

Analysts: Anthony Karaminas; James Gunn

Products Facts

Manager	Ausbil Dexia Limited	Fund type	Wholesale	Boutique	No
APIR code	AAP0002AU	Specialisation	—	Multimanager	No
Fund status	Open	Peer group	Australian Equities - Large Cap	Inception date	May 23, 2007
Min. investment (A\$)	50000			MER (% pa)	—

Standard & Poor's View

S&P rates this fund four stars, reflecting our high conviction that the manager will consistently generate risk-adjusted returns in excess of both its relevant investment objectives and its peers.

Highly regarded by S&P, portfolio manager and CEO, Paul Xiradis leads a team of experienced Australian-equity analysts. S&P considers Mr. Xiradis' team to be one of the strongest in the market, consistently demonstrating their ability to outperform peers. The strength of the team is its stable senior group, whose experience and history of working together is conducive to a successful environment.

Ausbil executes a clear investment process, dedicated to identifying economic sectors that will outperform over the forthcoming business cycle, and subsequently, stocks within these sectors that will demonstrate positive earnings revisions as a result. Analysts will typically cover between three and five economic sectors each, depending on experience and portfolio or managerial duties.

The Australian Geared Equity Fund is able to borrow up to 55% of assets to invest in the Ausbil Australian Active Equity Fund (AAEF). Senior members of the team monitor the gearing level daily. Investors should be aware that gearing will magnify the effect of investment gains and losses experienced in the AAEF. It should also be noted that if large redemptions from the fund occur, or equity underperforms, the manager may be forced to sell down units in the AAEF to maintain the gearing ratio 55%. It should also be noted that franking credits are only available to Australian unit holders if the fund can demonstrate that it has produced positive cash distributions during the financial year. Ausbil is not immune from capacity issues and subsequently closed the AAEF to any new institutional investors.

Product Features

The fund will purchase units in the AAEF using a combination of investor funds and borrowings. The fund aims to outperform the S&P/ASX 300 Accum Index over a three-to-five-year time horizon. The portfolio holds 30-40 stocks, with traditionally around 90% of the portfolio positioned within the S&P/ASX100. The investment guidelines allow gearing of up to 55% within the fund. Gearing is the use of borrowings to invest, which effectively magnifies the volatility, and consequently the size of investment gains and losses, relative to the non-g geared fund into which it invests.

Because the fund has borrowing costs, investors should note that franking credits are only available to funds that achieve positive distributions in a financial year.

The management expense ratio (MER) is 1.20% of gross assets, or 2.40% of net assets (assuming the gearing ratio is 50%). The bid/offer spread on the fund is 1.20%.

Fund Objectives

Benchmark	S&P/ASX 300 Accumulation Index
Target return (% p.a.)	above the S&P/ASX 300 Accum over 3 to 5 years
Target tracking error	Max 5%

Investment Style

Ausbil Dexia Ltd. (Ausbil) is an active Australian-equity manager that employs a mixture of both a top-down and bottom-up investment process. The portfolio is tilted towards sectors and industries that Ausbil believes will experience positive earnings revisions and away from those that are expected to be negative. Ausbil applies a style-neutral or core investment process; over time it may exhibit a value or growth tilt, but it is broadly style-indifferent over a full business cycle. Although the concentrated portfolio generally holds S&P/ASX 300 index names, it may invest in stocks outside the index if Ausbil believes that it has adequate market liquidity.

Passive						Active
Value						Growth
Small Cap						Large Cap

Investment Team

Experienced portfolio manager, Paul Xiradis, leads the Australian-equity team. Mr. Xiradis has over 29 years' industry experience, including a decade with Ausbil. Mr. Xiradis spends most of his time as an analyst/portfolio manager, but also performs managerial duties as the chairman of the investment committee, and as the CEO responsible for Ausbil's Australian operations.

The portfolio-construction/investment-committee team consists of three analysts/portfolio managers: Mr. Xiradis, John Grace, the director and Deputy Head of Australian equities; and the associate director of Australian equities, Adam Dixon. Three full-time equity analysts assist the portfolio-construction team: one assistant analyst and two quantitative analysts.

Ausbil also has one full-time equity dealer and a portfolio administrator providing support. Experienced team member John Honan holds the role of chief economist and head of research. Mr. Honan provides strategic macroeconomic knowledge and is also responsible for the management, mentoring, and co-ordination of the equity-analyst team.

Since 2007, three analysts have left the firm, the most recent being Ben McGarry in April 2008. Two analysts have consequently been replaced, with new analysts possessing six and 11 years' industry experience, respectively. Two junior analysts and an equities dealer also commenced during 2007, bringing the number of equities team members to 13, with Ausbil currently sourcing a further equities analyst. Although staff turnover has occurred among analysts, the core team members have a

long history of working together, and have demonstrated an ability to produce strong results.

Analysts will typically cover between three and five economic sectors each, depending on his or her experience and whether he or she has portfolio or managerial responsibilities. The allocation of responsibilities is sufficient, and allows analysts to communicate their ideas effectively and maintain a high level of accountability.

The team remuneration structure consists of a competitive base salary, plus a bonus that Ausbil bases on benchmark outperformance and other key criteria. In addition, the key senior members of the team have a holding in the equity of Ausbil, while other staff are able to participate in an equity share plan. S&P considers that remuneration structures packaged in this way assist to retain staff.

New					Experienced
Small					Large
Unstable					Stable

Investment Process

The AAEF operates a mixture of both a top-down and bottom-up investment process that is designed to construct portfolios that are best-placed to outperform during the current stage of the market and within the business cycle.

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 impact 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.

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. The team's monthly meeting will determine a tactical bias, which compares the relative price of a sector (as measured by the price/earnings ratios) with historic averages.

The third stage involves selecting stocks within the favourable sectors and industries, using first 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, it influences sell disciplines, and is a check for portfolio efficiency following the portfolio construction stage. The team then conducts further fundamental analysis to identify companies that display sustainable earnings, strong operating margins, and free cash flows; which should enable them to deliver the expected growth. The team also takes the quality of management, the experience, and the track record into account when gauging a company. The analysts overlay the quantitative ranking with their qualitative views on the stock when awarding a stock a 'positive', 'neutral', or 'negative' final rating.

The final stage of the investment process is 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

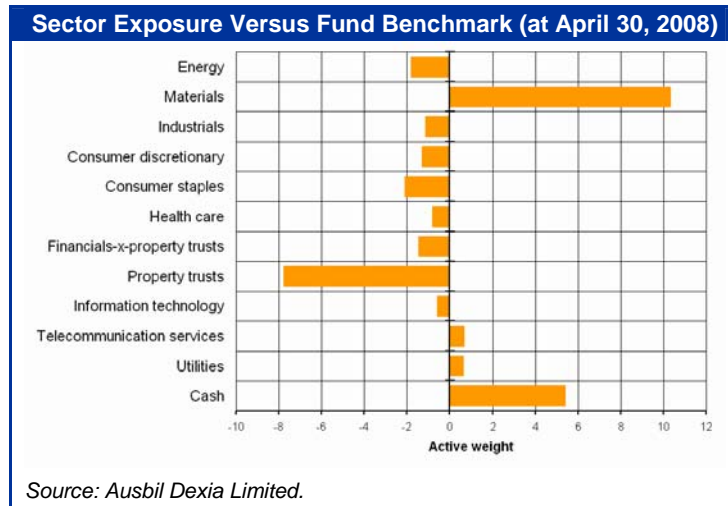
profile, stock-liquidity considerations, and investment guidelines. Ausbil will not take positions aggressively, but will take small positions in the stock until the earnings start to be achieved, then it will move to the desired position. As it is a concentrated portfolio, Ausbil will take large sector positions.

Performance

The fund has delivered excellent performance since inception in August 1997. As at 31 March, 2008, five and seven year returns were 3.73% and 2.15% above benchmark. Returns over the past 12 months and three years have been similar at .81% and .84%. Despite underperforming the funds investment target of 3% above the benchmark over rolling three year periods, performance over this period was above the peer group median. Three year performance has been above the peer group median. An overweight position to mining, specifically BHP and RIO has attributed positively to the portfolio in the past year, with active weights to Aristocrat Leisure and Asciano Group the largest detractors.

The highly concentrated nature of the portfolio and the ability to take significant positions in stocks and sectors enables the manager to gain 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.

Performance Measures	
Average portfolio turnover (%)	75
Typical number of stocks in portfolio	30-40
<i>Source: Ausbil Dexia Limited.</i>	



Risk Management

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

Portfolio constraints ensure that sector weights in the portfolio for stocks representing less than 5% of the benchmark are no further than 6% away from the benchmark; and those representing greater than 5% of the benchmark do not have a portfolio weighting of more than 8% from the benchmark weight. S&P considers this to be a sound approach to setting tolerance ranges, as it effectively captures Ausbil's high-conviction views on the bigger-name stocks.

The portfolio will typically consist of 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. The fund targets tracking error of 5% p.a., a maximum cash holding of 10%, and turnover of up to 75% p.a. It is also useful to note that at April 30, 2008, the top-10 holdings represented 59.02% of the fund's overall assets.

The chair of the investment committee monitors daily trading activity. The director and associate director of finance sign-off on compliance quarterly. On a quarterly basis, the external compliance committee sign-off on all risk controls.

The Corporate Governance Committee meets on a monthly basis to review compliance reports to ensure that the team has complied with policy from custodians on the portfolio-management system.

Management Group Profile

Dexia Asset Management (DexiaAM) is a Belgian-French financial institution that specialises in public finance. This is a diversified, listed investment company, which is among the largest 20 fund managers 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.

Intervention by the global parent is minimal, but the Dexia Group will provide backup resources if required for disaster-recovery or business continuity. Whenever Dexia invests in Australia, it relies on the local office.

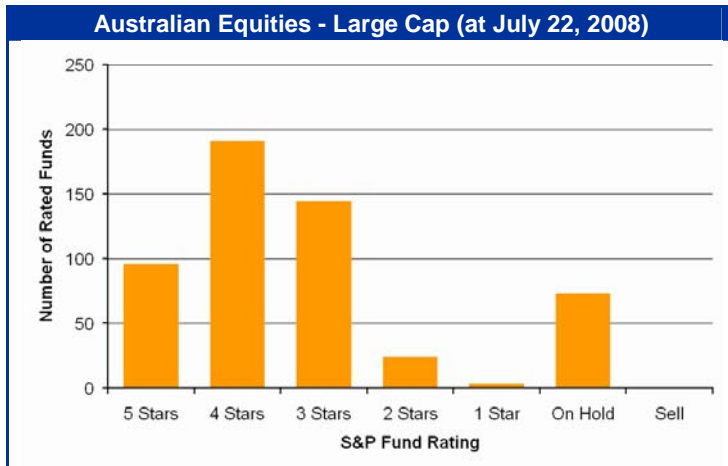
Market Share

Since September 2006, Australian Equity funds under management (FUM) has increased from A\$6.5 billion to A\$9 billion. S&P notes that this fund is not immune to the capacity issues prevalent in the Australian funds-management industry, but acknowledges that Ausbil closely monitors its capacity and has closed the fund to any new institutional investors.

Analyst(s): Anthony Karaminas; James Gunn.

Release authorised by: Mark Hoven.

S&P Fund Rating Reference Information



Reference Material

Sector Reports
www.standardandpoors.com.au/funds
Reader's Roadmap
www.standardandpoors.com.au/funds
Glossary
www.standardandpoors.com.au/funds
Guide to S&P Qualitative Fund Ratings
www.standardandpoors.com.au/funds
Fund Rating Team Biographies
www.standardandpoors.com.au/funds

Fund Rating Peer Groups by Sector

Australian Equities	International Equities	International Fixed Interest	Alternative Assets
Large Cap Diversified	Diversified Equities	Diversified Fixed Interest	Commodities
Large Cap Income	Emerging Markets	Diversified Fixed Interest Income	Multi-Sector
Large Cap Indexed	Emerging Markets Asia ex Japan	Fixed Interest	Private Equity Listed
Large Cap Industrials	Emerging Markets China	Fixed Interest High Yield	Private Equity Unlisted
Long Short	Emerging Markets India	Fixed Interest Income	Infrastructure Listed
Small Cap	Large Cap Diversified	Mortgages	Infrastructure Unlisted
Specialist	Large Cap Income	Mortgages High Yield	Alternative Strategies
Australian Fixed Interest	Large Cap Indexed	Mortgages High Yield Hybrid	Single Strategy Funds Multimanager
Cash	Large Cap Industrials	Mortgages Conventional	Single Strategy Funds Single Manager
Cash Enhanced	Long Short	Mortgages Hybrid	Multi-Strategy Funds Multimanager
Fixed Interest	Long Short Specialist	International Property	Multi-Strategy Funds Single Manager
Fixed Interest Income	Long Short Regional	Direct Commercial	Multi-sector
Mortgages	Regional Japan	Direct Development	Capital Guaranteed
Mortgages High Yield	Regional UK/Europe	Direct Diversified Direct	20
Mortgages Conventional	Regional US	Direct Industrial	40
Mortgages High Yield Hybrid	Regional Asia	Direct Residential	60
Mortgages Hybrid	Small Cap	Direct Retail	80
Australian Property	Specialist Healthcare	Direct Rural	100
Direct Commercial	Specialist Information Technology	Direct Specialised	Equity
Direct Development	Specialist Resources	Diversified Property	Other
Direct Diversified Direct		Listed	
Direct Industrial			
Direct Residential			
Direct Retail			
Direct Rural			
Direct Specialised			
Diversified Fixed Interest Listed			








Fund Rating Philosophy

A star rating is a forward-looking qualitative assessment of a manager's ability to consistently generate risk-adjusted fund 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

	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.
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	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.
	Standard & Poor's has conviction that the manager will not generate risk-adjusted fund returns in in-line with its relevant investment objectives and relative to its peers.
	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.
	Issues that may affect the fund's management have emerged; and the fund rating is temporarily suspended, pending clarification.
	Significant issues exist that potentially will adversely affect the fund's performance. Investors should consider obtaining advice on switching or redeeming funds.

Fund Rating Subscript

 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.

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