

Premium SAM Asia Property Fund

The Premium SAM Asia Property Fund offers an exciting and unique investment exposure to the compelling Greater China region with a sectoral tilt to the property growth "story". Although the product's mandate allows the investment manager of the Fund to invest in property sector based stocks, and other property related companies which have significant assets, investments, production activities, trading or business activities related to property, Zenith expects the Fund to be primarily focused on Greater China investment opportunities (initially expected to be above 70%). Zenith considers the underlying manager of the Fund, Value Partners, to be expertly qualified to manage a Fund of this nature and as such we have a high degree of confidence that the Fund will achieve its investment objective of generating positive returns exceeding 10% p.a. over 3 to 5 years (before changes in exchange rates). Investors should note the specialist nature of this Fund and acknowledge that it is highly exposed to a single sector and namely to emerging markets throughout Asia. Given this risk, Zenith recommends that the Fund make up no more than 5% of an investors overall portfolio exposure to growth assets, either as a component of international equities or global property.

As a value investor, Value Partners seeks under-valued property related stocks, which are poorly covered by the market, with high potential for Net Asset Value (NAV) growth over 3 years (15% to 20% NAV growth targeted) and sound management. Value Partners' investment philosophy is described as disciplined, contrarian and absolute return focused. Value Partners, does not manage this Fund with reference to any specific benchmark and as such deviations from the GICs property sector performance should be expected over time. Importantly, while short term underperformance of the market may be expected in exuberant market conditions, Zenith is confident in the Manager's ability to provide strong relative investment returns over the longer term. Value Partners will essentially split the portfolio into 2 components, an aggressive capital growth focused component and a more defensive yield orientated component. The allocations to each are dependant on relative valuation. Similarly, Value Partners may invest outside of the Greater China region and into other Asian markets (ex-Japan) if valuations are more compelling outside of Greater China. Despite this, Zenith believes that the Fund will remain heavily biased to Greater China over the long term based on Value Partners' expertise in the market.

Value Partners are the investment manager of the Fund and Zenith has reviewed and rated the Manager on multiple occasions and regards their team and investment process highly. The investment team is headed by Cheah Cheng Hye, Chief Investment Officer, and consists of 27 members (including 3 dealers). Hye, is also one of the founders of the group and in Zenith's opinion is an exceptional investor within the Greater China region. The team is structured into "clusters" (or smaller teams) comprising the CIO or a senior fund manager and 2 or 3 other team members. Each cluster has "generalist" sector responsibilities, although there are 3 primary clusters that cover the majority of property related stocks as part of their overall responsibilities. While Value Partners is a Hong Kong based group that focuses on undertaking extensive fundamental research on Greater China stocks, they also cover the Asia Pacific region. In Zenith's view, this is both a critical component and strong feature of the Manager's investment process as it not only ensures detailed bottom-up research is undertaken but also broad coverage.

As with the majority of fast developing emerging markets, investors should be aware that the Fund is likely to experience high levels of capital volatility over short term time frames. This emerging markets risk is exacerbated by the fact that this Fund is Asia ex Japan focused. From this perspective, it is important that investors adopt a long-term (5+ years) investment approach when investing in the Fund and limit their overall portfolio exposure to this Fund.

Overall, Zenith rates the Fund as a strong investment opportunity for those wishing to gain exposure to the Greater China property market. As such we rate the Fund **RECOMMENDED**.

Key Features	Description
APIR Code	MAQ0574AU
Asset Class	Property
Sub-Asset Class	Specialist
Investment Style	Active
Benchmark	MSCI AC Far East Free x Japan A\$ (Accum)
Recommended Investment Timeframe	5 + years
Chief Investment Officer	Cheng Hye Cheah
Senior Fund Manager	Louis So
Investment Team Size	27

Performance Analysis

The Fund is a new investment offering and therefore has no performance track record. Despite this, Zenith gains confidence in Value Partners credentials given the Manager's successful long term track record in the management of broader equities based Greater China region portfolios.

Value Partners consider the outlook for the Greater Chinese property market to be highly favorable, driven by several key fundamentals. Some of these key fundamentals are as follows:

- Income Growth: property is a play on China's income growth as property affordability (and hence demand) is highly correlated with household income;
- Urbanisation and housing upgrades are the key drivers of future demand growth; and
- Sector Consolidation: Value Partners contend that industry consolidation has barely begun and that the

market is extremely fragmented. Beneficiaries of this consolidation offer potential attractive investment opportunities i.e. a total of approximately 60,000 property development companies operate in Greater China, of which only 60 are listed, and the largest operator controls only 1.6% of the market.

While Zenith benchmarks the Fund against the MSCI AC Far East Free ex Japan \$A (Accum) index, the Manager adopts a 10% p.a. absolute performance benchmark.

Investment Personnel

Name	Title	Time with Manager
Cheng Hye Cheah	Chief Investment Officer	15 Yr(s)
Louis So	Senior Fund Manager	9 Yr(s)
Norman Ho	Senior Fund Manager	13 Yr(s)
Renee Hung	Senior Fund Manager	10 Yr(s)
Jacky Choi	Senior Fund Manager	7 Yr(s)
Yee-man Chau	Senior Fund Manager	3 Yr(s)

Manager Background

The Premium SAM Asia Property Fund is managed by Sensible Asset Management (SAM) and its sub-investment manager, Value Partners. SAM is a wholly owned subsidiary of Value Partners and was formed in December 2004 with a key purpose of accessing offshore markets and relationships. In essence SAM performs the marketing function and Value Partners is responsible for the management of the underlying portfolio.

Value Partners was established in 1993 by founding partners Cheah Cheng Hye and V-Nee Yeh as a specialist value investment manager focused on the Asia Pacific, with an emphasis on the Greater China region. The company started out with US\$3 million in assets under management and has grown rapidly with approximately US\$6.2 billion under management as at 31 January 2008.

In November 2007, Value Partners carried out an initial public offering (IPO) through the Stock Exchange of Hong Kong, becoming Hong Kong's first listed asset management firm. The listing primarily occurred because 2 US private equity shareholders of the group were required to realise their investment (having owned a total of approximately 30% of the firm). Importantly, post the listing, key Value Partners investment professionals have retained similar levels of equity ownership in the business. Approximately 51% of the equity in Value Partners is owned by staff with founder Cheah Cheng Hye holding approximately 35% and the 5 senior fund managers having between 2% and 3% equity ownership each. The remainder of staff equity (i.e. less than 5%) is held by senior non-investment staff including the Chief Executive Officer, the Chief Operation Officer and the Chief Compliance Officer. Zenith believes that staff equity participation is important as it helps to retain and incentivise key staff.

Other shareholders of Value Partners include business co-founder, V-Nee Yeh (approximately 16%) who is no longer

actively involved in the funds management business, as well as a large insurance firm (Ping An Insurance, approximately 9%) and 2 private equity firms (Holding Capital and Passport Capital, approximately 5% each). Given that such a large proportion of the business is owned by these groups and Value Partners staff, the free float on the company stock is only approximately 10%.

Prior to listing Zenith held some concerns that the listing process could distract key personnel within Value Partners away from the normal operation of the business and investment process. Pleasingly, this has not been the case and Value Partners do not make investment professionals available to meet with investors. The majority of the work associated with the listing was handled by the CEO and COO. Ongoing investor communication is primarily the responsibilities of the recently hired investor relations officer and the company secretary.

Investment Team

The investment team total 27 people in size and comprises the CIO (Cheah Cheng Hye), 5 senior fund managers, 4 fund managers, 3 associate fund managers, 1 senior analyst, 9 analysts, 1 research associate and 3 dealers. Cheah Cheng Hye's financial career started in journalism with the Asian Wall Street Journal and Far East Economic Review before joining Morgan Grenfell and founding its equities research department (1989 - 1993). A deeply passionate stock picker, he remains dedicated to company visits and undertaking bottom-up research. In Zenith's view, Hye remains a critical component of the Value Partners investment team and while the key person risk surrounding him has diminished as the overall team has grown in stature and experience, we believe he continues to be the key investment professional in the group.

The investment team is organised into 6 "clusters" with each cluster headed by the CIO or a senior fund manager and also comprising 2 or 3 other members of the investment team. The CIO provides general research direction to all clusters including insight into all property and property related companies. He will also provide input into the defensive / aggressive portfolio positioning of the Fund. Hye may also deploy a cluster as an "action team" to explore specific research issues. Each of the cluster heads also has portfolio management responsibilities of around US\$1 billion of client money.

Although each cluster has "generalist" sector responsibilities, there are 3 clusters which typically cover the property sector, based on the senior member's experience and background. With regards to Portfolio Management of this Fund, Louis So is responsible for day to day management of the Fund. Zenith rates So highly and supports this appointment given his experience and expertise and the fact that his cluster contributes to the majority of property sector research.

Value Partners' team structure is unique and Zenith has not observed it previously. While it has worked well for Value Partners to date, we believe that a potential issue could be adequate communication between the clusters. Pleasingly, to combat this issue the CIO steers the overall strategy and ensures collaboration among the clusters. In addition the cluster heads meet weekly to ensure smooth operation of the research process and that there is no overlapping in research.

Since its establishment Value Partners has only experienced a single senior departure (Jacky Choi in 1999), who

subsequently returned to the Group in 2001. The high level of team stability means that 5 of the 6 senior members of the team have worked together for 8+ years which assists greatly in ensuring a consistency of investment approach. The recruitment process at Value Partners is to employ 4 - 5 new investment analysts per year with only the best 2 - 3 expected to achieve the high levels of value add expected from each analyst. This leads to some staff turnover at the analyst level which is a deliberate policy of the manager. Co-founder and CIO, Cheah Cheng Hye, has a preference for employing university graduates or analysts with limited "buy side" experience as Value Partners can more easily mould its employees to the internal "way of thinking". For example 2 of the current senior fund managers have made their way through the ranks having joined Value Partners upon completion of academic study (Renee Hung - joined in 1998, Louis So - joined in 1999). The remaining 3 senior fund managers have either funds management or broking experience (Norman Ho - 3 years at Dao Heng Securities, Jacky Choi - 2 years Dresdner Kleinwort Benson, Yee-man Chau- Credit Agricole Asset Management). Within the senior ranks of the team an average of over 10 years average industry experience exists, with an average tenure at the manager of approximately 9 years. Given that the senior investment team members have remained very stable, Zenith is comfortable with the Manager's recruitment philosophy.

Value Partners intends to increase the size of its dealing team by approximately 1 or 2 members over the coming year. This is due to Value Partners managing a greater number of mandates and investing greater volumes of money in Asian markets outside of Greater China. The Manager also expects the introduction of tighter execution compliance procedures in the near future and wants to resource the dealing team accordingly.

Currently the entire team is based out of Hong Kong which facilitates strong information flow, although, given the intensive company visitation program it is not uncommon for half the team to be out of the office at any one point in time. The investment team meets formally on a weekly basis and will hold more regular "ad hoc" meetings when the need arises.

In addition to the investment team, Value Partners has built a large infrastructure of support in the areas of compliance, audit, sales and marketing, business development, portfolio administration, office management and investor relations. In Zenith's opinion, the Manager has successfully transitioned from being a small boutique to a specialist fund manager with strong capabilities across all disciplines. Importantly this growth has allowed investment personnel to remain focused on the investment process. A strong internally driven culture exists within Value Partners with the value orientated approach deeply embedded in the psyche of all members of the investment team, who act more like stakeholders in each investee business rather than shareholders in the company. We believe this is a healthy approach and "mind set" to adopt when committing investors money to an investment.

The staff bonus structure at Value Partners is based on team performance rather than individual performance with all members of staff participating in the pool to varying degrees (based on level of seniority). Bonuses are paid in cash and are derived from a bonus pool of 25% of the company's pre tax profits.

In summary, we rate the Value Partners investment team highly in terms of the level of experience, expertise and team based approach.

Investment Process

As the Manager's name indicates, Value Partners uses a "value" investment style which is described by the manager as an adaptation of "Graham & Dodd" investing techniques to Asian stock markets. Benjamin Graham and David Dodd are frequently referred to as the "founders of value investing" following the publishing of their book, *Security Analysis*, in 1934. The subsequent publication, *The Intelligent Investor*, was once described by Warren Buffet as the "best investment book ever written".

As a value investor, Value Partners seeks out under-valued property related stocks, which are often poorly covered, with high potential for Net Asset Value (NAV) growth over 3 years (15% to 20% growth targeted) and sound management. Value Partners' investment philosophy is described as disciplined, contrarian and absolute return focused. Value Partners, does not manage this Fund with reference to any specific benchmark and as such deviations from the performance of the GICs property sector should be expected over time. Importantly, while short term fund underperformance relative to the market may occur in exuberant market conditions, Zenith remains confident in the Manager's ability to provide strong relative investment returns over the longer term. In line with the Manager's absolute return approach, the investment objective of this fund is to generate positive returns exceeding 10% p.a. over 3 to 5 years (before changes in exchange rates).

Value Partners will essentially split the portfolio into 2 components, an aggressive capital growth focused component and a more defensive yield orientated component. The allocations to each are dependant on relative valuation. Similarly, Value Partners may invest outside of the Greater China region and into other Asian markets (ex-Japan) if valuations are more compelling outside of Greater China. Despite this, Zenith believes that the Fund will remain heavily biased to the Greater China region (i.e. initial portfolio circa 10% Hong Kong REITs, 50% Chinese listed property development companies, 10% small / mid cap Hong Kong property development companies) over the long term based on Value Partners' expertise in the market.

In Zenith's opinion, the group's focus and specialisation in Asia and particularly Chinese stock investment is a strong advantage of the group.

Security Selection

Background - China Equity Market

Prior to describing Value Partners stock selection and portfolio construction approach, it is worth providing a brief explanation of the make up and structure of the Chinese equity markets.

There are currently, 4 stock exchanges in the Greater China region including Hong Kong, Shanghai, Shenzhen and Taiwan which can offer foreign investors exposure to the fast growing Mainland Chinese economy. For decades, the Hong Kong Stock Exchange has been the main sharemarket for foreign investors to gain investment exposure to China. However, as Shanghai and Shenzhen gradually open up to foreigners, and a growing number of private entrepreneurs from Mainland China list their companies on the Shanghai and Shenzhen

stock exchanges, the investment markets and opportunities are expanding rapidly.

Depending on their place of incorporation and listing, mainland Chinese companies can be classified as "A", "B", "H", and "G" shares, and "Red Chips".

"A" shares represent the largest class of Chinese shares and are traded on the Shanghai or Shenzhen Stock Exchanges, in local currency (the "Renminbi") and are available only to China residents and Qualified Foreign Institutional Investors (QFII). Approximately 1/3rd of A shares listed on the Mainland exchanges are tradable, with the remaining 2/3rd state-owned and non-tradable. The Fund will invest into A shares through the QFII scheme, and restricts its allocation to A shares to a maximum 35% (generally much lower than this limit) given the illiquid, immature nature of this market. Value Partners currently gain access to "A" shares through broker quotas and have applied for a QFII licence of its own.

"B" share companies are incorporated in Mainland China and their shares are traded on either the Shanghai (quoted in US dollars) or Shenzhen (quoted in Hong Kong dollars) Stock Exchanges. This share class can be traded by non-residents of the PRC (People's Republic of China) and by residents with appropriate foreign currency dealing accounts. B shares represent the smallest class of Chinese shares.

"H" share companies are incorporated in Mainland China but listed on the Hong Kong Stock Exchange. "H" shares are quoted in Hong Kong dollars and have no resident restrictions. Approximately 50 stocks are dual listed on the "A" and "H" share markets.

"Red chips" are companies incorporated outside of Mainland China (e.g. Bermuda, Cayman Islands, and Hong Kong) with direct or substantial indirect ownership by a PRC state entity. They are traded on the Hong Kong Stock Exchange, are quoted in Hong Kong dollars, and like the "H" shares have no resident ownership restrictions.

"G" shares are corporations that have recently gone public following the Chinese government's decision to allow the 2/3rds of non tradable corporations to float in an attempt to attain higher liquidity, increase corporate governance and improve productivity. However, "G" shares are essentially the same as "A" shares with both being traded on the Shanghai or Shenzhen Stock Exchanges in Renminbi and are available only to China residents and Qualified Foreign Institutional Investors (QFII).

The Fund will invest in Mainland Chinese companies as well as non-Mainland Chinese companies so long as they have significant assets, investment, production activities, trading or other business interests in the Greater China region, or derive a significant part of their revenue from the Greater China region.

Security Selection

Investment Universe

The Fund may invest in property companies in the Asia Pacific (ex Japan) region but will focus primarily on the Greater China region. The approximate size of the Greater China investable universe is 260 property companies as at April 2008 (120 in China, 100 in Hong Kong and 40 in Taiwan) and there are approximately a further 300 listed investable stocks outside of Greater China (including 70 in Singapore, 45 in South Korea,

100 in Malaysia and 45 in Thailand). By market capitalisation the investment universe is approximately US\$ 580 billion in size (as at April 2008) with China approximately US\$230 billion, Hong Kong approximately US\$180 billion and Taiwan approximately US\$15 billion (i.e. a total market cap of around US\$425 billion in the Greater China region property market). The Fund is an "all caps" mandate and as such is likely to have exposure to large, mid-cap and small companies within the portfolio (although investment in small cap stocks may be limited given that the Manager has a preference for not holding over 5% of the issued capital in a company).

Stock Filtering

Value Partners source their stock investment "ideas" from a variety of sources including their initial valuation filter and brokers. As the Manager's focus is on identifying property stocks that are under-researched, unknown and undervalued, the vast majority of stock investment ideas are generated internally.

To assist in the identification of property stocks meeting these criteria, the Manager utilises a value "screen" which focuses on the key financial measures the Manager deems important. These criteria are consistent with the approach used for Value Partner's equity portfolios and include:

- Price / Earnings ratio of < 10;
- Price to Book ratio of < 2;
- Dividend Yield of > 4.0%;
- Return on Equity of > 10%;
- Strong cashflows; and
- Strong balance sheet.

In addition to the above metrics Value Partners use a number of property sector specific metrics for stock picking. For instance, Value Partners look at discount to NAV, NAV growth potential, earnings multiple, land bank quality, geographic exposure, project quality, cash flow adequacy, expansion strategies and potential M&A opportunities, etc, when analysing property stocks. The minimum market capitalisation of Chinese stocks that the Fund will invest into will tend to be above US\$500 million, whilst in other regions the Fund will be more small / mid cap orientated.

The screening process is used as a tool rather than a "black box" which must be strictly followed. The Value Partners approach will often result in it researching "out of favour" stocks, given by nature it tends to be a contrarian style investor.

As at 31 January 2008, the investible universe following the above initial screens included 80-90 stocks in the Greater China region, and around 150 stocks outside of the Greater China region but in the Asia (ex-Japan) region. This investible universe represented a total market cap of around US\$450 billion.

Valuation

Once a company is identified through the screening process as a potential investment, the investment analyst or senior fund manager will conduct preliminary financial analysis which if deemed attractive will result in initial contact with company management. If the company still appears to be potentially attractive, the analyst / senior fund manager responsible will then conduct detailed financial analysis on the company. The Manager does not rely purely on reported annual financial statements as the accounting profits can sometimes fail to

match actual cashflows. In Zenith's view, the greater depth of analysis on the financial performance of the companies is critical in the Chinese market where transparency and compliance is not always of high standard.

Qualitative Research

An essential component of Value Partners company assessment process is meeting with and assessment of company management. This includes an in-depth assessment of their track record, experience and strategy. Value Partners pride themselves on their intensive company visitation program with all members of the investment team traveling extensively within China to meet with property companies, view assets, and discuss property sales with not only the companies but competitors also. Last year this resulted in over 2,500 company visits in greater China, with 150 of these being to "significant" property sites. As there are hundreds of property companies, each with multiple sites, the Manager will typically prioritise site visits to the largest sites. As a disciplined value investor it is a requirement that company management be visited prior to any investment being made and as much as possible, visits are attended by 2 investment professionals so that there is a cross section of views.

The culmination of the stock research process is the categorisation of stocks into 3 categories as follows:

- Category 1 (undervalued);
- Category 2 (fair valued); and
- Category 3 (overvalued).

Portfolio Construction

The portfolio construction approach is closely linked to the security selection process with the portfolio strongly reflecting the preferred stocks as identified by the investment team. That is, subject to the manager's liquidity requirements, those stocks with the highest weightings in the portfolio will be those deemed as the most attractive from a valuation perspective.

The objective of the Fund is to deliver strong absolute returns and as a result, the Manager pays no attention to stock index weights when constructing the portfolio. From this perspective, there are limited constraints on the Fund which is consistent with a pure bottom-up stock selection process. As a guide, Value Partners will generally include 30 to 50 stocks in the portfolio (consider maximum number of holdings to be 70 stocks) with the largest holding unlikely to exceed 10% of the portfolio weight. The Fund will also attempt to hold less than 5% of the issued capital in any single stock, thus not forcing it to report to the market its "substantial" position which could result in it losing any information advantage over the market. Cash levels may be run up to approximately 20% of the portfolio weight when the Manager is unable to identify undervalued investment opportunities that meet their intensive research criteria. In normal market conditions the Manager expects to hold approximately 5% cash. Portfolio turnover can range widely but is expected to be approximately 100% p.a. although it is often largely driven by the dynamic environment of Chinese equity markets.

The Manager can use short derivatives, up to a maximum 35% of the portfolio. This will typically be used in times of market downturn as a risk control mechanism in order to reduce the volatility of the Fund.

As CIO, Cheah Cheng Hye, is ultimately responsible for the Fund, however, day-to-day management of the portfolio rests

with senior fund manager, Louis So and the investment team. The process of building the portfolio is intuitively driven with all funds "tapping" into the same underlying research effort to ensure consistency of approach. The senior fund manager's have ultimate decision making power in the portfolio construction process, including the ability to override recommendations from analysts however this seldom occurs given the team based approach to stock selection.

In summary, the portfolio construction approach is a collegiate approach which leverages strongly from the stock research process. In Zenith's opinion, portfolio construction is consistent with the Manager's value and absolute return investment approach.

Risk Management

Portfolio Constraints	Description
Security Numbers	30 to 50 Guide only
Weight - Holding Rel. Portfolio (%)	max: 10% Guide only
Weight - Holding Rel. Issued capital (%)	max: 5% Typically
Short derivatives (%)	max: 35%
Portfolio Turnover (% p.a.)	Approx. 100%
Cash (%)	max: 20% Expect to typically hold approx. 5% Cash

While Value Partners formal risk management constraints are not extensive, this is compensated for at a stock research level where thorough research is considered the key risk management measure.

The Fund will seldom hold more than 5% in of a single company's market capitalisation. Stock liquidity is a key concern of the manager and has been formalised within the portfolio construction and risk management approach via a liquidity test. The liquidity test was introduced to the investment process after Value Partners commissioned a report from PriceWaterhouseCoopers (PWC) in mid 2003. The result is a liquidity test where the Manager must now be able to exit 25% of its portfolio in 1 day, 30% in 3 days and 40% in 4 days, based on average daily volume. Zenith believes this is an important risk management measure as it helps to ensure that the portfolio remains invested in liquid stocks that are able to be sold if required.

The only other constraints are a requirement that investment in A class shares must be restricted to below 35% of the portfolio, which in practice, is not restrictive given that the manager typically holds less than 10% of the portfolio in A class shares. As a guide the Manager has stated that it is likely to hold up to 20% of the portfolio in cash when they are unable to identify undervalued investment opportunities that meet their intensive research criteria. In a dynamic, fast expanding market like the Chinese market, we believe it's unlikely that the manager will not be able to find attractive investment opportunities and therefore expect that the Fund will be relatively fully invested over time.

The Manager's overall funds under management has grown significantly in recent years to approximately US\$6.2 billion as

at 31 January 2008. The Manager intends to review their strategy in relation to overall funds under management capacity when they reach US\$10 billion. As with most managers, funds under management capacity is largely a function of the size of the overall investible universe which equates to approximately US\$6 trillion (including Hong Kong listed shares, China A shares, China B shares, and Taiwan stock exchanges).

With regards to the Property segment of the market approximately 10% of Value Partners' total FUM is invested in Greater China region property companies (primarily through its equities products), which equates to approximately US\$620 million. Value Partners have advised Zenith that it considers capacity in this product to be in excess of US\$1 billion (this does not include the money invested in property stocks through its equities products). Zenith is comfortable with Value Partners' approach to setting capacity given that Value Partners are proposing to manage a very small proportion of the Fund's investible universe which is approximately US\$580 billion in size. Despite this, Zenith will continue to monitor Value Partners' capacity and ability to invest meaningful positions in companies in the small cap segment of the market. Zenith is confident that Value Partners will manage its growth in this strategy conservatively, based on its track record of soft closing other products prior to reaching capacity.

The Manager is currently negotiating with a systems provider that will enable Value Partners to test its liquidity and assess capacity on a monthly basis. This will allow the manager to run value at risk analysis and sensitivity analysis in real time (as opposed to undertaking a manual process to assessing capacity that Value Partners currently employs).

Risks of the Fund

In Zenith's opinion the major risks of the Fund are summarised below:

Regional risk - the Fund invests in Greater China and Asia region (ex Japan) and will not have the diversity of a globally diversified portfolio. Furthermore, while potential returns can be higher from emerging markets, this has been historically associated with greater unpredictability and volatility.

Sector risk - the Fund invests in a single sector and will not have the diversity of a typical equities portfolio.

Manager / key person risk - the driving force behind Value Partners remains one of its co-founders and current CIO, Cheah Cheng Hye. While he has a further 5 senior portfolio managers within the investment team, in Zenith's opinion he remains a critical component. While as a "boutique" Value Partners is more dependent upon a single or fewer number of key investment professional than perhaps its institutional peers, Zenith would argue the risk of losing an individual is less given all are "locked in" via significant equity stakes;

Currency risk - this Fund is unhedged and as such investors are exposed currency risk. This is because the Manager wishes to allow itself to benefit from Renminbi (Rmb) price appreciation against the Hong Kong Dollar (i.e. most of the property developers in China are direct beneficiaries of Rmb price appreciation but are listed in Hong Kong Dollars);

Investment style risk - the nature of value investing is that in rising market conditions when stock valuations move to extremes, the style tends to underperform; and

Capacity risk - the ability for Value Partners to continue to deliver strong performance in the face of growing funds under management (US\$6.2 Billion as at 31 January 2008) and an increasing number of products (1 initially to 25 currently). Having high levels of funds under management (FUM) presents additional challenges to any fund manager, as high FUM has the potential to hamper a fund manager's ability to trade efficiently particularly in smaller capitalisation stocks. The Manager believes that it can comfortably manage up to US\$1 billion in this product before reaching capacity.

Applications of the Fund

The Fund provides a high quality investment for those investors seeking to gain exposure to Greater China and the property growth story in the region. Investors should note the specialist nature of this Fund and acknowledge that the Fund is highly exposed to a single sector of an emerging economy. Given this risk, Zenith recommends that the Fund make up no more than 5% of an investor's overall portfolio exposure to growth assets, either as a component of international equities or global property.

As with most developing markets, spectacular returns can be associated with very high levels of volatility. It is for this reason that we recommend only those investors adopting a long term investment horizon (5+ years) consider an investment in the Fund.

The Fund should be viewed as a capital growth based investment; however the relatively high level of portfolio turnover is likely to result in large components of the Fund's return being delivered via income in the form of realised capital gains. From this perspective, the Fund may suit low marginal tax rate payers such as self managed superannuation funds, where realised gains will not have such an impact on after tax returns.

In Zenith's opinion the merits for investing in the Fund is as much a story around the quality of the fund manager and its capabilities as it is about specialised access to Chinese property sector "growth story".

Fees

Management Fee

The Manager is remunerated through a base fee and an incentive fee. The base fee is 1.68% per annum, accrued daily and paid monthly in arrears. Not included in the base fee is an expense recovery estimate fee of 0.3%.

Performance Fee

A performance fee of 20% (after fees and expenses) over a hurdle of 10% p.a. (subject to a high watermark) applies to this Fund. Although a hurdle of 10% p.a. matches the Fund's absolute return objective, Zenith notes that this may result in investors paying high performance fees in strong market conditions where the market (and hence also likely the Fund) significantly outperform the 10% hurdle rate. Based on long term global equity returns and with reference to the growth outlook for Chinese equities, Zenith would prefer to see this hurdle set at 12% p.a.

A buy / sell spread of +/- 0.25% exists in the Fund to cover transaction costs which is an additional charge investors need to be mindful of.

Author: James Tsinidis

Investment Analyst

Email: james.tsinidis@zenithpartners.com.au

Ph: (03)9642 3320

Fax: (03)9642 3319

DISCLAIMER: *This report is prepared exclusively for clients of Zenith Investment Partners (Zenith). The report contains recommendations and advice of a general nature and does not have regard to the particular circumstances or needs of any specific person who may read it. Each client should assess either personally or with the assistance of a licensed financial adviser whether the Zenith recommendation or advice is appropriate to their situation before making an investment decision. The information contained in the report is believed to be reliable, but its completeness and accuracy is not guaranteed. Opinions expressed may change without notice. Zenith accepts no liability, whether direct or indirect arising from the use of information contained in this report. No part of this document is to be construed as a solicitation to buy or sell any investment. The performance of the investment in this report is not a representation as to future performance or likely return. The material contained in this report is subject to copyright and may not be reproduced without the consent of the copyright owner. Zenith usually receives a fee for assessing the fund manager and product(s) described in this document against accepted criteria considered comprehensive and objective.*