

AUSTRALIAN

RESEARCH

MANAGED INVESTMENTS ANALYSIS

ABN AMRO Conquistador

July 2008

Leveraged exposure to a portfolio of fund of hedge funds with capital protection and a 100% loan option

This report is an update of the previously published report, ABN AMRO Conquistador: Leveraged exposure to a portfolio of funds of hedge funds with capital protection and a 100% loan option, dated May 2008

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Australian Managed Investments

Structured Products

ABN AMRO Conquistador

Leveraged exposure to a portfolio of fund of hedge funds with capital protection and a 100% loan option

Note: This report is based on the ABN AMRO Conquistador SPDS, dated **24 June 2008**, together with other information provided by ABN AMRO Australia Pty Ltd as at April 2008.



Offer Overview

Product Summary

ABN AMRO Conquistador (*Conquistador* or the *Product*) is a nine-year investment offered by ABN AMRO Australia Limited (*ABN AMRO* or the *Issuer*). The Product provides exposure to the performance of three fund of hedge funds (*FOHF*) investment vehicles (collectively *the Basket*), with 100% capital protection at maturity. The three underlying funds are: Permal Fixed Income Holdings NV (*PFIH*: 50% weighting), Permal FX, Financials & Futures Ltd. (*PFFF*: 30%), and Gems Multi Strategy SP I portfolio (*GEMS Fund*: 20%). Capital protection and the degree of leveraged exposure will be managed through the CPPI rules. The initial exposure to the Basket is expected to be 200% and may vary from a maximum of 200% to a minimum of 0%. Leverage will be physical, funded at floating USD interest rates. The three funds in the Basket are denominated in USD; however, foreign currency hedges will be used to minimise the USD currency risk. Conquistador has both material USD and AUD interest-rate exposure. Returns to investors will be a combination of quarterly coupon payments (conditional upon performance), with a target and maximum rate of 2.5% (10% p.a.), and potential capital growth on redemption. Investors have the option of a 100% investment loan.

Investment View

Investor Suitability

On the basis of expected performance, Aegis regards Conquistador as an attractive investment for both 100%-loan and non-loan investors. Conquistador has performed strongly on a back-tested basis. Investors should note, however, that the expected performance of Conquistador is highly sensitive to both USD and AUD interest rates. Increasing USD and decreasing AUD rates are adverse to expected performance, and vice versa. Under what Aegis regards as a reasonable interest-rate forecasting methodology and using historic risk-return assumptions of underlying funds, based on Monte Carlo simulations, Conquistador is expected to generate a total return of 12.8% p.a., a price return of 6.8% p.a., and have a 98.2% probability of paying coupons in all 36 quarterly coupon periods. However, if the risk-return of underlying funds alters by +15% / -15%, simulated total returns decline to approximately 9.6% p.a. In relation to risk to capital, downside risks are mitigated by quarterly coupon payments (acting as a quasi profit lock-in) and for 100%-loan investors it is likely that loan interest costs will be offset by coupon payments. As such, the maximum potential loss for 100%-loan investors, which is equal to cumulative after-tax interest payments, is materially reduced.

Recommendation

Aegis has assigned Conquistador with a **Recommended** rating.

Offer Details

Offer Open	1 May 2008
Offer Close	15 August 2008
Issue Date*	19 August 2008
Maturity (yrs)*	9 Years
Min. Investment	A\$25,000
Liquidity	Monthly**
Listing Status	Unlisted
Distributions	Quarterly

* Expected

** Liquidity of the investment is available monthly with 50 days' notice; the availability of capital is dependent on the redemption of all the underlying funds. Pricing will be determined at the redemption date.

Risk/Return Profile



Fees (paid to advisors), incl. GST, %

Upfront	0.4%
Ongoing	nil

Note: Advisor upfront and trailing commissions are paid by the Issuer. They are not separately payable by investors

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The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

SWOT Summary

Strengths

- The historic risk-and-return performance of the Basket is well suited to a leveraged CPPI structure, with returns exceeding the cost of the leverage and low volatility minimising de-leverage risk.
- Structurally, internal leverage is funded at low-cost US one-month LIBOR rates and quarterly distributions act as a quasi profit lock-in.
- The product is structured with loan investors in mind, aiming to provide a self-financing investment with target coupons of 10% p.a.
- 80% of the Basket comprises funds issued by Permal, which has a long (est. 1973) and successful track record in the FOHF space.

Weaknesses

- Returns are highly sensitive to USD and AUD interest rates, which is an exogenous factor to Conquistador performance and is difficult to forecast on a longer-term basis.
- The probability of quarterly coupons being made generally declines over time and, as such, there is increasing risk 100%-loan investors may have to partly finance interest in the latter part of the term.
- A long investment horizon with liquidity constraints and early withdrawal fees in the first four years. The long investment term also reduces the inherent value of capital protection.

Opportunities

- Access to a 100% loan for a product that, based on the continuation of target quarterly coupons, may be self-financing.
- Access to underlying strategies run by experienced and established investment managers (esp. Permal) and the opportunity to earn positive, low-correlation returns irrespective of market conditions.

Threats

- An increase/decrease in USD/AUD interest rates. Given current rates, interest-rate risk is weighted to the negative.
- The continuation of the lower level of returns generated by the three underlying funds over the last 12-month period may result in poor investment performance.
- Conquistador may become a marginal investment should the risk-return profile of the underlying funds deteriorate. A deviation in the risk-return by +15% / -15% (risk increases by 15% and returns fall by 15%) from historic levels results in simulated returns of 9.6% p.a.

Product Fees (paid by investors)

	Product	Sector Avg. ¹
Base Fees, % of Assets		
Upfront	0.00	2.1
Ongoing ²	Up to 2.05	1.9
Exit ³	0.00	0.2
Average, p.a.	2.05	2.3

1. Aegis' managed/trading structured product universe.
2. Principal protection fee (1.25% p.a. on the higher of the Issue Price and NAV) and Issuance & Distribution Premium (0.80% p.a. of Issue Price for the first three years). The MER declines to 1.25% p.a. from Year 4 onwards.
3. A variable withdrawal fee is payable upon early withdrawal of investment: 4% for withdrawals within Year 1, 3% in Year 2, 2% in Year 3, 1% in Year 4, and nil for withdrawals after Year 4. The fee is payable as a percentage of the fair value of the instrument on the buy-back date.

Total Fees, % of Expected Total Return*

	Product	Sector Avg.
Upfront	0.0	3.1
Ongoing	14.5	15.4
Exit	0.0	0.3
Total	14.5	18.7

* Based on an average return of 13% p.a. over a 9-year term

Performance Fees

No performance fees are directly attributed to the product. However, a performance fee structure is incorporated within the GEMS Fund.

Indirect Fees / Product Costs

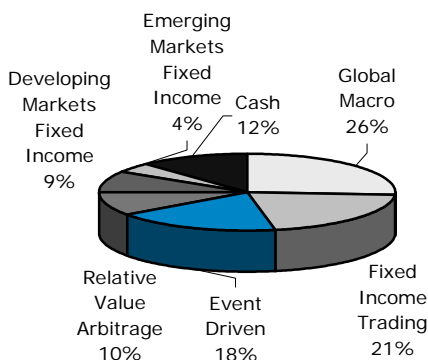
MER for underlying Funds:
 PFIH: 2.75%; PFFF: 2.15%; GEMS Fund: 2.0%

Fee Commentary

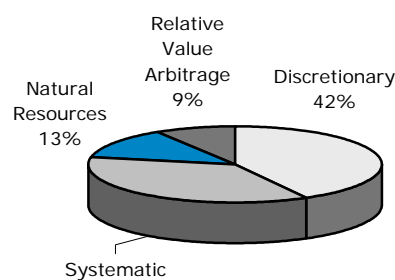
On a look-through basis, the ongoing fee is around 4.47% p.a. for Years 1-3 and around 3.67% p.a. from Year 4 onwards. The average MER (over 9 years) of 1.5% p.a. is market competitive. The average MER on the underlying (around 2.4% p.a.) can be considered in line with average MER fees in the hedge fund universe.

Portfolio Diversification

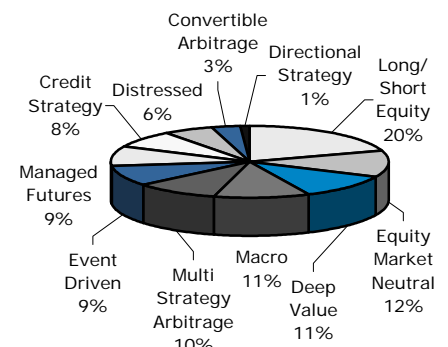
Permal Fixed Income Holdings NV



Permal FX Financials & Futures Ltd



Gems Multi-Strategy SP I Portfolio



2. Structure

Product Overview

The Issuer, ABN AMRO Australia Pty Limited, is a subsidiary of ABN AMRO Bank N.V. The Issuer is targeting to raise A\$25 million in Conquistador through retail investors.

The investment consists of four major components: the Equity Component provides leveraged exposure to the three FOHFs; the Foreign Exchange Component comprises notional hedges to reduce FX risk between the USD and AUD; the Bond Component is a key component in the CPPI rebalancing process in addition to the investment being 100% invested in the Bond Component in the event of a 'cash-out'; and the Cash Component, which may be in a positive balance when exposure to the underlying funds is less than 100%, or a negative balance (a loan) if exposure exceeds 100%.

At inception, up to 200% of the investment proceeds will be allocated to the Equity Component. This is achieved by the Issuer borrowing up to a further 100% of the investment proceeds. Interest on the loan amount is based on a floating rate and is equal to 85 basis points over the US one-month LIBOR rate. The floating-rate interest-rate structure is necessitated by the variable level of leverage in the Product, as determined by the CPPI rebalancing rules. As the term and size of gearing are unknown, it is not possible to utilise a fixed-rate structure.

Refer to the *FX Exposure* section (right) for details on the FX strategy of the Product.

During the term, valuations and hence CPPI-related rebalancing is performed monthly. Coupons will be paid quarterly subject to performance. The payment criterion is that the resulting CPPI equity gap must be higher than 15% after the distribution. The equity gap is the difference between the value of the Product and the bond floor. The targeted and maximum coupon is 2.5% quarterly (10% p.a.).

At maturity investors will receive the greater of the capital-protection amount and the NAV of Conquistador. Refer to the *Exit Facility* section (right) for details.

Key Exposure

Underlying Exposure: 50% PFIH, 30% PFFF, 20% GEMS Fund. Portfolio rebalancing is monthly.

FX Exposure: The USD exposure of the initial investment amount and loan is hedged to the AUD. During the term, NAV changes will be largely hedged to the AUD using three-month forwards. The pricing terms will be based on ABN AMRO's forecasts of the expected NAV appreciation of Conquistador over the three-month period. There will be FX exposure if the change in NAV is less than or greater than the forecast amount.

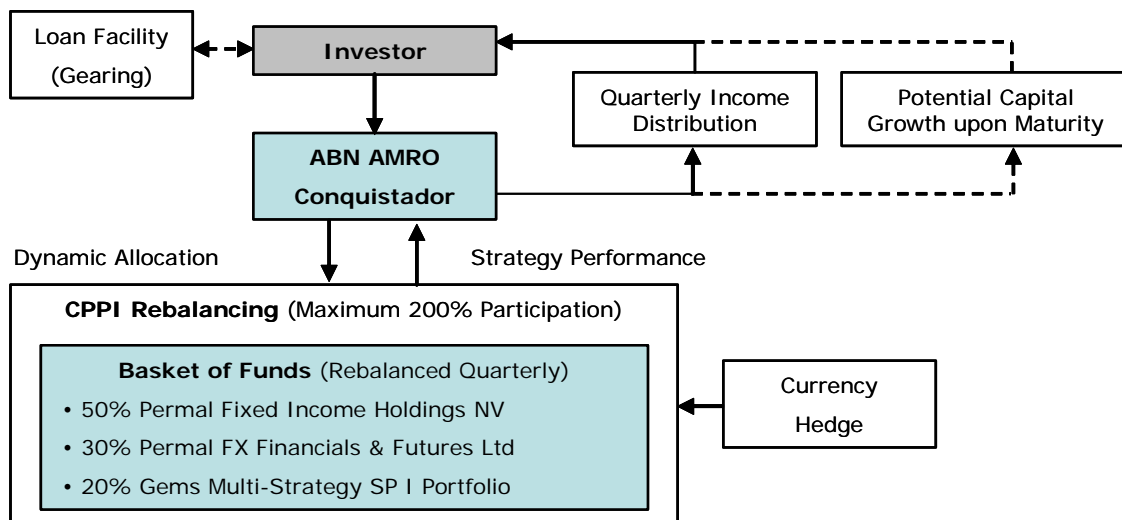
Exit Details

Exit Facility: Monthly with 50 days' notice via investor's request for Issuer buyback. At the maturity date the NAV of Conquistador will be satisfied by the delivery of ASX-listed securities, specifically Westfield Group, BHP Billiton, and Commonwealth Bank of Australia.

Holder Early Redemption: The Product may mature early in the case of an early maturity event, and the maturity date may be extended for up to 12 months in case a market disruption event occurs. Refer to the PDS for details.

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Investment Structure



Product Leverage

Used:	Leverage may range from a maximum of 200% to a minimum of 0% ('cash lock'). The actual level of leverage will be determined by the CPPI rebalancing rules. The initial level of leverage is expected to be 200%.
Cost (incl. Fees):	Cost of leverage is 85 basis points over the US one-month LIBOR rate. As at the time of this report, the approximate cost of borrowing was 3.5% p.a. Borrowings are denominated in USD and the underlying assets are also denominated in USD.
Recourse:	To the Product

Capital Protection

Method:	CPPI. Aegis believes the CPPI structure is strongly suited to the Basket. Specifically, for a geared CPPI structure, low volatility in the underlying growth asset is particularly important in minimising deleverage risk. The underlying funds in Conquistador have historically exhibited low volatility and have performed in a manner true to style (absolute returns). Additionally, the correlation between the three funds is relatively low, further serving to reduce Basket volatility.
Conditions:	Must be held to maturity.
Cost:	The principal protection fee is 1.25% p.a. of NAV.
Counterparty Risk:	ABN AMRO Bank N.V. (S&P: AA-)

Tax

Disclaimer:	Tax consequences depend on individual circumstances. Investors must seek their own taxation advice. The following comments show Aegis' expectation of tax for ordinary Australian taxpayers, but cannot be considered tax advice.
Capital gains:	Capital gains tax (CGT) is likely to apply upon sale of the delivery securities. Investors will likely be eligible for the 50% CGT discount upon sale of the delivery securities, if held for more than 12 months.
Coupons:	On income account in the year earned.
Interest deductibility:	Yes for 100%-loan investors
Foreign Income Fund (FIF):	No

Legal Structure

Wrapper:	Secured Note
Guarantor:	ABN AMRO BANK N.V.
Calculation Agent:	ABN AMRO BANK N.V., London Branch.
Paying Agent:	ABN AMRO BANK N.V., London Branch.
Offer Document:	The PDS, dated 31 March 2008, has not been lodged with the Australian Securities Investment Commission (ASIC) and is not required by the <i>Corporations Act</i> 2001 to be lodged with ASIC.

Returns

Capital vs. Income:	Income with the prospect of capital gains upon exit. The payment of each quarterly payment is contingent upon performance. Specifically, the coupon will be paid on the condition the payment of the coupon will not result in the equity gap being less than 15%. Backtesting and Monte Carlo analysis indicate the probability of all 36 coupon payments being made is generally high in what Aegis considers probable risk-and-return scenarios. The level of capital returns will depend on the performance of the underlying funds, the level of exposure to the Basket, and the volatility of the underlying funds.
Income Frequency:	Fixed quarterly income targeting a quarterly coupon of 2.50% (10% p.a.). As noted above, the actual payment of a quarterly coupon is contingent upon the performance of underlying funds.
Foreign Currency Risk:	Yes, the Notes are denominated in AUD, with a USD/AUD foreign exchange hedge to hedge the USD FX exposure at the Fund Basket Level.

Investor Leverage

Available:	Yes: 100% Loan
Cost (incl. Fees):	Indicative variable rate of 9.99%, refer to BT margin lending website for terms and structures
Recourse:	Full recourse to the investor
Risks:	Refer to the <i>Risks</i> section in the PDS

3. Management & Corporate Governance

Investment Team

ABN AMRO

ABN AMRO is a wholly owned subsidiary of The Royal Bank of Scotland Group (RBS). RBS has total assets of GBP 1,900.5B (as at 31 December 2007) and operates in more than 50 countries globally, providing retail and corporate banking, consumer finance, insurance and wealth-management services.

The Permal Group

The Permal Group's relevant experience stems from over three decades as a specialist in Multi-Manager Hedge Funds. The total assets for the Permal Group are approximately US\$37 billion (as at January 2008). Permal's capabilities have expanded to include structured products, private equity funds and alternative investment products.

Key personnel within Permal – the CEO, CIO and their executive team – have been with Permal between 15 and 22 years. To Aegis' knowledge turnover of key personnel in the investment team has been relatively low.

Permal's investment team incorporates a 'time-tested' approach, seeking capital preservation and low volatility to achieve attractive returns over time.

On a monthly basis the Permal Group Risk Committee reviews all Permal multi-manager portfolios from a quantitative perspective to measure risk and sensitivity to systematic risk factors. This review is independent and separate from the day-to-day investment activities in New York. A combined meeting between the London Risk Committee and the New York Investment Group is held each month and findings are reported and suggestions made for a closer review of a particular manager or a particular area of a portfolio based on changing risk levels.

Gems Group

Since it was founded in 1987, Gems has managed funds on behalf of clients located in over 20 countries around the world. Being one of the first managers in its field, the company has gained vast experience in global financial markets and hedge funds. The total assets under management are approximately US \$7.2 billion (as at May 2008). The group's investment Manager, Gems Management Limited, which is responsible for constructing and managing the Gems portfolios, has 15 years of industry experience.

The company acts as an investment house or proprietary account in a fund structure. As such, Gems is aligned with its clients, investing for profit where opportunities exist through the best managers and strategies, without the restrictions of in-house traders or obligations to any given strategy or manager.

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4. Investment Process

Investment Philosophy / Objective

The underlying investment philosophy of Conquistador is to provide investors with exposure to a globally diversified portfolio attempting to deliver consistent, lower-correlated returns compared to traditional asset classes. Investors may benefit from constant income returns and future capital growth, with CPPI capital protection.

The Permal funds are highly weighted based on proven consistent performances. The allocation of 20% into the Gems Multi Strategy SP was identified as an investment opportunity providing lower correlation to the overall portfolio.

The foreign-exchange component has a long AUD strategy for hedging purposes, which consists of a rolling three-month hedge (hedged on expected returns). The principal is borrowed in foreign currency and invested in foreign currency.

The CPPI structure is a physical CPPI structure with a maximum participation of 200%. The structure utilises an appropriate, conservative leverage relative to the stable, lower-volatility underlying. The Portfolio will be rebalanced quarterly with a maximum 200% leverage cap.

The Bond component will be zero unless there is a 'cash-out' event, whereby the NAV falls to the bond floor. In this scenario all the funds will be allocated to the bond floor.

The three selected underlying funds are suitable to the overall investment structure and the philosophy of this product. The key suitability requirements/measurements relate to:

- The importance of diversification to mitigate risk, whereby the fund's structures are strategically designed and administered to facilitate the achievement of consistent returns with effective risk-management guidelines.
- Having effective manager-selection constraints through the implementation of a comprehensive selection process with rigorous quantitative, qualitative and legal requirements.
- The importance of utilising a systematic, proactive methodology instead of a reactive methodology of monitoring, reviewing and rebalancing the portfolio in various market cycles.

Further information concerning the composition and strategies of the three funds is discussed in the underlying funds section of this report.

Underlying funds

Permal funds benefit from industry-experienced, long-term fund managers. Permal's ten largest fund managers have an average of 22 years' investment experience; the range of experience is between 16 and 31 years.

Permal Fixed Income Holdings NV

The fund's objective is to acquire long-term capital appreciation through investments with high-quality investment managers focusing primarily on fixed-income securities in worldwide markets. The diversity of the portfolio is formulated from credit-related and non credit-related strategies.

Credit-related strategies include: Fixed Income Long G7 – high-yield and investment-grade long-only managers; Fixed Income Trading – long/short fixed-income managers who employ short positions and create hedges, lessening their exposure; and Fixed Income Long Emerging Market Debt – utilising managers who have expertise in emerging markets.

Non credit-related strategies include: Macro – systematic and discretionary traders, which trade all asset classes with a tendency of having a fixed-income bias; Relative Value Arbitrage – market-neutral strategies whereby the manager trades multiple asset classes with a fixed-income bias; and Event Driven – an array of strategies that profits from events or catalysts.

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Permal FX Financials & Futures Ltd

The fund's objective is to acquire long-term capital appreciation through investments with high-quality investment managers focusing primarily on global financial, currency, energy, metal, agricultural, and other commodity markets.

The performance of the fund will depend on the strategic allocation of the portfolio formulated by the position undertaken by the individual managers within the overall funds. The various managers may use systematic and discretionary methods for short or long equity positions, currencies, stock indices and commodities.

Gems Multi Strategy SP I Portfolio

The Gems Multi-Strategy SP I Portfolio seeks to achieve above-average long-term performance through investment in a diversified, global portfolio of hedge funds and other managers. The portfolio utilises low-volatility fund managers engaged in a broad range of strategies designed to perform with low correlation to equities and bonds. A minimum of 55% of the managers in the portfolio must have monthly liquidity.

Up to 25% of the portfolio is invested in equity long-short investments. The portfolio strategies include discretionary trading, merger arbitrage, fixed-income arbitrage, convertible arbitrage, distressed securities, event-driven, equity hedge, equity market neutral, statistical arbitrage, relative-value arbitrage, long/short bonds and macro strategies. Essentially, the portfolio seeks to profit in all market conditions from hedged investments or mispricings between two or more related securities.

Funds Profile

Figure 1. Underlying Funds – Key Structural Details

	PFIH	PFFF	GEMS Fund
Inception Date:	31/12/1996 US\$, 31/05/2004 EUR.	31/12/1995 US\$, 31/05/2004 EUR, 31/05/2006 JPY, 30/09/2007 GBP.	October 2004 US\$ February 2005 EUR.
Fund Size:	US\$ 8.9 Billion	US\$ 9 Billion	US\$ 1.2 Billion
Listing:	Irish Stock Exchange, Dublin (Class A Shares)	Irish Stock Exchange, Dublin (Class A Shares)	Telekurs: CH 2004649 International Herald Tribune
Valuations:	Semi-monthly	Semi-monthly	Monthly
MER:	2.75%	2.15%	2.00%

Source: Aegis Equities Research

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5. Performance Analytics

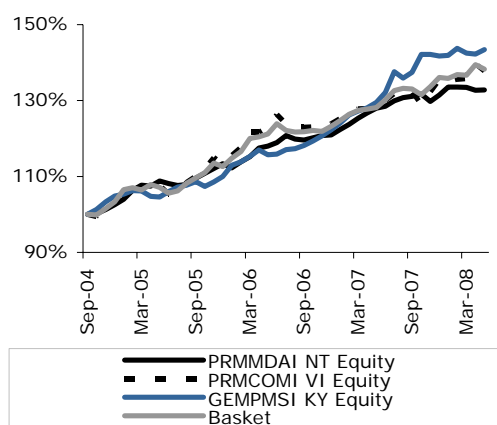
Section 5 analyses the historic performance of the underlying hedge funds, the back-tested performance of the Basket and the expected performance of Conquistador. The latter is based on a Monte Carlo analysis.

Historical Performance – Underlying Funds

Figures 2 to 5 illustrate the back-tested performance of the Basket and the actual performance of the three underlying hedge funds for the period from September 2004 to May 2008. The key risk-and-return metrics are presented in Figure 6. The key points from the analysis are:

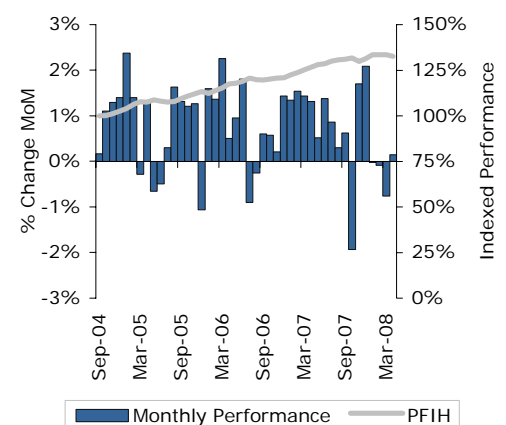
- The Basket generated an average return of 10.6% p.a., with a standard deviation of 4.6% and a maximum drawdown of 2.2%. The historic risk-and-return performance is well suited to a leveraged CPPI structure, with returns materially exceeding the cost of internal leverage and low volatility minimising de-leverage risk.
- In Aegis' view, all three underlying funds have performed in a manner true to the absolute-returns style. Standard deviation and maximum draw-down levels have been low, ranging from 3.33% to 6.34% and -4.07% to -1.71%, respectively. Furthermore, the percentage of negative months and the number of consecutive monthly losses have been low.
- Returns of the three underlying funds have been roughly consistent with internally targeted levels. Furthermore, all three funds have generated returns in excess of the respective benchmarks and, importantly, have generally recorded positive monthly performance over more recent months. Investors should note, however, returns of all three funds have declined materially over the last 12-month period. While the funds have continued to outperform the sector over this period, a continuation of these market dynamics introduces additional performance risk for the Basket. Nevertheless, Aegis notes the funds have generated positive returns in the first five months of 2008.
- The three underlying funds have displayed negative to very low correlation during the observation period (range between -0.2 to 0.08), which may serve to provide diversification within the Basket.

Figure 2. Historic Performance



Source: Aegis Equities Research

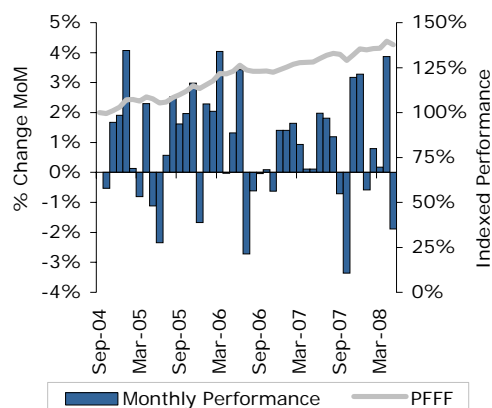
Figure 3. Historic Performance - PFIH



Source: Aegis Equities Research

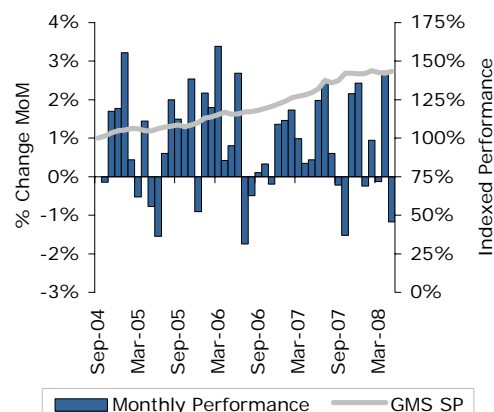
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Figure 4. Historic Performance - PFFF



Source: Aegis Equities Research

Figure 5. Historic Performance – GEMS Fund



Source: Aegis Equities Research

Figure 6. Historic Risk-Return: Underlying funds and the Basket (Sep 2004 to May 2008)

Risk & Return:	PFIH	PFFF	GEMS Fund	Basket
Total Return % p.a.	9.06%	10.34%	12.09%	10.58%
1 year %	4.30%	7.76%	11.65%	8.25%
3 Year % p.a.	8.51%	11.18%	13.08%	11.34%
Excess Return* % p.a.	4.48%	4.06%	3.75%	4.21%
% of Positive Months	77.78%	68.89%	80.00%	71.11%
% of Negative Months	22.22%	31.11%	20.00%	28.89%
Sharpe Ratio	0.82	0.63	1.19	0.92
Std. Dev. (annualised)	3.33%	6.34%	4.87%	4.63%
Max. monthly Gain	2.37%	4.08%	5.55%	3.38%
Max. monthly Loss	-1.93%	-3.36%	-1.71%	-1.74%
Maximum Drawdown	-1.93%	-4.07%	-1.71%	-2.33%
Months to recovery	4 Months	8 Months	5 Months	7 Months

* Comparative Indices: **PFIH**: JP Morgan Global Government Bond Index Hedge in USD (10 years); **PFFF**: Standard and Poor's 500 Index; **GEMS Fund**: HFRI US Fund of Funds Diversified Index.

Source: Aegis Equities Research

Expected Performance – Monte Carlo Analysis

Aegis has undertaken Monte Carlo analysis to assess the expected performance of Conquistador in three different risk-return scenarios:

- The first scenario ('Historic Risk-Return') is based on the historic risk-and-return performance of the three underlying funds. At a Basket level this represents an average total return of 10.6% p.a. and a standard deviation of 4.6%, as per Figure 6 above.
- The second scenario ('+7.5% Risk /-7.5% Return') is based on a level of risk for each of the underlying funds equal to the historic level multiplied by 107.5% and a level of return equal to the historic level multiplied by 92.5%. That is, it represents a higher-risk, lower-return scenario than those historically recorded by the underlying funds.
- The third scenario ('+15% Risk /-15% Return') is based on a level of risk for each of the underlying funds equal to the historic level multiplied by 115% and a level of return equal to the historic level multiplied by 85%.

In all three risk-and-return scenarios, there are two sets of interest-rate assumptions:

- **Current Rates** are derived from a USD one-month LIBOR rate of 2.46% p.a. and an AUD one-month LIBOR rate of 7.51% p.a.

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- **Historic Rates** are based on a combination of consensus USD and AUD interest-rate forecasts to the end of 2009 (the maximum forecast period available in Bloomberg) and, subsequently, a gradual reversion (over a two-year period) to average long-term interest-rate levels (average one-month LIBOR rates for USD and AUD from January 1995 to June 2008). The latter equates to a USD rate of 4.26% p.a. and an AUD rate of 5.74% p.a.

The analysis is summarised in Figure 7 and presented in detail in Figures 8-16. For each risk-return scenario there are three charts. The 'Distribution of Returns' charts the probability distribution of expected price and total returns based on current rates (Figure 8, 11, and 14) as well as historic rates (Figure 9, 12 and 15).

The 'Coupon Payment Probability by Quarterly Period' (Figure 10, 13 and 16) charts the probability of a coupon payment being made on each particular quarterly coupon period. For example, in Figure 10 the probability of the 36th coupon payment being made is around 94% (assuming historic rates). These charts are intended to illustrate how coupon payments become less likely over the term. This is attributable to the NAV erosion risk over time as coupons are paid out. In turn, NAV erosion means there is less likelihood of the conditionality test being satisfied.

Figure 7. Monte Carlo Analysis – Key Results

Scenario;	Historic Risk-Return		+7.5%/-7.5% Risk-Return		+15%/-15% Risk-Return	
	Current Rates	Historic Rates	Current Rates	Historic Rates	Current Rates	Historic Rates
LIBOR Assumption:						
Total Return (% p.a.)	17.29%	12.79%	15.61%	11.06%	13.86%	9.58%
Price Return (% p.a.)	12.71%	6.82%	10.36%	4.47%	7.81%	2.80%
Coupon Payment %	99.9%	98.2%	99.5%	93.3%	98.0%	85.3%

Source: Aegis Equities Research

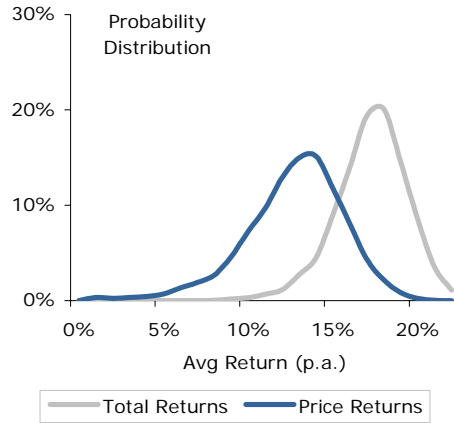
Key observations from Monte Carlo simulations include:

- Expected returns and the probability of a successful quarterly coupon payment are highly sensitive to applicable USD and AUD interest rates, with USD rates impacting the cost of debt and AUD rates impacting the level of the bond floor. Expected performance deteriorates materially based on the assumption of reversion to historic interest rates compared to a continuation of current interest rates over the nine-year investment term. Given the nine-year term, Aegis believes it is prudent to assess expected performance based on a gradual reversion to historic interest rates.
- Based on historic performance and current interest rates, Aegis regards Conquistador as an attractive investment. Expected total returns are 17.29% p.a. and for each quarterly coupon period there is a 99.9% probability that the coupon payment criteria will be satisfied and the payment made.
- Aegis regards Conquistador as a relatively unattractive investment based on the third scenario, where the level of risk for each of the underlying funds is assumed to increase by 15% and the level of return decreases by 15%. Under historic interest rates, simulated total returns are 9.58% p.a. and for each quarterly coupon period there is an 85.3% probability that the coupon payment criteria will be satisfied and the payment made.
- The performance of Conquistador is highly sensitive to relatively small changes in risk-and-return assumptions in the underlying funds.
- The probability of a successful coupon payment in a particular quarterly period declines over the investment term due to the NAV erosion attributable to the payment of coupons in prior periods. There is a greater likelihood that loan investors will have to partly fund interest costs from their own resources.

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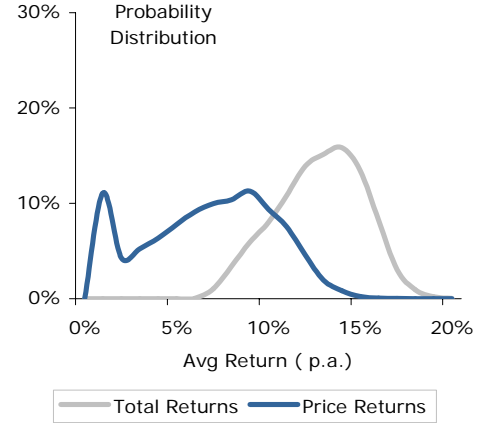
Monte Carlo Analysis: Historic Risk-Return

Figure 8. Distribution of Returns (Current Rates)



Source: Aegis Equities Research

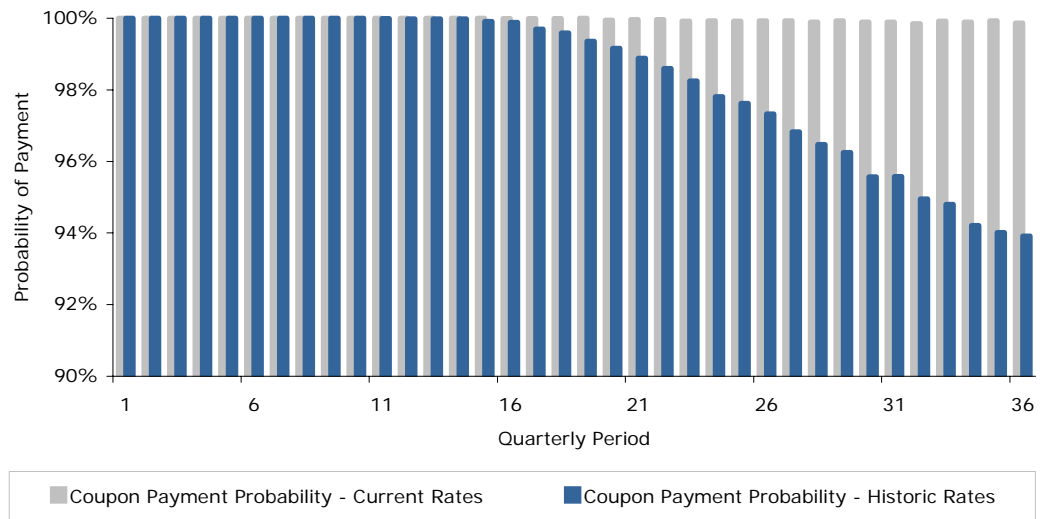
Figure 9. Distribution of Returns (Historic Rates)



Source: Aegis Equities Research

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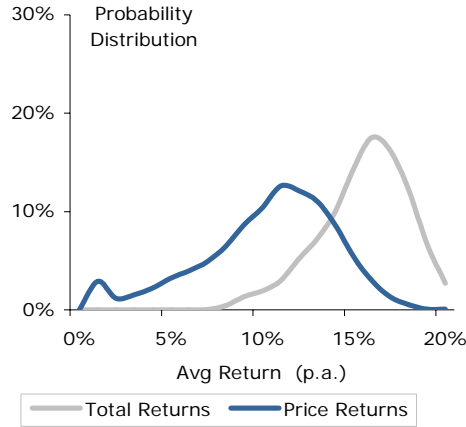
Figure 10. Coupon Payment Probability by Quarterly Period



Source: Aegis Equities Research

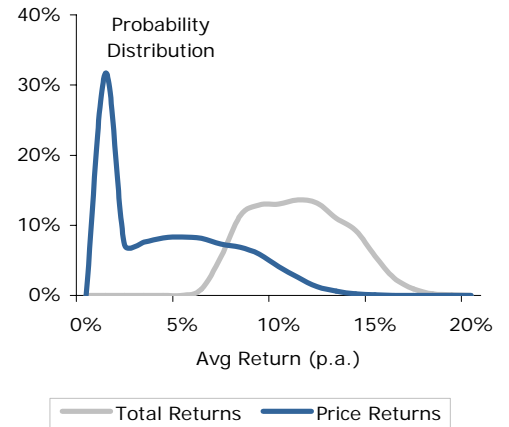
Monte Carlo Analysis: +7.5% Risk /-7.5% Return

Figure 11. Distribution of Returns (Current Rates)



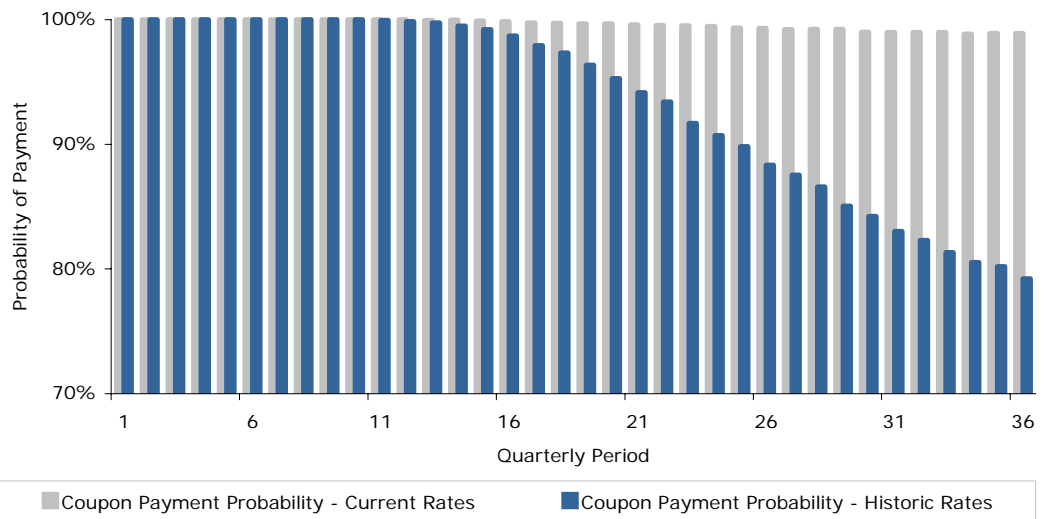
Source: Aegis Equities Research

Figure 12. Distribution of Returns (Historic Rates)



Source: Aegis Equities Research

Figure 13. Coupon Payment Probability by Quarterly Period

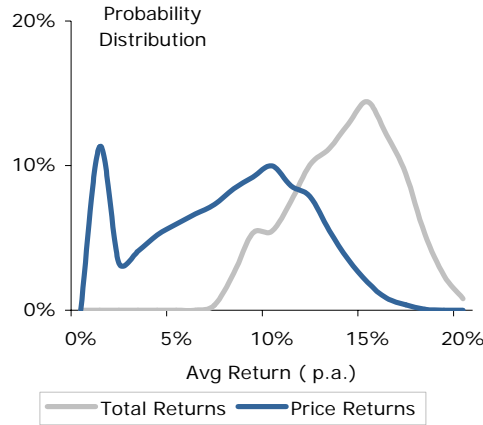


Source: Aegis Equities Research

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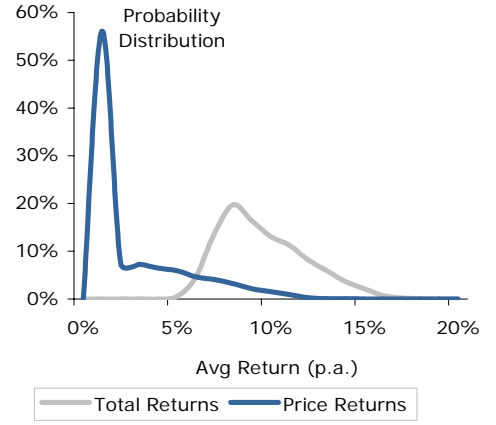
Monte Carlo Analysis: +15% Risk /-15% Return

Figure 14. Distribution of Returns (Current Rates)



Source: Aegis Equities Research

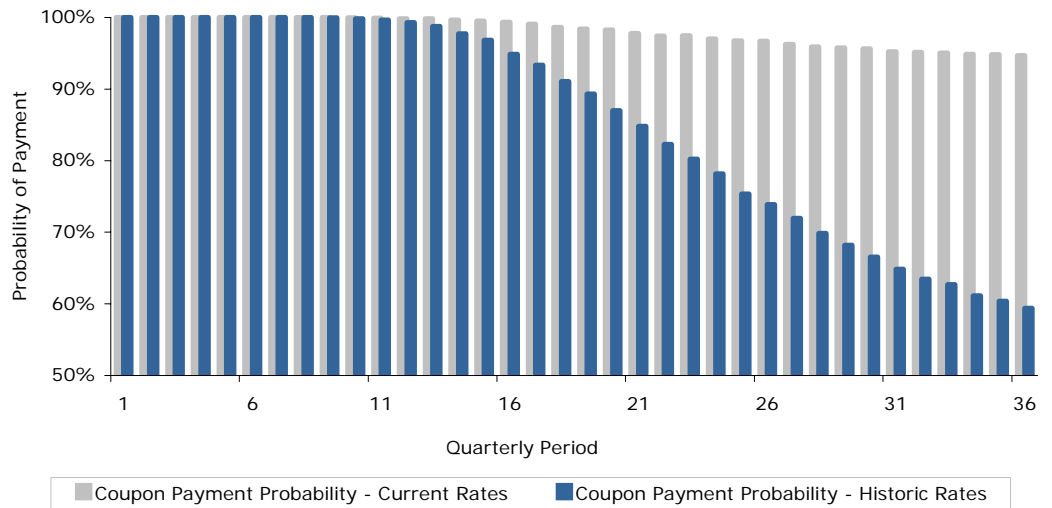
Figure 15. Distribution of Returns (Historic Rates)



Source: Aegis Equities Research

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Figure 16. Coupon Payment Probability by Quarterly Period



Source: Aegis Equities Research

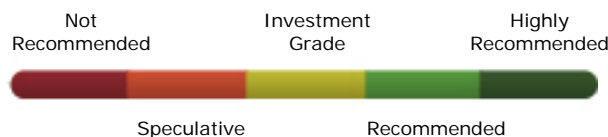
Appendix – Ratings Process

Aegis has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors.

Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

The Ratings

Our rating is based on the following scale:



Highly Recommended: indicates that Aegis believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and scored exceptionally in a number of categories. It has an attractive risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors.

Recommended: indicates that Aegis believes this is an above average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above average risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors.

Investment Grade: indicates that Aegis believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation parameters. The product may provide unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors. In the previous five category rating system, this category was termed 'Approved'.

Speculative: indicates that Aegis believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Aegis does not rule out investing in this product, investors should be very aware of, and be comfortable with, the specific risks. The product may provide unique diversification opportunities; however, concerns over one or more features means that it may not be suitable for most investors.

Not Recommended: indicates that Aegis believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. However, this does not mean that the product is without merit.

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The offer of the securities is made in the Product Disclosure Statement (PDS), and anyone wishing to acquire the securities should complete the application form in the PDS.

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Aegis Equities Research

Peter Leodaritsis
Managing Director
Phone: 61 2 8296 1100
peter.leodaritsis@aegis.com.au

Mamun Rashid
Chief Operating Officer & General
Counsel
Phone: 61 2 8296 1160
mamun.rashid@aegis.com.au

RESEARCH

John Kessell
Head of Investment Research
Phone: 61 2 8296 1152
john.kessell@aegis.com.au

Sharon Loaiza
Research Manager
Phone: 61 2 8296 1131
sharon.loaiza@aegis.com.au

Ravi Reddy
Head of Equities Analysis
Phone: 61 2 8296 1165
ravi.reddy@aegis.com.au

SALES

Craig Northey
Head of Sales
Phone: 61 2 8296 1114
craig.northey@aegis.com.au

Nigel O'Brien
Business Development Manager
Phone: 61 2 8296 1166
nigel.obrien@aegis.com.au

Joyce Sivris
Business Development Manager
Phone: 61 2 8296 1125
joyce.sivris@aegis.com.au

Joanna Judd
Business Development Officer
Phone: 61 2 8296 1102
joanna.judd@aegis.com.au

CLIENT SERVICES

Mandy Depangher
Manager Client Services,
Research and Model Portfolios
Phone: 61 2 8296 1159
mandy.depangher@aegis.com.au

INFORMATION TECHNOLOGY

Evan Ferris
Chief Technical Officer
Phone: 61 2 8296 1116
evan.ferris@aegis.com.au

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Level 6, 33 York Street
Sydney NSW 2000 Australia
Locked Bag 7 Australia Square
Sydney NSW 1215
Phone 61 2 8296 1100
Fax 61 2 9299 3777
ABN 72 085 293 910
www.aegis.com.au