STANDARD & POOR'S

Colonial First State CapGT – Aspect Series 1

Analyst(s): Rodney Lay, Michael Armitage

OVERALL RATING	
STRONG	
COMPONENT ASSESSMENT	
UNDERLYING	STRUCTURE
4 STARS	ENHANCES

Product Facts

Name:	Colonial First State CapGT – Aspect Series 1	**Open date:**	Sept. 20, 2010
Responsible entity:	Colonial First State Investments Ltd.	**Close date:**	Oct. 29, 2010
Investment manager:	Aspect Capital Ltd.	**Investment date:**	Nov. 4, 2010
Guarantee provider:	Commonwealth Bank of Australia	**Guarantee maturity date:**	Nov. 4, 2020
DPA provider:	Citigroup Global Markets Australia Pty Ltd.	**Liquidity:**	Monthly
		Min. investment:	A$5,000

Standard & Poor's View

Standard & Poor's Fund Services rates the Colonial First State CapGT – Aspect Series 1 (the fund) as 'STRONG' based on the strengths of the underlying Aspect strategy, the capital guarantee structure, and the complementary nature of the two components.

The fund provides variable exposure to the performance of the Aspect Diversified Programme (ADP) with the safeguard of at least a 100% capital guarantee at the 10-year maturity date.

ADP is a long-short managed futures strategy run by Aspect Capital Ltd. Aspect is a London-based systematic investment manager with a solid 12-year track record. Non-protected access to the ADP strategy has been available to Australian retail investors for the last year through the Aspect Diversified Futures Fund (ADFF). Aspect targets rolling five-year returns and risk of 10%–15% p.a. and 17%, respectively. Aspect uses a currency management strategy that aims to minimise unwanted foreign exchange risk.

The fund's exposure to the ADP may range from 0% to 100%, with the specific level determined by the exposure management rules. Based on ADP's historical and target performance, the rules have been designed to generate an exposure close to 100% over the full investment term, while limiting particular downside risks. As such, the fund is designed to generate returns that closely match the ADFF, allowing for differences in fees and interest accrued.

The capital guarantee provider is Commonwealth Bank of Australia (CBA). The guarantee is based on a zero-coupon bond (ZCB). The guarantee amount may increase contingent on annual performance.

Returns will comprise capital gains on exit and may include annual income contingent on the fund's performance. Based on our Monte Carlo analysis, the fund's simulated expected return is 10% per year, assuming a risk-return scenario consistent with the historical performance of the ADP. The average exposure to the ADP is in excess of 90%, representing an efficient and effective structure in which performance closely matches the ADP, excluding product fees.

However, based on the ADP's historical drawdown profile, there is a significant risk that the exposure to the performance of ADP may be materially less than 100%. In such a situation the performance of the fund may diverge materially from that of the ADP.

S&P has a high regard for the ADP strategy. Aspect has a strong research philosophy and its process has continued to evolve and deliver as markets and the size of the funds under management (FUM) have grown. This survivorship is impressive in a strategy type that has a high burnout rate. This view is reflected in our four-star rating on the Aspect Diversified Futures – Class A fund issued in March 2010.

We believe that a capital guarantee over the ADP provides a sound value proposition for risk-averse investors. The strategy's target risk-return profile justifies a risk mitigant and provides expected returns high enough that the expected return profile of the fund net of all product fees is competitive. Additionally, the relatively low and short duration drawdown profile of managed futures (relative to equities) may mitigate the "deleverage" risk inherent in the guarantee structure.

SWOT Analysis

Strengths

- Aspect has a highly experienced and well-resourced investment team and shown a strong commitment to the ongoing development of its strategy. Aspect has a strong 12-year track record.
- A managed futures strategy complements the capital guarantee exposure management mechanism in that the degree and duration of drawdowns is typically limited and short (vs. equities) due to the ability to allocate risk long or short and stop-loss behaviour.
- The rising guarantee generates an improved risk-return profile, generating a higher minimum return without materially reducing expected returns, based on our Monte Carlo analysis assuming a risk-return scenario consistent with ADP's historical performance.
- A potentially more efficient tax structure than a direct investment in the strategy as returns may be eligible for the 50% CGT discount rather than solely on income account.

Weaknesses

- The 10-year guarantee maturity term is longer than generally preferred and increases risks associated with longer term competitiveness of the Aspect strategy. However, investors may exit prior to maturity without incurring an early exit fee, albeit at the risk of receiving less than the guarantee amount.
- While broadly competitive especially compared to similar managed futures strategies, the absolute level of fees are relatively high.

Opportunities

- The opportunity for more risk-averse investors to gain access to a managed futures strategy, with the capital guarantee limiting downside risks.
- Managed futures have exhibited low correlations to traditional asset classes, and generally inverse correlation to equities in down markets. Such a strategy may be an effective source of portfolio diversification.
- The opportunity to profit in a variety of economic environments, with ADP capable of generating positive returns in most markets.

Threats

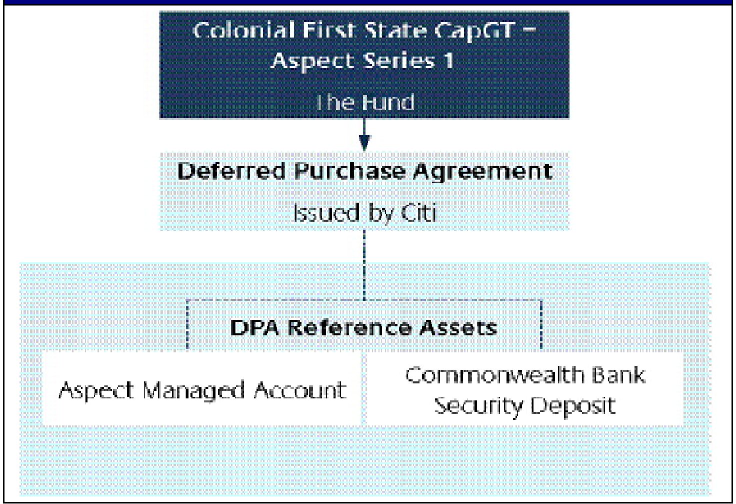
- A large drawdown, especially in the early stage of the investment term, may materially reduce the fund's exposure to ADP. This risk is material based on ADP's historical performance, which has recorded periods of significant drawdown.
- Given the lengthy investment term, the risk of the suspension, restriction, or unavailability of ADP. However, the longevity, strong reputation and track record of Aspect, the ongoing evolution of the strategy, and the FUM position greatly mitigate this risk.
- Counterparty risk (Citi NY) inherent in the total return swap.

Product Structure

Colonial First State CapGT – Aspect Series 1 is a managed investment fund. On the investment date, the fund will use the investment proceeds to buy a deferred purchase agreement (DPA) from Citigroup Global Markets Australia Pty Ltd. (CGMA).

The DPA will consist of two underlying assets—a CBA security deposit and the Aspect Managed Account (AMA). The security deposit supports CBA's capital guarantee obligation. In essence it is a ZCB, with the value increasing over time based on a fixed interest rate to a value equal to the capital guarantee amount at the maturity date. The AMA, which will be managed by Aspect, will trade on a pre-rata basis with the ADP.

Investment Structure



The percentage of the initial investment allocated to the security deposit is based on the present value of the issue price. The exact amount is a function of the prevailing 10-year bank bill swap (BBSW) rate on the investment date, a rate that is then fixed for the term. As of the date of this report, the expected allocation to the security deposit was approximately 60% of the investment amount.

CGMA will then use the residual amount minus the upfront fee, specifically 1.0%, to create the exposure to the AMA via a total return swap. Citigroup Financial Products Inc (CFPI) will own the AMA. Citigroup Inc (Citi NY) will guarantee CGMA's and CFPI's obligations under the DPA and swap.

While the initial allocation is approximately 39%, the AMA will aim to achieve a target exposure to the ADP equal to 100% of the net asset value (NAV) of the DPA. This leveraged exposure is possible because futures and forward contracts may be traded on margin.

In the case of the ADP, the margin amount will vary, but has historically ranged from 4% to 22%. The residual free cash amount earns interest income.

Exposure to the performance of the ADP may range from the targeted 100% to 0%, as determined by the rules. Under the rules a reduction in the exposure is a function of negative performance, an increase in volatility or a sharp drawdown in the ADP. The rules are detailed in the Exposure Management section.

If the AMA maintains 100% exposure during the full term, the difference in performance between the fund and the ADP will equal the difference in the ongoing fees of 0.92% per year and the different levels of interest income on the free cash. The free cash amount is lower in the AMA compared with the ADP. However, this may be compensated by the fund's exposure to the ZCB which should accrue at a higher rate.

Under the DPA, the fund will buy the delivery assets from CGMA but will not take physical delivery of those assets until the maturity date. The value of the two underlying assets will be reflected in the value of the DPA. On maturity, CGMA will buy a quantity of delivery assets in the name of the fund equal to the value of the DPA.

The delivery assets are intended to be units in the ADFF (administered on the FirstChoice Wholesale Investments platform). ADFF has been selected as it offers continuity of investment given it employs the ADP in accordance with the AMA.

Counterparty risk lies with both CBA and CGMA. If CGMA fails to meet its obligation under the DPA on the maturity date, CBA will access the security deposit to fulfil its guarantee obligations to the fund. Additionally, there is counterparty exposure inherent in futures trading undertaken in the ADP.

Early Withdrawal

An early withdrawal value will partly reflect a security guarantee value that is based on prevailing market interest rates. This will differ from the actual DPA value if held to maturity, where the value of the security guarantee is based on the principal amount plus accrued interest.

Taxation

Returns on exit are expected to be on capital account. If the investment is held for more than 12 months, investors may be eligible for the 50% CGT discount. Contingent annual income is likely to be on income account in the year paid.

This is an important distinction and strength relative to a direct investment in the underlying investment strategy. In the case of a direct investment, as the underlying strategy trades in derivatives, all returns are on income and so not eligible for the 50% CGT discount. On an after-tax basis, it is possible that returns for an investor in the fund may exceed a direct investment in the underlying, despite the additional layer of fees associated with the capital guarantee.

S&P advises that tax consequences depend on individual circumstances and investors should seek their own taxation advice. The above comments regarding taxation treatment are based on S&P's understanding, but cannot be considered tax advice.

Foreign Exchange Risk

The fund is not hedged at the fund level. Instead, the AMA is based in Australian dollars and invests within global markets denominated in foreign currencies. Aspect uses a currency management strategy that aims to minimise unwanted risk.

Fees

The fees of the fund and the underlying strategy are detailed below. The investment manager fee and performance fee relate to the underlying strategy.

Investors may also be charged advisor commissions. The maximum permissible levels are an upfront amount of 2.15% and an ongoing trail commission of 0.5% per year. These amounts may be "dialled down" to zero. As the actual amounts are subject to the commercial terms between advisor and investor, S&P regards such costs as exogenous to the fund from a ratings perspective.

Fees and Costs

Type	Paid to	Amount
DPA Arranger Upfront Fee	CFS	1% purchase price
DPA Arranger Ongoing Fee (% p.a)	CFS	1.5%* NAV of DPA
DPA Margin Fee (% p.a.)	CGMA	0.35% NAV of DPA
Early Withdrawal Fees:	N/A	Zero
Investment Manager Fee	Aspect	1.0% **
Investment Mgr Performance Fee	Aspect	20%***

*Subject to a reduction of 0.5% p.a. if the ongoing trail is 'dialled-down' by investor.
** As a percentage of the net investment exposure to the ADP.
***Of the dollar value of positive performance (minus any carried forward negative performance) generated on the AMA.

We view the 1.85% p.a. amount of fund-specific fees as broadly in line with the capital protected peer group, albeit at the upper end—the peer group averages around 1.5%. However, we note that the most directly comparable capital protected managed futures product in the Australian market charges considerably higher fees than the fund.

	Low	Medium	High
Income return	X		
Capital return		X	
Income risk	X		
Capital return risk		X	
Income payment risk			X
Risk to capital	X		
Leverage			X
Cost		X	
Liquidity		X	
Transparency		X	
Tax efficient		X	
Manager experience			X

Exposure Management

The fund's exposure to the performance of the ADP is governed by the "exposure management rules". Under the rules, exposure to the ADP may range from a maximum 100% to a minimum 0% ("cash lock").

The rules determine exposure according to three separate measures of ADP performance: returns, volatility, and drawdown.

In the context of the ADP's historical and target performance, the criteria have been designed so that the AMA will generally maintain close to 100% exposure to the ADP over the longer term. The aim is the performance of the AMA closely matches that of the ADP.

However, in the event of elevated volatility or a sharp drawdown in the ADP or where trading losses in the fund have significantly reduced the cash available to cover margins, exposure may be reduced below 100%. Conversely, exposure may subsequently be increased in the event of trading gains, a reduction in volatility, or the passage of time since the drawdown event.

The purpose of the exposure management system is to strike a balance between maximising exposure to the ADP while limiting downside risk. The latter is particularly important given the leveraged nature of the AMA's exposure to the ADP.

While the capital guarantee is based on a ZCB, the exposure management rules create a mechanism not dissimilar to the constant proportion portfolio insurance (CPPI) rebalancing process, in which exposure to the underlying growth asset may be reduced or increased. Consequently, performance is path-dependent and the mechanism may create implicit costs—specifically, the opportunity cost of forgone growth potential by being less than 100% exposed to the strategy.

While there are similarities to CPPI, the guarantee structure has a number of relative advantages. Specifically, liquidity is frequent, investors are able to make partial withdrawals, and it incorporates a rising guarantee and volatility and drawdown controls. Additionally, as the mechanism does not trigger actual buying and selling of units in the underlying, it does not incur buy/sell spreads nor does it trigger tax events.

Based on S&P's Monte Carlo analysis, the fund's capital guarantee structure generates a higher expected risk-return outcome than a traditional CPPI structure for an underlying asset with high volatility. The structure is relatively well-designed for the risk profile of the Aspect strategy.

Payoff Structure

Fund performance is determined by three components—the increase in the value of the security deposit; the NAV of the AMA; and deduction of the annual income distribution.

Security Deposit

The value of the security deposit will increase based on the fixed interest rate and whether the rising guarantee is triggered.

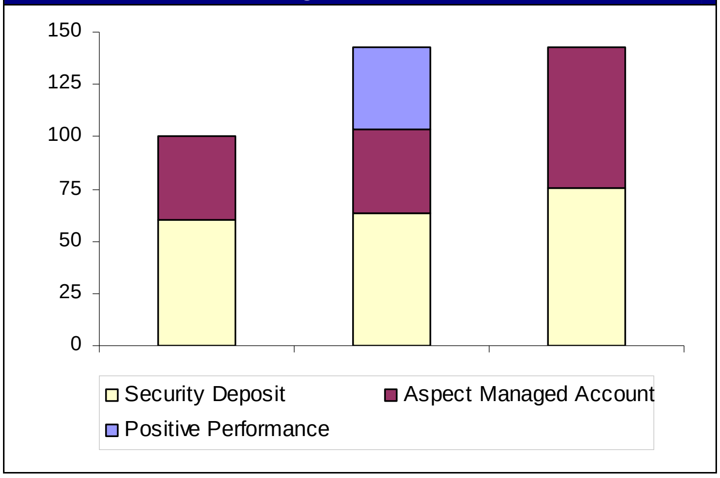
The rising guarantee is triggered once the AMA has a NAV greater than 50% of the DPA NAV. The guarantee will then increase by 50% of the positive performance of the AMA during the particular financial year.

There is then a reallocation from the free cash in the AMA to the security deposit of an amount equal to the present value of the additional capital guarantee.

Chart 1 shows an example. There is an initial security deposit allocation of $60 based on a 10-year BBSW rate slightly above 5%. The residual $40 is allocated to the AMA. The DPA NAV is $100.

Over the year, the AMA records positive performance of $40, generating a NAV of $80. The value of the security deposit has increased to $63 and, consequently, the DPA NAV to $143. As the contingency test is satisfied ($80 divided by $143 equals 56%), the guarantee at maturity is increased $20 (50% multiplied by $40). The present value of the increase is slightly less than $13. The $13 amount is reallocated from the AMA to the security deposit. The AMA NAV is reduced to $67 and the security deposit increased to $76. The DPA NAV is unchanged at $143.

Chart 1: Rising Guarantee Mechanism



From an investment perspective, the rising guarantee has two effects. An increase in the guarantee provides investors with a guaranteed minimum positive return at maturity equal to the annualised increase in the guarantee. This is in effect a risk-free return component which improves the fund's risk-return profile.

However, the reallocation from the AMA to the security deposit reduces the average expected exposure to the ADP and may, therefore, reduce expected returns. In short, the rising guarantee structure may lower the fund's risk-return profile.

The extent to which this potential effect may materialise is a function of both the rising guarantee contingency test and the rules. As part of the Monte Carlo analysis, we assessed the expected risk-return effect of the rising guarantee. The analysis was based on a risk and return scenario consistent with the ADP's historical performance.

On this basis, the rising guarantee generated a material improvement in the expected risk-return profile, with an expected guarantee amount at the maturity date of approximately 150%, yet a relatively immaterial decrease in the expected average exposure to the

ADP of 92% versus 94% without a rising guarantee structure. The consequent effect on expected returns was 9.8% p.a. versus 10% p.a.

Aspect Managed Account

As noted above, the AMA consists of a free cash amount and an amount used to trade the portfolio of futures and forward contracts on margin that represents the ADP strategy.

NAV performance is a function of the collateral income on the free cash amount (based on the RBA cash rate) and the performance of the AMA multiplied by the fund's exposure to the strategy.

During the term, the free cash amount will change based on: gains and losses generated by the exposure to the ADP's performance; a reduction or increase in the exposure level; an increase in the security deposit amount; and the payment of annual income.

Annual Distributions

An annual distribution may be made to investors, subject to the fund's performance and manager's discretion. In relation to performance, a distribution may only occur if the fund has generated returns in excess of 20% (after fees) in a single financial year. There were a significant number of such rolling 12-month periods with a return greater than 20% in the first six years of the ADP but very few over the past six years. In short, investors should not expect or rely on regular annual distribution payments.

In relation to the discretionary aspect, if the performance criteria above are met, the manager will only make income payments where the payment can be made without negatively affecting the target investment exposure. In this regard, the rising guarantee and income payments may be mutually exclusive.

While income may potentially not be paid, if an investor requires or prefers a return component during the investment term, they have the option of crystallising the value of a part of the total investment through a partial withdrawal.

The Underlying Investment Strategy

S&P has an existing four-star rating on the Aspect Diversified Futures – Class A fund, based on a review completed on March 18, 2010. The Aspect Diversified Futures – Class A fund is the Australia-specific fund offering based on the Aspect Diversified Programme. For a detailed review of the strategy, see the Premium Rated Fund Report on S&P's Fund Insights website (www.fundsinsights.com).

While the report specifically relates to the Aspect Diversified Futures – Class A fund, the opinion and views directly relate to the strategy the ADP is based on.

Investment Style And Process

The strategy aims to provide long-term total returns by investing in over 100 global markets, including equity indices, bonds, currencies, and commodities. The manager does this by investing long and short in managed futures and forward contracts. The process takes a quantitative medium-term trend-following approach, which has been successful over the past 12 years.

The volatility limit is relatively high although commensurate with current levels in traditional asset classes. However, there will still be periods of drawdown and the potential for very negative months. There is potential for attractive returns over the longer term. Correlations of managed futures have been very low to all traditional asset classes, and generally inverse to equity markets in down markets, making managed futures a useful portfolio diversifier.

The strategy has high fees, although these are standard for this type of fund. There is no explicit hurdle and the performance fee applies to trading profits, excluding interest on free cash.

Investment Team

Most of Aspect's 116 employees are London-based, with 77 in the research and development team showing its commitment to the ongoing development of its models and systems. Turnover has been light with only five principals departing since inception. Total employee numbers have remained relatively constant in recent years.

Aspect is led by chief executive officer (CEO) Anthony Todd, a co-founder of Aspect and the largest shareholder. Mr. Todd has 20 years of extensive market and academic experience. He was with AHL for five years before founding Aspect in 1997, which has given him strong experience in quantitative trading systems.

Although a number of business heads report to Mr. Todd, the most relevant for the purposes of this fund are the risk director, head of trading, chief investment officer (CIO), and director of research.

Gavin Ferris joined Aspect in 2006 and became CIO in December 2007. Mr. Ferris has over 14 years of experience in statistical and econometric software system design and implementation for hedge funds and other investment groups. Together with his management experience as chief technology officer at a couple of firms, he has the requisite background for being the CIO of a firm of this type.

Another co-founder Martin Lueck is director of research. This role oversees the various research teams that are responsible for generating and analysing fundamental research hypotheses in all of Aspect's various programs. In this way, Mr. Lueck sets the projects in motion and prioritises the research streams. Mr. Lueck has a long background of over 25 years in trading research. This includes the development of the platform for all product engineering and implementation at AHL (another firm he co-founded).

Daniel Oram is risk director and is responsible for the development and operation of the risk management framework that continuously monitors Aspect's risk exposures. Mr. Oram, together with a team, also reviews all new strategies before and following implementation. This oversight, which is independent to the development process, gives further rigour and outside analysis to the process. Mr. Oram has over eight years of experience in risk and research teams in different industries.

It is our opinion that the firm is led by a team vastly experienced in strategies of this type. All members of the executive team have advanced degrees if not doctorates, as do most of the research team. Aspect attracts high-quality researchers who have an interest in applied statistics and financial markets. With a large team of 77 in research, we are confident that sufficient resources are allocated to the ongoing and future development of the process and models.

Investment Process

Aspect's investment process seeks to exploit directional moves across a broad range of investment markets. This is achieved using futures and forwards, and with relatively small exposures to each market the fund is able to maintain diversification. The Aspect process, as with most CTAs, is fully systematic.

Research is conducted by Aspect over multiple timeframes depending on the complexity of the project, with the shortest being more system-maintenance orientated. Beyond this, projects seek to refine the existing model or seek new markets, strategies, or securities to implement. The research team uses both new academic theory and advances in empirical techniques to improve performance. New ideas are examined in test projects. If successful, they are subject to further research and then examination by the independent risk group before they enter the model.

The trading system is complex and quantitative. These processes are often referred to as "black box" investing, because it is hard for anyone external to access or view the proprietary information driving the models. However, as both the inputs and outputs are known, it is only the computational engine that is hidden. S&P is comfortable with the data screening and the integrity of the factor inputs. The quality of the research ultimately drives this model, and it is for that reason that Aspect devotes significant resources to ongoing research.

The system can be classified as trend-following; because it identifies the behavioural factors that are driving trends and seeks to profit from them. While the portfolio signal generation is automated, trading and execution falls under the responsibility of the head of trading, James Udall. S&P favours trading activities being removed from the research and risk teams and so is pleased to see this occurring at Aspect.

As the process is quantitative and systematic, there is no override or ability to take discretionary positions. If something very abnormal did occur in a market, we would expect to see some form of intervention. Aspect's models use explanatory variables to gauge the expected return in each market. Using historical correlations of daily returns in each market, an overall risk matrix is created. Future volatility is then forecast for each market with a higher weighting given to recent time periods. All models and research projects incorporate trading costs and other exogenous factors that may affect potential returns.

These forecasts of volatility allow Aspect to manage position sizing (within the context of the product's individual parameters) using an optimisation model. It forecasts risk daily and reviews targets monthly, subject to significant market moves. In simple terms, if market volatility increases, position size decreases. A combination of the likely volatility and the level of confidence in the underlying position establishes the level of gearing which results in the margin-to-equity ratio. Investment strategies can be run at both high and low margin-to-equity ratios, the difference being the percentage of capital that Aspect employs to achieve the desired level of volatility.

The optimisation (or volatility-forecasting) model creates the position sizes and sends trade instructions to Aspect's trading team who implement these in the marketplace. Given the large number of factors at work, Aspect continuously adjusts these positions with new orders intra-day rather than moving in and out of positions as a whole.

Risk Management

Risk is overseen by the risk management committee (RMC). This is a senior-level committee comprising executive board members and the risk director. It has the scope to exercise oversight across the whole research process and analyses risk from a more strategic perspective. The risk-management team monitors and controls the portfolio daily. The head of this team is Mr. Oram who reports directly to the CEO Mr. Todd, which means that the risk function remains independent of research and provides full visibility to the rest of senior management.

The risk-management team conducts a formal risk review of all new research, which it must approve before it can be implemented. Mr. Oram receives daily risk reports provided by Aspect's proprietary risk-management systems, which monitor liquidity, market, and portfolio risks. Although Aspect trades in highly liquid instruments, these are nevertheless subject to continuous liquidity review. The majority of trading is electronic, with the appropriate risk parameters built into the model.

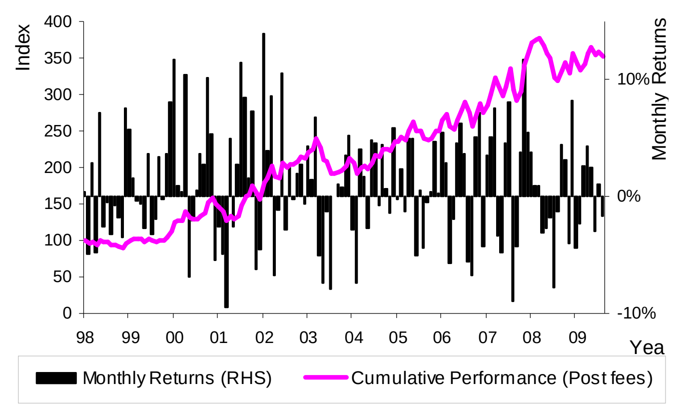
For each of its strategies, Aspect uses customised risk-management tools to maintain a controlled value-at-risk (VaR) distribution and the most efficient possible risk/return profile. VaR is calculated at the 95th confidence level. A proprietary volatility-forecasting model controls portfolio and security risk, with an intuitive approach that tailors position sizes according to risk. No individual market has a weighting greater than 5% of assets. Aspect uses alternative VaR measures, stress tests, and scenario analyses to analyse the effect of extreme events on performance.

Leverage is not targeted at a specific level, but is typically in the range of 3x–7x. The margin-to-equity is the outcome of positions held in the fund, rather than a specifically targeted level, but typically is in the 10%–20% range.

Performance

The inception date of the Aspect strategy was December 1998. The performance data in chart 2 represents the Australian dollar equivalent, with the difference relating to the interest rate on the free cash.

Chart 2: ADP Historic Performance ($A)



Annualised volatility since inception has been in line with the targeted 17%, but returns since inception have been at the bottom of the target range of 10% to 15% p.a. The overall 56% of positive months is about average for funds of this style. Rolling five-year volatility has traded in a narrow range around the target 17% level. Returns have been more variable over the 12-year track record.

The rolling five-year performance measures below are the basis of the risk-return scenario analysis in the Simulated Risk-Return section.

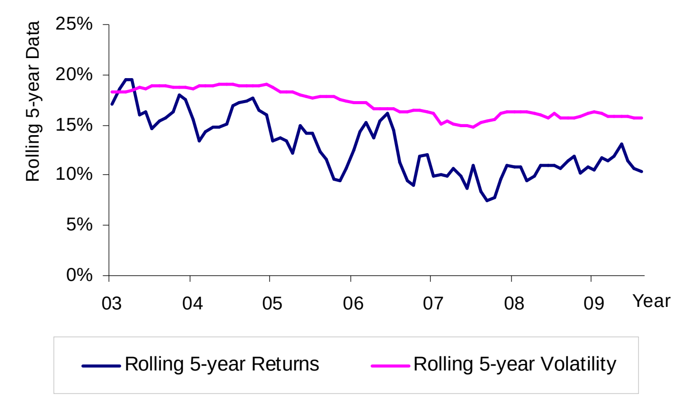
Risk and Return Analysis (at Jul. 30, 2010)

Returns since inception (% p.a.)		11.4
Volatility since inception (% p.a.)		16.9
Rolling five-year performance (% pa)	Return	Risk
25th Percentile	15.3	16.0
50th Percentile	12.1	16.7
75th Percentile	10.7	18.6
90th Percentile	9.6	18.9
95th Percentile	8.9	19.0

Performance Measures (Net) (at Feb. 28, 2010)

Average markets traded	100+
Best monthly return (%)	14.0
Worst monthly return (%)	(-9.5)
Positive months (%)	56
Maximum drawdown (%)	20.8
Maximum drawdown period	Nov 2001 – Jun 2002
Months to recovery	7

Chart 3: ADP Rolling 5-Year Annualised Performance ($A)



The downside risk profile of ADP is important in the fund due to its limited free cash position and, hence, exposure risk. Consistent

OVERALL RATING

STRONG

with a higher volatility strategy than its mainstream counterparts (AHL, Winton), Aspect experiences slightly deeper drawdowns.

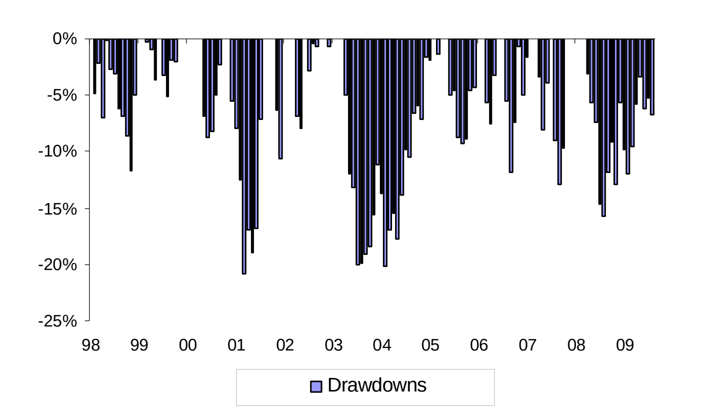
ADP has recorded several significant drawdown periods—in particular, 1999, 2001, 2004–2005, and 2009. The most significant drawdown being 20.8%. A drawdown of this size, and especially in the early part of the investment term of the fund, may generate a material decrease in the exposure to ADP.

Broadly speaking, the drawdown periods were a result of reversing or whipsawing markets, environments in which trend-following managed futures strategies typically do not perform well. The drawdown in 2004–2005 was exacerbated by a binary trading system that led to high trading volumes and costs (slippage). Importantly, the 2004 experience led Aspect to enhance its trading systems, leading to an 80% reduction in slippage costs and providing enhanced stability.

While drawdowns of this magnitude occurring again cannot be ruled out, S&P notes that the degree of drawdowns has declined since the implementation of the enhanced trading system in early 2005.

The duration of the drawdown is also important in relation to the risk of a reduction in the fund's exposure to ADP. Aspect has shown an ability to recover quickly from drawdown periods, especially when compared with equities. The capability of the investment process to allocate risk long or short enables Aspect to recover quickly.

Chart 4: ADP Drawdowns



Simulated Performance Analysis

S&P has conducted a simulated performance analysis to illustrate general performance risks, the simulated back-tested performance, and the expected risk-return profile under particular risk-return scenarios.

Chart 5: Simulated Back-Tested Performance

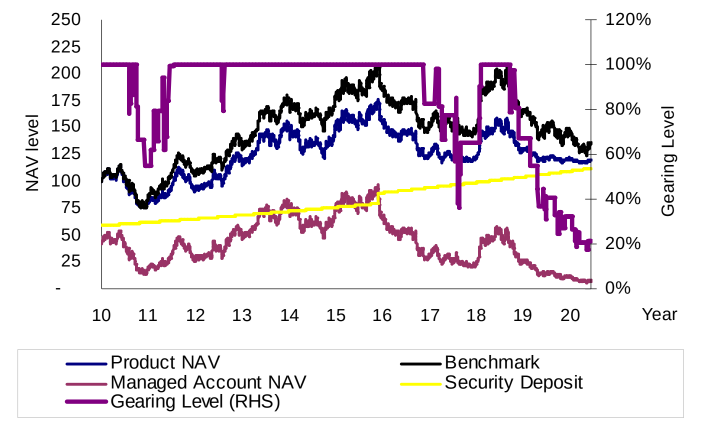


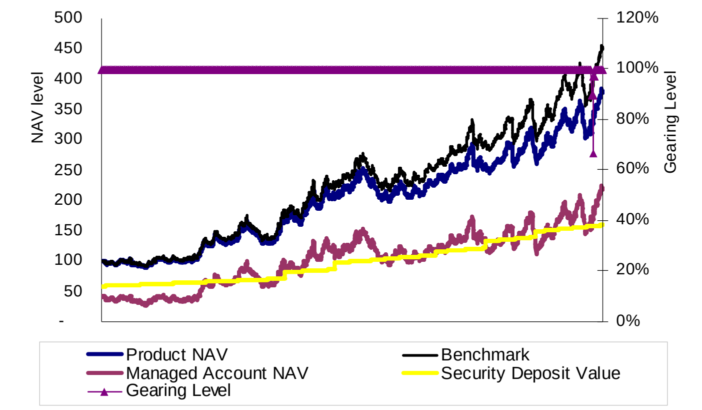
Chart 5 shows a randomly generated performance outcome of the ADP and, hence, the fund. The particular example is intended to highlight the performance risks in the fund associated with large drawdowns in the ADP. This is a particularly significant risk if the drawdown occurs in the fund's early years.

Simulated Back-Tested Analysis

We undertook a simulated back-tested analysis based on the historical performance of the Aspect strategy (net of fees). The results are shown in charts 5 and 6.

Over the back-tested period, the fund structure proved particularly efficient, closely matching the performance of the ADP minus fund fees. The average exposure was essentially 100%, with very few and short-lived incidences where exposure was less than 100%. The capital guarantee increased six times, with a capital guarantee amount at maturity of 159%. This, when combined with the limited performance differential with the ADP, arguably created a more attractive risk-return profile than the ADP itself, particularly for risk-averse investors. It should also be noted that those returns in the fund may have been eligible for the 50% CGT discount, which is not the case for a direct investment.

Chart 6: Simulated Back-Tested Performance



Source: Aspect

Simulated Back-Tested Performance Metrics	
Fund growth (% p.a.)	14.3
Benchmark growth (% p.a.)	16.3
Fund volatility (% p.a.)	15.8
Benchmark volatility (% p.a.)	15.7
No. of guarantee increases	6
Ending guarantee level	159.3
Average gearing (%)	99.9
Time downgeared (%)	0.6
Minimum downgear level (%)	66.7
Number of gearing changes	4

Simulated Risk-Return Analysis

We undertook a Monte Carlo analysis to assess the fund's expected performance profile under particular risk and return scenarios.

We selected four scenarios based on the rolling five-year performance of the Aspect strategy since inception. The scenarios are based on the 25th, 50th, 75th, and 95th percentile of outcomes, with the scenarios referred to as "good", "historical", "poor", and "very poor". The particular risk and return parameters are detailed below.

OVERALL RATING

STRONG

Risk And Return Scenarios		
Scenario	**Return (% p.a.)**	**Risk (%)**
Historical	10.9	17.3
Good	13.9	16.2
Poor	9.1	18.8
Very poor	7.7	19.1

The Monte Carlo results are detailed below.

Simulated Expected Performance				
Metric:	Scenario:			
	Very Poor	Poor	Historical	Good
Fund growth (% p.a.)	6.2	7.8	10.0	13.0
Benchmark growth (% p.a.)	8.5	10.3	12.5	15.2
Fund volatility (%)	15.8	16.2	15.8	15.1
Benchmark volatility (%)	18.1	17.7	16.1	14.8
No. Guarantee increases	2	2	3	4
Ending guarantee level	133.0	141.3	154.6	180.0
Average gearing (%)	81.0	85.9	93.3	97.5
Time downgeared (%)	34.3	27.0	15.7	7.2

The key points from the analysis include:

- In a risk-return scenario consistent with the ADP's historical performance, the fund's structure is relatively successful in matching the performance of the ADP, excluding fund fees. The outcome reflects an average gearing level of 93%.
- We regard the capital guarantee mechanism as being cost-effective. The total costs of a capital guarantee/protection mechanism include the direct fees plus, where relevant, the implicit opportunity cost associated with forgone returns by being less than 100% invested in the underlying asset. With an underlying asset exhibiting volatility in the 17% range, the indirect costs of a CPPI structure, for example, would be materially higher.
- The ending guarantee level of approximately 155% materially reduces the downside risk profile of the fund, with the ending guarantee level equating to a return equivalent of 4.5% p.a.

Analyst(s): Rodney Lay, Michael Armitage.
Release authorised by: Leanne Milton.

Rating Philosophy

A structured product rating combines a qualitative assessment of the structures ability to provide exposure to the underlying asset class(es) and a view on the management of the underlying exposure the product is replicating/delivering.

OVERALL RATING VERY STRONG	S&P has assigned a 'VERY STRONG' rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has scored exceptionally in a number of categories but may not be suitable for all investors.
OVERALL RATING STRONG	S&P has assigned a 'STRONG' rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has scored strongly in a number of categories but may not be suitable for all investors.
OVERALL RATING SOUND	S&P has assigned a 'SOUND' rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has scored satisfactorily in a number of categories but may not be suitable for all investors.
OVERALL RATING PASS	S&P has assigned a 'PASS' rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has passed a number of categories but may not be suitable for all investors.
OVERALL RATING WEAK	S&P has assigned a 'WEAK' rating to the product based on its conviction that it can not meet its objectives over the stated time period. The product has scored weakly in a number of categories and may not be suitable for most investors.
OVERALL RATING ON HOLD	An 'On Hold' designation is a suspension of a rating pending further analysis of a material change in the characteristics of a product.