

Brookvine Pty Limited

Global Equities – Value Manager Market Study

Evaluation of the Australian Market Opportunity for a
Concentrated/ High Conviction Global Value Manager

May 2010



Fund raising & investment design specialists



Market Opportunity for a Concentrated/ High Conviction Global Value Manager

2

- Size of the Australian market, allocation to global equity mandates, recognition of value investing, frequency of change and desire to differentiate create enduring opportunities for active global equities management
- There is enduring interest in higher conviction and well differentiated global value mandates
- A group of managers have begun to build strong Australian franchises
- But: Competition is tough – the Australian market is well served by most leading international high conviction “franchises” with:
 - 30 – 60 stock portfolios
 - Tight, top-heavy investment decision-making
 - Right organisational dynamics to build and sustain a franchise in the near term – alignment, focus, team size, pedigree, experience etc
 - Good local representation and commitment to the Australian market
 - Strong recognition and local consultant endorsement
 - Strong performance in excess of 5% p.a. above index
- And: It is difficult to distinguish between competing investment propositions

What Will it Take to be a Successful New Entrant?

3

- A well differentiated and very contemporary investment proposition
- Clear, consistent investment philosophy and process
- At minimum, 3 year performance in excess of 5% p.a. above index
- The “right” team alignment, independence, size, pedigree and experience
- Adequate but not excessive FUM
- A first generation team
- A different pedigree – possibly a long only product launched from within a leading value equities hedge fund that is tightly integrated into investment decision-making
- A top tier list of long-standing offshore investors
- A dedicated commitment to the Australian market and a multi-year fund raising horizon

What Might Differentiate the Investment Proposition?

4

- Greater focus on absolute returns
- High conviction global equities – smaller number of stocks holdings
- Greater emphasis on the best ideas amongst individual stock holdings
- Larger allocation flexibility, minimal constraints
- Flexibility to invest in small, medium and large companies
- Flexibility to include emerging markets allocations
- Capacity to invest across the capital structure to generate equity-like returns
- Preparedness to hold meaningful allocations to cash when the market is fully priced
- Activism and strategic block investing

Challenges in the Search for a Concentrated/ High Conviction Global Value Manager

5

- Access to the capacity of leading value-oriented funds
- Lack of local market recognition and consultant endorsement
- Australian institutional resistance to higher fees

- Total Assets of Managed Funds Institutions at 30 Sept 2009 – \$1,303bn
- Growth Over the 5 Years to 30 Sept 2009 – 10.3% p.a.
- Total FUM Invested in Global Equities at 30 Sept 2009 – \$166.5bn

Source: Investor Supermarket Market Wrap - September Qtr 2009

Australian Industry Snapshot – 15 Largest Specialist Global Equity Managers and Australian FUM¹

7

1. State Street Global Advisors – \$20.1bn
2. Alliance Bernstein – \$19.7bn
3. Vanguard – \$16.6bn
4. Platinum – \$16.6bn
5. Lazard – \$9.2bn
6. BNP Paribas – \$8.4bn
7. BGI – \$8.0bn
8. Capital International – \$7.3bn
9. Wellington – \$5.6bn
10. Dimensional Fund Advisors – \$5.4bn
11. Schroder – \$4.0bn
12. GMO – \$3.6bn
13. T Rowe Price – \$2.8bn
14. Orbis – \$2.3bn
15. BlackRock – \$2.0bn

Source: Investor Supermarket Market Wrap - September Qtr 2009

Australia Institutional Investment Snapshot – Global Value Managers¹

8

- Average Number of Global Equity Managers Appointed – 8.6 per Individual Investor
- Average Global Equities Exposure – 24%
- Average Number of Global Value Managers – 3.6 per Individual Investor
- Average Allocation to Global Value – 37% of Global Equity Allocations
- Key Value Managers Active in Australia – 24 in total, some offering multiple value mandates:
 - Broad Market (Fundamental) – 13 managers actively promoting mandates
 - Broad Market (Quantitative) – 5 managers actively promoting mandates
 - High Conviction (Fundamental) – 11 managers actively promoting mandates

Note 1: Based Australian institutional investors with over \$10 billion in funds under management; sourced from Brookvine's database and including superannuation fund, multi-manager, insurance and other institutional investors; data current as at 31 December 2009, but may contain errors and inaccuracies

Segmentation of Managers Currently Promoting Global Value Mandates in Australia¹

Concentrated/ High Conviction²

1. Altrinsic (Global Concentrated Equity)
2. Bedlam
3. Bernstein (Strategic Value)
4. Edinburgh Partners
5. EPOCH (Global Choice)
6. Global Currents
7. Harris
8. Orbis
9. Taube Hodson Stonex³
10. Tradewinds
11. Tweedy Browne (High Conviction)

Broad Market

- | | |
|-----------------------------------|----------------------|
| 1. Altrinsic | 13. Tweedy Browne |
| 2. Bernstein | 14. Wellington |
| 3. EPOCH | 15. Cramer Rosenthal |
| 4. ICAP | McGlyn |
| 5. Lazard | |
| 6. Lazard (Thematic) ³ | |
| 7. Marathon ³ | |
| 8. Mondrian | |
| 9. Newton | |
| 10. Platinum | |
| 11. Pzena | |
| 12. Templeton | |

1. Acadian
2. AXA Rosenberg
3. Dimensional
4. GMO
5. LSV

Fundamental

Quantitative

Note 1: Sourced from Brookvine's database of key market players, but may contain errors and inaccuracies; Several managers offer both Broad Market and Concentrated Mandates; Includes those managers known by Brookvine to be active in the Australian market

Note 2: Concentrated/ High Conviction typically (i) 30 to 80 stocks; (ii) Top 10 positions contain up to 50% portfolio exposures; and/ or (iii) benchmark unaware or absolute return focus

Note 3: Adopt thematic approaches that are intrinsically contrarian and often give the appearance of a value style

- Typically benchmarked versus MSCI World ex. Australia \$A
- Growing appetite for more concentrated/ high conviction mandates
- Greater stability in value appointments versus growth appointments
- Expect growing interest in long bias/ hedged equity investments as a component of equity allocations in future
- Mandates typically allow “tactical” investment in emerging markets up to a prescribed limit
- Strong preference for global mandates vs. regional mandates
- Downward pressure on base fees

Mixed Results in Global Equities Manager Selection

- Median and average value manager has achieved returns in line with or slightly ahead of index over 3 & 5 years
- Large super funds have achieved global equity returns commensurate with their objectives of 2% to 3% above benchmark
- Large super fund performance has substantially exceeded implemented consultant performance – perhaps because of higher MER budgets, greater tolerance for risk and less concern about peer comparisons
- Anecdotally, observed level of tracking error has typically been well below ex ante forecasts

Value Fund Manager Performance (Gross) Returns through December 2009¹

	1 Year	3 Year	5 Year
Manager	(%)	(%pa)	(%pa)
Median	1.2	-10.1	-0.5
Average	2.1	-10.0	0.2
Index ⁴	-0.3	-10.0	-1.0

Super Fund International Equities (Gross) Returns through June 2009²

	1 year	3 Year	5 Year
Fund	(%)	(%pa)	(%pa)
Median	-19.5	-9.2	-0.5
Mean	-20.7	-9.4	-0.8
Index ⁴	-16.3	-10.8	-3.1

Implemented Consultant Performance (Gross) Returns through September 2009³

	1 Year	3 Year	5 Year
Consultant	(%)	(%pa)	(%pa)
Median	-12.4	-10.3	-0.4
Average	-12.1	-10.1	-0.3
Index ⁴	-13.4	-9.9	-0.3

Note 1: Value fund manager performance reported in \$A for 17 different products; Sourced from various public websites and subscription services

Note 2: Top 20 Superannuation funds by AUM whose asset class performance data is publicly available; Sourced from 2009 Annual Reports

Note 3: Multi-manager funds operated by 6 leading implemented asset consultants (InTech, ipac, JANA, Mercer, MLC & Russell; Sourced from CPG Implemented Consulting Survey – September 2009 Quarter

Note 4: MSCI World Ex Australia Index (Unhedged \$A)

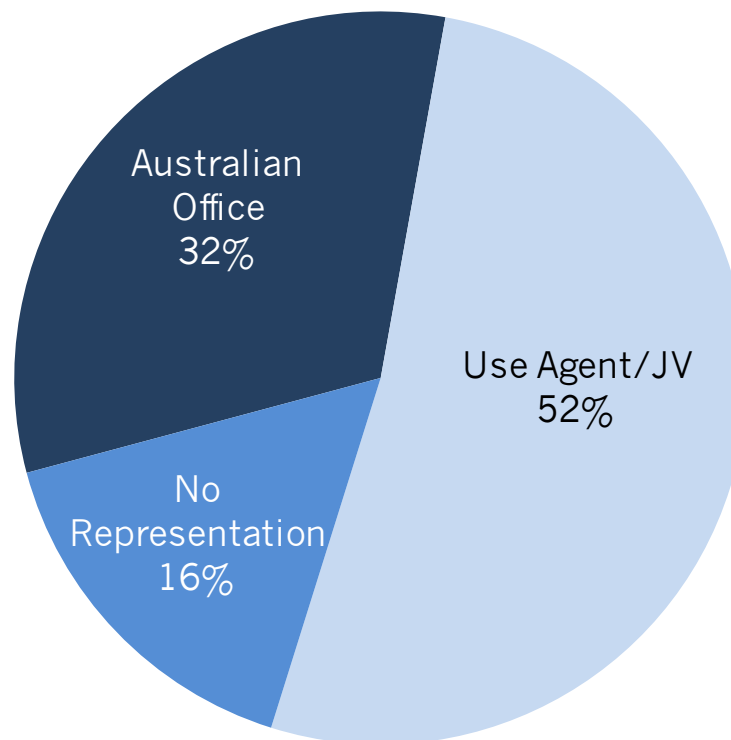
Value Managers – 80% Have an Australian Office or Engage an Australian Agent or JV Partner

12

Australian Representation

- AXA Rosenberg
- Bernstein
- Dimensional
- GMO
- Lazard
- Orbis
- Templeton
- Wellington

- Edinburgh Partners
- Institutional Capital
- Mondrian
- Pzena²



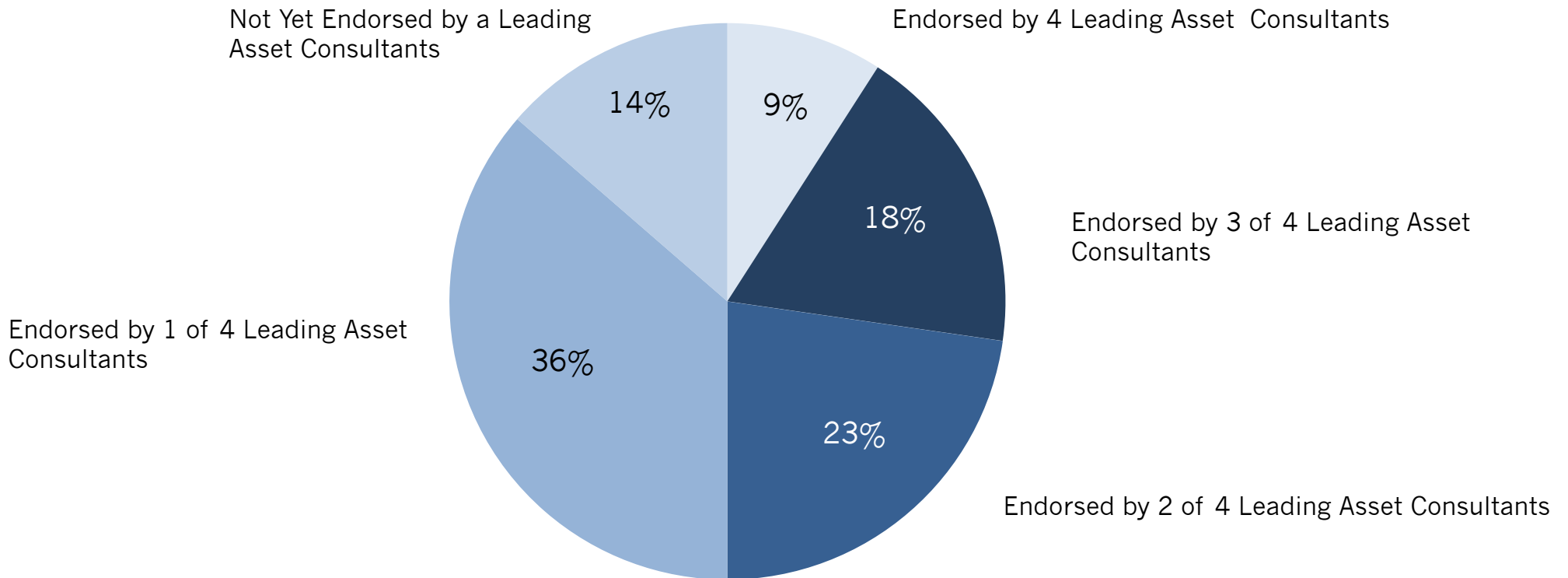
- Acadian (Colonial)
- Altrinsic (Ambassador)
- Bedlam (SHED)
- Cramer Rosenthal McGlyn (Apostle)
- Epoch (Grant Samuels)
- Global Currents (Legg Mason)
- Harris (Apostle)
- LSV (Charles Kiefel)
- Marathon (Ron Enestrom)
- Newton (BNY Mellon)
- Taube Hodson Stonex (Donaldson Burston)
- Tradewinds (Advance)
- Tweedy Browne (Affiliated Managers Group)

Note 1: Sourced from Brookvine's database of key market players, but may contain errors and inaccuracies; Several managers offer both Broad Market and Concentrated Mandates

Note 2: Pzena appointed an Australia-based BDM thru to 2008

50% of Managers are Endorsed by 2 or More Leading Asset Consultants¹

Number of Asset Consultants² Endorsing Individual Managers



Note 1: Based Australian institutional investors with over \$10 billion in funds under management; sourced from Brookvine's database and including superannuation fund, multi-manager, insurance and other institutional investors; data current as at 31 December 2009, but may contain errors and inaccuracies

Note 2: Frontier, JANA, Mercer and Towers Watson

Mandates Awarded to Global Equity Value Managers by Large Funds in Australia^{1,2}

- Over 50% of mandates awarded to top 4 managers – typically with the support of at least 3 of 4 leading asset consultants
- Over 75% of mandates awarded to top 10 managers – typically with the support of at least 2 of 4 leading asset consultants

Manager	Australian Representation	% of Mandates
Lazard	Yes	12%
GMO	Yes	10%
Mondrian	No	10%
Alliance/Bernstein	Yes	9%
Acadian	Yes	7%
LSV	Yes	7%
Orbis	Yes	6%
Altrinsic	Yes	5%
AXA Rosenberg	Yes	5%
Marathon	Yes	5%
Taube Hodson Stonex	No	5%
Dimensional	Yes	2%
Epoch	Yes	2%
Pzena	No	2%
Templeton Global Equity	Yes	2%
Edinburgh Partners	No	1%
Harris Associates	Yes	1%
Institutional Capital (ICAP)	No	1%
Tweedy Browne	Yes	1%
Global Currents	Yes	1%
Bedlam	Yes	1%
Newton	Yes	1%

Note 1: Based Australian institutional investors with over \$10 billion in funds under management; sourced from Brookvine’s database and including superannuation fund, multi-manager, insurance and other institutional investors; data current as at 31 December 2009, but may contain errors and inaccuracies

Note 2: Data excludes Wellington as Brookvine is unable to identify Global Value Mandates separately from GRE mandates

Competitive Analysis of Dominant Concentrated/ High Conviction Global Value Managers^{1,2}

15

	Portfolio Size (No. Stocks)	Cornerstone Australian Account	Australian Franchise	Recent Performance (3 Years)	Independence & Life Cycle	Focus	Team Size Dynamics & Experience	1 st Generation Team
Altrinsic	15 - 35	✓	✓	✗	✓	✓	✓	✓
Bernstein	50 - 80	✓	✓	✗	✗	✗	✓	✗
Edinburgh	30 - 40	✓	✗	✗	✓	✓	✓	✓
Epoch	20 - 30	✓	✗	✓	✓	✓	✓	✓
Harris	40 - 60	✓	✗	✓	✗	✓	✓	✗
Orbis	40 - 60	✓	✓	✓	✓	✓	✓	✗
Taube H'son	60 - 80	✓	✓	✓	✓	✓	✗	✗
T. Browne	30 - 50	✓	✓	✗	✓	✓	✓	✓

Note 1: See explanation of factors applied to the analysis contained in the appendix

Note 2: Arbitrary and overly simplistic assessment based publicly available information and feedback from local market participants; May be subject to material errors or omissions

Summary Details of Dominant Competitors¹

16

	Altrinsic	Bernstein
Founded	2000; Connecticut	1967; New York
AUM	\$12bn	\$240bn (\$618bn total for AllianceBernstein)
Team Size (CIO)	30 (John Hock)	80 (Sharon Fay)
Focus	Global value equities	Multiple asset classes and multiple styles
Value Products	<ul style="list-style-type: none"> • Global (Concentrated) • Global (Broad market) • International (Broad market) • Various global sector funds 	<ul style="list-style-type: none"> • Global, EAFE and country specific broad market • Global, EAFE and country specific concentrated
Organisation	<ul style="list-style-type: none"> • Global sectors/ centralised PM 	<ul style="list-style-type: none"> • Global sectors/ centralised PM
Stated Focus	<ul style="list-style-type: none"> • Fundamental value approach seeking out both high-quality undervalued companies with strong and sustainable financial productivity and undervalued companies with depressed profits but that are poised to improve via a specific catalyst (company, industry &/ or macro). The proportion of these two types of stocks in the portfolio is a function of the opportunities presented at a point in time 	<ul style="list-style-type: none"> • Stocks that are priced low in relation to their long-term earnings power, where investor overreaction has driven the price of a stock to unduly low levels and there are catalysts for price recovery
Key Steps in Investment Process	<ul style="list-style-type: none"> • 1st: Mix of quant and qual screens focussed on valuations and determination of type of opportunity (per above) • 2nd: Fundamental research culminating in an assessment of the company's intrinsic value • 3rd: Compare intrinsic value with the company's share price and determine price targets and alloc'ns favouring best ideas • 4th: Risk controls at both the fundamental security level and the portfolio level 	<ul style="list-style-type: none"> • 1st: Quant screen for the 40% of stocks that have the most attractive valuations relative to their earnings power • 2nd: Fundamental research culminating in the identification of the most undervalued stocks and catalysts likely to re-rate a stock's valuation • 3rd: Risk controls to ensure adequately compensated for risks taken • 4th: Use quant measures such as earnings revision and momentum to guide timing of execution
2009 Performance	<ul style="list-style-type: none"> • 3 years: -0.2% p.a. (31-Dec-09)² 	<ul style="list-style-type: none"> • 3 years: -7.0% p.a. (31-Dec-09)²

Summary Details of Dominant Competitors¹

17

	Edinburgh Investment Partners	Epoch
Founded	2003; Scotland	2004; New York
AUM	\$10bn	\$10bn
Team Size (CIO)	8 (Sandy Nairn)	15 (William Priest)
Focus	Global, EAFE, European and UK value equities	US, EAFE & global value equities
Value Products	<ul style="list-style-type: none"> • Concentrated 	<ul style="list-style-type: none"> • Small Caps • High Yield • Broad market • Concentrated • Absolute Return
Organisation	<ul style="list-style-type: none"> • Global sectors/ centralised PM 	<ul style="list-style-type: none"> • Generalist/ centralised PM
Stated Focus	<ul style="list-style-type: none"> • Identify and buy undervalued companies, and have the patience to hold them until share prices reflect their long-term earnings potential 	<ul style="list-style-type: none"> • Hidden/ under utilised and undervalued assets where management has a immediate and cogent plan to realise value
Key Steps in Investment Process	<ul style="list-style-type: none"> • 1st: Quant screen focussed on valuations • 2nd: Fundamental analysis culminating in standardised five year earnings forecasts, with a focus on individual stock risk • 3rd: Corporate Governance and SRI assessments form an integral part of the investment process • 4th: Compare intrinsic value with the company's share price and determine price targets 	<ul style="list-style-type: none"> • 1st: Quant and qual screens focussed on leading indicators of improving cash flows and impending corporate change – does not focus on valuations • 2nd: Fundamental research and engagement with management to assess alignment on strategy between management and Epoch • 3rd: Apply valuation measures and determine price targets • 4th: Factor-based risk controls to ensure adequately compensated for risks taken
2009 Performance	<ul style="list-style-type: none"> • 3 years: -0.4% p.a. (31-Dec-09)² 	<ul style="list-style-type: none"> • 3 years: +6.8% p.a. (31-Dec-09)²

Summary Details of Dominant Competitors¹

18

	Harris	Orbis
Founded	1976; Chicago	1990; Bermuda
AUM	\$50bn (aggregate incl. HFs)	\$17bn
Team Size (CIO)	25 (Robert Levy and David Herro)	37 (Allan Gray)
Focus	US, EAFE & global value equities	Global, regional and country specific value equities
Value Products	<ul style="list-style-type: none"> • Broad market • Large capitalisation • Concentrated 	<ul style="list-style-type: none"> • Global (Concentrated) • Africa, Asia ex. Japan and Japan • Australia • Global hedged (leveraged & unleveraged)
Organisation	<ul style="list-style-type: none"> • Generalist/ centralised PM 	<ul style="list-style-type: none"> • Global sectors and regions/ centralised PM
Stated Focus	<ul style="list-style-type: none"> • Companies trading at a substantial discount to intrinsic value with corporate managers who think and act as owners, for example, by seeking to run efficient operations, focusing on cash flow and allocating capital wisely 	<ul style="list-style-type: none"> • Stocks trading at a significant discount to their intrinsic value in the conviction that they offer the highest prospective return for the lowest risk of loss
Key Steps in Investment Process	<ul style="list-style-type: none"> • 1st: Quant screen focussed on valuations • 2nd: Fundamental research focussing on free cash flow and company management, with emphasis on hidden assets, under-appreciated franchise values and potential benefits from restructuring. • 3rd: Compare intrinsic value with the company's share price and determine price targets • 4th: Risk controls largely centred on portfolio diversification benefits 	<ul style="list-style-type: none"> • 1st: Mix and quant and qual screens focussed on valuations, economic themes & trends and specific corporate developments • 2nd: Fundamental research culminating in an assessment of the company's intrinsic value • 3rd: Compare intrinsic value with the company's share price and determine price targets • 4th: Risk controls largely centred on correlation benefits to ensure the portfolio is adequately diversified
2009 Performance	<ul style="list-style-type: none"> • 3 years: +2.9% p.a. (31-Dec-09)² 	<ul style="list-style-type: none"> • 3 years: +8.8% p.a. (31-Dec-09)²

Summary Details of Dominant Competitors¹

19

	Taube Hodson Stonex	Tweedy Browne
Founded	1997; London	1920 (1975 for 3 rd party asset management); New York
AUM	\$17bn	\$12bn
Team Size (CIO)	6 (John Hodson – retiring in April 2010 & Cato Stonex; Nils Taube retired)	13 (William Browne, Tom Shrager, John Spears, Robert Wyckoff)
Focus	UK, European & global value equities	Global value equities
Value Products	<ul style="list-style-type: none"> Concentrated 	<ul style="list-style-type: none"> Broad market Concentrated High yield
Organisation	<ul style="list-style-type: none"> Generalist/ centralised PM 	<ul style="list-style-type: none"> Regional/ centralised PM
Stated Focus	<ul style="list-style-type: none"> Contrarian, thematic approach - identify global themes that can generate growth in equity value over the long term, with an emphasis on challenging the orthodoxy of the market view of a company 	<ul style="list-style-type: none"> “Ben Graham” value-oriented approach investing primarily in securities trading at discounts from the manager’s assessment of intrinsic value
Key Steps in Investment Process	<ul style="list-style-type: none"> 1st: Identify a set of clearly distinguished market themes (typically derived from company meetings) and a universe of stocks likely to benefit from the them 2nd: Fundamental research culminating in an assessment of the company’s intrinsic value 3rd: Compare intrinsic value with the company’s share price and determine price targets 4th: Prepared to hold high cash balances at times, with a tendency to buy and sell early 	<ul style="list-style-type: none"> 1st: Quant screen focussed on valuations 2nd: Fundamental research focussed on balance sheet and income statement analysis, and knowledge of corporate mergers, acquisitions and liquidations 3rd: Investments made at a significant discount to the manager’s estimate of intrinsic value, more often than not, where the stock price has declined significantly from prior levels, insiders are accumulating the company’s stock and the company is engaged in a share repurchase program 4th: Risk controls largely centred on portfolio diversification benefits
2009 Performance	<ul style="list-style-type: none"> 3 years: +5.6% p.a. (31-Dec-09)² 	<ul style="list-style-type: none"> 3 years: n/a (product inception 2009)²

1. Explanation of Factors Applied to the Analysis of Competitive Position:

Brookvine's screening was based on the following "crude" characteristics:

- Cornerstone Australian Account – 1 or more substantial mandates from a top tier Australian investor
- Australian Franchise – Widely recognised and engaged amongst Australian funds and consultants
- Performance – Return in excess of MSCI Index commensurate with risk taken over longest time period available (min. excess return of 5% over a min. term of 3 years)
- Independence and Life Cycle – Independence of the management company; Ownership of the management company by key investment personnel; Stage in firm life cycle vis FUM and up-side capacity
- Focus – Sole focus on value equities management; Global equities management is the dominant product line; Entrepreneurial approach
- Team Size, Dynamics & Experience – Minimum investment team size of 10; minimum 15 years average relevant experience; Strong combined experience as a team either at the current entity or at a prior entity; Top tier investor base; Widespread industry recognition; Backed by a leading group of offshore insto investors
- 1st Generation Team – Founders &/ or "makers" of the current business franchise still engaged full time in the business; Majority of the senior investment leadership team still works at the front end of investment decision-making

Note 1: Based entirely on publicly available; May be subject to material errors or omissions

Note 2: Performance of a representative product in excess of MSCI Index in same currency; 3 Years to 31 December 2009

Deal Team

Steven Hall
t: +61 2 9328 6445
m: +61 401 232 422
e: stevenhall@brookvine.com.au

Jack Gray
t: +61 2 9328 6445
m: +61 437 699 684
e: jackgray@brookvine.com.au

Greg Hickling
t: +61 2 9328 6445
m: +61 423 448 516
e: greghickling@brookvine.com.au

Kerstin Sallows
UK-based
m: +44 7976 590 114
e: kerstinsallows@brookvine.com.au

Ed Day
t: +61 2 9328 6445
m: +61 418 277 583
e: edday@brookvine.com.au

Research

Tim Peters
t: +61 2 9328 6445
e: timpeters@brookvine.com.au

Robert Estcourt
t: +61 2 9328 6445
m: +61 412 216 934
e: robertestcourt@brookvine.com.au

Kristen Westwood
t: +61 2 9328 6445
m: +61 400 474 829
e: kristenwestwood@brookvine.com.au

Publications and Design

Jeanne-Marie Dorner
t: +61 2 9328 6445
e: jeannemdorner@brookvine.com.au

Brookvine Pty Limited ACN 108 967 746
Suite 2, 60 Moncur Street Woollahra NSW 2025 Australia
Telephone: +61 2 9328 6445 Fax: +61 2 9326 1311

This document has been prepared by Brookvine Pty Limited solely for the information of the person to whom it has been delivered. The information contained herein is strictly confidential and is only for the use of the person to whom it is sent. The information contained herein may not be reproduced, distributed or published by any recipient for any purpose without the prior written consent of Brookvine Pty Limited. The information contained in this document is drawn from publicly available information, and is therefore subject to inaccuracies. No reliance may be placed for any purpose on the information and opinions contained in this document or their accuracy or completeness.