

Ausbil Australian Active Equity Fund
Ausbil Australian Geared Equity Fund

 Highly Recommended

| About this Review | |
|--|--|
| Sector reviewed | Australian Equities – 'Mainstream' |
| Total Funds rated | 35 |
| Date of this Sector Review | October 2010 |
| About this Fund | |
| Fund reviewed | Ausbil Australian Active Equity Fund |
| Fund Size (\$M) | \$3,153 |
| Responsible Entity | Ausbil Dexia Ltd |
| Fund Commenced | July 1997 |
| Retail Fee (p.a.) | N/A |
| Wholesale Fee (p.a.) | 0.90% |
| Structure Availability | Platforms, Wholesale |
| About the Fund Manager | |
| Fund Manager | Ausbil Dexia Ltd |
| Ownership | 70% Dexia Asset Management, 30% Ausbil Dexia staff |
| Assets managed in this sector (\$M) | \$10,608 |
| Years managing this asset class | 12 |
| Investment Team | |
| Team size dedicated to this Fund | 10(excluding quant and dealer resources) |
| Portfolio Manager | Paul Xiradis |
| Number of Analysts | 9 |
| Turnover/Team Ratio (past 2 yrs) | 0.00% |
| Investment Process | |
| Style | 'Core'/ 'Rotational' |
| Targeted Value Add above Index (p.a.) | 3.0% over a rolling three year period |
| Typical Tracking Error (p.a.) | 2.8% - 3.2% (Max. 5% Ex-Ante) |
| Typical Stock Numbers | 30 – 40 (33 currently) |
| Typical Capitalisation Bias | Large & Mid cap |
| Franking Level (FY10) | 86% |
| Tax efficiency - Income in Total Distribution (FY10) | 62% |
| Discount Gains as % of Total Capital Gains (FY10) | 100% |
| Fund Rating History | |
| October 2010 | Highly Recommended |
| October 2009 | Highly Recommended |
| November 2008 | Highly Recommended |
| January 2008 | Highly Recommended |
| August 2006 | Highly Recommended |

What this Rating Means

➤ The Highly Recommended rating indicates that Lonsec has high conviction that the Fund or product can achieve its objectives and, if applicable, outperform peers over an appropriate investment timeframe. The Manager or product has strong competitive advantages in people, process and product design and has no areas of material weakness. The investment is a preferred entry point to access this asset class or strategy

Fund Risk Characteristics

| | Low | Moderate | High |
|--------------------|-----|----------|------|
| Capital Volatility | | | ▲ |
| Corporate Risk | | ▲ | |

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the product's asset class and the risks relative to other products in the relevant Lonsec sector universe.

Using this Fund

➤ **This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.**

➤ The Fund is a 'long' only Australian equity product and as such will generally sit within the growth component of a balanced portfolio. As a 'core' style product, Lonsec considers the Fund suitable for blending with 'growth' and/or 'value style' funds. Given its 'core' style, the Fund can exhibit either 'growth' or 'value' style biases at different points in the market cycle. It is suitable for investors with a 5+ year investment time horizon.

➤ The Fund is subject to equity market risk and movements (both positive and negative) in the share prices of the underlying securities in the portfolio. Investors should therefore be aware that the Fund may experience periods of negative returns and that there is a risk of potential capital losses being incurred on their investment.

Changes since Previous Lonsec Review

➤ Ausbil has added an additional resource, with Chris Prunty (ex IML) joining the team as a Microcap analyst in February 2010

Lonsec Opinion of this Fund

Philosophy (Style)

➤ Rather than focusing solely on growth or value investment styles, the Manager's core approach seeks to exploit market inefficiencies at all stages of the cycle in all market conditions. At different points in time the portfolio may display a 'value' or 'growth' tilt, however over a full market cycle the portfolio is not expected to have any notable style bias.

➤ Ausbil's investment philosophy of focusing on company earnings and the belief that earnings revisions pre-empt stock prices has been adhered to by the Manager since the inception of the Fund. Ausbil has been executing this philosophy with a high level of success which is evidenced by the Manager's long-term performance track record in various investment cycles.

People and Resources

➤ Lonsec considers the depth and calibre of the key members of the investment team to be Ausbil's competitive strength. Paul Xiradis, John Grace, Adam Dixon and John Honan, industry veterans boast considerable investment management experience, managing money over different investment cycles which Lonsec views favourably. Pleasingly there have been no departures from the senior ranks of the team in over seven years.

➤ Lonsec notes that Ausbil has a broadened equity ownership structure in which 9 of the 14 members of the investment team own equity in the business. Lonsec believes that providing equity ownership can reduce the level of staff turnover, which the Manager has historically experienced in the junior-mid level analyst ranks. In addition, equity ownership contributes to greater alignment of interest between the business and ultimately end investors. Overall, Lonsec believes the Manager's alignment of interests to be moderate to high.

➤ Lonsec views favourably Ausbil's internship arrangement with the University of New South Wales. Whilst not guaranteeing a role with the Manager, it acts as a potential source of harnessing candidates for junior roles within the company. Lonsec believes that the program contributes to improving the mix of youth and experience within the team and considers it important for future succession planning and business growth.

Research and Portfolio Construction

➤ Ausbil's research process has been applied consistently since the inception of the Fund. The combination of top-down inputs with bottom-up stock research has been implemented effectively over various investment environments. Lonsec believes that the Manager's research and portfolio construction process affords the Manager enough flexibility to tilt the portfolio to take advantage of prevailing market conditions.

➤ Lonsec believes that Ausbil's stock ranking model serves to promote a strong level of consistency in valuation across all stocks in the Manager's investable universe. The bias towards PE relatives is also considered appropriate given the Manager's focus on earnings and earnings revisions.

➤ Given the importance of 'top-down' analysis in the investment process Lonsec is particularly pleased that this insight is obtained internally by a dedicated economist, John Honan. Also pleasing has been the manager's increased emphasis on one-on-one engagement with company management, having conducted 701 direct company visits in FY10.

➤ Lonsec is pleased with Ausbil's continued commitment to research and development which is evidenced by ongoing

evolution and enhancements to the investment process. ESG factors have become infused into the investment process. The Manager sources data via CAER/EIRIS where appropriate, whilst allocating responsibilities internally.

Adam Dixon has been appointed ESG expert at the portfolio construction committee level. Lonsec considers the implementation of ESG factors within the rank model to be a positive development.

Risk Management

➤ Lonsec believes that Ausbil's risk management processes are in line with industry practices. The Manager adequately monitors all relevant risk factors within their portfolio covering aspects such as stock and sector risk. The Manager currently uses the Goldman Sachs JB Were risk management tool.

➤ Lonsec believes that the risk management processes in place for the **Ausbil Australian Geared Equity Fund** are adequate and in line with standard industry practice. The Manager currently uses two reputable primary lenders and has indicated intent to potentially diversify further.

Funds Under Management

➤ The Manager is currently managing over \$10 billion dollars in Australian equities equating to approximately 1.0% of the market capitalisation of the S&P/ ASX 300 Accumulation Index. This level of FUM makes Ausbil one of the larger managers in this peer group. Ausbil internally assesses capacity every six months and considers individual stock liquidity and portfolio turnover in determining their capacity level. Ausbil has indicated to Lonsec that based on these measures current FUM represents approximately 80% of their overall capacity. Ausbil is currently closed to new institutional business.

➤ Lonsec believes the Manager has thus far incorporated a sensible approach to capacity management, however Lonsec will continue to monitor FUM growth in future reviews.

Performance

➤ The Fund returned -2.0% for the 1 year period assessed to September 2010. When measured against the index and Lonsec Peer group average over the same period, the Fund underperformed by 2.7% p.a. and 1.4% p.a. respectively.

➤ Over the longer term, the Fund returned -5.8% for the 3 year period assessed to September 2010. When measured against the index and the Lonsec peer group average over the same period, the Fund outperformed the benchmark by 1.5% p.a. and performed in line with the Lonsec peer group average. Long term performance of the Fund has been positive, with the Fund delivering an Excess Return of 1.5% pa over the five year period assessed to September 2010.

Overall

➤ Lonsec has maintained the Fund's 'Highly Recommended' rating as a result of this review cycle. Lonsec's strong qualitative view of the Fund is underpinned by the calibre of the investment team, especially the senior management team. The implementation of the Manager's investment process which incorporates both top down and

bottom up research has been well executed and applied consistently since the inception of the Fund.

People & Resources

The Ausbil investment team consists of ten personnel of which nine have direct stock analysis responsibilities. Supporting this team is a dedicated quantitative analyst, in-house economist and two dealers. The overall team (excluding the in-house economist, quantitative and dealing resources) has an average of 15 years industry experience which is in line with the Lonsec mainstream Australian equity sector average. The average tenure of the investment team at Ausbil is six years which is in-line to that of the Lonsec peer group average in the mainstream Australian equity sector.

| Team Member | Responsibilities | Ausbil | Industry Exp |
|----------------|--|----------|--------------|
| Paul Xiradis | Portfolio Strategy /Construction | 13 | 31 |
| John Grace | Portfolio Strategy /Construction | 8.5 | 25 |
| Adam Dixon | Commodity Research/ Metals, Mining, Energy, Steel | 10.5 | 15 |
| John Honan | Head of Research, Economic Analysis | 13 | 32 |
| Nick Condoleon | Healthcare, Chemicals, Food Beverages & Tobacco, Agriculture | 3 | 13 |
| Tony Waters | Portfolio Strategy /Construction Small and Microcap resources | 1.5 | 17 |
| Graeme Petroni | Insurance, Financials, Coal Seam Gas | 3 | 8 |
| Brendan Wong | Products, Packaging, Capital Goods, Transport, Commercial Services | 6 | 12 |
| Sarah Lau | LPTs, Developers, Construction Materials, Gaming | 3 | 3 |
| Shanelle Hoong | Telecommunications, IT, Media | 4 | 6 |
| Chris Prunty | Microcap Industrials | 0.5 | 7 |
| Average | | 6 | 15 |

The CEO and Head of Equities is Paul Xiradis. Xiradis maintains a 'hands on' approach to portfolio construction and strategy, driving the overall investment process.

Xiradis is supported by Deputy Head of Equities, John Grace and Portfolio Manager, Adam Dixon. These three team members form the Portfolio Construction Committee and are responsible for portfolio strategy and construction. The Head of Research and Chief Economist is John Honan. Honan provides important macroeconomic input during the 'top-down' phase of the investment process.

Xiradis, Grace, and Dixon are the co-portfolio managers of the Fund however Xiradis has final decision making authority and is ultimately accountable for the performance of the Fund. Supporting the portfolio managers are six equity analysts, who are each allocated sector responsibilities.

Client service and IT functions are conducted in-house, fund administration and other back office functions are outsourced to National Custodian Services

Turnover

The investment team has exhibited high levels of stability over the last two years having no departures from the investment team. Ausbil has hired two new additions to the investment team.

Key Person Risk

Lonsec believes that 'key person risk' lies primarily with Xiradis, given that he has been instrumental in the development of both the investment process and the investment team. This risk however, is partly mitigated by the equity ownership structure in place at Ausbil.

Remuneration / Alignment of Interests

The investment team operates under a team performance incentive program. A maximum of 80% of an analyst's variable remuneration is linked to benchmark outperformance of the entire portfolio, and a maximum of 20% is based on a discretionary element for individual achievement which is qualitatively assessed. Pleasingly, 100% of the variable remuneration vests over a three year time period and is an important mechanism in ensuring staff retention. In addition, most investment personnel including Xiradis, Grace, Dixon, and Honan and more recently the investment analysts have equity stakes in the company.

Investment Style

Style

Ausbil is an active Australian equities fund manager utilising a fundamental 'bottom-up' research approach combined with a 'top-down' overlay. The investment style adopted by the Manager is 'core'/'rotational' and the Fund will generally exhibit a mid to large cap bias. At different points in time the portfolio may display a 'value' or 'growth' tilt, however over a full market cycle the portfolio is not expected to have any notable style bias.

Investment Philosophies and Beliefs

Ausbil believes that company earnings and earnings revisions drive stock prices, and that investors focus too heavily on present conditions and do not adequately consider the impact of longer-term factors (e.g. changes in the earnings profile of a stock or sector). The manager therefore believes that the key to outperformance is the early identification of earnings revisions and being able to pre-empt stock price movements.

Research Approach

Research is conducted from both a ‘top-down’ and ‘bottom-up’ perspective, with a focus on identifying attractive sectors and stocks with strong earnings profiles and positive earnings revisions. The research effort is initiated with a ‘top-down’ or ‘macro’ assessment of current economic and market conditions, followed by in depth sector analysis. This helps to determine both a strategic and tactical view on each sector and in identifying portfolio themes.

Sector responsibility is assigned to individual analysts who are responsible for conducting fundamental ‘bottom-up’ stock research across all ASX top 100 stocks, portfolio stocks, and those stocks rated highly by the Manager’s proprietary quantitative ranking model.

| Overview | |
|------------------------------------|--|
| Investment Style | Core/Rotational |
| No. Stocks in Universe | ASX300 |
| No. Stocks fully researched | 199 |
| Company Visits | 701 |
| Initial Filters | Market Capitalisation >\$250 million, liquidity, proprietary database |
| Top-Down | 20-25% |
| Bottom-Up | 75-80% |
| Qualitative Analysis | Structured |
| Research Inputs | Site visits – companies, suppliers & competitors |
| Use of Broker Research | Secondary input into decision making. Draw data to establish market consensus view |

Valuation Approach

| | |
|-----------|---|
| Primary | Relative Price to Earnings Ratios (Total expected relative return, consensus earnings revisions, two year EPS growth) |
| Secondary | Discounted Cash Flow Model (DCF) |

Portfolio Construction

Overview

Portfolio construction is undertaken by the Portfolio Construction Committee which consists of three senior members of the equities team (Xiradis, Grace, and Dixon). Whilst there is a Portfolio Construction Committee in place, ultimate responsibility for the performance of the Fund lies with Head of Equities, Paul Xiradis. Each member produces a model portfolio, aiming to overweight stocks that are in the preferred sectors, have ‘positive’ ratings from the analyst and rank well in the FERRET model. As such, when the Committee collectively determines the final portfolio, the focus is on determining stock weightings as opposed to selecting the actual stocks.

The final portfolio is relatively concentrated and typically includes 30 to 40 stocks with an expected turnover of around 40%.

Risk Monitoring

On a monthly basis an external portfolio analysis tool is utilised to monitor risk within the portfolio. Output from the analysis tool includes the Fund’s Tracking Error, primary stocks contributing to risk, and major stock and sector positions. In addition the Manager has adopted disciplined sell triggers, which act as an additional risk management mechanism.

Funds Under Management

At the time of writing this report Ausbil managed approximately \$10.6b (July 2010) in Australian equities which makes it one of the larger managers in the Lonsec mainstream Australian Equities peer group. The Manager has closed to institutional monies on the large cap strategy at this point in time.

Ausbil’s research into capacity management takes into account market and stock turnover, the liquidity of the current portfolio and Ausbil’s investment style. Capacity is assessed every six months to ensure the Manager is able to manage money without compromising the performance of the Fund. Investors should therefore note that capacity in this respect is fluid and subject to a point in time assessment. Ausbil intends to continually monitor and model FUM going forward and has signalled intention to cap FUM as it approaches capacity.

There are positives and negatives to low or high levels of FUM, however, on balance Lonsec believes managers with smaller FUM are better placed to add value. Larger fund managers typically have better access to key decision makers (CEOs etc), and may gain better execution pricing and preferential access to IPOs. However, on the negative side, managing a large pool of money means that the Manager may confront liquidity issues and is likely to be less nimble in the market as it takes longer for a position to be established or sold down.

Ausbil Australian Geared Equity Fund

The Ausbil Australian Geared Equity Fund was launched in May 2007 and invests directly in stocks that mirror the Ausbil Australian Active Equity Fund. The Geared Fund therefore provides investors with access to the same investment team and process adopted by the Ausbil Australian Active Equity Fund. However, in addition to being subject to the risks associated with investing in the underlying Ausbil Australian Active Equity Fund, investors are also subject to the risks associated with gearing. The Geared Share Fund aims to outperform the S&P/ ASX 300 Accumulation Index over the long-term.

Gearing Risk – investors should be aware that gains and losses are magnified through the use of borrowings. Geared investments may significantly underperform equivalent non-gearred investments when the underlying assets experience negative returns.

The Geared Fund's Loan to Value ratio (LVR) will be actively managed by Ausbil within a range of 30% – 55%, although the maximum LVR is 65%.

Ausbil's Chief Economist, John Honan, is primarily responsible for managing the level of gearing which is monitored on a daily basis. A specific gearing ratio is not targeted for the Geared Fund but is managed on the basis that the estimated income generated by the portfolio exceeds the estimated borrowing costs and expenses. The gearing ratio may change on a daily basis as a result of market movements and cash flows into the Fund.

The Fund is geared via a loan facility provided by two third party lenders with additional lending arrangements permissible. In Lonsec's opinion having a range of loan providers helps to reduce the risk associated with a single financier and can result in a lower cost of funding. Whilst competitive, Lonsec notes that the interest rate on the loan facility is currently above that of peers in the Lonsec Geared Australian Share Fund sector.

The management fee for the Geared Fund is 1.20% p.a. (gross), 2.40% p.a. (net, assuming gearing ratio of 50%). The distribution frequency is half yearly.

Investors should read the Product Disclosure Statement prior to investing.

Quantitative Performance Analysis

Annualised after-fee % returns as at 30 September 2010

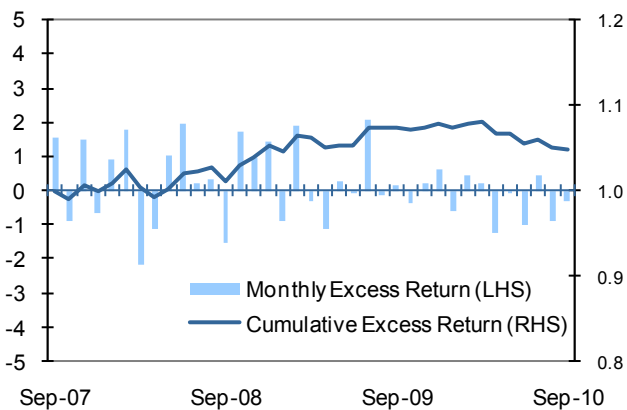
| | 1 Year | | 2 Years | | 3 Years | | 5 Years | |
|---------------------------|--------|------------|---------|------------|---------|------------|---------|------------|
| | Fund | Peer Group | Fund | Peer Group | Fund | Peer Group | Fund | Peer Group |
| Performance (% pa) | -2.0 | -0.6 | 6.4 | 5.9 | -5.8 | -5.9 | 5.6 | 4.7 |
| Standard Deviation (% pa) | 16.2 | 15.2 | 19.1 | 18.7 | 19.2 | 18.8 | 16.7 | 15.9 |
| Excess Returns (% pa) | -2.7 | -1.2 | 1.9 | 1.4 | 1.5 | 1.4 | 1.5 | 0.5 |
| Outperformance Ratio (%) | 41.7 | 43.6 | 50.0 | 50.0 | 52.8 | 51.6 | 50.0 | 49.2 |
| Worst Drawdown (%) | -13.2 | -11.7 | -21.8 | -23.1 | -43.4 | -44.1 | -43.4 | -44.0 |
| Time to Recovery (mnths) | na | 0.0 | 5.0 | 5.6 | na | 0.0 | na | 0.0 |
| Sharpe Ratio | -0.4 | -0.3 | 0.1 | 0.1 | -0.6 | -0.6 | 0.0 | -0.1 |
| Information Ratio | -1.2 | -0.4 | 0.6 | 0.3 | 0.4 | 0.3 | 0.4 | 0.2 |
| Tracking Error (% pa) | 2.2 | 2.7 | 3.3 | 4.3 | 3.8 | 4.7 | 3.7 | 4.3 |

Fund: Ausbil Australian Active Equity Fund

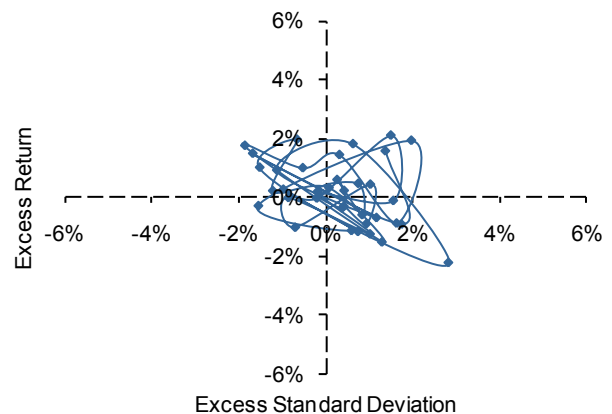
Benchmark: S&P/ASX 300 Accumulation Index

Peer Group: Average among Lonsec rated 'Mainstream' Australian Equity (Large Cap) Manager Universe

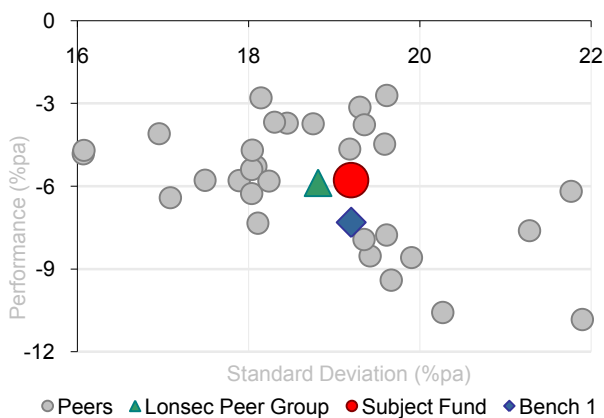
Cumulative Performance over three years



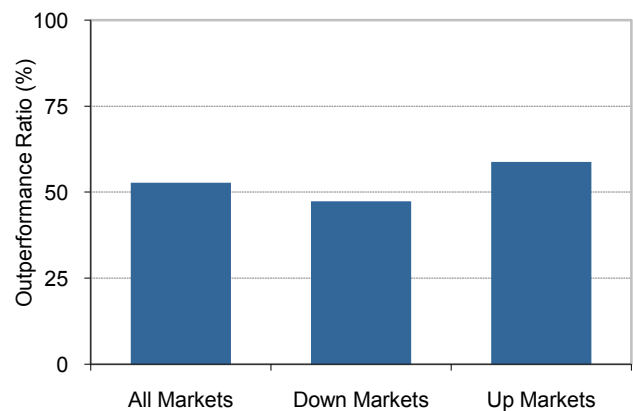
Snail Trail over three years



Risk-Return Chart over three years



Outperformance Consistency over three years



Glossary

| | |
|---------------------------|--|
| Absolute Return | 'Top line' actual return, after fees |
| Excess Return | Return in excess of the benchmark return (Alpha) |
| Standard Deviation | Volatility of monthly Absolute Returns |
| Tracking Error | Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns) |
| Sharpe Ratio | Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation) |
| Information Ratio | Relative reward for relative risk taken (Excess Returns / Tracking Error) |
| Worst Drawdown | The worst cumulative loss ('peak to trough') experienced over the period assessed |
| Time to Recovery | The number of months taken to recover the Worst Drawdown |

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Date Prepared: October 2010
Analyst: Fawaz Rashid
Release Authorised by: Paul Pavlidis

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