

Dalton Nicol Reid MAX ProVentus Australian Equities High Conviction Income Portfolio

[high-yield, long-term capital growth]

1. Portfolio Overview

The aim of ProVentus (Latin for 'yield') is to provide investors with after-tax focused investment returns with a preference for taking advantage of imputation credits available in the Australian market. It aims to offer low volatility with an emphasis on capital preservation.

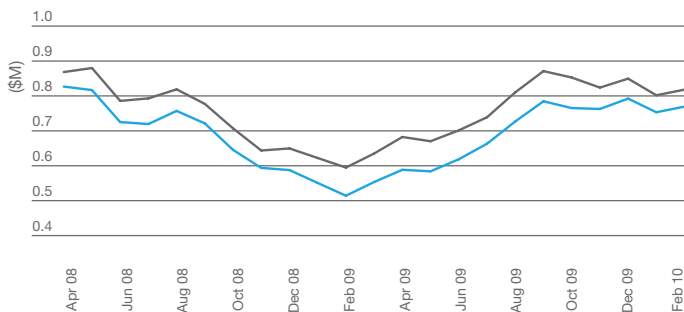
Dalton Nicol Reid manages ProVentus in collaboration with Precept Investment Actuaries Pty Ltd, an independent investment actuarial and research house that specialises in the assessment and valuation of the listed financial services sector in Australia.

Who does ProVentus suit?

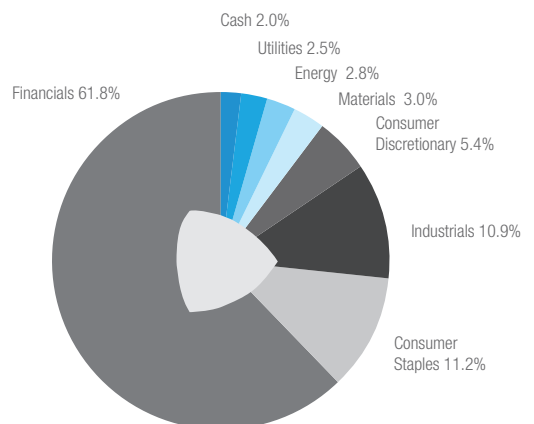
ProVentus is suited to investors who seek a greater level of income than the S&P/ASX 200 Accumulation Index and who can make use of franking credits. This product should also appeal to lower tax paying entities such as pension funds, Self Managed Super Funds and charities that can take advantage of the Australian Tax Office's policy of refunding imputation credits.

Portfolio profile	High-yield, long-term capital growth
Investment objective	To outperform the S&P/ASX 200 Industrials Accumulation Index and to obtain above-market average income and associated franking credits
Authorised investments	Cash, ASX listed securities, with a focus on the S&P/ASX 200, ASX listed convertible securities
Number of investments	20 to 30
Asset allocation	Australian listed securities 80% to 98%; Cash 2% to 20%
Maximum exposure to any single investment	Generally 15%
Stock turnover per annum	Generally 40%

Value of \$1M invested in ProVentus Australian Equities High Conviction Income Portfolio since November 2007 inception



Sector Weightings



Active Return as at February 2010

	6 mths	1yr	Since inception
— ProVentus Portfolio*	0.9%	36.4%	-8.6%
— ASX 200 Industrial Accumulation Index	5.7%	47.9%	-11.0%
Active Return*	-4.8%	-11.6%	2.4%

* net of Dalton Nicol Reid fees

2. Portfolio Update—February 2010

AUSTRALIAN EQUITIES MARKET OVERVIEW

Markets lacked direction during February as investors continued to weigh up the consequences of sovereign default risks emerging in Europe and a slowing Chinese economy, against a backdrop of generally better than expected earnings being reported in the US, Europe and Australia. After an initial sell-off the Australian market (ASX200) rallied to finish the month higher (+1.5%).

The key focus for investors during February was the plethora of data released during "reporting season". Results were generally mixed reflecting the variability of demand across the economy while overall earnings were ahead of expectations. The key trends were weaker than expected sales growth offset by lower operating and net interest costs. While outlook comments remain subdued, dividends were better than expected reflecting the strength in corporate balance sheets. The Consumer Staples, Healthcare and Utility stocks outperformed while Telecoms (TLS) and REITs lagged following disappointing results.

Portfolio Performance

Despite strong performance from Banks in February, the ProVentus portfolio performed broadly in line with the ASX Industrials Accumulation Index.

The ProVentus portfolio has outperformed the benchmark by 2.4% since inception (Nov 2007).

Wesfarmers (+15.2%), Westpac (9.5%) and Challenger (+8.6%) contributed positively to the portfolio. Wesfarmers was the highlight with the turnaround of Coles beginning to take shape. The Wesfarmers owned Coles group looks to be gaining ground on the dominant position of Woolworths and was well rewarded by the market.

Tower (-4.0%), QBE (-6.6%) and Macquarie (-9.8%) detracted from performance.

Top and Bottom Performers for the month

Category	Company	Performance (%)
TOP 3	Wesfarmers Limited	15.2%
	Westpac Banking Corporation	9.5%
	Challenger Diversified Property Group	8.6%
BOTTOM 3	Tower Australia Group Limited	-4.0%
	QBE Insurance Group Limited	-6.6%
	Macquarie Group Limited	-9.8%

Investment Focus and Market Themes:

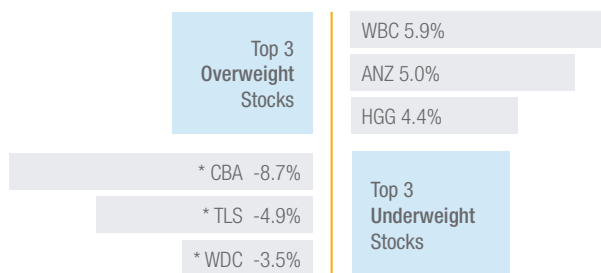
Economic indicators continue to point to a global economic recovery, rising interest rates to affect building materials and retailers whilst supporting banks and utilities, expectation that M&A activity will increase, companies to face greater regulation and constraints, capex spending on Government and resource projects to increase, Chinese growth and iron ore prices to dictate resource stock direction, banks to remain well supported following excellent half yearly results.

Portfolio Changes

Sold Prime Infrastructure (ASX:PIH)

One of our core philosophies is to "water the flowers and cut the weeds". This means a focus on selling any companies where the investment outlook has deteriorated and the prospects for a turnaround are not strong. We particularly adhere to this philosophy where the market has experienced some volatility and where this has created opportunities to reposition the portfolios as value emerges across the market.

Active Weightings



* Not currently held in portfolio

Portfolio Changes (continued from previous page)

This decision to sell Prime Infrastructure Group was very much a “cutting of the weeds” situation. Since purchasing Prime Infrastructure Group, the regulatory environment for the company has deteriorated significantly. The US regulator of pricing is threatening to drastically reduce the revenue Prime Infrastructure Group earns on its NGPL Gas Pipeline (which represents a third of its total revenue). This outcome is unexpected and highlights the current heightened regulatory risk facing investors. While value is apparent in the stock, there are a range of other companies which following the recent market pullback offer similar value but do not face the same issues.

Increased Banks

We have been increasing our banks exposure particularly within the Income portfolio (Income). This is to take advantage of the trends evident during reporting season whereby the banks continue to exploit their strong market position, the bad debts are in decline and dividends are set to be lifted.

3. Stock Stories

HENDERSON GROUP PLC (ASX:HGG)

Henderson Group PLC is a financial services group that sells a range of products focused on asset management, including equities, fixed income, property and private equity. With its principal place of business in London, Henderson is one of Europe's largest investment managers, with £58.1 billion assets under management (as at 31 December 2009) and employs around 930 people worldwide.



Investment Thesis

- The company has managed the financial crisis better than most funds managers.
- Full Year 2009 result was impressive – higher inflows and costs under control.
- The acquisition of New Star (UK Fund Manager) provides strong earnings uplift and they continue to look for further acquisition opportunities.
- Valuation compelling - Henderson is trading on a very attractive multiple.
- The stock has been weak recently due to currency weakness – Majority of Henderson's earnings are in the UK and this affects profits when translated into \$AUD. Consensus is that the Sterling is oversold on a medium term view and may provide some support for the stock.

4. Investment Process—Australian Equities

The investment process uses a combination of ‘bottom up’ stock selection with a ‘top down’ overlay.

Bottom up: Stock selection is driven by a bottom up or company specific analysis. Dalton Nicol Reid has developed a proprietary earnings model that measures the investment fundamentals of each company in the S&P/ASX 200 and a few smaller stocks. This model captures historical and forecast (+2 years) data for key P&L, Balance Sheet and cash-flow metrics and calculates measures used in stock level analysis including dividend yield, earnings growth, price to earnings growth (PEG), price to earnings (PE), changes in earnings etc.

The Earnings Model is used to both screen the investible universe and to provide key valuation metrics in the evaluation of stocks.

The three criteria that Dalton Nicol Reid assesses when evaluating a company are:

1. Quality business with strong management;
2. Strong Balance Sheet; and
3. Strong earnings growth at reasonable prices.

The Dalton Nicol Reid portfolios are concentrated (less than 30 stocks) and to maintain the discipline of a small (in stock numbers) portfolio there is a philosophy to ‘water the flowers and cut the weeds’; that is, those stocks that continue to meet the above criteria are held for the long-term; those that have earnings difficulties or a structural deterioration in their business are sold quickly.

Dalton Nicol Reid’s Investment Committee reviews all stocks and keeps the focus on this sell discipline.

Top down: The portfolio manager follows a range of economic indicators that are reviewed regularly, including formally, at the monthly Investment Committee meeting. These measures are used to formulate an economic overview which provides a backdrop to investment decision making and influences Portfolio construction. For example, the economic overview may encourage the Portfolio Manager to tilt toward defensive stocks or minimise exposure to companies with a high proportion of USD earnings.

The indicators that are followed include (for Australia and the US): Bond and earnings yield differentials, 10 year bond yield trends, yield curve, the Reuters/Jefferies CRB Index, Market PE ratios over time, earnings upgrades, \$A trends.

About the Investment Manager

Dalton Nicol Reid was established in 2001, creating an independent, boutique service offering personal investment portfolios to sophisticated investors.

By providing institutional and individual clients with superior performance* and service, Dalton Nicol Reid has firmly established itself in the Funds Management and Managed Accounts markets. Independence remains at the cornerstone of the firm’s philosophy.

* As at the date of publication, Dalton Nicol Reid has outperformed the relative indices since inception for all of the Dalton Nicol Reid Mx (Managed Account Xertus) portfolios

Dalton Nicol Reid Mx—Choice of investments

Dalton Nicol Reid Mx – Managed Accounts *Xertus* (meaning *tested, tried, approved, experienced*) portfolios provide the broader investment community the opportunity to access Dalton Nicol Reid’s expertise in Managed Accounts and direct equity portfolio management.

Dalton Nicol Reid Mx offers investors a menu of Managed Account portfolios that provide the flexibility to choose a portfolio most suited to their needs. This benefits investors as they move between different life stages, which may require a change in investment strategy to achieve a change in performance objectives and risk profile.

Mx Incrementus - Australian Equities High Conviction Growth Portfolio (long-term capital growth)

Mx Virtus - Australian Equities High Conviction Ethical Growth Portfolio (long-term capital growth through responsible investment)

Mx ProVentus - Australian Equities High Conviction Income Portfolio (high-yield, long-term capital growth)

Mx Australian Listed Property Trust High Conviction Portfolio

Mx International Equities Global Managers Portfolio



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