

Analysts: Simone Arblaster; Anthony Karaminas

Products Facts

Manager	Patersons Asset Management Limited	Fund type	Wholesale	Boutique	No
APIR code	PML0001AU	Specialisation	Growth/GARP	Multimanager	No
Fund status	Open	Peer group	Australian Equities - Large Cap	Inception date	Feb. 4, 2008
Min. investment (A\$)	10000			MER (% pa)	1.38

Standard & Poor's View

S&P rates this fund three stars, reflecting our conviction that the manager will consistently generate risk-adjusted returns in-line with both its relevant investment objectives and its peers. The NEW subscript indicates the investment team or process has changed significantly or the fund has a relatively short history.

Patersons Asset Management (PAM) is a newly created subsidiary of Patersons Securities Limited (PSL), which is Australia's largest independently-owned specialist stockbroking and wealth-management firm. The 80:20 equity fund, which incepted on Feb. 1, 2008, is the group's flagship Australian-equities fund, and PAM's first fund. Asset management is a new business for PSL, and as such finding the necessary structure and process to manage this activity has taken time; however, PSL has been managing accounts on an individual-mandate account basis for over 10 years.

The product seeks to offer investors a mix of quality and opportunity: at least 80% of the portfolio will comprise of stocks within the S&P/ASX 200 and up to 20% can be invested in smaller companies and special-situation opportunities which are not generally available to individual investors.

The fund is concentrated and seeks to take high-conviction positions using the risk budget of 4%-6% tracking error. It is relatively unconstrained and therefore may vary significantly in allocation from the benchmark.

The investment team comprises four members including managing director Howard Knight and fund manager Murray McGill. It is a relatively small team with which to cover the Australian universe; however the team is able to leverage the research of 13 research analysts that sit within PSL. The analysts are specialists in mid-cap, industrial, and resources stocks, and are the first port of call for the PAM team. Broker research will also be used.

Due to the very recent inception of the fund, the fund will need to establish a track record and demonstrate an ability to meet its objectives to increase S&P's conviction.

Product Features

The 80:20 equity fund is PAM's first fund, and began investing on Feb. 4, 2008. It is called the 80:20 equity fund as it invests a minimum of 80% of the fund's assets in stocks within the S&P/ASX 200, and can allow a maximum of 20% to be invested outside the index. It is a concentrated portfolio that currently holds 22 stocks, and aims to provide a higher likelihood of outperformance, as each individual investment has a more meaningful impact on the portfolio. As funds under management (FUM) increases, the fund will aim to hold 30-50 stocks.

The fund's investment objective is to outperform the S&P/ASX 300 over a five-year investment horizon; the target return is 3%-5% above this benchmark. The fund seeks to create long-term growth in the value of

the portfolio and to provide regular income distribution and/or distribution reinvestment. The fund's investment process and guidelines will be used to manage risk. Tracking error is targeted at 4%-6% per year. The MER is consistent with the peer group. There is no performance fee.

Fund Objectives

Benchmark	S&P/ASX 300 Accumulation Index
Target return (% p.a.)	3-5% above index after fees
Target tracking error	4-6%

Investment Style

The investment philosophy of the 80:20 fund is for investors to have a mix of quality and opportunity. The quality portion is at least 80% of the fund's assets and is invested in a diversified portfolio of stocks selected from the S&P/ASX 200 with solid financials. The opportunity portion can be up to 20% of the fund's assets and invested in more entrepreneurial companies or smaller companies and special-situation opportunities, which are generally not available to individual investors.

The manager seeks to identify and invest in quality companies through what is primarily a bottom-up research process. PAM believes that a well-researched portfolio, comprising a mix of large-cap and mid-cap stocks, should outperform the fund's benchmark, and the proportion of the fund invested outside the index should provide significant outperformance, as the stocks effectively benefit from a liquidity premium. The fund has a blended style as it invests in stocks with value, growth at a reasonable price (GARP), and growth characteristics through the mix of index stocks, smaller-company growth, and special-situation opportunities outside the index.

Passive						Active
Value						Growth
Small Cap						Large Cap

Investment Team

The PAM investment team comprises four members: Howard Knight, Murray McGill, Steve Suleski and Patrick Holywell. Mr. Knight, the managing director of PAM, joined only recently, in October 2007. He has 20 years of experience as an investment banker and asset manager in the banking and finance industry. Mr. Knight was previously head of the Lehman Brothers Asia/Pacific investment-management division, and prior to that was the head of alternative and quantitative investment for UBS Global Asset Management in Singapore. He has recently returned to Australia and has extensive experience in risk management and portfolio optimisation. Murray McGill is an executive director and a PSL board member. He joined Patersons in 1988 and is currently the firm's third largest shareholder. Mr. McGill is the product's fund manager and has considerable experience as an active-investment manager of high-net worth, corporate and institutional discretionary managed portfolios, having run them for Patersons for the past 10 years; these mandates have consistently outperformed benchmark indices. Steve Suleski is the head of research for PAM and has worked in the finance industry for over 12 years, of which seven have been spent with Patersons; however, this tenure spans two separate stints with the company. Mr. Suleski worked in Patersons Ord Minnett Ltd. for six years, and led its industrial-research function for almost five years. He rejoined PSL at the beginning of 2006, focusing on analysis of mid-capitalised ASX-listed companies, the marketing of research products and research support to the corporate finance team for capital raisings, and mergers and acquisitions. In Mr. Suleski's equity-research experience, he has covered a diverse range of sectors, which have included large and small companies, industrials, and resources services. Mr. Holywell is a dedicated research analyst with the team.

The investment team is also able to draw on the research of the 13 research analysts in PSL, who are led by Mark Simpson, the head of research at PSL. Mr. Simpson aims to keep the research analysts focused, and over the last five years the team has increased from six to 13 analysts that specialise in mid-cap, industrial, and resources stocks. He has over 20 years' experience in equity research. Research provided by the analyst team includes onsite meeting notes and valuation information. It is a good source of preliminary information for the PAM

team and there is a policy and procedures document that sets out details of managing conflicts of interest within the research group. A document outlining the Chinese Walls policy also exists, which sets out guidelines that must be adhered to on the interaction between PSL and PAM.

The three senior members of the investment team have equity in the fund, and PSL is more than 95% owned by employees of the firm. Part of any bonuses will also be invested into the fund, which ensures that the success of the fund is aligned with investor interests.

Michael Manford is the executive chairman and chief executive officer of PSL and the chairman of PAM. He joined in 1979 and has been the executive chairman since 1994. Mr. Manford has worked in various facets of the finance industry and has over 25 years' experience. He will be available for input as required. The investment committee (IC) comprises four members and includes Mr. Manford and Mr. Knight. Kevin Troy and Brendan Egan are both non-executive directors of PAM, and both have more than 40 years' experience. The IC has set the investment guidelines for the fund by taking into account the economic environment. It has an overarching responsibility for running the fund; however, its authority is not required when implementing stock decisions.

New						Experienced
Small						Large
Unstable						Stable

Investment Process

PAM uses a three-step process to select investment opportunities from the available universe of companies: quantitative screening, detailed assessment and portfolio construction. The universe comprises all companies that are listed or about to be listed on the ASX. Screening seeks to narrow the universe by considering both historic data and forward-looking analysis. The team calculates the key fundamental financial metrics and weights them by year. Companies are screened and ranked by key-filter metrics, including earnings growth, distributions, efficiency/quality of earnings and financial leverage. PAM has access to PSL research analysts' financial analysis, research reports and daily morning meeting commentary so where available this is used for the quantitative screening. For stocks that PSL does not research, PAM will analyse broker research data and weight towards brokers with the highest market share or brokers with best performance track record in the stock. For companies where no research is available, PAM will conduct the research.

A focus list of companies is created from the top ranked companies, which are then also scored on qualitative characteristics and ranked by Investment Strength Scoring (ISS). The ISS incorporates industry structure, competitors, management, and a sector outlook score. The sector outlook score has a double weighting to allow for the impact of sector drivers on company earnings and valuations.

The ISS for each stock is compared to the current market valuation, which the team calculates as the difference between the company's share price and its discounted cash flow (DCF) valuation. The DCF is calculated by PAM, or where a reliable broker estimate is available (usually from PSL research), a broker estimate may be used; however, PAM applies its own DCF valuation methodology across the focus list. Companies are ranked by ISS and charted against the market value in the ISS/value chart in order to determine the relative attractiveness of each stock.

The investment model identifies around 50-60 high investment quality stocks that are trading at a discount to valuation and portfolio construction seeks to ensure that companies with the highest investment strength relative to valuation are selected. The fund currently holds 22 stocks; however, as FUM increases to greater than A\$200 million, the fund will hold between 30-50 stocks. This will comprise 20-30 of the S&P/ASX 200 companies in the "80" part, and 10-20 companies in the "20" part. PAM adjusts the portfolio holdings for outlook and then optimises them for risk and return using MSCI Barra portfolio optimisation software. Optimisation is used to ensure that clumps of risk are avoided and that the tracking error is within the 4%-6% band.

The buy/sell decisions are initiated by Mr. McGill after the daily portfolio review or weekly investment meetings, where the team considers any new opportunities or re-weightings. Trading may be executed through PSL or external brokers. The portfolio manager executes internal orders directly through the Iress Online Order System, and communicates external order instructions to brokers.

Performance

The fund was launched on Feb. 4, 2008, and as such has only a very short track record on which to assess performance. Mr. McGill has been running individually managed accounts with similar characteristics for over 10 years with successful results.

Sector exposure is on an absolute basis due to the absolute return focus of the fund.

Performance Measures

Average portfolio turnover (%)	35
Typical number of stocks in portfolio	20

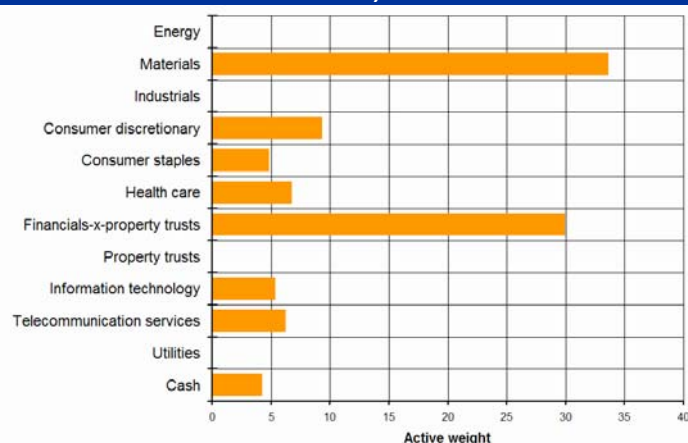
Source: Patersons Asset Management Limited.

Top 10 Holdings (at April 30, 2008)

	(%)
BHP Billiton Ltd	9.03
Macquarie Grp Ltd	6.75
CSL Ltd	6.73
QBE Insurance Grp Ltd	6.51
Telstra	6.22
Orica Ltd	6.14
St. George Bank Ltd	5.71
Westpac Banking	5.6
Commonwealth Bank of Australia	5.33
Ten Network Hldgs Ltd	5.13

Source: Patersons Asset Management Limited.

Sector Exposure Versus Fund Benchmark (at March 31, 2008)



Source: Patersons Asset Management Limited.

Risk Management

The structure of the fund and the initial screening form the foundation of the fund's risk management; a minimum of 80% will be invested in the S&P/ASX200, with the remaining 20% invested in smaller companies or special situations (capital raisings or event-driven opportunities). Stocks are then included into the portfolio based on investment merit rather than company, industry, or sector weightings; however, there are broad limits.

For stocks within the ASX 200, up to 5% from the ASX 200 weight is permitted in each stock and for stocks outside the ASX 200, up to 5% of the fund is permitted in a single stock. For liquidity reasons there will be no more than 10% of the market cap holding invested in any single stock and for a stock to be investible, it must have a minimum market cap of \$35 million. The investment guidelines require the fund to have an allocation to a minimum of three sectors to ensure sector diversification. The maximum sector exposure is 60% of the fund assets. This is a broad limit, and may result in an allocation that varies significantly from that of the benchmark. The minimum sector exposure is 10% of fund assets. It is noted that the investment guidelines may change from time to time, depending on the IC's view of individual investments and the prevailing economic environment.

The fund aims to be fully invested; however, investment guidelines allow for a cash holding of up to 10%. This is to enable the team to take advantage of new investment opportunities and for general fund liquidity requirements. It may also be used as a means of adjusting the risk characteristics of the fund.

The fund may use options, futures, and other derivatives to manage investment risk; these derivatives will not be used for the purpose of gearing the fund. The fund will borrow only for the management of redemptions, corporate actions and hedging purposes.

Management Group Profile

Patersons Securities Limited (PSL) was established in 1903 and is Australia's largest independently-owned specialist stockbroking and wealth-management firm. Patersons is a multi-service provider of financial services and offers stockbroking, wealth management, institutional dealing, and investment banking through ten offices around Australia, and has over 290 employees. For more than 10 years,

Patersons has undertaken funds management for retail and wholesale clients on an individual-mandate account basis. PSL currently owns 90% of Patersons Asset Management (PAM).

PAM is a subsidiary of PSL, and is therefore independent from other businesses within PSL. PSL provides a full financial, technical, personnel, and systems-integration report. PAM plans to launch five further investment funds that leverage the skills and expertise from within PSL and PAM. The 80:20 fund is the first of these funds, and it will be at least a couple of months before the next fund is launched.

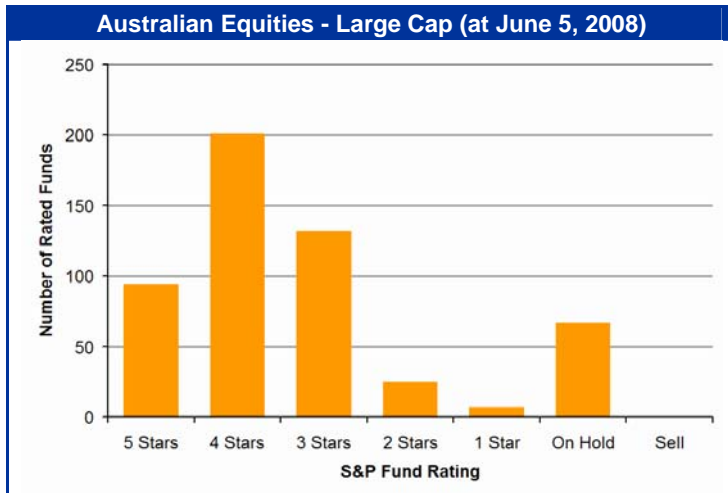
Market Share

PSL has been investing client funds in Australia since 1903. Patersons has raised more than A\$3.7 billion in over 410 new equity issues since 2000, and has more than A\$1 billion in FUM and administration. PAM had A\$8.2 million in the 80:20 fund as at May 19, 2008.

Analyst(s): Simone Arblaster; Anthony Karaminas.

Release authorised by: Mark Hoven.

S&P Fund Rating Reference Information



Reference Material

Sector Reports
www.standardandpoors.com.au/funds
Reader's Roadmap
www.standardandpoors.com.au/funds
Glossary
www.standardandpoors.com.au/funds
Guide to S&P Qualitative Fund Ratings
www.standardandpoors.com.au/funds
Fund Rating Team Biographies
www.standardandpoors.com.au/funds

Fund Rating Peer Groups by Sector

Australian Equities	International Equities	International Fixed Interest	Alternative Assets
Large Cap Diversified	Diversified Equities	Diversified Fixed Interest	Commodities
Large Cap Income	Emerging Markets	Diversified Fixed Interest Income	Multi-Sector
Large Cap Indexed	Emerging Markets Asia ex Japan	Fixed Interest	Private Equity Listed
Large Cap Industrials	Emerging Markets China	Fixed Interest High Yield	Private Equity Unlisted
Long Short	Emerging Markets India	Fixed Interest Income	Infrastructure Listed
Small Cap	Large Cap Diversified	Mortgages	Infrastructure Unlisted
Specialist	Large Cap Income	Mortgages High Yield	Alternative Strategies
Australian Fixed Interest	Large Cap Indexed	Mortgages High Yield Hybrid	Single Strategy Funds Multimanager
Cash	Large Cap Industrials	Mortgages Conventional	Single Strategy Funds Single Manager
Cash Enhanced	Long Short	Mortgages Hybrid	Multi-Strategy Funds Multimanager
Fixed Interest	Long Short Specialist	International Property	Multi-Strategy Funds Single Manager
Fixed Interest Income	Long Short Regional	Direct Commercial	Multi-sector
Mortgages	Regional Japan	Direct Development	Capital Guaranteed
Mortgages High Yield	Regional UK/Europe	Direct Diversified Direct	20
Mortgages Conventional	Regional US	Direct Industrial	40
Mortgages High Yield Hybrid	Regional Asia	Direct Residential	60
Mortgages Hybrid	Small Cap	Direct Retail	80
Australian Property	Specialist Healthcare	Direct Rural	100
Direct Commercial	Specialist Information Technology	Direct Specialised	Equity
Direct Development	Specialist Resources	Diversified Property	Other
Direct Diversified Direct		Listed	
Direct Industrial			
Direct Residential			
Direct Retail			
Direct Rural			
Direct Specialised			
Diversified Fixed Interest Listed			








Fund Rating Philosophy

A star rating is a forward-looking qualitative assessment of a manager's ability to consistently generate risk-adjusted fund returns (net of fees) in excess of both its relevant investment objectives and its peers.

Fund Rating Process

In assigning a star rating to a fund, Standard & Poor's evaluates: the size, skill, and stability of the manager's investment team; the clarity, implementation, and risk management of the investment process; the fund's objectives, fee structure, and portfolio characteristics; and the manager's business management.

Fund Rating Definitions

	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.
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	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 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 on switching or redeeming funds.

Fund Rating Subscript

—NEW— 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.

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