LIDDELL & KO PTY LTD

INVESTMENT VALUE PROPOSITION

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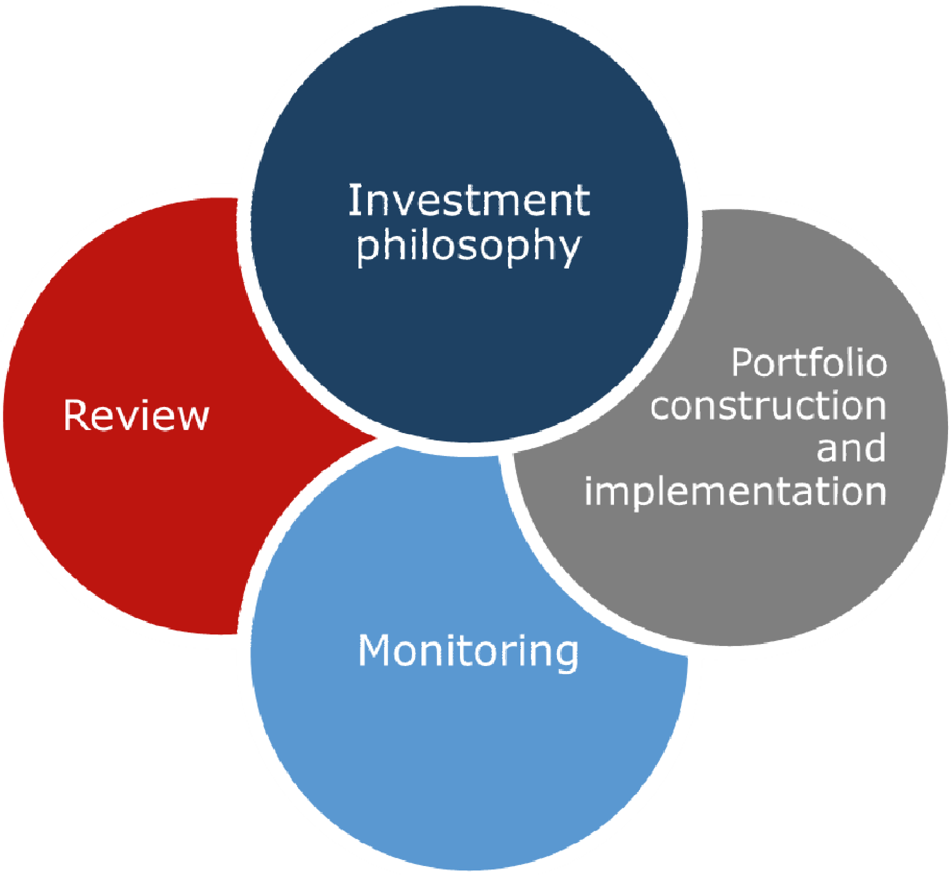
About us

Liddell & Ko Pty Ltd has been providing quality financial planning advice to a broad range of clients for over 22 years. First and foremost we believe that formulating and implementing the most effective financial planning strategies for each of our clients is of ultimate importance in achieving their goals and objectives. *For full detail on the services we provide we refer to our practice Client Value Proposition document.* However we also acknowledge that at the heart of any strategic financial plan is a robust investment portfolio.

Our *Investment Value Proposition* has been designed to provide an educative framework to easily explain our investment beliefs. This has been formulated over many years of life experience whilst working in the financial sector. We then implement these beliefs to provide our clients with an investment portfolio most suitable to achieving their longer-term wealth creation goals.



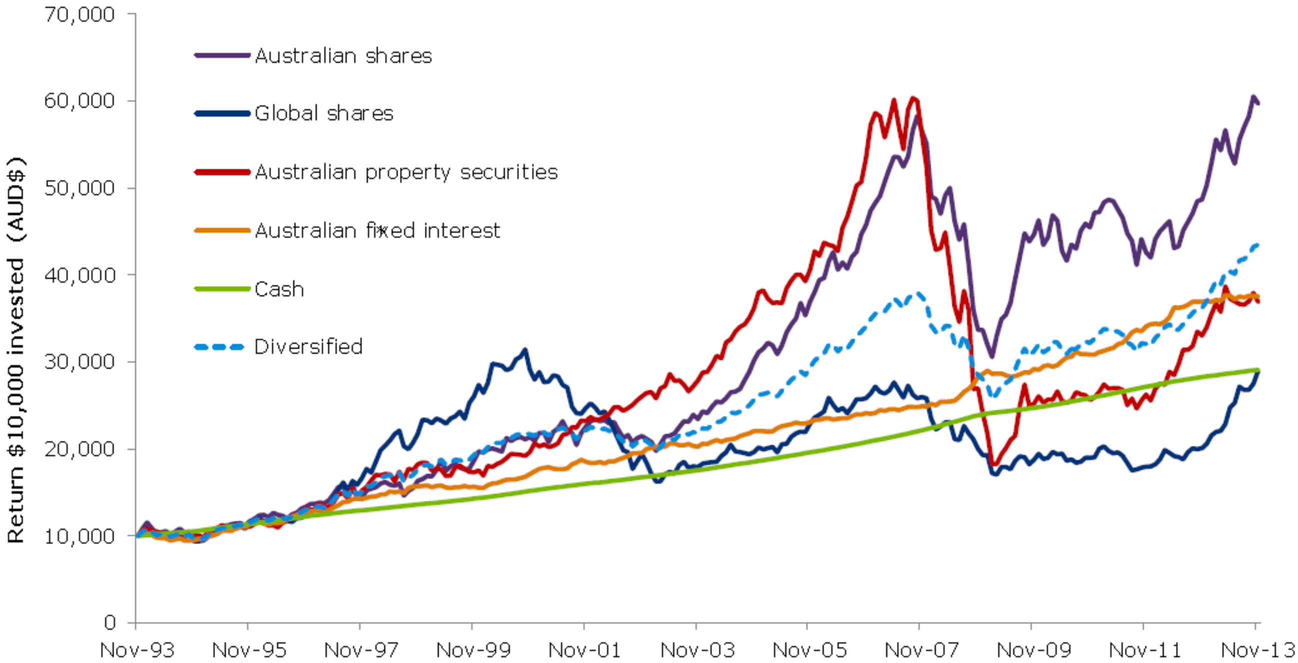
Investment Philosophy

"Our investment philosophy is centred on offering our clients transparent, cost effective solutions which achieve strong real return outcomes over the long term. We believe that investment markets are the primary drivers of investment performance yet acknowledge that quality active managers, in some asset classes, can deliver additional outperformance. As a consequence, we aim to build cost effective and well diversified portfolios that rely on a combination of market and active management returns to do the work over the longer term in order to achieve your investment objectives." – Liddell & Ko Pty Ltd/Super4Life.

The long-term trend is up

History tells us that markets tend to generate positive returns over the long-term. It is our view that clients need to take a long-term view when investing, 7 plus years at a minimum, to ensure they are giving themselves a sufficient enough amount of time to be a beneficiary of upward trending returns across the key asset classes.

Figure 1: Major Asset Class Returns



Actual indices returns: This table is based on the standard indices used by investment professionals to measure performance of asset classes. UBS Australia Bank Bill Index , UBS Australian Composite Bond Index, S&P/ASX 200 Property Accumulation Index (ASX Property Accumulation Index pre April 2000), S&P/ASX 300 Accumulation Index (ASX All Ordinaries Accumulation Index pre April 2000), MSCI World Net Index (A$). All dividends reinvested excluding fees and charges.
*Non Actual Returns. The Diversified Portfolio is a portfolio constructed from the returns of these market indices with the asset allocation of: 35% in Australian shares, 25% in international shares, 25% in fixed interest, 10% in Australian property securities, 5% in cash. The Diversified portfolio does not represent any Liddell & Ko portfolio nor the actual returns that this portfolio achieved because it does not exist. The constructed Diversified Portfolio illustrates how such a portfolio may have performed based on the new market indices. Each Liddell & Ko/Super4Life portfolio has a different asset allocation from the illustrated diversified portfolio used above. The above actual index returns and non actual returns for the Diversified portfolio also cannot be directly compared to an individual Liddell & Ko client's fund's return for many reasons such as they do not include allowances for fees or taxation and do not reflect the asset allocation or stocks held now or over time.
Past performance is no indication of future performance. Data to 30 November 2013.

Understand what you can and can't control

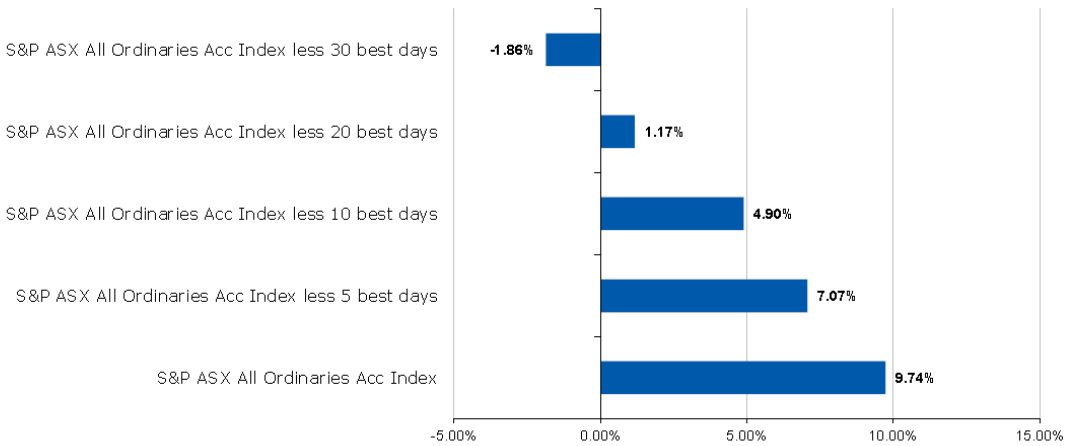
While we believe strongly that over the longer-term investment markets trend upwards, we also accept that in the shorter term we have no control over the direction and volatility of investment markets.

The consequences of a short-term view

What we do have control over is educating our clients into making the right decisions and avoiding making choices based on emotion that can adversely impact the outcome of their long-term investment outcomes.

Figure 2: The way we often think in the short-term

Figure 3: Time in the Market…Not Timing



Source: IRESS. Returns are expressed in per annum terms. Data to 30 November 2013.

Past performance is no indication of future performance.

Costs and tax effectiveness

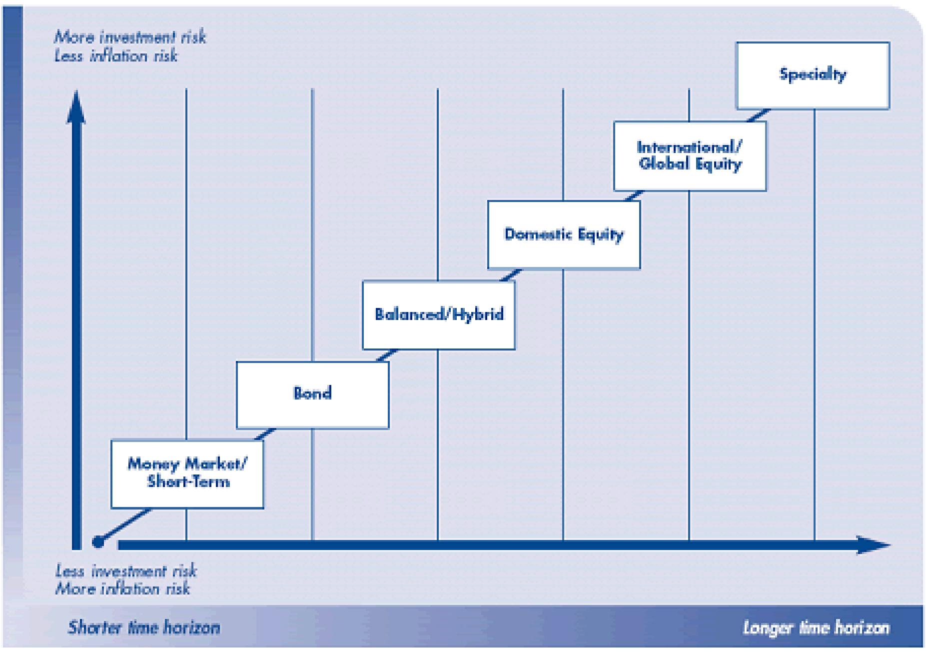
We also have the ability to exercise choice as to which investment managers we employ [i.e. both active and passive]. Understanding the impact that fees and portfolio turnover can have on longer-term returns is a very important investment consideration. Therefore, managing that is equally as important in order to maximise long-term portfolio returns for our clients.

Risk and return is related

Volatility and return are related and, in general, investments with higher volatility are expected to generate higher returns over the long-term. On the other hand, lower volatility investments are expected to offer lower returns, reflecting their greater capital stability and less variance on the return. This is called the risk/return trade off.

Our clients typically have a number goals and objectives ranging from the short-term through to the long-term. In order to implement the most effective investment portfolio for clients with multiple objectives over varying time frames it is critical one understands the relationship between risk [i.e. market volatility or variance of returns] and return for each key asset class.

Figure 4: Asset Class Risk/Return Curve



Source: http://www.utretirement.utsystem.edu/investmentoptions.htm

Being well diversified

Diversification is the practise of "not sticking all your eggs in one basket". It is our firmly held view that any robust investment portfolio must be well diversified. No investor has the gift of perfect foresight and attempting to 'pick' an asset class, specific investment market or fund manager that one believes will outperform in any given period of time is, in our view, fraught with risk.

Our investment portfolio solutions are therefore well diversified across:

- ***Asset Classes*** (e.g. shares, property, bonds) as different asset classes behave differently in various economic and market conditions;
- ***Within Asset Classes*** (i.e. across regions, countries, industries and currencies).
- ***Fund Managers*** (i.e. active, passive).

A well-diversified portfolio invested will help 'smooth out the bumps' during the long-term investment journey our clients undertake.

Figure 4: Diversification can create more consistent returns

Australian fixed interest | Cash | Global shares | Australian shares | Australian property securities | Managed futures

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	20yr annual-ised return
Highest	10.4%	40.5%	5.4%	25.9%	14.5%	41.1%	32.1%	19.3%	17.8%	14.6%	16.6%	15.0%	32.0%	22.5%	34.0%	16.2%	26.9%	37.6%	19.1%	11.4%	32.9%	**10.0%**
	7.0%	30.1%	3.7%	20.7%	14.3%	20.3%	18.0%	17.1%	12.1%	10.5%	11.8%	15.0%	27.9%	17.0%	24.5%	12.9%	14.9%	7.9%	6.0%	5.0%	20.2%	**9.9%**
	6.9%	24.4%	-4.7%	18.6%	14.3%	13.0%	10.1%	5.0%	10.0%	6.1%	8.8%	8.8%	10.3%	12.5%	11.7%	6.7%	7.6%	3.8%	4.7%	1.3%	14.3%	**7.5%**
	4.5%	13.8%	-5.6%	14.1%	11.9%	12.2%	9.5%	0.9%	6.3%	5.4%	4.8%	4.9%	7.7%	5.8%	6.4%	3.5%	-25.3%	3.5%	1.9%	-1.5%	7.7%	**7.3%**
	4.0%	16.3%	-8.1%	12.7%	7.6%	11.4%	8.5%	-1.2%	6.2%	5.2%	-8.6%	3.0%	7.0%	5.7%	6.0%	-2.1%	-38.9%	1.7%	-0.4%	-5.6%	3.9%	**5.6%**
Lowest	-2.8%	5.4%	-8.8%	8.0%	6.3%	5.6%	5.1%	-5.0%	2.2%	-9.7%	-27.2%	-0.5%	5.6%	4.5%	3.1%	-8.4%	-54.0%	0.8%	-1.9%	-11.0%	1.8%	**4.7%**

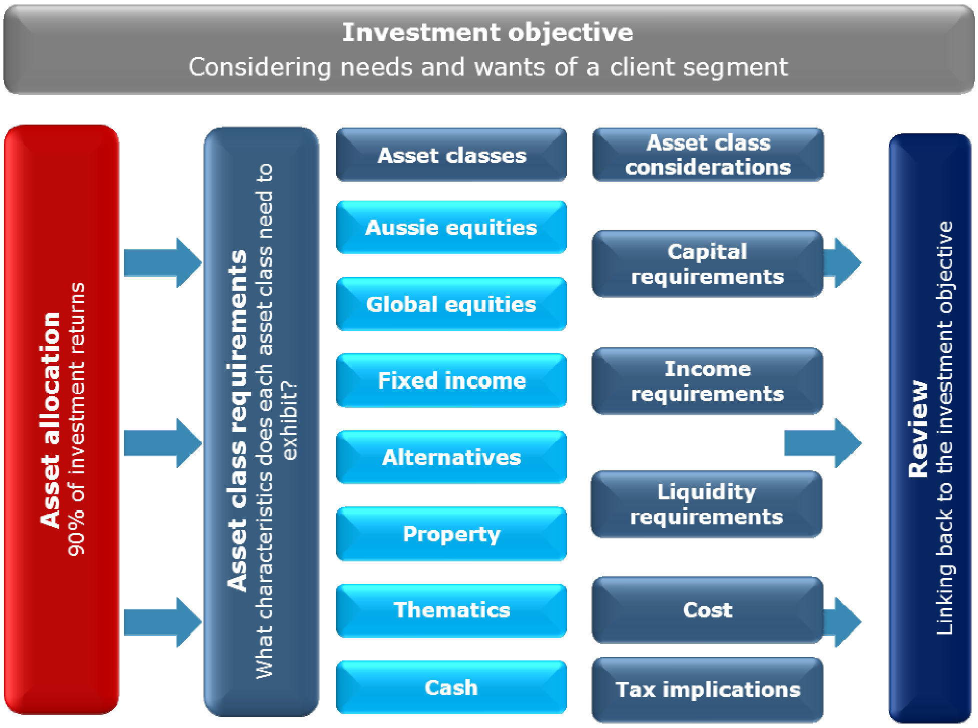
This table is based on the standard indices used by investment professionals to measure performance of asset classes. Percentage return over rolling 1 year (to 31 December 2012). UBS Australia Bank Bill Index, UBS Australian Composite Bond Index, S&P / ASX 200 - A-REIT Accumulation Index, S&P/ASX 300 Accumulation Index (ASX All Ordinaries Accumulation Index pre April 2000), MSCI World Net Index (A$), CISDM CTA Asset Weighted Index (hedged into AUD).
All dividends reinvested excluding fees and charges. The index returns cannot be directly compared to an individual Liddell & Ko clients fund return for many reasons such as they do not include allowances for fees or taxation and do not reflect the asset allocation or stocks held now or over time. Past performance is no indication of future performance.

Investment Process

The following section now expands on our practice *Investment Value Proposition* and looks to clearly define, given our core investment beliefs, the process we follow in order to effectively implement these views to create appropriate investment portfolios for our clients.

How we implement our views: An overview

Figure 6: Liddell & Ko - Super4Life Investment Process



Risk tolerance profiling

During the initial client fact finding process we collate our client's key financial goals and objectives and also determine individual views on investment market risk with the ultimate objective of determining a client's most suitable risk tolerance/profile. This will allow us to quantify the most suitable mix of defensive income and growth assets to use in a respective client's investment portfolio.

At Liddell & Ko – Super4Life we use 5 Risk Profile categories:

1) **Preservation Investor: 100% Income , 0% Growth assets**
2) **Defensive Investor: 70% Income, 30% Growth assets**
3) **Balanced Investor: 50% Income, 50% Growth assets**
4) **Balanced Growth: 30% Income, 70% Growth assets**
5) **Growth Investor: 15% Income, 85% Growth assets**
6) **High Growth Investor: 0% Income, 100% Growth assets**

Asset Allocation

Liddell & Ko adopts a *Strategic Asset Allocation [SAA]* approach in order to achieve appropriate portfolio diversification whilst reflecting the asset allocation views of Morningstar and Mercer who are our two preferred providers of research and asset allocation guidance.

We also have the flexibility to maintain a +/- 10% band against our SAA framework to account for market movement over the short-term.

Studies have shown[1], that 90% of the return comes from the strategic asset allocation [SAA] of a portfolio. Therefore, we believe it is important to introduce a third party in this respect to provide an additional level of expert guidance given the unique access to information and resourcing Morningstar and Mercer has at its disposal.

Rebalancing of portfolios

Liddell & Ko – Super4Life rebalances all of our clients' portfolios back to the target SAA annually.

If an investment is successful naturally investors tend to want to stick with it. The last thing investors often want to do is sell winners to invest more money in their investments that aren't doing as well. No matter how unnatural that practice seems, however, this process— called rebalancing – we believe is an essential part of managing your investment portfolio. Rebalancing portfolios back to the target SAA is an intuitive mechanism to take the emotion out of investing as it systemises us to "sell high" and "buy low".

There is plenty of empirical as well as researched evidence to suggest that a portfolio which rebalances over time will outperform a portfolio that does not rebalance.[2]

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[1] In 1986, Gary P Brinson, L Randolph Hood and Gilbert L Beebower published a study about asset allocation of 91 large pension funds measure from 1974 to 1983. The results of this research concluded that close to 90% of returns generated comes from a portfolios SAA.
[2] http://www.forbes.com/sites/investor/2011/11/16/does-portfolio-rebalancing-work/

Asset class requirements

Asset class		Asset Category	Risk	Potential return
Cash	*includes bank deposits, term deposits, savings and cheque accounts and cash management trusts*	Defensive assets (focus on generating income)	Low	Low
Fixed Interest	*includes government bonds, corporate bonds, mortgages and hybrid securities*	Defensive assets (focus on generating income)	Low/Moderate	Moderate
Property and Infrastructure	*includes direct investments in residential, industrial and commercial property and can also include indirect investment in listed property vehicles such as REITS. Infrastructure assets can include tolls, roads, airports, utilities as examples.*	Growth assets (focus on capital growth and income)	Moderate/High	Moderate/High
Equities	*includes Australian equities and International equities*	Growth assets (focus on capital growth and income)	High	High
Alternatives	*included non-traditional asset classes for example derivative strategies and hedge funds*	Growth assets (focus on capital growth and income)	High	High

Asset class considerations

Cash

- Suitable for investors who have a short-term outlook, a low tolerance to risk, or if market volatility is high.
- Provides a stable and low risk income, usually equally in the form of regular interest payments.
- No recommended minimum timeframe.

Fixed Interest

- Can be more volatile than cash, but are still relatively stable.
- Generally operate in the same way as a loan.
- Income return is usually in the form of regular interest payments for an agreed period of time.
- Minimum suggested time frame: 3+ years.

Property and Infrastructure

- Has a higher risk than fixed interest but less risk than equities.
- Less liquid than other asset classes resulting in a higher recommended minimum timeframe.
- Entry and exit costs significantly higher.
- Minimum suggested timeframe: 7+ years.

Equities

- Returns usually include capital growth or loss and income through dividends which may be franked (ie: the company has already paid tax on the earnings).
- The most volatile asset class however over long periods of time, on average, has achieved higher investment returns.

- Involves part ownership of a company, enabling investor to share in the profits and future growth.
- Currency valuations can affect performance of International equities.
- Minimum suggested timeframe: 7+ years.

Alternatives

- Often low correlation to traditional asset classes but with high levels of volatility.
- Typically employing the use of derivatives which can be more complex investment instruments.
- Some hedge funds can have low levels of liquidity however certain strategies like managed futures can be highly liquid.
- Minimum suggested timeframe: 7+ years.

Fund manager selection process

First Filter: Managed Fund Universe
Morningstar/Mercer Recommended or Highly Recommended Rating Required

Second Filter: Liddell & Ko Investment Committee Meeting
Review non-approved managed funds of interest

Confirmationm of managed fund to Millennium3 Approved Product List [APL]
APL is our preferred menu of managed fund options

Final Filter: Preferred Model Portfolio Review
Managed fund on APL formally added to preferred Model Portfolio if approved by Investment Committee based on outcome of review

Monitoring process

Our practice has an existing relationship with Colonial First State Investments who we have entered into an arrangement with to provide monthly quantitative analysis on our preferred model portfolios.

Using this resourcing we are able to track the performance of our preferred model portfolios against a market portfolio benchmark and also measure the performance of our preferred model portfolios against a peer universe of like risk profile funds available in the external Australian retail market.

Our mantra in terms of performance objectives is we are not looking to be heroes in the short term. We want to see consistent performance during the short term which ultimately drives our preferred model portfolios to produce mid to top quartile returns over the longer term [7 years +].

The Liddell & Ko – Super4Life Investment Committee also meets on the first Tuesday in the months of January, April, July and October. At these quarterly meetings we formally review all existing managers within the preferred model portfolios to ensure we capture any significant changes in views from Morningstar/Mercer. If any amendments are required due to issues like ratings downgrades or fund closures, as examples, we will look to implement any changes to the preferred model portfolios as required.

Review process

The Liddell & Ko – Super4Life Investment Committee holds an extended meeting in September in order to conduct a deeper and more rigorous review of the preferred practice model portfolios.

Based on the key takeout's from this forum the Liddell & Ko – Super4Life Investment Committee will debate and discuss key issues and make any required changes to the managed funds currently represented within the preferred model portfolios.

Summary

We believe it is critical to the ongoing relationship with our clients that they fully understand what it is. Liddell & Ko believe in when it comes to negotiating the often complex world of investing money to achieve an individual's goals and objectives, and how our practice then implements those views to establish and manage ongoing robust investment portfolios. We stress that if anything discussed in the above material is not completely clear we encourage our clients to ask all questions.

LIDDELL & KO PTY LTD

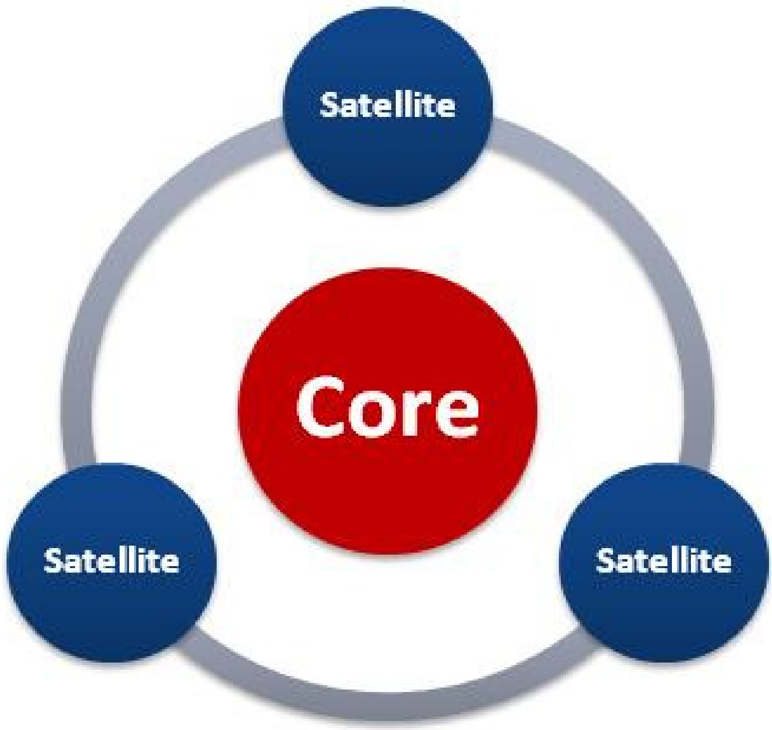
OUR PORTFOLIOS

Structure of our investment portfolios

Liddell & Ko use a portfolio construction process known as a *'core and satellite'* approach.

We believe that over the long-term, that investment markets are the predominant driver of returns. We look to allocate a large part of the portfolio to a passive multi-sector managed fund [*'core'* manager] which will anchor the portfolio return to this longer-term view.

We do also acknowledge that carefully selected active fund managers can outperform the broader market return over the long-term or alternatively look to deliver a specific return profile [i.e. more income] or volatility objective which is often a requirement of some clients. Therefore we look to enhance the portfolio with a number of actively managed funds [*'satellite'* managers].



Core strategy

Having a core portfolio exposure to an index multi-sector option can generate significant tax and cost minimisation benefits. In summary the core portfolio strategy can provide:

- *Broad market exposure***:** Index funds have broad portfolio diversification which means there is generally less exposure to individual securities than for an active fund.
- *Lower costs***:** The management costs of indexed funds are generally lower than those of actively managed funds and this in turn generally means lower management costs for your clients. Due to the passive style of investing, the turnover is likely to be lower than a similar actively managed fund, and therefore transaction costs will be lower.
- *Competitive long term performance***:** The lower cost of an indexed fund may give it a performance advantage over active managers over time.
- *Tax efficiency***:** Lower portfolio turnover of index funds may mean that your client's Capital Gains Tax (CGT) liability is reduced. Index funds tend to have a 'buy and hold' strategy which means that those assets that are held longer than 12 months are eligible for a 50% reduction in CGT when sold.
- *Systematic process***:** Index funds follow a systematic, disciplined approach to investing that does not rely on the individual fund manager's security selection. As a result, there is generally less 'key person risk' when managing indexed funds.
- *Less constrained by capacity***:** Index funds are not generally constrained by capacity issues – even with significant funds under management.

Satellite strategy

Actively managed *'satellite'* funds will tend to charge a higher fee than the *'core'* portfolio strategy hence we need to be confident that our clients will be the beneficiaries of a return outcome commensurate with that high fee. We look to employ 'satellite' managed funds that bring something different to the portfolio than otherwise provided within the *'core'* portfolio exposure. Current examples of the 'satellite' themes we're supporting are:

- Low volatility Australian share strategies paying higher levels of income and some capital returns.
- Australian small company funds providing exposure to the more start-up and entrepreneurial companies domestically.
- High conviction International shares that are unconstrained by benchmarks and tend to invest based on macro themes they believe will drive value going forward.
- Emerging market funds which enables diversification away from developed markets and provides exposure to the robustness of these developing economies.
- Managed futures which are an alternative asset class ultimately providing low correlation of returns to the traditional assets classes over the longer-term.
- Corporate bond strategies to provide additional diversification within the defensive income component of our portfolios.