



**Analyst(s):** Justine Gorman; James Gunn

## Standard & Poor's View

Standard & Poor's Fund Services rates this fund four stars. This reflects our high conviction that the manager will consistently generate risk-adjusted returns in excess of relevant investment objectives and relative to peers.

We have affirmed our four-star rating on this fund based on the level of conviction we have in the team.

Portfolio management decisions are made jointly by an experienced three-member portfolio construction committee. Under the guidance of the team's chief economist and head of research, strategic portfolio tilts or "themes" are devised which set the backdrop for sector analysis. Stocks are selected based on short-term earnings expectations, as the manager believes earnings revisions lead to stock price appreciation.

The chief economist also develops and manages the fund's gearing policy. The gearing level depends on the outlook for interest rates and the overall health of the economy, and can range from 0% to 65%. That said, the manager will usually operate the fund within a "working range" of 30%–55%.

Ausbil's FUM has grown rapidly over the past few years on the back of good performance. The high level of large-cap assets under management makes it more difficult for the manager to complete trades swiftly following company earnings revisions.

The manager's style can at times mean it will take significant sector positions driven by its thematic views and the availability of stocks suitable for investing in these sectors. Over the 12 months to Jan. 31, 2011, the fund outperformed by 1.2%. Although the Australian active equity strategy has underperformed by 2.8% over the 12-month period, the geared fund has managed a positive excess return. This has been achieved because of outperformance from January 2010 through to July 2010, magnified by the effect of the gearing. Underperformance in the third quarter of 2010 was largely due to stock selection, which was driven by themes that did not play out as planned.

Although this type of strategy can produce strong returns, investors should be aware that significant underperformance is possible if the drivers of earnings do not respond as expected, or the economic circumstances change. Gearing the fund only magnifies these effects on performance.

<b>APIR code</b>	AAP0002AU
<b>Fund status</b>	Open
<b>Inception date</b>	May 25, 2007
<b>Responsible entity</b>	Ausbil Dexia Limited
<b>Peer group</b>	Australian Equities - Large Cap Growth/GARP
<b>Benchmark</b>	S&P/ASX 300 TR
<b>Investment style</b>	Growth/GARP
<b>Multi manager</b>	No
<b>Fund Size (\$A)</b>	119.12 .mil (at June 30, 2011)
<b>Minimum investment (A\$)</b>	50000
<b>ICR / MER (%)</b>	2.4

## Investor Suitability

- A geared Australian-equity strategy, investing predominantly in stocks in the S&P/ASX 300 Index.
- Its geared nature makes this fund only suitable for investors with a high risk tolerance. It is therefore suitable as a non-core Australian equity investment.
- The manager employs an investment process that includes both top-down and bottom-up investment decisions.
- It believes that stock prices ultimately follow earnings and earnings revisions. Returns-based style analysis shows that this strategy exhibits a growth bias.
- The fund is reasonably active at the stock level and sector level.
- Suitable for investors with an investment time horizon of over five years.

## Key Strengths

- Portfolio manager Paul Xiradis and the senior Ausbil investment team have considerable experience and ability, making them one of the strongest in the market.
- The manager's blended top-down and bottom-up investment process is well-established and repeatable.
- Ausbil keeps its investment approach "true-to-label" throughout the market cycle.
- Senior members have an ownership stake in the firm.
- Being one of the larger fund managers in Australia gives the manager good corporate access.

## Key Weaknesses

- The level of assets under management is high at A\$12 billion for its Australian large-cap strategies. The strategies' alpha potential may be minimised because trades take longer to complete. The manager has soft closed this strategy to the institutional market, although it will accept retail funds.
- No equity ownership for the newer members of the team which could threaten team stability.
- Fees on this geared offering are higher than other similar products in S&P's rated peer group.

## Risks

- Gearing increases the volatility of any investment gains or losses and reduces the security of capital invested. In extreme negative market conditions, all capital invested could be lost.
- The portfolio themes may not play out as anticipated resulting in portfolio turnover and potential underperformance.

<b>Performance Fees (%)</b>	N/A
<b>Investment manager</b>	Ausbil Dexia Ltd
<b>Redemption policy</b>	Daily
<b>Distribution frequency</b>	Half-yearly
<b>High water mark</b>	N/A
<b>Hurdle rate</b>	N/A
<b>Return objective (%)</b>	Outperform the benchmark over the longer term
<b>Tracking error objective (%)</b>	N/A
<b>Average portfolio turnover (3yrs) (%)</b>	42
<b>Maximum cash holding (%)</b>	10
<b>Typical number of stocks</b>	30–40
<b>Release authorised by</b>	Leanne Milton



## Objectives, Fees and Features

The fund aims to outperform the S&P/ASX 300 Accumulation Index over the longer term.

It invests in Australian shares for long-term capital growth and a modest level of dividend income.

The fund holds between 30 and 40 listed stocks and predominantly invests in stocks within the S&P/ASX 300 Index. At the time of our review, it held 33 stocks.

The investment mandate allows the manager to gear the fund's assets up to 55%. Investors should be aware that under current legislation, franking credits are only available to funds that achieve positive distributions over the financial year.

The fund is managed on a benchmark-unaware basis, with active stock and sector limits based on the weight of the stock or sector in the index. This approach gives the manager the flexibility to implement its best stock ideas, although prevents significant market capitalisation tilts in the portfolio.

Annual portfolio turnover is expected to be around 45% per year, although over the past 12 months it was lower at 30%. Although the fund is typically fully invested, the maximum cash limit is 10%.

The fund's ICR is 1.2% per year (gross) or 2.4% per year (net). The management fee based on gross assets includes the fund's borrowings, while the net assets exclude them. The net figure assumes a gearing ratio of 50%. These costs are accrued daily and drawn monthly in arrears.

There is no performance fee. The buy/sell costs (0.3%/0.6%) represents the investor's share of the transaction costs, incurred when the fund is buying or selling assets. This cost is built into the unit price and unit pricing is calculated daily.

Distributions reflect the investor's share of any distributable income and net taxable gains, and are generally paid semi-annually at June 30 and Dec. 31.

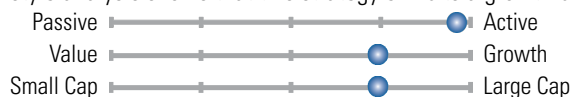
This fund has a minimum investment of A\$50,000. The recommended minimum investment time horizon is five years.

## Investment Philosophy and Style

Ausbil is an active Australian-equity manager that employs a mixture of top-down and bottom-up investment processes. The manager's assessment of the macroeconomic environment provides the framework for the investment strategy. Its macroeconomic analysis involves identifying certain social, economic, industrial, and demographic trends, or "themes", that may ultimately drive the positive performance of a portfolio of securities benefiting from these trends.

Employing a bottom-up fundamental approach, the manager directs its research effort toward identifying companies that it believes will achieve the greatest 12-month outperformance given its outlook for earnings. The manager believes that stock prices ultimately follow earnings and earnings revisions, and therefore the portfolio is tilted toward sectors and industries that it believes will experience positive earnings revision and away from those that are expected to be negative. When assessing company fundamentals the manager takes into account its thematic views when forecasting earnings growth.

The Ausbil portfolio includes a blend of strategic investments, capturing longer-term sectoral trends and tactical shorter-term investments that are predominantly based on stock mispricing. Returns-based style analysis shows that this strategy exhibits a growth bias.



## Investment Team

### Structure

The Sydney-based investment team is headed by Mr. Xiradis, CEO and head of equities. The team comprises 11 investment professionals, one quantitative analyst, and two equity dealers.

Portfolio management decisions are made jointly by a three-member portfolio-construction committee, which comprises Mr. Xiradis, deputy head of equities John Grace, and Adam Dixon. Portfolio construction efficiently combines the investment team's top-down and bottom-up inputs with the portfolio construction committee providing a subjective overlay. John Honan is the team's chief economist responsible for economic research and analysis, and developing and managing the gearing policy for the fund. The senior team members have been together at Ausbil for over nine years.

The team has six dedicated equity analysts, with Mr. Dixon sharing his time between research and portfolio construction duties. The fundamental research analysts cover large- and small-cap companies, with one dedicated to micro-cap. Tony Waters is the micro-cap portfolio manager and has research responsibilities for the small resources and micro-cap industrial stocks. The team is supported by a dedicated quantitative analyst Khay-Tuck Chow.

Given that the manager offers a number of investment strategies, it has the opportunity to offer members of the team portfolio management roles, providing career development and assisting with team stability. Some team members have taken on deputy management roles.

Two dedicated dealers are responsible for sourcing liquidity in the market using Ausbil's selected broker panel.

### Key Investment Personnel

Name, Position	Years*	Experiencet
Paul Xiradis, head of equities, CEO	14	32
John Grace, director equities, deputy head of equities	9	26
Adam Dixon, associate director, equities	11	16
John Honan, head of research and chief economist	14	33
Tony Waters, micro-cap portfolio manager/analyst	2	18
Nick Condoleon, deputy head of research and equities analyst	4	14
Brendan Wong, equities analyst	6	13
Sarah Lau, equities analyst	4	4
Shanelle Hoong, equities analyst	4	7
Zeljka Damjanovic, equity analyst	0	11
Average tenure with current firm	6.3	N/A
Average industry experience	N/A	16.5

\*Years with current firm. †Years of relevant industry experience.

### Portfolio Managers

The portfolio is managed by the three-person portfolio construction committee. The committee meets monthly, typically following the stock selection meeting. Each of the three committee members brings their independently derived recommended portfolios to the meeting. Stock ideas and investment outlooks are discussed and decisions made regarding the portfolio holdings.

Mr. Xiradis heads up the Australian-equity team and has been with the boutique since its founding in 1997. He brings 32 years' experience to the group, having held a number of Australian-equity portfolio-management tenures before joining Ausbil, including BZW Investment Management,



Legal & General Asset Management, Mercantile & General Reinsurance Group, and Westpac. Mr Xiradis has been team head since the group started.

Mr. Grace has been with Ausbil for nine years and is the deputy head of equities. He has 26 years' investment experience, having held portfolio management roles at Legal & General Asset Management in Australia and Royal Insurance Asset Management in the U.K. He began his investment career as a stockbroker.

Adam Dixon is an associate director of equities at Ausbil, where has worked for the past 11 years. Mr. Dixon joined Ausbil as an equity analyst in 1999, and was promoted to portfolio manager in 2001. Prior to joining Ausbil he held a currency and commodities trader. In addition to his portfolio management responsibilities, Mr. Dixon covers the large-cap resources sector and has more recently taken on environmental, social, and governance (ESG) research and implementation.

The portfolio construction team has an average of 25 years' investment experience and average tenure with Ausbil of 12.

### Research Team

The research team is headed by experienced chief economist Mr. Honan, who provides macroeconomic analysis and strategy and is also responsible for the management, mentoring, and coordination of the equity analyst team. He is also responsible for the management of the gearing policy. Mr. Honan has been with Ausbil since April 1997. Prior to joining Ausbil, Mr. Honan was an economist in Canberra with the Industry Commission, the Federal Treasury, and the Department of Industry and Commerce. He has also held the position of chief economist for the NSW Treasury Corporation. Mr Honan's skills and experience are drawn on by the Ausbil equity team to provide sectoral analysis and macro themes.

The team comprises six analysts, five of which have direct input into the Australian large-cap strategy, and one is dedicated to micro-cap industrial stocks. Two of them have both portfolio management and research responsibilities—Mr. Dixon and Mr. Waters.

There has been one departure from the team since the last S&P review. Graeme Petroni resigned from the group in January 2011 to join a competitor. Mr. Petroni was an equity analyst with eight years' experience, and covered insurance, diversified financials, banks, and coals seam gas industries. Zeljka Damjanovic replaced Mr. Petroni in February 2011, taking on coverage of insurance, diversified financials, and banks. Ms. Damjanovic joins from 452 Capital, where she was covering financials during her tenure with this manager. She brings 11 years' industry experience to the team.

Analyst coverage is allocated either by sector or as a group of economically linked industries. Analysts produce a variety of stock reports to supplement their recommendations. "Stock snapshots" are single page reports produced for the top 100 and those stocks ranked highly by the model. These short reports contain pertinent stock data and ratios and are updated quarterly. A more thorough research report will back these short reports providing detailed valuations, management assessments, industry overview and analysis, analyst outlook for company earnings, and changes to earnings as a result of an expected catalyst. Capital management is also considered, including shareholder distributions. ESG issues are also considered in the valuation process, predominantly from a risk perspective.

Under the guidance of Mr. Honan the team develops forecasts on a number of variables which are used in the valuation process. Macro variables include such items as the expected rate of growth, consumer activity share market valuations, interest rates, and outlook (both domestic and international). Each analyst must form a view of their sector or industries based on the team's expectation regarding these economic variables, as they will have an effect on future earnings.

The analyst must develop a "strategic" (greater than 12 months) and "tactical" (less than 12 months) view of their covered industries. Macro and economic analysis is reviewed monthly, although the team discusses it informally on a daily basis.

Analysts are encouraged to use their time efficiently. Detailed modelling is therefore generally done at the mid- and small-cap end of the market, with the largest 50 stocks assessed in terms of how the manager's expectations differ from that of the market consensus.

Company visits are focused on those that are represented in the portfolio, are being considered for investment, or those undergoing significant change. At least one member of the portfolio construction committee will attend company visits for those considered for investment. The equity research analysts have on average 11 years' industry experience and average tenure with the team of four years.

We meet with the senior members of the Ausbil team at each review. Given their differing roles within the group and experience, each offer complementary insights into the research process. We believe this is a strength as it ensures discussion is well considered.

### Alignment and Accountability

The remuneration structure comprises three components—a market competitive base salary, a short-term incentive plan, and equity ownership for senior team members.

The variable component of total compensation for non-equity-holding staff is determined on combination of factors including investment performance and overall corporate profitability. The investment team operates under a team performance incentive program which is based primarily on an escalating scale commensurate with the size of value-added equity outperformance.

The bonus achieved by the individual investment team member is based on a formula calculated on the level of outperformance, performance fees earned by the manager, and the individual's contribution to the team. This component of remuneration has been structured to vest over a three-year period, with the aim of improving team stability.

Sydney-based fund manager Ausbil Dexia Ltd. is a joint venture owned by DexiaAM (70%) and the Australian investment and management team (30%). Senior staff members own equity in the business, making the internal structure similar to that of boutique managers. As long as equity ownership is structured in a way that reflects an individual's contribution to the business over time, and is viewed as equitable by team members, it is a good way to improve team stability.

A discretionary bonus can be awarded to individuals that have demonstrated outstanding achievements.

S&P believes that the manager's inability to buy additional equity from the parent will make it harder to lock in non-equity team members. To some degree, discretionary bonuses can help manage this problem.





## Investment Process

### Overview

Ausbil is a fundamental active manager that combines top-down macroeconomic analysis with bottom-up fundamental stock analysis. Economic "themes" are developed to understand what headwinds or tailwinds may influence corporate earnings over the medium term. Sector analysis will identify those sectors of the economy that will benefit most from the manager's expected themes. Stock selection focuses on picking stocks that are able to deliver sustainable earnings and have the ability to grow over time. The investment process is broken into a number of logical steps. The portfolio-management stage is committee-based and draws on the expertise of the senior team members.

### Research Process

#### 1. Macroeconomic Analysis

The four-step process begins with a macroeconomic assessment of the Australian marketplace and factors that may influence it over the next 12 months. This analysis is generally cyclical in nature, although positioning the portfolio will take into account more permanent structural shifts in the market. The team holds a monthly meeting to discuss the repercussions of the international and Australian economy on the Australian-equities market. It uses the conclusions that it draws from these meetings to form an outlook on consumer activity, profits, growth, cash levels, and liquidity in the market. These conclusions are used to understand the current stage of the market cycle. Strategic portfolio tilts or "themes" are devised which sets the backdrop for sector analysis.

#### 2. Sectoral Analysis

The second stage in the process is to identify economic sectors and industries that Ausbil expects to have upward and downward earnings revisions during the next 12 months. The sector analysts are responsible for assigning structural and tactical biases to their sector outlooks. It gives structural sector biases to sectors that analysts believe have a strong long-term outlook (greater than 12 months), and will deliver favourable earnings outcomes over the period. Tactical positions discussed by the team monthly form the basis of value, assessing the relative price of a sector (as measured by the price/earnings ratios) with its historical average.

#### 3. Stock Selection

The third stage involves selecting stocks within the favourable sectors and industries, first using Ausbil's proprietary quantitative tool to rank the S&P/ASX 300 constituents on factors such as return expectation, earnings momentum, and expected short-term growth. The quantitative tool, named FERRET (Forecast Earnings Relative Ranking Evaluation Tool) has three important functions: it's a spur for new stock ideas, influences sell disciplines, and is a check for portfolio efficiency following the portfolio-construction stage.

Further fundamental analysis is conducted to identify companies that display sustainable earnings, strong operating margins, and free cash flows, which should enable them to deliver the expected growth. Balance sheet analysis focuses on assessing the capital intensity of the business and the cash requirements needed to satisfy the expected growth potential that are not captured in the reported earnings. In addition, the company should exhibit strong financial ratios and positive free cash flow to enable it to achieve its expected growth. The quality of management, its experience, and track record is also taken into account when gauging a company's ability to generate earnings. The analysts overlay the quantitative ranking with their qualitative views on the stock when awarding a stock a "positive" or "negative" final rating. Analysts present their top five recommendations at the monthly stock selection meeting.

### Portfolio Construction

The portfolio-construction team meets monthly to discuss and agree on the portfolio holdings and weightings. Generally, the higher the expected return from FERRET, the greater the relative stock weighting in the portfolio. However, the team gives additional consideration to whether a stock's inclusion best represents the team's overall strategic views, risk profile, stock-liquidity considerations, and investment guidelines.

The management of the equity portfolios is based on a model concept to ensure consistency across client mandates.

Ausbil will not take positions aggressively, taking small positions in the stock until the earnings transpire. Then it will move to the desired position. Before any stock purchase, the manager will assess how well the stock fulfils the specific theme, the effect the stock will have on the portfolio's overall risk profile, and the stock's liquidity.

The manager is constantly monitoring its sectoral positions. If the earnings outlook for a particular sector changes, the manager will reposition the portfolio by selling down these holdings. As it is a concentrated portfolio, Ausbil takes large sector positions.

The portfolio construction committee sends trade orders to the dealing team the day before trading. Once pre-trade compliance checks have been performed, the dealers will source liquidity from the market. Annual portfolio turnover can range from 40% to 70%.

#### Gearing Process

The gearing decisions are made following the macroeconomic decisions chaired by Mr. Honan, and attended by Mr. Xiradis, Mr. Grace, and Mr. Dixon.

The gearing level or loan-to-value ratio (LVR) can range from 0% to 55%, although can rise to a 65% maximum. The LVR will depend on the outlook for interest rates and the overall health of the economy. That said, the manager will usually operate the fund within a "working range" of 30% and 55% LVR.

If the fund's LVR exceeds 55%, but is less than 60%, the borrowings will be reduced to ensure an LVR of 55% or less is reached within 10 business days. If the fund's LVR exceeds 60%, but is less than 65%, the borrowings will be reduced to ensure an LVR of 55% or less is reached within three business days. In circumstances when markets are falling, the fund's LVR will rise, and the manager may need to sell stock to bring the LVR within mandate guidelines.

Funding has been sourced through two banks via a competitive tender process.

### Risk Management

The team conducts risk management using the Goldman Sachs JBWere-designed portfolio-management tool, which is run to test tracking error, key portfolio positions across stock and sector levels, and to outline further sources of risk.

Stock guidelines place active limits on stock holdings. For stocks that represent less than 0.5% of the index, an absolute weight of 3% is applied. Stocks with an index weight of between 0.5% and 2% have an active limit of 3%, and stocks that represent 2%–6% of the index are capped at an active weight of 7%. Stocks with an index weight of greater than 6% (Westpac, Commonwealth Bank, and BHP Billiton) can only take on active positions if the manager has high conviction.

Active sector limits are based on the size of the aggregate index weight. For a sector that represents less than 5% of the index, the active limit is +/-6%, and +/-8% for sectors that represent more than 5% of the index.

The portfolio will typically comprise S&P/ASX 300 index constituents; however, Ausbil may invest in non-index stocks if it believes that liquidity is sufficient. Historically, it sources about 90% of the portfolio from the S&P/ASX 100.



Derivatives may be used for the purpose of managing risk and enhancing returns. Derivatives, such as swaps, may also be used to manage interest rate risk, protecting the fund from adverse movements in borrowing costs. Any derivatives will not increase the level of gearing and the portfolio maintains cash reserves or physical securities to cover the liability of the open positions.

Because current legislation provides that franking credits are only available to the fund if there are positive cash distributions, the manager will regularly forecast near-term distributions and costs to minimise this risk.

Ausbil has recently implemented a new third-party portfolio compliance system which is ledger-based to improve tax management of client portfolios.

The chair of the investment committee monitors daily trading activity. The external compliance committee signs off on all risk controls quarterly. The corporate governance committee meets monthly to review compliance reports to ensure that the team has complied with policy from custodians on the portfolio-management system.

### Risk Constraints

Typical number of stocks	30–40
Active stock limits (%)	See "Risk Management"
Active sector limits (%)	See "Risk Management"
Active country limits (%)	N/A
Maximum cash holding (%)	10
Targeted tracking error (%)	N/A

### Performance

The fund was launched in May 2007 to provide investors with a geared portfolio of Australian shares that would earn them both capital gains and some income.

It has an objective to outperform the S&P/ASX 300 Index by 3% per year (gross-of-fees), over rolling three-year periods. Over three years to Jan. 31, 2011, the manager has not met its 3% outperformance objective.

The manager's thematic growth style can at times mean returns will vary significantly from the overall market. The manager can take significant sector positions driven by its thematic views and the availability of stocks suitable for investing in these sectors. Over the 12 months to Jan. 31, 2011, the fund produced a gross return of 10%, compared with the benchmark return of 8.7%, outperforming by 1.2%. Although the Australian active equity strategy has underperformed by 2.8% over the 12-month period, the geared fund has managed a positive excess return. This has been achieved because of the outperformance from January to July 2010, magnified by the effect of the gearing. Underperformance in the third quarter of 2010 was largely due to stock selection, which was driven by themes that did not play out as planned.

The fund's overweight to materials was the only sector position that really added value over the period. An overweight position in consumer discretionary and an underweight position in financials detracted from performance. From a stock-selection perspective, overweight positions in Alumina, Oz Minerals, Rio Tinto, Wesfarmers, and Oil Search were positive for performance. That said, overweight positions in Macquarie Group, Toll Holdings, and Harvey Norman hurt performance.

The concentrated nature of the portfolio and the ability to take significant positions in stocks and sectors enabled the manager to produce strong performance. However, investors should be aware that large positions away from the benchmark could also deliver significant underperformance if stock prices do not move in the direction and magnitude anticipated by the fund manager.

### Portfolio Review

Employing a bottom-up fundamental approach, the manager directs its research effort toward identifying companies that it believes will achieve the greatest 12-month outperformance given its outlook for earnings. When assessing company fundamentals, the manager takes into account its thematic views when forecasting earnings growth.

At the beginning of 2010, Ausbil had positioned for a cyclical recovery as economic data continued its positive trend. Banks has finalised their bad debt provisioning and margin expansion was expected over the coming year. The supply of commodities to the market was constrained, placing upward pressure on prices, and resource companies were expected to benefit. The manager was overweight stocks such as consumer discretionary, and has a preference for companies with operations predominately in Australia due to the high Australian dollar.

During Q3 2010, the manager sold out of a number of its domestic cyclical stocks as it was clear consumer spending was not going to improve.

At the time of the review, the manager was still positioned for growth in the global economy, specifically from the BRIC countries (Brazil, Russia, India, and China), and expected U.S. business sentiment to improve. It expects continued growth in supply and as a side effect that commodity prices will help resource companies. Corporate balance sheets remain healthy as there is an expectation that M&A activity could resume. Expected flight to quality will most likely put upward pressure on large-cap stock prices, in Ausbil's view.

Over the past 12 months the major changes to the portfolio include a reduction in the exposure to consumer discretionary and real estate investment trusts (REITs), and an increased exposure to energy, materials, and consumer staples sectors. Portfolio turnover for the period was 30%.

The manager is a long-term investor in companies and typically holds key positions for a number of years, assuming the investment thesis holds. On an absolute basis, the key portfolio holdings of over 5% were BHP Billiton (16.7%), ANZ Banking Group (9.3%), Westpac Banking Group (6.8%), Rio Tinto (6.7%), and Wesfarmers (5.9%). These five holdings represent around 45% of the portfolio, with the smaller holdings ranging from 0.75% to 4.8%, improving the portfolio's diversification.

The portfolio has an underweight of around 3% to the S&P/ASX top 20, and an underweight of around 8% to S&P/ASX 100 to 300 stocks. The portfolio is overweight mid-cap stocks.

Over the 12 months to Jan. 31, 2011, the fund's LVR has remained between 50% and 55%.

From a return analysis perspective, the portfolio has a growth bias. Over the past 12 months the portfolio beta has been around 1.9.

### Top Five Contributors and Detractors (at Jan. 31, 2011)

Contributors	Sector	1 Year*
Alumina	Materials	0.52
Oz Minerals	Materials	0.45
Rio Tinto	Materials	0.43
Wesfarmers	Consumer Staples	0.35
Oil Search	Energy	0.29

Contributors	Sector	3 Years*
AGL Energy	Utilities	0.35
David Jones	Consumer Discretionary	0.29
ANZ Bank	Financials (ex-REITs)	0.28
Alumina	Materials	0.27
Wesfarmers	Consumer Staples	0.24

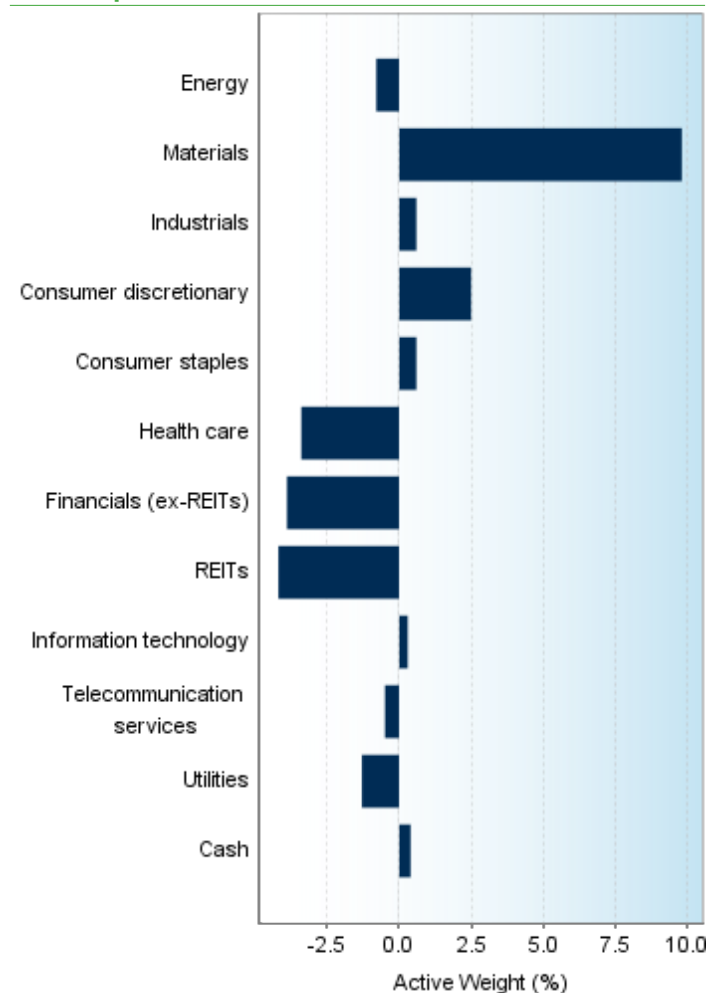


Detractors	Sector	1 Year*
Macquarie Group	Financials (ex-REITs)	(-0.62)
Toll Holdings	Industrials	(-0.53)
Harvey Norman	Consumer Discretionary	(-0.41)
Lihir Gold	Materials	(-0.37)
Mirvac Group	REITs	(-0.32)

Detractors	Sector	3 Years*
Santos	Energy	(-0.37)
Origin Energy	Energy	(-0.3)
Asciano	Industrials	(-0.27)
Harvey Norman	Consumer Discretionary	(-0.27)
Incitec Pivot	Materials	(-0.24)

\*Value Add (% p.a.). Source: Ausbil Dexia Ltd.

### Sector Exposure Versus Fund Benchmark (at Jan. 31, 2011)



Source: Ausbil Dexia Ltd.

## Management Group Profile

Dexia Asset Management (DexiaAM) is owned by Dexia Group, which is a Belgian-French financial institution that specialises in public finance. Dexia Group is a diversified, listed investment company, which is among the largest 20 banks in Europe. It was founded in 1996 through the merger of Crédit Communal de Belgique (founded in 1860) and Crédit Local de France (founded in 1987). The Dexia Group was founded as a dual-listed company, but in 1999 the Belgian entity took over the French entity to form one company.

Sydney-based fund manager Ausbil Dexia Ltd. is a joint venture owned by DexiaAM (70%) and the Australian investment and management team (30%). Senior staff members own equity in the business, making the internal structure similar to that of boutique managers. Ausbil Dexia Ltd. has a strong brand presence in Australia, with considerable FUM, making the firm highly profitable. Intervention by the global parent is minimal, but the Dexia Group will provide back-up resources if required for disaster recovery or business continuity. Whenever Dexia invests in Australia, it relies on the local office.

### Funds Under Management

At March 31, 2011, Ausbil was managing Australian-equity assets of around A\$13.5 billion, an increase of 32% from A\$11.3 billion in Dec. 31, 2009. The manager has five distinct Australian-equity strategies, across Australian large-and small-cap. The Australian equity share strategy is the flagship strategy, with assets under management of A\$8.9 billion. The manager's large-cap assets under management currently sit at A\$12.3 billion.

The manager reviews capacity semi-annually, basing it on expected portfolio turnover, the size of stock positions, and liquidity. The strategy remains soft-closed to institutional mandates. The manager believes it is currently at 80% capacity for this strategy, remaining open for new retail investors only.

Over the past 12 months, the Australian share strategy has experienced inflows of A\$103 million.

The Ausbil Australian Geared Equity Fund had assets under management of A\$124.6 million at Jan. 31, 2011. Over the past 12 months, the fund has experienced outflows of A\$12 million.

### Funds Under Management Table (at Jan. 31, 2011)

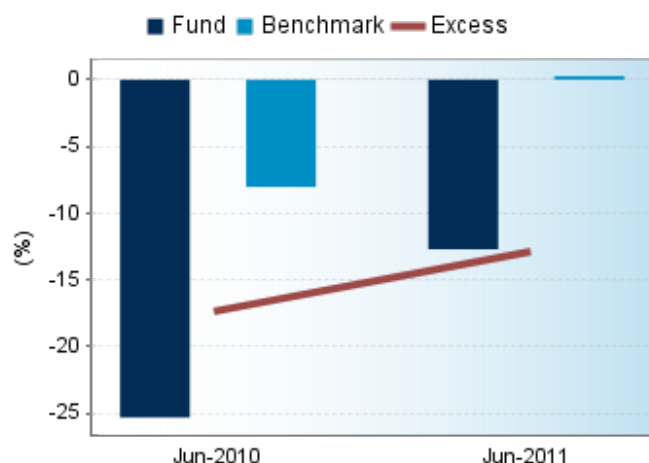
Current pool size (\$)	124.6 million
Total FUM in strategy (\$)	124.6 billion
Estimated capacity for strategy (\$)	Reviewed by the manager semi-annually
Total FUM across all asset classes (\$)	14 billion
Net strategy flows over past 12 months (\$)	(-12 million)

Source: Ausbil Dexia Ltd.



## Performance Analysis

### 3yr Rolling Returns, Over 5 Years



Source: Ausbil Dexia Ltd.  
Benchmark: S&P/ASX 300 TR.

### Annualised Net Returns % (at June 30, 2011)

	1 Year	3 Years	5 Years	10 Years
Fund performance (% p.a.)	12.32	(-12.71)	-	-
Income (% p.a.)	0	0.34	-	-
Growth (% p.a.)	12.32	(-13.05)	-	-
Benchmark performance (% p.a.)	11.9	0.26	-	-
Excess return (% p.a.)	0.42	(-12.97)	-	-
Peer group return (% p.a.)	10.05	0.88	2.38	6.59
Standard deviation (%)	19.61	36.94	-	-
Sharpe ratio	-	(-0.3)	-	-
Information ratio	-	(-0.64)	-	-
Tracking error	-	20.25	-	-

Benchmark: S&P/ASX 300 TR.



## Fund Rating Philosophy

A star rating is a forward looking assessment of a manager's ability to consistently generate risk-adjusted returns (net of fees) in excess of both its relevant investment objectives and its peers.

## Fund Rating Process

In assigning a star rating to a fund, Standard & Poor's evaluates: the size, skill, and stability of the manager's investment team; the clarity, implementation, and risk management of the investment process; the fund's objectives, fee structure and portfolio characteristics; and the manager's business management.

## Fund Rating Definitions

**S&P FUND RATING**  
★★★★★ Standard & Poor's has very high conviction that the manager will consistently generate risk-adjusted fund returns in excess of its relevant investment objectives and relative to its peers.

**S&P FUND RATING**  
★★★★☆ Standard & Poor's has high conviction that the manager will consistently generate risk-adjusted fund returns in excess of its relevant investment objectives and relative to its peers.

**S&P FUND RATING**  
★★★☆☆ Standard & Poor's has conviction that the manager will generate risk-adjusted fund returns in-line with its relevant investment objectives and relative to its peers.

**S&P FUND RATING**  
★★☆☆☆ Standard & Poor's has conviction that the manager will not generate risk-adjusted fund returns in-line with its relevant investment objectives and relative to its peers.

**S&P FUND RATING**  
★☆☆☆☆ Standard & Poor's has high conviction that the manager will not generate risk-adjusted fund returns in-line with its relevant investment objectives and relative to its peers.

**S&P FUND RATING**  
**ON HOLD** Issues that may affect the fund's management have emerged; and the fund rating is temporarily suspended, pending clarification.

**S&P FUND RATING**  
**SELL** Significant issues exist that potentially will adversely affect the fund's performance. Investors should consider obtaining advice on switching or redeeming funds.

**NEW** **Fund Rating Subscript**—here the investment process, fund manager, or the fund has a relatively short history, or the analytical team has changed significantly, but a relevant and demonstrable track record is shown on similar funds.

## Glossary of Terms

<b>Benchmark</b>	The standard (e.g. an index) by which an investment is measured against to evaluate performance.
<b>Excess Return</b>	Return of an investment relative to its benchmark.
<b>FUM</b>	Funds Under Management - The total value of the funds managed by an asset management firm.
<b>High Water Mark</b>	The highest net asset value (NAV) of a fund achieved to date. If the NAV of a fund falls below this level, no performance fee will be payable to the investment manager until this level is subsequently exceeded.
<b>Hurdle Rate</b>	A minimum rate of return that a fund must achieve before a performance fee can be charged. This can be the benchmark or the benchmark plus an additional fixed rate.
<b>Performance Fees</b>	A fee payable in excess of the ongoing management fee. There is often a hurdle rate and/or high watermark that must be reached before this fee is payable.
<b>ICR-Indirect Cost Ratio</b>	This is a ratio of indirect costs to the total investment in a particular fund expressed as a percentage. It includes the MER, expense recoveries, performance fees and other costs associated with running the fund.
<b>Information Ratio</b>	Is a measure of the relative reward for the relative risk taken (excess returns of an investment (above the benchmark) divided by the tracking error). A positive information ratio would indicate efficient use of risk by the manager.
<b>MER-Management Expense Ratio</b>	This ratio is a calculation of investment management, marketing, trusteeship, legal, accounting and auditing costs of a managed investment fund expressed as a percentage of a fund's net asset value. It is the ongoing charges for managing a fund.
<b>Peer Group Return</b>	The average return of the funds in the relevant S&P peer group.
<b>Sharpe Ratio</b>	Is a measure of risk-adjusted performance, measuring the absolute reward for the absolute risk taken (return of the investment less the risk-free rate (e.g. bank bills) divided by the standard deviation). The higher the Sharpe ratio the greater the efficiency produced by the manager.
<b>Standard Deviation</b>	Measure of the variability or volatility of the monthly returns of the fund.
<b>Tracking Error</b>	How closely a portfolio follows or "tracks" an index to which it is benchmarked. (the standard deviation of monthly excess returns against the benchmark).
<b>Ex Ante Tracking Error</b>	Predicted or forecast of tracking error.
<b>Ex Post Tracking Error</b>	Historical or actual tracking error.

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