United FUNDS MANAGEMENT

United Sector Leaders Australian Property Fund – Manager Profile

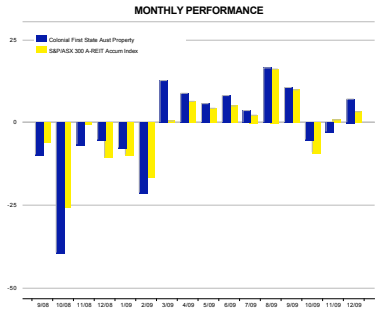
Colonial First State

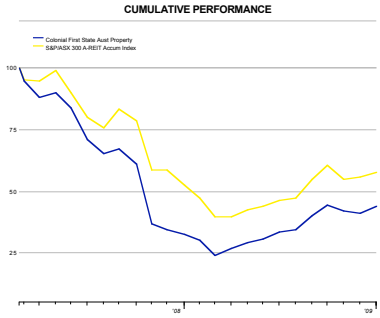
Property Securities

December 2009

Colonial First State

At a glance
Date of appointment: February 2008
Parent company: Commonwealth Bank of Australia
Style: Fundamental
Funds allocated to manager: AUD $26.3m as at 30 December 2009





Company overview

Colonial First State Global Asset Management is the consolidated asset management division of the Commonwealth Bank of Australia Group. As one of Australia's largest asset managers, Colonial First State Global Asset Management employs more than 200 investment professionals located in Sydney, London, New York, Auckland, Edinburgh, Singapore, Hong Kong and Jakarta. The business is also represented in Beijing and Shenzen through the First State Cinda Fund Management joint venture.

Investment Style

The Fund seeks to achieve medium-to-long term growth by investing predominately in small to mid cap securities and listed property trusts. The Fund also aims to outperform the S&P/ASX Property Accumulation 300 Index over a rolling three year period.

Stock selection and portfolio construction

Colonial First State's investment process can broadly be divided into four phases. They are:

1. **Initial research**

   The investment process combines macro-economic research with detailed bottom-up research. The macro-economic research focuses the bottom-up research effort on sub-sectors of the property market that are benefiting or set to benefit from strong fundamentals.

2. **Stock selection**

   Bottom-up research is then undertaken on securities that meet the manager's risk controls. The process assesses the present value of future cash flows based on detailed individual stock modelling. The manager models the underlying assets and the cash the securities are expected to produce over a five year time period. This is discounted by the Capital Asset Pricing Model (CAPM) discount rate.

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This is then capitalised using a terminal growth rate that reverts to mean GDP growth over a period. The NPV is then compared with the existing price to derive the excess return (alpha). This enables the manager to rank the stocks quantitatively. However the interactive nature of the process may still reveal qualitative or other valuation metrics that can qualify the alpha rating. The manager then proceeds to a relative valuation assessment, comparing the security's alpha with those of its peers.

3. **Portfolio construction**

   This relative valuation assessment provides the basis for the manager's buy/sell decisions and the portfolio weightings. Colonial First State's process builds portfolios only from those securities that meet the manager's strict investment criteria.

4. **Portfolio review**

   All portfolios are actively reviewed to ensure compliance with the funds investment policy. Should exposure to an allocated group breach the investment policy then this is rectified within 24 hours unless market conditions dictate otherwise.

Disclaimer

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