

Analyst(s): Rodney Lay, Andrew Yap

Standard & Poor's View

S&P rates the Dalton Nicol Reid Australian Equity High Conviction Portfolio (model portfolio) as four stars, reflecting our high conviction that the manager will consistently generate risk-adjusted fund returns in excess of relevant investment objectives and relative to peers.

Dalton Nicol Reid, manager of the model portfolio, is a Brisbane-based boutique manager specialising in managed accounts and direct investment mandates. It was founded in September 2001 and, at the date of this report, had A\$450 million in FUM.

The model portfolio is a concentrated portfolio of mainly Australian large- to mid-cap equities. It is managed with an active, style-neutral investment strategy in which the manager exercises high conviction. Since October 2002, it has consistently recorded higher absolute and risk-adjusted returns relative to its benchmark. Senior members of the investment team are reasonably experienced and the team is very stable. The team displays strong stock insights. But, as a small team, the sources and flow of information and the breadth and depth of the analysis is less than many larger managers.

Historical performance is particularly strong and consistently so over a full market cycle. Outperformance has ranged from 4% to 6% p.a. over all periods.

Dalton Nicol Reid is an established participant in the Australian SMA sector, and S&P views the manager as a leader in the space. The manager is well aware of the potential risks specific to SMA model portfolios and manages its portfolios to mitigate these risks. The manager is proactive in communicating with advisers and undertaking various checks with the SMA platform providers to ensure that portfolio variation and excess trading costs risks are minimised.

S&P regards the model portfolio as highly suitable for an SMA environment being characterised by low turnover, a concentrated investment portfolio, and rapid execution of investment ideas. Trade communication is timely. Consequently, transaction slippage (investors incurring high brokerage costs and tracking error relative to the underlying mandate) are low. Performance monitoring and interaction with platform providers to resolve issues is particularly good.

Investor Suitability

- The model portfolio is a long-only Australian equities mandate.
- The manager should outperform when large, high-quality stocks are being recognised by the market and sound company fundamentals are being rewarded.
- As an SMA, the model portfolio is relatively taxation efficient and may be most suitable to investors on higher marginal tax rates.
- Investors should have an investment time horizon of at least five years for this asset class and be prepared for volatility consistent with Australian equities in general.
- While the strategy is style-neutral, the concentrated nature of the portfolio makes this model portfolio suitable as a non-core investment.

Key Strengths

- Proven, stable, and disciplined portfolio-management team has capable leadership and solid team culture.
- Historical performance is particularly strong and consistently so over a full market cycle.
- Strong SMA suitability is based on low turnover, high concentration, and relatively larger average trade size.
- Strong process is evident in relation to monitoring SMA performance and reconciling performance differences on SMA platforms.

Key Weaknesses

- Research analytical team is not structured and resourced as well as peers due to its boutique status.
- ICR is historically high due to performance fee component.
- FUM is very low in two of the three SMA platforms where it is available, creating certain higher SMA-specific risks.
- Equity-based compensation for analysts appears limited, with only Scott Bender having a relatively small ownership stake.

Risks

- The manager is benchmark unaware, reflecting the concentrated nature of the portfolio. As such, portfolio outcomes may vary significantly from its performance benchmark.
- While there is a strong portfolio-management team, the portfolio is highly reliant on Mr. Bender.
- SMA model portfolios incorporate risks not present in managed funds, including the risk of high brokerage and the portfolio not representing a true reflection of the manager's investment thinking.

Sector:	Australian Equities – Large Cap	Tracking error:	4% to 6%
Investment manager:	Dalton Nicol Reid Pty Ltd.	Performance target:	4% alpha
Years managing asset class:	9	MER:	Platform dependent
Benchmark:	S&P/ASX 200 Accumulation Index	Min. investment (A\$):	Platform dependent
Inception date:	September 2002	Release authorised by:	Leanne Milton
Size (A\$M):	\$245 million		

Investment Objectives And Fees

The fund targets an excess return of 4% per year over rolling three-year periods relative to the S&P/ASX 200 Accumulation Index with dividend reinvested. The model portfolio is benchmark-unaware, partly due to its generally concentrated nature. Tracking error is not used as a portfolio-construction tool, although the manager does measure it. The portfolio is moderately concentrated, with the target number of stocks in the portfolio between 15 and 30. Portfolio turnover is low at an expected level of 20% to 40% per year, reflecting the buy-and-hold style, as well as ensuring SMA suitability.

The standard fee structure for the investment strategy is an MER of 0.88% per year and, due to a performance fee, the ICR is 2%. This is not particularly cheap. The performance fee equals 16.5% of the outperformance (gross) relative to benchmark with a high water mark.

However, investors should note that the actual total cost of investing in the model portfolio will vary depending on the particular SMA platform where the model portfolio is available. Actual fees may be different to the general levels that apply, as noted above.

Investment Philosophy And Style

Dalton Nicol Reid is a style-neutral manager (albeit with a growth bias) that seeks long-term investment opportunities through a fundamental bottom-up, top-down overlay research process. The investment portfolio is benchmark-unaware. The manager seeks to invest in companies with strong fundamentals and quality management, and which trade at reasonable valuations (defined as a 15% discount to valuation).

Although the investable universe is the S&P/ASX 300, the majority of the portfolio represents stocks in the top 100. Relatively illiquid and lesser-known stocks are generally avoided, although the model portfolio is not precluded from investing in such stocks.



Investment Team

Structure

The investment team is based in Brisbane. The team comprises six members. Three of the more senior members of the team have an average of 10 years of direct industry experience and an average eight years at Dalton Nicol Reid. The other three team members are at a more junior level, with an average five years' experience. Analytical responsibilities are rotated periodically.

Key Investment Personnel

Name, Position	Years*	Experience#
Jamie Nicol, chief investment officer	10	17
Scott Bender, portfolio manager	9	15
Ben Clayton, investment analyst	6	12
Mark Sedawie, investment analyst	3	4
Cindy Esterhuizen, quantitative analyst	3	5
Christina Florea	1	4
Analyst pool average tenure	5	10

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

Portfolio Managers

Mr. Bender has shared responsibility for constructing and managing the model portfolios, as well as for investment analysis of particular stocks and sectors. Mr. Bender joined Dalton Nicol Reid in 2002. His sector responsibilities include property, consumer staples and discretionary, and health care.

Mr. Bender has 15 years of relevant industry experience. Prior to joining Dalton Nicol Reid, Mr. Bender was employed by Ord Minnett/JPMorgan (1999-2001) as a senior designated-trading representative. Among other responsibilities, he acted as liaison between advisers and the research department with regular interaction with analysts. Subsequently, he worked for Deutsche Bank in London (2001-2002) where he acted as conduit for Australian-based research to the U.K. desk and developed specialist knowledge on the REIT market through involvement with an Asia ex Japan fund.

Jamie Nicol holds the position of chief investment officer (CIO), which includes shared portfolio-management responsibilities. He has ultimate responsibility for the construction and management of the investment portfolio. His sector responsibilities are financials, materials, industrials, and IT. Mr. Nicol has 17 years' relevant industry experience, as banking sector analyst at two Australian stockbroking firms and, prior to establishing Dalton Nicol Reid in 2001, as head of industrial equities research at Hartley Poynton.

Research Team

The investment team is very stable, with no staff losses. S&P judges the level of interaction between the team members as positive, with respect to idea generation, peer review of research, and investment decisions. The process does not appear dominated by a single strong personality, which is a risk with boutique managers.

As a boutique manager, there is key person risk, primarily with one of the two portfolio managers, Mr. Bender. The other senior member of the investment team, Mr. Nicol, is a co-founder with a significant equity stake. The loss of Mr. Bender would shift a significant workload to all remaining team members and significant investment decision responsibility on Mr. Nicol. S&P notes that Mr. Bender has a 5% equity stake in the manager plus an option for an additional 5%, which serves to mitigate the risk to a degree.

Ben Clayton joined Dalton Nicol Reid in 2004. Before this he worked in an equities research role at Ord Minnett in Australia, and then in 2002, as an analyst with a large U.K.-based fund manager, Charles Stanley. Mr. Clayton has responsibility for the telecommunications and construction materials sectors.

The three other analysts, Mark Sedawie, Cindy Esterhuizen, and Cristina Florea are more recent additions to the team. Mr. Sedawie has in excess of five years' industry experience as a senior consultant in the advisory division focusing on corporate finance and valuation advice. He is responsible for the energy, retail, and infrastructure sectors.

Ms. Esterhuizen holds the position of quantitative analyst and is responsible for maintaining and developing the database and modelling system, and various other data-related tasks. Her appointment allowed the analysts to fully focus on their stock responsibilities.

Ms. Florea holds the position of research associate. She is responsible for supporting the investment team across a range of tasks including financial modelling and general research support.

The investment committee is responsible for reviewing the portfolio and the underlying investment thesis of the constituent securities as well as ensuring due process is followed. The investment committee comprises the six member investment team and two additional individuals Justine Hickey and Mark Hancock.

Ms. Hickey is well qualified for such a role. She has significant equities research and portfolio management experience, culminating in her appointment as head of equities at Suncorp Investments in 2002. She is a non-executive director of several investment organisations (Hyperion Flagship LLC, Australian Ethical Investments Ltd., and Rio Tinto Staff Super Fund) and a member of the Melbourne University investment committee.

Mr. Hancock has over 20 years' experience in the securities and funds management industry in Australia, with a specialisation in the financial services industry. Previous roles included five years with NRMA as the equity portfolio manager of the bank, and insurance investment portfolio and equity portfolio manager at MMI Insurance. He holds a number of advisory roles with Australian investment firms and financial services entities. He specialises in the assessment of listed financial services companies.

➤ Alignment And Accountability

Compensation for investment team members is salary and equity ownership, with a bonus package attached, dependent on specific performance hurdles. The intent of the employee compensation at Dalton Nicol Reid is to build a culture of performance and the overall package is designed to align the interests of the investment professionals with that of the clients and the business owners.

The primary remuneration is a base salary. The base salary is used to calculate the annual bonus dependent on portfolio performance measured against relative indices over a rolling one-year period. This applies to members of the investment team who are specifically responsible for one or more portfolios.

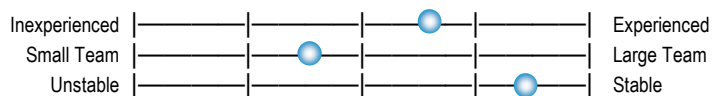
The bonus contribution is capped to a maximum of 60%–80% of annual salary and is paid based on outperformance weighted over six-, 12-, and 18-month periods.

In addition to the actual portfolio that is run, investment members run "shadow" portfolios or model-based portfolios to house their own best high-conviction ideas. These shadow portfolios compete against the actual portfolio used, and the shadow performance is measured and contributes to that investment manager's bonus.

Equity participation is available to investment professionals who are with the firm for over three years and have shown a cultural fit to the business. The structure here has recently changed in a way that is expected to lead to investment team members having greater equity ownership.

However, for members of the investment team who do not manage a portfolio, but provide invaluable support at an analytical level, a discretionary bonus is paid. This is determined by the CIO, taking into account performance on equities analysed and the quality of research provided on ethical, international, and fixed-interest securities, and their overall contribution to the cultural alignment of the business.

Mr. Nicol receives only annual salary; however, he is a major shareholder and receives dividends from equity ownership.



Investment Process

➤ Overview

The manager uses primary and secondary sources of information. It emphasises the importance of company contact and conducts an estimated 200 management contacts per year, through company presentations, site visits, one-on-one meetings, and telephone conversations. The manager draws on broker research and industry contacts as a source of market views, analytical input, investment views, and financial expectations.

Analytical depth, focus, and transparency across all stocks in the portfolio are generally less than that of larger fund managers due to limited resources.

However, the relatively low turnover of the portfolio assists in building a detailed stock-specific understanding as well as mitigating the risk of team members being overstretched.

➤ Research Process

Investment selection is a four-stage process. The first stage defines the investment universe through a quantitative screening and ideas-generation process. The quantitative screen seeks to identify attractively priced stocks on which to focus detailed, stock-level research. The process uses an in-house database that captures market consensus earnings and balance sheet forecasts (as provided by Thomson Reuters), and is used to generate valuation and earnings-growth metrics over a forward-looking, three-year period. A recent enhancement is an "earnings strength" filter which assesses three-year historical and five-year forecast financial strength.

In addition, new investment ideas are sought through discussions with company management, market/industry contacts, brokers, and from general reading. Where the process generates an investment idea, the task of assessing the idea is allocated to an investment team analyst, with the output discussed by team members on a weekly basis. An analyst is typically allocated four investment ideas per month. Stage one generates an investment universe of around 200 stocks.

The second stage is a qualitative screen based on a fundamental research process which reduces the investable universe to 40 to 60 stocks. The process includes an assessment of the competitive strength of the business (Porter-style analysis), balance-sheet strength (a risk minimisation measure), and earnings-growth forecasts. The process also incorporates an environmental, social, and governance (ESG) review.

There is a focus on modelling the company's earnings, cash flow, and balance sheet to derive a target valuation and determine whether market consensus expectations for earnings are likely to be met. Many of the financial models are sourced from selected external equities analysts, rather than being built and maintained by the manager.

The process typically involves meetings or teleconferences with the senior management of the relevant company.

The output is a stock report which is presented to the investment team weekly and the monthly investment committee meeting, where it is subject to peer review. A template is used to initiate a coverage report which details, among other things, a SWOT and Porter-style analysis, earnings growth and risks, valuation metrics, and market forecasts versus the manager's assessment of earnings.

Stage three is stock selection and portfolio construction. The stock report is presented to the investment committee. The entire analytical

team participates in the investment committee, but stock-selection decisions are made by Mr. Nicol and Mr. Bender.

From a valuation perspective, if a stock offers potential upside of more than 15%, it is considered for inclusion in the portfolio.

➔ Portfolio Construction

Portfolio construction and weighting is partly based on a ranking process. Each analyst ranks their preferred stocks within their sectors including target prices. High target returns are subject to peer review and formal review at the monthly investment committee meeting. High potential target return stocks are then reviewed in the context of addition to the current portfolio during the portfolio-construction process.

As part of the selection process, the particular stock's potential contribution to portfolio risk is considered as well as the effect of portfolio positioning relative to the market. Sell decisions may be based on one of four scenarios: the stock reaching fair value, the investment thesis no longer applies, a better alternative investment is available, or the stock position is being trimmed when it becomes overweight.

The monthly investment committee meeting reviews the investment decisions taken during the month and the performance of the portfolio, and endeavours to keep the focus on the sell discipline.

➔ Risk Management

Assessment of business quality is an integral part of the manager's overall approach to risk management, as is the exclusion of riskier stocks and sectors. The final portfolio is concentrated, holding 15–30 stocks (23 currently). Single stock weights are subject to varying limits, as detailed in the portfolio Risk Constraints table. The manager is broadly index-unaware and, as such, there are no sector constraints. At the date of this report, the portfolio was heavily concentrated in the financial resources and materials sectors, which represented 60% of the investment portfolio.

Primary risk tool used is GSJBW Risk Model (Conehead). Key factors reviewed by Conehead include contributions to risk, fundamentals of the portfolio relative to the market, sector weightings, and beta and tracking error of the portfolio. Contribution to risk (weighted standard deviation) is the main focus. Conehead output forms part of papers for every investment committee meeting and any potential portfolio moves are run through it before execution.

Risk Constraints

Typical number of stocks	15–30
Active stock limits (%)	+/-10% of portfolio
Active sector limits (%)	N/A
Maximum cash holding (%)	5
Targeted tracking error (%)	4-6
Active country limits (%)	N/A
Average portfolio turnover (3yrs) (%)	20–30

Performance

Since its establishment in 2002, the model portfolio has outperformed its benchmark by 3.7% (gross) to March 31, 2011. On a rolling annualised basis, the model portfolio has consistently outperformed the benchmark on a gross performance basis, and done so during both rising and falling markets. Notably the portfolio achieved 6.2% out-performance

over a 3 year rolling period as at 31 March 2011 surpassing its objective of 4% out-performance.

Historically, volatility is marginally below the benchmark index (annualised standard deviation of 13.3% compared to 13.4%) and the model portfolio has recorded an expected tracking error of 4.1%, which is broadly consistent with the guidelines of the model portfolio, but it has reached as high as 8%.

Portfolio Review

In April 2011, the manager was overweight in consumer discretionary, industrials, and financials with its largest underweights in energy and materials. Positioning does not tend to change quickly, and turnover remains low at around 30%.

SMA Suitability

Dalton Nicol Reid is an established participant in the Australian SMA sector. As a managed account specialist, the manager is well aware of the specific risks of an SMA model portfolio and manages its portfolios and undertakes certain processes to mitigate these risks.

As a consequence, S&P believes the SMA-specific risks inherent to the portfolio are low in absolute terms.

Moderately low turnover, a concentrated portfolio, relatively large average trade size, and a long-term buy-and-hold investment style mitigate relative underperformance and portfolio-variation risks inherent in the portfolio. Additionally, strong processes in communication, management, and monitoring of its model portfolios further reduces the risks of portfolio variation and unintended trading as well as ensuring the SMA investors are treated equitably with the manager's directly managed mandates.

The Dalton Nicol Reid model portfolio is currently available on three SMA platforms, as detailed below, and to date represents one of the more successful offerings on the AMP platform. In our view, this may be partly attributable to the manager's active promotion of both its product and SMAs in general. The investment strategy is also available to institutions in a mandate structure.

To our knowledge, all three platforms use a basis points brokerage structure rather than a fixed-cost minimum structure. This greatly mitigates the risk that retail investors will incur brokerage costs materially higher than the manager's directly managed mandate (or what they might incur through a unit trust version of the product).

To date, variation in performance (relative to the manager's model portfolio) has generally not exceeded 30 basis points per month on the AMP Personalised Portfolio, which represents the large part of the manager's retail SMA FUM. Importantly, variations were positive and negative, rather than predominantly to the negative, for example. Historically, performance variations tended to be larger when its model portfolio first commences trading on a particular platform. However, the manager was proactive in determining the cause of differentials and, ensuring trades are executed in line with its instructions. This process has involved working with the platform providers.

SMA Platform Availability

SMA Platform	FUM (A\$ mil.)
AMP Personalised Portfolio	41.2
HUB24	1.0
OneVue Managed Account	2.4

➤ Transaction Slippage

For an SMA investment vehicle, the primary specific risk relates to transaction slippage risks. By this, we mean the risk of high relative brokerage costs, generating underperformance risk where the SMA mirrors a unit trust, and the risk that the investment manager's investment decisions are not executed in a timely manner, generating tracking error (TE) risk.

The suitability of a portfolio to the SMA template is broadly a function of portfolio turnover, portfolio concentration, average trade size, market capitalisation and liquidity and, where applicable, the manner in which fund flows into a unit trust version are implemented in the model portfolio.

S&P views the risk as relatively low as the SMA model portfolio is based on a buy-and-hold, low turnover, tax-efficient investment strategy. Portfolio turnover is historically low, at around 30% per year, and is expected to remain so based on the long-term, buy-and-hold investment style of the manager.

Additionally, the manager is very much aware of the perception that stock turnover may be viewed as reflecting a lack of long-term stock conviction.

Average trade size is relatively large, as trades are typically done in size, rather than in a step-change fashion. For example, the manager will not enter into trades smaller than 0.5% of total FUM.

Where a trade represents a relatively small percentage of the portfolio, Dalton Nicol Reid may exercise its discretion not to convey the trade so as not to create excess trading or potentially trigger the minimum trade threshold. However, the instances in which this has occurred are few due to the general turnover and trade size attributes noted above.

Portfolio concentration introduces similar risks as turnover. The less concentrated a portfolio, the greater the potential for stock-specific trades and the lower the average trade size. Additionally, due to portfolio transparency, "early adopter" SMA investors appear to have a preference for fewer but larger, better-known stocks. The model portfolio is concentrated, with 15–30 stock holdings.

Market capitalisation and liquidity is generally relevant in two respects. For those managers of unit trusts that delay trading instructions to the SMA platform provider (the majority), so as not to compete on the same stock liquidity, it at least permits relatively rapid execution in the unit trust. Consequently, the delay between the implementation in the unit trust and conveying the information to the platform provider may be relatively short. Market capitalisation typically corresponds to whether a company is well known or not, and as noted above regarding portfolio transparency, "early adopter" SMA investors have a preference for larger, well-known companies where investors' general understanding and comfort may be higher.

The Dalton Nicol Reid model portfolio generally comprises large- to mid-size market capitalisation stocks, with relatively high liquidity. Furthermore, the manager will typically move into or out of a stock over a relatively short period of several days.

Where a model portfolio is based on an existing managed fund, fund flows into or out of the managed fund create turnover risks in the model portfolio. A fund manager applies fund flows by either transacting in particular securities (thereby changing portfolio weights) or transacting in an entire slice of the portfolio (portfolio weights are unchanged).

Where the manager undertakes the former, every stock within the model portfolio must be traded to realign with the weights of the manager's model. In doing so, the issues of excess brokerage,

minimum trade value thresholds, and high degree of trading come into play again.

The issue of fund flows into a unit trust version is not a risk in the case of the Dalton Nicol Reid model portfolio as it is run solely as an SMA model portfolio.

➤ SMA Management Processes

S&P believes there are three important processes from the investment manager side that may affect SMA-specific performance risks. The first is the frequency and timeliness of communicating trading and portfolio composition details to the SMA platform provider. The second is monitoring model portfolio performance on each particular platform and identifying, understanding, and reconciling any material performance differences between either a unit trust version (where applicable) or a theoretical model portfolio maintained by the manager. Finally, we believe an investment manager should undertake a degree of due diligence on a SMA platform before providing its model portfolio.

Dalton Nicol Reid's processes are solid in relation to its timeliness of conveying trading information to the SMA platforms. Invariably trading updates are conveyed next day to the platforms relative to the execution of its trades in its directly managed mandates. Trading communication is at the same time for all platforms and prior to the daily cut-off times.

The rationale for next-day communication (as opposed to same-day) is sound enough; it prevents competing trades in the market at the same time.

As noted above, each of the three SMA platforms receives the same portfolio at the same time to ensure consistency across the models and so that no platforms are being disadvantaged. When the low turnover and infrequency of trading is considered, the risk of anything close to a material variation in portfolio composition or performance relative to the directly managed mandates is likely to be very limited.

In relation to performance monitoring, Dalton Nicol Reid maintains a reliable theoretical model portfolio. Dalton Nicol Reid then requests the execution prices of all trades placed and reviews differences between its execution and that of the platform. This provides the basis of its reconciliation process.

On a monthly basis Dalton Nicol Reid receives the performance data from each of the platforms and reconciles this with its shadow portfolio. Material monthly performance variations, defined as around +/-0.25% over a rolling six-month basis, are investigated. To date, variations are relatively low (with the exception of one platform) and where they have existed, it is largely attributable to the difference in the treatment of dividends and corporate actions.

Dalton Nicol Reid has allocated resources who are responsible for reconciling SMA platform performance with the theoretical model portfolio and minimising any performance differences. These processes are formalised. Where issues have arisen with platform providers, Dalton Nicol Reid is particularly proactive in working with the provider to understand and address the issues.

It is encouraging to see that Dalton Nicol Reid provides its hypothetical model portfolio performance to the SMA platforms and provides commentary around this performance. This information provides transparency to investors regarding these SMA-specific risks.

Due diligence checks on platforms are adequate and the manager has chosen not to proceed with an establishment of a platform due to a number of concerns.

Management Group Profile

Dalton Nicol Reid was established in 2001 as a specialist, active portfolio manager of managed accounts, both SMAs and IMAs (individually managed accounts). The manager provides its services to both institutional and individual clients, and has firmly established itself in the managed accounts industry as one of the largest independent providers in Australia.

In 2007, directors Mr. Dalton and Mr. Nicol gained 100% ownership through an equity buyout.

The manager currently provides six investment strategies, three of which are balanced investment strategies, and the four SMA model portfolios. The balanced strategies are largely passively managed; therefore, they do not consume significant analytical resources.

➤ Funds Under Management

As of March 31, 2011, the manager had a total of A\$456 million in FUM, with A\$250 million in this SMA model portfolio strategy.

Funds Under Management (March 31, 2011)

Current fund/pool size (A\$ mil.)	456
Total FUM in strategy (A\$ mil.)	250
Estimated capacity for strategy	2.2 billion
Total FUM across all asset classes (A\$ mil.)	45
Net strategy flows over past 12 months	N/A

*Source: Dalton Nicol Reid.

Fund Rating Philosophy

A star rating is a forward looking assessment of a manager's ability to consistently generate superior risk-adjusted fund returns, net of fees, relative to relevant investment objectives and peers.

Fund Rating Process

In assigning a star rating to an SMA model portfolio, 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 SMA's objective, fee structure, portfolio characteristics, trade execution, trade execution structures and suitability for an SMA; and the manager's business management.

Fund Rating Definitions



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.



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.



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.



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.



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.



Issues that may affect the fund's management have emerged; and the fund rating is temporarily suspended, pending clarification.



Significant issues exist that potentially will adversely affect the fund's performance. Investors should consider obtaining advice or switching or redeeming funds.



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 should achieve before a performance fee can be charged.
Performance Fees	A fee payable above the ICR that rewards the fund's investment manager for performance in excess of the hurdle rate.
ICR—Indirect Cost Ratio	This is the ratio of indirect costs to the total investment in a particular fund expressed as a percentage. It includes the MER, expense recoveries, 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.



Dalton Nicol Reid Australian Equity High Conviction Portfolio

STANDARD
& POOR'S

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