Dalton Nicol Reid MAx Virtus
Australian Equities High Conviction Ethical Growth Portfolio

[long-term capital growth through responsible investment]

1. Portfolio Overview

The aim of Virtus (Latin for 'goodness') is to provide investors with a responsible investment portfolio. This portfolio avoids investments in sin stocks, that is, those companies that are judged to have a direct involvement in pornography, gambling, armaments and tobacco.

The overriding investment strategy and approach follows that of the Dalton Nicol Reid Incrementus Portfolio, before integrating ethical, sustainable and responsible approaches to research and filter parameters.

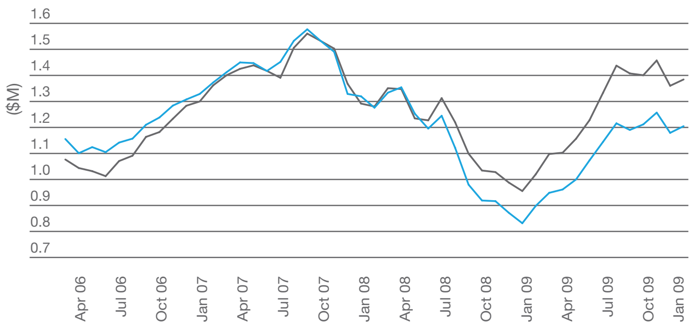
To assist with the research and filters, Dalton Nicol Reid consults with the Centre for Australian Ethical Research (CAER). CAER is an independent, not-for-profit research organisation that assists investors seeking to apply environmental, social and governance criteria to their Australian and international investments. Virtus is an RIAA[1] Certified Responsible Investment.

Who does Virtus suit?

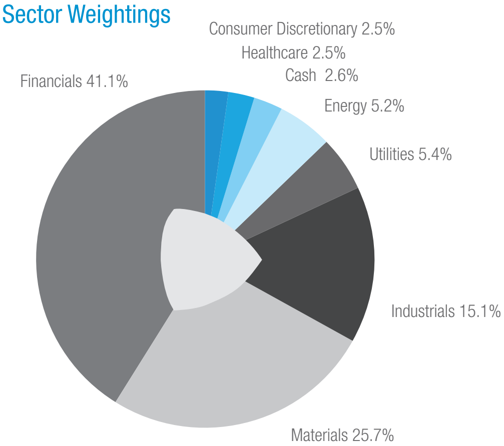
Virtus is suited to investors who want a competitive return but do not want their portfolio invested in companies that are judged to have a direct involvement in pornography, gambling, armaments and tobacco, or who want to ensure that their money is invested in companies that make a positive difference.

Portfolio profile	Long-term capital growth through responsible investment
Investment objective	To outperform the S&P/ASX 200 Accumulation Index with a responsible investment approach
Authorised investments	Cash, ASX listed securities (with a focus on the S&P/ASX 200), Initial Public Offerings (IPOs)
Number of investments	15 to 25
Asset allocation	Australian equities 80% to 98%; Cash 2% to 20%
Maximum exposure to any single investment	Generally 15%
Stock turnover per annum	Generally 25%

Value of $1M invested in Virtus Australian Equities Portfolio since Dec 2005 inception



Sector Weightings



Active Return as at February 2010

	6 mths	1yr	2yr	3yr	Since inception
— Virtus Portfolio*	3.9%	44.8%	3.5%	2.1%	7.9%
— ASX 200 Accumulation Index	5.3%	44.7%	-4.4%	-3.2%	4.4%
Active Return*	-1.4%	0.1%	8.0%	5.3%	3.5%

* net of Dalton Nicol Reid fees

Dalton Nicol Reid Portfolio Management

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

The Virtus portfolio slightly underperforming the ASX 200 Accumulation Index by 0.35% in February.

The Virtus portfolio has outperformed the benchmark by 3.5% since inception (Dec 2005).

The Virtus portfolio slightly underperformed due to no holding in Wesfarmers (Wesfarmers breaches our negative screens due to Gaming and Tobacco operations).

Seek (+9.6%), Westpac (+9.5%) and InvoCare (+9.1%) contributed positively to the portfolio performance while Infigen (-4.1%), QBE (-6.6%) and Macquarie Group (-9.8%) detracted from performance.

Top and Bottom Performers for the month

TOP 3	Seek Limited	9.6%
	Westpac Banking Corporation	9.5%
	InvoCare Limited	9.1%
BOTTOM 3	Infigen Energy	-4.1%
	QBE Insurance Group Limited	-6.6%
	Macquarie Group Limited	-9.8%

Active Weightings

Top 3 Overweight Stocks	RIO 5.4%
	WBC 5.2%
	QBE 4.1%
Top 3 Underweight Stocks	WOW -3.1%*
	WES -3.3%*
	CBA -7.7%*

* Not currently held in portfolio

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 Austar (ASX:AUN)

We have sold Austar. Key reasons include the following:

1. The competitive environment for Austar appears to be deteriorating. More 'free to air' channels are now available via digital TV and recent Government actions appear to be favouring the 'free to air' networks. In particular, the Government has recently provided a large rebate to 'free to air' television stations and also provided opportunities for those stations to increase the number of channels they offer. For example the ABC will soon introduce a 24 hour news channel and other stations will also increase their digital offering.

2. We anticipate this will result in a slower take up from new, incremental subscribers.

3. Note that we needed to weigh this up against the potential for consolidation within the sector. If Telstra were to sell their Foxtel stake then we would anticipate that Austar would be a likely target for Foxtel.

Dalton Nicol Reid Portfolio Management

Portfolio Changes (continued from previous page)

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.

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 Australian Infrastructure Fund (ASX:AIX)

The airport owner is benefiting from a strong rebound in travel which was evident in the Flight Centre and Macquarie Airports results. Passenger growth has been strong across all their core airport holdings. The stock offers a strong yield of 8% and is trading at a deep discount to the price implied by recent airport transactions.

Increased Amcor (ASX:AMC)

Amcor has recently completed the acquisition of the Alcan packaging business acquired from Rio Tinto. The acquisition is expected to be very accretive and improve industry dynamics substantially. Alcan packaging current earns a 4% profit margin compared to the 8% margin that Amcor earns in the same industry. A substantial opportunity exists for Amcor to improve the underlying operations of the acquired Alcan business.

Amcor is trading on approximately 11x 2011 expected earnings.

3. Stock Stories

HENDERSON GROUP PLC (ASX:HGG)

Henderson Group plc

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 MAx (Managed Account Xertus) portfolios

The Certification Symbol signifies that a product or service offers an investment style that takes into account environmental, social, ethical or governance considerations.

RESPONSIBLE INVESTMENT ®

CERTIFIED BY RIAA

The Symbol also signifies that Dalton Nicol Reid has adopted strict disclosure practices required under the Responsible Investment Certification Program for the category of Fund Manager. The Certification Symbol is a Registered Trade Mark of the Responsible Investment Association Australasia (RIAA). Detailed information about RIAA, the Symbol and Dalton Nicol Reid's methodology, performance and stock holdings can be found at www.responsibleinvestment.org, together with details about other responsible investment products certified by RIAA.[1]

[1] The Responsible Investment Certification Program does not constitute financial product advice. Neither the Certification Symbol nor RIAA recommends to any person that this financial product is a suitable investment or that returns are guaranteed.

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Portfolio Management

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