

Macquarie Capital Funds Limited
ABN 34 084 828 437
AFS Licence No. 235418
A Member of the Macquarie Group of Companies

No 1. Martin Place
SYDNEY NSW 2000
GPO Box 4294
SYDNEY NSW 1164
AUSTRALIA

Telephone +61 2 8232 3333
Facsimile +61 2 8232 4713
Internet: www.macquarie.com.au

14 May 2008

Marc Siegel
Risk Metrics
1 Chase Manhattan Plaza
New York
NY 10005



Dear Marc

Re: RiskMetrics Group Report: “Infrastructure Funds: Managing, Financing, Accounting – In whose interest?” April 2008

In relation to Macquarie, many of the propositions suggested in the RiskMetrics report are without foundation. Our detailed review has highlighted a number of inaccuracies and misinterpretations in the body of the RiskMetrics report. Macquarie is working through the identified points in detail with RiskMetrics Melbourne staff from where the report originated, in order to assist in the improvement of their understanding of the way Macquarie operates and manages its Funds.

However, Macquarie would make four statements of principle in response to the RiskMetrics report:

1. Since RiskMetrics first published the report in 2006 there have been a number of material developments in the areas of Macquarie-managed fund business activity, alignment of interest and disclosure. The omission of these developments in the April 2008 RiskMetrics report results in an incomplete representation of Macquarie, its reporting and its management of the funds and businesses in which the funds invest.
2. No Macquarie-managed fund pays distributions out of revaluations. Distributions are funded from a combination of operating cash flow and capital returns from assets.
3. There is no Macquarie participation in decisions by the fund boards on related party transactions. All related party transactions are externally benchmarked and/or reviewed by independent experts who provide an opinion on their arms length nature to the Independent Directors on the fund Board or to the funds Independent Prudential Review Committee.
4. Macquarie is motivated and rewarded on the total return (capital growth and distributions paid) delivered from investments made on behalf of fund investors. The base and performance fee structure rewards the delivery of sustainable and increasing returns from the businesses Macquarie manages on behalf of fund investors.

Below are examples of facts that counter errors, misunderstandings and omissions from the RiskMetrics report. We note that the facts below were available in the public domain or could have been sourced from Macquarie prior to the RiskMetrics report being published.

- Of over 120 businesses acquired by the listed and unlisted Macquarie-managed funds, over 90% of those businesses have been acquired directly by the funds. The acquisition of a business by the Macquarie Group for on-sale to a Macquarie-managed fund is an exception.

None of the entities noted in this document is an authorised deposit-taking institution for the purposes of the Banking Act 1959 (Commonwealth of Australia). The obligations of these entities do not represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (MBL). MBL does not guarantee or otherwise provide assurance in respect of the obligations of these entities.

WS: 1192128_2

- Macquarie has not declared a preference for developing unlisted funds. Macquarie will continue to develop listed and unlisted funds in response to investor demand.
- Macquarie discloses how it can be removed or replaced as manager of the Macquarie managed funds, including Australian listed funds.
- Calculation of Macquarie base fees is not based on the enterprise value of the businesses within the fund portfolio or the business level debt.
- Macquarie's external fund management model is the same as a number of major global private equity managers.
- Macquarie accepts that the accounting standards under which its funds operate make it difficult to understand the underlying performance of the funds' businesses based on the statutory financial accounts. As a result, some of the conclusions in the RiskMetrics report, which are referenced to the statutory financial reports, misinterpret the results. To address statutory accounting complexities, Macquarie produces detailed voluntary management information reports for all Australian listed funds which address key metrics including the operating performance of assets, distribution coverage from operating cash flows and debt levels.
- Macquarie-managed funds are charged market benchmarked fees for advisory and other services provided by the Macquarie Group.
- Base and performance fees charged by Macquarie-managed funds are in line, if not below, market norms.
- As the title of the report asserts, it is incorrect that acquisitions/investments of the funds are made with reference to the earning potential of Macquarie as an external manager, to the detriment of fund investors. The Macquarie Capital funds model is structured to ensure the alignment of interest between Macquarie Group, employees and fund investors. Evidence of this alignment is the fact that Macquarie and its executives combined have approximately US\$3.25bn invested in the funds which have delivered an 18.3%¹ compound annual return to investors since inception.
- Macquarie-managed listed funds always have a majority of Independent Directors. Directors of externally managed entities such as the Macquarie-managed funds have a fiduciary duty at law to prefer the interests of investors in the fund to those of Macquarie.

In addition to the points highlighted above please find attached a detailed analysis of the RiskMetrics report.

Macquarie has the privilege of the support of many private and sovereign institutional investors as well as hundreds of thousands of retail investors in markets around the world. Equity under management for Macquarie Capital Funds now exceeds US\$50 billion which today is invested in 120 operating businesses under the active management of Macquarie.

We can confirm that we take our responsibility to the investors and the communities that are served by the businesses in which we invest and our commitment to creating long term value for institutional and retail investors very seriously and at all times seek to apply the highest professional and ethical standards.

Yours sincerely



John Roberts

**Executive Director
Macquarie Capital Funds Limited**

¹ Annualised return based on all capital raised, distributions paid and valuations (market capitalisation for listed funds and net asset value for unlisted funds and managed businesses) for Macquarie Capital Funds since inception to 31 December 2007 (listed funds as at 31 December 2007, unlisted funds and managed businesses as at 30 June 2007). Calculated on an AUD basis, with cash flows converted at fixed exchange rates (based on the date of listing for listed funds, first close date for unlisted funds, and financial close date for managed businesses). Past performance is not indicative of future results and the investment objectives and investments of other Macquarie-managed vehicles will differ.