

| About this Review | | |
|--|---|-------------------------|
| Sector Reviewed | Australian Fixed Interest | |
| Total Funds rated | 6 | |
| Date of this Sector Review | March 2009 | |
| About this Fund | | |
| Fund reviewed | Australian Unity Vianova Strategic Fixed Interest Trust – Wholesale Units | |
| Fund Size (\$ million) (December 2008) | 186.3 | |
| Responsible Entity | Australian Unity Funds Management Ltd | |
| Fund Commenced | October 2005 | |
| Retail Fee (p.a.) | 1.20 | |
| Wholesale Fee (p.a.) | 0.70 | |
| Distributions | Quarterly | |
| Structure Availability | Retail, Wholesale, Platforms | |
| About the Fund Manager | | |
| Fund Manager | Vianova Asset Management Ltd | |
| Ownership | 50% owned by key executives of Vianova Asset Management, 50% owned by Australian Unity Funds Management Ltd | |
| Assets managed this sector (\$ million) (December 2008) | 696 | |
| Years managing this asset class | 4 years | |
| Investment Team I | | |
| Team Size dedicated to this Fund | 4 | |
| Portfolio Manager | 2 | |
| Default/Team Size Ratio (2 years to December 2008) | 0% | |
| Investment Process | | |
| Targeted Value Add (% p.a.) | 1.2 (above the UBS Composite Bond Index, after fees, over 3 years) | |
| Targeted Tracking Error (% p.a.) | N/A | |
| Duration Risk Limit | -0.75 to 6.0 years | |
| Minimum Credit Quality | Using S&P methodology, the fund must be rated A-. Individual security minimum rating is BBB- | |
| Portfolio Allocation as at 31 January 2009 | | |
| | Fund | Lonsec Sector Benchmark |
| Sovereign ^ | 12% | 21% |
| Semi & Supra | 0% | 52% |
| Corporate Investment Grade (IG) Credit | 31% | 24% |
| Corporate Sub-IG Credit | 0% | 0% |
| Structured Credit** | 0% | 3% |
| Other * | 57% | 0.5% |
| Modified Duration (years) | 0.91 | 3.3 |
| Average Credit Quality | AAA | AA |
| Ratings History | | |
| March 2009 | Recommended | |
| December 2007, February 2007 | Recommended | |
| ^ Sovereign bonds, I/R Futures and Swaps and Government guaranteed bank debt | | |
| * Cash and Term Deposits | | |
| ** E.g. MBS, ABS | | |

What this Rating Means

The Recommended rating indicates that Lonsec has conviction that the fund or product can achieve its objectives and, if applicable, outperform peers over an appropriate investment timeframe. The manager or product has a number of competitive advantages in people, process and product design. The investment is a recommended entry point to access this asset class or strategy.

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

➤ Australian Fixed Interest funds have been designed to offer exposure to the Australian debt markets. Funds such as these can provide sound diversification attributes when combined with 'growth' assets (e.g. equities) as part of a diversified portfolio. The level of default risk and credit quality of any Australian Fixed Interest fund is dependent on the mix and quality of the underlying assets.

➤ Australian Fixed Interest funds, however, have limited application as 'income' products in their own right as income payments can vary with each distribution and capital values can fluctuate over time as interest rates and credit conditions change. This Fund invests across government and non-government debt markets. The Fund can have a material exposure to 'credit' assets of up to 100%.

➤ Lonsec classifies the Fund as an Australian Fixed Interest fund and believes that it will generally sit within the defensive assets component of a balanced portfolio. Lonsec considers the Fund suitable as the core fixed interest investment in a balanced portfolio for Defensive, Conservative, Balanced and Growth risk profile investors (as defined in the Lonsec Risk Profile Review) with a 3+ year time investment time horizon.

Changes since Previous Lonsec Review

➤ Andrew McLachlan joined Vianova as a Credit Strategist in August 2008.

Lonsec Opinion of this Fund

Philosophy/Style

➤ Vianova is an absolute return focused, benchmark agnostic, active fixed interest manager with a focus on capital preservation. This is in contrast with the majority of managers in this sector who use the UBS Composite Bond Index as a starting point for portfolio construction. For example, in regard to duration strategy, most managers set duration positions within a band of +/- 2 years around the benchmark duration (approximately 3.5 years). In this Fund, the manager may set a duration position between -0.75 years and 6 years with no reference to the benchmark duration.

Lonsec considers this a positive feature in providing a wider opportunity set for the manager to add value, or where necessary, act to preserve capital. Vianova aims to generate a substantially higher outperformance objective than Lonsec rated peers (1.20% versus 0.60%).

➤ Lonsec also considers the strong focus on capital preservation to be an attractive feature in a defensive asset class, although noting that the Fund can have significant positions versus the benchmark. Lonsec notes that such a wide mandate places a great degree of trust and faith is placed on manager's ability to identify the themes and manage the portfolio.

People & Resources

➤ Vianova's investment team is relatively small in size compared to many of its Lonsec rated peers. However, Lonsec considers the investment team at Vianova to be highly experienced. The team, under the stewardship of Michael Schneider and Michael Swan, has an average of 17 years investment experience. In addition, the Vianova Advisory Committee supplements and adds a level of rigour to the economic research performed by the team. In Lonsec's opinion, both Michael Schneider (Chief Investment Officer) and Michael Swan (Senior Portfolio Manager) are highly experienced, quality investment professionals.

➤ Lonsec positively views the appointment of Andrew McLachlan, previously from Perennial, to the team and believes this should enhance the previously below average credit resourcing at Vianova relative to other fixed interest managers within Lonsec rated universe. Lonsec has high regard for McLachlan and believes he is an impressive investment professional.

➤ Lonsec additionally believes a key strength and competitive advantage for Vianova is the quality of the members of the Vianova Advisory Committee (VAC).

➤ Lonsec notes that the team has been very stable with no departures since its inception in 2005. Moreover, despite the extremely difficult conditions in investment markets, particularly during 2008, Vianova grew the small investment team by 25% (or one professional) over the year to January 2009, which Lonsec views positively.

➤ Lonsec notes the boutique structure mitigates key person risk by allowing all key investment personnel to earn equity in their business. Lonsec believes this has contributed to the stability of the team.

Research Approach

➤ Lonsec notes Vianova's thematic views are based on internal and external research and from assessments of key technical indicators (economic), both domestic and global. Lonsec believes this to be consistent with Vianova's investment process which is primarily concerned with top-down decision making.

➤ Lonsec considers the qualitative and quantitative factors considered by Vianova in its thematic research process to be wide ranging and systematically applied, e.g. economic leading indicators. Lonsec notes that Schneider is the key driver of the research process.

➤ Lonsec believes that Vianova's current alliance with Newton Asset Management (Newton), a US-based fixed income manager, should on paper improve its capabilities in fixed interest on both a domestic and particularly a global level and enhances the managers overall "intellectual footprint". Lonsec, however, has not evidenced much interaction between Vianova and Newton in the management of this Fund.

Portfolio Construction

➤ The portfolio construction is driven, among other things, by the level of mispricing as identified by Vianova, which in turn, determines the level of active interest rate positions. Lonsec considers the investment professionals background to be well suited to this top-down or macro style investing.

➤ Vianova uses a team based portfolio construction process. Lonsec generally believes that committee or group decision making structures are less than ideal given the tendency to diminish accountability and lengthen the duration of the decision making process. However, Lonsec notes that Vianova focuses on making the most informed macro decisions possible. Lonsec believes that the team based approach, given the team size and breath of universe covered, is well suited to this goal.

➤ Whilst there is use of an internal model, Lonsec notes that the outcomes of Vianova's process are largely intuitive, drawing predominantly upon the experience and judgement of its investment team. Lonsec notes that greater reliance on 'art' versus 'science' in portfolio construction can diminish consistency and repeatability in an investment process, making it particularly more dependent on the investment team.

Risk Management

➤ Lonsec believes that Vianova's attention to risk management is more absolute in nature (e.g. Capital preservation) when compared to other typical managers who manage in a benchmark aware fashion. As judged from the investment process and discussions with members of the Vianova investment team, there appears to be a strong culture of risk awareness, although with wide limits. Lonsec notes that this is not inconsistent with benchmark unaware style managements.

➤ Vianova employs proprietary portfolio management system which is used by the investment team and maintained by a dedicated sub-team. Lonsec believes that continued maintenance and evolution of the systems is important within an investment framework and is supportive of Vianova's efforts in this regard.

Performance

➤ Lonsec notes that the Fund underperformed the Lonsec sector benchmark over one, two and three to January 2009. However, the Fund outperformed Lonsec peer group over the same time periods to January 2009. The Fund returned 12.4% over 1 year to January 2009, a modest allocation to credit and high aggregate credit quality were a positive contributor to performance as credit spreads widened. The Fund's lower than index duration detracted value as yields fell significantly over the quarter to January 2009.

➤ Lonsec notes the standard deviation of the Fund is the lowest among Lonsec rated universe. The Fund’s standard deviation is 2.3% versus 3.6% (benchmark) over one year to January 2009 and 1.8% versus 2.8% (benchmark) over three years to January 2009. Notwithstanding, it is important to note that capital volatility measures (such as standard deviation of returns) and standard risk metrics (such as Sharpe Ratio) do not reflect the actual credit risk of the underlying securities in the portfolio. In credit risk terms, Lonsec notes the weighted average credit rating of the Fund was AAA compared to AA for the benchmark at January 2009.

Overall

➤ Lonsec has retained the Fund’s rating during this review cycle to ‘Recommended’. The investment process has not changed substantially since the last Lonsec review. Overall, Lonsec considers the investment process to be comprehensive. In Lonsec’s opinion, Vianova’s relatively unique thematic approach to managing fixed income assets is a positive differentiating feature for the Fund. Notwithstanding, Lonsec notes the manager has, to date, not met its FUM target – particularly important for a fixed income manager.

People & Resources

The AUI Vianova Strategic Fixed Interest Trust is managed by Vianova Asset Management (Vianova). Established in October 2005, Vianova is a boutique fixed interest manager owned 50% by Vianova staff and 50% by Australian Unity (AU). Funds under management as at December 2008 was \$186.3 million.

Size and Experience

The Vianova investment team is comprised of four members being Michael Schneider, Michael Swan, Gareth Apsey and Andrew McLachlan with average industry experience of 17 years.

| Team Member | Responsibility | Experience (Years) | |
|-------------------|--|---------------------|---------|
| | | Investment Industry | Vianova |
| Michael Schneider | Investment Strategy & Portfolio Management | 22 | 4 |
| Michael Swan | Portfolio Management and Investment Strategy | 18 | 4 |
| Gareth Apsey | Portfolio Management and Investment Strategy | 11 | 4 |
| Andrew McLachlan | Investment Strategy (Credit) | 20 | <1 |

Michael Schneider is the Chief Investment officer for Vianova Asset Management. Schneider has over 22 years of experience, gained in a variety of roles including Head of Fixed Interest at Swiss Re Australia, Head of Asset/Liability Management at National Australia Bank and fixed interest and equity roles at JB Were. Whilst at Swiss Re Australia,

Schneider was responsible for managing the Australian fixed interest portfolio with \$2 billion of funds under management.

Michael Swan is the Senior Portfolio Manager and is responsible for managing the Australian Unity Strategic Fixed Interest Trust. Swan has over 18 years of experience in fixed interest gained at a number of reputable institutions including Commonwealth Funds Management and UBS Brinson. Swan was previously a portfolio manager for Australian fixed interest at Perennial Investment Partners.

The Vianova team are responsible for investment strategy and credit analysis. The team is supported by the Vianova Advisory Committee (VAC) consisting of Professor Robert Officer, Ian Ferres, Donald Mack, David Bryant, Kirsty Dullahide, Adam Coughlan and a guest speaker by invitation. Robert Officer is a Professor of the University of Melbourne, ex chairman of the VFMC board and noted academic. Vianova meet formally with the VAC on a monthly basis and utilise the committee as a sounding board for macroeconomic investment themes and strategies.

Vianova is supported by AU’s infrastructure, marketing and distribution which are a positive, given that the investment team can focus their time solely on investment management.

Team Structure

The Portfolio Management team is centrally located in Melbourne and report directly to Chief Investment Officer (CIO) on all investment matters.

Business operations and compliance reporting is through the Managing Director (Bryan Madden) to the Board.

There are no overseas investment management offices or staff.

Remuneration / Alignment of Interests

Staff receive a fixed base salary in addition to a short term bonus based on profitability. Staff are also able to participate in dividend payments in proportion to their respective equity ownership. As previously mentioned, all key investment personnel own equity within the business and this directly links the remuneration of key individuals to the success of the business.

Investment Style

Vianova is a multi-strategy, thematic investment manager that analyses value in absolute rather than relative terms. The starting point is identifying structural interest rate themes. These themes “cascade down” through Vianova’s investment process, resulting in the identification of security sector and class pricing inefficiencies. After identifying undervalued sectors and classes, a “bottom-up” stock selection process is then applied.

This approach seeks mis-pricing opportunities that emerge in all interest rate markets, including Government, Semi-government, corporate and short-term money market. These opportunities are reflected in duration, yield curve positioning and credit exposure.

Vianova’s focus is on taking strategic positions over a medium term horizon and seeking out additional risk-adjusted return using a “best ideas” approach to analyse

asset markets, (rather than trying to look for bets relative to a benchmark).

The Fund is managed with the aim of beating the UBS Composite Bond Index by 1.2% (net fees) over a rolling 3 year period and to provide no negative returns in any given year.

Research Approach

Initially, research and analysis of global economic trends from a range of international resources is undertaken. This is followed by horizon analysis which identifies the potential impact of getting a specific theme wrong.

These thematic views are developed and discussed by the members of the investment team at their weekly meeting and the portfolio implications are critiqued and reviewed at the monthly VAC meeting.

An example of a theme and its portfolio implications could be that of aggressive reflationary policies of western central banks resulting in medium term structural interest rate pressures.

Vianova’s credit process utilises the overarching thematic view to form a ‘recommended securities list’ from which further credit analysis is completed. The analysis includes Porter style analysis, a qualitative and quantitative assessment and a key value and risk driver assessment. Following relative value analysis the investment team proceed to conduct bottom up security selection. All team members are involved in the credit research.

Vianova has alliance with Newton Asset Management (Newton) a US-based fixed income manager. Newton’s credit research capability support Vianova with its top-down thematic screening.

Portfolio Construction

Vianova aims to add value from a balance of duration, yield curve, sector rotation and stock selection using a thematic top down approach. These thematic views will ultimately influence the return “mix” of duration, yield curve and corporate credit.

The investment team analyse the themes and structural interest rates trends to identify mispricing which in turn, determines the level of active interest rate positions. Schneider as CIO is responsible for setting the interest rate strategy in consultation with the investment team. The duration position, once identified, is allocated along the yield curve based on the level of perceived mispricing at each part of the curve.

Credit exposure is determined initially by thematic “top-down” analysis and security selection by “bottom-up” analysis. Vianova limits the credit universe to investment grade securities (BBB-).

Implementation responsibility is shared between the team to ensure the investment strategy is reflected in the structure of the portfolio. This is augmented by the fact that in a small team, Portfolio Management staff is responsible for the security research and have close daily interaction.

Vianova use an internally developed model as the template for portfolio construction. The model monitors the yield curve risk by term, modified duration, convexity and sector exposures of the portfolio on a market value basis and on a contribution to duration basis. Further, the model facilitates risk analysis on the portfolio. For example scenario analysis, value-at-risk calculations and yield curve risk isolation.

Accountability

The accountability associated with the construction of the portfolio is shared between the Portfolio Managers Michael Swan and Gareth Apsey.

Risk Management

Hard limits are applied in the construction of the portfolio as a risk management tool.

| | Limit |
|--|--|
| Minimum credit rating of any one issuer | BBB- (Long term) |
| | A3 (Short term) |
| Maximum portfolio weight to one obligor | 100% at Government guaranteed exposure |
| | AAA and AAA - |
| | 10% Non –Bank |
| | 40% Bank* |
| | AA+ to AA- |
| | 8% Non - Bank |
| Maximum portfolio exposure to corporate debt | 40% Bank* |
| | A+ to A- |
| | 6% Non-Bank |
| Maximum portfolio exposure to corporate debt | 20% Bank* |
| | BBB+ to BBB - |
| | 4% Non-Bank |
| Maximum portfolio exposure to corporate debt | 0% Bank* |
| | 100% |

* Cash deposits and bank accepted discount securities with a term of < 1 year.

The allowable duration range of the portfolio is between - 0.75 years to 6 years. Vianova can possibly hold 100% non government debt in the portfolio provided the average credit rating of the portfolio is no lower than A-.

At the security level, the maximum exposure is corporate debt issuers is 5% of the portfolio for AAA rated issuers, while the limit for BBB- issuers is 1% of the portfolio.

Derivative exposures are measured on an effective exposure basis. The use of derivatives is constrained by the duration range. The CIO is responsible for managing the derivative strategies.

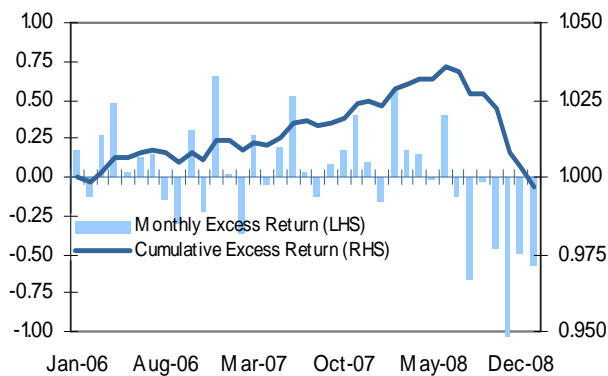
| Quantitative Performance Analysis | | | | | | | | |
|--|-------------|------------|-------------|------------|-------------|------------|---------|------------|
| Annualised after-fee % returns as at 31 January 2009 | | | | | | | | |
| | 1 Year | | 2 Years | | 3 Years | | 5 Years | |
| | Fund | Peer Group | Fund | Peer Group | Fund | Peer Group | Fund | Peer Group |
| Performance (% pa) | 12.4 | 12.2 | 8.8 | 7.8 | 7.4 | 6.3 | - | - |
| Standard Deviation (% pa) | 2.3 | 3.6 | 2.1 | 3.1 | 1.8 | 2.8 | - | - |
| Excess Return (% pa) | -2.8 | -2.9 | -0.8 | -1.8 | -0.1 | -1.2 | - | - |
| Outperformance Ratio (%) | 33.3 | 37.5 | 50.0 | 34.7 | 55.6 | 36.1 | - | - |
| Worst Drawdown (%) | -0.1 | -0.9 | -0.1 | -1.0 | -0.1 | -1.0 | - | - |
| Time to Recovery (mths) | 1.0 | 1.3 | 1.0 | 1.3 | 1.0 | 1.3 | - | - |
| Sharpe Ratio | 2.2 | 1.4 | 0.8 | 0.2 | 0.4 | -0.2 | - | - |
| Information Ratio | -1.5 | -1.8 | -0.5 | -1.4 | 0.0 | -1.1 | - | - |
| Tracking Error (% pa) | 1.9 | 1.4 | 1.5 | 1.2 | 1.4 | 1.0 | - | - |

Fund: Australian Unity Strategic Fixed Interest Fund

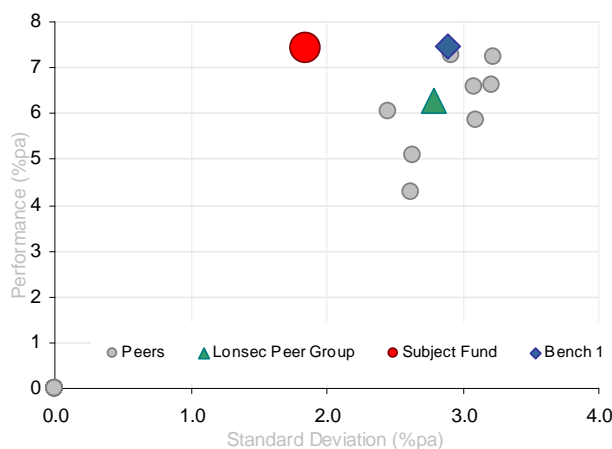
Peer Group: Average among Lonsec-rated Australian Fixed Interest manager universe

Lonsec Sector Benchmark: UBS Australian Composite Bond Index

Cumulative Performance over Three Years



Risk-Return Chart over three years



Glossary

| | |
|-----------------------|--|
| Absolute Return | Top line' actual return, after fees |
| Excess Return (Alpha) | Return in excess of the benchmark return |
| Standard Deviation | Volatility of monthly Absolute Returns |
| Sharpe Ratio | Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation) |
| Tracking Error | Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns) |
| Time to Recovery | The number of months taken to recover the Worst Drawdown |
| Worst Drawdown | The worst cumulative loss ('peak to trough') experienced over the period assessed |
| Information Ratio | Relative reward for relative risk taken (Excess Returns / Tracking Error) |

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Date Prepared: March 2009

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Release Authorised by: Michael Elsworth

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