

The Ausbil Investment Trusts Unitholder Quarterly Report

September 2011

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A Member of the Dexia Group

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Key Economic & Investment Points

International Review

Prior to early September, the by-product of disruption in financial markets was massive capital flows into safe havens. The Swiss Franc and the Japanese Yen were the currencies of choice, with gold the favoured hard asset. Many bond markets also benefited, with the exception of peripheral Europe. The financial market disruption then morphed into something a lot more serious – rising concern about sequential sovereign default.

One of the first signs of a change was the US Dollar. In early September, the US\$ had done very little. But this suddenly changed and the US\$ rose markedly. The speed of the adjustment for some currencies was very rapid. For example, the Australian Dollar gave up all its 2011 gains in just a few weeks. The cause of the adjustment – the European debt concerns and the implication for growth in the major economies – remain unresolved.

Recent drops on global growth expectations have been broadly-based, but it is the recent sharp weakening in the Euro that stands out. Euro area business confidence falls suggest that a region-wide recession is taking hold. US growth remains weak but readings for August and September do not yet point to recession. The stable ISM manufacturing index and rising car sales are positive indicators.

Euro area weakness has not, by itself, been a reliable forward indicator of global growth. Indeed, it is common for the region to significantly underperform, and periods of Euro area contraction (1992-3) and stagnation (2002-3) have been evident in the early stages of otherwise solid global expansions. There are, however, good reasons to fear a spill-over from Euro area financial stress. Europe's sovereign debt crisis threatens regional banking sector stability and building stress on banks is fuelling a generalised reduction in global risk appetite.

General market sentiment remained weak in Australia - feeding a further rally in bonds – with the main news being the international institutional responses to recession fears. The US Federal Reserve instituted Operational Twist and the Europeans have been (slowly) increasing the size of the European Financial Stability Facility (EFSF). Market participants have urged coordinated and greater bank recapitalisation plans as part of addressing the current crises. At this stage it looks more like a piecemeal approach.

Unit Prices and Performance Details

The Australian Active Equity Fund

Period	Fund Return%*	Benchmark%**	Out/Under Performance%
Three Months	-12.47	-11.65	-0.82
One Year	-10.27	-8.71	-1.57
Three Years p.a	0.54	-0.10	0.64
Five Years p.a	-0.20	-0.71	0.51
Seven Years p.a	7.23	5.70	1.53
Ten Years p.a	8.78	7.25	1.53
Since Inception p.a <i>Date: July 1997</i>	9.48	6.94	2.54

* Returns are after fees but before taxes ** S&P/ASX 300 Accumulation Index

	Price \$*	Distribution \$
30 September 2011	2.365022	n/a

* Redemption cum price

The Australian Geared Equity Fund

Period	Fund Return%*	Benchmark%**	Out/Under Performance%
Three Months	-29.44	-11.65	-17.79
One Year	-30.62	-8.71	-21.91
Three Years p.a.	-14.30	-0.10	-14.20
Since Inception <i>Date: May 2007</i>	-22.40	-5.67	-16.72

* Returns are after fees but before taxes ** S&P/ASX 300 Accumulation Index

	Price \$*	Distribution \$
30 September 2011	0.289950	n/a

* Redemption cum price

Fund performance for the Ausbil Active Equity Fund, September Quarter 2011, was -12.27% versus the benchmark return of -11.65%. For the Ausbil Geared Fund performance for the September Quarter was -29.44% versus the benchmark return of -11.65%.

At a sectoral level, the Portfolio benefited from its underweight position in the Energy sector and overweight positions the Telecommunications and Consumer Staples sectors. The underweight position in the Energy sector was a strong contributor as commodity prices generally declined over the period, driven by economic turmoil in Europe and concerns over the US economic growth profile. Conversely, the overweight position in the Materials, the nil holding in Utilities and underweight in REITs sectors detracted from relative performance.

At a stock level, overweight positions in Wesfarmers, Suncorp, Amcor and Telstra were the largest positive contributors to relative performance. Not holding QBE Insurance also assisted relative performance. Detractors to the Portfolio included the overweight positions in Rio Tinto, BHP Billiton and Alumina.

Unit Prices and Performance Details

Fund Activity - Australian Active Equity Fund

Major Purchases & Sales for September Quarter 2011

Purchases	Sales
Nil	Woodside Petroleum

There were no significant purchases during the quarter. The portfolio sold the residual position in Woodside Petroleum during the month of August.

The Australian Emerging Leaders Fund

Period	Fund Return%*	Benchmark%**	Out/Under Performance%
Three Months	-17.00	-13.83	-3.17
One Year	-10.86	-11.71	0.86
Three Years p.a	0.75	-3.10	3.86
Five Years p.a	-0.52	-3.07	2.56
Seven Years p.a	7.12	4.36	2.76
Since Inception p.a. <i>For Fund: May 2002</i>	10.80	7.55	3.24

* Returns are after fees but before taxes

** 70% S&P/ASX Midcap Accumulation Index and 30% S&P/ASX Small Ordinaries Accumulation Index

	Price \$*	Distribution \$
30 September 2011	2.131393	n/a

* Redemption cum price

Fund performance for the June Quarter 2011 was -17.00% versus the benchmark return of -13.83%.

At a sectoral level, the Portfolio benefited from its relative positioning in the Telecommunications, Consumer Discretionary and Healthcare sectors. Conversely the positions in the Utilities, Energy and Materials sectors detracted from performance.

At a stock level, the Active positions in Treasury Wine Estate and REA Group and the nil holdings in Lynas, Cochlear and Paladin Energy were the largest contributors to relative performance. The nil holding in Macarthur Coal and Connecteast Group and the overweight Matrix Composites & Engineering and Oz Minerals were the largest detractors to Portfolio performance during the September quarter.

Unit Prices and Performance Details

Fund Activity - Australian Emerging Leaders Fund

Major Purchases & Sales for September Quarter 2011

Purchases	Sales
OneSteel Austar United Communications	Mesoblast

During July, the Portfolio purchased OneSteel (OST), the leading manufacturer and distributor of steel and metal products in Australasia. OST provides leverage to a turnaround in the domestic economy whilst also offering good exposure to Chinese growth via sales of iron ore from its Project Magnet mines near Whyalla. There were no sales during the month.

There were no significant purchases or sales during August.

In September the Portfolio initiated a position in Austar United Communications (AUN). AUN is a Pay TV service provider that dominates market share in regional Australia, it has a strong financial position with strong cashflow and low net debt. Foxtel has announced a takeover of the company at a price of \$1.52. However the stock trades below the takeover price as the market awaits ACCC approval. If the takeover fails, AUN has the equivalent of 16cps it can deliver as a capital return to shareholders. Mesoblast was sold to fund the purchase of AUN.

Unit Prices and Performance Details

The Balanced Fund

Period	Fund Return%*	Benchmark%**	Out/Under Performance%
Three Month	-8.04	-6.23	-1.81
One Year	-3.38	-2.61	-0.77
Three Years p.a.	0.66	0.04	0.62
Five Years p.a.	0.60	0.22	0.38
Seven Years p.a.	5.04	4.50	0.55
Ten Years p.a.	5.43	4.80	0.63
Since Inception <i>Date: July 1997</i>	6.29	5.51	0.78

* Returns are after fees but before taxes ** The Balanced Fund's Strategic Asset Allocation Return.

	Price \$*	Distribution \$
30 September 2011	1.137754	n/a

* Redemption cum price

Over the quarter, the Fund's underweight allocation to cash and fixed interest detracted value, as both assets out performed growth assets. Within the fixed interest portfolio the shorter duration position detracted from relative performance. The portfolio was slightly overweight direct property and provided a positive excess return, whilst the AREITs positions detracted value over the quarter.

The Fund's overweight allocation to Australian equities and stock selection within the Australian equities portfolio detracted value over the quarter. At a sectoral level, the Portfolio benefited from its underweight position in the Energy sector and overweight positions the Telecommunications and Consumer Staples sectors over the quarter. The underweight position in the Energy sector was a strong contributor as commodity prices generally declined over the period, driven by economic turmoil in Europe and concerns over the US economic growth profile. Conversely, the overweight position in the Materials, the nil holding in Utilities and underweight in REITs detracted from relative performance. At a stock level, overweight positions in Wesfarmers, Suncorp, Amcor and Telstra were the largest positive contributors to relative performance. Not holding QBE Insurance also assisted relative performance. Detractors to the Portfolio included the overweight positions in Rio Tinto, BHP Billiton and Alumina.

The Fund's underweight position to international equities added value as the asset class delivered negative returns in AUD terms, (-8%) whilst value added from stock selection was neutral. Even though the Fund may hedge currency exposures, the Fund's neutral position is to remain unhedged. We maintained an unhedged currency position in a period of weak but a volatile AUD.

The Fund of Hedge Funds investment had a negative return over the quarter, returning -1.5% (before fees). However, this was significantly less negative than Australian and international equities reinforcing its role as a less correlated asset class. The strong volatility witnessed across all risk assets whipsawed a large number of managers over the period.

Unit Prices and Performance Details

The MicroCap Fund

Period	Fund Return%*	Benchmark%**	Out/Under Performance%
Three Months	-13.05	-12.68	-0.37
Six Months	-21.01	-25.42	4.41
One Year p.a.	29.82	-10.23	40.05
Since Inception p.a.	41.84	2.73	39.11

Date: February 2010

* Returns are after fees but before taxes ** The S&P/ Emerging Companies Accumulation Index.

	Price \$*	Distribution \$
30 September 2011	1.72283	n/a

* Redemption cum price

The Microcap Fund performance, net of fees, for the September quarter 2011 was down -13.05% versus the benchmark return of -12.68%. Over the past 12 months the fund has returned 29.82% relative to the benchmark's -10.23%.

A relatively small cash balance, the market's preference for 'expensive defensives' over beaten up cyclicals, and the fact resource stocks materially underperformed led to small outperformance in August and September. However, it was actually failure to keep up with the benchmark in July (+2.82%) which caused underperformance over the September quarter as a whole. On a more positive note we had a couple of successes in CSG Group and Kathmandu. CSG suffered with management missteps obscuring the quality of the business. The market has not warmed to CSG's print and IT businesses and was savagely selling off the stock when the company received an offer from an, as yet, unnamed bidder. Kathmandu continues to defy the gloom in the retail sector and, among other impressive metrics, reported they produced Same Store Sales up a massive 13% and grew pre tax profit 32% in FY11.

Gold stocks were the top performers for the quarter including Troy, Silver Lake and Northern Star. Detractors included Sundance Energy, YTC and Northern Iron.

Unit Prices and Performance Details

Fund Activity - MicroCap Fund

Major Purchases & Sales for September Quarter 2011

Purchases	Sales
Doray Minerals	Forge Group
Red Fork Energy	Minara Resources
Acrux	NRW Holdings
Watpac	Qube Logistics
Augur Resources	Beadell Resources
Voyager Resources	Breville Group
Grange Resources	Guinness Peat Group
Cobar Consolidated resources	SAI Global
Webjet	Tap Oil
ARB Corporation	Independence Group
	Matrix Composites & Engineering
	ZYL Limited

In July the portfolio initiated a position in Acrux Limited, Augur Resources, Doray Minerals, Red Fork Energy and Watpac Limited. Doray Minerals is a gold explorer. Located in the Murchison Region of Western Australia, Doray has discovered one of the State's highest grade gold deposits and continues to have exploration success. Red Fork Energy is an oil and gas producer with assets in Oklahoma, USA. The most prospective asset is their 55,000 acres in the Mississippian Shale. Other US majors such as Chesapeake, Sandridge and Range Resources have experienced a high degree of success in the Mississippian and we believe it is probable Red Fork will repeat their success. Acrux is a biotech with a testosterone replacement product which is being distributed in the US by their licence partner Eli Lilly (NYSE:LLY). Acrux did the largest licensing deal in Australian biotech history and has already received US\$140m in milestone payments. We believe there is potential for the drug to achieve higher market share than the market is anticipating. Augur Resources is an Indonesian Gold exploration company which was added to the portfolio after releasing outstanding drill results. Watpac are a civil construction and mining services company. Watpac also has a significant property portfolio which is being sold. We believe the market has limited understanding of the progress made in, and value of, their mining services division.

The positions in Forge Group, Minara Resources, NRW Holdings and Qube Logistics were sold during July.

Unit Prices and Performance Details

During August the portfolio initiated a position in ARB Corporation, Base Resources, Cobar Consolidated Resources, Webjet, Grange Resources and Voyager Resources. The Fund participated in Base Resources' capital raising. Raising proceeds will be used for the development of their Kenyan mineral sands project. Voyager Resources is a Mongolian Copper explorer. The company recently reported exciting drill results. Grange Resources is a Tasmanian Iron Ore producer. The stock was added to the portfolio because of its inexpensive valuation and management's decision to pay a dividend which placed the stock on an 8% yield at the time of purchase. Cobar Consolidated is a NSW-based Silver developer. The stock is inexpensive relative to forward cash flows and is one of very few ASX-listed pure Silver plays. Webjet was added to the portfolio after its strong result and trading update. Recent management changes increase our conviction that the business will display greater cost discipline and are more likely to achieve success in their push into Hotels. ARB Corporation is a four wheel drive accessories manufacturer, exporter and retailer. The company has an extremely strong brand in its markets and a proven track record of solid growth and capital discipline. The positions in Beadell Resources, Breville Group, Guinness Peat Group, SAI Global, Tap Oil, WPG Resources and ZYL Limited were sold during the month.

There were no significant purchases during September. The positions in Independence Group and Matrix Composites & Engineering were sold.

Unit Prices and Performance Details

The Dexia Sustainable Global Equity Fund

Period	Fund Return%*	Benchmark%**	Out/Under Performance%
Three Months	-7.73	-8.15	0.42
One Year	-3.10	-4.71	1.61
Three Years p.a.	-7.77	-6.79	-0.98
Five Years p.a.	-8.44	-7.28	-1.16
Seven Years p.a.	-2.56	-1.44	-1.12
Since Inception	-1.88	-1.08	-0.80
<i>For fund : Nov 2002</i>			

* Returns are after fees but before taxes ** MSCI World Index

	Price \$*	Distribution \$
30 September 2011	0.632957	n/a

* Redemption Ex price

Fund performance for the September Quarter 2011 was -7.73% versus the benchmark return of -8.15%.

Companies the portfolio derived positive performance from in Q3 included Mastercard Inc (Overweight, Information Technology) and Motorola Mobility Holdings (Overweight, Information Technology). During Q3, Mastercard released Q2 results which came in significantly higher than consensus forecasts. Net income for the quarter was reported at \$608m, up 32.8%. Results, quarter-on-quarter, improved primarily due to better pricing, increased volume of transactions, strong gross dollar value growth and a lower tax rate. At the end of August, the share price also benefited from an upgrade to the company's credit rating from BBB+ to A- by Standard & Poors. Motorola Mobility Holding's share price surged on August 15 following Google's announcement that it had reached a definitive agreement to acquire Motorola Mobility for \$40 per share in cash for a total of \$12.5bn (which implied a huge premium of 63% compared to the close of Friday 12th).

Detractors to performance included CGG Veritas (Overweight, Energy) which was heavily impacted by the falling oil price throughout the quarter. An underweight holding in Apple also cost performance following record Q3 revenue of \$28.57bn and a net profit of \$7.31bn compared to \$15.7bn and \$3.25bn for the same quarter last year.

Notes

Contact Details

The following personnel will be available to comment on details mentioned in this report:

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Money does not perform. People do.

