

About this Review	
Sector Reviewed	Australian Equities – Concentrated
Total Funds Rated	13
Date of this Sector Review	July 2011
About this Fund	
Fund Reviewed	Tyndall Australian Share Wholesale Portfolio
Fund Size (\$m)	\$1,569.9
Responsible Entity	Tasman Asset Management Limited
Fund Commenced	March 1995
Retail Fee	1.99% p.a.
Wholesale Fee	0.80% p.a.
Structure Availability	Retail, Platforms, Wholesale
About the Fund Manager	
Fund Manager	Tyndall Asset Management
Ownership	Tyndall Investment Management Limited
Assets Managed in this Sector	\$3,977.51
Years Managing this Asset Class	20
Investment Team	
Team Size Dedicated to this Fund	11
Key Personnel	Bob Van Munster & Brad Potter
Number of Analysts	7
Departure/Team Ratio (past 2 years)	22%
Investment Process	
Style	Value
Targeted Value Add Above Index (p.a.)	2.5% (over rolling 5 year periods)
Tracking Error Range	Typically 3-5% p.a. (max 8% p.a.)
Stock Number Range	20-35
Typical Capitalisation Bias	Mid to Large
Franking Level (FY10)	93%
Tax Efficiency - Income in Total Distribution (FY10)	100%
Discount Gains as % of Total Capital Gains (FY10)	0%
Stock Bet Limits	+/- 6%
Sector Bet Limits	+/- 8%
Fund Rating History	
July 2011	'Highly Recommended'
August 2010	'Highly Recommended'
August 2009	'Highly Recommended'
August 2008	'Highly Recommended'
October 2007	'Highly Recommended'
September 2006	'Highly Recommended'
September 2004	'Recommended'

What this Rating Means

➤ The **'Highly Recommended'** rating indicates that Lonsec has high conviction that the fund or product can achieve its objectives and, if applicable, outperform peers over an appropriate investment timeframe. The Manager or product has strong competitive advantages in people, process and product design and has no areas of material weakness. The investment is a preferred entry point to access this asset class or strategy.

Fund Risk Characteristics

	Low	Moderate	High
Capital Volatility			▲
Corporate Risk		▲	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the product's asset class and the risks relative to other products in the relevant Lonsec sector universe.

Using this Fund

➤ **This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.**

➤ The Fund is a 'long' only Australian equity product and, as such, will generally sit within the growth component of a balanced portfolio. Given the high conviction and concentrated nature of the Fund, volatility (as measured by standard deviation) may be higher than 'Large Cap' Australian equity products. As such, Lonsec believes the Fund should be supported with 'Core' Australian equity funds rather than be used as a stand-alone product. The Fund is suitable for mid to high risk profile investors with a 5+ year investment time horizon.

➤ The Fund is subject to equity market risk and movements (both positive and negative) in the share prices of the underlying securities in the portfolio. Investors should therefore be aware that the Fund may experience periods of negative returns and that there is a risk of potential capital loss being incurred on their investment.

➤ Lonsec's definition of 'concentrated' is a Fund that typically holds anywhere from 15 to 35 stocks.

Changes since the last Lonsec Review

➤ Tyndall Investments was sold to Nikko Asset Management on 16 November 2010. The transaction was completed on 1 March 2011. There has been no direct impact on the investment management team, although back office functions are being transitioned at this stage. Thus far, accounting, compliance, legal, audit, HR and IT teams have been appointed.

➤ Roger Collison, Head of Research, departed the team in December 2010. The Head of Research role is not being replaced. His primary responsibility was directing and focusing the research effort and some stock analysis responsibilities.

➤ There have been no major changes to the investment process since the last review.

Lonsec Opinion of this Fund

Investment Philosophy

- Tyndall has consistently adhered to its bottom-up, intrinsic value investment approach for over a decade. Lonsec believes that a key feature differentiating of the manager is its more pragmatic approach to 'value' investing. Rather than just investing in deep 'value' stocks, the Manager recognises that different stock opportunities exist at various stages of the economic cycle. Effectively this means that the Manager's investment style, while primarily being driven by valuation, is not expected to be at the deep end of the value-style spectrum.
- The Manager implements a high conviction strategy, which results in the Fund holding a relatively concentrated portfolio of 20-35 stocks.
- The Manager aims to outperform the S&P/ASX 200 Accumulation Index + 2.5% p.a. over rolling five-year periods.
- The Manager generally aims to maintain an ex ante Tracking Error of between 3% and 5% p.a. (although this figure is permitted to go as high as 8% p.a. in exceptional circumstances).
- Given Tyndall's 'value' based investment style, Lonsec expects the Fund to produce better levels of relative performance during 'down' (bear) markets than in 'up' (bull) markets.

People and Resources

- Lonsec believes that a key strength of Tyndall is the level of depth and experience within the Manager's Australian equities investment team, which comprises eleven professionals (including a dedicated dealer). The investment team has an average of sixteen years industry experience and nine years working together.
- Roger Collison, Head of Research, departed the business in December 2010. The Head of Research role is not likely to be replaced. Given the seniority of the investment team, Lonsec does not believe the loss of Collison will have a major impact on the Fund.
- Bob Van Munster heads up the team and has been with Tyndall for 12 years, with a total industry experience of 35 years. Lonsec considers Van Munster's input to be a key strength of the Fund.
- Another perceived advantage of Tyndall is the fact that several members of the investment team have managed money through different market cycles. Lonsec values this experience highly, particularly given the current level of economic uncertainty and the large divergence in views of market participants at this time.
- Lonsec believes that the dual portfolio manager structure (i.e. with 80% of the portfolio managed by Bob Van Munster and the remaining 20% managed by Brad Potter) reduces the key person risk associated with Bob Van Munster and also serves the purpose of succession planning.
- Lonsec notes, that one of the risks with this structure is the potential for the portfolio to exhibit an increased number of smaller positions in stocks. However, it is also worth noting that the number of stocks in the portfolio has not

increased materially since the structure was introduced. This is primarily due to the fact that the two Portfolio Managers construct their portfolios using the same investment philosophy and criteria.

- Lonsec considers there to be a strong alignment of interests between the investment team and investors, with most members of the investment team owning equity in the business.
- While the equity ownership structure is not unique to Tyndall, the fact that the equity is spread widely across the team is viewed as a positive and is a distinguishing feature of the remuneration structure.

Research and Portfolio Construction

- Lonsec considers Tyndall's investment process and portfolio construction to be robust and very logical.
- The Manager's bottom-up research effort includes detailed and consistent company analysis and stock modelling.
- While portfolio construction is, by and large, very consistent with the output of the Manager's bottom-up valuation process, the Portfolio Managers are also permitted to use an element of discretion, whereby the Fund may hold up to 7.5% of the portfolio in stocks that may not necessarily rank highly on Tyndall's 3-year internal rate of return (IRR) model. The Manager's rationale for this feature is that it allows 'winning' stocks to 'run'. It therefore, also reflects the belief of the Manager that many other 'value' managers often fall into the trap of selling down profitable stock positions too early. Lonsec notes that the use of this discretionary allocation has been quite minimal so far.
- Tyndall's investment team meets on a regular basis to discuss the positions in each of the portfolios and to assess new investment ideas. Moreover, the meeting also includes in-depth discussions regarding the key quantitative inputs used in the stock valuation process. Lonsec believes this mechanism is a key strength of the investment process as it enhances the overall level of peer review.

Risk Management

- Lonsec believes that the Manager has sufficient risk controls in place to effectively manage the risks within the portfolio (such as stock and sector exposures). Given that the Fund is relatively concentrated in the number of stocks it holds, Lonsec views risk management as a vital element of the investment process.
- Tyndall has hard limits on both stock and sector limits. Stock limits are managed to +/-6% for stock active positions, tending to scale downward from the 6% maximum according to stock size and liquidity. Sector limits are managed to a limit of +/-8%. The Manager will also typically not hold over 10% of a company's issued capital and will generally invest only in companies with a market cap of over \$300 million.
- Whilst not explicitly targeted, Tyndall also aims for a portfolio beta of less than the overall market, so as to reduce the level of absolute risk in the portfolio.
- Risk management, to a certain extent, is also embedded in the investment process, with optimisation and 'scenario analysis' undertaken as part of portfolio construction. In

addition, Tyndall's ongoing portfolio review process (including daily performance monitoring) may be considered as a further form of risk management.

Performance

➤ The Fund's return over the three years to 31 May 2011 was -0.7% p.a., outperforming the Lonsec benchmark (S&P/ASX 300 Accumulation Index) by 1.0% p.a. Over the same period, the Fund has underperformed the Lonsec peer group average by 1.2% p.a. Short term performance (one year to 31 May 2011) has been disappointing, underperforming the Lonsec benchmark by 1.8%.

Fund Size

➤ As at 30 April 2011, the Manager had approximately \$4.0 billion in assets under management in Australian equities. The Manager has indicated that capacity will be limited to 0.75% to 1.0% of the total market capitalisation of the S&P/ASX 200 Index and Lonsec does not consider capacity to be a major issue at this stage.

Overall Fund View

➤ Lonsec has rated the Fund as 'Highly Recommended', considering it to be a strong offering in the concentrated Australian equity space. The rating is underpinned by the quality, depth, experience and relative stability of the investment team. The Manager's experience in managing money in different market cycles is also viewed very favourably and the rating also reflects the high degree of logic of the investment process. While the departure of Collison is disappointing, Lonsec does not believe it will have a material impact on the Fund.

➤ From a corporate perspective, Lonsec is also pleased that Tyndall's transition to Nikko Asset Management has been smooth thus far, although the integration is still ongoing.

People and Resources

Size and Experience

The Tyndall Australian equity team consists of 11 personnel, including seven with direct stock analysis responsibilities. The team has an average of 16 years of industry experience, including an average of nine years at Tyndall. The Manager's investment process results in each team member having a stock responsibility, on average, of 15-18 stocks.

All members of the Tyndall investment team report either directly or indirectly to Head of Equities, Bob Van Munster. Portfolio construction of this Fund is undertaken by Bob Van Munster (80%) and Brad Potter (20%).

Tyndall operates a Portfolio Construction Committee which provides a 'sounding board' for the portfolio managers and it comprises seven members of the investment team who have portfolio management responsibilities across five strategies (including Van Munster and Potter), the Deputy Head of Equities and the Dealer.

Member	Responsibilities	Experience (Firm/Total)
Bob Van Munster	Head of Equities	12/35
Warwick Cumming	Deputy Head of Equities	11/32
Malcolm Whitten	Portfolio Manager	18/20
Jason Kim	Senior Research Analyst/PM	11/19
Tim Johnston	Senior Research Analyst/PM	13/13
Brad Potter	Senior Research Analyst/PM	9/17
Craig Young	Senior Research Analyst/PM	16/16
Michael Maughan	Senior Research Analyst	4/13
James Eginton	Research Associate	2/2
James Nguyen	Research Analyst	3/7
David Thoms	Dealer	1/6
Average		9/16

Tyndall has also appointed sustainability and technology champions within the investment team, recognising the importance of these two areas to future investment performance.

Malcolm Whitten and Brad Potter have both been appointed technology champions, providing feedback on global industry best practices, advocating technology improvements and driving productivity gains through the use of technology.

Turnover

There have been two departures from, and two additions to, the investment team over the last two years, the most notable departure being Roger Collison, Head of Research. Tyndall's team has historically been relatively stable with relatively low levels of staff turnover. Senior members within the team have been with Tyndall for a significant number of years and Lonsec does not currently have any concerns regarding team stability.

Key Person Risk

Although Van Munster plays a central role in implementing the investment process, the remuneration structure in place (discussed below), and 'industry team' and peer review structure at Tyndall somewhat tempers key person risk. In addition, during 2004 Tyndall established a subsidiary company for the purposes of providing the investment team with a profit share and equity interest arrangement. Importantly, a majority of the team received an equity stake, and significant penalties apply for early redemption of this equity (also, equity can only be sold to existing staff).

Remuneration / Alignment of Interests

Company policy is to pay market-related salaries for the investment management industry. Superannuation is added

to salary and other non-cashable benefits are available to senior staff. Market-related salary levels are confirmed through external research.

The remuneration principle is to pay market plus attractive short-term incentives (plus long-term incentives via shares in the Joint Venture Company for key employees).

The short-term incentive is a mixture of objectively assessed individual contribution and team contribution to clients' performance plus a discretionary element to encompass other issues. The long-term incentive serves to align the interests of staff and clients via a linkage to performance.

The majority of Tyndall equities staff members are shareholders in the Joint Venture with the prospect of dividends and capital gain.

Investment Style

The Manager aims to exploit the perceived market inefficiencies of value differentials (caused by behavioural inefficiencies), market participants' focus on short term 'noise' (which creates short term mis-pricing), asymmetrical impact of earnings surprises (greater upside and lower downside of positive and negative earnings surprises in 'value' stocks), size (thus a mid cap bias), the market's incorrect extrapolation of returns on invested capital and neglect (undervalued stocks not well researched by the market). Tyndall believes that recognising the existence of 'value traps' is an important part of 'value' investing, and that bottom up fundamental analysis combined with appropriate risk management mechanisms is critical.

Research Approach

Overview

Tyndall operates a research process known as Comparative Value Analysis (CVA). This research process is consistently applied across all stocks analysed. Tyndall's research effort begins with screening of the investable universe (S&P/ASX 200 Accumulation Index), with a liquidity screen followed by value/quality/momentum screens. Those stocks remaining after the screening process (approximately 120) are then subjected to in-depth fundamental research culminating in the calculation of a three year internal rate of return (IRR) for each stock.

To enhance the consistency of the valuation output, Tyndall utilises standardised inputs (such as beta, risk-free rate of return and gearing) when calculating the weighted average cost of capital for its discounted cash flow models.

Investment Style	Intrinsic Value (Concentrated)
No. of Stocks in Universe	200 (S&P/ASX 200 Index)
No of Stocks Fully Modeled	120

Key Screens	The following screens are used to assist with research prioritization: <ul style="list-style-type: none"> - Value (forecast one year); - Price/Earnings; - Dividend Yield; and - Enterprise Value multiples. Quality Screens include: <ul style="list-style-type: none"> - Accounting Accruals; - Retained Earnings/Assets; and; - EBIT/Total Assets.
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Top-Down	Less than 10%
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Bottom-Up	Greater than 90%
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Qualitative Analysis	Focus on EBIT drivers, profitability, cash flow and the structure of the company's balance sheet (to try and find value in non-capitalised assets) <p>The research process is updated on an ongoing basis, with the Manager producing forecasts for P&L statements, Balance Sheets, Cash Flow Statements, as well as Ratio Analysis. Stock models are generally revisited bi-annually (when company results are released) and when warranted by a specific event. Peer review is facilitated through analyst meetings held three times per week.</p>
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Research Inputs	Broker reports; company reports; company visits; 'one on one' meetings with management; and other sources.
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Valuation Approach

Primary	Three year IRR
Secondary	Cross checked against an alternative valuation model, usually a DCF, and adjusted for significant developments (such as acquisitions)

Portfolio Construction

Overview

Tyndall aims to produce a concentrated portfolio of 20-35 stocks, with stock specific risks greater than factor risks.

The portfolio construction process is driven by a combination of qualitative and quantitative factors and the portfolio will generally be highly consistent with the stocks that rate highly in the Manager's IRR stock ranking list.

The qualitative element of the process allows the Manager to factor in market dynamics and insight gained from bottom-up analysis in constructing the portfolio. This also encompasses the use of a potential discretionary element, which allows the Portfolio Manager to hold up to 7.5% of the portfolio in stocks that do not sit highly on the IRR ranking list. Tyndall's rationale for this component is that it allows 'winning' stocks to 'run', believing that a trap which other value managers sometimes fall into is to sell down profitable positions too early. It is also in place due to the belief that the three-year IRR method may miss alpha opportunities in special circumstances (e.g. corporate targets, thematic shifts, successful acquirers, capital raisings and a quick response to changed fundamentals). Importantly however,

Portfolio Managers must also determine milestones for the performance of these stocks and if they are not met, they are forced to reconsider the position by the Portfolio Construction Committee. In addition, such a position will also be reviewed if it starts to underperform the market on a quarterly basis. So far the Manager's usage of this discretionary element has been relatively minor.

BARRA is used as a quantitative tool in the portfolio construction process. The Manager believes it is particularly useful to both help assess the risks within the portfolio and for portfolio optimisation. The optimisation process is based on an efficient frontier of expected Tracking Error and expected Excess Return.

Price and earnings momentum are also considered in the portfolio construction process, with the primary objective being to optimally time stock entries and exits. Price and earnings momentum signals are also used to help identify potential 'value traps'.

The portfolio is then 'stress tested' through scenario analysis that allows the Manager to test the portfolio against the market.

Finally, the portfolio is assessed against value criteria to ensure that it is 'true to label' (Tyndall had relied heavily on BARRA output for this assessment in the past, but now places greater emphasis on its internal software).

Once implemented the portfolio is subject to ongoing review, with key 'flags' (such as a new stock entering the Top 20 IRR ranking, the stock weighting deviating more than 30% from the model portfolio target, or the stock closing in on 'fair value') used as triggers for investigation.

Accountability

While the dual portfolio manager structure provides a large degree of autonomy for both portfolio managers, Head of Equities Bob Van Munster remains ultimately accountable for the Fund as the chairman of the Portfolio Construction Committee.

Risk Limits and Monitoring

Ex-ante Tracking Error	Typically 3-5% p.a. (max 8% p.a.)
Stock limits (hard)	+/-6%
Sector limits (hard)	+/-8%
Cash	0-20%

All of the Fund's trades are monitored on a pre-and post-trade basis and its stock positions are also monitored on a daily basis. There is also a clear separation of duties between investment management and risk management, with compliance reports sent out on a daily basis to all Portfolio Managers, the dealer, the Head of Equities and a separate compliance team.

Funds under Management

Tyndall currently manages approximately \$4.0 billion in active Australian equities, which is slightly above average (in terms of FUM) compared with the Lonsec assessed peer group. There are positives and negatives to low or high levels of FUM, however, on balance, it is generally believed that managers with smaller FUM are better placed to add value. Larger fund managers typically have better access to key decision makers (CEOs etc), and may gain better execution pricing and preferential access to IPOs. However, on the negative side, managing a large pool of money means that the manager may confront liquidity issues and is likely to be less nimble in the market as it takes longer for a position to be established or sold down.

The Tyndall Australian Share Wholesale Portfolio has approximately \$1.7 billion in FUM. Tyndall believes the Fund's capacity to be 0.75% to 1% of the total market capitalisation of the S&P/ASX 200 Index and Lonsec does not consider the Manager to have any major capacity issues at present.

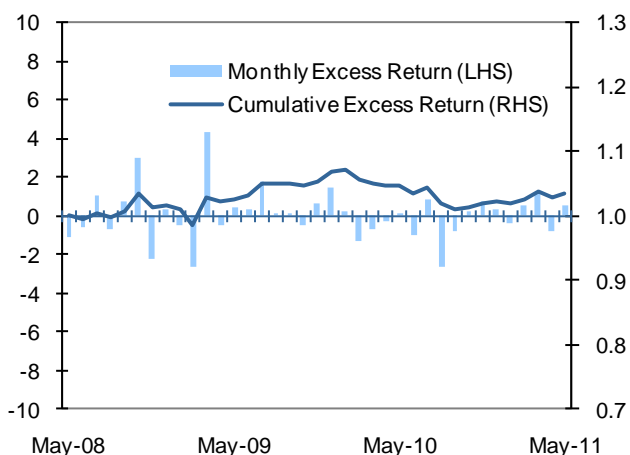
Quantitative Performance Analysis
Annualised after-fee % Returns as at 31 May 2011

	1 Year		2 Years		3 Years		5 Years	
	Fund	Peer Group	Fund	Peer Group	Fund	Peer Group	Fund	Peer Group
Performance (% pa)	9.7	11.6	16.1	16.8	-0.7	0.5	3.9	4.2
Standard Deviation (% pa)	10.5	9.4	14.7	14.1	19.1	18.5	16.2	16.5
Excess Return* (% pa)	-1.4	0.5	0.3	1.0	1.0	2.2	0.7	1.0
Outperformance Ratio (%)	58.3	49.2	62.5	54.6	58.3	55.8	53.3	54.4
Worst Drawdown (%)	-3.7	-3.2	-12.8	-11.5	-39.7	-36.6	-46.1	-46.2
Time to Recovery (months)	1.0	0.8	8.0	6.6	25.0	8.1	na	6.3
Sharpe Ratio	0.5	0.7	0.8	0.9	-0.3	-0.2	-0.1	-0.1
Information Ratio	-0.4	0.1	0.1	0.3	0.2	0.5	0.2	0.3
Tracking Error (% pa)	3.7	3.3	3.3	3.4	4.7	5.2	4.4	5.4

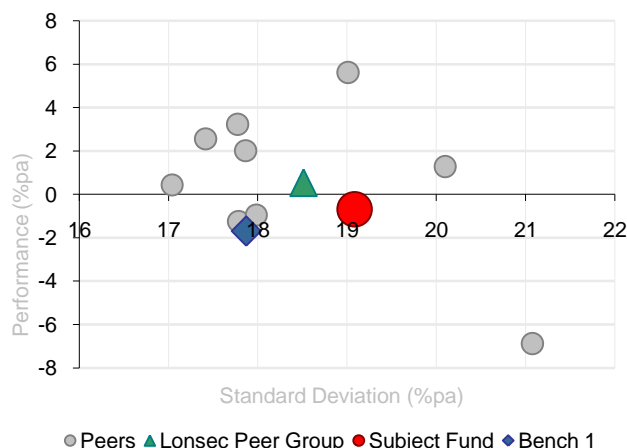
Fund: Tyndall Australian Share Wholesale Portfolio

Peer Group: Average among Lonsec rated large cap 'concentrated' Australian equity funds

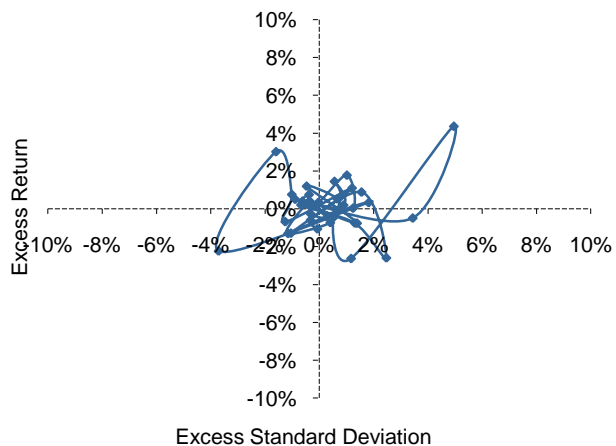
Cumulative Performance over three years



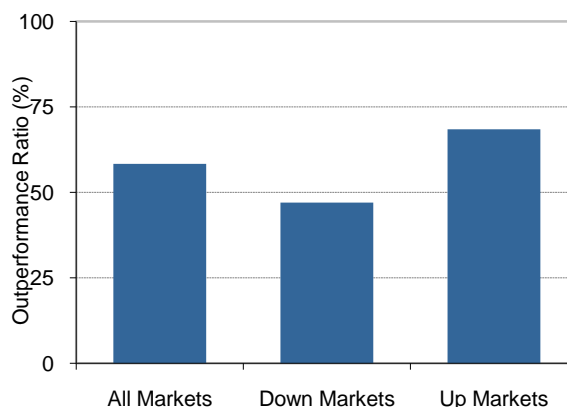
Risk-Return Chart over three years



Snail Trail over three years



Outperformance Consistency over three years



Glossary

Absolute Return	'Top line' actual return, after fees
Excess Return	Return in excess of the benchmark return (Alpha)
Standard Deviation	Volatility of monthly Absolute Returns
Tracking Error	Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)
Sharpe Ratio	Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)
Information Ratio	Relative reward for relative risk taken (Excess Returns / Tracking Error)
Worst Drawdown	The worst cumulative loss ('peak to trough') experienced over the period assessed
Time to Recovery	The number of months taken to recover the Worst Drawdown

Analyst Disclosure & Certification

Analyst remuneration is not linked to the rating outcome. The Analyst(s) may hold the product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst(s) holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the financial product(s) to which this document refers.

Date Prepared: July 2011
Analyst: Eleanor Menniti
Release Authorised by: Paul Pavlidis

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