



Analysts: Tom Mills; Rodney Lay

Product Facts

Sector:	Australian Equities – Large Cap	Inception date:	July 2009*
Manager:	Ausbil Dexia	Target Return above benchmark:	Index +5%
Years Managing Asset Class:	12		
Benchmark:	S&P/ASX 300 Accumulation. Index		

Standard & Poor's View

The S&P Fund Services SMA model portfolio rating is based on an assessment of two separate, but interrelated components; the quality of the fund manager, in the manner traditionally undertaken by S&P Fund Services, and the suitability of the portfolio construction and management process to an SMA investment vehicle. The rating does not apply to the underlying base fund, the Ausbil Australian Active Equity Fund.

The rating is platform neutral. It is applicable irrespective of the platform/s where the model portfolio is, or may be, available. The rating is not subject to the features of a particular SMA platform, including fees. Rather, the assessment is based on the underlying assumption that all SMA platforms incorporate certain structures. Should the structure of a particular SMA platform differ from those assumptions then the actual level of risk may differ from the S&P assessment. Investors should refer to the body of the report for a detailed explanation of the assumptions used by S&P.

The Ausbil Australian Concentrated Equity strategy, which is used for the model portfolio, is a non-untilised strategy offered to institutional investors and represents a more concentrated version of the Ausbil Australian Active Equity Fund, with a portfolio of approximately 20 to 30 stocks compared to 30 to 40 in the Active Equity fund. The Concentrated strategy has a large bias to top 100 companies, with traditionally 90% of the portfolio in the S&P/ASX 100. The fund's top 10 holdings represent more than 60% of the portfolio, with pronounced active weights taken on high conviction stocks.

Stocks selected for inclusion in the fund represent those stocks in the base fund that rank most highly in terms of the investment team's conviction measures and are viewed as core long-term investment prospects.

The Concentrated strategy is managed by the same investment team according to the same process as the Active Equity fund, which is a fund and investment process with a long and successful track record of generating alpha over the short, medium, and long term. In a manner true to style, alpha is overwhelmingly attributable to stock selection.

The Australian-equity analyst team is experienced and led by portfolio manager and chief executive officer (CEO), Paul Xiradis, who is highly regarded by S&P. S&P considers Mr. Xiradis's team to be one of the strongest in the market, consistently demonstrating its 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. Analysts will

typically cover between three and five economic sectors each, depending on experience and portfolio or managerial duties.

The Ausbil Australian Concentrated Equity strategy, which provides the SMA model portfolio, has characteristics such as a concentrated portfolio and low to moderate portfolio turnover that are broadly suitable for an SMA model portfolio. While S&P views the strategy's typical turnover as low to moderate in an absolute sense, it is nonetheless higher than the average turnover of some other SMA model portfolios in S&P's rated peer group. The higher turnover risk in turn generates a relatively higher degree of brokerage cost and, hence performance impairment risk. Inherent underperformance risks due to high brokerage are increased due to the manager's approach of making frequent, smaller trades in order to establish positions. The minimum brokerage and minimum trade value structure of SMAs is better suited to fewer and more sizeable trades.

Ausbil has appropriate policies to ensure that platform providers implement portfolios within agreed guidelines, but takes a "hands-off" approach to the issue of brokerage and other fees charged by platform providers to their clients, as they are specific to the platform providers' own products. S&P acknowledges this distinction, but notes that investors' returns could potentially vary significantly depending on such costs.

Product Features

The model portfolio is the Ausbil Australian Concentrated Equity portfolio, which holds 20 to 30 stocks and aims to provide long-term capital growth. Investors should be prepared to accept some fluctuations in short-term returns.

The performance objective is to outperform the S&P/ASX 300 Accumulation Index by 5% over rolling three-year periods. The manager keeps tracking error below 6%, with its typical range being 4.5%-5.5%. Portfolio turnover for the 12 months to March 31, 2009 was 57%. The portfolio has a heavy weighting to stocks in the S&P/ASX 100, with around 95% of the portfolio currently consisting of top 100 stocks.

The management expense ratio (MER) is determined according to the particular SMA platform where the model portfolio is available. Investors should refer to the SMA platform Product Disclosure Statement for fees.

Investment Style

Ausbil Dexia Ltd. 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 that Ausbil believes have adequate market liquidity.

Passive					Active
Value					Growth
Small Cap					Large Cap

Investment Team

Experienced portfolio manager, Mr. Xiradis, leads the Australian equity team. Mr. Xiradis has over 30 years' industry experience, including over 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.

Five full-time equity analysts assist the portfolio-construction team, with support from two quantitative analysts. Further assistance is provided by two full-time equity dealers and experienced team member John Honan who holds the role of chief economist and head of research. Mr. Honan provides strategic macro-economic knowledge and is also responsible for the management, mentoring, and co-ordination of the equity analyst team.

Analysts will typically cover between three and five economic sectors each, depending on their experience and whether they have portfolio or managerial responsibilities. The allocation of responsibilities is sufficient, and allows analysts to communicate their ideas effectively and to maintain a high level of accountability. Equity ownership among the team has increased with the majority of investment analysts now equity holders. After a period of instability, Ausbil's investment team has recorded no departures for almost a year.

The most recent addition to the team is experienced analyst Tony Waters who arrived in late 2008. Mr. Waters joined from Investors Mutual where he held the position of equity analyst. He previously spent seven years with CCZ Equities as an industrial equity analyst, specialising in mid- to small-cap companies.

S&P has been consistently impressed with the knowledge of the core investment team, which has remained stable and repeatedly demonstrated an ability to produce strong returns.

Senior quantitative analyst Khay-Tuck Chow is responsible for communicating with SMA platforms, providing clients with portfolio holdings, trading summaries, performance reports, and commentary updates.

New					Experienced
Small					Large
Unstable					Stable

Investment Process

Ausbil combines 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 macro-economic 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 effects of the international and Australian economies 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 performance figures quoted in this section of the report represent the composite returns of the Australian Concentrated Equity strategy, which is a non-utilised strategy, and are based on an institutional account managed in accordance with the strategy. The objective of the model portfolio is to outperform the S&P/ASX 300 Accumulation Index by 5% over rolling three-year periods. Over the 12 months to June 30, 2009, the Concentrated strategy returned -17.45%, before fees, outperforming the benchmark return of -20.34%. Over the three years to the same date, the strategy outperformed the benchmark by 1.77% per year; and exceeded the benchmark by 4.84% per year from inception.

At June 30, 2009, the Australian Concentrated Equity strategy's most pronounced sectoral tilts included a 3.7% overweight to retailing and an overweight of 2.9% to both diversified metals and mining, and transportation. The biggest underweight on a sectoral basis was -3.0% to gold. The fund's top 10 holdings currently represent more than 60% of the portfolio, reflecting the pronounced active weights taken on high conviction stocks.

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 set limits on active sector weights and ensure that portfolio weights for stocks representing less than 0.5% of the benchmark are no further than 8% away from the benchmark, while at the same time, those representing greater than 0.5% of the benchmark do not have a portfolio weighting of more than 10% 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 portfolio targets maximum tracking error of 6% per year (typically 4.5%-5.5%), and a maximum cash holding of 10%, and turnover of up to 100% per year. The use of derivatives is not permitted in the model portfolio.

SMA Suitability

Overall, S&P regards the Ausbil Australian Concentrated Equity strategy, with a concentrated, relatively low-turnover portfolio, as suited to an SMA environment. Ausbil audits SMA compositions to ensure that they comply with agreed guidelines, minimising the risk of distortion in investor portfolios. However, inherent underperformance risks due to high brokerage are increased due to the manager's approach of making frequent, smaller trades in order to establish positions.

The section below details some of the specific risks.

SMA Specific Risks

The brokerage and trading structure of an SMA platform may generate performance risks in an SMA model portfolio. Where an SMA platform incorporates a minimum brokerage charge and a minimum trade value two performance risks may be introduced:

- The risk of lower net returns relative to the Australian Share Fund primarily due to higher brokerage costs. The risk largely derives from a minimum brokerage charge structure.
- The risk performance will vary in relation to the Australian Share Fund due to differences in portfolio composition. The risk may arise if the investment decisions of the fund manager are not implemented in the model portfolio, or done so on a delayed basis. The risk partly arises where an SMA platform imposes a minimum trade value upon the model portfolio. While the relative performance outcome is essentially a random walk, potentially positive or negative, variation in composition is essentially a dilution and distortion of the views and process of the fund manager.

Where a platform does not incorporate a minimum brokerage charge and trade value these risks may be significantly lower, potentially to the point of being immaterial.

S&P Fund Services' SMA model portfolio ratings are platform neutral. The rating is applicable irrespective of the platform/s where the model portfolio is, or may be, available. The rating is not subject to the features of a particular SMA platform. Rather, the assessment is based on the underlying assumption that all SMA platforms incorporate both a minimum brokerage charge and trade value. The

underlying assumptions have the intended impact of identifying the maximum expected performance risks that may be incurred by investors. The actual level of risk may, however, differ according to the brokerage and trade structure of each particular platform.

Portfolio Turnover

Model portfolios may be charged a high level of brokerage relative to a managed fund. Additionally, where a minimum brokerage charge applies, the effective brokerage on smaller model portfolio transactions, expressed in basis points, may be even higher. This is a particular risk while the total of funds under management (FUM) within the model portfolio is low.

Consequently, the higher the turnover, and the higher the frequency of trading for a given level of turnover (the lower the average trade value), the higher the risk that brokerage incurred by the model portfolio will exceed the managed fund and performance lag. Lower turnover serves to reduce excessive brokerage cost risks.

For the Australian Concentrated Equity strategy, S&P considers these risks as moderate. Figures provided by Ausbil for its typical Concentrated portfolio show average annual turnover of 52.73% over the four years to June 30, 2009. This is higher than the average turnover of some other SMA model portfolios in S&P's rated peer group. In the year to June 30, 2009, portfolio turnover was 75.7%, an unusually high level for the strategy caused by the manager altering its sectoral tilts amid volatile market conditions. By comparison, the portfolio turnover figure for the 12 months to June 30, 2008 was 31.8%.

Managed Fund Flows

Where a model portfolio is based on an existing managed fund, fund flows into or out of the managed fund create risks in the model portfolio.

A fund manager applies fund flows by either transacting in particular securities (thereby changing portfolio weights) or transacting in an entire slice of the portfolio (thereby leaving portfolio weights consistent).

In the case of the former, the change in portfolio weights is conveyed to, and implemented by, the SMA platform provider. In the absence of an excess cash holding, the platform provider on behalf of the investor is required to transact in every stock to realign portfolio weights. Securities with a reduced weighting in the unit trust are sold in the model portfolio to the degree required to finance the purchase of those securities with an increased weighting. In this case, the volume of trades in the model portfolio may be twice that of the unit trust, potentially generating higher brokerage and, consequently, reducing net returns.

In the case of the Australian Concentrated Equity strategy, S&P views the risk as relatively low. The manager typically allocates flows across the portfolio evenly, assuming stocks are at target weights. This will keep relative weights consistent and reduce the likelihood of SMAs needing to rebalance their portfolios.

Portfolio Variance Risk

A minimum brokerage and minimum trade value structure increases portfolio variance risk. The risk is significantly higher with a model portfolio with low FUM.

The risk that is endogenous to the model portfolio construction and management is increased due to the manager's approach of making frequent smaller trades in order to establish positions. While this enables the manager to achieve better execution, it increases the risk of portfolio variance as the SMA provider will tend to aggregate smaller

trades before implementing them in portfolios. This increases the likelihood of a distortion of the manager's investment decisions. The minimum brokerage and minimum trade value structure of SMAs is more suited to fewer and more sizeable trades.

A delay between the fund manager executing the trades in the managed fund and effectively conveying those trades to the SMA platform provider also serves to create portfolio variance during the interval, as well as the risk that, in exceptionally volatile markets, the investment rationale of the trade no longer applies. The fund manager communicates its portfolio positions and trading summary on a weekly basis, which S&P considers appropriate. The model is sent to clients each Wednesday morning, with positions as at the prior day's close.

Responsibilities Of The Fund Manager

It is the view of S&P that the fund manager has certain responsibilities to safeguard both its reputation as well as to protect the interests of investors in the model portfolio. Specifically:

- A manager should be aware of the brokerage charges and structure to assess the risk of underperformance and manage the model portfolio appropriately to minimise the risk;
- A manager should be aware of whether a minimum trade value threshold applies to determine the risk of portfolio variance risk and the consequent inconsistency in investment strategies;
- The manager should be comfortable with the trading processes and pre-trade compliance of the SMA platform provider to limit trading risk;
- The manager should be comfortable with the communication process to ensure it receives adequate information back from the SMA platform provider to assess aspects such as relative performance, portfolio composition, and that trades are communicated effectively.

Ausbil has been working with SMA platform providers since 2001. The product sponsors are typically large, established organisations. In choosing a product provider, Ausbil assesses the provider, its plans, and their compatibility with Ausbil's own plans. It has an investment management agreement (IMA) with each product provider, which sets the rules and guidelines by which SMA portfolios will be managed. These will have some variation (such as exclusions, or cash levels), but will correspond fairly closely with the portfolio guidelines that apply to the base fund. SMA platform providers submit their overall SMA configuration to Ausbil, which performs audits to ensure consistency with the IMA investment schedule. This process helps to ensure that the investor experience is in line with what should be expected, and serves to protect Ausbil from the reputational risk that could result from a distortion of its strategy.

Ausbil reviews the final cost to investors as part of its sign-off process with each product provider, and might raise concerns if it considered fees to be "out of market". Fundamentally, however, Ausbil considers the brokerage and other fees charged by platform providers to their clients, to be the concern of the platform providers themselves, as they are specific to the platform providers' own products. S&P acknowledges this distinction, but notes that investors' returns could potentially vary significantly depending on such costs.

Management Group Profile

Dexia Asset Management is a Belgian-French financial institution, specialising in public finance. It 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 1860) and Crédit Local de France (founded 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.

Reference Material

SMA Model Portfolio Reports

www.standardandpoors.com.au/funds

Guide to S&P SMA Model Portfolio Ratings

www.standardandpoors.com.au/funds








Fund Rating Philosophy

A star rating is a forward looking assessment of a manager's ability to consistently generate superior risk-adjusted fund returns, net of fees, relative to relevant investment objectives and peers.

Fund Rating Process

In assigning a star rating to an SMA model portfolio, 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 SMA's objective, fee structure, portfolio characteristics, trade execution, trade execution structures and suitability for an SMA; 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 relevant investment objectives and relative to peers.
	Standard & Poor's has high conviction that the manager will consistently generate risk-adjusted fund returns in excess of relevant investment objectives and relative to peers.
	Standard & Poor's has conviction that the manager can generate risk-adjusted fund returns in line with relevant investment objectives and relative to peers.
	Standard & Poor's has conviction that the manager will not generate risk-adjusted fund returns in line with relevant investment objectives and relative to peers.
	Standard & Poor's has high conviction that the manager will not generate risk-adjusted fund returns in line with relevant investment objectives and relative to peers.
	Issues potentially affecting the management of the fund have emerged, and the fund rating is temporarily suspended, pending clarification.
	A manager with significant issues that have the potential to adversely impact performance. Existing investors should consider obtaining advice regarding switching or redemption.

Fund Rating Subscript

— NEW — Where the investment process, fund manager or analytical team has changed significantly, or where the fund has a relatively short history, but a relevant and demonstrable track record can be shown on similar funds.

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