

RARE Series Emerging Markets Fund

INDEPENDENT ASSESSMENT

This report has been prepared for financial advisers only

10 June 2011



Scope

The independent assessments are conducted by SQM Research Pty Ltd (SQM Research) on behalf of Barik Pty Ltd trading as Adviser Edge Investment Research (Adviser Edge). SQM Research is an Authorised Representative of Barik.

Key Principles

The underlying principles of the assessment process are to:

- identify the long term commercial potential of the Responsible Entity;
- evaluate management's capabilities, previous performance in the specific industry and the stability of the organisation;
- evaluate identified markets (domestic and international – existence, stability and growth potential);
- benchmark key performance assumptions and variables against industry peers;
- weigh up the relevant risks of the Responsible Entity;
- assess structure and ownership;
- determine if the Responsible Entity is structured in such a way as to protect investor's interests; and
- allow an opinion to be formed regarding the investment quality of the Responsible Entity.

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The site assessment considers the following areas:

- suitability of the site for the purpose intended;
- management skills, qualifications, capabilities and experience; and
- associated property risks and their management.

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* Following are descriptions for each of the star ratings, which have been developed for dealer group research and investment committees.

- 4.5 stars – Outstanding. Highly suitable for inclusion on APLs.
- 4 stars to 4.25 stars – Superior. Suitable for inclusion on most APLs.
- 3.75 stars – Good. Consider for APL inclusion.
- 3.5 stars – Average. Consider for APL inclusion, subject to advice restrictions.
- 3.25 stars – Caution required. Not suitable for most APLs.
- 3 stars – Strong caution required. Not suitable for most APLs.
- Below 3 stars – Avoid or redeem. Not suitable for APL inclusion.

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Report Date

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Adviser Edge Rating

Infrastructure Trust Details

Fund Name	RARE Series Emerging Markets Fund
ARSN	132 182 462
APIR Code	TPG0015AU
Manager	RARE Infrastructure
Address	Level 18, 1 York Street, Sydney, 2000
Responsible Entity (RE)	Treasury Group Investment Services Limited
Custodian	RBC Dexia Investor Services Trust

Investment Details

Fund Inception	9 July 2008
Fund Size 31 December 2010	\$1.8 million (\$43.0 million overall strategy)
Fund Type	Unlisted open ended infrastructure fund
Return Objective	To provide investors with exposure to the growth of emerging markets infrastructure, and to outperform the benchmark.
Benchmark	An accumulation index comprised of the Citigroup Global Emerging Market Sovereign Investment Grade USD Index plus 5.0% p.a.
Number of stocks in portfolio 31 December 2010	33
Gearing	The Fund is not geared.

Investment Specifications Summary

Minimum Application	\$20,000
Minimum Withdrawal	\$5,000
Redemption Policy	Daily
Distribution Frequency	Bi-annually (January and July)
Contribution Fee	Nil
Management Expense Ratio	1.333%
Buy/Sell Spread	1.05%/0.05%
Currency Hedging	The currency exposure of the Fund is un-hedged.
Tax Deferral Rate	n/a
Loan Facility	n/a

Investment Summary

The RARE Series Emerging Markets Fund (the Fund) is an open-ended unlisted infrastructure securities fund that invests in listed securities of emerging markets where the underlying business is substantially involved in infrastructure. The Fund aims to invest in securities that derive at least 50% of their earnings before interest, tax, depreciation and amortisation from emerging market assets. As well as investing in listed securities and cash, the Fund can invest in derivatives and depository receipts or other securities where the underlying assets are inaccessible or illiquid. RARE may use options, futures and other derivatives to reduce risk or gain exposure to underlying physical investments. Derivatives are not used speculatively. The Fund is suitable for investors seeking to benefit from a global exposure to infrastructure investments, and who are prepared to accept a moderate level of risk and volatility over the investment term.

The Fund is managed with the objective of providing investors with regular and stable income, plus capital growth. With a portfolio constructed on a benchmark-unaware basis, the Fund invests in securities which offer positive absolute returns, rather than selecting securities in relation to a particular industry standard index.

The Fund's investment rationale is based around a bottom-up approach, combined with a detailed set of processes and controls which seek to ensure that high quality, in-house research covers the quantitative and qualitative factors underpinning each investment decision. This investment style is supported by a global research capability, including analysis of key sector, country and regional themes that may affect the outlook for companies and valuations.

The Fund aims to out-perform an accumulation index comprised of the Citigroup Global Emerging Market Sovereign Investment Grade USD Index plus 5.5% p.a. Investors should consider an investment horizon of five to eight years in the Fund and should also understand that the value of an investment in the Fund will change over time. While the Fund is currently not geared, it may borrow for the purposes of ensuring that it maintains adequate liquidity. The Fund will not borrow to make investments. It should be noted that the Fund does not hedge its underlying currency exposures.

The Fund has received a 4¼-star rating.

SQM Research/Adviser Edge's Review

The Fund has an experienced and stable senior Portfolio Management team, with a long track record across infrastructure assets, which is a key strength of the Fund. The Fund's investment management team is lead by Senior Portfolio Managers Richard Elmslie and Nick Langley. Mr Elmslie and Mr Langley are the principals of RARE, and have held their positions since the

inception of the Fund and the formation of RARE as a fund manager. Mr Elmslie and Mr Langley have a wide range of experience, which includes a combined 35 years of global infrastructure experience. This is unmatched within the sector. Importantly, Mr Elmslie and Mr Langley have previously worked together at ABN AMRO and have experience at a number of well respected global infrastructure fund managers. The Senior Portfolio Managers' combination of skills, and their extensive track record in understanding infrastructure entities and also valuing long-dated assets, is a strength of the Fund.

The size and experience of the Fund's management team positions it strongly among its peers. The team has 10 members in all, which is well above the industry average of seven. This makes it the largest team within the sector in terms of overall resources. On this basis, SQM Research/Adviser Edge views the team as being well structured and effectively resourced, which is a strength of the Fund. While SQM Research/Adviser Edge is satisfied that the team members have the necessary skills and experience to oversee the Fund's development and ongoing performance, it should be noted that a number of Research Analysts and a Portfolio Manager are relatively new to their roles, which will be monitored. The average number of years that investment team members have spent with the Fund (2.4 years) is relatively short and below the peer average of four years. The average amount of investment experience is 12.1 years, which is in line with peers. Having said that, the Fund's investment team has been able to remain relatively stable at the senior level since inception. Although there has been some major staff turnover at the analyst level over the past year, the Fund has been able to source replacements, and has also built the overall size of the team. The ability of the Fund to compensate and provide long-term analyst stability will be monitored going forward.

Although there is only a relatively short period of time with which to evaluate returns, the performance of the Fund has positively influenced the rating achieved. Performance of the Fund has been impressive since inception, achieving returns in excess of both the benchmark and peers on an annualised basis since inception, generally at lower levels of volatility. The one-year rolling returns shows that the Fund performed above its benchmark for a large part of its early history, consistently delivering returns in excess of the benchmark based on 12-month rolling periods. Outperformance against the peer group has been impressive and is relatively consistent over time. However over more recent periods, particularly over the latter parts of 2010, the Fund has failed to match the returns of the benchmark and peers. It should be noted that the investment time frame of the Fund is however five to eight years. The Sharpe Ratio, which measures risk adjusted returns, has generally performed above peers since inception, but below the benchmark, predominantly driven by the lower volatility of the benchmark over more recent periods. Investors should be aware that the Fund does not hedge its currency exposure, so investors take on the added currency risk in relation to overall returns.

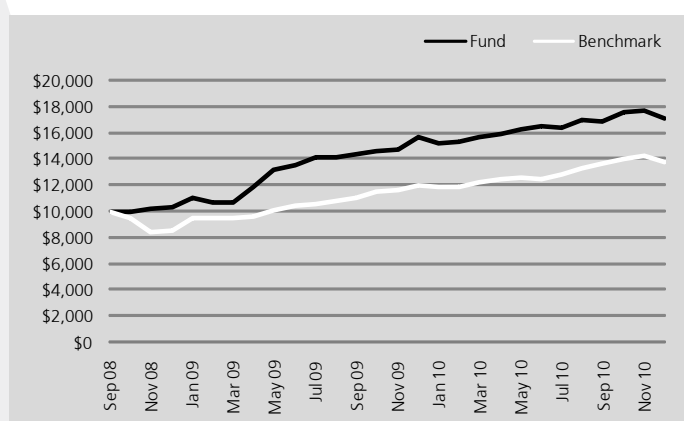
Fund Performance to 31 December 2010¹ (%)

	3-Month	6-Month	1-Year	Inception
Fund (%)	1.8	4.0	9.0	26.9
Benchmark ² (%)	0.9	10.5	15.5	15.5
Peer Average (%)	4.0	14.9	11.1	6.9

¹ Total return net of fees assuming dividend re-investment, three and five-year returns annualised.

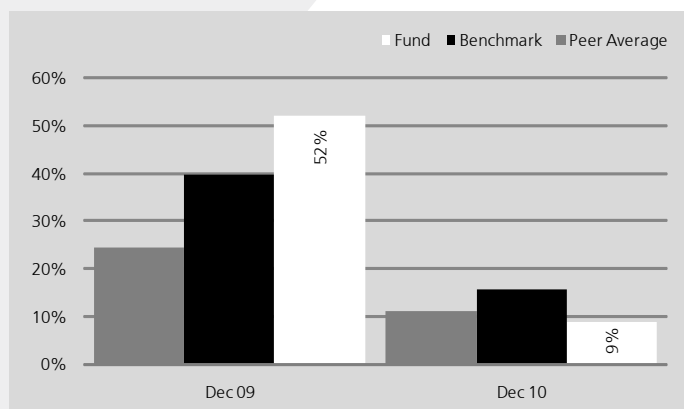
² An accumulation index comprised of the Citigroup Global Emerging Market Sovereign Investment Grade USD Index plus 5.0% p.a.

Growth of \$10,000



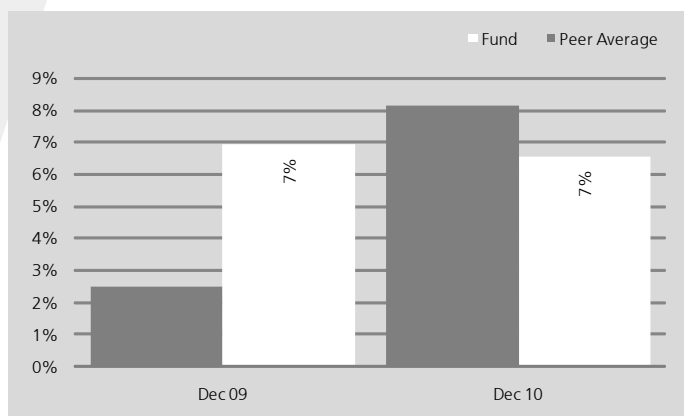
Throughout the review it became clear that the Fund's bottom-up quantitative and qualitative research process is detailed and well presented. As the Fund is not constructed to a benchmark, it has an absolute returns focus, with the risk/returns profile a result of rigorous bottom-up stock analysis. The bottom-up process is driven by quality in-house research, with a combination of quantitative and qualitative factors underpinning each investment decision. A top-down overlay supplements the bottom-up research process, with the overall global research capability also comprised of sector, country and regional analysis of the key themes that may affect the outlook for the underlying bottom-up stock analysis. On this basis, the Fund is well resourced and has access to an Investment Advisory Board, which was created in 2009 to drive the macro-economic research agenda and is comprised of five members, three of whom are external to the investment team. The external members bring with them a range of experience and qualifications, and this is a strength of the Fund. It is estimated that the research and stock selection process is 80% driven by bottom-up analysis, with a 20% top-down macro-economic overlay.

Comparative one-year returns



The portfolio construction process is structured and balanced and appears to have been executed successfully since inception. The ranking model in place is detailed and relatively well structured, while the various risk constraints around portfolio construction also appear to be appropriate and adhered to. It should be noted that the Fund is built on a benchmark-unaware basis, providing the potential for greater sector diversification in comparison to a number of benchmarks that are heavily weighted to the utilities sector.

Comparative distribution yields



SQM Research/Adviser Edge believes that the Fund's ongoing fee structure is higher than that of peers. It should also be noted that the Fund has in place an above peer average performance fee. It should be noted that the peer average includes a range of investment options, with the minimum investment above \$20,000 used as the filter. A number of peers are targeting wholesale investment, and hence have much higher minimum investment amounts and are able to offer a lower fees base. While the ongoing fees are higher than peers, much of the higher fee structure is driven by the recent changes to the Fund's buy spread, increasing from 0.35% to 1.05%. The manager has noted that this fee now matches closely to the actual fees incurred by the Fund. In particular this is a reflection of the tax for investment into Brazil, notably the IOF tax (a tax on foreign currency inflows),

which is levied at 2% of all foreign currency inflows into Brazil. After taking into account that the Fund has a targeted weighting of 35% to the Brazil, an increase of 0.70% has been levied. SQM Research/Adviser Edge will watch the peer average fees closely to monitor any increases as a result of the taxes such as those imposed on investment into Brazil.

Strengths of the Fund

- The Fund has an experienced and stable senior Portfolio Management team, with a long track record across infrastructure assets
- The investment team is well resourced and is the largest within the sector under review
- The Fund's predominantly bottom-up quantitative and qualitative research process is detailed and well presented
- The portfolio construction process is structured and balanced, and appears to have been executed successfully since inception
- The Fund has outperformed peers and the benchmark for a majority of its measured history

Weaknesses of the Fund

- The Fund has lost a number of analysts over the past year, although replacements have since been appointed
- Overall fees are higher than those of a group of infrastructure securities fund peers, although the investment minimum is much smaller than peers'

Other considerations

- Short-term performance has fallen behind both peers and the benchmark during the past six months
- The investment team is based in Sydney, with Portfolio Managers and Analysts spending significant time travelling annually
- Net fund flows have been flat during 2010, with overall funds under management still relatively low at \$43.0 million; however, fund flows into the strategy during 2011 have been strong
- The Fund is built on a benchmark-unaware basis, providing potential for greater sector diversification
- The Fund does not hedge its currency exposure, which may magnify volatility of returns with the Fund exposed to currency risk

- The Board of Directors of both the Parent Entity and the Responsible Entity's are not majority independent, although there are sufficient compliance procedures in place

The following market overview represents the view of Adviser Edge/SQM Research at the time of publication.

Real GDP Growth (Year on Year %)						
	2008	2009	2010	2011(f)	2012(f)	Average ¹
Australia	2.6	1.3	2.7	3.0	3.5	3.2
China	9.6	9.2	10.3	9.6	9.5	10.0
Japan	-1.2	-6.3	3.9	1.4	2.1	2.2
United States	0.0	-2.6	2.8	2.8	2.9	2.7
United Kingdom	-0.1	-4.9	1.3	1.7	2.3	2.1
European Union	0.7	-4.1	1.8	1.8	2.1	2.0

Source: IMF World Economic Outlook April 2011, Adviser Edge/SQM Research, (f) forecast years. ¹ Long-term 30-year average.

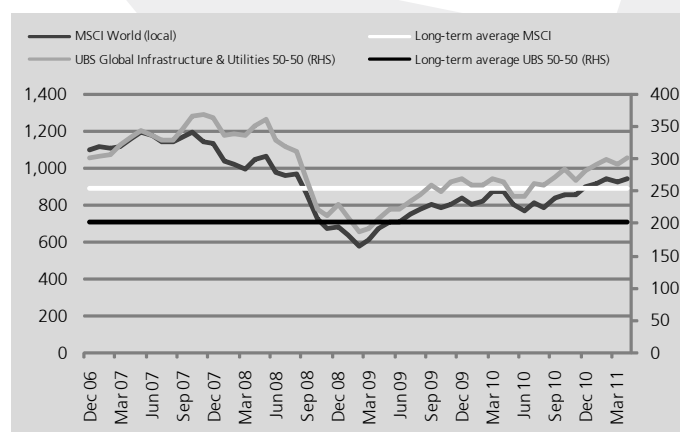
While fears of a global depression receded in 2009 with businesses beginning to rebuild depleted inventories, sentiment remains fragile. Government bond and bank credit default swap spreads in the Europe remain high, pointing to a possible dampening of the positive economic recovery taking place. The fear of default of government debt has spread throughout all financial markets within the Euro zone, although data would suggest these credit events are only concentrated in a few countries such as Greece, Iceland, Ireland, Portugal and Spain. While a bailout package to Greece appears likely, officials supporting the aid package are under pressure from their respective governments regarding the merits of such a plan.

Commodity prices have risen sharply since from the peak of the Global Financial Crisis (GFC), as a result of strong demand from Asia and supply constraints arising from weather disruptions. Brent crude oil prices have been trading at approximately US\$113.21 per barrel in first week of May 2011, up from the lows of US\$50 per barrel two years ago.

High oil prices act as an indirect 'tax' on businesses and some market watchers believe this may stall global growth. Adviser Edge/SQM Research believes that prices should remain steady in the medium term in the absence of further supply shocks, and due to unrest in North Africa and the Middle East.

Despite concerns regarding the fragility of the global economy, the International Monetary Fund (IMF) has projected optimistic forecasts in the next two years across all countries. Although these forecasts are not back to the pre-crisis highs, the two-year forecasts are close to the long-term 30-year averages of the respective countries. The recent 9.0 magnitude earthquake and nuclear crisis in Japan has led to some decline in confidence, although it appears to have had minimal ongoing effects in other markets outside of Japan.

Global Infrastructure and general equities



Source: Bloomberg. Y-axis for all indices above are on the left unless indicated. Long-term averages are calculated over a 13-year period.

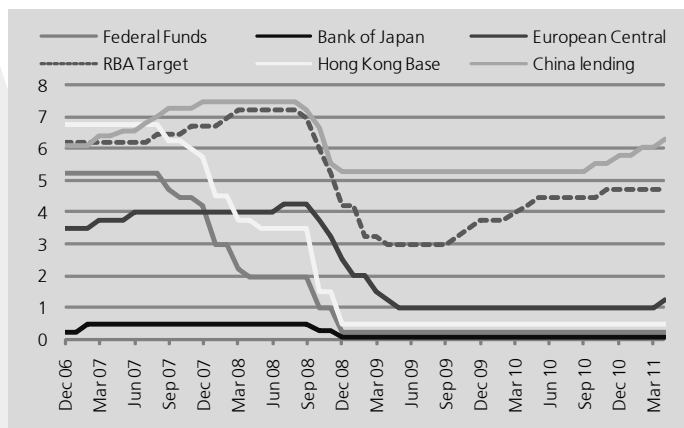
While global financial markets have rebounded post crisis, recovering much of their lost value by the end of 2010, a clear, positive trend has yet to present itself in 2011 despite improved forecasts from businesses, financial analysts and central banks.

Although the chart above illustrates infrastructure stocks trading above their 13-year average, any further increase in value will need to be supplemented with stronger GDP growth and improved confidence. While infrastructure and utilities were previously regarded as relatively defensive plays, the GFC highlighted the fact that risks in the stocks were underestimated. Investors underestimated declines in energy consumption and road travel as the crisis worsened during the second half of 2008, with these declines ultimately affecting the earnings of infrastructure and utilities companies. During that six-month period, the MSCI World Index and UBS Global Infrastructure and Utilities 50-50 Index fell by approximately 40% each.

Overall, Adviser Edge/SQM Research believes that improvements to underlying fundamentals will occur over the medium to longer-term, albeit at a slow pace.

Some short-term volatility is expected as consumers and businesses adjust to the new economic environment, which will persist while governments convene to tackle the European sovereign debt crisis and create plans to further stimulate and sustain global economic growth.

Funding rates



Source: Bloomberg.

With the positive IMF forecasts across all countries in its April 2011 Economic Outlook release, as a rule of thumb, one will expect central banks around the world to tighten monetary policy. On the contrary, all countries are maintaining accommodative monetary policy to provide support to the frail economic rebound, with the exception of Australia and China. The Reserve Bank of Australia (RBA) began lifting rates in October 2009, moderately stepping up the pace in the subsequent periods thereafter, to address inflation concerns. On the other hand, the People's Bank of China (PBC) began lifting rates in October 2010, as the emergence of a property bubble threatened to derail China's booming economy.

With the exception of China and Australia, interest rates are at a 10-year historical low. However, credit markets remain sluggish, pointing to continuing weakness in business and consumer confidence.

In terms of fiscal policy, governments around the world are implementing structural cutbacks in their budgetary plans in order to reduce outstanding fiscal deficits. These austerity measures are employed by existing governments, to preserve and regain credibility, in light of the high over-run in public debt levels over the past decade. Any sovereign default in the near future will significantly disrupt the global economic recovery process, especially following the recent government bailouts of overleveraged financial institutions in 2008.

Adviser Edge/SQM Research expects loose monetary policy to remain in place throughout 2011 (except Australia and China) as the world battles emerging fears of a stalled economic growth engine.

Austerity measures will likely continue to be implemented until public debt levels decline to manageable levels. Most G20 economies are aiming to halve their respective fiscal deficits by 2013, relative to 2010 deficit levels.

Global Infrastructure

In the previous year, infrastructure and utilities companies concentrated on diversifying their debt funding sources, which led to large private debt issuances in Europe and in the United States, amounting to \$1.5 billion and \$1.2 billion respectively. Public Private Partnerships (PPPs) and the privatisation of government assets were headline stories in 2010, and will continue to be global themes in 2011 as the trend for both these types of transactions increases in the coming year.

PPPs are joint venture arrangements between the government and the private sector, which involves setting up special purpose vehicles to develop, build and maintain specific assets for a contracted period. Due the scale and complexity of the projects coming to market, the private sector partner in the PPP arrangement will provide the skilled labour and financing to execute the project to completion while the government partner provides grants, regulatory and tax incentives. The Australian government in its Budget plan for 2011-2012 indicated that it will remove tax impediments for certain infrastructure investments, provide incentives to encourage private and superannuation investments into the sector, and pledged \$36 billion capital investment into developing roads, rail and port infrastructure across the country. It has also established an Infrastructure Financing Group, made up of private and public sector advisers, to identify further areas of work surrounding private financing of infrastructure.

Adviser Edge/SQM Research believes that PPP will be the preferred structure for project financing going forward. However, complications with impending carbon tax legislation, a finite skills base and an appropriate risk-sharing model will be among the key issues continuously debated, as projects are executed.

With debt costs remaining elevated relative to 2007, government incentives are likely to remain in place in the medium-term to sustain the global infrastructure pipeline. Private debt issuance is expected to be buoyant in coming years as the global pipeline grows while bank debt liquidity remains constrained.

Following the financial crisis, government entities globally have been stepping up asset privatisation programs to repair their impaired balance sheets, as mentioned earlier in this report. Some of the notable transactions to date include Greece's \$67 billion asset privatisation program, the privatisation of Queensland Rail (QRN: ASX) and the Port of Brisbane by the Queensland state government, and the privatisation of Spanish airport assets.

As a result, many global pension funds and sovereign wealth funds (SWFs) have built up infrastructure investment capabilities 'in-house', in order to participate in direct investment schemes rather than invest with infrastructure fund managers, while some infrastructure development companies such as Lend Lease, Balfour Beatty and John Laing are diversifying into infrastructure funds management. Over the past year, the Canadian Pension Plan Investment Board (CPPIB) has been actively investing in toll roads in Canada and Australia, while Abu Dhabi Investment Authority took a minority stake in the Port of Brisbane. With this growing trend, fund flows into the listed securities sector appear to be subdued relative to pre-crisis highs.

Adviser Edge/SQM Research expects more entrants into the infrastructure sector in the longer-term, either via global pension funds, infrastructure development companies or niche specialist infrastructure managers, as more public assets are privatised and growth spurts in emerging economies such as Africa and India demand larger, more efficient infrastructure assets to accommodate increased energy consumption and services provided by other infrastructure assets. This highlights the large capital outlays required for development pipelines and asset purchases, underpinning the importance for continuous, stable financing provided by global pension funds and SWFs.

While this structural shift appears to be detrimental to existing infrastructure securities fund managers, Adviser Edge/SQM Research believes that there will still be capital flows to infrastructure managers who deliver consistent

returns over the longer-term. Investors will still require a diversified manager base and pay a fair premium for value-add.

A total of four benchmarks were utilised by funds within the Global Infrastructure Securities Sector Review 2011, and Adviser Edge/SQM Research notes that the performance variances between these benchmarks have been substantial, as noted in the tables above. In particular, over the past three years the performance of the UBS Developed Infrastructure and Utilities Index (UBS Developed Index) was less volatile than the peer indices. The performance recorded by the three indices for the year to December 2010 was relatively tightly disbursed, ranging from 5.66% to 7.51%. This analysis does not include the Dow Jones Brookfield Global Infrastructure Index Australian Dollar Hedged, as this data has not been supplied.

It is noted that the UBS Developed Index has the largest exposure to Utilities (87.1%), which is almost double the exposure to this sector held by the other three comparable indices. It also has the smallest exposure to Airports at 1.2%, relative to the other indices.

Although recent data shows small performance discrepancies between the indices, the large differences in their sub-sector compositions should lead to varied recorded returns for each index going forward.

As a result of the findings above, a fund's performance relative to its peers is largely driven by the performance of the benchmark that it tracks.

Peer Benchmark Return Comparison

Benchmark	Number of Funds	2008	2009	2010
S&P Global Infrastructure Index (AUD Hedged, Net Total Return)	1	-35.62%	19.75%	7.51%
UBS Developed Infrastructure & Utilities Index Net TR Index (\$A Hedged)	1	-27.54%	9.96%	5.66%
UBS Global 50/50 Infrastructure & Utilities Index (net)	1	-	17.91%	7.00%

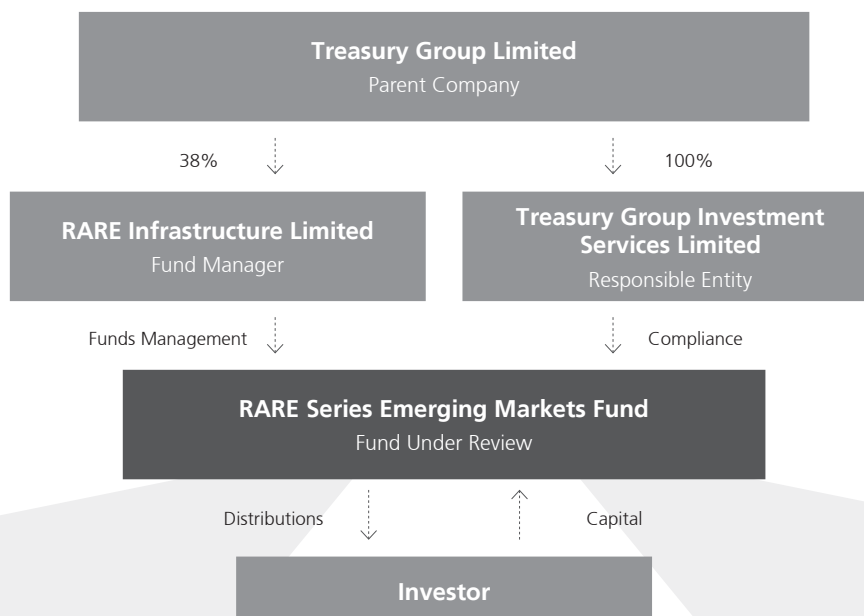
Source: Bloomberg, funds under review.

Global Listed Infrastructure Sub-Sector Weights

Sub-Sector	UBS Global 50/50 Infrastructure & Utilities	UBS Developed Infrastructure and Utilities Index	Dow Jones Brookfield Global Infrastructure Index	S&P Global Infrastructure Index
Utilities	49.9%	87.1%	45.7%	38.8%
Communciations	15.0%	3.6%	12.4%	0.0%
Toll Roads	14.9%	4.2%	7.8%	17.4%
Airports	5.0%	1.2%	5.0%	12.1%
Other	15.2%	3.9%	29.1%	31.7%
Total/Average	100.0%	100.0%	100.0%	100.0%

Source: Adviser Edge/SQM Research, Funds under review. As at 31 December 2010.

Key Counterparties



Parent Company

Treasury Group Limited (TRG) is an Australian Stock Exchange (ASX) listed company, which sources the majority of its income from a range of boutique funds management business in which it is invested across Australia. TRG currently has investments in eight boutique fund management businesses. Through its wholly owned entity, Treasury Group Investment Services, TRG also provides responsible entity services to the boutique asset management businesses within the Group and to selected third parties. As at 31 December 2010, total funds under management (FUM) was recorded at \$15.5 billion, representing a 7.3% increase from the previous year. Of this FUM, Orion Asset Management Limited, was the largest contributor at 34% of total FUM. As at March 2010, TRG had a market capitalisation on the ASX of approximately \$113 million.

Board of Directors

The Board of Directors of TRG is composed of six members, three of whom are classified as non-executive (including the Chairman), while only two of the non-executive directors are classified as being independent. Mike Fitzpatrick is chairman of the Board, and while Mr Fitzpatrick is classified as being non-independent (due to his shareholding in the company), TRG believes that his experience, knowledge, and overall contribution is such that it is appropriate for him to remain Chairman.

While SQM Research/Adviser Edge prefers to see majority independence at Board level, particularly the Chairman, it is noted that the skill, balance and experience of the board members are all appropriate to the nature and extent of company operations. While not being classified as independent, Mr Fitzpatrick's experience and contribution to TRG is seen as invaluable.

Corporate governance and compliance

As TRG is listed on the Australian Stock Exchange (ASX), it must disclose its compliance with The ASX Corporate Governance Council's published Corporate Governance Principles and Recommendations (ASX Principles) on an 'if not, why not' basis in its annual report. The ASX Principles are based on what the ASX considers to be best practice in conducting the business of a listed company. TRG complies with a majority of the ASX Principles, with the only noted non-compliance relating to the independence of the Board and the Chairman.

TRG has a number of corporate governance charters and policies in place, with the main elements including:

- A Governance Statement, which is issued annually
- A Board of Directors, Nominations Committee, Audit Committee and Remuneration Charter
- A Continuous Disclosure Policy
- A Directors Code of Conduct
- A Company Code of Conduct

SQM Research/Adviser Edge believes that the corporate governance policies and practices are broadly in line with peers of similar size and stature. It is noted that the Board of Directors is not majority independent, and the Chairman is also not independent, which is a departure from the ASX Principles. SQM Research/Adviser Edge prefers to see majority independent representation on the Board.

TRG Financial performance and position

Key Financial Data* – Half Year as at 31 December		
Financial Profitability	2010	2009
Revenue (\$m)	2.2	2.8
Net profit* (\$m)	5.2	6.4
Profit margin (%)	234.2	226.6
ROE (%)	9.0	11.4
Market measures	2010	2009
Basic EPS (cents)	22.7	27.8
DPS (cents)	14.0	12.0
Dividend payout ratio (%)	61.7	43.1
Financial Liquidity/Solvency	2010	2009
Net working capital (\$m)	9.9	13.9
Current Ratio	4.0	3.2
Quick ratio	3.9	3.1
Debt equity ratio (%)*	0.0%	0.0%
Debt ratio (%)**	6.5%	11.1%

Source: Treasury Group Limited – Half Year Financial Report 2010. Past performance should not be used as a guide for future performance. * Total interest bearing debt to total equity + total interest bearing liabilities. ** Total Liabilities to assets.

For the half-year period ending 31 December 2010, TRG reported a net profit after tax of \$5.2 million. This represented a decrease from the previous corresponding period, driven by favourable non-recurring items in the comparative period, including \$0.3 million on sale and revaluation of investments, \$0.6 on write-up in acquisitions of interests in new boutique managers in late 2009, and a \$0.6 million tax benefit. Excluding these items, net profit remained flat. It should be noted that revenues are in fact lower than net profit, driven by the share of equity accounted investments, which fall under the revenue line. The balance sheet as at 31 December 2010 remained in a strong position, with TRG holding no debt, and key liquidity ratios being recorded at strong levels. Net cash flows from operations increased by 17% to \$4.2 million, while the overall cash position was still comfortable but deteriorated by 15% to \$9.4 million.

SQM Research/Adviser Edge notes that TRG is in a solid financial position. While TRG is relatively well diversified in terms of its underlying revenue base, it should be noted that fluctuations in equity markets across the globe will be the major driver of performance going forward.

Responsible Entity

Treasury Group Investment Services Limited, a wholly owned entity of the Treasury Group, is the Responsible Entity for the Fund. There are six members on the Board of the Responsible Entity, two of whom are classified as independent.

There is also a Compliance Committee in place. The Compliance Committee has four members and is majority independent.

While SQM Research/Adviser Edge noted that the Responsible Entity is fulfilling its duties by providing a Compliance Committee that is majority independent, SQM Research/Adviser Edge still prefers to see majority independence at the Board level as well as an independent compliance committee, to promote absolute best practice corporate governance.

Fund Manager

RARE Infrastructure Limited (RARE) was created in 2005 as an investment boutique specialising in global infrastructure. The RARE team consists of ten investment professionals, one institutional distribution professional (located in the US), a retail distribution team, an operations team, a finance manager and two administrative executives. RARE outsources to Treasury Group the functions of compliance, risk, human resources, some institutional marketing, and operations. The RARE team is made up of approximately 23 professionals, utilising the equivalent of two full-time employees from Treasury Group. RARE currently manages two funds for investors domiciled within Australia, including the RARE Infrastructure Value Fund and the RARE Series Emerging Markets Fund. The Fund Manager is in the process of releasing an unhedged version of the Infrastructure Value Fund, while the Emerging Markets Fund is unhedged.

On a consolidated basis, RARE Infrastructure made a small profit of \$0.5 million for FY2010. This followed a loss of \$0.8 million in the previous corresponding period. RARE holds a significant amount of debt, with almost \$5 million relating to a subordinated loan from the Treasury Group. This loan has a 10-year term but is payable on demand by the Treasury Group, subject to approval from ASIC. Solvency was recorded as being moderate, with RARE holding \$1.1 million in working capital, and the current and quick ratios are both comfortably above 1 as at 30 June 2010. It should be noted there is a degree of counterparty risk in relation to the loan from the Treasury Group. Investors should be aware of this, as any deterioration in the financial position of the Treasury Group could result in a calling of the subordinated loan, and may affect the financial position of RARE and its ability to continue as Fund Manager.

Management Risk

Funds management encompasses not only the operational capabilities of project counterparties but also the corporate abilities of the Responsible Entity to monitor operational performance and meet the regulatory and statutory responsibilities required. For all infrastructure funds there is a risk that financial position and management performance deterioration may temporarily or permanently compromise asset condition, fund outcomes, or regulatory outcomes.

Overall, SQM Research/Adviser Edge believes that TRG, RARE and their associated key counterparties are appropriately qualified to carry out their assigned responsibilities. Based on this assessment, SQM Research/Adviser Edge rates management risk as being in line with peers.

Key Investment Staff				
Name	Responsibility	Qualifications	Years with Company	Investment Experience
Richard Elmslie	Senior Portfolio Manager	BCom, CA	5	28
Nick Langley	Senior Portfolio Manager	LLB, BCom	5	15
Rod Chisholm	Head of Research, Portfolio Manager	MBA, BA(Hons)	4	11
Charles Hamieh	Research, Portfolio Manager - Emerging Markets	BEcon	<1	13
Shane Hurst	Research	MCom(AdvFin), BBus	<1	13
Dan Simmonds	Research	PGradCertAppFin, BEcon(Hons.), BA	<1	5
Ann Chau	Research	BCom	<1	9
David Maywald	Research	CFA , GradDipAppFin& Invest, BEcon, BCom(Hons)	4	12
Ben May	Research	BCom, LLB, CA	1	13
Tim Snelgrove	Dealer/Analyst	BCom (Liberal Studies)	2	2

Location of Team	Sydney	Portfolio Managers	4
Investment Offices	1	Analysts	6*

* Rod Chisholm and Charles Hamieh (both Portfolio Managers) perform analyst duties as well.

The size and experience of the Fund's management team positions it strongly among its peers. The overall team size of 10 is well above the industry average of seven and makes it the largest team within the sector in terms of overall resources. On this basis, SQM Research/Adviser Edge views the team as being well structured and effectively resourced. SQM Research/Adviser Edge is satisfied that the team members have the necessary skills and experience to oversee the Fund's development and ongoing performance. However, it should be noted that a number of research analysts and the Research Portfolio Manager – Emerging Markets are relatively new to their roles. The average number of years with the Fund (2.4 years) is relatively short and is below the peer average of four years.

Team Process

The Fund's investment management team is led by Senior Portfolio Managers Richard Elmslie and Nick Langley. Mr Elmslie and Mr Langley are the principals of RARE, and have held their positions since the inception of the Fund and the formation of RARE as a fund manager. Mr Elmslie and Mr Langley have a wide range of experience, which includes a combined 35 years of global infrastructure experience; this is unmatched within the sector. Importantly, Mr Elmslie and Mr Langley have previously worked together at ABN AMRO and have experience at a number of well respected global infrastructure fund managers. The Senior Portfolio Managers' combination of skills, and their extensive track record understanding infrastructure entities and also valuing long-dated assets, is a strength of the Fund.

The Portfolio Management team is well supported by a Head of Research and a research team, which currently includes six analysts. The Head of Research, Rod Chisholm, has been with the Fund since inception, and brings with him solid experience and qualifications. The appointment of a Head of Research is a relatively new position, which brings together the research effort and ensures consistency across the regions and sector. The research team is split between three regions: Asia and the Middle East, the Americas, and Europe and Australia. Two analysts are responsible for each of the three regions, with a third dividing his or her time between the Americas, and Europe and Australia. The research analysts bring a range of experience and qualifications to the team. It should be noted that three of the analysts and the Senior Investment Analyst and Portfolio Manager – Emerging Markets have been with the Fund for less than one year. This follows the loss of key staff to a rival fund. While the loss of staff was significant, this has allowed the fund to further enhance its investment process, and it appears that the replacements are now well settled.

The Investment Advisory Board was created in 2009 to drive the macro-economic research agenda, and is comprised of five members, three of whom are external to the investment team. The external members bring with them a range of experience and qualifications. David Bowers, who sits on the Investment Advisory Board, is Managing Partner of a London-based research house and specialises in economic and strategy for leading global institutions. Mark Burgess, who is Managing Director of the Treasury Group, has a range of experience, mainly across equities, having previously been Global Head of Equities at Credit Suisse Asset Management. Jonathan Mirrlees-Black is the third external

member of the Investment Advisory Board and has a strong background in the regulatory environment, which is crucial to understanding the valuations of many infrastructure assets. Nick Langley and Richard Elmslie also sit on the Investment Advisory Board and also act as the conduit between the Advisory Board and the investment team, essentially feeding the macro-economic data back into the investment process.

There are a number of formal and informal meetings held by the investment team in order to execute the overall research process. The investment team will meet quarterly to review and assess the EM 150 list of stocks. This represents RARE's investment universe of stocks. It is from the EM 150 that a focus list of stocks is taken through to the detailed bottom-up research process, as discussed later in this report. The Advisory Board meets quarterly, to review macro-economic data and drive macro-economic risk assessment across the Fund. Further to this consensus data is reviewed and macro-economic forecasts are updated on a monthly basis. A monthly investment team meeting is held, whereby portfolio strategy, performance and research are all discussed. Administration, marketing, performance, markets and key news items are discussed at weekly team meetings. Other meetings include a weekly workflow meeting, and bi-weekly research investment meetings; this is the main forum for initial stock reviews and presentations of research.

Findings from the bi-weekly research investment meetings are the basis for portfolio construction meetings, which are held following each research investment meeting. Investment Directors, Portfolio Managers and the dealer for the Fund attend the Portfolio Construction meetings, with analysts attending as required. While the stock selection is based around a team process and each stock recommendation is debated in the research investment meetings, the Portfolio Managers essentially have the final say in terms of overall stock positions.

Throughout the review it was clear to SQM Research/ Adviser Edge that the team process was efficient and well documented. The team is well lead and experienced, and there appears to be an impressive culture. The investment team is well supplemented on a macro-economic basis by the Investment Advisory Board, which consists of five members, three of whom are external to the investment team. The formal communication and meetings appear to be well established and are crucial to the ongoing performance of the Fund.

Staffing Changes

The investment team has undergone significant changes over the past two years. In early 2009 a Portfolio Manager/Analyst departed the team. During 2010, two Senior Analysts and an Analyst departed to work for a rival fund. Since these departures, the Fund has been working hard to replenish the team. Over the course of 2010, the Fund placed Charles Hamieh into the role of

Research Portfolio Manager – Emerging Markets. Mr Hamieh was previously a Director and Senior Analyst at AMP Capital. Over 2010 the Fund placed three research analysts, effectively replacing the previously departed analysts, plus also adding an additional Dealer/Analyst to the research capability. Importantly, the replacement analysts have a wealth of infrastructure and overall investment experience.

The Fund's investment team has been able to remain relatively stable at the senior level since inception. There has been some major staff turnover at the analyst level over the past year. Since these departures the Fund has been able to source replacements, and has also built the overall size of the team. The ability of the Fund to compensate and provide long-term analyst stability will be key to the stability of the Fund going forward.

Remuneration and Incentives

The investment team's performance evaluations and incentives are primarily based on investment results with performance tracking of analysts' recommendations. There is also a qualitative component relating to aspects such as maintenance of regular company contact, sector benchmarking and regional economic information, and the maintenance of company financial models. In terms of incentives, select Senior Investment staff may participate in an employee equity participation scheme, with these employees eligible for equity in RARE Infrastructure. The equity is designed to encourage employees to remain at RARE and has a nominal value on day one and increases in value between years three and seven. In addition to this, a bonus pool is available to all staff and is aligned to a set percentage of EBIT. On average, it is believed that approximately 50% of staff overall salary will consist of base salary, with the remainder bonus. The percentage of bonus to base will generally increase with seniority.

SQM Research/Adviser Edge has reviewed staff incentives and remuneration policies and feels that they are in line with industry peers and should provide an effective way to align staff performance with the ongoing performance of the Fund under review going forward.

Fee Structure		
Entry/Exit Fees	Fund	Peer Standard ¹
Contribution Fee	0.00%	0.00%
Buy Spread	1.05%	0.41%
Sell Spread	0.30%	0.29%
Ongoing Fees	Fund	Peer Standard ¹
Management Fee	1.330%	1.06%
Expense Recoveries	0.00%	0.03%
ICR	1.333%	1.09%
Performance Fees	10.25%	5.09%

¹ Average fee level within peer group of global infrastructure funds as defined by SQM Research/Adviser Edge.

Entry and Exit Fees

No contribution fees are required for investments in the Fund. This is in line with the peer standard. A buy/sell spread of 1.35% is applicable and payable at +1.05% when investors seek to purchase their units and -0.30% when sold. This spread represents the difference between the application price and the withdrawal price of the Fund, a reflection of transaction costs relating to the underlying assets. The Fund's buy/sell spread is above the peer average of 0.70%.

The Fund recently changed its buy spread, increasing from 0.35% to 1.05%. The manager has noted that this fee now closely matches the actual fees incurred by the Fund. In particular this is a reflection of the tax for investment into Brazil, notably the IOF tax (a tax on foreign currency inflows), which is levied at 2% of all foreign currency inflows into Brazil. After taking into account that the Fund has a targeted weighting of 35% to this market, an increase of 0.70% has been levied.

Ongoing Fees

The Fund's annual management fee is 1.33% p.a. of the Fund's net assets. This cost includes the normal recovery expenses relating to the operation of the Fund, accrued daily and paid monthly, although it does not take into account abnormal expenses, which may also be payable from assets of the Fund. As the Fund's management fee is based on net assets, its indirect cost ratio and management expense ratio are equal. As the performance fee is capped at 0.30% of net asset value, the maximum indirect cost ratio is capped at 1.63% in any one year. The indirect cost ratio is above the peer average of 1.09% excluding performance fees, and even further peers, assuming maximum performance fees are paid in any one year. However, it should be noted that a number of peers are targeting wholesale investment, and hence have much higher minimum investment amounts and are able to offer a lower fees base.

Performance Fees

A performance fee of 10.25% is payable on returns that exceeds the return of the benchmark. The total performance fee in any given year will not exceed 0.30% of the net asset value of the Fund. This fee level is above the peer average of 5.09%, with a number of funds in the sector choosing not to charge a performance fee.

Overall Fees (Wholesale)*		
	Fund	Peer Average
12-month	2.66%	1.77%
36-month	1.77%	1.32%

* Excluding performance fees.

Overall Fees

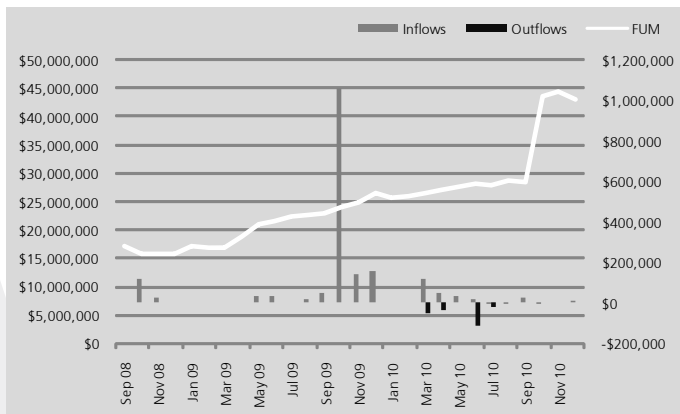
If held and sold within 12 months, total transaction costs amount to 2.66% for an investment in the Fund, and 1.77% for peers. These figures include the contribution fee, the indirect cost ratio, and the buy/sell spread. They do not include any performance fees that may be charged, nor do they take into account rebates or negotiations. It should be noted that an investment timeframe of at least five years is suggested by the Fund.

SQM Research/Adviser Edge believes that the Fund's ongoing fee structure is greater than that of peers. It should also be noted that the Fund also has in place an above peer average performance fee. It should be noted that the peer average includes a range of investment options, with the minimum investment above \$20,000 used as the filter. A number of peers are targeting wholesale investment, and hence have much higher minimum investment amounts and are able to offer a lower fees base.

Liquidity Management

The Fund monitors its liquidity on a daily basis with respect to its applications and redemption requests. Application and withdrawal requests received before 4pm on any business day are usually processed using the unit price applicable to the close of business that day. Redemption request will generally be available within seven days from the time of the withdrawal receipt.

Inflows and outflows trend (monthly)*



* Global infrastructure emerging markets strategy.

The overall global infrastructure emerging markets strategy being managed by RARE has shown an average degree of growth since inception. While funds under management recorded minimal growth from inception through until late 2009, there has since been strong growth, predominantly a result of positive market sentiment, driving up the value of equity markets across the globe. However, it should be noted that the amount of funds under management is still relatively low and fund flows have been flat during 2010. The Fund Manager has since updated funds flows, with funds under management growing to approximately \$82 million in May 2011, driven predominantly by solid net fund flows over the start of 2011.

Statistical Overview (27-month history)

	Fund	Benchmark	Peer Avg.
Total Return ¹ (%)	26.9	15.5	6.9
Standard Deviation (%)	11.9	12.9	17.8
Sharpe Ratio	0.48	0.23	0.07

¹ Annual compounded return. ² Average data history of sector review, 27 months.

Highest/Lowest 12-Month Returns

	Fund	Benchmark	Peer Avg.
High (%)	52.2	39.6	40.9
Low (%)	9.0	10.2	-24.1

12-Month Detailed Statistics

	Fund	Rank/12	Peer Avg.
Total Return (%)	9.0	8	11.1
Dividend Yield (%)	6.5	6	8.1
Current Yield (%)	6.4	6	8.2

Benchmark Tracking

Excess Return (%)	-6.6	11	2.7
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Risk Measures

Sharpe Ratio	0.16	6	0.15
Standard Deviation (%)	7.7	11	11.7

Ratios (Sharpe) contained within this summary section and in the charts proceeding provide no reliable comparison in periods where both the Fund and its peers record a negative result.

Quantitative Insight

Since its inception in 2009, the Fund has recorded an annualised net return of 26.9%. This figure is above the 15.5% achieved by its benchmark, which is an accumulation index comprised of the Citigroup Global Emerging Market Sovereign Investment Grade USD Index plus 5.0% p.a. Importantly performance since inception has also been well above peers, which have returned 6.9% annually since inception. The portfolio has been far more stable when compared to peers, achieving a standard deviation of 11.9%, below the 17.8% experienced by peers over this time.

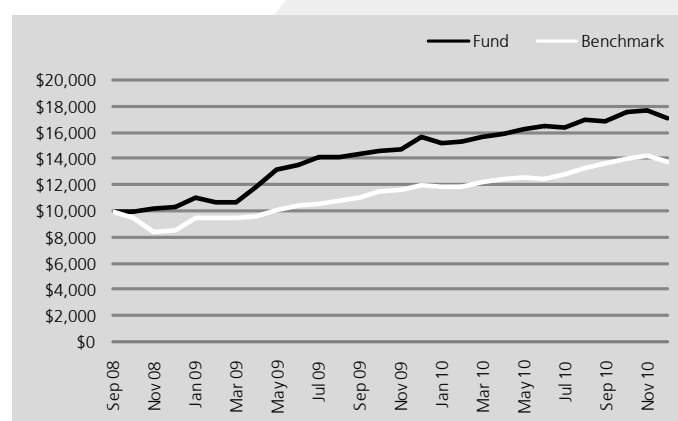
On a rolling one-year basis, the Fund performed above its benchmark for a large part of its early history, consistently delivering returns in excess of the benchmark based on 12-month rolling periods over the period from late 2009 to mid-2010. However, over more recent periods, particularly during the latter parts of 2010, the Fund has failed to match the returns of the benchmark. It should be noted that the investment timeframe of the Fund is five to eight years, so short-term performance is not as relevant in relation to the Fund's set objectives. Outperformance against the peer group has been relatively consistent over time, although this has also reduced during more recent periods.

The Fund has generally recorded positive excess returns on the benchmark, particularly early in its history, with a number of months recorded with large excess returns. Over the past year excess returns have been more stable, with the fund recording an accumulated excess return of 32.6% on the benchmark index to December 2010, which represents a slight decrease on the previous year.

Performance of the Fund has been solid since inception, achieving returns in excess of both the benchmark and peers on an annualised basis since inception, generally at lower levels of volatility. The Sharpe ratio, which measures risk-adjusted returns, has generally performed above peers since inception, but below the benchmark, due to the lower volatility of the benchmark over more recent periods. Investors should be aware that the Fund does not hedge its currency exposure, so investors take on the added currency risk in relation to overall returns. Driven by the relatively short period across which to evaluate returns, it is difficult to assess when the Fund is likely to outperform the benchmark, although the detailed bottom-up research approach would point towards outperformance where fundamentals are driving the market. In comparison to its peers, which are more heavily skewed towards securities with developed market exposure, the Fund may perform well when emerging markets are outperforming developed markets, although relative currency performance also needs to be considered.

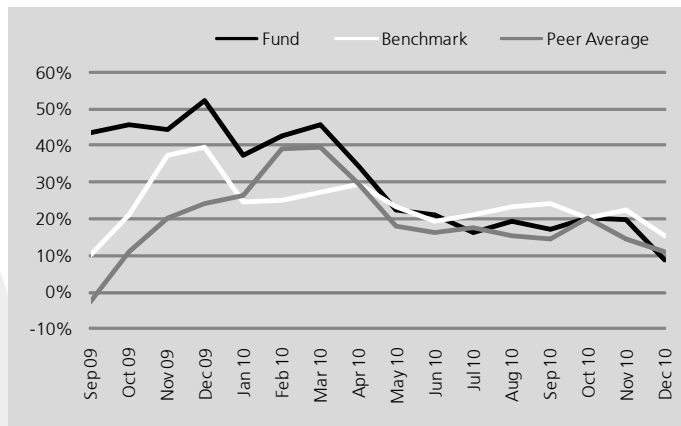
Returns

Growth of \$10,000



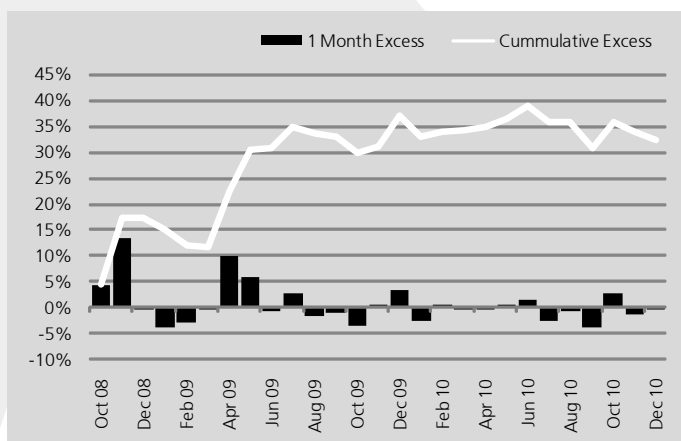
An investment of \$10,000 made at the Fund's inception would have reached its peak value of \$17,668 during November 2010, which was well above the \$14,252 recorded by the benchmark at this time. While the value of such an investment declined in December 2010 to \$17,099, this was still well above the benchmark at this time. On this basis, the Fund has outperformed its stated benchmark since inception by a comfortable margin.

One-year rolling returns



The one-year rolling returns chart shows the annual return of the Fund over rolling 12-month periods. The Fund performed above its benchmark for a large part of its early history, consistently delivering returns in excess of the benchmark based on 12-month rolling periods from late 2009 to mid-2010. However, over more recent periods – particularly over the latter parts of 2010 – the Fund has failed to match the returns of the benchmark. It should be noted that the investment timeframe of the Fund is five to eight years, so short-term performance is not as relevant in relation to the Fund’s set objectives. Outperformance against the peer group has been relatively consistent over time, although this has reduced over more recent periods. The Fund’s 12-month returns as at December 2010 were recorded at 9.0%, which was below the 15.5% and 11.1% recorded by the benchmark and peers respectively.

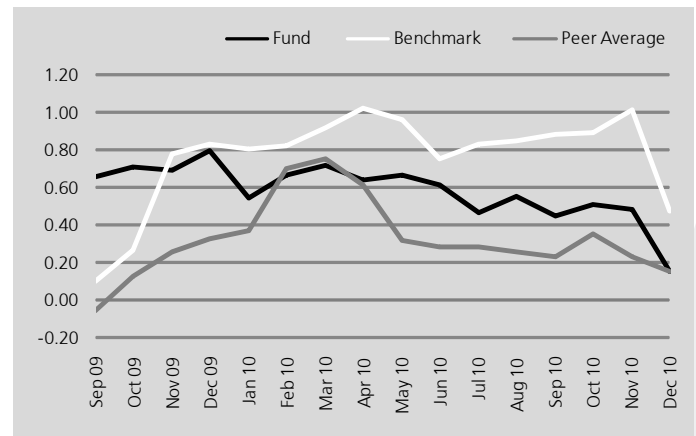
Excess returns



The excess returns chart shows the monthly excess returns of the Fund, as well as the accumulated growth differential, to the given index. The Fund has generally recorded positive excess returns on the benchmark, particularly early in its history, with a number of months of large excess returns noted. Over the past year excess returns have been more stable, with the fund recording an accumulated excess return of 32.6% on the benchmark index to December 2010, a slight decrease on the previous year.

Risk-Return & Efficiency

One-year rolling Sharpe ratio



The Sharpe ratio provides a measure of returns in excess of the risk-free rate, divided by the volatility of returns. This gives what is most commonly known as the ‘risk-adjusted return’ of the Fund. It is generally accepted that a ratio above one indicates a good risk-adjusted return for investors.

Since inception, the Sharpe ratio of the Fund has been recorded in the range of 0.20 to 0.80, indicating reasonable risk adjusted returns, measured over rolling 12-month periods. Over this time, the Fund has generally underperformed the benchmark, which has been able to exhibit not only a higher absolute return over more recent periods, but lower volatility. Importantly, the Fund has outperformed peers on a consistent basis since inception, although the outperformance has narrowed over more recent periods. As at December 2010, the Sharpe ratio for the Fund was measured at 0.16 below the benchmark’s 0.47, and in line with peers at 0.15.

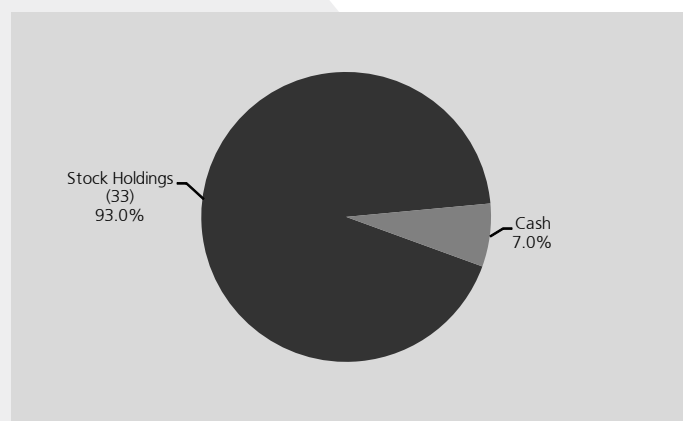
Underlying Asset Allocations¹

	Value (\$ millions)	Current	Maximum	Minimum
Stock Portfolio (33)	1.7	93.0%	100%	80%
Cash	0.1	7.0%	20%	0%
Total Fund Value	1.8			

¹ As at 31 December 2010.

Top 10 Holdings

Exchange	Code	Name	Portfolio (%)	Benchmark (%)	Sector	Main Geographic Exposure
DFM	DPW	DP World Limited	5.4	n/a	Port Operator	Dubai
BSP	B07C763	Tractabel Energia SA Com NPV	4.8	n/a	Electricity	Brazil
JKT	JSMR	Jasa Marga Indonesia Highway Corp	4.7	n/a	Toll Roads	Indonesia
BSP	CMIG4	Compania Energetica De Minas Gerais SA	4.6	n/a	Energy Distribution	Brazil
HON	548	Shenzhen Expressway Co Ltd	4.0	n/a	Toll Roads	Hong Kong
NSE	GAIL	Gail India Limited	4.0	n/a	Gas	India
HON	152	Shenzen International Holdings Limited	3.9	n/a	Toll Roads	Hong Kong
BSP	ECOR3	Ecorodovias Infraestrutura	3.7	n/a	Highways	Brazil
BSP	GETI3	Aes Tiete SA	3.5	n/a	Electricity	Brazil
BSP	OHLB3	Obrascon Huarte Latin Brazil	3.4	n/a	Toll Raods	Brazil

Asset allocation at 31 December 2010

The Fund held a stock portfolio of 33 individual listed securities at the month end of December 2010, representing a spread of holdings that is more concentrated than the peer group of global infrastructure securities funds. The total value of funds under management at this time was \$1.8 million for the Fund and \$43.0 million for the overall infrastructure emerging markets strategy.

The proportion of cash held by the Fund was 7.0%, slightly higher than the peer average of 4.8%. It should be noted that

the Fund can hold up to a maximum of 20% of its assets in unlisted securities, with this allocation currently nil. As the Fund is constructed on a benchmark-unaware basis, the Fund does not stipulate its holdings between index and ex-index holdings.

Summary¹

It is important to note that the Fund is not constructed against a specific infrastructure-based global index. The Fund Manager believes that the major infrastructure indices around the globe are too heavily skewed towards utilities (currently approximately 40% of the S&P Global Infrastructure Index). As such, the Fund Manager constructs a benchmark-unaware portfolio, which gives the Fund the ability to provide greater sector diversification for investors.

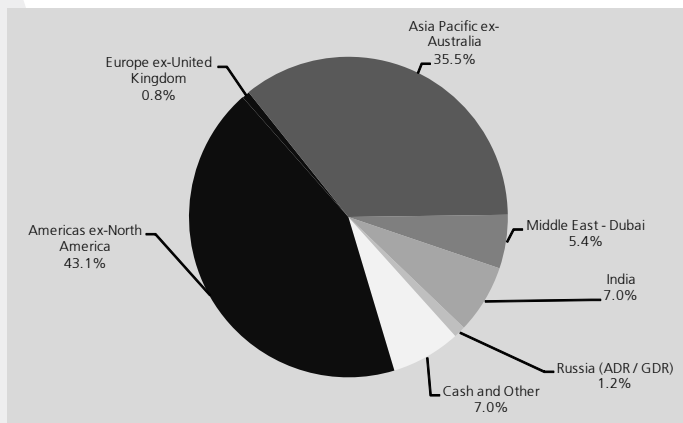
On a geographical level, allocations have shown some degree of variability over the past two years. Over this time the biggest move has been a decrease in allocations to the Asia Pacific region, with exposure dropping from 47.2% as at 31 December 2008 to 35.5% as at 31 December 2010. Exposure across the remaining regions has increased as a result. The biggest move has been witnessed across India, with allocations increasing from 2.6% to 7.0% over the same two-year period.

¹ Note that in this report the Asia Pacific excludes Australia, Europe excludes the United Kingdom, and the Americas excludes North America.

On a sector level there have only been small changes to allocations over the two-year period to 31 December 2010. Of note, allocations towards Independent Power Producers have increased from 15.0% to 20.4% as at 31 December 2010. Of the notable decreases in allocations over this time, the Fund has decreased its exposure to Industrial Conglomerates (3.9% to 0%) and Electric Utilities (14.3% to 11.7%).

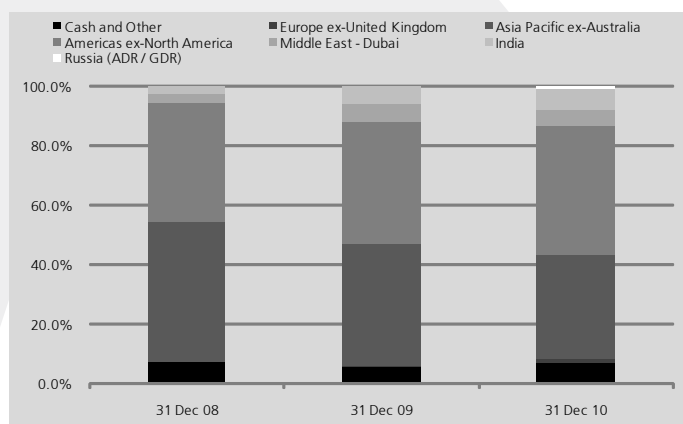
Geographic Allocations

Geographic allocation 31 December 2010



At 31 December 2010 the Fund's geographical exposures were skewed towards the Americas, with an allocation of 43.1%. This was closely followed by the Asia Pacific, with an exposure of 35.5%. These dominate regional exposure and account for 78.6% of the Fund as at 31 December 2010. Much smaller allocations were recorded against India (7.0%), Middle East – Dubai (5.4%), Russia (1.2%), and Europe (0.8%). Some 7.0% of the Fund was allocated to cash and other as at 31 December 2010.

Geographic trend

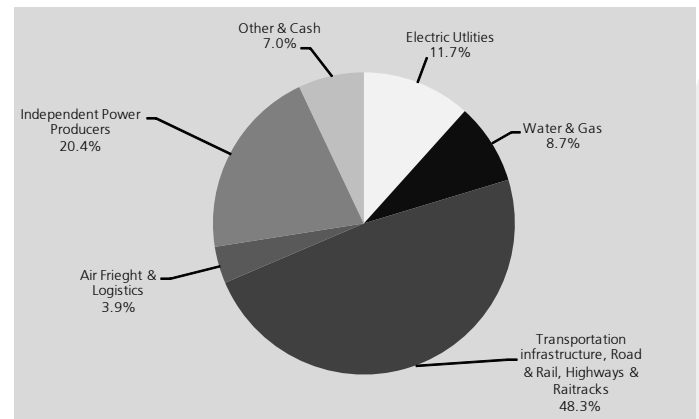


Geographical allocations have shown some degree of variability over the past two years. Over this time the biggest move has been a decrease in allocations to the Asia Pacific, with exposure dropping from 47.2% as at 31 December 2008 to 35.5% as at 31 December 2010. Exposures across the remaining regions have increased as a result. The biggest move has been witnessed across

India, with allocations increasing from 2.6% to 7.0% over the same period. Exposure to the Americas has also increased from 39.8% to 43.1% over the same period.

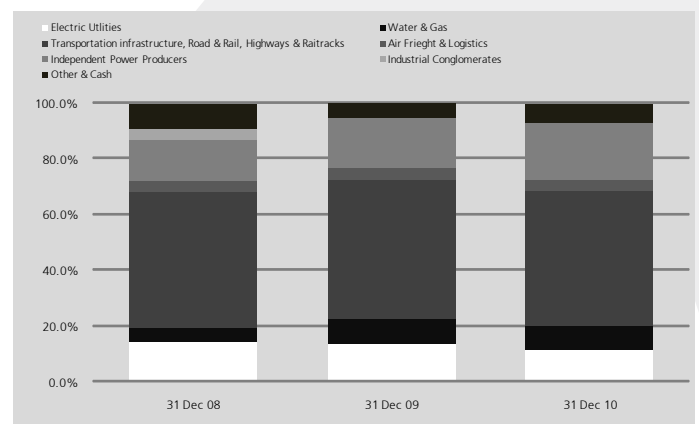
Sector Allocation

Sector allocation 31 December 2010



At 31 December 2010 the Fund's sector allocations were dominated by Transportation Infrastructure, Road and Rail, Highways and Railtracks at 48.3%. This sector includes toll roads, bridges and tunnels, and rails track owners and operators. The next largest exposure was towards Independent Power Producers at 20.4% of the Fund. Some 11.7% of the Fund was allocated towards Electric Utilities, which includes the transmissions, distribution and generation of electricity, and is the largest sector within the universe of infrastructure stocks globally. All other sector exposures as at 31 December 2010, were under 10%, with Water and Gas (8.7%), Other and Cash (7.0%) and Air Freight and Logistics (3.9%), accounting for the remainder of the Fund.

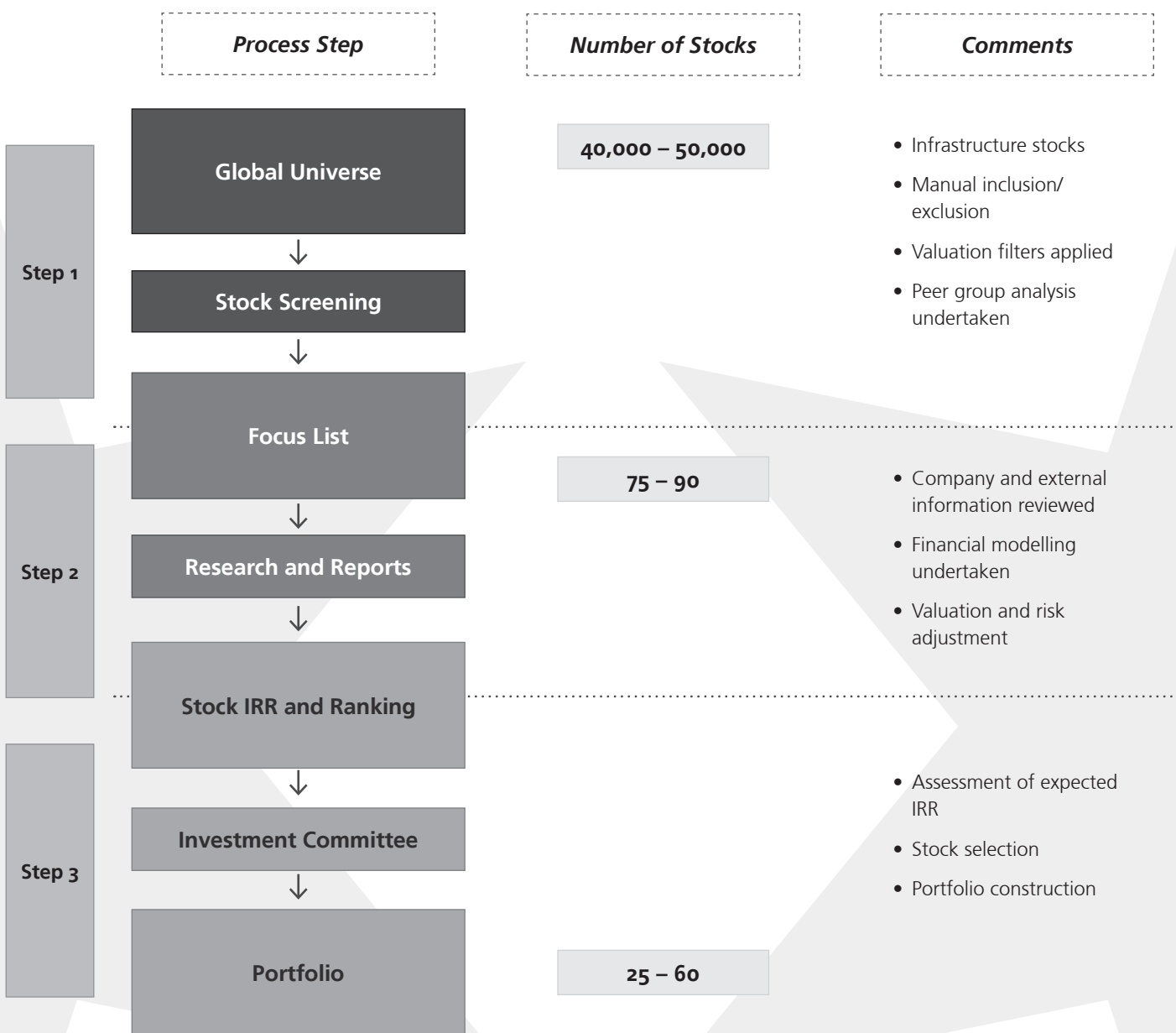
Sector trend



On an absolute sector basis, there have only been small changes to allocations over the two-year period to 31 December 2010. Of note, allocations towards Independent Power Producers have increased from 15.0% as at 31 December 2008 to 20.4% as at 31 December 2010. Over this same time, the Fund has increased its exposure to Water and Gas from 4.9% to 8.7%.

Of the notable decreases in allocations over this time, the Fund has decreased its exposure to Industrial Conglomerates (3.9% to 0%) and Electric Utilities (14.3% to 11.7%).

Investment Process Diagram



Portfolio Manager/Analyst Interaction

Communication and meetings There are a number of informal and formal meetings held throughout the course of the investment process, with informal communication frequent. A monthly investment team meeting is held, whereby portfolio strategy, performance and research are all discussed. Weekly team meetings are held, whereby administration, marketing, performance, markets and key news items are discussed. A weekly workflow meeting is held, while bi-weekly research investment meetings are held, and are the main forum for initial stock reviews and presentations of research.

Findings from the bi-weekly research investment meetings are the basis for the portfolio construction meetings, which are held following these meetings twice a week.

Number of analysts There are five Research Analysts and a Dealer/Analyst supporting the four Portfolio Managers.

Initial Screens

Investable universe RARE believes that there are approximately 150 stocks in the investment universe. From this investment universe, a focus list of 75 to 90 stocks are put forward for detailed research, while the overall target portfolio size is 25 to 60 stocks.

Screening process	<p>There are a number of steps within the RARE investment screening process. From an initial global stock universe of 40,000+ stocks, an automated sector screen will be run, to make sure that only stocks meeting the definition of Transport (excluding airlines and marine) & Utilities in the GICS and Bloomberg classifications are included. A manual screen is then applied, whereby stocks that fall outside these sectors, but display infrastructure characteristics are included. This universe of approximately 550 stocks is then defined as the 'RARE Universe' of stocks.</p> <p>The Rare Universe of stocks in general can be defined as infrastructure businesses that have the following characteristics:</p> <ul style="list-style-type: none"> • Long dated assets • Resilient and predicable cash flows • Inflation hedge (e.g. Tariff movements linked to inflation) • Low maintenance capital expenditure • Largely fixed operating costs base • High leverage • Attractive yield • Monopoly power <p>The RARE Universe is then screened for market capitalisation (greater than US\$100 million) and various financial and valuation parameters (gearing, cash flow measures, valuation multiples and yield). Subsequent to these screens the investible universe of approximately 150 stocks is defined. A peer group assessment is then made to define a focus list of 75 to 90 stocks. The focus list includes the highest rated stocks within each sub-sector based on performance against all screening measures (as discussed above). The entire focus list will then be considered for detailed bottom-up analysis.</p>
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Stock Research

Top-down or bottom-up?	<p>As the Fund is not constructed to a benchmark, it has an absolute returns focus, with the risk/returns profile a result of rigorous bottom-up stock analysis. The bottom-up process is driven by the quality of in-house research delivered, with a combination of quantitative and qualitative factors underpinning each investment decision.</p> <p>A top-down overlay supplements the bottom-up research process, with the overall global research capability also comprised of sector, country and regional analysis of the key themes that may affect the outlook for the underlying bottom-up stock analysis.</p> <p>It is estimated that the research and stock selection process is 80% driven by bottom-up analysis, with a 20% top-down macro-economic overlay.</p>
Data collection	<p>Data collection is primarily sourced from information released by each company under consideration. This information is gathered from publicly available sites or through company-specific visits. Discussions with management of the target company and key industry figures are given high priority in the overall data collection process. Economic and industry statistics and market data are sourced from external providers, with the major provider being Global Insights. Regulatory and statutory reports are also utilised in the data collection stage.</p> <p>External databases such as Bloomberg are used as secondary sources of information. Credit rating analysis and reports are utilised. Broker reports are used as a reference, with RARE tracking various brokers' forecasts to obtain an assessment of the market view of a stock at any time. While broker reports do not form the basis for bottom-up research, they are primarily utilised for in-depth industry information, understanding unusual market value drivers in particular regions/sectors, and are also utilised to gain access to management when arranging overseas trips and telephone conferences.</p>

Research methods	<p>Stock coverage is allocated on both a regional and sector basis. Typically, each analyst will have primary responsibility for two regions. This is crucial to ensure that each region has at least one analyst with primary responsibility at any given time. In terms of sectors, each analyst will have primary responsibility for two sectors and secondary responsibility for at least one sector. Each sector is covered by at least two analysts, either on a primary or a secondary basis. Responsibilities are allocated in a manner that ensures continuity of process throughout the year.</p> <p>As key to the research process and in assessing individual stocks, RARE will undertake a detailed qualitative and quantitative analysis.</p> <p>The key quantitative aspects covered include:</p> <ul style="list-style-type: none"> • Historical and forecast financial performance, position and cash flows • Dividend payout history and growth prospects • A detailed valuation analysis, including a DCF model • Peer group comparison within a sector and across geographic regions. <p>In terms of qualitative aspects, the team will assess the quality of management and corporate governance, structural complexity and fee leakage, acquisition strategy and refinancing upside. On a peer relative basis, the team will also look for resilient and predictable cash flows, low maintenance capital expenditure, a largely fixed operating cost base, monopoly characteristics, the existence of a regulatory environment and inflation hedge characteristics.</p>
Number of one on one meeting annually	<p>As the team in its entirety is based in Sydney, it is estimated that the Senior Research Analysts will spend two to three weeks every six months visiting companies and various market participants.</p> <p>RARE seeks to maintain regular contact with management of the companies it holds in the portfolio and those held on watch lists. A range of interactions between RARE and the companies include company site visits or conference calls, broker-arranged meetings and company road shows.</p> <p>In terms of global coverage, the investment team must complete a minimum of ten international trips per year to visit companies. Where possible two people will attend each visit.</p>

Modelling and Valuation

Proprietary modelling	<p>The Fund utilises a detailed proprietary valuation model, which includes a standardised risk-adjusted weighted average cost of capital (WACC) calculation. The output of the valuation model is essentially the equity IRR for each stock. For each stock within the focus list, there is a detailed five-year forecast dividend payment calculated, as well as a target price in year five. The target price in year five is determined by the discount of future expected cash flows back to year five, discounted using the calculated WACC. In assessing future cash flows, the Fund will generally model cash flows based on the entirety of contracts in place, or to ensure that cash flows are in a steady state, generally around the 20 to 30-year mark. On this basis, a terminal value is then assumed, applying a terminal rate in accordance with the Gordon Growth Model.</p> <p>In terms of the discount rate used, a risk-adjusted WACC is applied, which takes into account various stock-specific and relative to peer group risk factors. The risk free rate, market risk premiums, sovereign risk, long bond and debt premiums are standardised across the focus list and are essentially driven by the macro-economic outputs formulated by the Advisory Board. A stock specific risk is applied to the cost of equity, as well as an asset beta, which takes into account each individual asset and the underlying cash flow. The overall equity IRR is then calculated using the current stock price – the five year forecast dividends plus the exit price.</p>
Valuation methodology	<p>For each stock an IRR is calculated using the current stock price, five-year forecast dividends and an exit target valuation price, which is determined by the DCF of the expected future cash flows.</p> <p>The cash flows are discounted using a risk adjusted weighted average cost of capital as discussed above. In assessing the discount rate, stock specific risks, including quality of management, structural complexity, and acquisition strategy and refinancing upside are considered. Risks relative to peers are also considered, including the resilience of cash flows, low fixed operational cost base, monopoly characteristics, regulatory environment, inflation hedge and the volatility of earnings.</p> <p>The valuation methodology will compute an expected equity IRR, which is used as the basis for portfolio construction as discussed below.</p>

Portfolio Construction

Process

The Portfolio construction meetings are held twice weekly following the research meetings, and are attended by the Investment Directors, Portfolio Managers and the Dealer for the Fund. Analysts will attend these meetings as and when required. The stock ideas and research, which are discussed on Wednesdays and Fridays at the Investment Research meetings, form the basis for the portfolio construction meetings.

The main focus of the portfolio construction meetings will be to review proposed portfolio changes. It is estimated that the portfolio construction process is based 80% on the bottom-up analysis of the focus list stocks and 20% top-down, based on the experience of the Investment Committee and its expectations of a number of relative value measures between particular regions and sectors. The bottom-up analysis includes utilising the quantitative internal rate of return criteria. The portfolio construction process and guidelines incorporate risk controls within the overall portfolio, including:

- Sector and regional limits
- Asset maturity limits
- Stock limits

After taking into account the risk control noted above, stock weightings are based on a combination of the extent of a stock's undervaluation compared to RARE's view of fair value (as measured by the equity IRR), with the RARE Investment Committee's understanding of the sector and companies used as an overlay.

Stocks weightings are based on a ranking model accordingly:

	Expected Equity IRR	Maximum Weighting (% Total Portfolio)
Rank 1	17%+	6%
Rank 2	15%	5%
Rank 3	14%	4%
Rank 4	12%	3%

The stock weights in the portfolio are allowed to drift by market movement to a maximum of an additional 33% of the maximum stock buy limits as noted above. To protect the weighting and ranking during the entry process, absolute 'buy' limits are placed on each stock and RARE ceases buying stocks as soon as the buy limit is reached.

Rules

The Investment Committee is responsible for monitoring portfolio risk, with the main parameters below:

Sector Parameters	Target
Essential Services	20% – 80%
Transport	20% – 80%
Communications	0% – 20%
Community & Social	0% – 20%
Cash	0% – 20%
Regional Parameters	Target
Developing	80-100%
Cash	0-20%
Asset Lifestyle Maturity	Target
Green Field	0% – 20%
Developing	0% – 30%
Mature	60% – 100%

Trading/Implementation

Agents and processes RARE effectively manages a single core portfolio on behalf of its clients. When trades are executed, they are allocated proportionally in terms of numbers and average price across all portfolios.

The Fund uses seven global brokers, seven local brokers and one agency execution only broker for Direct Market Access (DMA). Brokers are selected based on a voting and ranking process, with brokers rankings reviewed every six months.

As the Fund has a long-term focus, a relatively low turnover approach acts to minimise overall transaction costs. Historic turnover is in the range of 30% to 50%.

Hedging The Fund does not hedge its currency exposure back to Australian dollars. RARE has made the decision not to hedge the currency exposure within the Fund as it believes that over the long-term Emerging Market currencies will essentially appreciate.

Sell Discipline

Decision process Each stock has a target valuation and an entry/exit price point recommendation. A number of events will prompt a review of the stock valuation, including:

- Market price movements which alter a stock ranking
- Fundamental changes to a business model or regulatory environment
- Exclusion of a stock from the investment universe during the screening process.

If the price of a stock falls, the Fund will thoroughly reassess the fundamentals and then speak with the company's management before deciding whether the stock should be sold or whether there is an opportunity to increase the holding.

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