

**Analyst(s):** Anthony Karaminas; Michael Armitage

## Standard & Poor's View

Standard & Poor's Fund Services rates this fund four stars. This reflects our high conviction that the manager will consistently generate risk-adjusted returns in excess of relevant investment objectives and relative to peers. The NEW subscript indicates the investment team or process has changed significantly or the fund has a relatively short history.

The Ausbil Australian Extension Fund is a new offering to the market, which applies Ausbil's well-established and well-tested investment process to construct a long/short portfolio. The fund is led by portfolio manager, director, and deputy head of Australian equities John Grace. While Mr. Grace has considerable Australian-equities experience, this is the first long/short product he has managed, and we are keen to observe his ability to consistently produce alpha managing this type of offering. That said, Mr. Grace and the greater Ausbil portfolio-management team have established an impressive long-only Australian-equity track record, which provides us with a good level of comfort. Portfolio manager on Ausbil's long-only Australian-equities products Paul Xiradis provides direct support to Mr. Grace, along with associate director of Australian equities Adam Dixon. Pleasingly, all members of the portfolio management team are key stakeholders in the Ausbil business.

Since our previous review no major team changes have occurred, with the investment team finding stability throughout its junior ranks, an area in which it previously had turnover.

Ausbil is an active Australian-equity manager that employs a mixture of top-down and bottom-up investment processes. The portfolio's long positions are tilted toward sectors and industries that Ausbil believes will experience positive earnings revision, and conversely short positions toward those that are expected to be negative. The fund's investment process is relatively flexible allowing the manager to effectively position the portfolio. Due to the fund's recent inception, performance is too short to assess; however, the ability and experience of senior members provides us with a high level of conviction.

## Investor Suitability

- The fund is a long/short offering, which has the capacity to produce downside protection in negative markets.
- The fund is a specialist product, suitable to blend with an established Australian equities portfolio.
- Suitable for investors looking to gain access to an offering that uses thematic ideas to guide portfolio positioning.
- Ausbil applies a style-neutral investment process, which is appropriate to blend with both value and growth offerings.
- The fund suits a minimum investment horizon of at least five years.

## Key Strengths

- The senior Ausbil investment team have considerable experience and ability investing in the Australian equity market.
- The manager's blended top-down and bottom-up investment process is well-established and repeatable.
- The investment process has a flexible structure that allows the manager to effectively position the portfolio.
- Senior members have an ownership stake in the firm.

## Key Weaknesses

- Portfolio manager Mr. Grace and the greater fundamental research team have limited short selling experience.
- While the investment team has been stable since the previous review, before this, it endured staff turnover in the more junior ranks.
- Capacity has previously been an issue, with the manager's long-only Australian-equities product. As long positions in this fund are largely a reflection of this portfolio, the same capacity issues apply.
- Equity ownership is held only among senior members.
- The fund lacks a meaningful performance track record.

## Risks

- Although largely mitigated by their ownership stakes, there is a level of key person risk with the senior members of the team.
- There is risk of sale attached to Dexia Asset Management's 70% stake, which may create uncertainty. We also note this may be positive if the Australian investment team gains further ownership.
- The fund includes leverage and the risks associated.

<b>APIR code</b>	AAP0008AU	<b>Investment manager</b>	Ausbil Dexia Ltd.
<b>Fund status</b>	Open	<b>Redemption policy</b>	Daily
<b>Inception date</b>	Feb. 8, 2010	<b>Distribution frequency</b>	Half-yearly
<b>Responsible entity</b>	Ausbil Dexia Limited	<b>Return objective (%)</b>	5% above the S&P/ASX 200 Accumulation Index
<b>Peer group</b>	Alternative Strategies - Equity Market Neutral	<b>Average portfolio turnover (3yrs) (%)</b>	N/A
<b>Benchmark</b>	S&P/ASX 200 TR	<b>Maximum cash holding (%)</b>	20
<b>Investment style</b>	Thematic	<b>Release authorised by</b>	Leanne Milton
<b>Multi manager</b>	No		
<b>Fund Size (\$A)</b>	(at Aug. 31, 2010)		
<b>Minimum investment (\$A)</b>	50000		
<b>ICR / MER (%)</b>	-		

## Objectives, Fees and Features

The Ausbil Active Extension Fund aims to outperform the S&P/ASX 200 Accumulation Index by 5% per year over rolling three-year periods.

Tracking error is limited to 10%, but is typically kept between 5% and 7%. The fund's market exposure guidelines are long 100%–150% and short 0%–50%, with a typical holding of 130%/30%. The fund charges an MER of 1% per year, plus a 20.5% performance fee on gross performance above the S&P/ASX 200 Accumulation Index plus 2%. A high water mark is applied, with the fee accrued daily and paid monthly in arrears.

### Fund Objectives

Target return (% p.a.)	5% above the S&P/ASX 200 Accumulation Index
Target volatility (% p.a.)	Typical ex ante tracking error 5-7

Source: Ausbil Dexia Ltd..

### Fund Fees

Indirect cost ratio	1
Management fee (% p.a., including GST)	1
Reclaimable expenses (%p.a.)	-
Other fees (note, swap, fx, etc.)	-
Performance fee (% p.a.)	20.5
High water mark (Y/N)	Yes
Hurdle rate	Gross performance above the S&P/ASX 200 Accumulation Index plus 2%
Buy/Sell spread	0.35

Source: Ausbil Dexia Ltd..

## Investment Philosophy and Style

Ausbil is an active Australian-equity manager that employs a mixture of top-down and bottom-up investment processes. The portfolio's long positions are tilted toward sectors and industries that Ausbil believes will experience positive earnings revision, and conversely short positions toward 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.

## Investment Team

The fund is led by portfolio manager, director, and deputy head of Australian equities Mr. Grace. Mr. Grace has 24 years' industry experience, including eight with Ausbil.

While Mr. Grace has considerable Australian equities experience, this is the first long/short product he has managed, and we are keen to observe his ability to consistently produce alpha managing this type of offering. That said, Mr. Grace and the greater Ausbil portfolio-management team have established an impressive long-only Australian-equity track record, which provides us with a good level of comfort.

Mr. Xiradis, who leads the three-person portfolio management team, provides direct support to Mr. Grace, along with associate director of Australian equities Mr. Dixon. Mr. Xiradis brings the team over 30 years of industry experience, including a decade with Ausbil. Pleasingly, all members of the portfolio management team are key stakeholders in the Ausbil business.

The research team is headed by experienced chief economist Mr. Honan, who provides strategic macroeconomic knowledge and is also responsible for the management, mentoring, and coordination of the

equity analyst team. The team comprises seven analysts—five have direct input into the fund and two small-/micro-cap analysts mainly focus on lower-cap companies.

Analysts generally cover three to five sectors and the team has remained stable, with no departures since our last review. While S&P is pleased to observe stability in the team, turnover among research analysts has previously disadvantaged the fund. We expect to see this stability continue. Mr. Grace no longer has research coverage, passing on sector responsibilities of media to analyst Shanelle Hoong. Ms. Hoong has also taken over research responsibility of telecommunications, and Sarah Lau gaming, both sectors previously analysed by Mr. Waters.

With the recent launch of a micro-cap fund, Mr. Waters' focus has changed from purely small-cap company research to also include the role of micro-cap analyst and portfolio manager. Assisting Mr. Waters on the macro-cap fund, is recent joiner Chris Prunty. Similar to the portfolio management team, the research team is relatively inexperienced compared with peers when it comes to making short recommendations. The team's ability to add alpha from short positions will be a particular focus of S&P's in the coming review period.

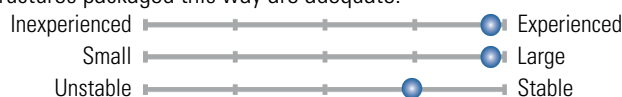
### Key Investment Personnel

Name, Position	Years*	Experienced†
John Grace, portfolio manager, director equities, deputy head of equities	8	24
Paul Xiradis, head of equities, CEO	13	30
Adam Dixon, associate director, equities	10	14
John Honan, head of research and chief economist	13	31
Tony Waters, micro-cap portfolio manager/analyst	1	16
Nick Condoleon, equities analyst	3	12
Brendan Wong, equities analyst	5	11
Graeme Petroni, equities analyst	2	7
Sarah Lau, equities analyst	3	3
Shanelle Hoong, equities analyst	3	5
Average tenure with current firm	6	N/A
Average industry experience	N/A	15

\*Years with current firm. †Years of relevant industry experience.

### Alignment and Accountability

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



## Investment Process

### Overview

The fund operates a mixture of top-down and bottom-up investment processes that it has designed to construct portfolios that would be best placed to outperform during the current stage of the market and within the business cycle.

The investment process is structured in four stages, initially reviewing the macroeconomic environment of both Australia and international markets. Sectoral analysis is conducted to identify sectors that Ausbil

expects to have upward and downward earnings revisions during the next 12 months. The third stage involves selecting stocks within the favourable (long positions) and unfavourable (short positions) sectors and industries, using 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 team then conducts further fundamental analysis to identify companies that display and conversely don't display sustainable earnings, strong operating margins, and free cash flows, which should depict their expected growth. The team also takes the quality of management, its experience, and track record into account when gauging a company, and overlays the quantitative rankings with its qualitative views on the stock. The final stage of the investment process is portfolio construction.

## ► Portfolio Construction

The portfolio-construction team meets monthly to discuss and agree on the portfolio holdings and weightings. Generally when setting long positions, the higher the expected return, 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.

When setting short positions, the portfolio construction team will assess each analyst's two suggested short positions as well as the portfolio's top five overweight positions in order to establish pair trades. A significant portion of the fund's short positions will be pair trades, as the manager will use these to reduce the sector risk amplified from long holdings. In addition, the portfolio construction team will highlight special situations where it has identified an arbitrage opportunity—these are typically scrip-based takeover proposals. The proposed portfolio is then analysed from a risk basis to assess tracking error limits, with minor adjustments made to stock weights if needed.

Ausbil's investment process is well-established and well-tested, with a flexible structure that allows the manager to effectively position the portfolio to reflect the investment team's views.

## ► Risk Management

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

The portfolio will typically comprise S&P/ASX 200 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 is currently relatively concentrated with the top 10 holdings representing 78% of all fund assets. The fund targets tracking error of 6%–8% per year and a maximum cash holding of 20%.

The full portfolio guidelines for stocks are:

- Index weight is less than 0.5%, minimum index -3%/maximum index +3%;
- Index weight is 0.5%–2%, minimum index -4%/maximum index +5%; and
- Index weight is greater than 2%, minimum index -6%/maximum index +8%.

The sector guidelines for aggregate index weight, minimum index -15%/maximum index + 15%.

The fund can hold 25 to 50 (typically 40) long positions, and a maximum of 25 short positions (typically 15). At time of the review, the fund held 33 securities and had 16 short positions in place. Each short position has stop-loss rules set out with the broker to provide downside protection. In the case of a 6% move against a position an alert is triggered, an 8%

move results in a 33% sale, a 12% move results in a further 33%, and above 15% requires the position to be closed out.

Capacity has previously been an issue with the manager's long-only Australian-equities product, which has been soft closed to new institutional money. As long positions in this fund are largely a reflection of this portfolio, the same capacity issues apply.

The chair of the investment committee monitors daily trading activity. The external compliance committee signs off on all risk controls quarterly.

The corporate governance committee meets monthly to review compliance reports to ensure that the team has complied with policy from custodians on the portfolio-management system.

## Monthly Net Exposure of the Fund

### Insufficient data available to plot graph

## Risk Constraints

Maximum gross exposure	150
Maximum net exposure	100
Maximum position	See "Risk Management"
Maximum cash holding (%)	20
Average portfolio turnover (1 yr) (%)	N/A

## ► Currency Management

The fund holds purely domestic securities.

## Product Features

In order to have the ability to short securities, the manager has a credit facility with its broker (currently Macquarie Bank, Deutsche Bank, and National Australia Bank). The terms and conditions of the brokerage agreement may present added risk for investors. Typically, to short a fund, collateral needs to be posted for shares borrowed. The Ausbil Extension fund will post securities as collateral. This collateral is held in the name of the broker and can be re-hypothecated. In the event of a broker insolvency, the fund becomes a creditor to the broker. Ausbil has structured its credit facility to reduce credit risk and has credit terms that are equal or better than peer funds. National Asset Services provides custodianship and administration on the fund. Overall, we have a positive view on the custody and prime brokerage relationships the firm has employed, showing its understanding and mitigation of potential business risks associated with strategies that use shorting.

## Performance

Due to the fund's recent inception, performance is too short to assess. That said, Ausbil has established an impressive long-only Australian-equity track record, which provides us with a good level of comfort.

## Risk and Return Analysis

Annualised return since inception (% p.a.)	N/A
One-year return (% p.a.)	N/A
Standard deviation since inception (% p.a.)	N/A
Rise in NAV since inception (%)	N/A
Monthly MVAR fund (%)	N/A
Monthly MVAR benchmark (%)	N/A

Source: Ausbil Dexia Ltd..

## Performance Measures

Best monthly return (%)	N/A
Worst monthly return (%)	N/A
Positive months (%)	N/A
Maximum drawdown (%)	N/A
Maximum drawdown period	N/A
Months to recovery	N/A
Skew	N/A
Kurtosis	N/A

Source: Ausbil Dexia Ltd..

## Distribution of Monthly Returns

Insufficient data available to plot graph

## Management Group Profile

Dexia Asset Management (DexiaAM) is owned by Dexia Group, which is a Belgian-French financial institution that specialises in public finance. Dexia Group is a diversified, listed investment company, which is among the largest banks 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. Ausbil Dexia Ltd. has a strong brand presence in Australia, with considerable FUM, making the firm highly profitable.

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

### ► Funds Under Management

Since September 2006, Australian-equity FUM has increased to A\$13.3 billion from A\$6.3 billion.

## Funds Under Management Table (at May 1, 2010)

Current pool size (\$)	1.3 million
Total FUM in strategy (\$)	1.3 million
Estimated capacity for strategy (\$)	400 million
Total FUM across all asset classes (\$)	13.3 billion
Net strategy flows over past 12 months (\$)	N/A

Source: Ausbil Dexia Ltd..

**Performance Analysis**

**3yr Rolling Returns, Over 5 Years**

Insufficient data available to plot graph

**Annualised Net Returns % (at Sept. 30, 2010)**

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
Fund performance (% p.a.)	-	-	-	-
Income (% p.a.)	-	-	-	-
Growth (% p.a.)	-	-	-	-
Benchmark performance (% p.a.)	-	-	-	-
Excess return (% p.a.)	-	-	-	-
Peer group return (% p.a.)	1.25	-4.75	5.09	6.36
Standard deviation (%)	-	-	-	-
Sharpe ratio	-	-	-	-
Information ratio	-	-	-	-
Tracking error	-	-	-	-

Benchmark: S&P/ASX 200 TR.



### Fund Rating Philosophy

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

**S&P FUND RATING**  
★★★★★ 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.

**S&P FUND RATING**  
★★★★☆ Standard & Poor's has high conviction that the manager will consistently generate risk-adjusted fund returns in excess of its relevant investment objectives and relative to its peers.

**S&P FUND RATING**  
★★★☆☆ 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.

**S&P FUND RATING**  
★★☆☆☆ Standard & Poor's has conviction that the manager will not generate risk-adjusted fund returns in-line with its relevant investment objectives and relative to its peers.

**S&P FUND RATING**  
★☆☆☆☆ 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.

**S&P FUND RATING**  
**ON HOLD** Issues that may affect the fund's management have emerged; and the fund rating is temporarily suspended, pending clarification.

**S&P FUND RATING**  
**SELL** Significant issues exist that potentially will adversely affect the fund's performance. Investors should consider obtaining advice on switching or redeeming funds.

**NEW** **Fund Rating Subscript**—here 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.

### Glossary of Terms

<b>Benchmark</b>	The standard (e.g. an index) by which an investment is measured against to evaluate performance.
<b>Excess Return</b>	Return of an investment relative to its benchmark.
<b>FUM</b>	Funds Under Management - The total value of the funds managed by an asset management firm.
<b>High Water Mark</b>	The highest net asset value (NAV) of a fund achieved to date. If the NAV of a fund falls below this level, no performance fee will be payable to the investment manager until this level is subsequently exceeded.
<b>Hurdle Rate</b>	A minimum rate of return that a fund must achieve before a performance fee can be charged. This can be the benchmark or the benchmark plus an additional fixed rate.
<b>Performance Fees</b>	A fee payable in excess of the ongoing management fee. There is often a hurdle rate and/or high watermark that must be reached before this fee is payable.
<b>ICR-Indirect Cost Ratio</b>	This is a ratio of indirect costs to the total investment in a particular fund expressed as a percentage. It includes the MER, expense recoveries, performance fees and other costs associated with running the fund.
<b>Information Ratio</b>	Is a measure of the relative reward for the relative risk taken (excess returns of an investment (above the benchmark) divided by the tracking error). A positive information ratio would indicate efficient use of risk by the manager.
<b>MER-Management Expense Ratio</b>	This ratio is a calculation of investment management, marketing, trusteeship, legal, accounting and auditing costs of a managed investment fund expressed as a percentage of a fund's net asset value. It is the ongoing charges for managing a fund.
<b>Peer Group Return</b>	The average return of the funds in the relevant S&P peer group.
<b>Sharpe Ratio</b>	Is a measure of risk-adjusted performance, measuring the absolute reward for the absolute risk taken (return of the investment less the risk-free rate (e.g. bank bills) divided by the standard deviation). The higher the Sharpe ratio the greater the efficiency produced by the manager.
<b>Standard Deviation</b>	Measure of the variability or volatility of the monthly returns of the fund.
<b>Tracking Error</b>	How closely a portfolio follows or "tracks" an index to which it is benchmarked. (the standard deviation of monthly excess returns against the benchmark).
<b>Ex Ante Trading Error</b>	Predicted or forecast of tracking error.
<b>Ex Post Trading Error</b>	Historical or actual tracking error.

Disclaimer: Standard & Poor's Information Services (Australia) Pty Ltd (ABN 17 096 167 556) (Standard & Poor's) rating and other opinions are and must be construed solely as statements of opinion and not statements of fact or recommendations to purchase, sell or hold any financial product(s). Conclusions, ratings and opinions are reasonably held at the time of completion but subject to change without notice. Standard & Poor's assumes no obligation to update any information following publication. No warranty, express or implied, is given or made by Standard & Poor's as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any Standard & Poor's rating, opinion or other information and Standard & Poor's will not be liable to any party in contract or tort (including for negligence) or otherwise for any loss or damage arising as a result of any party relying on any such rating, opinion or other information (except in so far as statutory liability cannot be excluded). Any statement of fact is based on information provided to Standard & Poor's by our clients or obtained from sources which Standard & Poor's considers reliable. Standard & Poor's does not perform an audit in connection with any rating and may rely on unaudited information. Because of the possibility of human or mechanical error by our sources, Standard & Poor's or others, Standard & Poor's does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Readers should make their own inquiries.

Warning: Past performance is not a reliable indicator of future performance. Any express or implied Standard & Poor's rating or advice is limited to "General Advice" and based solely on consideration of the investment merits of the financial product(s) alone. The information has not been prepared for use by retail investors and has been prepared without taking account of any particular person's financial or investment objectives, financial situation or needs. Before acting on any advice, any person using the advice should consider its appropriateness having regard to their own or their clients' objectives, financial situation and needs. You should obtain a Product Disclosure Statement relating to the product and consider the statement before making any decision or recommendation about whether to acquire the product. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any adviser and any such adviser must accordingly make their own assessment taking into account an individual's particular circumstances.

Disclosure: Analyst Disclosure: Analyst(s) remuneration is not linked to the rating outcome. The Analyst(s) may hold the financial product(s) referred to in a Standard & Poor's rating or other research report but Standard & Poor's considers such holdings not to be sufficiently material to compromise the rating or opinion. Analyst(s) holdings may change at any time. Standard & Poor's Disclosure: In the event of any person subscribing to any rated financial product(s), such subscriptions may result in a Standard & Poor's client receiving a commission, fee or other benefit or advantage. Details of any such benefits can be obtained from your financial adviser. Standard & Poor's itself does not receive any commission. Prior to the assignment of any rating, the fund manager or another Standard & Poor's client agreed to pay Standard & Poor's a fee for the appraisal and rating service rendered. Standard & Poor's assigns ratings using comprehensive and objective criteria. Standard & Poor's fee is not linked to the rating outcome. Costs incurred during the rating process, including travel and accommodation expenses, may be paid for by the fund manager or another Standard & Poor's client to enable onsite reviews. Standard & Poor's does not hold or have a material interest in any rated financial product(s). Standard & Poor's associates may hold rated financial product(s) but detail of these holdings are not known to the Analyst(s).

Standard & Poor's from time-to-time provides fund managers and other clients with investment data, research software, and other financial planning services. Standard & Poor's is a wholly owned member of The McGraw-Hill Companies, Inc, a New York Corporation. The analytic services and products provided by Standard & Poor's and its associates are the result of separate activities in order to preserve the independence and objectivity of each analytic process. Each analytic product or service is based on information received by the analytic group responsible for such product or service. Standard & Poor's and its associates have established policies and procedures to maintain the confidentiality of non-public information received during each analytic process. Standard & Poor's holds an Australian Financial Services Licence Number 258896. Please refer to Standard & Poor's Financial Services Guide for more information at [www.fundsinsights.com.au](http://www.fundsinsights.com.au). "S&P" and "Standard & Poor's" are trademarks of The McGraw-Hill Companies, Inc. Copyright 2010 Standard & Poor's Information Services (Australia) Pty Limited. Certain funds data contained herein may be proprietary to Morningstar Inc.