

The introduction of new strategies and a new asset class will further enhance the risk/return characteristics of Ausbil’s Balanced Fund.

Ausbil Dexia Limited (Ausbil) is committed to the research and investigation of new developments and opportunities for the benefit of clients. Accordingly Ausbil has made the following enhancements to the Ausbil Balanced Fund:

- introduced Australian equity MicroCap strategy in September 2010
- introduced an allocation to Fund of Hedge Funds in October 2010
- staged reduction of direct property exposure and increase the specific allocation to Listed Property

Summary of the new Ausbil MicroCap strategy

CHARACTERISTIC	COMMENTS
INVESTMENT CASE	Additional alpha opportunities within the Australian equities allocation via accessing the highly inefficient, but high growth microcap sector of the Australian sharemarket
MANAGEMENT TEAM	Ausbil’s internal dedicated MicroCap Investment team Tony Waters and Chris Prunty
INVESTMENT STYLE/ PROCESS	Investment philosophy and process based on Ausbil’s overall approach to Australian Equity investment (fundamental core, earnings based), with additional focus on business sustainability and stock liquidity
INVESTMENT UNIVERSE	Stocks outside the S&P/ASX 200 Index
BENCHMARK	S&P/ASX Emerging Companies Accumulation Index

Summary of the new Dexia Alpha Dynamic Fund (Fund of Hedge Funds)

CHARACTERISTIC	COMMENTS
INVESTMENT CASE	An actively managed diversified alternatives exposure with a strong de-correlation to traditional asset classes
MANAGEMENT TEAM	16-strong dedicated investment team co-headed by Maia Ferrand and Jean-Gabriel Nicolay, based in Paris
INVESTMENT STYLE/ PROCESS	Fully diversified portfolio (30 – 50 individual positions diversified by manager, strategy and region), with active allocation between alternative strategies on a 6-month horizon. Features include an in-depth structured quantitative and qualitative due diligence process combined with operational risk management analysis. A dedicated and independent risk management integrated into the investment process
BENCHMARK	UBS Australia Bank Bill Index

What are the benefits for the Balanced Fund

In reassessing the options for the Balanced Fund, Ausbil commissioned UNSW Associate Professor of Finance John Evans to independently analyse the investment case surrounding each capability. The overall key benefit for the Balanced Fund as a result of these enhancements is an improvement in the expected risk/return outcome.

At a strategy level, the benefit of the Australian equity MicroCap strategy is that it provides the Balanced Fund with exposure to an inefficient segment of the Australian equity market where active investment management has the potential to produce significant excess returns. The benefit of the Fund of Hedge Funds (FoHF) strategy is that it provides additional diversification benefits to the Balanced Fund due to the low correlation of returns between this strategy and traditional asset classes, therefore improving the overall expected risk return outcome of the portfolio. A dedicated allocation to Listed Property is intended to add portfolio liquidity (to counteract the less liquid allocation to FoHF) and a more positive outlook for the sector suggests a small allocation should be warranted.

Fund Update – Ausbil Balanced Fund

What are the new neutral benchmarks and ranges for the Balanced Fund

Accordingly, Professor Evans' analysis led us to make the following enhancements:

- Allocate a small part of the Australian equities portfolio to MicroCap strategy (2.5% neutral allocation; range of 0-5%). The overall Domestic Equity benchmark weighting of 40% (range 35-55%) remains unchanged.
- Allocate 5% (neutral allocation, range 0-10%) to alternatives, via a fund of hedge funds in lieu of some of the current allocation to fixed interest. This investment does however have a greater degree of illiquidity than fixed interest, so this allocation was taken with a view that the percentage of overall illiquid investment in the Balanced Fund is not increased. Therefore whilst the actual allocation was drawn from fixed interest, the "illiquidity allocation" was drawn from direct property.
- Split the 10% neutral Property allocation to 5% Direct Property and 5% Listed Property (range of 0% to 10% of each).

As a result of these enhancements the asset allocation for the Ausbil Balanced Fund is as follows:

SECTOR	CURRENT			NEW		
	MIN	NEUTRAL	MAX	MIN	NEUTRAL	MAX
Australian Equities[^]	35%	40%	55%	35%	40%	55%
International Equities[*]	20%	25%	30%	20%	25%	30%
Direct Property	5%	10%	15%	0%	5%	10%
Listed Property	-	-	-	0%	5%	10%
Fixed Interest	15%	20%	40%	10%	15%	35%
Alternatives	-	-	-	0%	5%	10%
Australian Cash	0%	5%	20%	0%	5%	20%
Total		100%			100%	

Defensive Assets	15%	25%	40%	15%	25%	40%
Growth Assets	60%	75%	85%	60%	75%	85%

[^] The core Australian equities allocation is invested into the Ausbil Australian Active Equity Fund. The additional strategy within the Australian equities allocation also includes Ausbil's Active Extension Fund (range 0-5% neutral 2.5%) which was introduced in September 2009.

^{*} International equity currency exposure may be partially hedged when considered appropriate. Neutral position is unhedged.

As is the case with the Balanced Fund's investments in the Ausbil Australian Active Equity Fund, Ausbil Active Extension Fund and Dexia Sustainable Equities Fund, the Balanced Fund will not pay any management or performance fees to either of the two new investments.

In order to ensure the Balanced Fund continues to deliver competitive risk adjusted returns for clients, Ausbil will continue to undertake additional research and investigate other opportunities for the Balanced Fund over time.

For more information

For more information on this investment, please call your usual Ausbil representative on 02 9259 0200.