

Credit Suisse PL-100 Emerging Markets Infrastructure Development (EMID) Trust

Analyst(s): Simon Scott; Justine Gorman

Product Facts

Name:	Credit Suisse Emerging Markets Infrastructure Development Trust	Open date:	Oct. 29, 2007	Issue price:	A\$1.00
Responsible entity:	Equity Trustees Ltd. (EQT)	Close date:	Nov. 28, 2007	Min. investment:	A\$20,000
Protection provider:	Credit Suisse Intl. (CSi) (AA-)	Maturity:	Dec. 19, 2012	Multiples:	A\$1,000
Market maker:	Credit Suisse Equities (Australia) Ltd. (CSEAL)	Listing date:	Dec. 19, 2007	Minimum issue size:	25 million

Standard & Poor's View

Standard & Poor's has assigned an 'Investment Grade' rating to the Credit Suisse Emerging Markets Infrastructure Development Trust based on the structure's ability to provide access to the underlying asset class.

This is the second in the series of PL-100 products issued by Credit Suisse, and offers the opportunity to invest in a portfolio of emerging-market securities that derive at least 20% of their earnings from infrastructure projects in emerging-market regions. The 20% hurdle is relatively low, and investors should accept that a large proportion of revenue may come from outside infrastructure or emerging markets. Additionally, the criterion for what constitutes emerging markets is also very wide. Although an increasing component, revenues from emerging-markets are unlikely to be in the majority before the end of the five-year term so the product should be viewed as a global infrastructure fund. The basket of stocks, although rebalanced annually, is static other than for corporate actions.

Investors should consider using this product as a thematic or specialist investment within their international-equity allocation. Although the case for infrastructure is strong, thematic investments tend to play out over particular market cycles, and can provide less attractive returns once cycles end.

The fund will be offered with daily liquidity at net asset value (NAV) by Credit Suisse, which should resolve the common complaint of these products trading at a discount on the exchange.

Credit Suisse International (CSi) offers capital protection on the initial capital invested, if the investment is held until the five-year maturity date. The product can still outperform the underlying by virtue of its ability to offer leverage to the performance of the notional portfolio (being the reference basket of stocks) of up to 25%, with no further fee and with no interest-rate risk.

The product comes with several features, but the underlying returns will come from listed infrastructure stocks. Investors must understand their return drivers, realise some beta is inherent, and form a view on the theme before investing.

Key Risks

- Performance of stocks dependent on global capital expenditure;
- Residual levels of beta in the physical basket;
- Static basket of stocks;
- Potential small amount of leverage in the structure;
- Capital protection of A\$1.00 at maturity regardless of entry price;
- A low hurdle of emerging-markets revenue in stock selection;
- Possibility that early settlement events nullify options contracts;
- Trust receiving capital protection and not investors, so exceptional expenses may be paid before unit holders; and
- Lock-in feature having the potential to reduce the total return.

Product Characteristics

	Low	Medium	High
Income potential			
Income risk			
Growth potential			
Benchmark correlation			
Asset diversity			
Leverage			
Cost			
Liquidity			
Transparency			
Tax efficiency			
Capital risk	Protected	Guaranteed	Unprotected

Product Objectives

- Exposure to a portfolio of 20 international infrastructure stocks that are equally weighted, static with an annual rebalance;
- 100% equity participation from initial issue date;
- Potential for up to 125% participation, with minimum of 25% participation;
- Dividend distribution semiannually;
- Potential to benefit from rising capital protection at 110% and 150% of A\$1.00 issue price;
- Initial investment protected at maturity from currency and interest-rate risk;
- Capital protected at A\$1.00 per unit on issue at maturity;
- Daily Australian Securities Exchange (ASX) support and liquidity with additional off-market facility; and
- Reasonably low management expense ratio.

Investor Suitability

The trust is suitable for investors seeking:

- A specialist equity fund investing in securities of international infrastructure companies that derive a proportion of revenue from emerging markets;
- Capital growth over the medium term (five years) with capital protection at A\$1.00 at maturity. This is also the case for those buying on the ASX. Early redemption will negate this feature;
- Potential for a semiannual small dividend. This is currently between 1.5% and 2%, so should not be relied upon. Any dividend will be assessable in the year in which it is paid; and
- Daily liquidity on the ASX, with availability of an off-market facility.

As a specialist equity or thematic fund, this product can be incorporated into a balanced portfolio in different ways. Because the stocks are all listed, there is a residual amount of beta, which will vary in different market conditions.

What is Emerging Market Infrastructure?

An emerging- or developing-market economy is generally held to be one with low-to-middle per-capita income. In the traditional sense, it is a country moving from a closed to an open economy, through a series of economic reforms and greater market transparency.

Developing countries tend to experience rapid economic growth, which translates into strong earnings growth for local businesses, including infrastructure, one of the most critical components of economic growth. It has been estimated that about US\$1 trillion will be spent on infrastructure investment over the next 10-15 years.

Infrastructure projects appeal to investors due to the relatively predictable and steady cash flows, especially in power, water, and transportation, which tend to grow steadily at close to the GDP rate.

Some infrastructure investments in the past have been susceptible to rapidly declining host-country economies, or a significant change in the regulations that govern a project's operations, such as instances in which governments intervene in the infrastructure projects or their related revenues.

Competition for few good investment projects puts upward pressure on prices paid for projects, and as a result, investing companies may need to manage higher leverage on their balance sheet.

Interested Parties	
Organisation	Responsibilities
Equity Trustees Ltd. (EQT)	Responsible entity
Credit Suisse International (CSi)	Constant proportion portfolio insurance (CPPI) operator, protection provider and option counterparty
Credit Suisse Equities (Australia) Ltd. (CSEAL)	ASX market maker
Credit Suisse PL-100 Emerging Markets Infrastructure Development Trust (EMID)	Managed-investment scheme

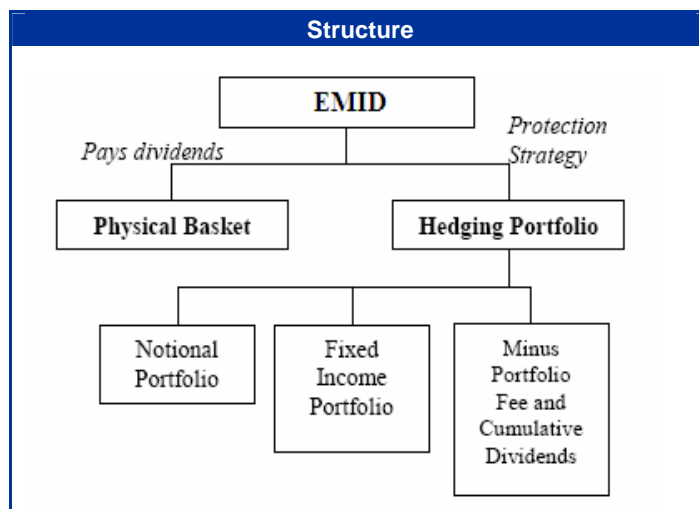
Investment Objectives

Credit Suisse PL-100 Emerging Markets Infrastructure Development Trust (EMID) is a registered managed-investment scheme, with fully paid units issued by Equity Trustees Ltd. (EQT). The objective of the trust is to give the investor investment exposure to a concentrated portfolio of international infrastructure companies that are investing in emerging markets. The trust aims to provide both income and capital growth over a five-year term, with the benefit of capital protection at A\$1.00 per unit at maturity.

Investment Structure

The investment structure of EMID contains two exposures:

- Exposure to a physical basket of 20 stocks. Any dividends received are paid out as income (section A); and
- Exposure to a hedging portfolio, which provides for capital protection of A\$1.00 per unit at maturity, potential participation in the notional portfolio, and potential rising capital protection (section B)



Section A: The Physical Basket

Overview

EMID will invest all of the proceeds raised from the issue into the physical basket of 20 stocks. These 20 stocks are the top-ranked securities under the HOLT framework, but also meet CSi's stock-borrow criteria. Therefore, they are not necessarily the 20 highest-ranked stocks. These stocks are equally weighted in the basket, and the minimum market capitalisation requirement will ensure that this will not result in any abnormal allocations.

The basket will remain static other than for corporate actions or other adjustment events, so its constituents may be different from those in the hedging portfolio. The physical basket receives dividends from the underlying stocks, and pays them out semiannually less any fees. As of Sep 2007, this dividend yield amounted to roughly 1.5% - 2% p.a.

HOLT

CSi uses the market-recognised HOLT valuation tool to select the final constituents for the physical basket. The HOLT framework will also be used for the annual rebalancing. HOLT was acquired by Credit Suisse in 2002, and incorporates more than 150 analyst findings, covering 18,000 companies in 55 countries. HOLT analyses corporation performance and valuation, looking at a company's cash generation and ability in value creation. This is done by removing accounting distortion and adjusting for inflation. The end result allows for cross-comparability across sectors, industries, and regions. HOLT calculates corporate performance based on cash-flow return on investment.

Investable Universe

The investable universe is the result of the following criteria applied to a universe of approximately 18,000 publicly traded companies (the current 'HOLT Universe'):

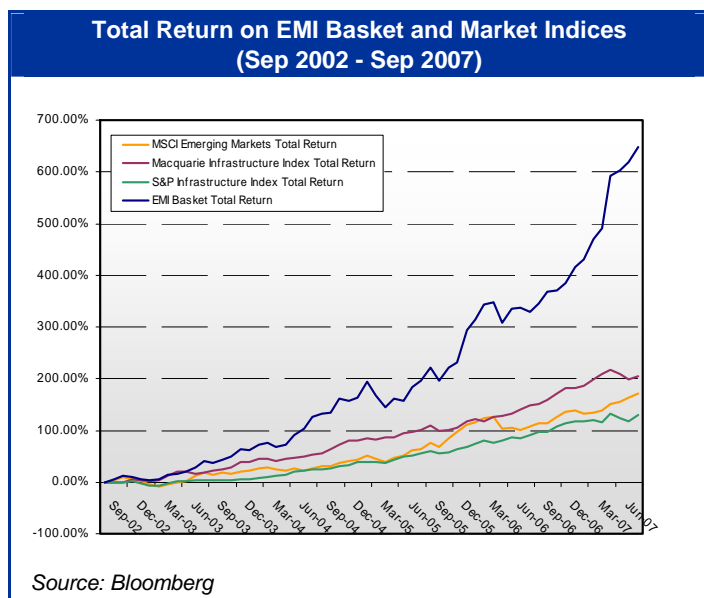
- A market capitalisation of more than US\$10 billion;
- Average 21-day daily liquidity of at least US\$10 million;
- Membership of a corporate group that:
 - (a) Is involved in the infrastructure industry;
 - (b) Derives a minimum of 20% of its revenue from emerging markets or has operations in emerging markets such that it is reasonable to expect it derives material revenue from them.

At June 2007, this resulted in an investable universe of 100 stocks. These stocks are involved in a wide range of markets, from power producers to wireless telecommunications.

It must be noted that companies in the investable universe also participate in activities other than infrastructure, which may form a

significant proportion of their activities. These other activities will therefore affect the performance of these companies.

The 20 stocks that are to be included in the physical basket at inception, they have returned 46.59% over the past five years on a total-return basis (including dividends). As shown this is clearly higher than a number of specialist infrastructure indices as well as the MSCI Emerging Markets index.



Section B: The Protection Strategy

Background: Traditional CPPI Structures

Most capital-protected structures in the retail market involve a rules-based mechanism that allocates units between the physical assets themselves (often known as the reference or risky assets/units) and cash units, which are often backed by an underlying zero-coupon bond. These products are known as constant-proportion protection insurance (CPPI) structures.

These structures can often be highly administrative to run, and it is difficult to alter the product structure without altering the CPPI rules negatively. Should the underlying assets be highly volatile, there is a risk that they can fall faster than the CPPI is able to delever the structure. The risk of how much further and faster it may fall is made up by the protection provider at maturity. To reflect this risk, a fee is often charged. Additionally, if the underlying asset is in a foreign currency, then a separate hedging agreement is often necessary.

The bond floor, or minimum amount that needs to be invested now to ensure A\$1 is received at maturity, is susceptible to interest-rate risk. If interest rates fall, more is needed to be invested in the riskless asset, and therefore the CPPI structure allocates more to this asset by reducing exposure to the risky asset.

PL-100 EMID: Formulaic CPPI

EMID uses a variation of CPPI known as formulaic CPPI, in which the allocation between the fixed-income portfolio and the notional portfolio (basket of stocks) is effected synthetically. What this means is that rather than buying and selling the physical assets each time a rebalance is effected, a separate notional (risky asset) and fixed-income (cash) portfolio are used for rebalancing. Although more complicated to explain, it allows for more flexibility in its approach. The key benefits of this approach are:

- The ability to incorporate more specific terms and obligations;
- Less administrative tasks and therefore costs;

- Ability to outperform the underlying but still protect it;
- No explicit payment by the investor to the protection provider;
- Removal of foreign-currency risk on the principal at maturity; and
- Linear bond floor removing interest-rate risk.

The protection strategy (or hedging portfolio) will be provided by the two option contracts (one put and one call) over the notional portfolio struck between the trust and CSi. All options involve one party having a right to exercise the option, with the other having an obligation to perform. For the protection strategy to function, the options contracts have different rights and obligations for both the trust and CSi. The options aim to provide the trust:

- Capital protection of A\$1.00 per unit on issue, at maturity (B.1);
- Access to upside performance of the equity basket through reference to the notional portfolio (B.2);
- The opportunity for rising capital protection at 110% and 150% of A\$1.00 per unit on issue, less dividends paid by the physical basket over the term of the structure (B.3);
- Notional leverage to the performance of the notional portfolio of up to 125%, available through the CPPI mechanism (B.4); and
- Protection from foreign-exchange-rate movements, at maturity (B.5).

B.1 Capital Protection

The trust will enter into a put and a call option with CSi to provide the trust with capital protection of A\$1.00 at maturity. Under the protective put option, the trust receives the greater of:

- A\$1.00 per unit on issue on maturity; and
- The highest rising capital lock-in of 110% or 150% of A\$1.00 per unit at maturity, less dividends on the physical basket over the term of the structure.

Investors must note that protection will apply using A\$1.00 per unit on issue, and will not have regard to investors who may have paid more or less than A\$1.00 per unit on issue. This is an important distinction for those investors who purchase units on the ASX.

In addition, it is the trust that receives the protection and not the unit holders. Should there be unexpected liabilities, these will receive priority of payment over unit holders.

B.2 Potential to Participate in the Notional Portfolio

The hedging mechanism under the protection strategy allows the trust to participate in the performance of the notional portfolio. The portfolio will be the top 20 stocks as ranked using the HOLT methodology. Because there is no stock-borrow screen, these stocks could be different from those held in the physical basket. The trust only holds the stocks in the physical basket physically. EMID will have participation in the growth of the stocks in the notional portfolio through the options contracts.

B.2.1 Rebalancing

Initially, all stocks will be equally weighted by value. The trust will rebalance the notional portfolio each year on December 19. The HOLT process will be rerun to identify the current top 20 stocks, and this may lead to up to three replacements being made to the portfolio. Because the physical basket is static, this may lead to the notional portfolio having a different composition from it.

B.2.2 Participation in the Notional Portfolio

The trust participates in the performance of the notional portfolio through the use of the options in the protection strategy. The value of the portfolio will determine whether CSi or the trust has rights or obligations under the strategy at maturity.

Obligations at Maturity

Outcome	Result
Hedging portfolio > physical basket	The trust exercises the put option to deliver the physical basket to CSi. The investor receives the final value of the hedging portfolio or highest lock-in level reached less aggregate physical basket dividends.
Hedging portfolio < physical basket	The call option is exercised, and the trust must pay to CSi the difference between the physical basket and the hedging portfolio, by selling the physical basket in the market.

If the physical basket does not perform as expected, then at maturity the trust will deliver the physical basket, and receive a minimum of A\$1.00 per unit on issue. Should a lock-in level have been attained, then the hedging portfolio will have a value of the lock-in level less any dividends already paid. For example, if 10% had been paid out in dividends over the life of the product, and the profit lock-in of 110% was triggered but not surpassed, the value of the hedging portfolio would be A\$1.00 per unit on issue at maturity.

B.2.3 Application of the CPPI Mechanism

CPPI is a dynamic portfolio-allocation technique, which allocates on a continuous basis between the notional portfolio and the fixed-income portfolio. By balancing the amount allocated in this way, the structure provides participation in the performance of the notional portfolio while protecting against the loss of capital. By using CPPI, the trust receives the amount of A\$1.00 per unit on issue at maturity.

The amount that is allocated to the two portfolios will vary according to their performance relative to the bond floor. (This is the minimum amount that must be invested in the fixed-income portfolio to equal A\$1.00 on the maturity date.) This floor will start at 75%, which is not too far from the zero-coupon rate, and will increase linearly to 100% on the maturity date. This differs from most structures, in which the floor is subject to the current level of interest rates and, therefore, valuation of the bond that makes up its value. This structure avoids interest-rate risk, and the floor value will be known daily with certainty.

The CPPI mechanism will rebalance between the two assets if the value of the hedging portfolio moves by more than 10% in either direction. Although this seems unresponsive at first, as movements occur, the bands become progressively smaller (larger), increasing (decreasing) the sensitivity to the change in the value of the assets.

B.3 Rising Capital Protection

The protection strategy provides rising capital protection at 110% and 150% of A\$1.00 per unit on issue at maturity, less the dividends paid over the term of the structure. If on any trading day, the value of the hedging portfolio reaches either lock-in trigger, then the level of protection (or bond floor) at maturity will be stepped up to reflect this. This will be the worst-case scenario. If the hedging portfolio has a higher value than the lock-in trigger at maturity, then the trust still receives that higher value.

Should cumulative dividends be greater than 10%, and the profit lock-in remain at 110%, investors will receive 100% or A\$1.00 per unit on issue at maturity. It cannot become less than A\$1.00. It should be noted that the second trigger level of 150% is based on the issue price of A\$1.00 per unit, so even if the 110% trigger is locked in, the next trigger is A\$1.50, and it is not reset to become 150% of A\$1.10.

In some regards, the optimal return is one that is just shy of a lock-in trigger. For instance, should the 150% trigger be locked in, and 10% in cumulative dividends have been paid, the final cash value received will be 140% of the initial unit price. If the highest value of the hedging portfolio was 145%, and the investor also receives 10% in

dividends, then the final cash value would be 155% of the initial unit price. Although the lock-in is attractive in the event of a subsequent decline, it would have to be quite significant to negate the difference between the final outcomes.

Should a lock-in be triggered, CSi will recalculate the bond floor used in the CPPI mechanism to the trigger amount less any dividends paid. It then uses the CPPI mechanism to allocate between the notional portfolios at the new levels. This helps manage the leverage in a prudent form.

B.4 Participation Rate

A feature of the protection strategy enabled by the formulaic CPPI is that the participation in the performance of the hedging portfolio can vary between minimum of 25% and maximum of 125%. On day 1, participation starts at 100%, and has the potential to increase to 125%, but may never fall below 25%. Often, classic CPPI models, particularly for more volatile assets, reduce the level of participation on day 1 to reduce the risk of early bad performance resulting in the asset being wholly invested in cash.

Under formulaic CPPI, the hedging portfolio can never be 100% in the fixed-income portfolio. The trust will always have some investment should there be a large fall in value of the portfolio and subsequent recovery. Although the use of leverage may expose the trust to the notional portfolio by an extra 25%, there will be no extra fees for this leverage feature. Investors will pay for the cost of funding at the interbank rates.

B.5 Currency Hedging

The physical basket is valued daily in Australian dollars. The put option bought by CSi from the trust protects the capital invested in the physical basket at maturity from any currency movements.

The dividends on the stocks in the basket are converted to Australian dollars at the time of payment, and they are subject to foreign-currency movements. That said, dividend income is not expected to make up a large part of the total return to the investor.

Initial Composition of Notional Portfolio

Company name	Primary stock exchange
China Steel Corp.	Taiwan
Telefonos De Mexico S.A.B De C.V	U.S.
China Netcom Group Corp	Hong Kong
Gerdau S.A.	U.S.
Companhia Siderurgica Nacional	U.S.
China Telecom	Hong Kong
Arcelor Mittal	Netherlands
Hutchison Whampoa Ltd.	Hong Kong
China Unicom Ltd.	Hong Kong
Iberdrola S.A.	Spain
Hong Kong Electric Holdings Ltd.	Hong Kong
Endesa S.A.	Spain
CLP Holdings Ltd.	Hong Kong
ACS Actividades De Construccion Y Servicios	Spain
Keppel Construction Ltd.	Singapore
Tenaga Nasional BHD	Malaysia
Posco	Korea
Hyundai Heavy Industries Co. Ltd.	Korea
Cia Energetica De Minas Gerais	U.S.
Schneider Electric S.A.	France

Valuing the Hedging Portfolio

To calculate the value of the overall hedging portfolio, the manager takes the closing price of each of the 20 securities together with the fixed-income portfolio. It then deducts portfolio fees and dividends paid over the term of the structure. The portions allocated to the hedging portfolio and fixed-income portfolio reflects the performance of these two portfolios relative to the bond floor. For example, a 90% exposure to the hedging portfolio valued at A\$2,000 and a 10% exposure to the fixed-income portfolio valued at A\$5,000 would produce a hedging-portfolio value of A\$2,300. The manager subtracts all dividends that have been paid out along with the portfolio fee.

CSI calculates the value of the hedging portfolio daily, forming part of the valuation of the options. It will also calculate the physical basket daily. Together, these values less any outstanding fees will form the daily NAV.

Early Settlement Events

The trust may cancel the two options contracts it enters into before their maturity date, and pay out their current market value. This will occur if:

- Tax laws in any jurisdiction affect the viability of the product change; or
- There is a legal change resulting in the obligations under the derivative contracts to become illegal; or
- There is an event of default by either party to the derivative contracts.

If such an early termination event occurs, the trust will seek to invest the proceeds of the derivatives into similar assets. If it cannot achieve this, it will return the proceeds as a distribution. This is not an uncommon feature, and is part of the standard documentation for this style of investment. This distribution may be less than the A\$1.00 capital-protected amount.

Returns

The final return from the product will constitute:

- The semiannual distributions from the dividends on the physical basket less fees over the five-year term; and
- The value of the hedging portfolio *or* the proceeds after the sale of the physical basket, if they are greater.

Liquidity

Further Investment after the Initial Offer Period

For the first three years, EQT can issue additional units. Applications must be received by EQT before the 20th of the month, and it will issue units on the first day of the following month based on the greater of the ASX closing price or NAV on the last day of the preceding month. The minimum investment will be A\$20,000 (A\$10,000 for existing investors), and in multiples of A\$1,000 thereafter. Investors may also purchase further units on the ASX subject to liquidity and market pricing. Brokerage charges will also be payable.

Limited Liquidity Facility

A limited liquidity facility (LLF) has been made available to investors, which comprises an LLF provided by Credit Suisse, and the market making provided by Credit Suisse Equities (Australia) Ltd. (CSEAL). Credit Suisse will use reasonable endeavours to provide investors with the opportunity to buy and sell units off market on trading days. The LLF will be processed within 10 days of receipt of the LLF form,

using closing prices on the ASX at 4.00 p.m. the day it is processed. The LLF will automatically terminate on termination of the trust, or 90 days after Credit Suisse serves notice of the termination to the responsible entity. If the closing price is not available to Credit Suisse, it will determine the price in good faith using commercially reasonable judgement.

Redemptions

As noted, CSEAL will provide on- and off-market liquidity for investors wishing to sell units. This is subject to any major market dislocations. The price at which CSEAL will make a market will reflect the redemption value of the units in the trust. On day 1, this will be the issue price of the units or A\$1.00. The redemption value is then likely to change according to the NAV of the fund. There is no guaranteed depth at the bid price, so investors may still face some liquidity risk with these securities in that they may not be able to trade their entire holding at the advertised price. The support of CSEAL in making a competitive spread is a welcome addition in this product though.

For the off-market facility, requests must be received by the 20th of the month, to be processed on the last business day of the month. This will be at the market price at the close of business on the last day of the month. The only difference between the two forms of redemption is the brokerage charge to sell on the exchange.

Distributions

The trust will potentially pay distributions semiannually on June 30 and December 31, reflecting 100% of the trust's annual net income. Although the indicative basket may pay dividends at the time of writing, this is not guaranteed, and should not be relied upon. The value of the units may reflect income generated but not yet paid.

A distribution will comprise the investor's share of distributable income, and is not necessarily linked to the performance of the trust. Any distribution will be assessable for taxation in the year in which it was received. Investors have the option of reinvesting any distributions received.

Taxation

The following is a summary of the taxation section of the product-disclosure statement. Investors should consult a registered tax adviser regarding their own individual situation.

- Dividends on the underlying shares will form part of the income of the trust. When this is distributed each year to investors, it will form part of their assessable income.
- If the shares in the basket are disposed of for a gain, this will be on the capital account and subject to capital gains tax (CGT). If the trust holds these shares for more than 12 months, they should be eligible for the CGT discount. If a loss occurs in the financial year, the trust can carry this forward to be used in subsequent years.
- If foreign taxes are applied to the dividends paid by the shares in the basket, investors will not be able to claim foreign tax credits.
- Any gains or losses in relation to either the put or call options are of a capital nature, and will be subject to CGT rules. The CGT discount should be available in relation to those shares that have been held by the trust for at least 12 months.
- For investors who 100% gear into the product, expenses occurred to produce assessable income should be deductible. A product ruling for each loan product provided to investors has been requested from the Australian Taxation Office to confirm deductibility of interest associated with loans for investment.

Product Fees

With management through the annual rebalance, the trust is managed but not actively; this controls costs and enables fees to be kept reasonably low. There may be some indirect fees on the options, but these are in market ranges. Investment loans will be offered by both Ord Minnett Margin Lending and Macquarie Margin Lending. Indicative rates can be obtained from either organisation, but are likely to be the same rates as for their other margin-loan products. A 1.5% loan-application fee will be charged to investors. This will be taken at inception on top of the application amount.

Additionally, there is an up to 2% buy/sell spread (up to 1% either side), which will be built into the unit price. This is relatively high, and should be built into investors' expectation of returns.

Product Fees		
Fee type	Details	Purpose/entity
Administration fee	1.00% p.a. of the NAV	EQT
Portfolio fee	1.40% p.a. of the value of hedging portfolio, calculated and accrued daily, taken monthly in arrears	CSi
Loan-application fee	1.5% of the application amount	Margin-loan provider
Buy/sell spread	Up to 2% (buy 1%, sell 1%)	

Analyst(s): Simon Scott; Justine Gorman.

Release authorised by: Mark Hoven.

Rating Philosophy

A structured product rating is a qualitative assessment of a structures ability to provide exposure to the underlying asset class(es).

RATING
Investment Grade

In our assessment the product is an adequate structure to gain exposure to the underlying asset class(es).

RATING
Non-Investment Grade

In our assessment the product is an inadequate structure to gain exposure to the underlying asset class(es).

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