

Analyst(s): Rodney Lay, Jason Patton

Standard & Poor's View

Standard & Poor's Fund Services has assigned the HUB24 Portfolio Service offering an overall SMA Platform rating of 'STRONG'. This rating reflects the benefits of a strong product and service offering, timely execution of portfolio managers' investment decisions, cost effective management of trades, and a technology platform that is convenient for advisers and portfolio managers.

HUB24 Pty Ltd. launched the HUB24 service in early 2010. Over the course of the past 12 months, the manager has focused on building the menu of separately managed account (SMA) model portfolios and other asset class products. Having now established an extensive product and service offering, advisers have the ability to use the platform as their main or sole investment implementation application.

The service is convenient and simple to use for advisers and portfolio managers. Additionally, the service provides direct data feeds (EPI 4.0) into the largest adviser software applications.

We believe the risk that the service will be discontinued at some future point is extremely remote based on the manager's financial position, the strategic importance of HUB24 to the growth prospects of the listed entity that owns HUB24, and solid client prospects based on the strength of the service offering.

Investor Suitability

- The service is designed for investors seeking the benefits of an SMA model portfolio, including transparency, tax efficiency, low costs, and empowerment.
- It caters to investors seeking a platform that provides significant choice of SMA model portfolios and efficient implementation.

Key Strengths

- Cost effective management of trades, both in relation to brokerage rates (5.5 bps) and the minimisation of market impact price risks.
- Investment decisions are implemented on a same-day or next-day basis, greatly mitigating a number of SMA-specific risks.
- The platform's online tools are convenient for both advisers and portfolio managers.
- The SMA product range is large, with 25 investment managers and 57 SMA model portfolios. The platform also provides access a broader asset-class menu, including managed funds, exchange traded funds (ETFs), and direct equities.
- Internally developed IT systems that, among other things, enable the manager to respond to client requests for additional functionality.
- The management team has a strong pedigree and a proven track record in the development of financial planning software.
- Model portfolio managers are empowered to easily manage and maintain their portfolios through an online "work bench".
- Reporting of performance differentials between a model portfolio and unit trust version (where one exists) provides advisers valuable transparency regarding the efficiency of the model portfolio.

Key Weaknesses

- While in line with the manager's expectations, the level of funds under management (FUM) is currently low and there is a material cash burn rate. However, S&P believes that HUB24's parent Investorfirst Ltd. (INQ) is in a solid position financially to continue to support the service should the cash burn rate persist for significantly longer than forecast.

Risks

- While platforms are legally separated from the platform provider, a discontinuation of the service would create significant inconvenience for advisers and investors. Specific to HUB24, we believe the likelihood of such an event is very low given the strength of the service offering and financial support.
- The risk that low fund flows into various SMA model portfolios may lead to some portfolio managers withdrawing their model portfolios from the platform.

Platform Name:	HUB24 Portfolio Services	Model Portfolio Options:	57 model portfolios
Platform Operator:	HUB24 Services Pty Ltd.	Minimum Investment (A\$):	\$10,000
Responsible Entity:	Not applicable	Regular Investment :	\$100
Custodian:	HSBC Bank Australia Ltd.	Liquidity:	Daily
Inception Date:	February, 2010	Release Authorised by:	Leanne Milton

Platform Overview

HUB24 Pty Ltd. is a Sydney-based business that was founded in July 2007 with the main objective of designing and building an administration platform with a key focus on SMAs.

HUB24 went live in February 2010. Over the past 12 months, the manager has focused on building the product and service offering of the platform. It currently has 10 dealer/adviser groups as clients, with a relatively low level of funds under management.

The founders of HUB24, Darren Pettiona, Ian Lister, and Suwandi Tan, have a proven track record in financial adviser software applications, having previously been involved in the development of several leading applications in the segment.

Business Strategy And Financial Position

→ Business Profile

In November 2010, Investorfirst Ltd. acquired HUB24. Investorfirst is an ASX listed stockbroking (retail and wholesale) and corporate advisory firm. It has 35 employees with offices located in Sydney and Melbourne.

The rationale for the acquisition was the need to recapitalise HUB24 following the completion and launch of the platform. The recapitalisation was necessary to financially support HUB24 while it continued to record operating losses as well as provide prospective users confidence in the sustainability and ongoing development of the platform.

INQ was seen as a good fit by the manager. Its internal broking operation provided HUB24 control over an important cost component of an SMA platform. Additionally, the management teams were well acquainted.

In November 2010, the combined entity raised A\$12.5 million through a private placement, bringing INQ's cash position to A\$22 million. The capital raising was supported by a number of prominent Australian investors and members of management.

→ Business Strategy

HUB24's objective is to ultimately provide access to a comprehensive range of commonly used asset classes and investment vehicles. In doing so, advisers will have the ability to use the platform as their main, or sole investment implementation application.

The manager intends to provide access to a broad range of unithised (managed funds) and non-unithised (SMAs) investment vehicles, as well as direct equities, derivatives, ETFs, and margin lending facilities. A key component of this is to continue to expand the breadth of SMA investment options.

The manager is well advanced in this regard. HUB24 provides access to 57 SMA portfolios (the largest range in the domestic market), 600 managed funds, direct equities, margin lending facilities, and shortly will offer derivatives.

The manager's strategy to grow its client base is to provide a low-cost and efficient offering, comprehensive functionality and reporting, while being highly responsive to client needs.

HUB24's internally developed technology is integral to achieving its objective. By developing a system based on its own source code combined with a large in-house IT department, it is in position to be responsive to the needs of its clients.

→ Financial Position

HUB24 is a start-up business with budgeted losses over the next two years. INQ's financial position is adequate, with cash reserves of A\$22 million. This capital remains available for combined business growth. However, with the broking division marginally profitable, the cash position should be more than sufficient to support HUB24 until it achieves a cash flow positive position.

HUB24's expected cash burn over 2011 is approximately A\$2 million, primarily due to budgeted development costs of A\$2.2 million. This is fully funded. In a worst-case scenario where HUB24 fails to materially grow FUM and continues to record a A\$2 million cash burn, INQ's cash position equates to around 10 years of life. Management believes it has a strong ability to again tap private investors in the unlikely event that further capital is required.

In terms of financial outlook, the manager estimates cash flow breakeven will be achieved with a FUM based of A\$1.5 billion. Management's target is to reach this level of FUM in approximately two years. Critical to achieving this goal is transitioning a portion of the A\$10 billion in FUM of HUB24's existing adviser/dealer group clients.

S&P regards the platform provider's financial position is of fundamental importance to its ability to continue to effectively operate an SMA platform. While platforms are legally separated from the platform provider, either through a trust structure or custodial arrangement, financial difficulties faced by the provider could damage the ability to provide those services. If the provider is placed into administration or liquidation and the management of the platform is passed to another provider, investors in that platform will almost certainly suffer some degree of inconvenience.

→ Management Quality

We view the management team as highly experienced. Key members of management have a proven track record in the financial platform and software administration fields and have worked together for approximately 10 years.

Mr. Pettiona is managing director of INQ. His professional background includes a law degree and membership of the Australian Institute of Company Directors. He has over 15 years of experience as a founding shareholder and executive director building various financial services businesses. Most notable of these have been Online Broker Holdings (Charles Schwab Australia) purchased by eCorp Ltd. in 1998, Portfolio Management Systems purchased by Advent Software Inc. in 1998, and Coin Software Ltd. acquired by Macquarie Bank in 2005.

Mr. Lister is a director, and has over 10 years of experience in designing and developing software for the financial services industries, particularly in the area of financial planning. Mr. Lister has been the founder of the companies behind the VisiPlan and Coin financial adviser software packages His main area of expertise is the management of information technology organisations and software development.

Mr. Tan is a director with over 10 years of experience in software development and technology, particularly for the financial planning industry. He has been the founder of the company behind Coin software packages. For most of this time, Mr. Tan has led teams of project managers, business analysts, and system developers in the implementation and management of information technology solutions designed to meet the needs of financial planners.

Operational And IT Capability

To our knowledge, the HUB24 platform is the only SMA application that has been entirely developed in-house. It has been designed with the objective of being efficient, convenient, scalable, and providing clients sufficient information and functionality. It also enables HUB24 to be responsive to client requests in relation to functionality and reporting.

→ Trading

The trading process affects the degree of transactional slippage that is an inherent risk and source of inefficiency in many SMA model portfolios. For example, relatively high brokerage costs and a delay in the execution of the portfolio manager's investment decision generate two performance risks in the case where a model portfolio mirrors a unit trust—relative underperformance risk and portfolio variation risk (tracking error risk).

HUB24 controls trade execution through the broking arm of INQ. Trading by the platform operator, rather than by portfolio manager itself, has the potential to be problematic. Whether it is or not depends on the timeliness in which the portfolio manager conveys trading information to the SMA platform provider.

If trading information is conveyed daily or on a same-day basis, the potential risks are largely eliminated. However, if there is a delay, with trading information being conveyed anything up to a week or more subsequent to the actual trade being implemented in the unit trust version, then issues of front running and performance differentials arise.

HUB24 requires portfolio managers to communicate investment decisions on a same-day basis. It seeks to facilitate adherence through functionality that is convenient and simple to use.

HUB24 operates under a one holder identification number (HIN) structure. This facilitates a reduction in transaction costs by enabling HUB24 to net off trades, both within accounts and between accounts. As transaction costs are proportional to the net trade value (i.e. the resulting trade after all netting offs have been taken into consideration) and then spread across all trades, the overall percentage cost per trade is reduced.

While the real benefits of netting will only eventuate with FUM scale, the structure is nevertheless in place and the benefits will come to realisation as that scale grows.

To enable netting, trades are executed based on volume weighted average price (VWAP) pricing normally adjusted between 11.00 a.m.–4.00 p.m. VWAP pricing may lead to some performance difference between the SMA portfolio and the unit trust version (where one exists), and more so in small market capitalisation investment mandates. However, we believe this risk is more than offset by the potential brokerage cost savings that may flow from the netting process.

Adjusted VWAP is used to remove the detrimental price impact of opening and closing market activity. For model portfolio stocks that have limited liquidity, HUB24's administration team in conjunction with the portfolio manager is able to manage trades so as to minimise market impact risks.

Average brokerage rates are highly competitive at 5.5 bps (lower where netting occurs). This is significantly lower than the levels some fund managers are charged on their unitised mandates.

→ PM Interface

The timeliness in which investment decisions are communicated to the platform is important, as a material delay may generate relative

performance and tracking error risk (where the model portfolio mirrors a unit trust).

We regard HUB24's method as best practice in relation to its requirements on the timeliness of trading updates and the process by which the manager ensures that agreed terms are being kept.

Portfolio managers are contractually required to communicate investment decisions on a same-day basis or by 10:30a.m. on the following day.

Adherence is monitored through the "Non-Unitised Portfolio (NUP) Performance Comparison" table that compares performance of the unitised and the SMA model portfolio versions.

Where material performance differences arise, the portfolio managers are asked to reconcile. If the difference arises from a lack of timeliness, HUB24 will undertake to address the issue with the portfolio manager. Performance comparison reports, and any explanation from portfolio managers as to the cause of the difference, are available to advisers. We view this measure as particularly important information for advisers.

Many fund managers are concerned about the disclosure of their "IP" (intellectual property) through full portfolio transparency. To address this issue, HUB24 has taken a slightly different approach to some platforms that permit time-lagged reporting or time-lagged implementation portfolio changes.

HUB24 allows the manager to determine how many stocks appear in the report. For example, none, top five, top 10 or the whole portfolio. The level of exposure can be changed dynamically if the manager wishes to prevent the disclosure of stock it is currently acquiring or divesting.

This satisfies the manager concerns. However, to satisfy adviser interests regarding stock transparency, where a client holds more than one manager, the adviser is able to run an unrealised gains/loss report which shows every stock consolidated across the multiple portfolios. However, the adviser does not know which stock is being held by which manager.

The process of communicating investment decisions is convenient for the portfolio manager, who simply logs on to their "work bench" and implements a portfolio weight change. The portfolio manager can also enter comments that explain the rationale for the change.

The workbench provides transparency for the managers. Among other information, it displays shadow portfolio performance, fees on a daily basis, shadow portfolio performance, and the dealer groups that are writing business for the manager. This enables managers to concentrate their "marketing" efforts on those groups using the model portfolio.

→ Adviser Interface And Reporting

HUB24 has been designed to provide advisers with a full product suite, including direct equities, managed funds, (600 managed funds via the Ausmaq electronic trading system), ETFs, direct fixed interest, and shortly, options. It is HUB24's objective that by offering a comprehensive product suite an adviser will ultimately be able to manage a client's entire portfolio solely through the HUB24 platform.

Functionality and reporting for advisers is extensive, including tax lot management choice, on-line applications and redemptions, and a range of performance and tax reports, including unitised performance comparison.

HUB24 has direct EPI 4.0 data feeds in to commonly used, financial adviser software applications. EPI 4.0 is an industry standardised External Platform Interface (EPI) XML format used to communicate data

between software vendors and product manufacturers. It is used within the financial services sector to communicate investor-related information, principally investment data. This is important for advisers, as all advisers use these systems as a prime source of information.

→ General Support

S&P also considers general support mechanisms surrounding the IT platform that ensure the ongoing operation of the platform service.

As noted, the HUB24 platform has been developed in-house as a specific purpose-built investment administration platform. HUB24 operates a comprehensive in-house IT team and does not rely upon any third-party software vendors/products.

The HUB24 platform is hosted by UltraServe which provides a secure physical hosting with a full redundancy feature. HUB24 has a contractual arrangement with UltraServe to provide a 99.9% uptime service level.

The systems development team and testing team is very well resourced, with a total of 14 members.

Product And Service Offerings

HUB24 has a large number of SMA model portfolios, with 25 managers and 57 investment mandates (see table below). Additionally, as noted above, the platform also provides access to a range of other asset classes and investment vehicles.

The broad selection of SMA mandates reflects the manager's strategy of providing an SMA "supermarket" and the longer-term goal to replicate the managed fund menu for Australian equities with an SMA equivalent.

The manager takes a slightly different approach to some platform participants in the market. Specifically, due diligence on SMA portfolio managers is simply limited to the credibility and financial strength of the manager. There is no due diligence regarding the suitability of the mandate to an SMA investment vehicle. HUB24 takes the approach that they will simply offer model portfolios while adviser/dealer groups, through their own internal due diligence, will assess the suitability of particular model portfolios.

It should be noted that some of the issues associated with SMA suitability come down to the brokerage structure and cost on the platform. HUB24's basis point structure and very competitive brokerage eliminate such risks, reducing the need for the SMA platform manager to undertake due diligence in this area.

As a point of differentiation, dealer groups who wish to act as a product manager have the ability to define a model portfolio at dealer level. These models can then be accessed by their advisers.

Both advisers and dealer groups have the ability to define a portfolio blend across different asset classes, model portfolios, managed funds, ASX listed securities, and ETFs. These blends can then be applied to client accounts. The HUB24 service automates the trades required and rebalances client portfolios. Portfolio blend models are typically revisited at regular intervals by the dealer group.

Model Portfolio Offering

Model Portfolio	MER
Acadian Australian Equities Portfolio	0.65%
Ankura Capital High Yield Portfolio	0.55%
Armytage Strategic Opportunities Portfolio	1.32%
Armytage Enhanced Leaders Portfolio	0.97%

Aviva Investors Core Opportunities Portfolio	0.55%
Aviva Investors Dividend Builder Portfolio	0.80%
Bennelong Australian Equities Portfolio	0.80%
Bennelong Concentrated Australian Equities	0.75%
Bennelong ex 20 Australian Equities	0.80%
Concise Mid Cap Portfolio	1.10%
Clime Concentrated Australian Equities	1.10%
Dalton Nicol Reid Australian Equities High Conviction Portfolio	0.77%
Dalton Nicol Reid Australian Equities Income Portfolio	0.61%
Dalton Nicol Reid Australian Equities Socially Responsible Port	0.77%
Dalton Nicol Reid Australian Listed Property Trust Portfolio	0.97%
Glennon Capital Small Companies Portfolio	0.80%
Glennon Capital Opportunities Portfolio	0.50%
Glennon Capital Australian Shares Portfolio	0.57%
Hyperion ASX 300 Australian Equities Portfolio	0.83%
Kerr Allan Income Portfolio	0.66%
Kerr Allan ASX200 Enhanced Portfolio	0.66%
Kerr Allan High Conviction Alpha Portfolio	0.66%
LSC Australian Resources Hi-Alpha Portfolio	0.44%
Lonsec Australian Equity Core Portfolio	0.55%
Lonsec Australian Equity Income Portfolio	0.55%
Millenium Dividend Income Portfolio	0.55%
Morningstar Australian Equities Growth Portfolio	0.33%
Morningstar Australian Equities Income Portfolio	0.33%
Morningstar Australian Equities Balanced Portfolio	0.33%
AUI Platypus Australian Equities Portfolio	0.66%
Porter Capital ASX 200 Prime Momentum Portfolio	0.88%
Prime Value Growth Portfolio	0.94%
Prime Value Imputation Portfolio	0.94%
Ralton Leaders Portfolio	0.65%
Ralton High Yield Australian Shares Portfolio	0.80%
Ralton Australian Shares Portfolio	0.85%
Ralton Smaller Companies Portfolio	0.95%
S&P/ASX 20 Portfolio	0.08%
S&P/ASX 50 Portfolio	0.08%
Selector Australian Equities Portfolio	0.90%
Selector NO BASE FEE Portfolio	0.00%
Selector Ethical Portfolio	0.90%
Sigma Australian Shares Portfolio	0.80%
Sigma Emerging Companies Portfolio	0.80%
Sigma Select Equities Portfolio	0.65%
SGH20 Portfolio	0.55%
SG Hiscock Property Income Portfolio	0.55%
SGH ICE Portfolio	0.77%
Three Pillars Ethical Portfolio	0.44%
Three Pillars Income Portfolio	0.44%
Three Pillars Leaders Portfolio	0.44%
Three Pillars Small Companies Portfolio	0.44%

UBS HALO (High Alpha Long Term Opportunity) Portfolio	0.60%
UBS Australian Small Companies Portfolio	0.80%
UBS Australian Property Securities Portfolio	0.60%
Zurich Investments Australian Value Share Portfolio	0.83%
Zurich Investments Australian Property Securities Portfolio	0.77%

Source: HUB24.

Fees And Costs

HUB24's fees are competitive, with the actual amount dependent on the client's FUM. If we assume average levels, the SMA platform fee equates to around 50 bps.

While investment manager MERs are exogenous to the platform and a component of the S&P assessment, average levels would generate a total cost of investment of around 130 bps per year.

Fees And Costs

Type	Amount
Establishment fee	Nil
Account keeping fee	\$440 p.a.
Custodian fee	0.055% p.a.
Brokerage fee	Approx. 0.055% per trade
Administration fee	0.11% to 0.44% p.a. (sliding scale)
Adviser commission	Subject to commercial terms between adviser and client
Investment manager MER	Approx. average of 0.7% p.a.

Compliance And Legal Capability

The manager describes HUB24 as a hybrid between a typical "wrap-platform" and a typical "MDA service" (or managed discretionary account service). HUB24 Portfolio Service is structured so that any personal financial advice provided to retail clients in connection with the HUB24 service is provided directly to retail clients by an external adviser and not by HUB24. HUB24 is not authorised under its Australian Financial Services Ltd. (AFS) licence to provide personal financial advice to retail clients and will have minimal discretionary powers to deviate from the investment program prepared by the external adviser.

MDA services do not require a responsible entity (RE). This is due to it being classified as a service provider rather than a product provider.

HUB24 has engaged HSBC Bank Australia Ltd. and Australian Market Automated Quotation System Ltd. to provide outsourced custody functions. Ernst & Young is the auditor of Investorfirst and HUB24.

The client remains the beneficial owner of the investments in their account. Securities in the clients' account are held in the name of the sub-custodian.

SMA Platform Rating Philosophy

The SMA rating criteria is intended to provide an assessment of an organisation's capabilities as a provider of an SMA platform. To some extent, all SMA platforms vary, either in terms of the investment choices available, the quality of the services provided, or the cost of using the platform. The SMA rating is designed to address each of these issues and will specifically assess: platform features, product and services, trade execution, fee structure, adviser interface, business profile, and information technology systems.

SMA Platform Rating Definitions

SMA PLATFORM RATING VERY STRONG	S&P has assigned a very strong rating to the product based on its conviction that the manager can meet its objectives over the stated time period. The product has scored exceptionally in a number of categories but may not be suitable for all investors.
SMA PLATFORM RATING STRONG	S&P has assigned a strong rating to the product based on its conviction that the manager can meet its objectives over the stated time period. The product has scored strongly in a number of categories but may not be suitable for all investors.
SMA PLATFORM RATING SOUND	S&P has assigned a sound rating to the product based on its conviction that manager can meet its objectives over the stated time period. The product has scored satisfactorily in a number of categories but may not be suitable for all investors.
SMA PLATFORM RATING PASS	S&P has assigned a pass rating to the product based on its conviction that the manager can meet its objectives over the stated time period. The product has passed a number of categories but may not be suitable for all investors.
SMA PLATFORM RATING WEAK	S&P has assigned a weak rating to the product based on its conviction that the manager cannot meet its objectives over the stated time period. The product has scored weakly in a number of categories and may not be suitable for most investors.
SMA PLATFORM RATING ON HOLD	S&P has placed the SMA platform product On Hold due to issues that have emerged that may affect the characteristics of the SMA platform; and the rating is temporarily suspended, pending clarification.

SMA Platform Rating Process

The SMA rating is designed to address the various features and costs and will specifically assess the following: platform features, product and services, trade execution, fee structure, adviser interface, business profile, and information technology systems. The SMA rating does not address, and does not provide comments on the performance of the underlying investments available on an SMA platform.

SMA Rating Scales Notes

Very Strong	For an SMA platform to receive a very strong rating the platform has scored highly overall and particularly in the more important categories of fees and brokerage, investment options, trade execution, and adviser interface. The platform is viewed as a very strong platform offering.
Strong	For an SMA platform to receive a strong rating the platform has scored above average overall but has scored highly in the more important categories of fees and brokerage, investment options, trade execution, and adviser interface. The platform is viewed as superior to the majority of platform offerings.
Sound	For an SMA platform to receive a sound rating the platform has scored above average on the majority of criteria but is characterised by some inconsistency across scoring categories. The platform is viewed as in line with the majority of platform offerings.
Pass	For an SMA platform to receive a pass rating the SMA platform has scored average overall but is characterised by poor scores on a number of categories. The platform is viewed as inferior to the majority of platform offerings.
Weak	For an SMA platform to receive a weak rating the SMA platform has scored below average in the majority of criteria and, in particular, the more important categories of fees and brokerage, investment options, trade execution, and adviser interface. The rating may also partly or wholly reflect concerns about the financial sustainability of the platform provider.
On Hold	For an SMA platform to receive an On Hold rating, the SMA platform must have issues that may affect the provision of the SMA service; and the SMA product rating is temporarily suspended, pending clarification.

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STANDARD & POOR'S AUSTRALIA

Level 45, 120 Collins Street
Melbourne VIC 3000
Tel: (61) 3-9631-2000

Level 27, 259 George Street
Sydney NSW 2000
Tel: (61) 2-9255-9888

Client Services

Tel: (61) 1300-792-553

www.standardandpoors.com.au

www.fundsinsights.com.au

Provider

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Purpose of the Guide

This document is a Financial Services Guide (FSG). It sets out information designed to assist you in understanding:

1. the services we offer you
2. how we are paid
3. any potential conflict of interest we may have
4. our internal and external dispute resolution procedures and how you can access them

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Under its Australian Financial Services License Standard & Poor's is authorized to provide financial product advice to retail and wholesale clients in respect of the following classes of financial products: (1) deposit and payment products including (a) basic deposit products, (b) deposit products other than basic deposit products, and (c) non-cash payment products (2) derivatives (3) foreign exchange contracts (4) debentures, stocks or bonds issued or proposed to be issued

by a government (5) life products limited to investment life insurance products as well as any products issued by a Registered Life Insurance Company that are backed by one or more of its statutory funds (6) interests in managed investment schemes including investor directed portfolio services (7) securities and (8) superannuation. This Service includes the provision of financial product research reports that are of a general nature. A summary of the criteria applied by Standard & Poor's in its research on financial products can be reviewed on request.

Investment Warnings

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