

Australian Shares

The Zenith model portfolio pulls together an impressive list of "A grade" products across Australian equities, in small cap (Eley Griffiths), large cap - benchmark aware (Ausbil, IML and Challenger) and large cap - absolute return (PM Capital).

Highly regarded by the Zenith team for some time, Ausbil has consistently delivered solid risk adjusted and absolute returns in Australian equities under the stewardship of Paul Xiradis. Operating a rigorous investment process the Fund's focus is on earnings and earnings revisions as the key drivers of stock prices. Zenith is of the opinion the Ausbil approach is one of the more robust we have reviewed.

The Challenger Australian Share Fund (ASF) continues to "fly under the radar" of many investors despite its exceptional absolute and risk-adjusted long term performance track record under the guidance of portfolio manager, Pano Raftopolous. Whilst the investment team has undergone some recent change, following the arrival of Head of Equities, Peter Greentree, on paper Greentree appears to have assembled an "A grade" investment team. The investment process is rigorous, well structured and importantly, tried and tested while portfolio construction occurs within a disciplined process orientated approach.

With growth having fallen from favour as an investment style, ABN AMRO Asset Management (AAAM) remains a "hidden gem" within its sector. The pedigree of the Australian equities investment team is strong, with Andrew King (ex Norwich, ex-Armstrong Jones) at the helm having assembled a dynamic yet complementary mix of investment professionals. A robust investment "centre down" approach where industry analysis is the backbone of the research focus complements this solid investment team rating.

The Investors Mutual Australian Share Fund is a preferred fund in this asset class with Zenith holding in high regard the capability of renowned stock picker and the driving force behind IML, Anton Tagliaferro. The IML investment team has been enhanced in recent years (Paul Frost - Jan. 2004) and now boasts greater team depth and experience. The process is value orientated with a focus the manager backs its calls whilst controlling risk.

The Eley Griffiths Group Small Companies Fund (founded by Ben Griffiths and Brian Eley) represents one of the few high quality small companies' managers now accessible to investors. In Zenith's view, this is a comprehensive and highly rated investment process that has left "no stone unturned". From security selection to portfolio construction to transaction execution, the Eley Griffiths investment team is fastidious in its application and documentation of the process.

Portfolio Objective

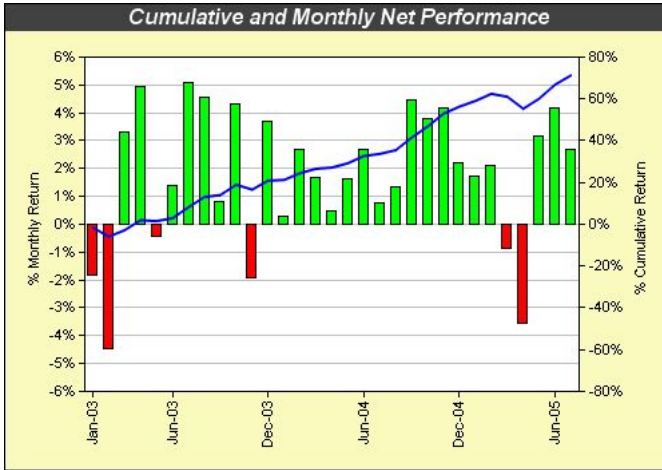
The objective of the portfolio is to provide investors with capital appreciation over the medium term (5 years+) through investments in a diversified portfolio of quality Australian equity managed funds. The portfolio will seek to outperform both benchmark, the S&P / ASX 300 Accumulation index and more importantly the median manager return over this timeframe.

Portfolio Investor Type

This portfolio is suitable for investors with a moderate to high risk tolerance seeking a growth based investment with low levels of income. Investors should expect medium to high levels of volatility in the unit price over short and medium term periods and therefore need to adopt a medium to long term investment horizon of 5 years+ when investing in this portfolio.

Recommended Portfolio

Funds	Weight	Amount
ABN AMRO Australian Equity Fund	15.00 %	\$ 37,500.00
Ausbil - Australian Active Equity Fund	30.00 %	\$ 75,000.00
CFS Wholesale PM Capital Australian Share Fund	30.00 %	\$ 75,000.00
Eley Griffiths Group Small Companies	10.00 %	\$ 25,000.00
Investors Mutual Australian Share Fund	15.00 %	\$ 37,500.00
Total	100.00 %	\$ 250,000.00



Performance Analysis

Performance Statistics	2 Yrs (% p.a.)	1 Yr (% p.a.)	6 Mths (%)
Performance - Portfolio	25.94	28.22	7.72
Performance - Benchmark	23.46	28.95	8.70
Performance - Median Manager	23.22	29.15	8.39

The Performance Statistics Table measures the performance of the fund over different time periods versus its benchmark and competitors, measured by the median manager. Zenith seeks to find funds that can outperform their benchmark and competitors over their suggested investment timeframe. Performance is annualised for periods of 1 year or greater.

Consistency Analysis

Consistency Statistics	2 Yrs	1 Yr	6 Mths
History of Monthly Excess Return (%)	54.17	50.00	33.33
History of Monthly Excess Return (Rising Mkts %)	44.44	50.00	25.00
History of Monthly Excess Return (Falling Mkts %)	83.33	50.00	50.00

The Consistency Statistics Table measures the number of months (in percentage terms) a fund has outperformed its benchmark over different time periods. Zenith seeks to find managers who can outperform their index in greater than 50.0% of months, as it represents a persistence of manager skill. The table also breaks down the fund's historical monthly outperformance of its benchmark in rising and falling markets, to ascertain which market environments the fund is best suited.

Risk / Return Analysis

Risk / Return Statistics	2 Yrs	1 Yr	6 Mths
Information Ratio - Portfolio	1.18	-0.49	-1.18
Information Ratio - Median Manager	-0.15	0.19	-0.26
Sharpe Ratio - Portfolio	2.89	2.91	0.53
Sharpe Ratio - Median Manager	2.33	2.92	0.56
Standard Deviation (% p.a.) - Portfolio	7.07	7.75	9.24
Standard Deviation (% p.a.) - Median Manager	7.51	8.02	9.62
Tracking Error (% p.a.) - Portfolio	2.09	1.51	0.83
Tracking Error (% p.a.) - Median Manager	2.22	2.23	2.01

The Risk/Return Statistics Table measures a number of variables that measure a fund's volatility and risk adjusted performance.

The first statistic requiring explanation in any risk / return analysis is standard deviation. Standard deviation of a fund is a measure of a fund's variability or dispersion of returns. The higher the standard deviation, the higher the required investment returns to compensate for volatility. Tracking error is a derivative of standard deviation. It measures the standard deviation of the excess returns between fund and benchmark (market index).

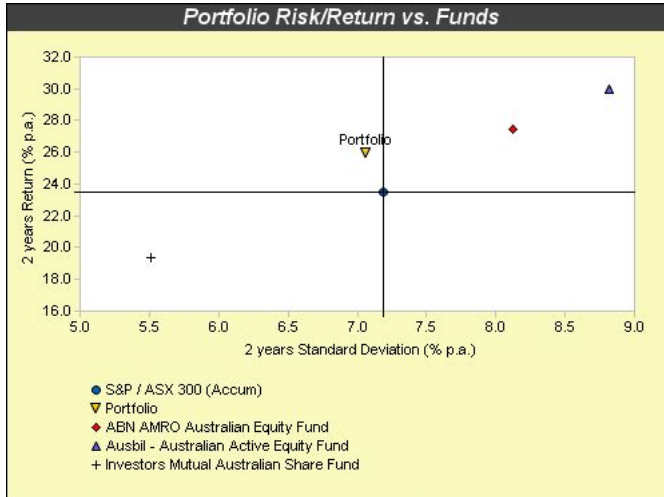
The key distinction between standard deviation and tracking error is the relative comparison to benchmark. Standard deviation measures the dispersion of monthly returns experienced by the fund and therefore the end investor (i.e. absolute risk), while tracking error measures risk relative to benchmark. Accordingly, standard deviation is typically used to measure the risk of absolute return funds, while tracking error is more appropriate to measure the risk of benchmark aware funds.

Pulling together both the risk and returns sides of the equation are the risk adjusted measures, information and Sharpe ratios.

The information ratio reflects the increase in return above a fund's benchmark, relative to the risk of both fund and benchmark. Risk being measured by the standard deviation of the excess returns between the fund and benchmark, also known as tracking error.

The Sharpe ratio reflects the increase in return above the risk free rate of return (cash), relative to the risk of the fund. Risk being measured as the standard deviation or variability / dispersion of fund returns.

An information and / or Sharpe ratio above 1.0 is an excellent result as it indicates the fund is delivering a greater amount of outperformance for every unit of risk.



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