Elliot, Senior Resources Analyst	General	1
Glen Barnes, Head of Asian Equities	Market Neutral Strategy	4
Hiral Patel, PM (Asia)	Market Neutral Strategy	1
Lorcan Burke, PM (Asia)	Market Neutral Strategy	2
Ben McCallum, PM	Emerging Companies Strategy	4
Julian Babarczy, PM	Emerging Companies Strategy	13
Jessica Farr-Jones, Investment Analyst	Emerging Companies Strategy	1

INVESTMENT PROCESS

Investment Philosophy

The investment philosophy is grounded in the belief that a diversified portfolio of investment strategies, with returns that have limited correlation to each other, and backed by long-term capital, is key to achieving superior risk-adjusted returns over the long term. Regal believes in maximising the available opportunities to profit from market inefficiencies and mis-pricing, using its investment processes and expertise to take advantage of both rising and falling asset prices. Through active management, the Manager seeks to leverage these opportunities to create value for its clients.

The Manager utilises the same fundamental investment process on both the long and short side. Unlike some managers, which could be described as investors on the long side and traders on the short side, Regal is very much an investor on the short side as well as the long side. The major difference between its long and short investing though is in terms of risk management, with shorts being sized and risk managed differently to longs.

Longs and shorts are both designed to be alpha generating. Historically, the Manager has successfully delivered profits on longs in rising markets and shorts in falling markets. While the bulk of gains is from longs (as markets generally rise), approximately two-thirds of the attribution of alpha has come from shorts in the market neutral strategy. This not only reflects well on the Manager's shorting ability but also supports its view that effective investing on the short side in Australia is less competitive than long investing.

Additionally, the short positions also provide liquidity and the ability to invest with greater conviction on the long side (by having greater than 100% long exposure) as well as the 'insurance' through the ability to profit in down markets or, at least, mitigate downside risks.

Over the years, the critical lessons Regal has learnt with short side investing is identifying catalysts, being very cognisant of liquidity and being wary of 'crowded' shorts and the risk of a short 'squeeze'. It is not unreasonable to conclude that a strengthening in short side investment processes, particularly in the aftermath of several strategies being adversely effected by a short squeeze in the Australian mining services sector in early 2016 in response to Chinese government stimulus, may suggest an improved risk-return profile of the Underlying Strategies moving forward relative to historic levels.

In the two beta zero strategies, expected to comprise an initial 62.5% of the Trust's portfolio, risk is stock specific with unwanted factor risk and market risk generally neutralised. Gross leverage is dynamically and actively managed based on the perception of risk and the available opportunity set. It is this process that will be a key driver of the tactical asset allocation aspect of the Trust.

On the topic of tactical asset allocation, this component of the Trust is designed to efficiently redirect capital to maximise returns and minimise risk under the prevailing market conditions. It also provides a point of advantage over traditional listed investment vehicles and fund managers in the domestic market.

As noted, the investment objective of the Trust is 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. The addition of the Emerging Companies and Global Alpha strategies were important additions, particularly in regards to diversification as the three other strategies historically have had some commonality of holdings and will potentially do so moving forward. Should Regal launch additional strategies it is quite possible they could be added to the Trust, on the condition they are consistent with the Trust's investment objective.

Investment Process

With the exception of the Global Alpha Strategy, all Underlying Strategies employ the same four-step investment process, and do so on both the long and short side. Specifically, bottom-up valuation, top-down macro factors, catalyst identification, and Regal's insight.

The bottom up security selection process involves the investment management team spending considerable time meeting with management of companies in which the Manager invests and talking to their suppliers, customers and competitors. However, meeting management is not a pre-requisite for investing. The bottom up security selection process also involves a valuation assessment by the Manager's portfolio managers of a security. Depending on the materiality of the position in the security, this may involve creating a

discounted cash flow model to assess a present value of the company based on its future cash flows using a discount rate. The Manager may also assess value based on peer and historical multiples such as price-to-earnings ratios, price-to-cash flow ratios, enterprise value, EBITDA (earnings before interest, tax, depreciation and amortisation), price-to-book ratio, or price-to-sales ratio. Depending on the materiality of the position in the particular Security being valued, the Manager may use any one of the above valuation methods or a combination of them.

Unlike many traditional long-short managers the Manager's investment process does not stop with a bottom-up valuation. The Manager seeks to identify the macro factors and trends affecting a company. Examples of some macro factors and trends the Manager may take into account include competition or disruption in the sector, maturity of the particular market, or potential movements in commodity prices. This allows the Manager to choose whether to hedge these risks away or seek to benefit from them.

The third step of the process is to identify a catalyst that may change the market's perception of value of the security which would in turn, likely drive the price of the security up or down. Examples of potential catalysts the Manager may consider as being relevant include an entity's earnings update to the market, the likelihood of consolidation events occurring within the sector or if the Manager believes that based on the entity's cash flow and revenue, it is likely that the entity will need to undertake a further rights issue to raise capital.

And finally, the Manager asks itself, 'What is our insight in this trade'? The Manager believes that admitting it is fallible and identifying its insight in a trade and examining alternative viewpoints helps to minimise mistakes.

While the Manager follows the same process on longs and shorts it is worth discussing the nuanced differences between the two, and specifically in relation to short investments. The Manager's short investments can be classified broadly as four different types: valuation shorts, momentum-based valuation shorts, balance sheets shorts, and structural shorts.

A valuation short may be invested in as a stock continues to rise and is assessed as becoming materially over-valued, based on the investment team's fundamental analysis. Momentum shorts are based on a similar view, but where it is deemed that it is best to enter into such positions when momentum / sentiment has turned.

Balance sheet shorts relate to companies where it is assessed that cash flows do not support the amount of debt and a capital raise will likely be required at some point. In such cases where a capital raising eventually occurs, that is typically the opportunity the Manager takes to close such short positions.

Structural shorts relate to businesses facing significant industry and competitive headwinds and where there is a fundamentally poor long-term outlook. The Manager often takes a long-term position on such shorts, having previously held particular structural shorts for multi-year periods. The ideal short is deemed to be a combination of a structurally flawed business combined with a poor balance sheet.

With all shorts, the perceived catalyst to a falling share price is viewed as particularly important. There needs to be a catalyst for all short positions, rather than simply shorting a stock because it is assessed as expensive. Furthermore, position timing and weighting is generally a function of how close the perceived catalyst is (although less so for longer-term structural shorts). The Manager is reluctant to simply ride through potential ups and downs in a stock until the perceived catalyst transpires.

The degree to which a total short side of the portfolio reflects these different types of shorts will vary over a market cycle. At the end of the earnings cycle, arguably where the market is currently, valuation shorts often work well as the earnings disappointments and downgrades become more common. During the mid-cycle period, such shorts are often less effective, whereas structural shorts can still potentially be profitable.

Portfolio Construction

Portfolio construction at the Underlying Strategies level is managed by each portfolio manager and, at an aggregate level for each underlying strategy, managed by Philip King. Each portfolio manager weights holdings on a risk-adjusted conviction level. The aggregate portfolio, which represents the aggregation of each separate portfolio manager sleeve, is then assessed by Philip King for overall stock, sector and factor risks.

At the aggregate level, Philip King will then make any deemed necessary changes to primarily his portfolio sleeve to attune the aggregate portfolio with risk management constraints. This has the benefit of maintaining the 'integrity' of all other portfolio manager sleeves, ensuring an undiluted representation and accountability.

From a short perspective, the Manager has a range of specific risk management techniques to address the idiosyncratic risks of shorting relative to long positions. These include a strong focus on liquidity, the degree to which the short may be a 'crowded short', and reducing position size when a short holding appreciates to manage overall portfolio size of the position.

In relation to crowded shorts, the Manager monitors the ASX data, or any other market where available, on the short interest in a stock. Once the market short interest is above 10% of the stock but less than 15%, the Manager will take 50% of its NAV exposure in the particular stock and effectively place it in a crowded short basket. Where that short interest is greater than 15% the Manager will give 100% weighting to its short interest for inclusion in the crowded short basket. The crowded short basket is then monitored to make sure that it is no more than 20% of the overall NAV of the Trust.

This measure is prudent irrespective of market conditions, but at a time when hedge funds in particular are having a very tough time (as per 2018), leading to deleveraging, potentially funding redemptions and some hedge funds closing, having a material proportion of a short portfolio in highly shorted names is particularly risky.

The second risk management focus is that of liquidity. Over years of short side investing the Manager has become highly aware of the value of liquidity, and especially on the short side.

Thirdly, there is a focus on limiting losses and preserving capital on the short side. Where a short (and long) position has moved against the portfolio by 20%, a risk committee meeting is immediately convened to discuss the investment case before a decision is made to increase the position.

Finally, gross gearing is typically reduced according to portfolio drawdown thresholds of -3%, -6%, and -9%. For example, in the Market Neutral strategy, a 3% drawdown would lead to a reduction in gross gearing from 300% to 250%, 6% down to 200%, and 9% down to 150%. The measure was designed as a means of preserving capital until strategy returns stabilise and gross gearing can subsequently be increased based on the opportunity set. CIO discretion is applied to this risk guideline in recognition that such a systematic reduction in gross gearing is not always appropriate in some market conditions.

Tactical Overlay Component

The tactical overlay component is best viewed as tilts as opposed to dynamic shifts. We expect it to generally be more of a function of the dynamic gearing in each of the strategies (particularly the Market Neutral and Global Alpha strategies) and strategy returns as opposed to the reallocation of capital from one strategy to another strategy. The latter particularly applies to the less liquid (Australian Small Companies) or, by definition, the illiquid strategies (Emerging Companies Strategy).

Nevertheless, in or following periods of severe market dislocation, the CIO Philip King has the ability to reallocate capital based on where the best opportunity set or the least risk is perceived to be. On this count, we would note that Regal has a strong track record of generating alpha following a strong market downturn.

Initial Tactical Asset Allocation Range

Strategy	Minimum (%)	Initial Portfolio (%)	Maximum(%)
Market Neutral Strategy	40	50	60
Global Alpha Strategy	0	12.5	25
Australian Long Short Strategy	0	12.5	25
Australian Small Companies Strategy	0	12.5	25
Emerging Companies Strategy	0	12.5	25

In terms of initial allocation ranges between the Underlying Strategies, the Trust will be governed by the ranges tabled above. Investors should note, however, that Regal may in future introduce new strategies into the Trust (where such strategies are consistent with the invest-

ment objective of the Trust), and allocation ranges adjusted accordingly.

UNDERLYING STRATEGY OVERVIEW

The below provides a summary of each of the underlying investment strategies that will initially comprise the Trust's portfolio.

Regal Market Neutral Strategy

The Regal Market Neutral Strategy is a 150/150 long-short, beta zero mandate that typically invests in companies in Australia and Asia, although this strategy also makes investments in other countries including Emerging Markets and Frontier Markets on an opportunistic basis. The inception date is May 2007, since which time the strategy has generated annualised returns and volatility of 15% and 13% p.a, respectively, as at 31 March 2019. Correlations to equity markets are very low, as per the design of the strategy. Strategy FUM is currently slightly in excess of $464m, with a capacity constraint estimated at approximately US$1 billion.

The strategy is designed to maintain close to zero market risk, with the value of its long positions approximately offset by the value of short positions. The strategy is effectively a 'double alpha' strategy, with the Manager seeking to identify alpha on both the long and short side (unlike some market neutral strategies). As such, investors should not view the strategy as a low volatility market neutral mandate, as some such strategies are designed to be.

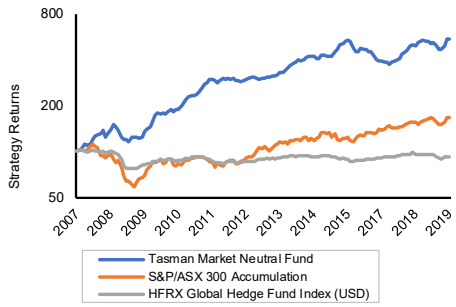
Investment Strategy	
Investment type	The strategy invests in listed equities using a long/short approach to benefit from the rise and fall in the value of selected companies. Most investments are in Australia and Asia, however investments are also made in other countries, including emerging and frontier countries on an opportunistic basis.
# holdings	Typically around 800 long and short positions
Net / Gross Exposure	+/- 30% / 0-300%
Universe	Top 500 companies in Australia and over 5000 companies in the Asia-Pacific region and other global markets.
Investment objective	Aims to maximise returns with only moderate risk and little correlation to equity markets. The strategy is a high conviction, fundamental fund with an emphasis on bottom-up stock selection.
Inception	May 2007
Beta	Beta-neutral
Leverage	The strategy typically has gross exposure of around 200% to 300% of net assets. At all times, the strategy has net exposure much closer to zero.
Capacity	~US$1bn

Key Investment Staff		
Philip King	CIO	Australia
Glen Barnes	Head of Asian Equities	Singapore
Craig Collie	Portfolio Manager	Australia

Performance - Tasman Market Neutral Fund *	
Annualised return	15%
Annualised standard deviation	13%
Total return	449%
5yr correlation to ASX300	0.21
5yr correlation to S&P500	0.14
5yr correlation to HFRX Index	0.14

* Since inception and as at 31 March 2019. Net of all fees

Returns since Inception



While market risk is neutral, the strategy will take stock specific risk and, to a lesser degree, some systemic risk on factors such as sector/industry, factor and market capitalisation band. Broadly speaking, the Manager will identify and hedge out market risk and factor risk, seeking only to be exposed to the alpha specific risk. Gross exposure is dynamically managed, with the Manager reducing leverage where it perceives heightening market risk. It is this dynamic management, as well as in the Global Alpha Strategy, that will indirectly drive part of the implicit tactical asset allocation in the Trust.

Since March 2018, the strategy has also included the Regal Global Alpha Strategy as a portfolio sleeve component.

There is a total of seven portfolio managers running sleeves that feed into the Market Neutral Strategy, with Philip King accounting for approximately 60% of the FUM. Three of these are based in Singapore, with two being relatively new hires by Regal which has been building out its Asia capacity in recent years. The portfolio typically comprises approximately 80 core long and short positions but a considerable larger tail with approximately 800 long and short positions. There are two reasons for this. Firstly, there is a trading element to the strategy and, secondly, the Global Alpha Strategy also contributes a significant number of holdings.

Past performance has been solid and consistent. Again, while the bulk of the gains are from long holdings, the considerable bulk of alpha has been from short side investments, again emphasizing Regal's strength in this area. There have been two periods of relatively poor performance. The first being 2008 when a lot of hedge of hedge funds were using the strategy as a 'cash machine' by redeeming their investments (the strategy did not suspend or limit redemptions during this period unlike many alternative strategies) and forcing the Manager to crystalise losses on the long side. Secondly, in 2016 the strategy got caught on the wrong side of crowded short covering in the mining services sector in response to fiscal stimulus out of China.

Regal Global Alpha Strategy

The Regal Global Alpha Strategy is a 200/200 long-short, beta zero mandate that invests globally, albeit with an Australian and Asia focus currently. The inception date is March 2018, since which time the strategy has generated impressive annualised returns and volatility of 23% and 5% p.a., respectively (although investors must recognise the limitations of this short track record to date). Correlations to equity markets are materially negative, being -0.02 and -0.20 to the S&P/ASX 300 and S&P 500, representing a strong addition to the Trust from a diversification perspective. To date, the strategy has run within the Tasman Market Neutral Strategy and this will continue moving forward.

The Global Alpha process is grounded on the belief that markets around the world are increasingly becoming distorted by the rise of passive investing and investors with a short-term investment horizon. The Manager's Global Alpha process is based on a five-step investment process.

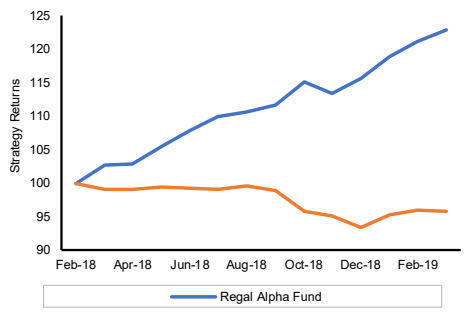
Investment Strategy	
Investment type	Seeks to identify market efficiencies in listed equities, derivatives and options. The strategy uses gearing to enhance return, however maintaining low directional market risk.
# holdings	up to 200 long, 200 short
Net / Gross Exposure	+/-100% / Up to 400%
Universe	Global markets (developed, emerging and frontier markets)
Investment objective	Stable positive returns with low risk and zero correlation to equity markets.
Inception	March 2018
Beta	Beta-neutral
Leverage	The strategy typically has gross exposure of around 400% of net assets, but may be higher or lower. At all times, the strategy has net exposure much closer to zero.
Capacity	US$5+bn

Key Investment Staff		
Philip King	CIO	Australia
Deepan Pavendranathan	Head of Events & Trading	Australia
Tarun Agarwal	Portfolio Manager	Singapore

Performance - Regal Global Alpha Strategy*	
Annualised return	21%
Annualised standard deviation	4%
Total return	23%
Since inception correlation to ASX300	-0.05
Since inception correlation to S&P500	-0.21
Since inception correlation to HFRX Index	-0.12

* Since inception and as at 31 March 2019. Net of all fees

Returns since Inception



The first step in the Global Alpha process is to identify what the Manager perceives to be an inefficiency. Often something as simple as a spike in a share price may lead the Manager to undertake some analysis. The key in this step is to identify the underlying source of the share price movement. Sources of these inefficiencies may include mandate restrictions (often as a result of low-cost investment products), changes in government policies and regulations, capital market activities and other liquidity events.

The second step involves analysing the inefficiency in greater detail and back-testing the investment hypothesis by using historical data and comparable situations.

The Manager will then undertake further steps to construct the portfolio and hedge 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.

The strategy is both qualitative and quantitative in its methodology. It also draws on what Philip King has been doing for years in event related trading. That said, previously the strategy has not been managed on the same scale or consistent level of capital allocation that is now the case. It should be note that the scale of the Global Alpha Strategy will not be permitted to represent more than 25% of the Market Neutral Strategy.

The strategy is managed by two dedicated portfolio managers, specifically Deepan Pavendranathan and Tarun Agarwal, in addition to Philip King as overall CIO. While the scale of the strategy is new at Regal, it follows on directly from what Deepan was doing at Goldman Sachs on a proprietary basis in the Asia Pacific area for many years and which we understand was very successful.

Regal Australian Small Companies Strategy

The Regal Australian Small Companies Strategy is a 130/30 long-short, beta one mandate that typically invests in companies with a market capitalisation range of $200 million to $3 billion. The inception date is February 2015, since which time the strategy has generated annualised returns and volatility of 27% and 20% p.a., respectively. Strategy FUM is currently slightly in excess of $193m, with a capacity constraint estimated at approximately $600 million.

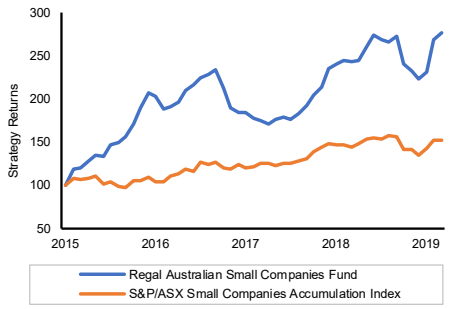
Investment Strategy	
Investment type	130/30 Long/Short Australian small and medium market cap companies. Investment style is Fundamental bottom-up with a GARP emphasis.
Mkt Cap Range	$300m- $3bn
# holdings	Typically 60-70 long / 15-20 short
Net / Gross Exposure	90/110% / 90%-200% (i.e. 90/0 to 150/50)
Universe	S&P/ASX Small Ords Index
Investment objective	Outperform the S&P/ASX Small Ords Acc. index over rolling 5-years.
Inception	February 2015
Beta	Approximate to the market
Leverage	Gross exposure of between 90% and 200% of assets and typically net exposure of 90% to 110%.
Capacity	

Key Investment Staff		
Philip King	CIO	Australia
Tod Guyot	Portfolio Manager	Australia
Dane Roberts	Portfolio Manager	Australia

Performance - Regal Austrlian Small Companies Strategy *	
Annualised return	28%
Annualised standard deviation	20%
Total return	176%
Since inception correlation to ASX300	0.45
Since inception correlation to S&P500	0.35
Since inception correlation to HFRX Index	0.32

* As at 31 March 2019. Net of all fees

Returns since Inception



The strategy is relatively unique in the small caps space, given its long-short nature. As such, it provides leveraged exposure to the sector and ability to generate alpha on short investments. On account of the multiple portfolio managers charged with managing the strategy it also has a larger number of constituent holdings versus many small cap peers.

The portfolio is constructed purely on the basis of alpha generating long and short positions. Unlike the Regal Australian Long Short Equity Strategy, there is no index weight replication of the index to generate beta exposure. The strategy is intentionally a high conviction mandate and while strictly speaking it is a 'beta one' strategy correlation to the benchmark index has historically been relatively low (0.40) reflecting that returns are generated from company specific idiosyncratic risk more so than beta exposure.

The portfolio is managed by three portfolio managers, specifically Todd Guyot, Dane Roberts and Philip King. Portfolio construction and risk management is managed by Philip King, as per

all Regal strategies. Of the approximate $193m in FUM, the portfolio sleeves are split roughly one-third between the three portfolio managers.

Past performance has been strong, albeit with periods of marked downturns relative to the benchmark. The strategy recorded an exceptionally strong first 12-months, up approximately 120%. In early 2016, the strategy was caught on the wrong side of a rebound in the mining services sector following stimulus in China, and had to cover a number of crowded shorts. Lessons were learnt from this at a firm wide level, as noted in the previous section. In 2017, many of the strategy's growth holdings were sold off aggressively based on the 'reflation trade', a situation where the market environment changed almost overnight. While the Manager had been selling / trimming many of its growth oriented long holdings it still had sizeable holdings.

This volatility in performance is not unexpected and investors should have realistic expectations in this regard. The strategy is a high conviction and leveraged play in an inherently more volatile segment of the market.

Regal Australian Long Short Equity Strategy

The Regal Australian Long Short Equity Strategy is a 130/30 long-short, beta one mandate that typically invests in companies with a market capitalisation of $750 million and above. The inception date is August 2009, since which time the strategy has generated annualised returns and volatility of 15% and 14% p.a., respectively and alpha of 6% p.a. Strategy FUM is currently slightly in excess of $150m, with a capacity constraint estimated at approximately A$1bn.

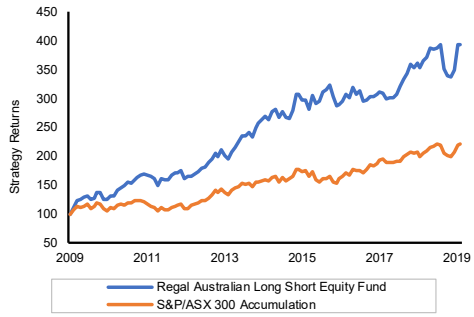
Investment Strategy	
Investment type	The strategy invests in listed Australian equities using a long/short approach to benefit from the rise and fall in the value of selected companies.The strategy differs from traditional "long only" small company funds in that it has the ability to take short positions in companies in which Regal has a negative view.
# holdings	40-100 long, 0-40 short
Net / Gross Exposure	90-100% / 90-200% (i.e. 90/0 to 150/50)
Investment objective	Outperform the S&P/ASX 300 Acc index over a rolling five year period.
Inception	August 2009
Beta	Approximate to the market
Leverage	Typically has gross exposure of between 140% and 180% of assets and typically net exposure of 90% to 110%.
Capacity	A$1bn

Key Investment Staff		
Philip King	CIO	Australia
Jovita Khilnani	Portfolio Manager	Australia
Tim Elliot	Snr Resources Analyst	Australia

Performance - Regal Australian Long Short Equity Strategy*	
Annualised return	15%
Annualised standard deviation	14%
Total return	293%
5yr correlation to ASX300	0.85
5yr correlation to S&P500	0.47
5yr correlation to HFRX Index	0.45

* As at 31 March 2019. Net of all fees

Returns since Inception



The launch of the long-short fund was in response to domestic investors seeking to participate in the beta of the market (in the context of Regal's zero beta market neutral strategy). To do this, in terms of portfolio construction, the Manager acquires every stock in the S&P/ASX 300 Accumulation Index of a size of at least 50 basis points of the index then the Manager overlays its long-short investment picks. For example, if the Manager has a neutral view on Westpac, then it will be purchased at index weight. Long and short positions are weighted according to Regal's firm-wide research process.

There are several reasons the Manager acquires the physical holdings of the index rather than simply buying ASX SPI 200 Index Futures. Firstly, Regal are fundamental stock pickers, and being invested in the actual stock itself provides better access to company management. As Regal states, you can be a long or short on paper, but until you actually have a position, an investor is not really watching a particular stock. Secondly, it provides access to franking

credits as well as eligibility for a CGT discount.

The strategy is managed by two portfolio managers, specifically Philip King and Jovita Khilnani. Philip manages an approximate $100m portfolio sleeve and Jovita approximtely a $30m sleeve. The investment, portfolio construction and risk management process adopted are precisely those of the firm-wide approach outlined in the previous section.

Past performance has been solid and true to style. The strategy has consistently outperformed the benchmark, generating alpha of 6% p.a. since inception. It has also materially outperformed the Australian long-short sector average performance. The bulk of returns have derived from long positions but the bulk of the alpha from the Manager's short investing.

Regal Emerging Companies Strategy

The Emerging Companies Strategy represents an unlisted managed fund with a fixed five year investment term. The first fund was launched in November 2016, with Regal raising $93 million. The second fund was launched April 2018, raising approximately $115 million dollars. It is intended that partly from the capital raise of the Trust, and partly with other monies raised from other investors, a third fund will be launched shortly after the completion of the capital raise for the Trust.

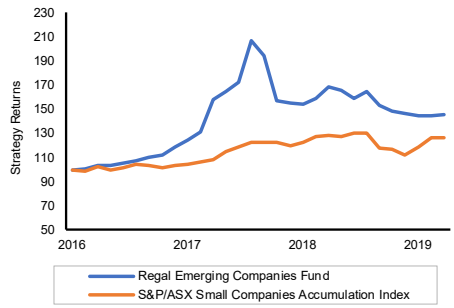
Investment Strategy	
Investment type	A focus on investments in Pre-IPO, IPO, Unlisted Expansion Capital (companies which are currently unlisted and have a preference to remain private for the foreseeable future) and listed Microcap Companies.
Mkt Cap Range	<$200m
# holdings	40 - 50
Investment objective	The Strategy aims to outperform a 5% per annum return.
Net / Gross Exposure	90-120% / 0-130%
Inception	November 2016
Beta	Approximate to the market
Leverage	The strategy can use gearing to enhance returns. It is expected that gross gearing will not exceed 130% net assets.

Key Investment Staff		
Philip King	CIO	Australia
Julian Babarczy	Portfolio Manager	Australia
Ben McCallum	Portfolio Manager	Australia
Jessica Farr-Jones	Investment Analyst	Australia

Performance - Regal Emerging Companies Strategy*	
Annualised return	17%
Annualised standard deviation	25%
Total return	46%
Since inception correlation to ASX300	0.20
Since inception correlation to S&P500	0.21
Since inception correlation to HFRX Index	0.39

* As at 31 March 2019. Net of all fees

Returns since Inception



The Emerging Companies Strategy aims to generate positive returns by gaining exposure to three types of companies. Specifically, selected unlisted companies that are looking to list on a stock exchange in the short to medium term, unlisted expansion capital and listed microcap companies predominantly in Australia and Asia but also potentially in other countries including Emerging Markets.

Generally, the strategy considers entities which are listed on a stock exchange and, at the time of investment, have market capitalisations of below $200 million to be listed microcap companies for the purposes of this strategy. Investments within the strategy will generally be long positions in securities including but not limited to debt and equity securities and convertible notes. The strategy can also hold short positions in securities in implementing this strategy.

As noted, the strategy is based on a close-ended unlisted fund structure, befitting the illiquidity in the segment, with a set five year investment term. The long-term capital is critical to effective investing in the segment. At the end of the five year period, units are redeemed and a final distribution is paid to investors. In the interim, any realisation of gains / losses from the divestment of underlying holdings is distributed at the end of the relevant financial

year period. At the end of the Term (5 years), assets are realised and capital returned to investors.

Historically, from a dollar value both existing funds have been invested approximately 50/50 between listed and unlisted across approximately 40 to 50 holdings. The mix, however, has varied between the two funds (as determined by market conditions) and, over the life of the funds, becoming increasingly listed investments as many pre-IPO investments become listed. There is a degree of concentration, however, with the funds typically holding 5 to 10 core positions with material allocations contrasted by a relatively long tail of substantially less material sizing. The latter may include listed microcap positions in which the Manager is in the process of trading out of or companies in which it has adopted a 'hold and watch' brief, with the intention of doubling down should certain milestones be achieved. Investors should note that as a pre-IPO investor, for those investments that progress to IPO, Regal's investment is typically escrowed for a period. This introduces portfolio, performance and exit-timing risks, a risk made clear in the performance profile of the first fund (discussed below).

Regal's strength and competitive advantage in this segment of the market partly stems from being the largest domestic investors in the pre-IPO and unlisted segment, providing it with strong access and informational flows.

As noted, the strategy invests in three types of companies. The first being defined as pre-IPO which are expected to list within 12 months. The second being listed microcaps, defined as companies with a market capitalisation of less than $200 million. The third is termed expansion capital, or pre-IPO extension. Such companies may potentially list within 12 months, but given the Manager's high conviction in such companies, the Manager is prepared to take a longer term view on a possible listing. Upon listing, Regal may chose to participate in the raise (typically at a discount, as defined by the terms of the initial investment) or alternatively act according to its view of the risk-return outlook of the particular company.

Investments are typically structured as preference shares, convertible notes, ordinary equity or, potentially, debt. Investments in pre-IPO companies are typically on the basis of preference shares or redeemable convertible notes. Preference shares provide a range of safeguards, including anti-dilution rights and liquidation preference. Redeemable convertible notes are a very common structure in the pre-IPO space with the reason that they typically convert into equity in a company at the IPO at a material discount to the IPO price or, failing a company proceeding to IPO, the manager has the ability to redeem the note. The 'failure' of a company not proceeded to an IPO has not precluded the Manager making solid gains on past investments. A substantially lesser proportion of the portfolio is based on ordinary equity. Regal will generally only invest on the basis of ordinary equity in companies with an imminent IPO (3 - 6 months) and where it believes the equity markets are open and it is confident the IPO pricing will be materially higher than its investment price.

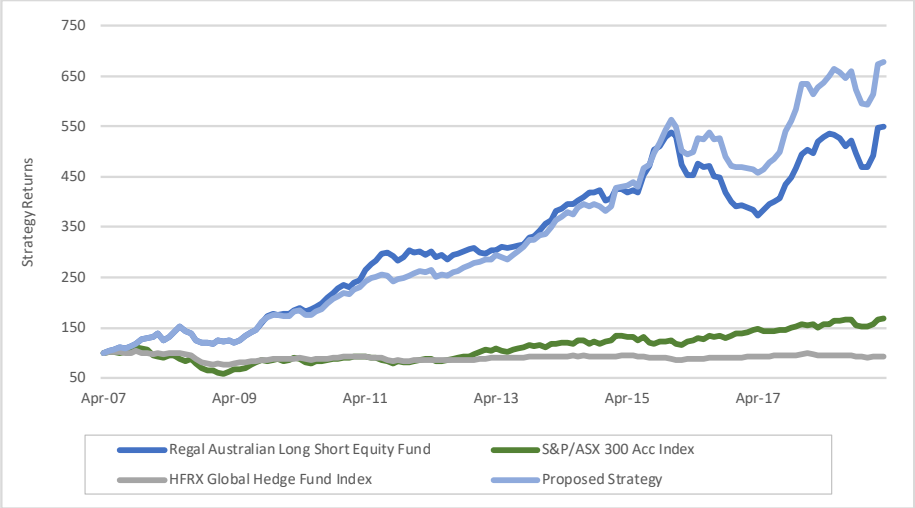
From a risk management perspective, company and sector concentrations and lilquidity are monitored. Information flow and influence are assisted by board representation and veto rights in unlisted vehicles. However, it is not the Manager's intention to otherwise exert influence over the operational direction of unlisted investment companies, with confidence in management's abilities and strategic direction being a key criteria when deciding to invest. From a deal flow perspective, the sector has been growing in Australia, leading to more opportunities in the segment, suggesting the Manager will not likely face obstacles in finding sufficient prospective investments over a reasonable period of time to become fully invested. Investors should note, however, that the nature of the mandate does introduce a degree of cash drag risk up until fully invested.

From a performance perspective, the first fund has recorded annualised returns and volatility of 17% and 25% p.a. IIR does not deem the track record of the second fund to be sufficiently long to provide a meaningful indication of Manager skill and potential return and risk. The performance profile of the first fund, and heightened volatility measure, were materially impacted by a particular investment which Regal made at $0.10 pre-IPO and topped up at $0.20 at the IPO. The stock subsequently appreciated to $4.00 over the first 12-month period before falling to $0.40 per share. Over this period, Regal's shareholding was in escrow, so it had no choice but to ride the 'roller coaster', creating unwanted portfolio concentration risk and performance volatility.

PERFORMANCE ANALYTICS

To support Regal's track record across the five Underlying Strategies, the Manager has prepared a simulation of the hypothetical historical returns of the Trust. The simulation assumes the various strategies became incorporated into the Trust at the respective launch dates. The capital allocated to each underlying investment strategy changes over time, as new strategies came into existence. The portfolio characteristics, gearing levels and risk parameters change over time as each new strategy is added. The simulation begins in May 2007, being the inception date of the Tasman Market Neutral Fund. Throughout the simulation, the Trust's allocation to the Market Neutral Strategy is 50%, with the remaining 50% allocated equally between those strategies in existence at the beginning of a given month. For the purpose of the simulation only, the strategy weightings are rebalanced on a monthly basis.

The returns series, and that of the Underlying Strategies is presented below. Investors should be cognisant of the inherent limitations of a simulated returns series.



Risk-return all Regal strategies and benchmarks since inception (as at 31 Mar 2019)

	Annualised Return Since Inception	Historical Standard Deviation
Proposed Strategy	17%	13%
Tasman Market Neutral Fund	15%	13%
Regal Australian Long Short Equity Fund	15%	14%
Regal Australian Small Companies Fund	28%	20%
Regal Emerging Companies Fund	17%	25%
Regal Global Alpha Strategy	21%	4%
S&P ASX 300 Accumulation Index (AUD)	4%	14%
ASX Small Ordinaries Accumulation Index (AUD)	11%	13%
S&P500 Total Return Index (USD)	8%	15%
NASDAQ Total Return Index (USD)	9%	16%
HFRX Index (USD)	-1%	6%
MSCI World Accumulation Index (USD)	6%	15%

* Quoted in AUD net of portfolio related fees, costs and taxes.

PEER COMPARISON

- We have compared the key features of RF1 with Australian focused absolute return LICs / LITs on the ASX. There are limited long/short strategies available to investors with an Australian security focus. We note that while all the below LICs can invest both long and short, some of the companies have a long bias and have periods where the portfolio will have no short exposure.
- The annual management fees charged by Regal for managing the Trust is above the average management fee of 1.25% amongst the peer group. While this analysis is ordinarily limited to ASX listed investment vehicles, we note that globally amongst

the hedge fund industry the average MER and performance fee is 1.45% and 16.9%, respectively according to Credit Suisse.

- The performance fee for the Trust is in line with the peer group with all companies paying a performance fee of 20%. We do not view the performance hurdle varies markedly amongst the peer group, partly reflecting the degree to which the strategies are long, long/short, or market neutral. As a point of criticism, we note that the RBA Cash Rate performance fee hurdle is below the level of risk commensurate with the Trust.
- We see the key structural differences with particular competing Long-short LIT mandates as including: a hard defined cap on the maximum capital raise and one that does not risk approaching the capacity constraints of the Underlying Strategies; a long track-record across full market and economic cycles; multiple investment strategies and the ability to tactical allocate should certain strategies fall from favour for a period, and; no identified risk of style drift.

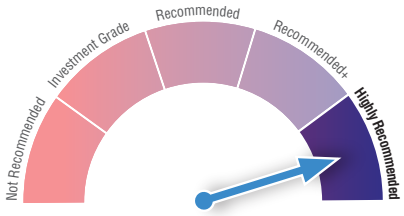
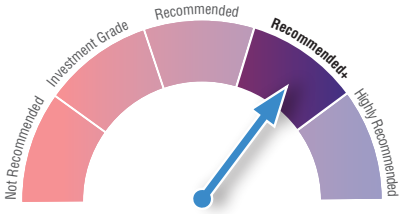
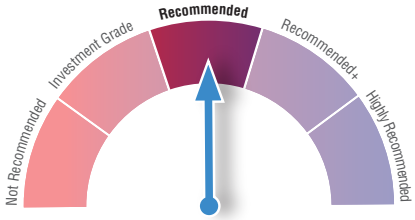
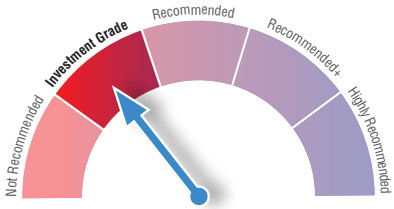
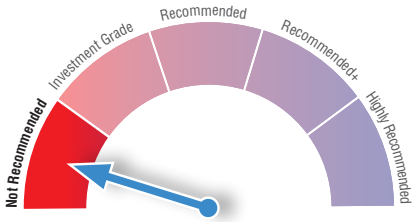
Peer Comparison

LIC Name	ASX Code	Listing Date	Mkt Cap ($m)*	MER (%p.a, ex GST)	Perf Fee (%)	Performance Fee Hurdle
Australian Leaders Fund Limited	ALF	Feb 2004	276.6	1.0	20.0	All Ords Acc Index
Cadence Capital Limited	CDM	Dec 2006	416.7	1.0	20.0	All Ords Acc Index
Contrarian Value Fund	CVF	Jan 2015	80.0	1.0	20.0	S&P/ASX 200 Acc. Index
L1 Long Short Fund Limited	LSF	April 2018	1010	1.40	20.0	Previous High NTA
Monash Absolute Investment Company Limited	MA1	April 2016	43.5	1.53	20.5	Previous high NTA
Naos Absolute Opportunities Company Limited	NAC	Nov 2014	53.3	1.75	20.0	RBA Cash Rate + 2.5%
Watermark Market Neutral Fund Limited	WMK	Jul 2013	72.3	1.20	20.0	RBA Cash Rate
Regal Investment Fund	**RF1**	**TBD**	**TBD**	**1.50**	**20.0**	**RBA Cash Rate**

APPENDIX A – RATINGS PROCESS

Independent Investment Research Pty Ltd "IIR" rating system

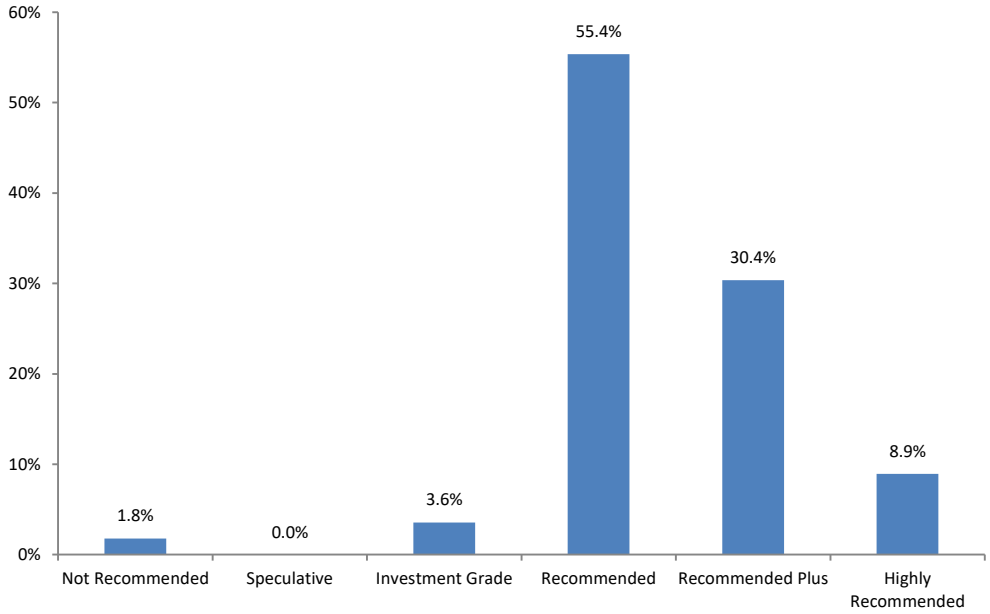
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	**83 and above**
	This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.
Recommended +	**79–83**
	This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.
Recommended	**70–79**
	This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.
Investment Grade	**60-70**
	This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/ return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.
Not Recommended	**<60**
	This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



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For further information, please contact IIR at: client.services@independentresearch.com.au

INDEPENDENT
INVESTMENT RESEARCH

Independent Investment Research (Aust.) Pty Limited

SYDNEY OFFICE
Level 1, 350 George Street
Sydney NSW 2000
Phone: +61 2 8001 6693
Main Fax: +61 2 8072 2170
ABN 11 152 172 079

MELBOURNE OFFICE
Level 7, 20–22 Albert Road
South Melbourne VIC 3205
Phone: +61 3 8678 1766
Main Fax: +61 3 8678 1826

HONG KONG OFFICE
1303 COFCO Tower
262 Gloucester Road
Causeway Bay, Hong Kong

DENVER OFFICE
200 Quebec Street
300-111, Denver Colorado USA
Phone: +1 161 412 444 724

MAILING ADDRESS
PO Box H297 Australia Square
NSW 1215