



**Analyst(s):** James Gunn; Andrew Yap

## 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.

Fairview Equity Partners Pty. Ltd. is a boutique small-cap manager that was established by former Goldman Sachs JBWere (GSJBW) investment managers Chris Adams, Leigh Cronin, and Michael Glenane in June 2008. The business is majority owned by its three founders, with National Australia Bank's incubator nabInvest holding a 46% stake. The team worked together for a number of years before establishing Fairview and have equal ownership stakes, which bodes well for future stability. Significant co-investment and a variable remuneration structure that rewards risk-adjusted outperformance also foster a strong alignment of interests with investors. At the same time, investors should be aware that the business still faces the challenge of reaching a profitable level of assets under management.

In our opinion, Fairview has established a flexible yet robust investment process, with a strong focus on extensive company contact and in-house modelling. The team's research effort is largely consistent with its approach at GSJBW; however, efforts made to improve portfolio construction have been further refined. Portfolio construction is more conviction-based, resulting in a multifaceted approach to stock selection that is designed to deliver more consistent outperformance.

Volatile market conditions have presented considerable opportunities for small-cap managers over the past couple of years, but few have capitalised more than Fairview. The team is experienced and well-resourced, which in combination should enhance idea generation, stock coverage, and the quality of decision-making relative to some peers. While we are conscious that the business is still some way from profitability and the team's refined investment process has yet to be tested under a higher asset base (and more "normalised" market conditions), we believe that Fairview is well placed to continue to deliver superior risk-adjusted returns. As a result, we have raised our rating on the fund to four stars at this review cycle.

## Investor Suitability

- The fund provides exposure to an actively managed, long-only Australian small-cap strategy, with the flexibility to invest up to 20% of the portfolio in mid-cap companies.
- The minimum suggested investment timeframe is five to seven years, which reflects the more volatile nature of small-cap investing.
- The fund may be suitable as a non-core allocation within an investor's broader Australian equities allocation.
- The manager does not target a particular investment style in its stock selection, with the portfolio expected to exhibit a neutral style over a full market cycle.

## Key Strengths

- The team is experienced and well-resourced, which should enhance idea generation, stock coverage, and decision-making relative to some peers.
- Flexible but robust investment process, with a strong focus on extensive company contact and in-house modelling.
- The team worked together for a number of years before establishing Fairview and have equal ownership stakes, which bodes well for future stability.
- Significant co-investment fosters a strong alignment of interest with investors.
- Low current FUM should be a source of competitive advantage.

## Key Weaknesses

- The manager still faces the challenge of reaching a profitable level of assets under management, while pursuing a largely retail-focused distribution strategy.
- The team's refined investment process is yet to be fully tested over a full market cycle, including more "normalised" market conditions.
- The manager has a less prescribed approach to what constitutes minimum liquidity at the stock level, which is particularly relevant to its ex-300 (micro-cap) exposures.

## Risks

- Business risk—the manager is unable to reach a profitable level of assets under management and exhausts its working capital.
- This fund has exposure to small- and micro-cap companies, which exhibit greater volatility in their share prices and are less liquid than larger-cap companies.

<b>APIR code</b>	ANT0002AU
<b>Fund status</b>	Open
<b>Inception date</b>	Oct. 8, 2008
<b>Responsible entity</b>	Antares Managed Investments Limited
<b>Peer group</b>	Australian Equities - Small Cap
<b>Benchmark</b>	S&P/ASX Small Ordinaries TR
<b>Investment style</b>	Style Neutral/Core
<b>Multi manager</b>	No
<b>Fund Size (\$A)</b>	44.61 .mil (at Sept. 30, 2010)
<b>Minimum investment (\$A)</b>	20000
<b>ICR / MER (%)</b>	-

<b>Performance Fees (%)</b>	20
<b>Investment manager</b>	Fairview Equity Partners Pty Ltd.
<b>Redemption policy</b>	Daily
<b>Distribution frequency</b>	Half-yearly
<b>High water mark</b>	Yes
<b>Hurdle rate</b>	Index (after fees)
<b>Return objective (%)</b>	Index + 5% over rolling five-year periods
<b>Tracking error objective (%)</b>	5–7
<b>Average portfolio turnover (3yrs) (%)</b>	79.6
<b>Maximum cash holding (%)</b>	10
<b>Typical number of stocks</b>	40–50
<b>Release authorised by</b>	Leanne Milton



## Objectives, Fees and Features

The fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index (the Small Ords) by 5% per year over rolling five-year periods, with a targeted tracking error range of 5%–7%.

The fund charges a wholesale management fee of 1.2%, which is broadly in line with peers and is also entitled to a performance fee (20.5% of net outperformance generated over a calendar quarter). Any prior period underperformance must be recovered and the performance fee is only payable in periods in which the fund's absolute performance is positive (is otherwise carried forward). The buy/sell spread is +/-0.3%.

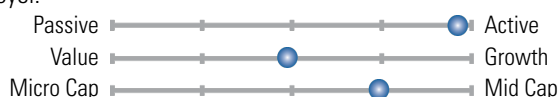
The fund is mandated to hold 25–55 stocks, which will be drawn predominantly from the Small Ords, although it can invest outside the top 300 and up to 20% in mid-cap stocks. The latter provides the manager with greater flexibility around index changes, and the scope to invest in attractive mid-cap opportunities. This should also enhance the overall liquidity profile of the portfolio, taking into account the fund's ability to invest in the less liquid micro-cap space (ex-300). Like most of its peers, the fund's ex-300 exposure is not capped. Despite this, the manager is conscious of its tracking error, with the team's bonus structure based on risk-adjusted outperformance, based on the calculation of the fund's one-year information ratio. The fund is precluded from holding stocks that enter the top 50.

## Investment Philosophy and Style

Fairview is an active, predominantly bottom-up focused manager, specialising in the small- and mid-cap market segments. Fairview believes that mispricing is greater at this end of the market (compared with large-cap stocks), which creates more opportunities to add value through detailed fundamental research and a disciplined investment process.

The team's research effort is largely consistent with its approach at GSJBW; however, a sole focus on small-cap stocks has enhanced the extent of company contact, while efforts made to improve the robustness of portfolio construction have been further refined. Portfolio construction is more conviction-based, resulting in a multifaceted approach to stock selection that is designed to deliver more consistent outperformance through the cycle.

While Fairview does not target a particular investment style in its stock selection, the team is cognisant of controlling for residual style and sector biases that it attributes to periods of underperformance at its previous employer.



## Investment Team

### Structure

Mr. Adams, Mr. Cronin, and Mr. Glenane resigned from GSJBW in June 2008 to establish Fairview. With three experienced individuals dedicated to small-cap stocks, Fairview is well-resourced by both boutique and mainstream standards. Its three founding members worked together for a number of years before establishing Fairview and have equal equity stakes in the business, which bodes well for future stability.

## Key Investment Personnel

Name, Position	Years*	Experienced†
Chris Adams, co-portfolio manager	2	15
Leigh Cronin, co-portfolio manager	2	13
Michael Glenane, co-portfolio manager	2	18
Average tenure with current firm	2	N/A
Average industry experience	N/A	15.3

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

### Portfolio Managers

At Goldman Sachs JBWere Asset Management (GSJBWAM), sector specialists provide stock coverage for the firm's large- and small-cap strategies, with generalists focusing on portfolio construction and peer review. Mr. Cronin and Mr. Glenane were sector specialists at GSJBWAM, while Mr. Adams was a generalist, focusing on portfolio construction for the firm's emerging companies strategy. The trio has adopted a collaborative approach to portfolio construction at Fairview, which is reflected in the team's incentive structure.

### Research Team

There is no formal allocation of sectors—stock coverage reflects the familiarity and experience of the three individuals. Furthermore, two individuals will be involved from the outset for any new coverage.

Mr. Adams has 15 years' industry experience, including 10 years with GSJBWAM, where he had both sector and portfolio management responsibilities. Before joining GSJBWAM, Mr. Adams was an investment analyst with County Investment Management (now Invesco).

Mr. Cronin has 13 years' experience in financial markets, all with GSJBW, initially on the sell side before transitioning to GSJBWAM, where he had broad-based sector responsibilities for financials, telecommunications, gaming, and media. Before GSJBW, Mr. Cronin was a chartered accountant with PriceWaterhouseCoopers.

Mr. Glenane has 18 years' industry experience, predominantly on the sell side with Merrill Lynch and Credit Suisse before moving to the buy side with GSJBW. At GSJBWAM, Mr. Glenane was responsible for health care and industrial cyclicals, across both large- and small-cap stocks.

### Alignment and Accountability

The team's variable remuneration is tied to the fund outperforming its benchmark, which together with the team's co-investment, fosters a strong alignment of interest with investors. Base salaries have been set below market levels, while bonuses have been deferred until the business achieves profitable levels of FUM. Bonuses will be capped to 50% of base salary where the fund achieves an information ratio of at least 1.0. No bonuses will be paid where the fund fails to outperform its benchmark. Any performance fees will accrue to the business and ultimately to the team through the distribution of profits.



## Investment Process

### Overview

In our opinion, Fairview has established a flexible yet robust investment process, with a strong focus on idea generation, company contact, in-house modelling, and balanced portfolio construction.

The investment process can be broken down into five key stages: screening, fundamental analysis, conviction assessment, peer review, and portfolio construction.



From an initial universe of more than 1,000 companies, the team will generally exclude loss-makers, early-stage biotechs, junior explorers, and listed investment companies. More detailed qualitative filters and a quantitative screen are then applied to prioritise the team's fundamental research effort to approximately 150 companies. This active list will include existing portfolio holdings, as well as those companies under active consideration at any point in time.

### Research Process

The team's fundamental research focus is on company and management assessment, industry analysis, and valuation. Company analysis draws heavily on the team's program of management visits, which is its key day-to-day activity. At least two members of the team attend these meetings wherever possible. Industry analysis is undertaken alongside the company-specific analysis, with the objective of identifying those industries that are favourably positioned in the business cycle or undergoing positive structural change. This analysis is undertaken through a Porter-style framework, with a key focus on growth prospects and competitive dynamics, and the likely long-term returns for companies operating within the particular industry. The team adopts a range of valuation tools as appropriate, with discounted cash flow (DCF) models supplemented by sensitivity and returns analysis, in conjunction with earnings and asset-based valuation techniques. The outcome is a fair value range for its active list of companies.

The third part of the process is the team's conviction assessment, which is made with reference to four key elements: the strength of the thesis/insight; the team's qualitative assessment of a company, its management, and industry structure; valuation upside; and risk assessment. Risk assessment focuses on the potential downside of the team's investment thesis, with consideration to short-term earnings risk, financial risk (balance sheet strength and refinancing profiles), and liquidity. The manager's multifaceted approach to stock selection seeks to minimise the inherent dangers of relying solely on forecast-driven valuations.

### Portfolio Construction

Portfolio construction and position size is ultimately determined by the team's overall level of conviction, referencing the four key elements noted above. These factors are considered and weighted consistently, with the collective result then determining the resultant position size. While this adds a relatively high degree of subjectivity to the team's portfolio construction process, position sizing is ultimately guided by the key elements of the team's investment process, which are well considered. In constructing the final portfolio, the manager is looking for the most attractive stocks within the key sectors, while ensuring an appropriate balance of risk/return (and style) at the stock level.

Peer review is considered an integral part of the process, and seeks to capitalise on the experience of the investment team to facilitate robust and timely decision-making. Documentation of the investment thesis provides the basis from which conviction levels are re-tested on an ongoing basis. Assumptions underpinning valuation targets will be reassessed when a stock approaches the team's price objectives, with more immediate action taken if the original investment thesis is invalidated. Fairview does consider thematic within the scope of the investment process and has added value as a result of its sector tilts. However, the manager is conscious of managing sector and factor exposures to ensure that fund returns remain a function of its core, active stock picking.

### Risk Management

The fund is mandated to hold between 25 and 55 stocks, with the typical number of holdings expected to be 40–50 (50 at the time of our review). Other key guidelines include a maximum active position size of 5% and a targeted tracking error of 5%–7%. Cash is limited to 10% of the portfolio, but will typically be less than 3%, with large inflows equitised via share price index (SPI) futures before investment. To help control for sector and factor biases, the manager has an active sector limit of +/-10% (soft). This is different to many funds in S&P's small-cap peer group and should increase the likelihood that excess returns are a product of the team's stock picking rather than residual sector tilts. The manager uses MSCI Barra-style reports to monitor the portfolio for unintended biases, and Iress and Thomson data feeds to monitor individual stock characteristics.

The ability to exit a position forms part of the manager's conviction assessment, although compared with peers, Fairview has a less prescribed approach to what constitutes minimum liquidity at the stock level. In estimating capacity, Fairview considers such factors as minimum market capitalisation of a potential investable companies (A\$50 million), minimum active position size, and a desire in most instances to remain below substantial shareholding levels. The output of this is an estimate of approximately 0.5% of the market capitalisation of the index, which is conservative given the manager's ability to invest up to 20% of the fund in the more liquid mid-cap market segment. This should ensure the team can take meaningful positions in its highest conviction positions, without losing the ability to exit in a timely manner if the fundamentals deteriorate. At a current fund size of A\$31.2 million, capacity is certainly not an issue for Fairview; rather it should continue to be a source of competitive advantage.

### Risk Constraints

Typical number of stocks	40–50
Active stock limits (%)	5
Active sector limits (%)	10 (soft)
Active country limits (%)	N/A
Maximum cash holding (%)	10
Targeted tracking error (%)	5–7

### Performance

Volatile market conditions have presented considerable opportunities for small-cap managers in recent years but few have capitalised more than Fairview. The fund has outperformed its benchmark by 13.1% since inception (annualised before fees to May 2010). Most impressive has been the consistency with which these excess returns have been generated, with the manager beating the benchmark in 16 of its first 20 months (before fees). Tracking error has been slightly higher than the manager's target, which has been fairly common in the peer group. However, returns have still been very strong on a risk-adjusted basis, with the manager producing an information ratio of 1.9 over this period.

We are conscious that the manager has been advantaged by its low asset base and that more "normalised" market conditions will also provide a strong test for the team's refined investment process. However, results achieved thus far have been very encouraging in terms of the consistency of alpha generation and implementation of the investment process.

## Portfolio Review

From a portfolio perspective, the manager remains overweight some of the more cyclical sectors (such as resources, financials, media, and IT services), citing attractive valuations, particularly in the context of more conservatively geared balance sheets. While the manager holds the view that risks to the global economy are being overemphasised, it also retains an exposure to less economically sensitive defensive names. The largest sectoral underweights were commercial real estate, health care services, and agriculture. Taken together, cash and SPI futures comprised 2.3% of the portfolio.

### Top Five Contributors and Detractors (at May 31, 2010)

Contributors	Sector	1 Year*
McPherson's	Consumer Discretionary	2.09
Medusa Mining	Materials	1.84
Felix Resources	Energy	1.05
Mitchell Communication Group	Consumer Discretionary	1.04
CSG	Information Technology	0.99

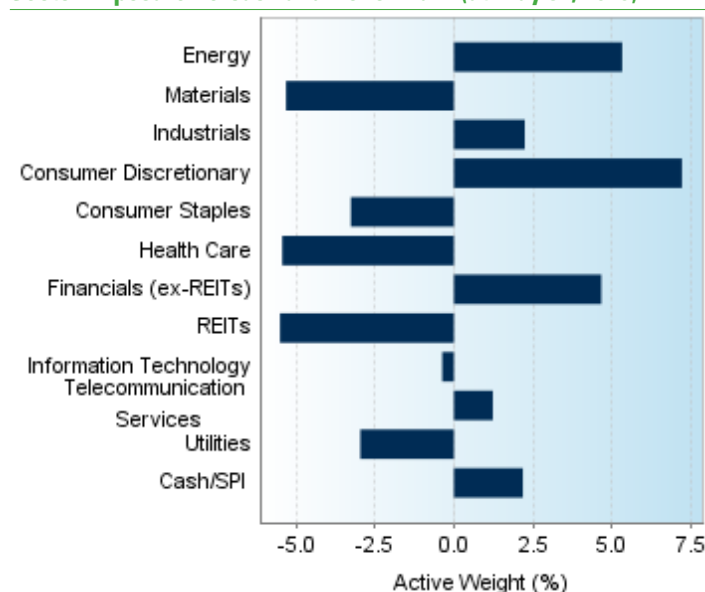
Contributors	Sector	3 Years*
NO TABLE DATA		

Detractors	Sector	1 Year*
AWE	Energy	-1.09
Macarthur Coal	Materials	-0.96
Ramsay Health Care	Health Care	-0.76
Bradken	Industrials	-0.64
Wotif.com Holdings	Consumer Discretionary	-0.64

Detractors	Sector	3 Years*
NO TABLE DATA		

\*Value Add (% p.a.). Source: Fairview Equity Partners Pty Ltd..

### Sector Exposure Versus Fund Benchmark (at May 31, 2010)



Source: Fairview Equity Partners Pty Ltd..

## Management Group Profile

Fairview is a boutique small-cap manager established by former GSJBW investment managers Mr. Adams, Mr. Cronin, and Mr. Glenane. The trio resigned from GSJBW in June 2008 to establish Fairview, with the support of National Australia Bank Ltd.'s (NAB's) incubator nabInvest. The business received its Australian Financial Services Licence in September 2008, ahead of its launch of the Emerging Companies Fund in early October, using seed capital provided by nabInvest and the managers themselves.

Fairview is majority-owned by its three founders, in equal proportions, with nabInvest holding a 46% stake. In consideration for its ownership, nabInvest funded the firm's establishment costs and provided seed capital and working capital equivalent to three to five years' outgoings. In addition, NAB provides distribution support, back-office, and custodial services, as well as board representation and compliance services. The fund's responsible entity is nabInvest Managed Investments Ltd., a wholly owned subsidiary of NAB.

Responsibility for overseeing non-investment services is divided between the three investment managers. Accounting services are provided by Mitchell Partners, auditing by Pitcher Partners, legal services by Allens Arthur Robinson, and IT by McClewan Computer Consulting. The three members of Fairview's compliance committee are Mr. Glenane, Greg Holland (nabInvest's head of risk and compliance), and Steven O'Connell, a contracted, independent compliance consultant. The compliance committee reports through to the Fairview board, which comprises the three members of the investment team and two non-executive directors from nabInvest, Garry Mulcahy and Troy Swann.

### Funds Under Management

Fairview has NAB's financial backing and distribution support, although, like any new boutique, it faces the challenge of reaching a profitable level of FUM. At A\$31.1 million, the manager is still well-below break-even FUM. However, significant performance fees reinvested in the business and cost controls have contributed to lower-than-anticipated working capital drawdown.

Fairview has recently been awarded a small institutional mandate; however, it does not intend to pursue significant wholesale mandates. This is a function of the manager's retail-focused business strategy (through its relationship with NAB) and conservative capacity estimate.

### Funds Under Management Table (at May 31, 2010)

Current pool size (\$)	31.1 million
Total FUM in strategy (\$)	31.1 million
Estimated capacity for strategy (\$)	Approximately 0.5% of the index
Total FUM across all asset classes (\$)	31.1 million
Net strategy flows over past 12 months (\$)	22.3 million

Source: Fairview Equity Partners Pty Ltd..



## Performance Analysis

### 3yr Rolling Returns, Over 5 Years

Insufficient data available to plot graph

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

	1 Year	3 Years	5 Years	10 Years
Fund performance (% p.a.)	22.22	-	-	-
Income (% p.a.)	5.39	-	-	-
Growth (% p.a.)	16.83	-	-	-
Benchmark performance (% p.a.)	6.63	-	-	-
Excess return (% p.a.)	15.59	-	-	-
Peer group return (% p.a.)	9.81	-4.49	6.31	10.12
Standard deviation (%)	19.81	-	-	-
Sharpe ratio	-	-	-	-
Information ratio	-	-	-	-
Tracking error	-	-	-	-

Benchmark: S&P/ASX Small Ordinaries 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.

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