

Analyst(s): Justine Gorman; James Gunn

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.

We believe the fund offers investors a "true-to-label" valuation-driven portfolio of Australian shares. The total-return approach focuses specifically on a company's ability to sustain earnings and its willingness to pay dividends.

The relatively low portfolio turnover makes this product a more tax-aware investment vehicle. Realised capital gains and dividends can be reduced with the use of call options, although the manager uses these instruments infrequently.

Absolute stock limits are based on the whether the stock is a large-, mid-, or small-cap stock, but they are permitted to "drift" up to 50%. Given that the manager reviews all valuations when they reach a target price, we are less concerned that allowing a stock's weight to drift is loosening the investment process.

The manager's risk-management framework is centred around the portfolio-construction process, ensuring more influence is given to stocks with the greatest upside, and that there is adequate diversification. The main risk-mitigation approach that value managers use is to buy stock at a discount to intrinsic value. In future, we would welcome the development of stronger catalysts for the revaluation of stocks the manager selects for the portfolio.

We have some concerns regarding the significant level of instability in the team, which has been an ongoing problem. With Mr. Giddy's appointment to the newly created role of head of research, we would welcome a closer engagement between the analyst team and management, and stronger conviction in recommendations.

Over the five years to Dec. 31, 2009, the fund underperformed the benchmark by 1.8% per year, net of fees.

Investor Suitability

- A long-only, Australian-equity strategy, with exposure across the full market capitalisation.
- Up to 10% can be invested in cash, to reduce the effect of falling equity markets.
- The fund has a "value" style bias, and would be suitable as a non-core holding within an Australian-equity portfolio.
- The manager focuses on total returns to deliver capital gains and dividend income to investors.
- Low portfolio turnover and some use of covered call options make this fund more tax-aware.
- Due to the manager's value style and conservative stock-selection process, there will be periods of underperformance when growth and momentum are rallying.
- Suitable for investors with an investment time horizon of over five years.

Key Strengths

- The manager keeps its investment approach "true-to-label" throughout the market cycle.
- The new equity plan gives a significantly larger portion of the ownership in the business to the staff.
- Lead portfolio manager, Anton Tagliaferro is willing to be a shareholder activist.

Key Weaknesses

- Although the team is one of the largest Australian-equity teams, it has been unstable for a number of years.
- The current team has only been working together since January 2010.
- Understanding of industry dynamics isn't as strong as peers.

Risks

- Further instability in the team. Specifically, the loss of key individuals such as Mr. Tagliaferro or Hugh Giddy.
- The manager takes significant positions in small-cap stocks, which can be difficult to trade when markets are risk-averse.

APIR code	IML0002AU	Performance Fees (%)	N/A
Fund status	Open	Investment Manager	Investors Mutual Ltd.
Inception date	June 15, 1998	Redemption policy	Daily
Responsible Entity	Investors Mutual Limited	Distribution frequency	Half-yearly
Peer group	Australian Equities - Large Cap Value	High water mark	N/A
Benchmark	S&P/ASX 300 Accumulation Index	Hurdle rate	N/A
Investment style	Value	Return objective (%)	Outperform the benchmark, on a net-of-fees basis, over rolling 4-year periods
Multi manager	No	Tracking error objective (%)	Below 6% per year
Fund Size (\$A)	1811.77 .mil (at April 30, 2010)	Average portfolio turnover (3yrs) (%)	30
Minimum investment (\$A)	500000	Maximum cash holding (%)	20
ICR / MER (%)	0.97	Typical number of stocks	50
		Release authorised by	Leanne Milton

Investment Objectives and Fees

The fund aims to outperform the S&P/ASX 300 Accumulation Index, on a net-of-fees basis, over rolling four-year periods. The manager aims to contain tracking error below 6% per year. The fund has a total-return approach, investing in Australian shares for long-term capital growth and dividend income. Although the manager applies a minimum market capitalisation of A\$300 million to its stock-selection process, there have been a number of instances when this rule has been breached.

The fund is managed on a relatively benchmark-unaware basis, with absolute limits, rather than benchmark-relative limits, placed on stock positions. This approach gives the manager more flexibility to implement its best stock ideas. The portfolio is diversified and typically holds around 50 stocks. The manager applies hard sector limits of +15% from the benchmark to ensure diversification is maintained.

The fund allows a cash holding of up to 10%, to minimise the effect of falling equity markets on returns.

The ICR for the fund is 0.974% per year, which is slightly above the median ICR for the Australian large-cap sector, which is 0.92%. There is no performance fee on the fund. The bid/offer spread on the fund is 0.25%/0.25%; this cost represents the investor's share of the transaction costs, incurred when the fund is buying or selling assets. This cost is built into the unit price.

Distributions reflect the investor's share of any distributable income and taxable capital gains and losses, and are generally paid half-yearly at June 30 and Dec. 31.

The recommended investment time horizon is a minimum of five years.

Investment Philosophy and Style

Investors Mutual Ltd.'s (IML's) investment philosophy is based on a belief that a company's share price will reflect its underlying value in the long term. Given that markets are not fully efficient, there will be times that a company's share price will not reflect what it believes to be the company's true underlying value.

Employing an active, bottom-up fundamental approach, the manager directs its research effort toward identifying companies that meet its investment criteria. The criteria focuses on quality companies, which the manager determines to be those that have a competitive advantage, reliable and predictable earnings, capable management, and the ability to grow over time.

Understanding how a company deploys its earnings is a good indication of how its future earnings are likely to grow.

From a valuation perspective, companies must be trading at a price below what IML believes represents the company's long-term underlying value, before it will purchase it for the portfolio.



Investment Team

Structure

Under the leadership of IML's founder and investment director, Mr. Tagliaferro, the Australian-equity team comprises 10 Sydney-based investment professionals and a dedicated dealer. Mr. Tagliaferro is also the lead portfolio manager for the IML funds.

The team recently underwent a restructure after the announcement by boutique incubator Treasury Group in January 2010 that one of its start-up enterprises, Cannae Capital Partners, is ceasing business and that four of its staff would join IML.

Cannae's managing director, Mr. Giddy, joined the team as head of research, a role created to take responsibility for the management and

oversight of the research process. Mr. Giddy has also been tasked with mentoring the less experienced team members.

Stock coverage is allocated to each analyst on an industry basis and extends to the full market capitalisation spectrum. Previously, IML analysts operated in distinct large- and small-cap teams.

Three of the senior equity analysts also have portfolio-management responsibilities.

At our previous review, and again in 2009, we noted our concerns regarding the significant level of instability in the team. Staff retention has been an ongoing problem, with turnover of around 27% per year from 2007 to 2009. Over the past 18 months, equity analysts Peter Moller, Tony Waters, Chris Prunty, Mark Wade, quantitative analyst Vessela Tasker, and most recently senior equity analyst, Hugh Dive, have left the team. We would like to see evidence of some increased stability before we have a higher level of conviction in the team.

IML is one of the larger Australian-equity teams rated as part of our Australian-equities review. The manager believes it is currently fully resourced.

Key Investment Personnel

Name, Position	Years*	Experiencet
Anton Tagliaferro, investment director, lead portfolio manager	11	25
Hugh Giddy, head of research, senior portfolio manager	0	19
Simon Conn, senior portfolio manager small-caps	11	14
Jason Teh, portfolio manager, senior equity analyst	9	10
Don Facchino, senior equity analyst	3	16
Daniel Mueller, senior equity analyst	0	6
Julian Beaumont, equity analyst	1	6
Daniel Moore, equity analyst	0	4
Michael O'Neill, equity analyst	0	2
Rob Bishop, equity analyst	1	5
Average tenure with current firm	3.6	N/A
Average industry experience	N/A	10.7

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

Portfolio Managers

Mr. Tagliaferro heads up the Australian-equity team and has been with the boutique since its founding in May 1998. He brings 25 years' experience to the group, having held a number of Australian-equity portfolio-management tenures before joining IML. Mr. Tagliaferro has led the investment decision-making process since the fund started and continues to do so.

Other portfolio managers include Simon Conn, Jason Teh, and Mr. Giddy. Both Mr. Conn and Mr. Teh took up their first portfolio-management roles at IML, with a solid amount of experience and training gained as analysts with the group, under Mr. Tagliaferro's tutelage. Before joining IML in June 1998, Mr. Conn held the position of investment officer at QBE Insurance Ltd. from May 1995. Mr. Teh joined IML in December 2000, from Advance Funds Management, a boutique multi-manager and the asset-management arm of St. George Bank. He brings 10 years' experience to the group. Mr. Giddy is the most recent senior portfolio-management hire, bringing 19 years' investment experience. His investment experience includes the position of portfolio manager at Perennial Value Management Ltd. and Platinum Asset Management. Before this, Mr. Giddy spent two years in academia.

Mr. Giddy will play a key part in the IML investment-management process, engaging with analysts in the team and driving stock conviction in their recommendations. He brings a valuation approach that focuses very much on company cash flows and returns on capital employed, rather than earnings, which we believe may bring further depth to the existing process. The team appears open to looking at valuation from a number of metrics.

Research Team

Nine analysts conduct company research, including those individuals with portfolio-management responsibilities. On average, analysts are responsible for around three industries each, depending on the number of securities in each industry and the complexities of each. The high level of team turnover over the past few years has meant a meaningful amount of change has been made to the analysts' coverage. All analysts have secondary research-coverage responsibilities—apart from providing peer review, this gives some research continuity if an analyst decides to leave.

Although some fund managers operate with a modest level of rotation as part of a planned development process, we do not believe staff turnover and short-term coverage measures are conducive to the delivery of valuable investment insights, and would therefore hope to see this settle down in the future.

Following the announcement regarding the Cannae business, IML gained three additional analysts in January 2010. Although Daniel Mueller, Daniel Moore, and Michael O'Neill all hold solid professional qualifications, they come to the group with a modest level of experience. The investment philosophy at Cannae was style-neutral, focusing on companies that exhibit strong cash-generating ability. We acknowledge there will be a greater focus on valuation at IML, but believe the new team members are keen to make the team successful and are willing to adapt.

Other new additions include equity analysts Julian Beaumont and Rob Bishop, both joining the group in mid-2008. Mr. Beaumont joined from financial services group, Montpelier Group, and brings six years' relevant experience. With a similar level of experience, Mr. Bishop joined from Southern Cross Equities, where he was a sell-side analyst covering the resources sector. We believe his resources background will be a good complement to the team's skills.

Andrew Harrison, head of quantitative research and Paul Winter, equity strategist, joined the group in July 2008 and August 2008, respectively. Mr. Harrison left IML in February 2010.

The team has an average of 10.7 years' relevant experience, and an average tenure with the group of 3.6 years. These analyst statistics include senior equity analyst Don Facchino, who returned to IML at the end of March 2010, following a four-month sabbatical.

Alignment and Accountability

The remuneration structure comprises three components: a market competitive base salary, a short-term incentive plan, and a revised equity plan that takes effect on March 31, 2010.

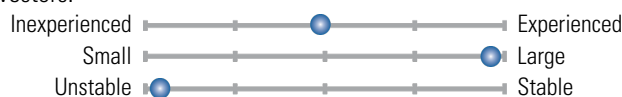
The short-term incentive plan, or "target incentive plan" is set on July 1 each year, and is conditional on individual key performance indicators (KPIs) being met. The KPIs include the performance of the analyst's model portfolio and the quality of their investment research. Each of these KPIs has a weighting of between 25% and 75% of the overall incentive plan. The total short-term incentive can lead to an annual bonus of up to 50% of base salary. The equity analysts' model portfolios are paper portfolios, constructed with stocks from within their industry coverage. The performance of the paper portfolio is measured against an equal weighted benchmark of stocks within the representative industry's investment-grade universe. Senior portfolio managers are measured

on the performance of the portfolios for which they have investment discretion.

Following the union of the IML and Cannae businesses, IML Investment Partners was formed to enable the team to take a meaningful share in the future of the investment business. As of March 31, 2010, the investment team owned 60% of the equity in the business, of which Mr. Tagliaferro owns 33%, and the remaining 67% is allocated among investment staff. Existing shareholdings in IML will remain, and dividends will continue to be paid. Mr. Tagliaferro holds 43% of the IML shares, with staff holding 10% and Treasury Group holding 47%.

Staff will fund their share allocation through a non-recourse loan provided by IML. If staff members leave IML their shareholding is automatically bought back at cost. If a shareholder leaves IML after five years' service they receive a three-year trailing dividend.

We believe the change in equity ownership structure to be a significant improvement from previously, giving staff a greater share in the group's success. A remuneration structure that incorporates an equity share plan better aligns the interests of the fund manager with those of the investors.



Investment Process

Overview

IML is a fundamental active manager with an emphasis on stocks that are able to deliver predictable and recurring earnings, and have the ability to grow over time. The investment process is broken into a number of logical steps, which includes a five-stage valuation process. The portfolio-management stage combines the stock's expected upside and analyst's confidence ranking, to determine the stock's appropriate weighting in the portfolio.

Research Process

The stock-selection process comprises four clearly defined and well-structured steps. The manager's investment process remains unchanged since our last review.

1. Determine The Investment-Grade Universe

The manager filters the listed Australian-stock universe by excluding stocks that by definition would not qualify as suitable holdings in the portfolio. A quantitative filter run through FactSet screens out: stocks with a market capitalisation of below A\$300 million, ex-S&P/ASX 100 index stocks that have reported negative earnings over the past two years, stocks that have net interest cover of less than two times, or those that are domiciled overseas. This process results in an investment-grade universe of around 330 stocks. The investment-grade universe filter is run quarterly.

2. Review Process

The team reviews the investment-grade universe each week at their meeting. IML reviews any stocks that were rejected in the filtering process to ensure it's not excluding any stocks that could be classified as exceptions to the initial screening process. These exceptions may include small-capitalisation stocks that the manager believes are currently undervalued and has confidence that they will be revalued by the market in the near term.

Within each sector, stocks are ranked by price-to-earnings. Research priorities are discussed based on the output from this report. The team also reviews historic price-to-earnings, dividend yield, and other earnings/valuation metrics. Each of the nine analysts reviews around five to 10 stocks at a time, to ensure the most appealing investment opportunities are investigated promptly.

Although team members discuss stocks regularly, the weekly meeting is the main forum for discussions between the analysts and portfolio managers. Most stock discussions are initiated as a result of sudden stock price falls or changes to company fundamentals.

Stocks are also categorised as "value", "growth", "cyclical", "financial", or "listed property trusts", which helps the manager generate and test ideas from an earnings profile perspective. Stock ideas may also come about following discussions with members of the broking community, competitors and suppliers to a covered company, and other industry participants.

3. Stock Assessment And Valuation

The stock assessment stage begins with the preparation of segmented analysis on each of the company's business units. For each segment, the analyst assembles financial reporting data covering the past five years, so it can look for trends in items such as sales, earnings margin, cash flows, and dividends paid. This exercise provides the analysts with an overview of some of the operational efficiency metrics, which are discussed in more detail when they meet with management. To understand how the company will grow the business and increase shareholder value, discussions with management also focus on business strategy. To confirm its views or verify company statements, IML also engages with a covered company's suppliers. We believe that a manager's confidence in the valuation process is improved when a company has sustainability of earnings.

The analyst determines subjective stock-risk ratings. These require consideration of factors such as: the macroeconomic outlook, industry characteristics, the company's earnings profile and capital structure, the quality of management, and environmental, social, and governance factors. The risk rating helps the analyst determine an appropriate discount rate for the valuation process. We consider the manager's stock-specific risk assessment lighter than its stronger peers.

IML uses a two-stage discounted earnings model to forecast the company's earnings profile. An assessment of the company's earnings reinvestment policy and the stock's implied growth rate, supplements the valuation process. Analysts also use a number of relative value metrics. These metrics are both earnings- and valuation-based, making it easier for the team to make peer relative assessments.

The analyst prepares a stock valuation report that includes an overview of the corporate structure, the earnings profile of each business segment, a SWOT analysis, a risk rating and stock valuation, and a notes section covering recent earnings announcements and company meetings.

The analyst establishes a target price for the stock, which gives the portfolio manager some guidance on the its expected return potential.

4. Confidence Rank

The confidence rank acts as a risk-management overlay and is independent of the valuation. The analyst will rank each stock from 1 (very high) to 5 (very low) based on the level of confidence they have that the company is able to sustain current earnings and grow them in the medium to long term. Confidence ranks are also determined relative to their peers.

Portfolio Construction

The portfolio is constructed with consideration given to the stock's expected upside, the analyst's confidence ranking, and the portfolio-construction guidelines. IML typically holds around 50 stocks in the portfolio. The portfolio manager establishes the appropriate weight for the stock using a systematic approach, after categorising stocks based on their expected performance. These categories are; tier 1 (+15%), tier 2 (+10%), tier 3 (5%+), and tier 4 (<5%). Stock, sector, and market capitalisation limits help shape the portfolio-construction process to ensure adequate diversification. The stock limits are absolute, and limit the amount of stock that can be purchased for the portfolio.

Stocks that represent more than 3% of the S&P/ASX 300 Index are limited to twice their index weight in the portfolio. For the largest 50 listed stocks, an absolute limit of 6% applies, the next 50 stocks are limited to 4%, and ex-S&P/ASX 100 index constituents are limited to 2% of the portfolio. We believe that this approach gives the manager the flexibility to take meaningful positions. However, stock weights are able to drift from these soft boundaries by another 50%, giving the manager some room to allow its stronger conviction holdings to rally. Given that the manager reviews the valuation when a stock approaches its target price, we are less concerned that allowing a stock's weight to drift is loosening the investment process.

Relative sector limits are set at the index weight plus 10%. As with stock limits, sector limits are able to drift another 50% to the index weight plus 15%. Sector limits this wide are not uncommon for less benchmark-aware managers.

To ensure that the portfolio maintains its large-cap exposure, the manager has placed a 50% minimum allocation to S&P/ASX 50 stocks, and a maximum limit of 25% on ex- S&P/ASX 100 stocks.

To determine whether the target price should remain unchanged, the analysts reassess the company valuation as the share price moves closer to its target price. If the target price remains unchanged, then the share price now reflects intrinsic value, and the stock is sold. A stock may also be sold if IML believes the company fundamentals have changed and it is unlikely the share price will appreciate.

As a stock approaches its target valuation, IML may sometimes sell call options against the stock rather than selling the physical holding. This course of action can be used to manage realised capital gains, or allow an expected dividend to be paid on an incumbent stock. The manager uses these covered calls fairly infrequently—the fund currently has exposure of around 1.2% to these derivatives. When option premiums are high they provide a source of income, but will typically account for less than 5% of the total income distributed by the fund.

The fund can hold up to 10% in cash, with the actual level being dependent on the manager's ability to identify undervalued stocks. Currently, it is around 5% of the portfolio.

Risk Management

The risk-management framework is centred around the portfolio-construction process, where stock and sector limits are applied to ensure adequate diversification. Portfolio constraints on absolute stock weights, range from twice index weight for the largest listed stocks, down to 2% for ex-S&P/ASX 100 index constituents. "Soft" relative sector weights of the index plus 10% also apply. Drift limits that allow both stock and sector allocations to increase a further 50% beyond the soft limits, have been put in place to allow high conviction positions to rally. Given the manager's adherence to a target-valuation sell discipline, we are not overly concerned with this approach.

A stock-specific risk assessment is incorporated in the analyst's view of the sustainability and predictability of earnings, and in the determination of the discount rate used in the valuation.

IML uses Northfield to measure risk exposures, including tracking error and each stock's marginal contribution to risk. Tracking error is maintained below 6% per year, which the manager has been able to achieve over the past 18 months of volatile markets.

As a general rule, stocks below A\$300 million market capitalisation are screened out of the investable universe. Having said that, the manager does take positions in companies with a market capitalisation of below A\$300 million. These positions can be significant at 5% to 15% of the company's invested capital. The manager maintains a register of these holdings and they are monitored daily.

Over the past 12 months, the portfolio turnover was 30%, which is relatively low compared with many other Australian-equity strategies. Stock positions are on average held for between three and five years.

Call options may be sold to manage realised capital gains and to access expected dividends from holding the physicals. Derivatives are also permitted for short-term cash-management purposes, reducing the effect of cash drag on the portfolio.

The portfolio managers use IML's investment-management system to request trades following approval by either Mr. Tagliaferro or Mr. Giddy. The system generates daily reports, which highlight any inconsistencies between like portfolios. The investment-management system includes a compliance module which is monitored each day to ensure there have been no mandate breaches.

The legal, compliance, and risk-management function is outsourced to Treasury Group Investment Services Ltd. (TIS), a fully owned subsidiary of Treasury Group Ltd. The TIS risk-management team reports to Conor Byrne, the IML compliance officer, the board, and compliance committee.

RBC Dexia Investor Services Australia Pty Ltd. performs all valuations and back-office functions, including performance attribution, unit pricing, and distributions. Deloitte audits all these functions annually.

Risk Constraints

Typical number of stocks	50
Active stock limits (%)	Absolute limits based on market capitalisation
Active sector limits (%)	Benchmark +10% (plus 50% drift)
Maximum cash holding (%)	10
Targeted tracking error (%)	Below 6% per year
Active country limits (%)	—

Performance

The fund was launched in June 1998, to provide investors with a portfolio of Australian shares that would earn them both capital gains and some income.

The fund's investment objective is to outperform the S&P/ASX 300 Accumulation Index, on a net-of-fees basis, over rolling four-year periods.

At Oct. 31, 2009, the fund produced a return of 16.1%, on a net-of-fees basis, compared with the benchmark return of 22.0%, underperforming by 5.9%. The fund's underweight to energy, materials, and financials (ex-REITs) were the largest detractors of performance for the period. From a stock-selection perspective, overweight positions in Amcor Ltd., Crown Ltd., and Westpac were positive for performance, while underweight holdings in ANZ Banking Group Ltd., and BHP Biliton hurt performance. Poor stock-selection decisions with regard to Qantas Airways Ltd., Alumina Ltd., and Suncorp-Metway also added to the performance problems during the year.

Over the five years to Oct. 31, 2009, the fund produced an annualised net-of-fees return of 7.0%, compared with the benchmark return of 8.8%, underperforming by 1.8% per year. The fund has an information ratio of negative 0.28, compared with 0.01 for the median manager in the peer group.

Between the fund's inception and Dec. 31, 2009, performance was stronger, producing an annualised return of 13.3% compared with the benchmark return of 9.9%, outperforming by 3.4% per year on a gross-of-fees basis.

Although the fund will experience periods of underperformance as a result of its value style and conservative stock-selection process, the manager has been able to outperform over the longer term. Short-term

performance is generally strongest over periods where the market has fallen.

Portfolio Review

IML's bottom-up investment process initially applies a combination of quality and somewhat flexible liquidity filters to the entire S&P/ASX 300 universe every quarter. The portfolio of stocks is a mixture of large- and small-cap holdings. The portfolio has typically been underweight resource stocks.

The manager is a long-term investor in companies and typically holds key positions for a number of years, assuming the investment thesis holds. On an absolute basis, the key portfolio holdings of over 2.5% for the year to Oct. 31, 2009 were: Amcor, BHP Biliton, CBA, Crown, IAG, NAB, Origin Energy, Sky City Entertainment Group, Transurban Group, Telstra, and Westpac. These 14 holdings represent around 60% of the portfolio. The smaller holdings range from 0.3% to 2.5%, and improve the portfolio's diversification. Nine positions in the portfolio were significant holdings, these being between 5% and 15% of the company's invested capital. The fund held 5% in cash.

Over the year to Oct. 31, 2009, the manager held a significant underweight position in large- and mid-cap stocks, which was partly offset by a 13% overweight position in ex-300 stocks.

Top Five Contributors and Detractors (at Oct. 31, 2009)

Contributors	Sector	1 Year*
Crown	Consumer Discretionary	1.38
Amcor	Materials	0.97
Westpac Banking Corporation	Financials	0.80
Westfield Group	Financials	0.66
Amalgamated Holdings	Consumer Discretionary	0.58

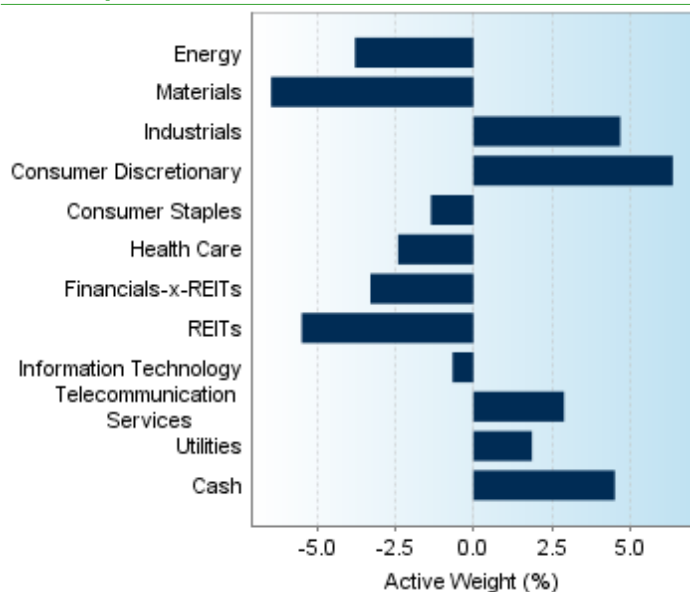
Contributors	Sector	3 Years*
Incitec Pivot	Materials	0.31
Westpac Banking Corporation	Financials	0.26
Brambles	Industrials	0.25
Amcor	Materials	0.22
Westfield Group	Financials	0.20

Detractors	Sector	1 Year*
ANZ Banking Group	Financials	-2.40
BHP Biliton	Materials	-1.59
Qantas Airways	Industrials	-0.51
Alumina	Materials	-0.48
Woodside Petroleum	Energy	-0.36

Detractors	Sector	3 Years*
ANZ Group	Financials	-0.66
Tabcorp Holdings	Consumer Discretionary	-0.53
Alumina	Materials	-0.37
Qantas Airways	Industrials	-0.28
IAG	Financials	-0.28

*Value Add (% p.a.). Source: Investors Mutual Limited.

Sector Exposure Versus Fund Benchmark (at Oct. 31, 2009)



Source: Investors Mutual Limited.

Management Group Profile

Mr. Tagliaferro established IML in May 1998. An Australian-equities specialist, IML has grown steadily from A\$3 billion at our last review in May 2009, to A\$3.4 billion at Dec. 31, 2009.

In June 1998, IML launched two wholesale funds: the Australian Share Fund and Australian Smaller Companies Fund. Several years later, in May 2002, IML introduced two further wholesale funds: the Industrial Share Fund and Future Leaders Fund. The Smaller Companies Fund and the Future Leaders Fund closed to new investors in 2005, due to capacity constraints.

In December 1999, IML formed an alliance with Bendigo Bank subsidiary, Sandhurst Trustees Ltd. The retail Sandhurst Industrial Share Fund and Sandhurst Future Leaders Fund, offered to investors by Sandhurst Trustees, is managed exclusively by IML under a long-term investment-management agreement.

Since 2001, IML has been supported by listed boutique incubator, Treasury Group Ltd.

In November 2004, IML launched a diversified equity fund, with an international component managed by Global Value Investors (GVI). GVI is a special international-equities manager, which was established in 2004 by its key investment staff, Treasury Group, and IML.

In February 2007, the new IML Small Cap Fund was launched. The manager also reopened the IML Future Leaders Fund.

In January 2010, Cannae Capital Partners, a boutique fund manager within the Treasury Group suite, ceased conducting business and was absorbed by IML. The Cannae business will take on a sub-advisory role in the management of the IML funds and will earn a management fee. As a result of this commercial arrangement, the Cannae business has changed its name to IML Investment Partners, to enable the investment team to own 60% of the underlying investment business, giving key staff a meaningful share in the success of the business. Of the 60% staff ownership, Mr. Tagliaferro holds 33%, with 67% being divided among other investment staff. Treasury Group represents the remaining 40% of the business, a typical allocation taken by the boutique incubator.

David Cooper has been appointed chief executive officer of IML, and remains an executive director of Treasury Group.

Funds Under Management

At Dec. 31, 2009, IML was managing Australian-equity assets of around A\$3.4 billion, of which the Australian industrial shares strategy represents A\$346 million. Over the past 12 months, the strategy has experienced outflows of A\$216.2 million.

Although the manager does not estimate a capacity limit for this strategy, it does measure its trading performance to ensure liquidity and trading costs are not eroding returns for investors. The manager has undertaken an analysis of the liquidity of the fund, and concludes that a cash flow of approximately A\$50 million can be 97% invested over a period of five days. The manager's longer-term holding period means there is relatively less pressure to trade quickly and suffer market impact costs.

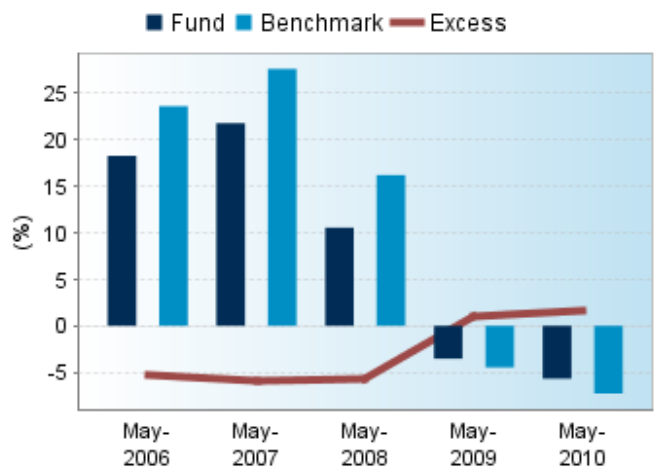
Funds Under Management Table (at Oct. 31, 2009)

Current pool size (\$)	1.8 billion
Total FUM in strategy (\$)	3.4 billion
Estimated capacity for strategy (\$)	Not measured
Total FUM across all asset classes (\$)	3.4 billion
Net strategy flows over past 12 months (\$)	(-216.2 million)

Source: Investors Mutual Limited.

Performance Analysis

3yr Rolling Returns, Over 5 Years



Source: Investors Mutual Limited.
 Benchmark: S&P/ASX 300 Accumulation Index.

Annualised Net Returns % (at May 31, 2010)

	1 Year	3 Years	5 Years	7 Years
Fund performance (% p.a.)	20.12	-5.67	4.66	8.62
Income (% p.a.)	6.3	5.23	6.33	-
Growth (% p.a.)	13.82	-10.9	-1.67	-
Benchmark performance (% p.a.)	20.72	-7.26	6.04	-
Excess return (% p.a.)	-0.6	1.59	-1.38	-

Benchmark: S&P/ASX 300 Accumulation Index.

Fund Rating Philosophy

A star rating is a forward looking assessment of a manager's ability to consistently generate risk-adjusted 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

S&P FUND RATING
★★★★★ 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.

S&P FUND RATING
★★★★☆ 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.

S&P FUND RATING
★★★☆☆ 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.

S&P FUND RATING
★★☆☆☆ 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.

S&P FUND RATING
★☆☆☆☆ 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.

S&P FUND RATING
ON HOLD Issues that may affect the fund's management have emerged; and the fund rating is temporarily suspended, pending clarification.

S&P FUND RATING
SELL Significant issues exist that potentially will adversely affect the fund's performance. Investors should consider obtaining advice on switching or redeeming funds.

NEW **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 must achieve before a performance fee can be charged. This can be the benchmark or the benchmark plus an additional fixed rate.
Performance Fees	A fee payable in excess of the ongoing management fee. There is often a hurdle rate and/or high watermark that must be reached before this fee is payable.
ICR-Indirect Cost Ratio	This is a ratio of indirect costs to the total investment in a particular fund expressed as a percentage. It includes the MER, expense recoveries, performance fees 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 Trading Error	Predicted or forecast of tracking error.
Ex Post Trading Error	Historical or actual tracking error.

Disclaimer: Standard & Poor's Information Services (Australia) Pty Ltd (ABN 17 096 167 556) (Standard & Poor's) rating and other opinions are and must be construed solely as statements of opinion and not statements of fact or recommendations to purchase, sell or hold any financial product(s). Conclusions, ratings and opinions are reasonably held at the time of completion but subject to change without notice. Standard & Poor's assumes no obligation to update any information following publication. No warranty, express or implied, is given or made by Standard & Poor's as to the accuracy, timeliness, completeness, merchantability or fitness for any particular purpose of any Standard & Poor's rating, opinion or other information and Standard & Poor's will not be liable to any party in contract or tort (including for negligence) or otherwise for any loss or damage arising as a result of any party relying on any such rating, opinion or other information (except in so far as statutory liability cannot be excluded). Any statement of fact is based on information provided to Standard & Poor's by our clients or obtained from sources which Standard & Poor's considers reliable. Standard & Poor's does not perform an audit in connection with any rating and may rely on unaudited information. Because of the possibility of human or mechanical error by our sources, Standard & Poor's or others, Standard & Poor's does not guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Readers should make their own inquiries.

Warning: Past performance is not a reliable indicator of future performance. Any express or implied Standard & Poor's rating or advice is limited to "General Advice" and based solely on consideration of the investment merits of the financial product(s) alone. The information has not been prepared for use by retail investors and has been prepared without taking account of any particular person's financial or investment objectives, financial situation or needs. Before acting on any advice, any person using the advice should consider its appropriateness having regard to their own or their clients' objectives, financial situation and needs. You should obtain a Product Disclosure Statement relating to the product and consider the statement before making any decision or recommendation about whether to acquire the product. Each rating or other opinion must be weighed solely as one factor in any investment decision made by or on behalf of any adviser and any such adviser must accordingly make their own assessment taking into account an individual's particular circumstances.

Disclosure: Analyst Disclosure: Analyst(s) remuneration is not linked to the rating outcome. The Analyst(s) may hold the financial product(s) referred to in a Standard & Poor's rating or other research report but Standard & Poor's considers such holdings not to be sufficiently material to compromise the rating or opinion. Analyst(s) holdings may change at any time. Standard & Poor's Disclosure: In the event of any person subscribing to any rated financial product(s), such subscriptions may result in a Standard & Poor's client receiving a commission, fee or other benefit or advantage. Details of any such benefits can be obtained from your financial adviser. Standard & Poor's itself does not receive any commission. Prior to the assignment of any rating, the fund manager or another Standard & Poor's client agreed to pay Standard & Poor's a fee for the appraisal and rating service rendered. Standard & Poor's assigns ratings using comprehensive and objective criteria. Standard & Poor's fee is not linked to the rating outcome. Costs incurred during the rating process, including travel and accommodation expenses, may be paid for by the fund manager or another Standard & Poor's client to enable onsite reviews. Standard & Poor's does not hold or have a material interest in any rated financial product(s). Standard & Poor's associates may hold rated financial product(s) but detail of these holdings are not known to the Analyst(s).

Standard & Poor's from time-to-time provides fund managers and other clients with investment data, research software, and other financial planning services. Standard & Poor's is a wholly owned member of The McGraw-Hill Companies, Inc, a New York Corporation. The analytic services and products provided by Standard & Poor's and its associates are the result of separate activities in order to preserve the independence and objectivity of each analytic process. Each analytic product or service is based on information received by the analytic group responsible for such product or service. Standard & Poor's and its associates have established policies and procedures to maintain the confidentiality of non-public information received during each analytic process. Standard & Poor's holds an Australian Financial Services Licence Number 258896. Please refer to Standard & Poor's Financial Services Guide for more information at www.fundsinsights.com.au. "S&P" and "Standard & Poor's" are trademarks of The McGraw-Hill Companies, Inc. Copyright 2010 Standard & Poor's Information Services (Australia) Pty Limited. Certain funds data contained herein may be proprietary to Morningstar Inc.