

Analyst(s): Rodney Lay; Jason Patton

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 fund is a "130/30" strategy, comprising a "beta one" exposure to the S&P/ASX 200 index (the benchmark) and an alpha-seeking market-neutral strategy. It invests in the BlackRock Equitised Long Short Fund (the underlying fund). While this fund was launched in September 2011, the underlying fund now has a 10-year track record from December 2001.

In relation to the long/short alpha-seeking component of the strategy, investments are based on a systematic quantitative model that incorporates a diverse range of signals to capture information before it is fully reflected in market prices. The alpha component seeks to generate absolute returns through quantitative analysis of analyst expectations, relative value, the quality of earnings, as well as a range of market signals.

While the model itself is quantitative in nature, the research that underpins ongoing enhancement and the changes to the model are very much qualitative in nature. Research capabilities and processes are central to this offering. The combination of the domestic team and the large, well-resourced global team creates significant advantages over peers. The research process is well-defined, disciplined, and focused on improving investment decisions, risk management, and reducing transaction costs. The manager benefits from institutional-grade risk-management systems, processes, and trade execution.

We have used the 10-year track record of the BlackRock Equitised Long Short Fund to assess performance. On average the underlying fund has achieved the performance objective of the fund, recording an average level of outperformance over a rolling three-year period of 8.2% p.a. (gross). Furthermore, on a calendar year basis, alpha outperformance is relatively consistent. The notable exceptions are the 2008 global financial crisis (GFC) period and 2010, but we do not believe these periods of underperformance indicate a deteriorating effectiveness of the investment model. Rather, it can be expected that the model may underperform objectives during market inflection points or non-fundamentally driven market environments.

Investor Suitability

- The fund may be suitable as an alternative equity holding in a diversified portfolio, providing beta exposure to the Australian equities market with the potential for alpha contribution through a long/short strategy.
- The fund may be suitable for investors with a minimum investment horizon of three to five years.
- Portfolio turnover is historically high. A high degree of returns may be in the form of income and not eligible for the capital gains discount.
- The fund may use up to 300% on net asset value (NAV) gross exposure, but net market exposure is set at 100%.

Key Strengths

- The team and investment process is driven by a strong research ethos focused on identifying and validating that investment signals are sensible, predictable, consistent, and additive.
- The manager has the ability to leverage the research resources and outcomes of the BlackRock global scientific active equity teams globally.
- Historical performance of the underlying fund has generally been in line with the manager's aggressive performance objectives.
- The investment team is well-resourced and highly experienced.
- Total fees are weighted to performance, with a very low MER of 0.3%, creating a strong alignment of interest.

Key Weaknesses

- Performance fees may be paid when the fund records negative performance.
- While we have a positive view of the team as a whole and the senior members are long-term employees of the company, it is recently formed.
- Within its liquidity features, we view the ability to restrict redemptions as unfavourable for fund investors relative to peers.

Risks

- The fund includes leverage and the risks associated.
- Strategy involves long/short trading, which can lose money on both sides.
- Given the model's quantitative focus, the strategy may underperform during market inflection points or non-fundamental and extreme stress market environments.
- The historical performance of the underlying fund has exhibited periods of significant volatility and drawdowns.

| | |
|---------------------------------|---|
| APIR code | MAL0072AU |
| Fund status | Open |
| Inception date | Sept. 19, 2011 |
| Responsible entity | BlackRock Investment Mgmt (AUS) Ltd |
| Peer group | Alternative Strategies - Equity Beta Variable |
| Benchmark | S&P/ASX 200 TR |
| Investment style | - |
| Multi manager | No |
| Fund Size (\$A) | 0.06 .mil (at Dec. 31, 2011) |
| Minimum investment (\$A) | 100000 |
| ICR / MER (%) | - |

| | |
|--|---|
| Investment manager | BlackRock Investment Management (Australia) Ltd |
| Redemption policy | Daily |
| Distribution frequency | Annual |
| Return objective (%) | S&P/ASX 200 Accumulation Index + 8% p.a. over rolling 3-years |
| Average portfolio turnover (3yrs) (%) | 700% |
| Maximum cash holding (%) | 10% |
| Release authorised by | Leanne Milton |

Objectives, Fees and Features

The fund is targeting a gross return of 8% p.a. above the S&P/ASX 200 Accumulation Index over rolling three-year periods.

The fund charges a management fee of 0.3% p.a. A performance fee is also charged equal to 30% of the outperformance over the index since the last time performance fees were paid, subject to all prior accumulated relative underperformance being recouped. Investors should note that under this structure investors may be paying performance fees during a period of absolute negative performance. S&P has estimated the fund's indirect cost ratio (ICR) at 2.8% p.a. This figure assumes the fund meets its alpha performance objectives.

The fund was launched in September 2011. It invests into the BlackRock Equitised Long Short Fund, which was launched in December 2001. The fund aims to provide returns (before fees) of 8% per year above the benchmark (S&P/ASX 200 Accumulation Index) over rolling three-year periods, through holding long and short positions across the Australian equity market. The fund targets 100% net market exposure and has a maximum long exposure of 100% of NAV and a maximum short exposure of 100% of NAV within the long/short alpha component of the portfolio.

Fund Objectives

| | |
|----------------------------|---|
| Target return (% p.a.) | S&P/ASX 200 Accumulation Index + 8% p.a. over rolling 3-years |
| Target volatility (% p.a.) | N/A |

Source: BlackRock Investment Management (Australia) Ltd.

Fund Fees

| | |
|--|-----------------------------------|
| Indirect cost ratio | 2.8% |
| Management fee (% p.a., including GST) | 0.3% |
| Reclaimable expenses (%p.a.) | Nil |
| Other fees (note, swap, fx, etc.) | Nil |
| Performance fee (% p.a.) | 30% |
| High water mark (Y/N) | Yes |
| Hurdle rate | S&P/ASX 200 Accumulation Index |
| Buy/Sell spread | 0.5%/0.5% |

Source: BlackRock Investment Management (Australia) Ltd.

Investment Philosophy and Style

The fund provides beta exposure to the S&P/ASX 200 (through ASX SPI 200 Futures) and the potential for alpha through a long/short market-neutral strategy that invests in Australian equities. The alpha component of the portfolio will typically hold around 120 stocks. The process involved in the construction of the alpha component of the investment portfolio can ultimately be distilled into three aspects: the forecasting of stock-specific returns (systematically determined), the forecasting of the stock-specific contribution to overall portfolio risk, and the forecasting and management of transaction costs.

In relation to return, stock selection is based on a systematic quantitative process which, in turn, is based on a variety of investment signals. The investment signals, which totalled 35 at the date of S&P's review, are relevant to how investors collectively process new information and set prices for different types of companies. To provide a flavour of the investment model, signals may provide a guide to analysts' earning expectations or investor demand, for example short sales or directors' share dealings. While at its heart the strategy is quantitative and systematic in nature, there is also a degree of manager discretion involved, mainly in the sizing of actual position exposures.

In terms of implementation, the model works by the electronic daily capture of raw data from various sources to update databases of company-specific and market-related information. This information is relevant to hundreds of individual stocks within the Australian market and across all sectors. Over time this raw data will determine the presence/absence of a particular signal and, where present, the direction (buy or sell) and relative strength of that particular signal. For a particular stock, the collective outcome of all signals will then determine an overall buy/sell signal and, in combination with the risk-management process, the strength of that signal, both in absolute and relative terms (compared to other stocks).

The investment process is well established after its introduction to Australia's market place in 1997 but it has longer history internationally. The investment process is very much dynamic and evolutionary in terms of signals added and removed. The active degree to which this process of ongoing enhancement is pursued is driven by a strong research culture within the team as well as the ability to use signals developed by the BlackRock global scientific active equity teams globally. Developing new investment signals starts with the team's investment insights. Economically sound investment ideas are then tested to determine whether the signal is sensible, predictive, consistent, and additive. Signal-related performance is then measured. Where the signals are determined to be value additive then that signal is eligible for inclusion in the model. The weight attributed to the investment signal within the whole model is a function of both quantitative assessment and the judgement of the three portfolio managers responsible for the domestic strategy.

This process also applies to the removal or "down-weighting" of existing signals. Over time, if the value-add ability begins to decline or cease to exist, that signal may be down-weighted or removed entirely from the investment process. The efficiency of existing signals is continuously monitored to determine their ability to add value.

Risk assessment and controls are integral to portfolio construction. The manager uses proprietary risk models to forecast common factor and stock-specific risks. There is an impressive focus on transaction cost minimisation which reflects the investment team focus on assessing the investment merit of a trade on an after-transaction cost basis.

Investment Team

The team responsible for the fund, the scientific active equity (SAE) investment team, is part of the broader global scientific active equity team that Ken Kroner heads. The global scientific active equity team has significant resources—resources that the local team is able to leverage, especially in relation to investment ideas and processes relevant to the fund. There is a high degree of interaction with the global teams, especially within the Asia-Pacific area with the team conducting weekly meetings with the other teams in the region. Furthermore, the domestic team can tap into a global research system that provides access to the full suite of investment ideas/signals.

Locally, the team is led by Dr. Michael McCorry, who has primary responsibility for providing strategic direction for the investment team, helping drive the research agenda, exercising oversight of the investment process, as well as general managerial responsibilities.

The portfolio-management team consists of three portfolio managers, specifically Paddy McCrudden, Richard Longmire, and Andre Roberts, who are responsible for trading and portfolio management on a daily basis. The three portfolio managers are all long-time employees of BlackRock, Mr. McCrudden was previously at Barclays Global Investors (BGI) before it was acquired by BlackRock. The research team consists of three individuals and the general input from an investment strategist. The team operates with a high degree of local autonomy and independence,

yet is able to draw on the resources and research outcomes of the group globally. Around 50% of the investment process of the fund, in terms of signals used, is developed domestically, which we view as a strong reflection on the research abilities of the team. This focus ensures that signals are relevant to the particular features and dynamics of the domestic market. The remaining 50% is drawn from the global team, which conversely illustrates the benefits of a larger global group. We would also note that many of the signals developed by the domestic team are adopted by the team globally.

Dr. McCorry has worked at BlackRock since 1997, including his years at BGI, where he was head of the international strategies group and responsible for leading the strategy and portfolio-management efforts across Australia's non-domestic investment strategies. Dr. McCorry replaced Morry Waked who was head of BGI Australia and left the firm in early 2010. Mr. Waked was a senior-level key person departure, but S&P's view is that we agree with BlackRock that his departure had less effect on systematic quantitative strategies such as this fund. Moreover, S&P has now had occasion to meet with Dr. McCorry on several occasions and we are comfortable that he has settled into the role.

Key Investment Personnel

| Name, Position | Years* | Experiencet |
|--|--------|-------------|
| Michael McCorry, head of Australia SAE | 14 | 19 |
| Paddy McCrudden, portfolio manager SAE | 11 | 11 |
| Andre Roberts, portfolio manager SAE | 12 | 18 |
| Ritchard Longmire, portfolio manager SAE | 9 | 13 |
| Christian Rolvung, senior research officer SAE | 5 | 9 |
| TK Tangkuampien, quantitative analyst SAE | 5 | 5 |
| Joanna Nash, research analyst SAE | 4 | 5 |
| Linda Glassborow, strategist | 12 | 17 |
| Average tenure with current firm | 9 | N/A |
| Average industry experience | N/A | 12 |

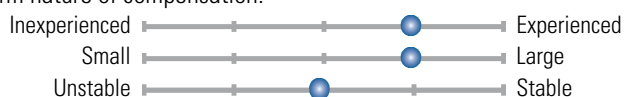
*Years with current firm. †Years of relevant industry experience.

Alignment and Accountability

BlackRock's staff remuneration scheme includes both long-term and short-term bonuses, based on individual skills, experience, and effort. This is assessed on a largely qualitative basis, coupled with the team's investment performance relative to benchmark.

The remuneration structure comprises a base salary and an annual performance bonus. The annual bonus is available to investment staff if performance targets are met. The level of the overall team bonus pool is determined primarily by the level of business profitability of BlackRock Asset Management Australia Ltd. For most investment professionals, compensation reflects investment performance and the success of the business or product area. As individuals become more senior, bonuses comprise a greater portion of the employee's total pay. Additionally, senior employees will have a significant percentage of their annual bonus paid in the form of restricted stock, vesting over three years from the date of award.

We view the remuneration structure as attractive for the retention of key team members and aligned with investors' interests given the longer term nature of compensation.



Investment Process

Overview

Investment decisions are primarily based on a quantitative process that uses distinct sources of insights or "signals" to generate return forecasts for domestic stocks. Collectively, the investment signals provide guidance to five different investment aspects: analyst expectations, relative valuation, earnings quality, market signals, and timing signals.

Analyst behaviour is monitored through a range of signals to capture information before it is reflected in share prices. The model performs this by monitoring and evaluating the individual earnings forecasts made by all analysts at over 10 of the leading broking houses in Australia, covering more than 300 listed securities. Generally, the investment impact of this information class is based on empirical evidence, such that:

- There is a correlation of earnings revisions across equities analysts (analysts are influenced by each other) and,
- Analysts tend to reflect a change in outlook through multiple earnings revisions over time rather than through a single change.

Relative value signals compare the valuation of companies within the same industries. The valuation models work by capturing small but systematic misvaluations caused by the average investor/manager's tendency to overpay for growth companies, and a tendency to misforecast growth rates for companies that are considered the highest (or lowest) growth candidates. Additionally, markets tend to over-react to good and bad corporate news.

The model also differentiates between the quality and sustainability of earnings for each company. By systematically analysing the financial statements of around 300 companies these signals are designed to identify security mispricings caused by discretionary accounting decisions as well as understanding the financial strength and operating efficiency of each company.

The monitoring of "market signals" is designed to capture information not otherwise reflected in the model's fundamentally based signals. Two sub-categories of signals are monitored. The first looks at the past behaviour of a company's share price as a source of information that can be profitably exploited. The second focuses on the behaviour of corporate insiders, which provides information regarding future share price prospects.

Timing signals are designed to determine both "sector timing" and "style timing". Sector timing forecasts sectors that are likely to outperform in a relative sense. Style timing forecasts which style (e.g. value/growth) is likely to outperform using market data.

The daily assessment of the required data generates a quantitative measure for each of the five aspects noted above. This is conducted for all 300 stocks in the index and each stock is ranked according to the aggregate quantitative score. This ranking represents the raw order of conviction in each stock. For each stock, a transaction cost forecast is generated to generate a forecast return on a post cost basis.

While the process is at its heart systematic in nature, portfolio managers do have a degree of discretion, primarily in relation to the weighting of existing signals. Discretionary changes are discussed by the three portfolio managers. BlackRock estimates that around 15% of past alpha returns have derived from discretionary calls, so it is not an immaterial component of the investment process. The discretionary aspect has become more prominent since the GFC as it is a means to respond to the subsequent volatile market environment.

We note that the manager places a significant emphasis on transaction-cost efficiency. The efficacy of the transaction-cost models are monitored on a daily basis by the trading team. Each day, the costs of execution for each stock are calculated, and compared to forecast performance.

Research capabilities and the research process are central to this offering. The combination of the domestic team and the large, well-resourced global team creates significant advantages over peers. The research process is well-defined, disciplined, and focused on improving investment decisions, risk management, and reducing transaction costs.

There are no predefined factors for entry into the research process, with the team researching any economically sound investment insight that can profitably forecast returns in a consistent manner. All investment ideas are heavily researched. Where the investment team is satisfied that the idea is theoretically sound and can be backed by empirical evidence, the team then quantifies the idea before including it into the model to determine that the signal is still valid. The decision to include or not to include is then discussed by the investment team. This process also applies to existing signals in order to monitor the ongoing efficiency. The degree of changes to the model over time (add, delete, down-weight, up-weight, temporary turning off a signal) is testament to the evolutionary nature of the model as well as the investment team's strong research culture and focus.

► Portfolio Construction

The daily assessment of the required data generates a quantitative measure for each of the five aspects noted above. The raw portfolio is then subject to an optimisation procedure that takes into account risk, transaction costs, benchmark information, risk constraints as well as return forecasts. This process is conducted on a daily basis and is conducted by a proprietary risk model.

The process results in a final portfolio and a consequent trade list of security purchases and sales. This list is then examined by the portfolio-management team, and vetted for rationality. The resulting trade is then electronically submitted to an order-management system. At this time, the portfolio-management team and the trading team focus on the strategy for execution. This strategy takes into account the expected transactions for each security, the expected participation rate, the alpha drivers of the trade, market information, along with the opportunities for netting.

► Risk Management

There are three key components to BlackRock's risk-management process for this fund:

- Models forecasting asset and factor risk that are integrated into portfolio construction;
- Stock/sector/factor and liquidity limits in the portfolio construction; and
- Independent monitoring via BlackRock's risk and quantitative analysis team.

The core aspect of risk management is the use of BlackRock's proprietary risk model in portfolio construction. This model is constructed daily and forecasts both factor (risk and style) and stock-specific risk. The model is based on the MSCI Barra risk model.

The second aspect is to prevent excessive exposures to factors (style and industries) and specific stocks. This is done by constraining the portfolio to be held within "reasonable" bounds, as detailed below. Liquidity limits are also imposed across the portfolio to ensure that the manager can trade within a reasonable period.

The specific binding parameters that the manager controls for in the alpha component of the strategy include:

- Net sector and style bounds close to benchmark;
- Limiting the active position in any individual security, typically within +/-3%;
- Maintaining a portfolio beta close to 0.0; and
- A risk-tolerance parameter to give a forecast tracking error of 6%–8% p.a.

The third aspect is the independent monitoring process provided by RQA. The portfolio is monitored daily to ensure that portfolio guidelines are being adhered to. The team also provides regular stress tests, value at risk (VAR) analysis, and scenario analysis.

In terms of the historical performance of the underlying fund, maximum drawdown and volatility is broadly in line with that of equities, specifically being 54% and 15.75 since inception.

Additionally, the managers may use discretionary risk-reduction overlays in uncertain times.

Monthly Net Exposure of the Fund

Insufficient data available to plot graph

Risk Constraints

| | |
|---------------------------------------|------|
| Maximum gross exposure | 300% |
| Maximum net exposure | 100% |
| Maximum position | N/A |
| Maximum cash holding (%) | 10% |
| Average portfolio turnover (1 yr) (%) | 250 |

► Currency Management

The fund invests in domestic equities. There is no foreign currency exposure.

Product Features

As previously noted, Australian retail investors gain access to the fund through its investment into the BlackRock Equitised Long Short Fund. The fund itself was launched in September 2011 but the underlying fund was launched in December 2001.

The fund provides daily liquidity. The fund allows for BlackRock to restrict redemptions. This has never been implemented and, it is our view, that the manager would only do so in extreme circumstances and for the purpose of protecting investors.

The fund will execute short positions and borrow stock to do so. This introduces credit risk in relation to the prime broker.

Performance

While the fund was launched in 2011, the underlying fund now has a 10-year track record. The historical performance of the latter is directly relevant to the fund, and we have used the historical performance of the underlying fund as an input into the assessment of the skill of the manager, the strength of the investment process, and the ability to achieve this fund's performance objectives.

Over its 10-year track record, the BlackRock Equitised Long Short Fund has on average achieved the performance objective of the fund, recording an average level of outperformance on a rolling three-year basis of 8.2% p.a. (gross). On a point-to-point basis, over this 10-year period the fund has recorded annualised returns of 16.2%, equating to alpha of 9.2% p.a. and exceeding the its performance objective. Furthermore, on a calendar year basis, alpha outperformance has been relatively consistent with the underlying fund recording alpha in seven out of 10 such periods. The notable exceptions were the 2008 GFC period and 2010. Volatility

is slightly above that of the benchmark, at 15.8% against 13.4% as measured by annualised monthly standard deviation, but investors need to place this marginally higher volatility in the context of the additional return of the fund over the benchmark.

Correlations with equity markets are high, indicating that the fund is generally not a diversifier in relation to an investor's Australian equities component of a portfolio.

The fund recorded its worst period of underperformance during the GFC in 2008. This was partly driven by the following factors.

First, with the liquidity dry-up following the collapse of Lehman Brothers there was a high degree of correlation between the particular stocks that were especially affected by the forced deleverage (generally more liquid, larger market capitalisation stocks) and the portfolio positions of the underlying fund.

Second, the snap short-selling ban meant the fund was unable to add to its existing short positions and the fund was unable to rebalance in its normal way. More broadly, the extraordinary market environment may simply have meant that the predictive nature of the signals broke down. We do not view the underperformance over this period as indicating a deterioration in the predictive validity of the model.

The second period of material underperformance was during the early part of 2010, a period in which higher-risk, smaller market capitalisation stocks outperformed the market. Over this period the underlying fund was defensively positioned. The underlying fund recovered strongly during the second half of 2010 and 2011, with the predictive nature of the signals proving very effective in picking two very significant inflection points in the market.

Risk and Return Analysis (at Oct. 31, 2011)

| | |
|---|-----|
| 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: BlackRock Investment Management (Australia) Ltd.

Performance Measures (at Oct. 31, 2011)

| | |
|--------------------------|-----|
| 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: BlackRock Investment Management (Australia) Ltd.

Distribution of Monthly Returns

Insufficient data available to plot graph

Management Group Profile

The underlying fund, the BlackRock Equitised Long Short Fund, was formerly managed by BGI Australia. On Dec. 2, 2009, BlackRock's takeover of BGI was completed, resulting in a change of control of BGI's business from Barclays Group to BlackRock Inc. The team managing the quantitative trading strategies remained in their Sydney premises following the merger, with most of the global quantitative team remaining with BlackRock.

New York-based BlackRock was established in 1988 as a predominantly fixed-interest investment house. In February 2006, a merger of Merrill Lynch's investment-management businesses with BlackRock Inc. was announced, and the new entity was incorporated in September 2006. Listed on the New York Stock Exchange, BlackRock has no outright majority owners.

Funds Under Management

Today, BlackRock has total assets under management of US\$3.35 trillion across equity, fixed income, cash management, alternative investment, real estate, and advisory strategies. It employs over 8,500 staff across offices in 24 countries.

Globally, the strategy has approximately A\$5 billion under management. Management states that capacity for the strategy is around A\$1.2 billion.

Funds Under Management Table (at Oct. 31, 2011)

| | |
|---|---------------|
| Current pool size (\$) | 201 million |
| Total FUM in strategy (\$) | 5.0 billion |
| Estimated capacity for strategy (\$) | 1.2 billion |
| Total FUM across all asset classes (\$) | 3.35 trillion |
| Net strategy flows over past 12 months (\$) | 0.06 million |

Source: BlackRock Investment Management (Australia) Ltd.

Performance Analysis

3yr Rolling Returns, Over 5 Years

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Annualised Net Returns % (at Dec. 31, 2011)

| | 1 Year | 3 Years | 5 Years | 10 Years |
|--------------------------------|-----------|------------|------------|-------------|
| Fund performance (% p.a.) | - | - | - | - |
| Income (% p.a.) | - | - | - | - |
| Growth (% p.a.) | - | - | - | - |
| Benchmark performance (% p.a.) | - | - | - | - |
| Excess return (% p.a.) | - | - | - | - |
| Peer group return (% p.a.) | - | - | - | - |
| 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

| | |
|-------------------------------------|--|
| Benchmark | The standard (e.g. an index) by which an investment is measured against to evaluate performance. |
| Excess Return | Return of an investment relative to its benchmark. |
| FUM | Funds Under Management - The total value of the funds managed by an asset management firm. |
| High Water Mark | 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. |
| Hurdle Rate | 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. |
| Performance Fees | 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. |
| ICR-Indirect Cost Ratio | 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. |
| Information Ratio | 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. |
| MER-Management Expense Ratio | 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. |
| Peer Group Return | The average return of the funds in the relevant S&P peer group. |
| Sharpe Ratio | 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. |
| Standard Deviation | Measure of the variability or volatility of the monthly returns of the fund. |
| Tracking Error | How closely a portfolio follows or "tracks" an index to which it is benchmarked. (the standard deviation of monthly excess returns against the benchmark). |
| Ex Ante Tracking Error | Predicted or forecast of tracking error. |
| Ex Post Tracking Error | Historical or actual tracking error. |

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