

About this Review

Sector Reviewed	Australian Small Companies
Total Funds Rated	30
Date of this Sector Review	February 2010

About this Fund

Fund Reviewed	Ausbil Australian Emerging Leaders Fund
Fund Size (\$M)	858
Responsible Entity	Ausbil Dexia Ltd
Fund Commenced	May 2002
Retail Fee (p.a.)	N/A
Wholesale Fee (p.a.)	0.85% + Performance Fee of 15% of Fund Returns above the Benchmark Index
Structure Availability	Platforms, Wholesale

About the Fund Manager

Fund Manager	Ausbil Dexia Ltd
Ownership	70% Dexia Asset Management, 30% Ausbil Dexia staff

Assets Managed in this Sector (\$M)	1,026
Years Managing this Asset Class	12

Investment Team

Team Size Dedicated to this Fund	13
Portfolio Manager	Paul Xiradis, John Grace, Adam Dixon
Number of Analysts	10
Departures/Team Ratio (past 2 years)	29%

Investment Process

Style	'Core' / Style Neutral
Targeted Value Add Above Index (p.a.)	3.0%
Typical Tracking Error (p.a.)	4.0% - 6.0% (max 6%)
Typical Stock Numbers	30-40
Typical Capitalisation Bias	70% mid cap / 30% small cap
Franking Level (FY09)	209%
Tax Efficiency – Income in Total Distribution (FY09)	100%
Discount Gains as % of Total Capital Gains (FY09)	N/A
Maximum of Portfolio in any One Stock	10%
Maximum of Portfolio in any One Sector	No hard limits
Maximum of issued capital of any one stock	10%
Minimum Capitalisation (\$M)	200 th stock by market capitalisation
Maximum Size Limit of Fund (\$M)	1,200

Fund Rating History

March 2010	Highly Recommended
April 2009	Highly Recommended
May 2008	Highly Recommended

What this Rating means

➤ The Highly Recommended rating indicates that Lonsec has high conviction that the fund or product can achieve its objectives and, if applicable, outperform peers over an appropriate investment timeframe. The manager or product has strong competitive advantages in people, process and product design and has no areas of material weakness. The investment is a preferred entry point to access this asset class or strategy.

Fund Risk Characteristics

	Low	Moderate	High
Capital Volatility			▲
Corporate Risk		▲	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the product's asset class and the risks relative to other products in the relevant Lonsec sector universe.

Using this Fund

➤ This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page

➤ Small/Mid cap funds invest in a market that is less liquid and more volatile than the large cap Australian equity market. This Fund should be used to complement large cap exposure in clients' portfolios, rather than replace it, with up to 8% of the total portfolio depending on client risk preferences. Lonsec's model portfolio asset allocations (traditional assets only) are 6% within the 'Growth', and 8% within the 'High Growth' risk profiles respectively

➤ The Fund is subject to equity market risk and movements (both positive and negative) in the share prices of the underlying securities in the portfolio. Investors should therefore be aware that the Fund may experience periods of negative returns and that there is a risk of potential capital losses being incurred on their investment

Changes since Previous Lonsec Review

➤ Ausbil has begun to incorporate Environmental, Social and Governance (ESG) elements into their investment process.

Lonsec Opinion of this Fund**Philosophy (Style)**

➤ Ausbil's investment philosophy of focusing on company earnings and the belief that earnings revisions ultimately drive share prices has been adhered to by the manager since the inception of the Fund in 2002.

➤ Ausbil is an active Australian equities fund manager utilising a fundamental 'bottom-up' research approach combined with a 'top-down' overlay. The fund has a 'core /

rotational' style and the portfolio will often rotate between a 'value' or 'growth' tilt, due the top down overlay. Over a full market cycle the portfolio is not expected to have any notable style bias.

➤ The Ausbil Emerging Leaders Fund is differentiated to peers in the Lonsec Australian equity small cap sector by its bias to 'mid' cap stocks (ASX 51 -100 stocks by market capitalisation), as opposed to 'small' cap stocks (ex ASX 100 stocks by market capitalisation)

People and Resources

➤ Lonsec views the depth and experience of the key members of the investment team to be a key competitive advantage of the manager. Importantly, key members of the team have managed money over various investment cycles which Lonsec believes is beneficial in volatile markets. There have not been any departures from the senior ranks within the team, with senior members of the team having been with Ausbil for eight years or more.

➤ Lonsec believes that 'key person risk' lies primarily with CEO and Head of Equities Paul Xiradis, given that he has been instrumental in the development of both the investment process and the investment team. This risk is partly mitigated by the equity ownership structure in place at Ausbil for senior members of the investment team.

➤ Over the medium term there has been moderate to high turnover amongst the analyst pool. Lonsec believes that providing equity ownership should reduce the level of staff turnover that the manager has experienced in the junior to mid level analyst ranks. Lonsec believes that having 'skin in the game' more closely aligns the interests of the business and investors. Overall, Lonsec believes the manager's alignment of interests to be moderate to high.

Research and Portfolio Construction

➤ Ausbil's research process has been applied consistently since the inception of the fund. The combination of top-down inputs with bottom-up up stock research has been applied effectively over various investment environments. Lonsec believes that the manager's research and portfolio construction process provides the flexibility to tilt the portfolio to take advantage of prevailing market environments.

➤ Lonsec believes that Ausbil's stock ranking model serves to promote a strong level of consistency in valuation across all stocks in the manager's investable universe. The bias towards PE relativities is also considered appropriate given the manager's focus on earnings and earnings revisions.

➤ Given the importance of 'top-down' analysis to the investment process, Lonsec is particularly pleased that this insight is obtained in-house. The manager conducted approximately 610 direct company visits over the last year which is consistent with its 'bottom-up' research effort.

Risk Management

➤ Lonsec believes that Ausbil's risk management processes are in line with industry practices. The manager adequately monitors all of the relevant risk factors within its portfolio covering aspects such as stock and sector risk. The manager currently uses the Goldman Sachs JB Were risk management tool.

Performance

➤ The manager has consistently been able to add value over time, outperforming the S&P/ASX Mid Cap 50 Index by 6.6%, 6.6% pa, 5.4% pa, and 3.6% pa respectively over the one, two, three and five year periods assessed to January 2010.

➤ However, as mentioned the Fund is not a pure mid cap fund, and is able to invest in small cap stocks. Pleasingly, against Ausbil's internal benchmark (a composite index comprising 70% ASX Mid Cap 50 and 30% ASX Small Ordinaries Index), the Fund has outperformed over all time periods to January 2010.

Capacity

➤ As at 31 December 2009, Ausbil's total funds under management (FUM) in the Ausbil Emerging Leaders Fund and related accounts amounted to \$1,026 million. Ausbil believes that at the time of this report, the Fund is at 75% of its current capacity. Lonsec believes this estimate to be reasonable based on the current size of the Fund's potential universe. The Fund's mandate, which is biased towards mid capitalisation stocks, should enable the manager to manage higher FUM relative to traditional small cap managers who invest further down the market capitalisation spectrum and hence face greater liquidity pressures.

Overall

➤ Lonsec has rated the Ausbil Australian Emerging Leaders Fund as Highly Recommended. This is primarily based on Lonsec's high regard for the senior members of the manager's investment team and the effective implementation of the manager's investment process which has been applied consistently since the inception of the Fund.

➤ Lonsec considers a key strength of this Fund to be the depth of experience the manager has within its senior ranks. Senior members within the team have considerable industry experience and have managed money in various market cycles. Lonsec believes that this experience will be critical in a period where market volatility has increased.

➤ The manager's investment process, which incorporates both top-down inputs with bottom-up stock research has been well executed and is reflected in the Fund having consistently outperformed the benchmark over time.

People & Resources

Size and Experience

Ausbil does not have a specialist team dedicated solely to the Emerging Leaders Fund (mid / small cap fund). Rather, the investment team is responsible for researching stocks across the full market capitalisation spectrum, and for managing both Ausbil's large and mid/ small cap fund. In total, Ausbil's investment team consists of 13 personnel, including seven with direct stock analysis responsibilities. The investment team also benefits from the resources of three dedicated dealing resources and quantitative analysts. The team (excluding the quant and dealing resources) has an average of approximately 16 years of industry experience which is slightly above the Lonsec peer group average in the small cap Australian equity sector.

The CEO and Head of Equities is Paul Xiradis. Xiradis has approximately 30 years of industry experience including previous senior roles at Legal and General Asset Management and BZW Investment Management. Lonsec considers Xiradis to be a high quality and experienced investment professional. Xiradis maintains a 'hands on' approach to portfolio construction, investment strategy, and in driving the overall investment management process.

Xiradis is supported by Deputy Head of Equities John Grace and Portfolio Manager Adam Dixon. These three team members form the Portfolio Construction Committee. Grace and Dixon have 24 years and 14 years industry experience respectively. The Head of Research and Chief Economist is John Honan, who also has a significant 31 years industry experience. Honan is a key input during the 'top-down' (macroeconomic) phase of the investment process. Lonsec has a high regard for the four senior managers and considers them to be high quality investment professionals.

Team Structure

Name	Position	Years at Ausbil	Years of Industry Experience
Paul Xiradis	CEO / Head of Equities	12.5	30
John Honan	Head of Research / Chief Economist	12.5	31
John Grace	Deputy Head Equity Director, Equity	8	24
Adam Dixon	Portfolio Manager, Assoc Dir Equity	10	14
Nicolas Condoleon	Equity Analyst	2.5	12
Graeme Petroni	Equity Analyst	2	7
Brendan Wong	Equity Analyst	5	11
Tony Waters	Equity Analyst	1	16
Sarah Lau	Equity Analyst	2	2
Khay-Tuck Chow	Associate Director, Quant	9.5	22
Shanelle Hoong	Equity Analyst	3	5
Matt Okkerse	Senior Equity Dealer	3.5	10
Lee de Maria	Equity Dealer	3	8
Average		5.75	15

Xiradis, Grace, and Dixon are the co-portfolio managers of the Fund although Xiradis, as Head of Equities, has final decision making authority and is ultimately accountable for the performance of the Fund. A committee based decision making structure is used in determining the final portfolio with the focus being on determining the stock weightings rather than the actual stocks to be included in the portfolio. Dixon also has some stock analysis responsibility in addition to his portfolio management role. Supporting the portfolio managers are six equity analysts who are each allocated sector responsibilities. 'Top-down' inputs are sourced from Chief Economist, Honan and are an important part of the investment process.

This is to ensure that accountability is maintained and that decisions can be made swiftly. Lonsec notes that Honan has assumed the Head of Research role (previously held by John Grace) following a restructure of roles, and all equity analysts now report to him.

Whilst client service and IT functions are conducted in-house, Fund administration and other back office functions are outsourced to National Custodian Services.

Turnover

Historically, Ausbil has enjoyed a very stable organisational structure. Over the last few years staff turnover has been moderate, however over the last 18 months the team has been stable. In order to mitigate this, Ausbil does have an

equity ownership scheme to allow analyst to have an equity stakes in the company.

Despite the staff turnover the manager has been able to replace departed analysts and importantly none of the key decision makers have left the team.

Remuneration / Alignment of Interests

Ausbil operates a team performance incentive program. A maximum of 80% of portfolio manager and analyst variable remuneration is linked to fund outperformance of the benchmark. For portfolio managers, an additional 10% of variable remuneration is linked to business profitability and 10% is based on subjective factors. For analysts, an additional 10% of variable remuneration is linked to stock calls (irrespective of inclusion in the final portfolio) and 10% is based on subjective factors. In addition, senior investment personnel including Xiradis, Grace, Dixon and Honan all have equity stakes in the business.

Ausbil are entitled to a performance fee of 15% of gross returns above the benchmark index (index being a composite consisting of 70% S&P/ASX Midcap 50 Accumulation Index and 30% S&P/ASX Small Ordinaries Accumulation Index), which further strengthens the alignment of interests.

Investment Style

Style

Ausbil is an active Australian equities fund manager utilising a fundamental 'bottom-up' research approach combined with a 'top-down' overlay. The investment style adopted by the manager is 'core' / 'rotational' and the Fund will generally be invested in mid and small cap stocks (bias to mid caps). At different points in time the portfolio may display a 'value' or 'growth' tilt, however over a full market cycle the portfolio is not expected to exhibit any notable style bias.

Investment Philosophies and Beliefs

Ausbil believes that company earnings and earnings revisions drive stock prices and that investors focus too heavily on present conditions and do not adequately consider the impact of longer-term factors (e.g. changes in the earnings profile of a stock or sector). The manager therefore believes that the key to outperformance is the early identification of earnings revisions and being able to pre-empt stock price movements. By adopting a 'core' approach, Ausbil believes that the Fund should be able to outperform throughout the full market cycle by exploiting these short-term inefficiencies.

Research Approach

Overview

Investment Style	Core/Rotational
No. of stocks in universe	208
No. of stocks fully modeled	162
No. of stocks partially modeled	Balance modelled by proprietary database
Key Screens	Liquidity and market capitalization, proprietary database
Top-Down	15% Top down Macro economic, sector factors
Bottom-Up	85% bottom up stock specific
Qualitative Analysis	Structured
Research Inputs	Site visits – companies, suppliers & competitors Company briefings
Use of broker research	Secondary input into decision making. Draw data to establish market consensus view

Valuation Approach

Primary	Relative Price to Earnings Ratios (Total expected relative return, consensus earnings revisions, two year EPS growth)
Secondary	Discounted Cash Flow Model (DCF)

Portfolio Construction

Portfolio construction is undertaken by the Portfolio Construction Committee which consists of three senior members of the equities team (Xiradis, Grace, and Dixon). Each member produces their own model portfolio, aiming to overweight stocks that are in the preferred sectors, have 'positive' ratings from the analyst and rank well in the FERRET model (proprietary stock ranking model). Consideration is also given to liquidity, Tracking Error, the relative attractiveness of the 'positive' rated stocks and an overall intuitive assessment. As individual stocks are thoroughly debated during the research process there is usually high continuity of stock candidates across the three model portfolios. As such, when the Portfolio Construction Committee collectively determines the final portfolio, the focus is on determining stock weightings as opposed to selecting the actual stocks. The final portfolio is relatively concentrated and typically includes 30 to 40 stocks.

Since Lonsec's last review, ESG (Environmental, Social and Governance) elements have been included in the investment process. Ausbil believes that the inclusion of ESG can assist in early detection of troubled companies and also help identify lower risk opportunities. Broker voting matrix includes a rating for the ESG research.

Positions in stocks that enter the ASX 50 must generally be exited within a one month timeframe, however some discretion is permitted.

Risk Monitoring

On a monthly basis, a Goldman Sachs JB Were portfolio analysis tool is utilised to monitor risk within the portfolio. Output from the tool includes the Fund's Tracking Error, primary stocks contributing to risk and major stock and sector positions. In addition, the manager has adopted disciplined sell triggers, which act as an additional risk management mechanism.

Ausbil has an external compliance committee that meets on a quarterly basis and is also subject to both an annual internal (Dexia) and external (PricewaterhouseCoopers) audit.

Funds under Management

Ausbil currently manages approximately \$1,026m in the Emerging Leaders Fund and related accounts, which makes Ausbil one of the larger managers in terms of FUM in this sector. The Fund's bias to 'mid' cap stocks means that liquidity and size issues are less of a concern compared to traditional 'small cap' managers.

Lonsec notes that Ausbil have not specified a FUM level for this strategy upon which the Fund will be closed. Instead, Ausbil takes into account portfolio turnover, the underlying liquidity of the current portfolio and Ausbil's investment style. Investors should therefore note that capacity in this respect is fluid and subject to a point in time. Ausbil intends to continually monitor and model FUM going forward and has signalled the intention to cap FUM as it approaches capacity. Ausbil's internal research into FUM capacity currently indicates that they are at approximately 75% capacity and the manager has elected to preserve the remaining capacity for retail business by "hard closing" the Fund to institutional investors. Lonsec believes this estimate is reasonable at the time of this report, based on the current market capitalisation of the S&P/ASX Midcap 50 Index (\$120 billion) and S&P/ASX Small Ordinaries Index (\$90 billion)

Quantitative Performance Analysis

Annualised after-fee % returns as at 31 January 2010

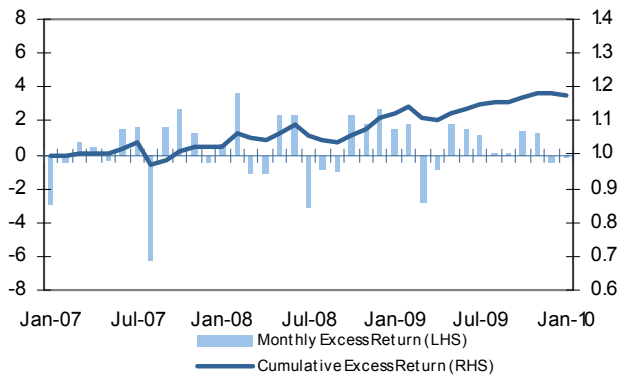
	1 Year		2 Years		3 Years		5 Years	
	Fund	Peer Group	Fund	Peer Group	Fund	Peer Group	Fund	Peer Group
Performance (% pa)	43.1	-	-5.3	-	-2.1	-	7.7	-
Standard Deviation (% pa)	19.1	-	25.3	-	22.9	-	19.6	-
Excess Return (% pa)	6.6	-	6.6	-	5.4	-	3.6	-
Outperformance Ratio (%)	66.7	-	62.5	-	63.9	-	58.3	-
Worst Drawdown (%)	-7.5	-	-43.9	-	-48.4	-	-48.4	-
Time to Recovery (mths)	na	-	na	-	na	-	na	-
Sharpe Ratio	2.1	-	-0.4	-	-0.3	-	0.1	-
Information Ratio	1.4	-	1.1	-	0.8	-	0.6	-
Tracking Error (% pa)	4.7	-	6.1	-	6.7	-	6.1	-

Fund: Ausbil Emerging Leaders Fund, Peer Group: Average among Lonsec Rated Australian Equity (Small Cap) Manager Universe

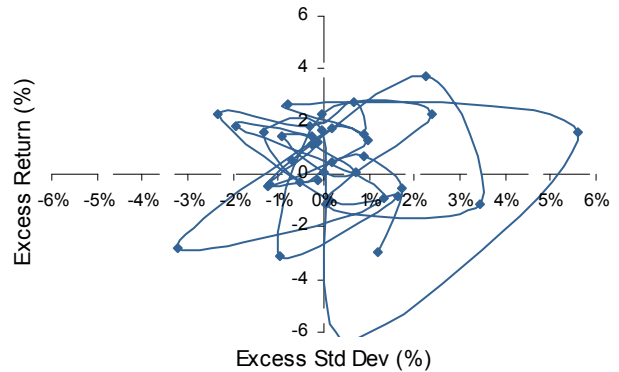
Benchmark: S&P/ASX Mid Cap 50 Accumulation Index

**Ausbil's internal benchmark for the Fund is a composite index consisting of 70% S&P/ASX Midcap 50 Accumulation Index and 30% S&P/ASX Small Ordinaries Accumulation Index*

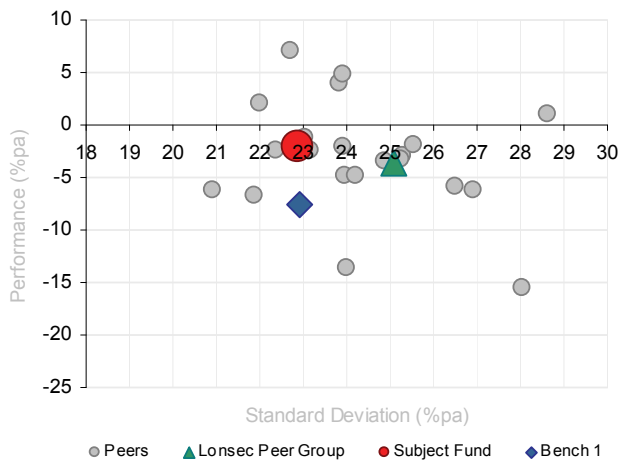
Cumulative Performance over three years



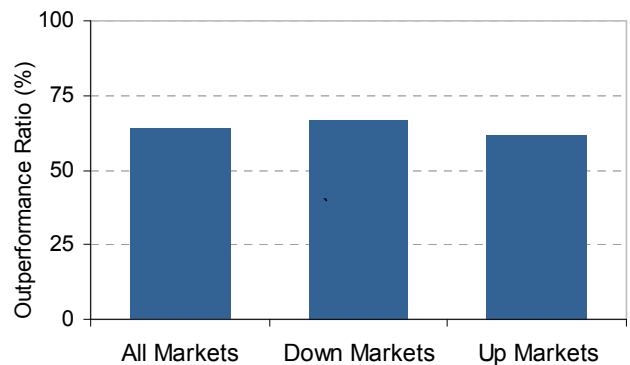
Snail Trail over three years



Risk-Return Chart over three years



Outperformance Consistency over three years



Glossary

Absolute Return	'Top line' actual return, after fees
Excess Return	Return in excess of the benchmark return
Standard Deviation	Volatility of monthly Absolute Returns
Tracking Error	Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)
Sharpe Ratio	Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)
Information Ratio	Relative reward for relative risk taken (Excess Returns / Tracking Error)
Worst Drawdown	The worst cumulative loss ('peak to trough') experienced over the period assessed
Time to Recovery	The number of months taken to recover the Worst Drawdown

Analyst Disclosure & Certification

Analyst remuneration is not linked to the rating outcome. The Analyst(s) may hold the product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst(s) holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the financial product(s) to which this document refers.

Date Prepared: March 2010

Analyst: Lin Ngin

Release Authorised by: Paul Pavlidis

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