

Tony Waters promoted internally as Portfolio Manager Chris Prunty joins Ausbil to form Microcap team

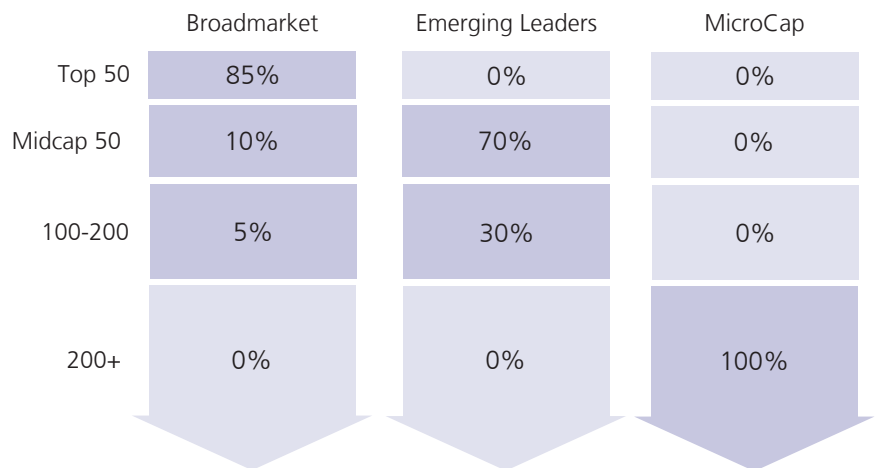
Ausbil have commenced development of a microcap capability targeting stocks outside the Top 200. As a total segment of the market, the micro-capitalisation stock universe is one of the most dynamic. From a portfolio management perspective, the investment universe is under-researched by both institutional investors and the broking community. Through superior proprietary research, we believe these inefficiencies can be exploited to deliver compelling investment opportunities. We intend to launch this capability in the first quarter of 2010.

We also believe that this development is particularly timely, as a sustained pick-up in the equity market should see a raft of microcap offerings hitting the market. With equity refinancing in the private equity space remaining challenging, the private to public valuation gap will be at its widest for some time. This scenario has precedents, including in 1993 after the recession and more recently in the post Asian crisis in 1998 and 2003/04.

Accessing an Entirely New Opportunity Set

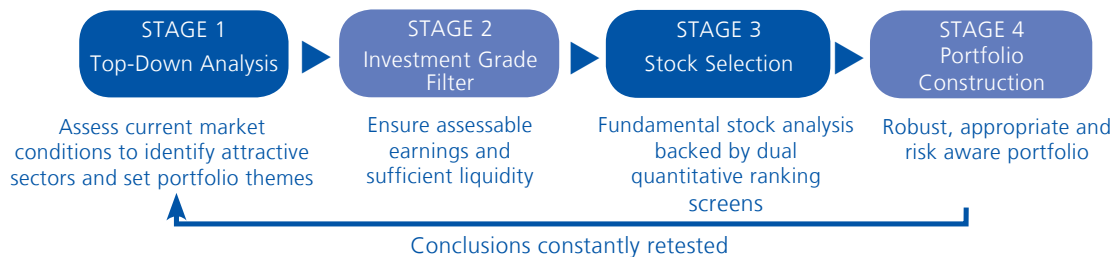
Using a similar (but customised) process to that used in our other Australian equities products, this capability targets stocks outside the Top 200.

The diagram to the right highlights the approximate allocation of each strategy to various capitalisation bands. As seen, microcap equities are a completely new capitalisation band for Ausbil, as our existing broadmarket and emerging leader processes are explicitly restricted to top 200 stocks only. We view this delineation as particularly important in the context of our current business.



Investment Process

As mentioned previously and as seen in the process diagram below, the process draws heavily on Ausbil's existing successful four stage equity process but with important customisations; namely, assessing the sustainability of a microcap stock's business model and the appropriateness of its capital structure.



Having the right capital structure to sustain and grow the business is important for any business but is absolutely critical for companies in the microcap space. The cost of capital is much higher and as a matter of course, fresh capital is harder to obtain. Without the right capital structure the penalty for shareholders is far greater than what it is for owners in the large cap end of the market. As such, considerable resources will be dedicated to screening and evaluating these aspects of each company.

As a benchmark, we will be utilising the newly launched microcap benchmark - the S&P/ASX Emerging Companies Index, which will differentiate our benchmark from other microcap managers. This benchmark consists of a representative collection of ex-200 stocks, screened for liquidity and market capitalisation and weighted according to each stock's free float.

Liquidity Considerations

Liquidity is obviously a primary consideration in this space. In managing this, the process will draw upon the quantitative expertise already existing within Ausbil to appropriately screen out lower liquidity stocks (Stage 2 in the process). In a similar fashion, as is done in the larger cap strategies, liquidity filters are applied assuming full capacity so as to ensure the process remains robust as FUM increases.

Our bottom-up calculations indicate currently an appropriate capacity in microcaps of \$300 million. As we do with larger cap strategies, we will therefore seek to soft close the strategy at around 80% of capacity (or \$250 million). Furthermore, due to the limited liquidity in this sector, we will also be restricting distribution of this strategy to pooled fund investors only (ie. targeting the platform/retail space).

Resourcing

The microcap team will be a functionally integrated, but distinctly separate team. We have promoted Tony Waters as Portfolio Manager, MicroCap Equities, with an additional analyst (Chris Prunty) appointed to work full-time with Tony. Tony's existing large cap research responsibilities will be absorbed by the existing team.

Chris joins Ausbil with 6 years investment management experience, most recently at IML, where he was responsible for small cap industrials and large cap specialty retail. His previous experience includes stints at Ivany Investment Group, Confluence Asset Management, CCZ Equities and AMP Capital Investors. Chris is CFA qualified and has a Bachelor of Commerce/Arts (Distinction) from ANU. Chris starts with us on February 8th.

Context Within the Current Business

As an integral part of the research effort, the microcap team will be able to leverage off the knowledge base (particularly for macroeconomic thought and sector analysis) of our existing analyst team. Furthermore, they will also contribute to these discussions.

From a stock analysis perspective, this capability will also positively influence the existing business, through providing guidance as stocks enter the Top 200 (and hence exit the microcap universe).

Product Details

CHARACTERISTIC	DETAILS
PRODUCT TYPE	Distributing wholesale unit trust
BENCHMARK	S&P/ASX Emerging Companies Accumulation Index
MINIMUM INVESTMENT	\$50,000
PRICING FREQUENCY	Daily
DISTRIBUTION TIMETABLE	Semi-annually: end June and end December
FEE	1.20% base fee plus 20% of benchmark outperformance

For more information

Paul Xiradis
Chief Executive Officer, Head of Equity
02 9259 0266

Adam Lancaster
Director, Institutional
02 9259 0244

Mark Knight
Head of Retail Business
02 9259 0226