

AUSTRALIAN

RESEARCH



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For Advisers Only

Australian Managed Investments

Managed Investment

Note: This report is based on the FSP Australian Equities Leaders Fund, PDS, dated **20 February 2006**, and Supplementary PDS dated 1 August 2009 together with other information provided by FSP Equities Management as at January 2010.

FSP Australian Equities Leaders Fund

A diversified portfolio employing a style-neutral investment selection process



Offer Overview

Product Summary

The FSP Australian Equities Leaders Fund (the *Fund*) is an unlisted unit trust managed by FSP Equities Management (*FSP EM* or the *Manager*). The Fund aims to deliver positive absolute returns and outperform the S&P ASX200 Accumulation Index over a rolling 5- to 7-year period. To achieve this aim, the Fund is permitted to invest in Australian listed shares (primarily S&P/ASX 200 companies, with some flexibility to invest a portion of the Fund outside of the index); cash, up to 50% of total portfolio (with listed fixed-interest securities as a subsector of the cash holding); and selected IPOs. The Fund employs a multi-faceted investment-selection process involving detailed quantitative and qualitative filters with a stock-scoring system overlay, which includes the production of a detailed stock report and valuation. The Fund is benchmark unaware and style neutral. There are no entry or exit fees, nor is there a minimum investment term; however, there is a 0.50% buy/sell spread on applications and withdrawals, which is in line with industry averages.

Offer Details

Offer Period	Open ended
Maturity (years)	Open ended
Min. Investment	No Minimum
Liquidity	Daily ¹
Distributions	Semi-annually

1. Aims to pay redemptions within five working days.

Risk/Return Profile



Fees (paid to advisors), incl. GST, %

Upfront	None
Ongoing	None

Investment View

Investor Suitability

Aegis views an investment in the Fund as suitable for investors with a medium- to long-term investment horizon, who are seeking a professionally managed domestic fund targeting S&P/ASX 200 stocks with the flexibility to utilise the investment team's conviction to take non-index weightings and some small-cap positions. Investors in the Fund will be those primarily seeking capital growth with a minimal reliance on income returns. Due to the potentially contrarian nature of the Fund's positions, investors should be prepared to tolerate some periods of underperformance. Given the relative flexibility of the product, which can permit the manager to take conviction positions, investors are leveraging the stock-picking skill and experience of the funds' management team. Since inception (March 2006), the Fund has outperformed its benchmark by 1.0%. Since inception (April 2002), the Manager's longer-running wholesale portfolio, which the retail portfolio will generally mirror, has also outperformed the benchmark by 2.3% p.a. The Fund is structured as a unit trust, all tax benefits/obligations flow through to investors.

Recommendation

Aegis has assigned the FSP Australian Equities Leaders Fund with an **Investment Grade** rating.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

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SWOT Summary

Strengths

- Sound portfolio-selection process: The investments undergo both quantitative and qualitative screens before being subject to a peer-review process. The investment philosophy is conducive to delivering investors with relatively consistent returns in the medium to long term, despite potential short-term volatility.
- There is a strong alignment of Manager and investor interests. The Chief Investment Officer has invested in the Fund, while the Manager is entitled to a performance fee if it can outperform the benchmark index.
- The Fund is allowed to maintain up to 50% in cash (including listed interest-rate securities) and as such can avoid having to invest in overvalued stocks during periods of market exuberance.

Weaknesses

- The bulk of the Fund's investment team experience is carried by two key individuals, the CIO and the Senior Analyst. With the CIO commanding a large weighting in the stock-selection decision-making process, we view the level of key-person risk as high.
- Portfolio rules limit the portfolio's holding in any single stock to 10% of the portfolio value. However, this rule does not apply to stocks representing more than 7.5% of the index (i.e. BHP). As such the holdings in these companies are limited to twice the market weighting or 20% (whichever is lower). This presents a risk of the portfolio directing a significant amount of capital to a single stock.

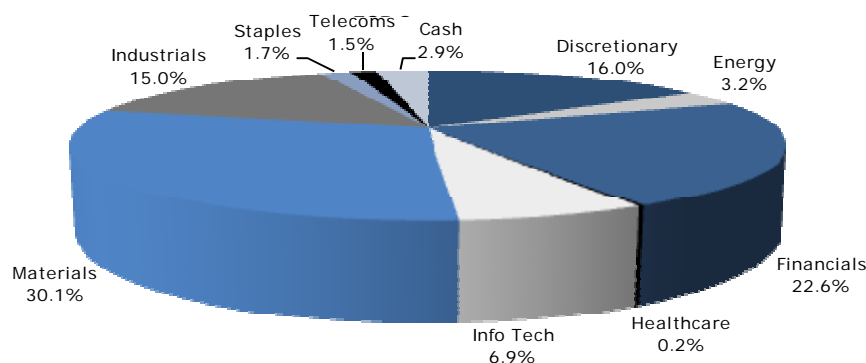
Opportunities

- The index-unaware nature of the Fund permits the portfolio to maintain no exposure to sectors which are believed to be overvalued or generally at risk of a significant deterioration in fundamentals.

Threats

- The Manager often takes sector views, potentially opting to stand out of certain sectors and consciously being overweight in others. This may result in periods of relative underperformance, for example, if a high cash allocation is taken ahead of a market upswing. However, the reverse also applies.
- Redemptions may be frozen in the event the Fund receives a large number of redemption requests, limiting an investor's ability to exit the Fund. We note that no major redemptions have occurred at the time of writing of this report. Also at the time of writing, net inflows to the Fund remain positive.

Portfolio Diversification by Sector (as at 31 January 2010)



Product Fees (paid by investors)

	Product	Sector Avg.
Base Fees, % of Assets		
Upfront	0.0	2.5
Ongoing ¹	1.33	1.71
Exit	0.0	0.7
Buy/Sell Spread ²	0.5	0.5

1. This is the current fee. This fee, as well as the buy/sell spread, can be raised from current levels. Prior to any alteration of the fees, investors would be given one month's notice.

2. There are no up-front or exit fees. There is a 0.5% buy/sell spread levied when entering and exiting the Fund.

Total Fees, % of Expected Total Return*

	Product	Sector Avg.
Upfront	0.0	4.0
Ongoing	13.3	17.1
Exit	0.0	1.8
Total	13.3	22.9

* Based on an average return of 10% p.a. over a 5-year term

Performance Fees

A performance fee can be charged at the rate of 20% of the Fund's outperformance of the S&P/ASX200 Accumulation Index, conditional upon returns being positive. We view the benchmark index as an appropriate yardstick by which to measure the Fund's performance. The fee is paid on a semi-annual basis. No high watermark applies.

Indirect Fees / Product Costs

Nil.

Fee Commentary

The fee structure of the Fund could be considered generally in line with the sector averages. Investors are subject to a 0.5% buy/sell spread and ongoing fees of 1.33%, which is not considered excessive for a fund this size. Given the Fund must return a positive result in absolute terms, as well as outperform the benchmark to achieve the performance fee, we view the performance fee (20% of the Fund's outperformance of the stated benchmark) as acceptable.

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2. Structure

Product Overview

The FSP Australian Equities Leaders Fund is an unlisted unit trust. The Responsible Entity (RE) for the Fund is FSP Funds Management (FSPFM), which has appointed boutique funds manager FSPEM as investment manager. As at 31 January 2010, FSPEM had about \$56M in the retail fund and around \$131M in total funds under management.

The Fund's investment universe includes Australian listed shares, cash, fixed-interest securities and IPOs. The Manager employs a multi-faceted investment-selection process consisting of both quantitative and qualitative screens, culminating in the compilation of a detailed report and valuation of each individual investment candidate. The Manager is style neutral and benchmark unaware, seeking to compile a portfolio of mispriced stocks rather than maintaining market weight positions. The Fund typically aims to hold investments for a two- to three-year time horizon, limiting portfolio churn. The portfolio will typically consist of 30-70 individual stocks with a maximum 10% allocation to any one stock (with the exception of any stock commanding an index weighting of more than 10%). Distributions are to be paid semi-annually. White Outsourcing has been retained to monitor the portfolio's positions daily in order to ensure that the Fund operates within its stated portfolio rules.

There are no entry or exit fees; however, a 0.50% buy/sell spread is charged upon entry and exit of the Fund. An annual Indirect Cost Ratio (ICR) of 1.3325% is levied against the total asset value of the Fund (essentially a management and cost-recovery fee). An outperformance fee will also be charged at the rate of 20% of the Fund's outperformance of the benchmark index, conditional upon returns being positive. The Fund typically pays redemptions within five business days of receipt of a written request; however, redemptions can be suspended under certain conditions.

The Fund is permitted to use derivatives to hedge risk. Derivatives may not be used to lever the Fund or to create net short positions.

Key Exposure

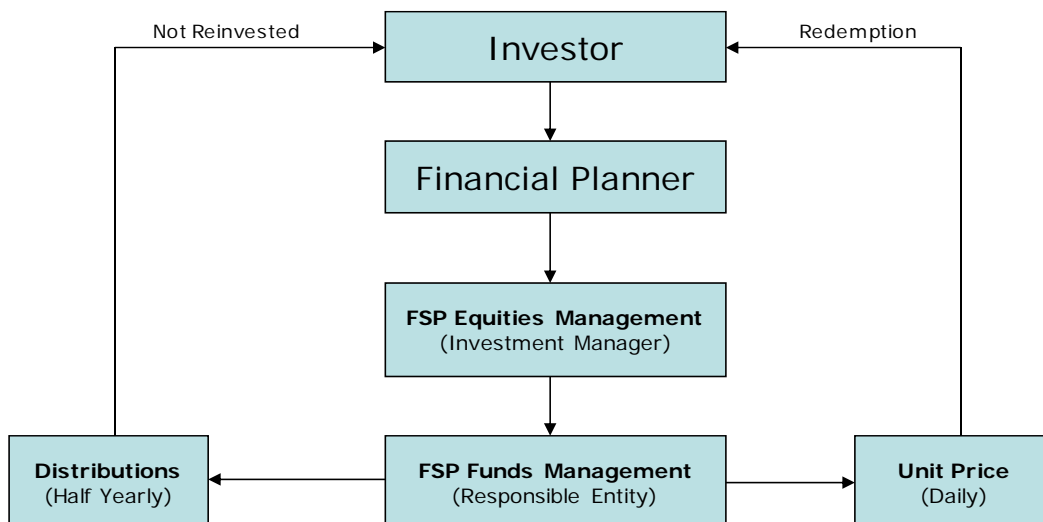
Underlying Exposure:	The Fund's portfolio composition can vary within the following ranges: <ul style="list-style-type: none"> ■ 50%-100% Australian Equities ■ 0%-50% Cash ■ 0%-10% Fixed Interest (to be included in the cash holdings) ■ 0%-10% IPOs
FX Exposure:	No direct exposure

Exit Details

Exit Facility:	Redemptions are available daily and are generally paid within five working days. The redemption price per unit is calculated as the Fund's NAV divided by the total number of units in the Fund, adjusted for the 0.5% buy/sell spread.
Holder Early Redemption:	N/A
Issuer Early Redemption:	If an early-termination event occurs, the Issuer will give 30 days' notice to investors. Units will be redeemed at the fair economic value of the units minus any costs associated with the termination of the investment, including break costs and administrative costs.

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Investment Structure



Product Leverage

Used: None

Capital Protection

Method: None

Tax

Disclaimer: Tax consequences depend on individual circumstances. Investors must seek their own taxation advice. The following comments show Aegis' expectation of tax for ordinary Australian taxpayers, but cannot be considered tax advice.

Capital gains: Capital gains tax (CGT) is likely to apply upon sale of units in the Fund. Investors will likely be eligible for the 50% CGT discount upon sale of units, if held for more than 12 months.

Distributions: All income and realised capital gains will need to be included in the assessable income of investors.

Foreign Income Fund (FIF): No

Legal Structure

Wrapper: Unlisted Unit Trust

Custodian: Australia and New Zealand Banking Group Limited

Responsible Entity: FSP Funds Management Limited

Offer Document: The PDS, dated 20 February 2006, and Supplementary PDS dated 1 August 2009.

Returns

Capital vs. Income: Returns are expected to be primarily derived from capital growth. The level of capital returns will be dependent upon the performance of the underlying stocks in the portfolio. Income distributions from the Fund will be dependent upon the level of dividend income generated by the underlying portfolio.

Income Frequency: Semi-annually

Foreign Currency Risk: No direct exposure

Investor Leverage

Available: None

Recourse: n/a

Risks For additional risks please refer to the *Risks* section on page 11 of the PDS.

Investment Manager Risk: The Fund's returns are dependent upon the Manager's investment decisions. Poor decisions made by the FSP investment team will negatively impact the Fund's performance.

Market Risk: The Australian market can fall as a result of economic, technological, political, regulatory factors as well as a number of other events, negatively impacting returns to investors in the Fund.

Portfolio Risk: The portfolio does not attempt to replicate an index nor does it attempt to maintain sector weightings. The ability of the portfolio to take large positions in cash may result in the portfolio weightings deviating significantly from market-weight positions.

Redemption Risk: The Fund may freeze redemptions to investors if it is unable to satisfy the level of requests.

Key Person Risk: The Fund is managed by a boutique investment firm, which relies on the knowledge and experience of its Chief Investment Officer in the research and stock-selection process. Therefore the Fund may be adversely affected by the departure of this individual.

Derivative Risk: The Manager may employ the use of derivatives in managing the portfolio. Risks associated with such a strategy may include but may not be limited to deterioration in the value of the derivatives or failure of the derivative to move in line with the underlying asset. Investors should note that the Manager does not intend to employ the use of derivatives.

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3. Management & Corporate Governance

Board of Directors

The Board of FSP Equities Management (the Manager) consists of Dr Frank Wolf, Mr Robert Swil and Mr Ronni Chalmers. Mr Chalmers holds a minority interest in FSPEM and is also the Chief Investment Officer of the boutique funds' management firm. The majority stake in FSPEM is held by FSP Group, which is wholly owned by ING Australia which was recently acquired by the ANZ Banking Group. FSP Group also owns FSPFM (the responsible entity for the fund). Dr Wolf is the Chairman of the FSP Group. He co-founded Abacus Property Group in 1996, serving as Executive Deputy Chairman of the company since listing in November 2002, before assuming the role of Managing Director in October 2006. Dr Wolf has over 20 years' experience in the property and financial services sector across several countries. Mr Swil is a Director and CEO of FSPEM and is also responsible for Corporate Governance and Finance for the FSP Group. He has previously held senior positions across several financial institutions, including: Group Strategy Manager at National Mutual Life, Managing Director of Australian Casualty and Life and Managing Director of FAI Life Limited (prior to its acquisition by Tower Australia Ltd). Mr Swil is currently a Director of Hannover Life Re of Australasia.

Investment Team

Ronni Chalmers (Chief Investment Officer)

Mr Chalmers leads the investment team and has been working in the funds' management industry for the past 29 years. In 1980, he commenced his career in the investment management division of Bankers Trust, where he remained until 1990 as an Associate Director of the funds' management department. Over the following 10-year period Mr Chalmers managed funds on behalf of several Australian and international financial institutions. He holds a Bachelor of Commerce in Accounting and Finance as well as a F FIN.

Robert Gregory (Senior Equities Analyst)

Mr Gregory graduated with an honours degree in Commerce, majoring in Economics and Finance. He also holds a graduate Diploma of Applied Finance and Investment from FINSIA and has completed levels I and II of the CFA program. He has broad experience across several financial sectors, having started in the Colonial graduate program before commencing a role as an analyst for US-based consultancy Stern Stewart. In 2003, Mr Gregory joined Linwar Securities as a small-cap analyst before moving to Aegis Equities Research, where he worked for two and a half years as an industrial company analyst. He then joined FSP as a senior analyst in May 2007.

Vincent Cook (Equities Analyst)

Mr Cook holds a Bachelor of Laws and a Bachelor of Arts double degree from the University of Auckland. He is currently completing a Graduate Diploma of Applied Finance and Investment from FINSIA/Kaplan. Mr Cook joined FSP in 2005 and has been working closely with Mr Chalmers, gaining knowledge and experience across listed investment markets.

Jake Bowmer (Equities Analyst)

Mr Bowmer holds a Bachelor of Commerce, having majored in Finance and Economics, and is currently a candidate in the CFA program. He joined FSP in April 2008, prior to which Mr Bowmer worked as a risk analyst at Deloitte Touche Tohmatsu, specialising in the financial services industry.

Alignment of Interest

Aegis has been informed that the key member of the investment team, CIO Ronni Chalmers, has a significant investment in FSPEM's funds and as such is directly affected by the performance of the funds for which he is responsible. FSPEM's income will generally be delivered via the management fee (ICR); however, FSP's earnings can be enhanced by successfully outperforming its benchmarks and hurdles to trigger the payment of a performance fee. We therefore consider the interests of investors and management to be closely aligned.

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4. Investment Process

Investment Philosophy / Objective

The objective of the Fund is to create an investment vehicle that offers investors a return above that of the S&P/ASX 200 Accumulation Index over a rolling five- to seven-year time horizon. The Fund also aims to deliver positive absolute returns rather than aiming only to outperform the benchmark index. Whilst the Fund will consist primarily of S&P/ASX 200 companies, it has the scope to invest a portion of its capital outside of the index, allowing investors to gain the benefit of the stock selection talents of the investment team. The Manager is benchmark unaware, allowing the portfolio to capture the best investment ideas of the investment team without the constraint of maintaining certain index weightings. Given the Fund is long only and index unaware, it has the ability to take large cash positions during times of market weakness, permitting the protection of investor capital. The fixed-interest component of the cash allocation is typically held in interest bearing bank deposits, however the manager has previously held cash in highly rated, ASX-listed corporate debt instruments and hybrids.

Typically the portfolio will hold 30-70 stocks that the investment team believes have been mispriced by the market. The stock-selection process (which is discussed in greater detail below) involves the use of both quantitative and qualitative filters, culminating in the creation of a detailed stock report and valuation. This process ensures the Fund does not favour a value or growth biased funds' management style. The portfolio typically contains a mix of stocks with different value drivers, which achieves a more style-neutral outcome. The Manager believes risk is mitigated by a rigorous stock-selection process and careful monitoring of positions rather than through the replication of index weightings. The Fund is expected to generate the bulk of its returns via capital appreciation rather than through dividend income. The Fund typically holds its positions for a two- to three-year timeframe and, as such, portfolio turnover is limited.

Investment Process

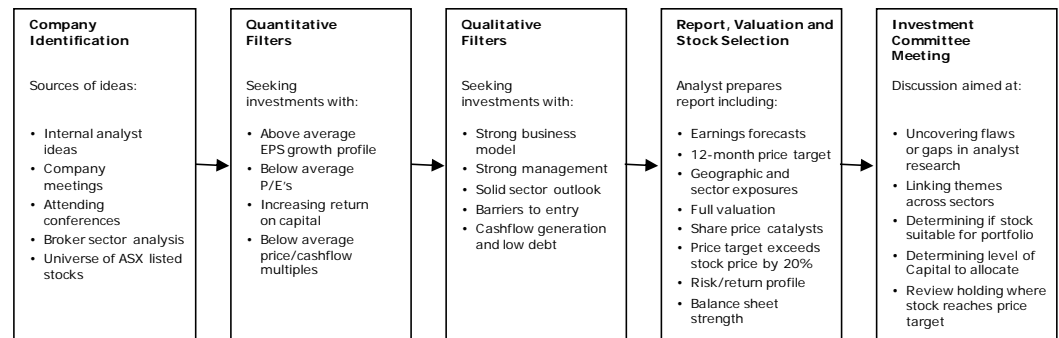
The investment management team seeks to identify stocks with an above-average EPS growth profile, below-average P/E multiples, below-average price to cashflow multiple and an increasing return on capital. In order to achieve this, the investment team maintains a database, which includes internally generated research reports on most S&P/ASX 200 companies, as well as conducting analysis on selected companies outside of the index to locate small-cap investment opportunities.

The investment process involves the following steps:

1. A quantitative filtering process eliminates stocks that do not fit with the Manager's investment philosophy and objectives. As such, companies possessing certain characteristics such as above-average P/E ratios, low interest cover ratios, high gearing levels and below-average earnings growth profiles are filtered out at this point.
2. A qualitative screen is then applied to the remaining investment targets in order to determine whether the stock is being undervalued by the market or justifiably sold down. The qualitative assessment focuses primarily on management quality, market position, barriers to entry and the prospects of the sector in which the company operates. This is established through meetings with management and the management of the investment target's key competitors, the collection of sector-specific publications and sector-specialist research, as well as communication with the investment team's network of industry contacts.
3. Upon completion of both the quantitative and qualitative screening processes, a detailed research report is drafted. This report encompasses the earnings forecasts prepared by the analyst, an analysis of the key issues that will drive the stock's performance, including revenue and profit margin assumptions, free cashflow generation, balance sheet strength, competitive position, management quality. An earnings sensitivity analysis, assessment of key catalysts (both positive and negative), full valuation and analyst opinion are also included as part of each stock-specific report.

4. Following the completion of the detailed analysis, the investment case for the target company is subject to discussion and debate by the entire investment team. The robust debate is designed to uncover any flaws in the analyst's investment case for the stock and to aid in determining how much capital to allocate to the investment should it be included in the portfolio. Whilst all members on the investment committee have input as to whether the stock should be added to the portfolio, the Senior Analyst and CIO carry the most weight (and in essence the final word) in the stock-allocation and decision-making process. All stocks, whether or not they are admitted to the portfolio, remain on the Manager's watch list for ongoing monitoring.

Figure 1. Investment Selection Process



Source: FSP/Aegis Equities Research

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Methodology

We consider the methodology employed by the Fund for stock selection to be theoretically sound. The quantitative stock-selection criteria are likely to result in the Fund's portfolio comprising a mix of stocks trading below their intrinsic value (typically found in a value-biased portfolio) as well as stocks with above-average earnings growth prospects (as typically found in a growth-biased portfolio). The screening process should ensure the Fund is underweight (or entirely out of) highly geared companies. This should result in a generally conservative portfolio, which may possess a contrarian view. The qualitative screens should serve to filter out the companies that are flagged as undervalued by the quantitative filters but have been sold down by the market due to flawed business models, questionable management quality or structural concerns within the sector, among other things. Robust debate amongst the investment team regarding final stock selection should serve to uncover any further potential risks or rewards not reflected in the standard screens or analyst report.

Once a stock has entered the portfolio it is continuously monitored against the analyst's original expectations of performance and against the expected milestones and catalysts outlined at the time of inclusion. Stocks are generally held for two to three years; however, a high level of short-term outperformance may see weightings reduced, while short-term underperformance will also trigger a review and may see the stock discarded from the portfolio. There are specific triggers which will result in an automatic review of an investment. These include: 1) the stock reaching its expected price target; 2) a shift in the fundamentals of the either the company or the sector in which it operates; 3) a poor acquisition or allocation of capital not viewed as being in shareholders' best interests; or 4) a 20% decline in the share price versus purchase price.

In the event a review is triggered, the analyst is required to review the stock, including writing a new stock report and valuation. The investment committee will then discuss the report with particular emphasis on the potential concerns surrounding the company. Investors should note that, if the investment committee determines that value is present and the investment case for the company remains sound, a falling share price will not automatically result in a stock being discarded from the portfolio.

The portfolio is currently fully invested with cash representing 2.9% of the fund. The fund is overweight Industrials, Consumer Discretionary, Information Technology and Materials and underweight Financials, Telcos, Healthcare, Energy and Consumer Staples, while continuing to maintain no exposure to Infrastructure, Utilities and Property Trust sectors (as outlined in Figure 2). The top ten equity holdings of the portfolio are shown in Figure 3.

Figure 2. Sector Weightings as at 31 January 2010

	Fund Weight	Index Weight	Fund V Index
Cash	2.9%	0.0%	2.9%
Discretionary	16.0%	3.9%	12.1%
Energy	3.2%	7.0%	-3.7%
Financials	22.6%	40.4%	-17.8%
Healthcare	0.2%	3.4%	-3.2%
Info Tech	6.9%	0.7%	6.2%
Materials	30.1%	24.7%	5.3%
Industrials	15.0%	6.5%	8.4%
Staples	1.7%	8.3%	-6.6%
Telecoms	1.5%	3.9%	-2.5%
Utilities	0.0%	1.3%	-1.3%

Source: FSP and IRESS

Figure 3. Top Ten Holdings as at 31 January 2010

Company	Portfolio Weighting	Market Weighting
BHP Billiton	10.1%	12.5%
Westpac	8.6%	6.7%
Commonwealth Bank of Australia	7.9%	7.7%
Flight Centre	4.6%	0.1%
SMS Consulting	4.2%	0.0%*
JB Hifi	3.7%	0.2%
NRW Holdings	2.6%	N/A
Hastie Group	2.6%	0.0%*
Mineral Resources	2.5%	N/A
Cash	2.9%	0.0%
OneSteel	2.4%	0.4%

* rounded down

Source: FSP

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5. Performance Analytics

Since inception in March 2006 (to 31 January 2010), the FSP Australian Equities Leaders Fund (retail) has outperformed the S&P/ASX 200 Accumulation Index by 1.0% p.a. The performance reflects the Manager's strategy in generating above-benchmark performance over a typical investment cycle of two to three years. The Fund is targeting above-benchmark returns over a five- to seven-year time horizon and therefore we believe that the longer dated performance of the fund is a better gauge of the performance.

Of the almost four years since the Retail Fund's inception (to 31 January 2010), it has outperformed the benchmark index in three of those years. The recent outperformance reflects the Fund's overweight position in Industrials, Discretionary, Information Technology and Materials sectors, which have been the best performing sectors in the S&P/ASX 200 over the past six and twelve months. The Fund has generated a return since inception in excess of its benchmark with volatility only marginally above that of the S&P/ASX 200. The Fund also had 49% of its portfolio invested ten stocks. Therefore the performance of the Fund is a result of the stock picking performance of the manager.

The manager maintains that its ability to select stocks utilising its investment process, outlined in Figure 1, provides a platform for outperformance of the S&P/ASX 200 with volatility which is not significantly greater than the index.

Figure 4. Historical Performance (as at 31 January 2010)

Return (% pa)	FSP Retail Fund	ASX200 Accumulation Index
6 months	15.5	9.8
1 year	40.3	35.2
2 years	-8.1	-5.7
3 years	-4.4	-3.4
Since inception	2.7	1.7

Source: FSP

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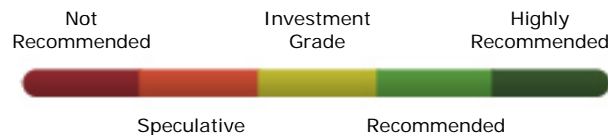
Appendix – Ratings Process

Aegis has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors.

Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

The Ratings

Our rating is based on the following scale:



Highly Recommended: indicates that Aegis believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and scored exceptionally in a number of categories. It has an attractive risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors.

Recommended: indicates that Aegis believes this is an above average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above average risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors.

Investment Grade: indicates that Aegis believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation parameters. The product may provide unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors. In the previous five category rating system, this category was termed 'Approved'.

Speculative: indicates that Aegis believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Aegis does not rule out investing in this product, investors should be very aware of, and be comfortable with, the specific risks. The product may provide unique diversification opportunities; however, concerns over one or more features means that it may not be suitable for most investors.

Not Recommended: indicates that Aegis believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. However, this does not mean that the product is without merit.

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Aegis Equities Research

Peter Leodaritsis
Managing Director
Phone: 61 2 8296 1100
peter.leodaritsis@aegis.com.au

Mamun Rashid
Chief Operating Officer & General Counsel
Phone: 61 2 8296 1160
mamun.rashid@aegis.com.au

RESEARCH

John Kessell
Head of Investment Research
Phone: 61 2 8296 1152
john.kessell@aegis.com.au

Sharon Loaiza
Research Manager
Phone: 61 2 8296 1131
sharon.loaiza@aegis.com.au

SALES

Craig Northey
Head of Sales
Phone: 61 2 8296 1114
craig.northey@aegis.com.au

Nigel O'Brien
Business Development Manager
Phone: 61 2 8296 1166
nigel.obrien@aegis.com.au

CLIENT SERVICES

Mandy Depangher
Manager Client Services,
Research and Model Portfolios
Phone: 61 2 8296 1159
mandy.depangher@aegis.com.au

INFORMATION TECHNOLOGY

Evan Ferris
Chief Technical Officer
Phone: 61 2 8296 1116
evan.ferris@aegis.com.au

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Level 6, 33 York Street
Sydney NSW 2000 Australia
Locked Bag 7 Australia Square
Sydney NSW 1215
Phone 61 2 8296 1100
Fax 61 2 9299 3777
ABN 72 085 293 910
www.aegis.com.au