

Derivatives Risk Management Statement – Part B

1 Party Responsible for the Risk Management Statement

This Derivatives Risk Management Statement - Part B (RMS) has been prepared by Maxim Asset Management Limited ABN 25 104 512 978 AFSL 238349 (MAXIM) in its capacity as an investment manager appointed under an Investment Management Agreement (IMA) to manage assets in accordance with the terms and conditions set out in an IMA.

This RMS applies to all investment mandates managed by MAXIM.

MAXIM is bound by the relevant IMA to manage investments in accordance with the relevant investment strategy, which is detailed in the applicable IMA.

Entities/persons responsible for control mechanisms in this RMS are the -

- Board of Directors of MAXIM (Board);
- MAXIM's Investment Director ;
- MAXIM's Compliance Officer;
- Compliance personnel (MAXIM Compliance); and
- MAXIM's external auditor.

The Board of MAXIM has appointed an Investment Director to manage the underlying assets of each of MAXIM's investment Mandates. The Investment Director is bound by the Board to manage individual Funds in accordance with the component of each Fund's investment strategy as delegated to the Investment Director and in accordance with MAXIM's RMS.

MAXIM may also outsource investment operations (administration) and currently uses external service providers to provide it with administration and custodial services.

2 Date of approval of the Risk Management Statement

The Board approved this RMS on 1 April 2008.

If, for any reason, a change needs to be made to this RMS, the Chairman of MAXIM has been authorised by the Board to approve the change. The ratification of this change by the Board will be sought at the next Board Meeting.

The RMS is reviewed by the entities/persons responsible for control mechanisms and, as circumstances change, the RMS will be revised. A copy of any revised RMS will be made available to clients and interested parties.

Internally, the RMS is made available to all personnel who are responsible for managing, monitoring or implementing the investment processes of MAXIM. These personnel are, by their experience and training, aware of the requirements of the RMS.

3 Investment Strategy

MAXIM believes that derivatives can play an important role in investment management and that derivatives can be used in the implementation of a mandates overall investment strategy.

The overall investment strategy for each investment mandate is contained within the Investment Management Agreement and, in particular the use of derivatives, is governed by and can be found in -

- the relevant IMA for each particular investment mandate; and
- any relevant offer documentation relating to a Scheme that MAXIM has been appointed as the Investment Manager, including Information Memoranda and Product Disclosure Statements, which are provided to persons who invest in the Schemes. The use of derivatives will be consistent with, and subordinate to, the investment strategy of each Scheme.

4 Objective of this derivatives risk management statement

MAXIM believes that derivatives play an important role in the investment management process.

This RMS -

- provides a summary of the policies and controls in place to ensure the proper use of derivatives in relation to all of MAXIM's investment mandates where appropriate;
- provides a summary of the procedures that MAXIM has in place for assessing its compliance with those policies and controls;
- is reviewed and updated at least on a yearly basis for significant changes. Changes are approved by the Board upon recommendation of the Investment Committee in consultation with MAXIM's Compliance Officer; and
- is made available to all personnel responsible for managing, monitoring or implementing MAXIM's investment processes.

Whilst this RMS relates specifically to derivatives, it should be noted that derivatives are not considered in isolation, but as part of any investment strategy and MAXIM's investment operations as a whole.

5 Definition of Derivatives

A derivative can be defined as a financial contract or obligation which is based on the value of an underlying reference price, rate or index which relates to equities, bonds, interest rates, currencies, credit, natural catastrophes, weather and commodities. It can take the form of a put or a call option, forwards, futures, swaps, warrants, share ratios and other composites and derivatives thereof.

For purposes of this definition, it does not include options embedded in typical insurance contracts such as cash surrenders, re-instatements nor those in common investment securities (e.g. bonds with call provisions or conversion rights).

Derivatives are more volatile than the underlying cash instruments and exposures can be multiples of the actual invested amounts.

The types of derivatives that can be used for each asset sector are usually specified in the relevant IMA.

6 Purpose of Using Derivatives

Derivatives can be used for a variety of purposes, including (but not limited to) the following:

- Hedging
Derivatives can be used to "hedge" a Portfolio. Hedging can protect the value of a Portfolio against market fluctuations, e.g. the foreign currency exposure of a Portfolio in overseas assets. Hedging can also reduce the volatility of a Portfolio.

- Tactical Reasons
Derivatives may be used to effect a change in the investment strategy, e.g. to effect a change in the asset allocation of a Portfolio within the parameters set in the investment strategy.
- Transactional Reasons
Derivatives can be used to control the impact on the value of a Portfolio due to market fluctuations caused by significant transactions.
- Cost Reasons
Derivatives may be used to obtain pricing advantages over the physical market. Alternatively, the use of derivatives may reduce the transaction costs involved in achieving a desired exposure to an asset class.

Currently MAXIM ONLY uses approved derivatives such as exchange traded futures and options traded on the Australian Stock Exchange ("ASX"), the Sydney Futures Exchange ("SFE") and other internationally recognised exchanges.

7 Restrictions on the Use of Derivatives

MAXIM is subject to the following restrictions regarding the use of derivatives:

- The use of derivatives for a specific Portfolio must be permitted by the trust deed or Constitution, any IMA or other governing or offer documentation of any relevant Scheme.
- Derivative positions must be accounted for on an effective exposure basis. Where option or option-related derivatives are involved, exposure is determined on a delta-weighted basis. All other derivative exposure is calculated on a fully paid-up basis.
- Derivatives may not be used to gear (leverage) portfolios. Gearing occurs when the level of market exposure to derivatives exceeds the market value of the Portfolio.
- The net exposure of the Portfolio to an asset class must not go outside the mandate's investment strategy as set out in the IMA or other governing or offer documentation.
- The net exposure of the Portfolio to derivatives must not go outside the investment mandate's investment strategy as set out in the IMA or other governing or offer documentation.
- The use of derivatives to create a net short position is not permitted.
- There must be sufficient assets in the Scheme to support the underlying liability of those derivative positions in the form of assets of the kind required to be delivered under the contract or other contracts or assets which substantially offset the underlying liability of the contract or cash or immediately realisable assets. Net positions are considered where relevant.

- Market moves or cash flows can alter the impact of derivative positions in a Portfolio. Where this occurs, measures will be taken so that the Portfolio shall be realigned as soon as practicable to remove any breach of the RMS.
- Derivative transactions must be traded and cleared on the SFE or the ASX or through associated clearing houses, or other internationally recognised exchanges and associated clearing houses.

MAXIM Compliance regularly monitors the above restrictions and provides reporting as required by the Board.

Other issues considered are:

- Legislation and Regulations: restrictions or limitations on the ability of MAXIM to use derivatives may be contained in relevant Financial Services Legislation, Regulations, Regulatory Policy and/or Administrative Circulars. The MAXIM Compliance Officer monitors the restrictions and limitations to ensure that these restrictions are reflected in all IMAs.
- Legal or contractual obligations to ensure that the restrictions on using derivatives are complied with, subject to proper compliance monitoring and reported to the Board.

8 Risk Management and Analysis

There are various types of risk associated with the use of derivatives.

MAXIM's investment management structure is designed to ensure a clear segregation of responsibilities. For example -

- MAXIM's administration operations are outsourced to independent external service providers, who perform the settlement and portfolio valuation functions in relation to Investment Mandates;
- MAXIM has a dedicated dealer who undertakes the dealing and recording of each derivative transaction entered into; and
- MAXIM Compliance is provided with regular (monthly) mandate monitoring reports on derivatives holdings and exposures.

Listed below is a description of the main types of risk associated with the use of derivatives. Each heading provides information on how each type of risk is assessed and monitored by MAXIM.

8.1 Market Risk

Market risk represents the risk of adverse movements in markets (i.e. asset prices, volatility, changes in yield curve, implied option volatility or other market variables) for the derivatives or the underlying asset, reference rate or index to which the derivative relates. Holding any security (physical or derivative) that creates exposure to movements in prices of a security or market creates market risk.

Derivatives are included on a fully paid-up exposure basis. If a Portfolio holds options, or option-related derivatives, exposure is determined on a delta-weighted basis.

(a) Valuation

All derivative positions are marked to market by the external service provider on a daily basis or as required, dependent on the nature of the derivatives used.

Any breaches of the relevant derivatives exposure restrictions are reported to MAXIM Compliance.

Valuation sources are independent. Further -

- derivative positions held are regularly reconciled to external sources;
- systems used to control derivatives are consistent with systems used by those generally accepted by the market; and
- procedures covering the operation of controls, including the use of derivatives are in place, communicated to relevant personnel and reviewed on a regular basis.

(b) Gearing

Unless specifically mandated by a Client, Portfolios are not permitted to be geared. Gearing would occur if the level of market exposure exceeds the market value of the Scheme. Portfolio valuations are monitored daily.

(c) Asset Ranges

Where an Investment Mandate comprises more than one asset class, the relevant Constitution, IMA and the offer documentation may specify a maximum and minimum exposure for each asset class. The actual exposure for each asset class is calculated by taking into account both the exposure of the physical asset class and the net effective exposure of derivatives to that asset class.

All Portfolios are reviewed by MAXIM's Investment Director at least weekly to ensure compliance with the prescribed asset ranges.

(d) Adequate Cover

Portfolios must at all times have sufficient assets to support the underlying liability of the derivative positions in the form of assets of the kind required to be delivered under the contract, or other contracts or assets which substantially offset the underlying liability of the contract, or cash or immediately realisable assets. Net positions are considered where relevant.

(e) Stress Testing

Stress testing is regularly undertaken to ascertain the impact on the Portfolio value under various different market circumstances. The stress testing tests the impact of different market scenarios on the total portfolio (including derivatives).

Stress testing is performed on a periodic basis or more frequently in periods of high market volatility. Stress testing is also used to evaluate significant strategy changes, such as shifts in asset allocation, Portfolio holdings or derivative positions.

8.2 Basis Risk

Basis risk is the risk that a derivative instrument or position will not move in line with the underlying position.

The Investment Committee assesses and monitors basis risk by reviewing -

- the suitability of the derivative positions as a hedge against the underlying exposure;
- periodic stress testing, or other appropriate testing; and
- closely monitoring Portfolio performance.

8.3 Liquidity Risk

There are two types of liquidity risk inherent in utilising derivatives.

8.3.1 Market Liquidity

Market liquidity risk is the risk that MAXIM may not be able to unwind or offset a particular position at or near the previous market price because of inadequate market depth or due to a disruption in the marketplace.

8.3.2 Settlement Liquidity

Settlement liquidity is the risk that MAXIM will not be able to meet its future financial obligations resulting from its derivative activities (e.g. meeting margin calls on futures contracts).

8.4 Counterparty (Credit) Risk

Counterparty risk is the risk that a counterparty (the other party with whom a derivatives contract is made) will fail to perform contractual obligations (ie default in either whole or part) under a contract. Counterparty risk is also referred to as credit risk.

Counterparty risk is eliminated by ensuring that all dealings comply with the relevant IMA and that transactions are undertaken on recognised domestic and international stock and futures exchanges.

These requirements are monitored on a regular basis to ensure that counterparty risk is within the limits stipulated by the relevant IMA.

8.5 Legal Risk

MAXIM recognises the different types of legal risks between exchange traded derivatives and Over-The-Counter (OTC) traded derivatives. Accordingly, NO OTC derivatives arrangements may be entered into.

8.6 Operations Risk

Operations risk is the risk that deficiencies in the effectiveness and accuracy of the information systems or internal controls will result in a material loss to a Portfolio.

Operations risk exists because of human error, systems failures, inadequate procedures and internal management controls, and disasters.

Effective control over operations risk requires an appropriate organisational structure and an effective set of procedural controls.

To minimise operations risk, MAXIM has appointed independent external service providers that have policies and procedures relating to the administration, valuation, accounting and settlement functions.

9 Currency Risk

Assets that are invested in an overseas currency will create foreign exchange rate exposure. Currency risk in relation to derivatives is managed under the same principles as it is for other assets and in accordance with the relevant IMA restrictions.

All foreign exchange exposures are monitored by MAXIM Compliance on a regular basis.

10 Personnel Management

The effective operation of the RMS will depend on the policies and procedures that MAXIM has in place in relation to personnel management matters.

All personnel involved in investment monitoring and compliance have clearly defined responsibilities, and have the necessary skills and experience to carry out their responsibilities diligently.

Regular training and education programs are undertaken to ensure that all personnel continue to maintain the necessary levels of expertise to perform their responsibilities.

The Compliance Officer monitors internal policies and procedures, has segregated reporting, is independent from individuals who deal in derivatives and has sufficient expertise and resources to perform required tasks set out in the RMS.

MAXIM has a system of performance management, which includes career development, performance counseling, performance standards and appraisal, rewards and recognition. Remuneration policies do not provide incentives for excessive risk taking.

The RMS is made readily available to all relevant staff and there is a regular program of training and re-enforcement for these staff of the RMS requirements and obligations.

MAXIM only appoints investment personnel who have adequate investment experience.

11 Assessment of Controls

The specific details of the control processes implemented by MAXIM in relation to the use of derivatives have been described in previous sections of this RMS.

The Board is responsible for maintaining an adequate and effective internal control environment.

Any material breach of the IMAs and the action taken to remedy the situation is reported by MAXIM Compliance to the Investments Director immediately.

The Board is informed quarterly of each Investment Mandate's monthly summary derivative exposures in accordance with their reporting requirements.

The Board approves significant policies relating to derivatives. The Board also approves the RMS and the Directors attest to its sufficiency.

MAXIM Compliance has responsibility to -

- identify, interpret and implement legislation, rules and regulations on an on-going basis;
- assist in the design of appropriate control and review processes;
- review and oversee the monitoring processes, including the conduct of some monitoring processes, to ensure that the requirements of the RMS are adhered to;
- undertake the majority of monitoring processes designed to ensure the requirements of this RMS are adhered to: and
- implement systems for the effective management of business and operational risks.

In addition, the MAXIM Compliance Officer conducts the on-going monitoring of matters specifically identified by the Board.

Maxim Asset Management Limited
ABN 25 104 512 978 AFSL 238349
Level 1, Suite 104
84 Pitt Street
Sydney NSW 2000

01April 2008

12 External Audit

The Board has appointed an external auditor to report on compliance with the RMS, and in particular to certify that an RMS exists, that the major procedures laid down in the RMS have been followed, that any shortcomings in the RMS have been identified, and that any changes have been approved.

The audit is conducted on an annual basis in accordance with Australian Auditing Standards.

13 Reporting

All clients and interested parties receive regular reports on their investments including information relating to their exposure to derivatives.

Copies of the RMS are made available to relevant parties upon request.

The content and frequency of client reporting depends on the type of investment mandate, and obligations of MAXIM under the Constitution, IMAs, investment mandates and other governing and offer documentation of any Scheme.

Reporting includes not only reports on the underlying assets, but also summaries the movements of relevant selected markets, adequacy of internal controls and any breaches arising.

Glossary of Terms

Call option An agreement that gives an investor the right (but not the obligation) to an underlying security at a specified price within a specific time period.

Cash Instruments These are assets that are cash or can be converted into cash immediately. Examples are bank accounts, marketable securities, and treasury bills.

Composites Made up of other components.

Conversion rights The right to translate a convertible security into a predetermined number of shares.

Delta-weighted basis An options position equal to the market value of the underlying security multiplied by the delta.

Derivatives Per meaning given at paragraph 5 of this RMS.

Duration The measure of the price sensitivity of a fixed-income security to an interest rate change of 1%. Calculation is based on the weighted average of the present values for all cash flows.

Effective exposure basis accounting The value of the underlying instrument of a derivative.

Forward rate agreement (Forwards) A forward contract that determines an interest rate to be paid or received on an obligation beginning at a start date sometime in the future.

Fully paid up basis accounting Value is based on the underlying security not being subject to further calls for capital.

Fully paid up exposure basis Accounting for a derivatives value based on its effective exposure.

Futures A financial contract that encompasses the sale or purchase of financial instruments or physical commodities for future delivery.

Gearing/leveraging Occurs where the level of market exposure to derivatives exceeds the market value of the Scheme.

Hedging Per meaning given at paragraph 6 of this RMS.

Implied option volatility The estimated volatility of a security's price. In general, increases when the market is bearish and decreases when the market is bullish. Implied volatility is used in calculating an option's premium.

Margin calls A demand that an investor deposit additional money or securities to bring a margin account up to the minimum maintenance margin.

Market risk As per meaning at paragraph 8.1.

Mark to market Recording the price or value of a security, portfolio, or account to reflect its current market value.

Modified duration A formula that expresses the measurable change in the value of a security in response to a change in interest rates; the change is usually measured against a 100 bps (1%) movement in interest rates.

Net position The difference of all purchase and sales of derivatives.

Net short position A Net Position where the derivative positions are net sales.

Over the counter (OTC) A security which is not traded on an exchange. Participants negotiate directly with one another as to the specifications of the security.

Put option An option contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying security at a specified price within a specified time.

Reference rate The underlying index or rate upon which a floating-rate security is based.

Security As defined at section s.761A of the Corporations Act.

Share ratios A relative performance contract. The contract pays an amount based on the difference between the performance of a stock and the performance of a market index.

Swaps The exchange of one security for another to change the maturity (bonds), quality of issues (stocks or bonds), or because investment objectives have changed.

Warrants A derivative security that gives the holder the right to purchase securities (usually equity) from the issuer at a specific price within a certain time frame.

Yield curve A graphic line chart that shows interest rates at a specific point for all securities having equal risk, but different maturity dates.