

Magellan FuturePay
(Managed Fund)
(CXA: FPAY)

Update

30 May 2022

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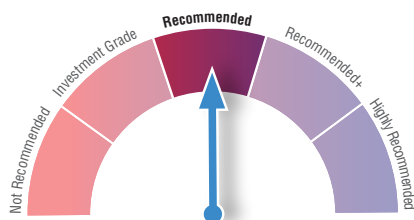
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Magellan FuturePay (Managed Fund) (CXA: FPAY) - Update

Note: This report is based on information provided by Magellan Asset Management Limited.

Rating



Key Investment Information (as at 31 March 2022)

Cboe Ticker	FPAY
NAV per Unit	\$5.7716
Units on Issue (m)	3.6
AUM (\$m)	20.8
Value of Support Trust Rights	\$0.5234
Monthly Distribution Amount (cps)*	2.089
Listing Date	2 June 2021
Fund Structure	Exchange Traded Managed Fund (ETMF)
Responsible Entity (RE)	Magellan Asset Management Limited
Investment Manager	Magellan Asset Management Limited
Market Maker	Magellan Asset Management Limited
Fees:	
Management Fee (p.a)	1.0% (incl. GST)
Performance Fee (p.a)	na
Entry Fee (Buy spread for direct applications with the RE)	0.10%
Exit Fee	The sell spread (0.10% for direct investments) and the Mutualisation Amount, which can be up to 7.5% of the NAV.

*The monthly distribution will be adjusted for inflation on a quarterly basis.

FX Exposure

The Manager intends to invest in stocks on global stock exchanges and therefore will have direct exposure to foreign currency. To date, the FX exposure has been partially hedged with a hedge ratio of 42.53% as at 28 February 2022.

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.

PRODUCT SUMMARY

Magellan FuturePay (Managed Fund) (CXA: FPAY) ("FPAY" or the "Fund") ticked over its 9-month anniversary since listing in March 2022. FPAY is an exchange traded managed fund (ETMF) that seeks to provide investors predictable, monthly distributions that grow with inflation, with the potential for capital growth and protection in down markets. The Fund is managed by Magellan Asset Management Limited (the "Manager"). The Manager is also the Responsible Entity (RE) of the Fund and is responsible for making a market for the Fund. The Fund seeks to achieve its objective through an investment in a portfolio of securities that represents a blend of the Magellan Global Plus strategy (50%-60%) and the Magellan Core Infrastructure strategy (40%-50%), in combination with a reserving strategy whereby cash will be directed to a discretionary trust ("Support Trust"). The Support Trust is used to support distribution payments if the portfolio performance is insufficient to meet the ongoing distribution requirements. The Support Trust is a separate pool of assets, which investors have no rights to. A key aspect of the Fund is that it mutualises, via the Support Trust, a portion of the capital from the issue of new units and some of the excess returns of the portfolio above the inflation index (value of the portfolio per unit adjusted for inflation) to support distribution payments. The premise for the reserving strategy is to reduce the erosion of the value of the portfolio of securities in weak markets by using the assets of the Support Trust to contribute to distributions (either partially or fully). To 28 February 2022, the Support Trust had contributed to the distribution in 3 of the 8 monthly distributions paid.

The Manager receives a management fee of 1.0%p.a (including GST) of the portfolio value of the Fund (ie. the value of the Fund less the Support Trust Rights). The management fee will only be charged at the Fund level. No performance fee is applicable.

INVESTOR SUITABILITY

The Fund has been designed for investors that: (1) seek a predictable monthly income that grows with inflation; (2) an investment that grows at or above inflation, net of income and fees; and (3) convenient access to capital with the flexibility to access their investment through their preferred transaction method, either on-market through the Cboe Australia exchange (previously Chi-X) or off-market through direct application with the RE (see Appendix A). An investment in the Fund may be suitable for those in retirement and has been designed specifically for the needs of retirees, however, may also be suitable for other investors seeking a long-term investment and require a stable, regular income, with the ability to access their capital if need be. In return for the inflation-adjusted monthly distribution, investor's contribute to the Support Trust, with the Fund directing a portion of capital raised plus a portion of the portfolio returns in excess of inflation to the Support Trust. Investors benefit from the Support Trust during periods of underperformance, however, have no rights to the assets of the Support Trust and therefore forego the value of the Support Trust upon exit from the Fund. As such, we view an investment in the Fund as suitable for those investors with a long-term investment horizon with investors forgoing up to 7.5% of capital on exit in return for a regular fixed income (adjusted for inflation).

RECOMMENDATION

Independent Investment Research (IIR) has assigned a **Recommended** rating to Magellan FuturePay (Managed Fund) (CXA: FPAY). The below report provides an update as to the performance of the Fund since its listing in June 2021. The Fund is functioning as designed and to date has delivered on its key objectives. Investors have benefited from the inflation adjusted distribution, with the distribution increasing in line with inflation on a quarterly basis, an important feature of the Fund given the current environment. There is a healthy level of distribution coverage in the Support Trust, with distribution coverage of 34 months as at 28 February 2022. The Support Trust has more than sufficient coverage to meet the distributions during the current weak market conditions. The Support Trust assists with preserving the capital of the portfolio in negative markets by not liquidating positions at a loss to make distributions. FUM growth has been slow, however this was expected by the Manager given it is the first product of its kind on the Australian market. There has been limited secondary market liquidity to date, however we expect this to increase as the Fund grows in size.

SWOT

Strengths

- ◆ FPAY seeks to provide a regular, inflation-adjusted distribution to investors with the benefit of readily available access to capital with unitholders able to buy and sell units on a daily basis either through the Cboe Australia listed ETMF or through a direct application with the RE.
- ◆ In addition to a steady inflation-adjusted distribution, FPAY offers the potential for capital appreciation. While a portion of the returns after paying fees and distributions may be directed to the Support Trust, this amount is capped meaning a portion of the capital returns will remain in the Fund. This compares to annuities where there is typically no or minimal capital growth potential. Further to this, during periods when the portfolio value underperforms the inflation index, the Support Trust will be used to contribute to distributions so the Fund is not selling securities in weak markets to fund the distribution, thereby preserving the capital value of the underlying investments.
- ◆ The Magellan Group committed to contribute up to \$50m to the Support Trust upon the establishment of the Fund to assist the initial capitalisation of the Support Trust. The capital contributed will not be able to be withdrawn or returned to the Magellan Group, except on the wind up of the Fund or the removal of Magellan as the Responsible Entity, at the discretion of the Trustee of the Support Trust. At February-end, Magellan had contributed \$1.5m of the capital contribution to the Support Trust. The contribution has and will continue to benefit the Fund by offsetting any weakness from the portfolio of securities in the early years of the Fund in addition to ensuring the Reserve Ratio is not diluted from the issue of new units.
- ◆ The Fund has a Single Unit (dual registry) structure which enables investors to invest either on-market through the Cboe Australia exchange or off-market through a direct application with the RE.
- ◆ The ETMF structure provides for transparency of the value of the portfolio during the trading day through the iNAV (the intraday NAV), which is published on the RE's/ Manager's website. We note that the Fund will invest primarily in global securities and therefore there will likely be little movement in value during the Australian trading day.
- ◆ As required for ETMF's, the Fund has a Market Maker that provides liquidity for the Fund so that investors can trade at a price that is close to the NAV of the Fund. We note that secondary liquidity may be provided from existing unitholders seeking to trade their position that may see the Fund trade at odds with the NAV. The Manager is the Market Maker for the Fund and has appointed a Market Making Agent to provide execution and settlement services on their behalf.

Weaknesses

- ◆ In order to receive the benefits of the Support Trust, investors will forego the Mutualisation Amount upon exit directly through the RE. The Mutualisation Amount represents the value of the Support Trust Rights included in the NAV, subject to a cap of 7.5%. We note that whilst investors give up the mutualisation amount, investors benefit over the long-term from the benefit of the Support Trust supporting distributions to maintain a steady monthly income for investors that increases with inflation.
- ◆ There has been significant instability in the management and investment team of the Magellan Group, which has contributed to a significant outflow of FUM. The Responsible Entity and the Manager have been able to replace the exiting team members with experienced personnel that know the Magellan process and strategy, however the abrupt exit has caused disruption to the business.
- ◆ Magellan Asset Management is both the Responsible Entity and the Manager of the Fund, which provides for potential conflicts of interest with respect to acting in the best interests of unitholders. We note that Magellan has significant resources at its disposal to implement the scheme effectively and is exposed to significant reputational risk which in our view reduces the risk of conflicts.

Opportunities

- ◆ An investment in the Fund seeks to offer investors a stable, inflation-adjusted income stream with an attractive yield and protection against deflation. The Fund removes the potential income volatility from investing in the underlying strategies or stocks and funds in general.

- ◆ Investors may be able to use the dual registry structure to their advantage upon purchase and sale of units in FPAY with the ETMF structure providing investors the ability to transact on the secondary market, potentially obtaining a better price than with a direct investment or redemption with the RE.

Threats

- ◆ As has been highlighted in the Fund's performance to date, during periods of underperformance of the portfolio value compared to the inflation index the Support Trust will be used to contribute to distributions. Consistent periods of underperformance by the portfolio of investments may result in the depletion of the Support Trust. The Manager has reduced the risk of Support Trust depletion in the initial years through the capital contribution of up to \$50m by the Magellan Group and access to the MFG Reserve Facility up to \$100m, which can be used if the Reserve Ratio is less than 5%.
- ◆ Unlike an annuity investment, the distribution is not guaranteed by the Manager. Therefore, there may be circumstances where the Fund is unable to meet the distribution requirements. We note that the Manager will make all efforts to ensure that this does not occur.

FPAY UPDATE

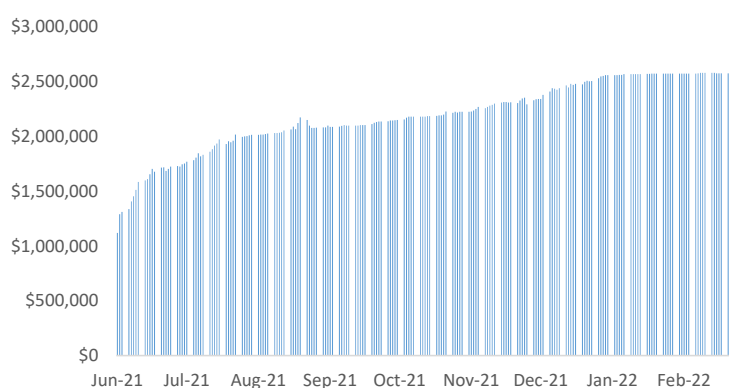
Magellan FuturePay (CXA: FPAY) was listed on 2 June 2021 on the Cboe Australia exchange (previously Chi-X). This report is intended to provide an update on the key features and performance of the Fund.

FPAY seeks to provide investors predictable, monthly distributions that grow with inflation, with the potential for capital growth and protection in down markets. The Fund is managed by Magellan Asset Management Limited (the "Manager"). The Manager is also the Responsible Entity (RE) of the Fund and will be responsible for making a market for the Fund. The Fund seeks to achieve its objective through an investment in a portfolio of securities that represents a blend of the Magellan Global Plus strategy (50%-60%) and the Magellan Core Infrastructure strategy (40%-50%), in combination with a reserving strategy whereby cash will be directed to a discretionary trust ("Support Trust"). The Support Trust will be used to support distribution payments if the portfolio performance is insufficient to meet the ongoing distribution requirements. For further details regarding the structure of the Fund, please refer to our Initiation of Coverage report published in August 2021 (https://independentresearch.com.au/research_reports/magellan-futurepay-managed-fund-chi-x-fpay-initiating-coverage/).

A key aspect of the Fund is that it mutualises, via the Support Trust, a portion of the capital from the issue of new units and some of the excess returns of the portfolio to support distribution payments in weak markets. The premise for the reserving strategy is to reduce the erosion of the value of the portfolio of securities in weak markets by using the assets of the reserve (Support Trust) to contribute to distributions (either partially or fully).

The Support Trust has operated as designed, growing since inception to \$2.56m at 28 February 2022. The Support Trust has grown due to a combination of ongoing reserve payments, adequacy contributions from both FPAY investors and Magellan contributions.

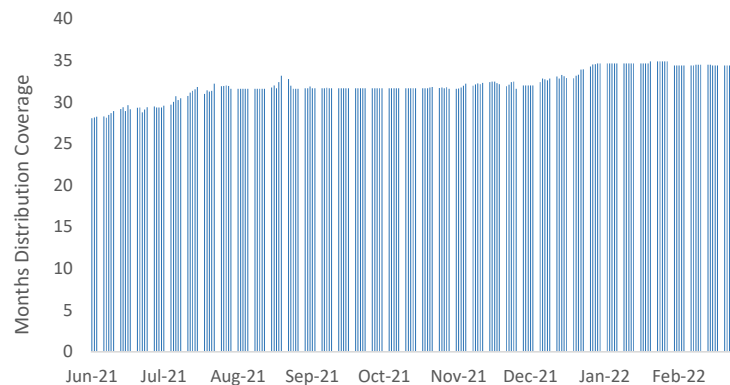
Support Trust Growth



Source: Magellan Asset Management Limited

Growth in the Support Trust has seen the number of months of distribution coverage increase to 34 months at 28 February 2022. We note that this is based on the current distribution amount and does not account for increases resulting from inflation adjustments.

Number of Months of Distribution Coverage by Support Trust

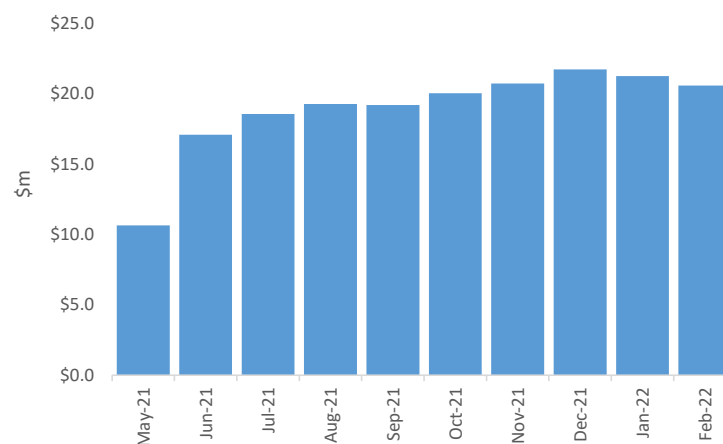


Source: Magellan Asset Management Limited

FPAY AUM Growth

FPAY Assets Under Management (AUM) has grown steadily since listing in mid-2021. Given the nature of the product and the rollout through the platforms the Manager anticipates that AUM growth will take time. Magellan seeded the Fund with \$10m and the has advised that they have no intention to withdraw the seed capital.

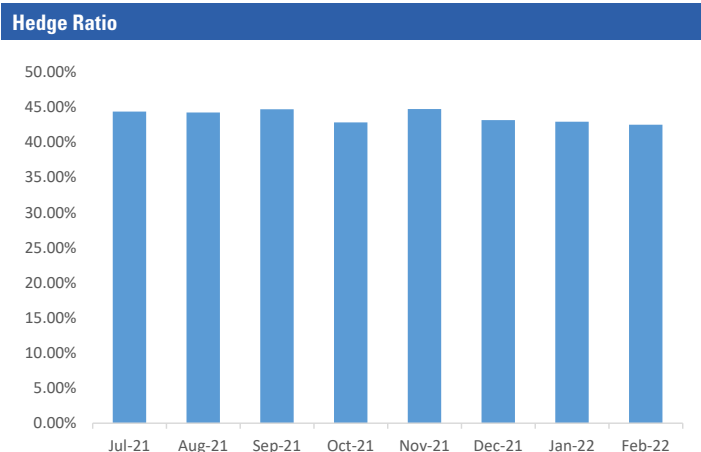
FPAY AUM Growth



Source: FPAY

FX Hedging

Given the Fund will be investing in global securities and as such the Fund will have direct foreign currency exposure. The foreign currency exposure has been partially hedged to date with an average monthly hedge ratio of 43.71% to 28 February 2022. The unhedged portion of the investments will result in movements in the relevant currencies impacting the Australian dollar value of the Fund.



Source: FPAY

RESPONSIBLE ENTITY & INVESTMENT MANAGER UPDATE

Magellan Asset Management Limited (Magellan) is the Responsible Entity (RE) and the Investment Manager of the Fund. Magellan is a wholly-owned subsidiary of Magellan Financial Group Limited (MFG), an ASX-listed asset management group. At 11 March 2022, MFG had FUM of \$69.1b. After a period of strong growth, FUM levels have declined sharply over the past six months with FUM back at 2018 levels. The FUM decline has been driven by a level of instability in the management team with the CEO, Brett Cairns exiting the company and CIO, Hamish Douglass, taking indefinite medical leave unexpectedly in recent times.

Hamish Douglass was the Co-Portfolio Manager, together with Arvid Streimann, for the global equities strategy, which is one of the two strategies the Fund invests in. Nikki Thomas has recently returned as a Co-Portfolio Manager of the global equity strategies with Mr. Streimann, who remains as Co-Portfolio Manager. Ms. Thomas was previously with Magellan and involved in the global equity strategy from July 2007 to December 2017 and has over 20 years' investment experience. In addition to this, Chris Mackay has an oversight role in relation to the portfolio management of Magellan's Global Equity strategies led by Ms. Thomas and Mr. Streimann. Mr. Mackay was the inaugural Chairman of Magellan and was the CIO from inception in 2006 to 2012, having significant input into the processes and investment strategy of the global equity strategy.

With respect to FPAY, Paddy McCrudden remains the Portfolio Manager of the Fund. Paddy is responsible for the allocation of invested capital between the Fund and the Support Trust. Paddy was the creator of the Fund, which he has developed since joining Magellan in 2017. Paddy has a Ph.D in pure mathematics from Macquarie University in Sydney and was a lecturer in pure mathematics at McGill University in Quebec and Macquarie University in Sydney and has significant experience in the development and management of quantitative based investment strategies.

The portfolio of investments and the assets of the Support Trust will be overseen by an Investment Committee (IC). The departure of Brett Cairns has seen the appointment of Vihari Ross to the IC. Vihari has 20 years experience in investment and joined Magellan in 2007. Prior to her appointment to Head of Research she was Head of the Franchises team and retains responsibility for research coverage of franchises stocks. Before joining the Franchises team in 2009, Vihari was a Senior Analyst on the Financials team. Prior to Magellan, Vihari spent four years as an equity analyst at Ausbil Dexia, covering the financials and consumer sectors, and worked as a quantitative analyst at Commonwealth Investment Management (now Colonial First State).

The updated IC members are detailed in the below table.

FPAY Investment Committee			
Name	Position	Industry Experience (years)	Tenure with Manager (years)
Paddy McCrudden	Portfolio Manager & Head of Retirement Solutions and Data Science	21	4
Domenico Giuliano	Deputy CIO & Portfolio Manager	27	14
Arvid Streimann	Head of Macro & Portfolio Manager	22	8

FPAY Investment Committee			
Name	Position	Industry Experience (years)	Tenure with Manager (years)
Vihari Ross	Head of Research and Head of Core Series/ Portfolio Manager	21	15
Gerald Stack	Head of Investments, Head of Infrastructure & Portfolio Manager	33	14

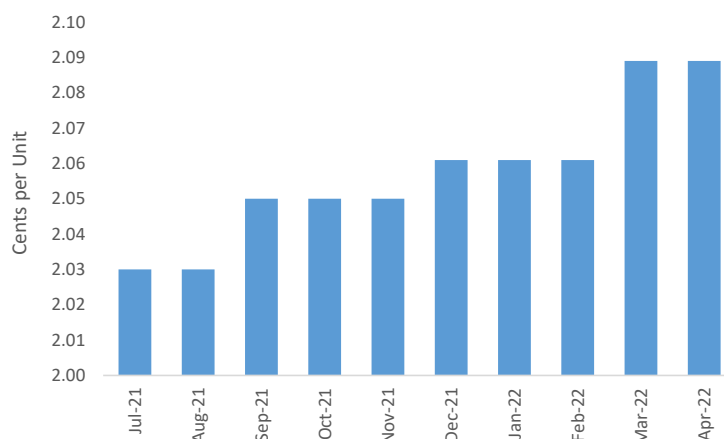
PERFORMANCE ANALYTICS

FPAY has a limited history with the Fund having less than one year of operations. The below highlights the key aspects of the performance of the Fund to 28 February 2022 since listing.

Providing a regular and predictable monthly income stream that grows with inflation is one of the key objectives of the Fund. The Fund has achieved this objective to date, paying a monthly distribution since listing, as detailed in the below chart. As detailed in the PDS at listing, distributions have been paid on or around the 15th of each month.

The distributions are adjusted quarterly for increases in inflation (determined by the Australian Consumer Price Index (CPI)). The distribution amount has increased in line with the increase on the year-on-year CPI in every quarter since listing. The distribution amount for the March quarter (March, April and May distributions) increased 1.36% in line with the reported increase in CPI for the December quarter. Due to investor demand, the Fund commenced a DRP. Given the nature of the Fund and the goal of providing an reliable income to those seeking one, we would not expect the DRP to be taken up by a large percentage of investors over the long-term.

Distributions Paid



Source: Iress, IIR

To February-end 2022, the Support Trust had contributed to three distributions as tabled below. The Support Trust will contribute to distributions (either partially or fully) in the event the Fund's portfolio value falls below the inflation index in any given month.

Support Trust Contributions to Distributions

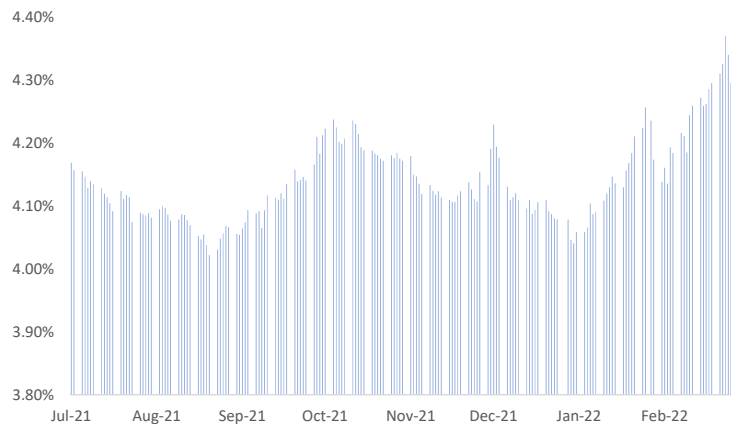
Monthly Distribution	Total Distribution Amount (cps)	% Support Trust Contribution
October 2021	2.05	0.70%
January 2022	2.061	3.81%
February 2022	2.089	20.69%

Source: Magellan Asset Management Limited, Iress

The Fund had an initial distribution yield target of 4.25%. The below chart shows the annualised running yield of the Fund. The running yield represents the annualised distribution amount compared to the NAV per unit.

Given the distribution amount is fixed until the quarterly inflation adjustment, the running yield will increase and decline with movements in the NAV per unit. The running yield has ranged between 4.0% and 4.4% since inception to 28 February 2022.

Running Yield

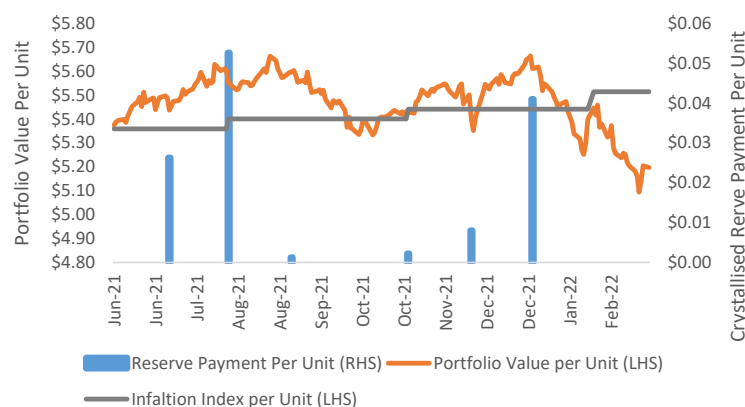


Source: Magellan Asset Management Limited, Iress, IIR

Reserves are contributed to the Support Trust when the portfolio value per unit (ex-distribution) exceeds the inflation index in the event the Reserve Ratio is less than 20%. A maximum of 45% of the excess performance of the portfolio value and up to 50% of the excess NAV above the inflation index value will be contributed to the Support Trust.

The below chart shows the reserve payments that have been made to the Support Trust thus far combined with the portfolio value and inflation index per unit. In the event the portfolio value outperforms the inflation index, reserves build and are crystallised/contributed to the Support Trust at month-end. During periods of underperformance, no reserves are contributed to the Support Trust.

Reserve Payments to Support Trust

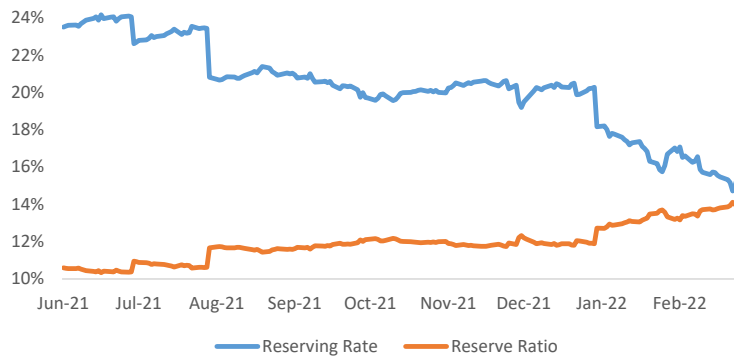


Source: Magellan Asset Management Limited

With the contributions to the Support Trust, the Reserve Ratio has been steadily increasing since inception with the Fund having a Reserve Ratio of 13.7% at 28 February 2022. As is highlighted by the below chart, the Reserving Rate declines as the Reserve Ratio increases with the amount reserved declining as the Reserve Ratio increases. No further contributions will be made to the Support Trust in the event the Reserve Ratio is in excess of 20%. At this point, the Manager views the Support Trust to be fully funded and further capital gains will be retained by the Fund in the portfolio.

The Fund has a capital facility in place to support distributions in the event the Support Trust falls below 5%.

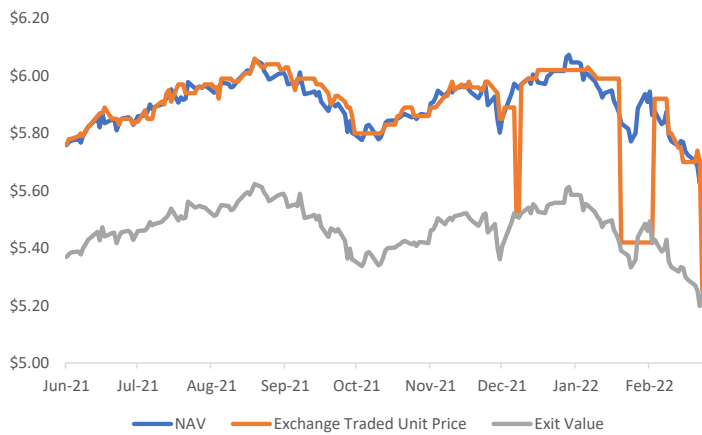
Reserve Ratio & Reserving Rate



Source: Magellan Asset Management Limited

Investors can access FPAY either on-market through the Cboe Australia exchange or off-market through an application with the Responsible Entity. The below chart shows that the exchange traded unit price was initially trading around the NAV of the portfolio, which does not take into account the Mutualisation Amount per unit that will remain with the Support Trust upon exit. In recent months, the exchange traded unit price has adjusted for the Mutualisation Amount and is now trading at a closer value to the Exit Price. The Exit Price is the NAV minus the Mutualisation Amount and sell spread, and the amount that investors receive if they were to exit their position off-market. At present, there is limited secondary market liquidity, however this is expected to increase as the fund grows.

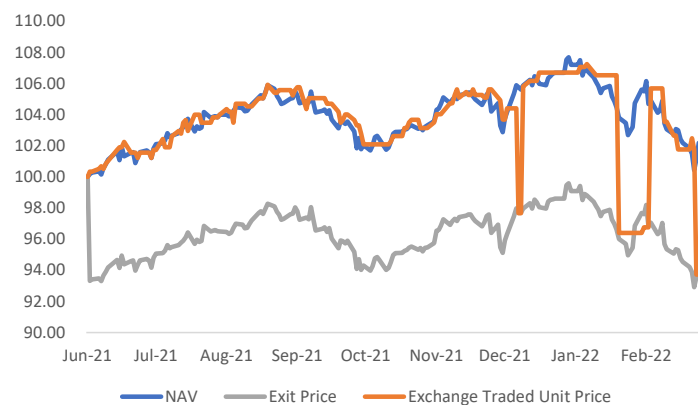
Exchange Traded Unit Price, NAV and Exit Price



Source: Magellan Asset Management Limited

The below chart provides a visual of the performance of the NAV, the exchange traded unit price and the Exit Price. For the Exit Price we have assumed the initial price was the Entry Price and subtracted the mutualisation amount which represents the sharp decline post listing. Therefore the returns below represent if an investor entered the Fund at the time of listing. We note the mutualisation amount differs on a daily basis and as such actual returns to investors would depend on the Mutualisation Amount on the date of exit.

FPAY Indexed Cumulative Total Return



Source: Magellan Asset Management Limited

The below table details the performance metrics of the Fund and includes the NAV, Exit Price and Unit Price returns. The Exit Price represents the return to investors for the respective period, meaning that the return takes into consideration the deduction of the Mutualisation Amount from the Entry Price. The Unit Price shows the return based on the FPAY Unit Price. The Unit Price has performed worse than the Exit Price due to the Unit Price trading in line with the NAV during the initial months post listing before adjusting to the Exit Price. The negative return represents the difference between the NAV/Entry Price and the Exit Price after accounting for the Mutualisation Amount. It will take a period of time for the capital and income returns to offset the deduction of the Mutualisation Amount, however this is designed to be a long-term investment with the product not suitable for investors with a short-term investment horizon.

Returns to 28 February 2022			
	NAV	Exit Price (Investor Return)	Exchange Traded Unit Price
Cumulative Total Returns:			
1 month	-3.4%	-10.8%	-2.8%
3 month	-1.2%	-8.7%	-10.7%
6 month	-1.9%	-10.2%	-9.9%
Since Inception	2.0%	-5.6%	-6.3%

APPENDIX A – SINGLE UNIT (DUAL REGISTRY) STRUCTURE

How Does the Single Unit Structure Work?

When an investor buys units in a fund off-market, the investor completes an application form and submits it to the fund's registry. Once the submission is processed, the investor is issued with a Securityholder Reference Number (SRN).

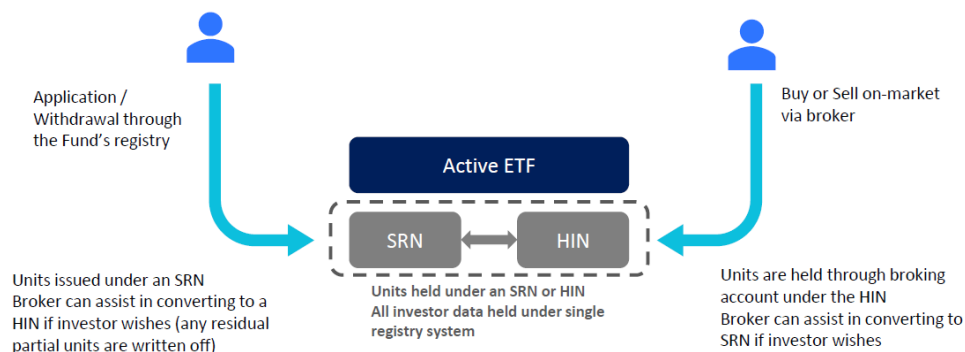
When an investor buys units in a fund on-market, the investor submits a purchase order with a stockbroker or online trading account. Once the transaction has been cleared, the units are settled to the investors Holder Identification Number (HIN).

Under the Single Unit Structure, when an investor wants to exit the fund, they have the choice of either selling on the stock exchange or redeeming directly with the fund via the unit registry. When selling on the stock exchange, a stockbroker will generally require that the units are held on a HIN associated with that stockbroker and the settlement occurs in a similar manner to the purchase of units on the stock exchange. If units are held on a SRN, the stockbroker will generally require the investor to convert their holding from a SRN holding to a HIN holding to ensure that the stockbroker has control over the units and doesn't have any issues settling the sale.

If an investor wants to redeem units directly with the unit registry, the investor will need to ensure that the units are held on a SRN. The unit registry cannot redeem units that are held on HIN as the stockbroker associated with that HIN controls the units. The investor needs to contact their stockbroker and asked for their holding to be converted from their HIN to a SRN (detailed in the below graphic).

Do I have to change the way I trade the units? No. We would expect most unitholders to buy and sell units through the same method, either off-market or on-market. Under this structure, the option to change is available, however, the key benefit to investors is that all investors can gain access to the same fund using their preferred method of transaction.

How to Buy & Sell Units in a Fund with a Single Unit Structure



Source: Magellan Financial Group

On-Market Transactions

Units can be purchased through a broker or online trading account through Cboe Australia. Investors buying and selling units on-market will incur a brokerage fee in addition to a spread on the NAV. There are no minimum investment amount requirements when acquiring units on-market, therefore access via this method may suit those that are acquiring units on a regular basis, such as part of a savings plan, or are looking to invest less than the minimum investment amount required for an unlisted fund at any given point in time. When buying units on-market, trades can be executed throughout any given trading day.

Off-Market Transactions

If an investor chooses to acquire units directly from the RE, a minimum investment amount \$10,000 is required.

To acquire units off-market an investor must make an application directly to the Responsible Entity. If an investor submits a valid application for units in a fund by the cut-off time on any given business day and transfers the application money to the fund's application trust account, units in the fund will be issued the following business day at the NAV per unit at the close of

the previous trading day. Investors will incur a spread upon entry and/or exit, which will vary depending on the terms and conditions of the fund.

Investors can expect to receive payments of withdrawals within 7 business days after the withdrawal has been accepted.

It's important to note that while the Single Unit Structure gives investors access to the same fund through multiple access points, the outcome for investors may differ depending on which path is taken. On-market investors can trade the units throughout the day, whereas off-market investors will receive the unit price as at the end of the relevant business day, depending on when the purchase/redemption request is received. This will impact the return to investors. The difference in the price received will likely have a greater impact for active investors than for long-term investors, unless there is a significant event during any given day.

The costs involved with a transaction will also differ. On-market transactions will receive the market price, which is typically a spread on the NAV and brokerage fees. Off-market transactions will incur the buy/sell spread associated with the fund. These costs may differ and have an impact on the return generated.

What is the iNAV?

A key feature of an ETMF is the iNAV. The iNAV is required to be provided by issuers and provides a regular updated as to the value of the portfolio during the trading day. The iNAV is provided on an issuer's website.

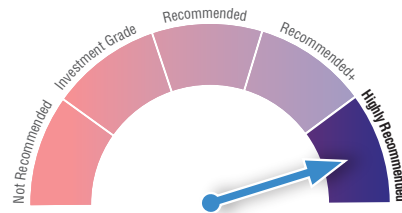
Why Should I Refer to the iNAV Before I Invest? Investors should always take the time to check the iNAV of an ETMF before investing as this is the indicative value of the NAV at any given point in time and therefore provides investors the price at which they should be buying or selling. In the event that the market price (price quoted on the ASX or Cboe Australia) is above the iNAV plus the spread, investors should consider purchasing directly with the Responsible Entity to ensure they are not "overpaying" for an investment. This is one of the benefits of the Single Unit (dual registry) Structure, investors have the option to either buy on-market or direct through an application with the Responsible Entity.

APPENDIX B – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD “IIR” RATING SYSTEM.

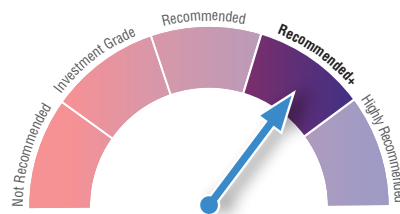
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
Highly Recommended	83 and above



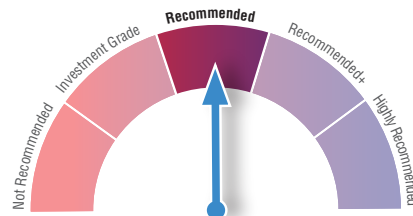
This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.

Recommended +	79–83
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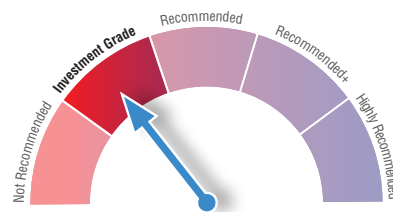
This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.

Recommended	70–79
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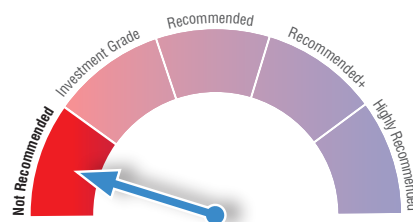
This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.

Investment Grade	60-70
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This rating indicates that IIR believes this is an average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an average risk/return trade-off and should be able to consistently generate average risk adjusted returns in line with stated investment objectives.

Not Recommended	<60
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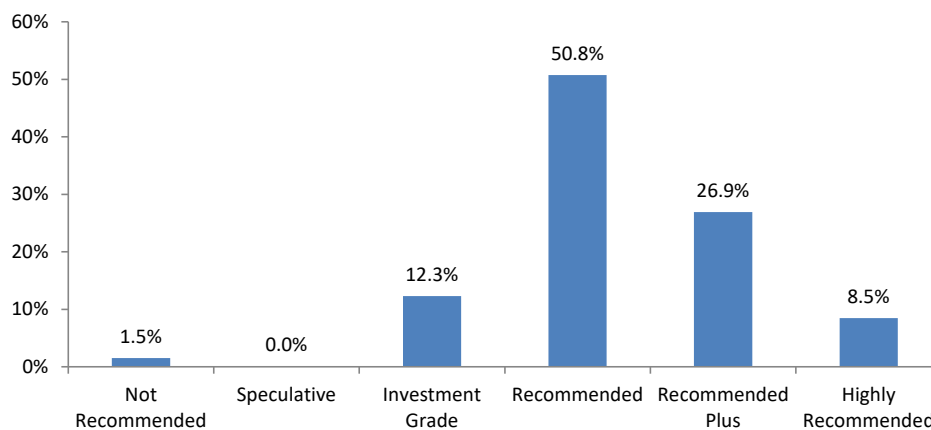


This rating indicates that IIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to be susceptible to high risks that are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

APPENDIX C – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

Spread of Managed Investment Ratings



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