S&P FUND RATING ★★★★☆

APN AREIT

STANDARD & POOR'S

Analyst(s): Peter Ward; Kelly Napier

Standard & Poor's View

Standard & Poor's Fund Services rates this fund four stars. This reflects our high conviction that the manager will consistently generate risk-adjusted returns in excess of relevant investment objectives and relative to peers.

APN Funds Management has a long track record in managing real estate securities and we have high regard for its large and experienced team, led by Michael Doble. The significant degree of stock coverage overlap in the real estate securities strategies the team manages reduces key person risk and represents an effective use of the team's resources. APN has recently expanded its platform into Asia by acquiring ARA Strategic Capital, including its Singapore-based investment team, which manages the ARA Asian Asset Income Fund. While members of the APN team are assisting with the integration of the Singapore team, hiring a new junior analyst will help overall resourcing.

The fund represents a benchmark-unaware, buy-and-hold, Australian real estate investment trust (A-REIT) strategy, targeting a component of tax-advantaged income and lower-than-market volatility. We view positively the pure A-REIT strategy. It is consistent with the income focus evident in APN's property for income funds, but importantly excludes unlisted property fund investments. The fund's asset allocation enables a closer comparison with the rest of the rated peer group. While most managers in the peer group undertake proprietary cash flow forecasting, APN uses broad broker stock coverage, sourcing stock forecasts from brokers whenever possible. This enables greater focus on stock analysis, including the risks associated with the cash flows.

The fund's adoption of the more concentrated S&P/ASX 200 A-REIT index, with its larger-cap stocks compared with the more diversified S&P/ASX 300 A-REIT Index (in which APN invests), is consistent with APN's other property securities funds. However, in our view, the S&P/ASX 300 A-REIT better matches the fund's investment universe. The manager has highlighted its intention to adopt the S&P/ASX 300 A-REIT Index during 2011, but our rating is not predicated on this intention.

The fund's short track record has been strong, outperforming its performance objective and peers. Index outperformance over the year to Oct. 31, 2010 of 4.9% has been achieved with lower volatility, reflecting APN's investment philosophy and style for the fund.

Investor Suitability

- The fund provides a long-only, core exposure to Australian real estate securities, but is benchmark-unaware.
- Investors may consider blending the fund with other property investment products.
- Investors should have an investment horizon of at least five years.
- The fund is most likely to outperform when real estate fundamentals are being recognised by the market.
- Periods of underperformance are most likely within macro- or event-driven markets.
- This product may suit investors seeking regular income distributions, due to the fund's monthly distribution policy.
- Investors should be aware that the property income focus and benchmark-unaware approach means that the fund's performance is likely to differ from the A-REIT benchmark and peer returns.

Key Strengths

- Experienced and well-regarded portfolio manager and fund manager team.
- The large team has remained stable over the past two years and a junior analyst has joined.
- Well-defined, established, and repeatable investment process.
- Remuneration plan designed to align the interests of investment personnel and unit-holders.
- There are no capacity issues and the manager is nimble, being able to invest in small-cap stocks.

Key Weaknesses

- We consider the S&P/ASX 300 A-REIT Accumulation Index (benchmark) to be a more inclusive and appropriate benchmark, given the manager's investment universe, which includes a small- and mid-cap stock focus as part of its benchmark-unaware approach.
- APN has no broader equities or fixed-interest capability, which some peers can leverage.
- The property-securities team does not have the same global coverage when compared with other managers.

Risks

- The expansion into Asia may be a distraction for team members involved in integrating the Singapore-based investment team.
- While the fund seeks to access the attractive characteristics of property investment, it will be affected by equity-market volatility.

APIR code	APN0008AU	**Performance Fees (%)**	N/A
Fund status	Open	**Investment manager**	APN Funds Management Ltd.
Inception date	Jan. 19, 2009	**Redemption policy**	Daily
Responsible entity	APN Funds Management Limited	**Distribution frequency**	Monthly
Peer group	Australian Property - Listed	**High water mark**	N/A
Benchmark	S&P/ASX 200 A-REIT TR	**Hurdle rate**	N/A
Investment style	Value	**Return objective (%)**	A dividend that is 110% of the average dividend yield of the S&P/ASX 200 A-REIT yield (before fees)
Multi manager	No		
Fund Size ($A)	110.39 .mil (at Jan. 31, 2011)		
Minimum investment (A$)	1000	**Tracking error objective (%)**	Not targeted
ICR / MER (%)	0.85	**Average portfolio turnover (3yrs) (%)**	N/A
		Maximum cash holding (%)	10
		Typical number of stocks	21
		Release authorised by	Leanne Milton

Objectives, Fees and Features

To provide a gross annual income yield (before fees) that is 110% of the average S&P/ASX 200 A-REIT Index dividend yield, plus capital growth at least equal to inflation, with below-market volatility.

The fund also aims to provide:

- A portion of tax-advantaged income; and
- Greater diversification than the benchmark.

The fund has an ICR of 0.85% per year (which can be up to 1.05% per year if a 0.2% per year adviser remuneration fee is paid).

Distributions are paid monthly and the fund has a buy/sell spread of 0.25%/0.25%. APN recommends a five- to seven-year investment term, consistent with a general property cycle. The fund may invest up to 10% in cash and fixed interest. Under its constitution, the fund is permitted to borrow, but it is not the manager's intention to gear the fund.

As the fund is benchmark-unaware, the manager does not target tracking error. Investors should be aware that the fund's performance may deviate substantially from the S&P/ASX 200 A-REIT Accumulation Index, which is concentrated in a few large names, particularly Westfield. As of Oct. 31, 2010, the fund had a substantial underweight position to Westfield (-17.9%).

Investment Philosophy and Style

APN is an active, income-focused property-securities manager with a value bias. The manager aims to identify securities that will deliver a higher income return than the S&P/ASX 200 A-REIT Dividend Yield Index. It constructs the portfolio with the objective of creating a more diversified investment offering than the S&P/ASX 200 A-REIT Accumulation Index.

The investment universe comprises listed-property securities that:

- Are listed on the Australian Securities Exchange (ASX);
- Derive no more than 20% of total earnings from corporate activities (funds management, property management, or property development). This can be increased to 30% if at least half the corporate earnings are annuity-based; and
- Have property assets that are substantially located in Australia.

Investment Team

Structure

There are six members of the real estate securities team, led by portfolio manager Mr. Doble. There are three fund managers—Andrew Smith, Peter Morrissey, and Damian Diamantopoulos—and two real estate securities analysts, Cheng Yeoh and Steve Chai. In 2008, when Mr. Smith and Mr. Yeoh were appointed, the team's responsibilities were restructured. Each portfolio manager is a fund manager (or "product champion") for a designated property securities fund. The allocation of each person as portfolio manager for a strategy provides clear accountability—their performance is measured against the performance of the strategy they manage. Each person retains independence in implementing and executing portfolio-construction decisions for their strategy, subject to each fund's investment guidelines.

Complementing the team are chief investment officer, Howard Brenchley, APN's direct-property team (located with the real estate securities team), ARA's Singapore-based team, and APN's European team. We expect APN's acquisition of ARA Strategic Capital to reap benefits, although in the short term the APN team will be spending time integrating and aligning processes, systems etc.

The investment committee includes Mr. Brenchley, Mr. Doble, Mr. Morrissey, Mr. Diamantopoulos, Steve Lawford (from APN's direct-property team), Mr. Smith, and Mr. Yeoh.

Key Investment Personnel

Name, Position	Years*	Experience†
Michael Doble, chief executive officer, real estate securities	7	24
Andrew Smith, fund manager, real estate securities	2	15
Pete Morrissey, fund manager, real estate securities	4	13
Damian Diamantopoulos, fund manager, real estate securities	9	10
Cheng Yeoh, analyst, real estate securities	4	15
Steve Chai, analyst real estate securities	0	4
Average tenure with current firm	4	N/A
Average industry experience	N/A	13

**Years with current firm. †Years of relevant industry experience.*

Portfolio Managers

Mr. Doble is the portfolio manager for this fund. As chief executive officer (CEO) of real estate securities, he also has overarching responsibility for all real estate securities and direct-property funds. He joined APN in 2003 and has over 20 years' experience in the property industry covering direct and listed property. Prior roles included property valuation, consulting, and funds management—he was head of property at ANZ Funds Management.

Research Team

The other team members are suitably qualified. Mr. Smith has over 14 years' experience in the property industry and was previously a co-portfolio manager at Goldman Sachs JBWere and the sole portfolio manager at Aviva. Mr. Morrissey has a valuation, property research, and finance background. Mr. Diamantopoulos has been with APN since 2002 and, after initially being responsible for a couple of APN's direct/hybrid property funds, was moved into the real estate securities team 24 months ago, coinciding with the succession plan identified for him. He has a demonstrated understanding of the real estate securities market and this is expected to grow given the depth of knowledge of his colleagues and the apparent collaborative and open team environment in which peer debate takes place.

Mr. Diamantopoulos is the portfolio manager for the Property for Income Fund, Mr. Morrissey for the Property for Income Fund #2, and Mr. Smith for the International Property for Income Fund (which is being wound up). However, all four have stock coverage of the Australian market. Primary and back-up coverage is relatively evenly split between the four, and all cover a component of Westfield's business given its size—Australian assets, U.S. assets, development and U.K. assets, and financial (where the financial analyst is the lead analyst). The split coverage of Westfield is unique in the peer group where one analyst would usually cover the stock.

The similar investment objectives and investment guidelines for three of APN's property securities funds means there is a significant degree of overlap in the securities held in each portfolio; portfolio construction is the main differentiating factor between the funds. The common stock research effort represents an effective use of the team's experience and time. For this reason, we consider the team large and well resourced and, in our view, the structure effectively removes any key person risk from a portfolio management and stock coverage perspective. Team stability has improved, although we highlight that the stability measure reflects peer relativity.

Alignment and Accountability

The remuneration structure was changed in 2008, in conjunction with the change in the team's responsibilities. The team is paid a base salary and bonus. Bonuses are based on APN's profitability and performance based on key performance indicators. The bonus pool can increase up to 30% of above-budget net profit. Team bonuses are payable in shares and cash (at the employee's discretion) over three years.

Investment Process

Overview

The research process incorporates analysis of macroeconomic factors and global and domestic property market indicators. The team conducts research on local property market characteristics influencing domestic and international property markets. It then screens stocks to eliminate companies which generate more than 20% of their revenue from corporation-based earnings, such as property development, property management, and businesses where the fund is not sufficiently insulated from business risk associated with the underlying real estate.

Despite being a fundamental bottom-up manager, we note that this fund is one of only a few in the peer group that rely heavily on brokers for cash flow forecasts. Instead, APN focuses on identifying the risks associated with the cash flow forecasts. The appropriate checks are in place to monitor and manage the risks associated with relying on external rather than proprietary forecasts.

Each team member is assigned stocks to research, assess, and value. They model cash flow forecasts for each stock, deriving most from broker-provided models, although they develop models for poorly covered stocks in-house. The team undertakes detailed assessments on 27 stocks (16 are in the S&P/ASX 200 A-REIT Index), focusing its bottom-up research on deriving asset and geared stock betas to reflect the risks associated with a stock. Investment decisions are made via a team-based review at each stage of the valuation process and the investment committee undertakes a final risk management overlay. Mr. Doble has ultimate responsibility for portfolio construction.

Research Process

APN uses a proprietary asset beta matrix to determine the relative risk of each asset in a stock's portfolio. The matrix takes into account the location, sector, and grade of the asset and is based on ongoing market assessments. A stock's asset beta is then geared to reflect the risks associated with qualitative and quantitative factors. Quantitative factors are: the degree of corporate earnings, the quality of earnings, payout ratio, tax-effectiveness, liquidity, gearing, debt hedging, and income and capital hedging. Within each component there are ranges against which the team grades stocks to determine the risk premium. The weighting assigned to the quantitative factors is 60%. The other 40% is weighted to the qualitative factors of management (capital management, strategy, remuneration, corporate governance, etc.) and information risk (relating to operating market transparency). The geared beta can be compared with its historical levels for the stock, with the investment peer group, and with comparable international stocks.

It is in determining the geared beta that APN believes the greatest value-add exists—in assessing the risks associated with a stock, rather than determining the cash flows. For this reason, APN sources five-year cash flow estimates from a range of brokers. The number of brokers depends on coverage and the size of the stock. The team receives data weekly in a standard template so that it can be uniformly incorporated into the standardised models.

Broker estimates are complemented by the team's fundamental research, which includes: regular visits with management, property tours, overseas visits, and analysis of economic and direct property market data from a variety of external sources. The volumes of external data are converted into an easily usable format for use in spreadsheets and charts to support the research in an accessible way. The team's insights are supplemented by information from APN's direct property team (located with the real estate securities team), ARA's Singapore-based team, and APN's European team. Although APN's global property capability is not as robust as some peers and has no broader equities or fixed-interest capability, which some peers can leverage, it uses other information sources including Jones Lang LaSalle, CBRE, networks in the valuation and banking communities, meetings with company management, and asset visits. These are all used to build up market and stock-specific intelligence that is used in the investment process.

To calculate the net present value (NPV), the team uses a dividend discount model (earnings-per-share and adjusted funds from operations, as appropriate). The cash flows are discounted using a discount rate derived from a capital asset-pricing model. The 10-year bond rate, the geared beta, and a 5% equity risk premium are used; the equity risk premium recently increased from 4.5%.

To complement the NPV valuation approach, APN uses net asset values (NAV) and net tangible assets (NTA), as well as a five-year internal rate of return. It uses internal estimates for capitalisation rates when determining NAV.

The universe is then presented on a valuation summary page that concisely shows the relevant information for each stock, including:

- Distribution yield flagging if it meets the portfolio yield hurdle;
- Earnings split;
- The various valuation metrics;
- High-level debt measures; and
- The main assumptions in the valuation figures (asset beta, geared beta, discount rate, etc.).

The first cut of the portfolio includes a list of stocks that meet the portfolio yield hurdle and are trading at less than valuation. Then, the team may include stocks that do not meet the yield hurdle but are trading at a discount to valuation. In this sense, any "excess yield" over the hurdle can be used to include stocks that don't have the required yield, but their inclusion in the portfolio still means the yield benchmark is met overall. In some instances these stocks might be included to meet top-down asset allocation views.

Throughout the investment process the steps are quite prescriptive and based on objective, observable factors, and quantitative metrics. We consider this a benefit for this fund, with four analysts covering a relatively small universe, because it reduces the scope for any analyst bias.

Portfolio Construction

Portfolio construction is unconstrained by benchmark weights and is based on APN's own determination of relative value and higher/ sustainable distributable income to meet the yield objective. This ranking is not followed blindly as not all stocks that meet the yield benchmark are included, and in portfolio construction "excess yield" over the hurdle is used to include some other names that don't meet the yield hurdle but offer diversification. It is also a low turnover approach. Rigour around portfolio construction decisions is evident in the twice weekly investment team meetings where the team discuss market and REIT-specific information, investment ideas, and portfolio-construction decisions, although Mr. Doble makes the ultimate decisions on the stocks in the fund, and their weights. Trading is undertaken by a fund manager other than the particular portfolio manager, and brokers are assessed on trading efficiency. Mr. Morrissey carries out the trading for the A-REIT fund. Importantly, trading is separated from the portfolio manager and although we believe that a specialist trader may be able to deliver greater trading efficiency and better results, and would free up the team for investment activities, trading frequency is not enough to justify this position.

Risk Management

Stock-specific risks are incorporated in the investment process. Portfolio or fund risks are managed in line with relatively broad investment guidelines. The asset-allocation range for this fund is 90%–100% invested in A-REITs or property companies, with the rest in cash or fixed interest, although it is expected to be held in cash. To limit offshore exposure, the fund aims to have half the offshore exposure of the S&P/ASX 200 A-REIT Accumulation Index. To reduce exposure to corporate earnings, it is to have a maximum 80% of the S&P/ASX 200 A-REIT Accumulation Index's exposure to corporate earnings, and 50% is targeted. The actual level will depend on the mix of corporate earnings, and the fund prefers annuity-style corporate earnings rather than development-related earnings. Cash and fixed interest can be up to 10% of the fund. Fixed-interest investments are expected to be minor and opportunistic and will need to meet the fund's liquidity requirements to be included.

The fund is benchmark-unaware and is therefore not constrained by benchmark weightings in portfolio construction. Bloomberg Portfolio Tracker is used to monitor tracking error, although a tracking error range is not targeted. To provide a more diversified investment portfolio than the benchmark, the largest single stock weight is capped at 20%. The cap can be exceeded if the stock's weight in the benchmark is greater than 12.5% and the investment committee approves. To manage the contagion risks associated with multiple stocks related to the same parent entity, the fund cannot collectively hold more than 10% of two related names, without express permission granted by the investment committee. Investments in vehicles related to APN, or the APN Group, are limited to 5% to manage conflicts of interest. Generally, funds in the peer group explicitly exclude investments in any related investments to avoid the perception of conflicts of interest. We note that in APN's case, the weight has reduced from 10% to 5%.

Stock liquidity risk is managed through the requirement for a position to be able to be liquidated within 20 trading days. This aspect is factored into the geared beta. Each portfolio manager is responsible for placing their trades into a spreadsheet that is uploaded into Bloomberg. Through this system, the efficiency of brokers can be measured and monitored, and brokers rewarded with trading volume on the basis of their efficiency. Portfolio positions are monitored through Bloomberg, which also provides quarterly attribution for all APN real estate securities funds.

To manage information and data risk, APN has models and information databases. Models can flag to the team if broker forecasts are overdue and if inputs or outputs are outliers. This is considered critical given the volumes of (external) information APN accesses in its research effort.

It is evident that APN engages in continual process enhancement, from systems and tools, to information sources and presentation, and model inputs and outputs. A recent significant, and relevant, enhancement is the introduction of a debt model from which the team can access detailed stock-specific debt information to use in the determination of the geared beta. This aspect was always included in the analysis, but efforts have been made to increase the data available to the team to help them make more informed decisions regarding the debt risk attached to a particular stock.

The investment committee meets weekly to discuss market intelligence and compliance, including unit price compliance.

Risk Constraints

Typical number of stocks	21
Active stock limits (%)	See "Risk Management"
Active sector limits (%)	See "Risk Management"
Active country limits (%)	N/A
Maximum cash holding (%)	10
Targeted tracking error (%)	Not targeted

Performance

The fund was launched in January 2009 and therefore has a limited performance history. However, we acknowledge APN's experience in managing real estate securities funds.

Over the 12 months to Oct. 31, 2010, the fund returned 9.8% (net) relative to S&P/ASX 200 AREIT Index's return of 4.9%. Index outperformance over the year to Oct. 31, 2010 of 4.9% has been achieved with lower volatility, resulting in an information ratio of 1.6. The fund is outperforming its dividend yield objective by 2% over one year. From January 2009 to Oct. 31, 2011, the fund delivered a net return of 21.4% (annualised) compared with the S&P/ASX200AREIT Accumulation Index return of 11%, an excess return of 10.4%. Excess returns have not been as prevalent in the rest of the rated peer group over the past 12 months.

Since inception, the fund has outperformed in 71% of markets on a monthly basis, outperforming in three of the six up markets and all nine down markets.

Fund attribution is assessed using Bloomberg's attribution analysis and is completed quarterly. Stock selection added 8.81% during the year to Oct. 31, 2010 and was the main attributer, with cash adding 0.11%. At a stock level, the three largest attributers to relative performance during the year to Oct. 31, 2010, were small-cap, non-benchmark stocks —Challenger Diversified Property Group added 126 bps to relative performance (this was a key detractor at the time of our previous review), Challenger Kenedix Japan Trust added 101 bps, and Cromwell added 77 bps. Other major attributers were Mirvac Group (+73 bps) and Westpac Office Trust (+71 bps). Detractors from relative performance were significantly smaller in size and included: Goodman Group, Stockland Group, Astro Japan Property Group, Charter Hall Group, and Charter Hall Office which collectively detracted -83 bps.

The running yield to Oct. 31, 2010 based on the fund's annualised distributions was about 8.7% compared with the index running yield of about 6.1%.

Cash fluctuated between 4.89% at its peak in January 2010 and 1.21% at the end of October 2010. The fund's higher cash position mostly reflects the strong inflows it has been receiving each month, and the relatively small size of the fund at the start of the period. The target cash position is less than 1%.

Portfolio Review

The portfolio is positioned in the context of the manager's market and economic outlook and takes into account sector analysis and outlooks. The strategy reflects the manager's index-unaware approach, quality, underweights to stocks with corporate earnings, focus on small- to mid-cap stocks, and domestic rental income. Offshore exposure is well below the index at 22% compared with 30.6% on a look-through basis. Corporate earnings exposure is well below the index at 8.6% compared with 15.3%. Sector bias currently includes an overweight to diversified stocks and commercial office, with underweight positions in retail and industrial stocks. However, APN has subsequently indicated a preference for retail, office, and industrial stocks over diversified ones.

At a stock level, the top five overweight positions (reflecting a small-cap bias) in the portfolio at Oct. 31, 2011 were Challenger Diversified Property Group (+6.59%), CFS Retail Property Trust (+5.67%), Cromwell Group (4.93%), Carindale Property Units (4.38%), and Bunnings Warehouse Property Trust (+3.01%). The top five underweights included Westfield Group (-17.90%), Stockland Group (-9.46%), Goodman Group (-5.62%), GPT Group (-3.92%), and Mirvac Group (-2.32%).

Breakdown of Attribution (%) (at Oct. 31, 2010)

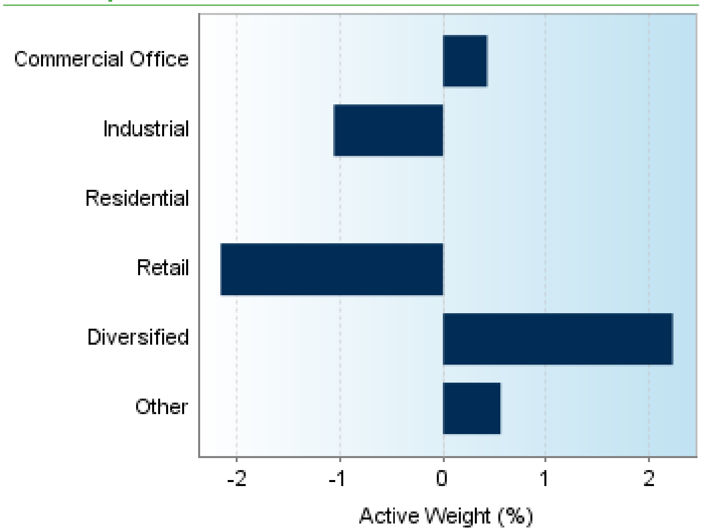
	1 Year %	3 Years %
Regional/Country Allocation	-	-
Stock Selection	8.81	-
Cash	0.11	-
Other	-	-
Total	8.92	-

Source: APN Funds Management Ltd..

Regional Exposure Versus Fund Benchmark (at Oct. 31, 2010)

Source: APN Funds Management Ltd..

Sector Exposure Versus Fund Benchmark (at Oct. 31, 2009)



Source: APN Funds Management Ltd..

Management Group Profile

APN Property Group is a specialist real estate investment manager listed on the ASX. The head office is in Melbourne and there are offices in Singapore and London. APN Group has 71 employees across these three offices. Managing director, David Blight, was appointed in 2008.

APN is a wholly owned subsidiary of the listed APN Property Group. The APN board was recently restructured to have a majority of independent members in line with best corporate practice.

As a specialist property investment manager, APN has 17 property-related funds, including domestic and international, listed- and direct-property funds. The Property for Income Fund and the Property for Income Fund #2 closed to redemptions in October 2008 after the repricing of the listed property market caused the unlisted property allocations to increase to such a level that the funds became "illiquid". They have recently been through a limited liquidity offer and have reopened to applications through a supplementary product disclosure statement.

Funds Under Management

As of Oct. 31, 2010, APN had A$2.5 billion of FUM. This includes three domestic listed-property securities funds, an international property fund, diversified property fund, and direct property funds. European funds account for the majority (A$0.954 billion), although this has fallen significantly over the past year. Real estate securities funds represent approximately A$938 million, having risen by about A$35 million. This fund was established in January 2009 and had approximately A$24 million of FUM at Oct. 31, 2009. A number of funds are currently closed, including the APN Diversified Property Fund and APNI International Property For Income Fund.

Funds Under Management Table (at Oct. 31, 0010)

Current pool size ($)	85 million
Total FUM in strategy ($)	85 million
Total FUM across all asset classes ($)	2,500 million
Net strategy flows over past 12 months ($)	68 million

Source: APN Funds Management Ltd..

S&P FUND RATING ★★★★☆

APN AREIT

STANDARD & POOR'S

Fund Rating Philosophy

A star rating is a forward looking assessment of a manager's ability to consistently generate risk-adjusted returns (net of fees) in excess of both its relevant investment objectives and its peers.

Fund Rating Process

In assigning a star rating to a fund, Standard & Poor's evaluates: the size, skill, and stability of the manager's investment team; the clarity, implementation, and risk management of the investment process; the fund's objectives, fee structure and portfolio characteristics; and the manager's business management.

Fund Rating Definitions

S&P FUND RATING ★★★★★	Standard & Poor's has very high conviction that the manager will consistently generate risk-adjusted fund returns in excess of its relevant investment objectives and relative to its peers.
S&P FUND RATING ★★★★☆	Standard & Poor's has high conviction that the manager will consistently generate risk-adjusted fund returns in excess of its relevant investment objectives and relative to its peers.
S&P FUND RATING ★★★☆☆	Standard & Poor's has conviction that the manager will generate risk-adjusted fund returns in-line with its relevant investment objectives and relative to its peers.
S&P FUND RATING ★★☆☆☆	Standard & Poor's has conviction that the manager will not generate risk-adjusted fund returns in-line with its relevant investment objectives and relative to its peers.
S&P FUND RATING ★☆☆☆☆	Standard & Poor's has high conviction that the manager will not generate risk-adjusted fund returns in-line with its relevant investment objectives and relative to its peers.
S&P FUND RATING ON HOLD	Issues that may affect the fund's management have emerged; and the fund rating is temporarily suspended, pending clarification.
S&P FUND RATING SELL	Significant issues exist that potentially will adversely affect the fund's performance. Investors should consider obtaining advice on switching or redeeming funds.
NEW	**Fund Rating Subscript**—here the investment process, fund manager, or the fund has a relatively short history, or the analytical team has changed significantly, but a relevant and demonstrable track record is shown on similar funds.

Glossary of Terms

Benchmark	The standard (e.g. an index) by which an investment is measured against to evaluate performance.
Excess Return	Return of an investment relative to its benchmark.
FUM	Funds Under Management - The total value of the funds managed by an asset management firm.
High Water Mark	The highest net asset value (NAV) of a fund achieved to date. If the NAV of a fund falls below this level, no performance fee will be payable to the investment manager until this level is subsequently exceeded.
Hurdle Rate	A minimum rate of return that a fund must achieve before a performance fee can be charged. This can be the benchmark or the benchmark plus an additional fixed rate.
Performance Fees	A fee payable in excess of the ongoing management fee. There is often a hurdle rate and/or high watermark that must be reached before this fee is payable.
ICR-Indirect Cost Ratio	This is a ratio of indirect costs to the total investment in a particular fund expressed as a percentage. It includes the MER, expense recoveries, performance fees and other costs associated with running the fund.
Information Ratio	Is a measure of the relative reward for the relative risk taken (excess returns of an investment (above the benchmark) divided by the tracking error). A positive information ratio would indicate efficient use of risk by the manager.
MER-Management Expense Ratio	This ratio is a calculation of investment management, marketing, trusteeship, legal, accounting and auditing costs of a managed investment fund expressed as a percentage of a fund's net asset value. It is the ongoing charges for managing a fund.
Peer Group Return	The average return of the funds in the relevant S&P peer group.
Sharpe Ratio	Is a measure of risk-adjusted performance, measuring the absolute reward for the absolute risk taken (return of the investment less the risk-free rate (e.g. bank bills) divided by the standard deviation). The higher the Sharpe ratio the greater the efficiency produced by the manager.
Standard Deviation	Measure of the variability or volatility of the monthly returns of the fund.
Tracking Error	How closely a portfolio follows or "tracks" an index to which it is benchmarked. (the standard deviation of monthly excess returns against the benchmark).
Ex Ante Trading Error	Predicted or forecast of tracking error.
Ex Post Trading Error	Historical or actual tracking error.