

Analysts: Leanne Fook; James Gunn

Products Facts

| | | | | | |
|------------------------------|--------------------------|-----------------------|---------------------------------|-----------------------|---------------|
| Manager | Investors Mutual Limited | Fund type | Wholesale | Boutique | Yes |
| APIR code | IML0002AU | Specialisation | — | Multimanager | No |
| Fund status | Open | Peer group | Australian Equities - Large Cap | Inception date | June 15, 1998 |
| Min. investment (A\$) | 500000 | | | ICR (% pa) | 0.97 |

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.

S&P has upgraded the rating of this fund from two stars to three stars. The previous two-star rating reflected S&P's concerns regarding significant instability in the investment team due to high staff turnover, and concerns around the capacity of the manager to fully use analysts' inputs into the investment process. Investors Mutual Ltd. (IML) has replaced lost staff, albeit with analysts with less direct funds management experience. It has also implemented measures to retain staff through a new equity scheme.

There is a reasonable level of overall team experience, but founder Anton Tagliaferro is the only deeply experienced investment professional. The two new fundamental analysts have sell-side and investment banking backgrounds, but IML is their first funds management experience. These analysts have appropriate skills; however, there will be a period of adjustment as they gain experience on the "buy" side, and for S&P to build its conviction in the newly formed team.

S&P has noted that boutique managers often need to ensure that their founders (who are often the most experienced) contribute to the investment process, while also allowing the best ideas from other team members to be incorporated into portfolios, as well as encouraging a culture of healthy debate. If this balance cannot be maintained, the process can become dominated by a single strong personality. S&P believes this was contributing to past staff dissatisfaction. S&P acknowledges that IML management has attempted to address this problem.

Product Features

The fund will typically include around 50 stocks, and the cash allocation is limited to 10%. The manager has been prepared to go to cash in markets where it considers there to be few value-driven opportunities.

Portfolio turnover is typically very low (30% per year) which should increase the tax-effectiveness of this product, particularly for investors with high marginal tax rates.

Historically, the portfolio has persistently held underweight exposures to resources and listed property trusts, and overweight exposures to the industrials and consumer discretionary sectors.

The management fee is 0.95%, which is in line with those of relevant peers.

Fund Objectives

| | |
|------------------------|--|
| Benchmark | S&P/ASX 300 Accumulation Index |
| Target return (% p.a.) | Outperform b/m after fees (rolling 4 yr periods) |

Investment Style

IML manages the fund using a conservative, value-investment approach. Although it benchmarks to the S&P/ASX 300 Accumulation Index, capital preservation is a key tenet of the IML approach. Stock selection focuses on identifying good quality companies at appropriate valuations. Speculative, highly leveraged, and cyclical stocks will typically have underweight exposures to the benchmark, or be excluded.

| | | | | | | |
|-----------|--|--|--|--|--|-----------|
| Passive | | | | | | Active |
| Value | | | | | | Growth |
| Small Cap | | | | | | Large Cap |

Investment Team

In its previous review in April 2008, S&P noted its concerns regarding the significant instability in the IML investment team with its high level of staff turnover, and also about the ability of the manager to fully use the analyst team's inputs into the investment process. IML has replaced lost staff, albeit with analysts with less direct funds management experience. It has also implemented measures to retain staff through a new equity scheme.

Mr. Tagliaferro is responsible for the overall management of the fund. Mr. Tagliaferro is the founder of IML and has over 20 years' experience managing value portfolios. In addition to Mr. Tagliaferro, the team includes two portfolio managers (who also have analyst responsibilities), six equities analysts, and two quantitative analysts.

Staff retention has been an ongoing problem for the team, which has undergone significant change over the past two years. In February 2008, Paul Frost, senior portfolio manager of large-cap stocks, and equity analyst, Shaun O'Malley left IML. In response to these departures, Chris Prunty and Mark Wade were hired. Mr. Wade is participating in IML's newly introduced rotational trainee program and is currently working with Simon Conn covering small-cap stocks. In June 2008, an additional three investment members resigned: equities analysts, Peter Moller and Tony Waters; and research/quantitative analyst Vessela Tasker.

Following the second round of departures, Julian Beaumont and Robert Bishop joined the team as equity analysts; in addition to two quantitative analysts, Andrew Harrison and Paul Winter. Mr. Harrison has an extensive background in quantitative funds management and trading systems. He has joined IML on a part-time basis, and his contribution has largely involved the development of IML's trading systems. He has minimal influence on portfolios.

The two new fundamental analysts have sell-side and investment banking backgrounds, but IML is their first funds management experience. S&P considers these analysts to have appropriate skills; however, there will be a period of adjustment as they gain experience on the "buy" side.

The investment team is structured to support the portfolio managers across both the large- and small-cap products. Previously, IML assigned analyst responsibilities based on a company's market capitalisation, and

there were distinct large- and small-cap teams. The relative inexperience of the newer analysts may mean that it takes some time to build up the same depth of knowledge as existed in the previous team. A positive development is that one of the new analysts, Mr. Bishop has a solid technical background in the resources industry; historically, this is a sector IML has largely avoided.

Analysts' remuneration comprises a base salary, a short-term incentive plan which is directly linked to analysts' model portfolios, a profit-share arrangement, and a recently introduced equity plan in non-voting shares. Overall, S&P believes IML has taken positive steps to address the staff-retention problem. S&P will continue to monitor the development of the IML investment team.

| | | | | | |
|----------|--|--|--|--|-------------|
| New | | | | | Experienced |
| Small | | | | | Large |
| Unstable | | | | | Stable |

Investment Process

The investment process is straightforward and appropriate for a manager with this bottom-up, value philosophy. The manager screens the entire ASX universe using liquidity and quality filters, which reduce the investable universe to approximately 300 stocks. It then ranks the investable universe by sector and by value to identify stocks for further in-depth analysis.

Analysts will undertake a five-step assessment of a company that includes segmental analysis, company contact, research reports, valuations, and the setting of price targets. The manager requires analysts to indicate a confidence ranking to describe their level of conviction in a company's estimated future earnings.

Companies that IML identifies as attractive are then considered for inclusion in the portfolio. The portfolio-construction process aims to skew the fund in favour of those stocks that IML considers the most undervalued, or those that have the analysts' highest conviction in the valuation and investment case. There are a series of portfolio-construction guidelines in place to ensure adequate diversification.

Performance

The fund aims to provide a total return (after fees and before taxes) that is superior to the S&P/ASX 300 Accumulation Index over rolling four-year periods. Tracking error is not targeted; however, the manager aims to keep it below 6% per year.

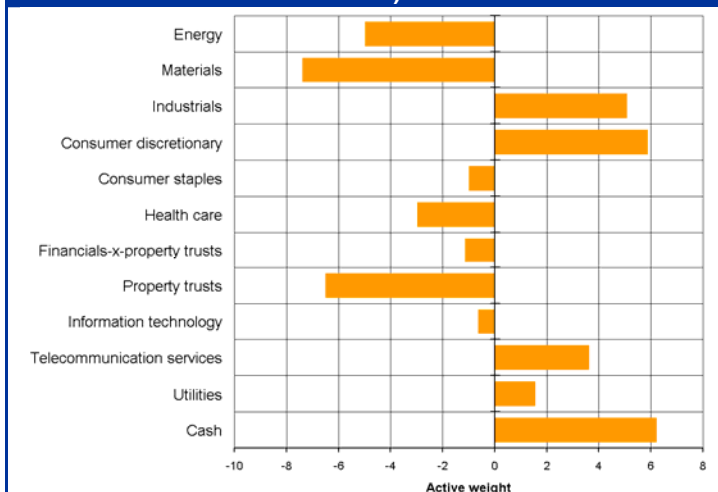
Over the five years to May 31, 2009, the fund returned 4.75% per year compared to its benchmark which returned 6.53% per year. Over the three years to May 31, 2009, the fund returned -3.51% compared to the benchmark which returned -4.46%.

The conservative, value-investment approach and capital preservation focus have led to consistently lower levels of volatility than those of the market. IML has, along with other value managers, outperformed during the recent bear market conditions prevailing up until the past few months.

| Performance Measures | |
|---------------------------------------|----|
| Average portfolio turnover (%) | 30 |
| Typical number of stocks in portfolio | 50 |

Source: Investors Mutual Limited.

Sector Exposure Versus Fund Benchmark (at March 31, 2009)



Source: Investors Mutual Limited.

Risk Management

There are two elements to risk management for the fund: the conservative investment philosophy and focus on capital preservation, and the series of portfolio-construction guidelines that aim to ensure adequate diversification.

The portfolio-construction guidelines include stock, sector, and size limits; and a maximum tracking error of 6% per year. Derivatives are used only in the management of portfolio risk and cash flows, with no gearing permitted. The portfolio's cash allocation is limited to 10%, with IML prepared to use the full cash weighting if it cannot find attractively valued stocks.

Management Group Profile

Mr. Tagliaferro established IML as a specialist Australian-equities manager in May 1998. The current ownership structure has been in place since Jan. 1, 2009, with Treasury Group owning 47.5% of the business, and Mr. Tagliaferro and key staff owning the balance. At this time, a new class of non-voting shares was issued as part of a revised staff equity plan. Other than Mr. Tagliaferro, key investment staff members currently own about 10% of the business.

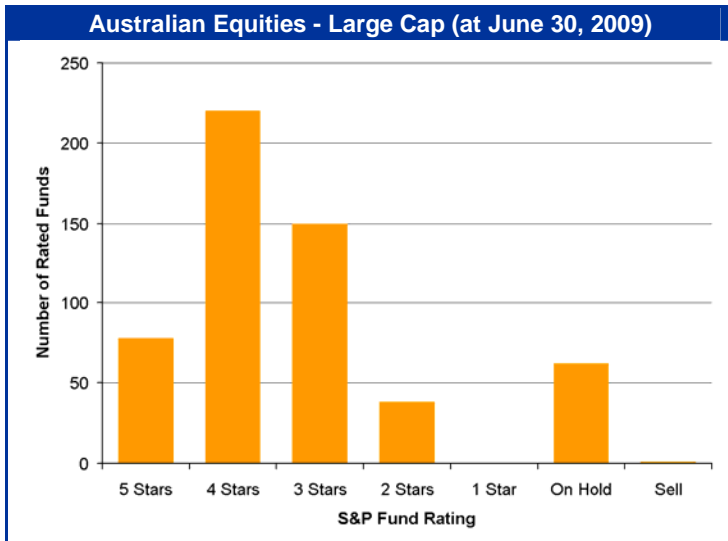
Market Share

At March 2009, IML had A\$3 billion in funds under management (FUM). It continues to have a strong focus on servicing its retail investor base.

Analyst(s): Leanne Fook; James Gunn.

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. |
|  | Standard & Poor's has high conviction that the manager will consistently generate risk-adjusted fund returns in excess of its relevant investment objectives and relative to its peers. |
|  | Standard & Poor's has conviction that the manager will generate risk-adjusted fund returns in-line with its relevant investment objectives and relative to its peers. |
|  | Standard & Poor's has conviction that the manager will not generate risk-adjusted fund returns in 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

 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.

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.assirt.com.au. "S&P" and "Standard & Poor's" are trademarks of The McGraw-Hill Companies, Inc. Copyright 2009 Standard & Poor's Information Services (Australia) Pty Limited. Certain funds data contained herein may be proprietary to Morningstar, Inc.