

Macquarie Fortress Fund

Interim Investment Update



6 August 2007

Macquarie Financial Products Management Limited (as responsible entity for the Macquarie Fortress Fund) (MFPML) wishes to provide a further update to the market in relation to the Macquarie Fortress Fund.

In accordance with prudent portfolio management, since 30 June 2007 the Investment Manager (Four Corners Capital Management LLC) has reduced the portfolio's leverage by selling senior secured loans with a face value of US\$130.7 million and using the proceeds to reduce the level of leverage within the portfolio. As at 3 August 2007, the senior secured loan portfolio had a face value of US\$326.7 million. It should be noted that the portfolio has been in compliance with its borrowing covenants at all times and the Investment Manager has not been subject to margin calls.

Senior secured loans have demonstrated more price stability in the last week after declining 4% in the month of July 2007, which was nearly twice as much as any previously recorded monthly decline¹. The portfolio is currently positioned to be able to deal with further price declines should they arise, however further substantial price falls may result in the Investment Manager deciding to sell more senior secured loans. The Investment Manager currently has no major concerns about the overall credit quality of the senior secured loans in the portfolio and has no reason to believe that the loans in the portfolio will not continue to pay their periodic interest and repay the principal outstanding at par.

In the process of managing the portfolio to reduce leverage to the current levels the Investment Manager has realised losses totalling US\$5.1 million which represent approximately 8% of the aggregate value of Macquarie Fortress Fund (or 8 cents per unit). Assuming that the remaining senior secured loans in the portfolio continue to generate their expected interest income and there are no further significant declines in the market value of senior secured loans, the portfolio should generate sufficient cash after absorbing the losses realised to date to enable MFPML to continue to pay distributions on the Macquarie Fortress Fund equal to its original return objective of BBSW plus 4.5% per annum. A decision regarding whether the distribution payment will be made to investors or retained in the portfolio as protection against further significant loan price declines will be made nearer to the payment date based on all of the available information at that time.

There has been no material change in the market prices of senior secured loans in the underlying portfolio since our update dated 31 July 2007 of a 20%-25% reduction in NAV although the most recent prices imply that the reduction is at the top end of this range. This represents a total reduction (including realised and unrealised losses) of approximately A\$19.5 million in the aggregate value of the Macquarie Fortress Fund or 25 cents per unit. As noted above, the reduction in net asset value is substantially unrealised but represents the theoretical outcome if the entire senior secured loan portfolio was liquidated at current market prices.

¹ The previous largest monthly decline was in September 2001, when prices declined approximately 2% in a period of high defaults by Senior Loan borrowers and after the attacks of September 11.

Investments in Fortress Notes are not deposits with, or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 ("Macquarie Bank" or "MBL") or any other member company of the Macquarie Group, including Macquarie Fortress Investments Limited in its own capacity. Fortress Notes are subject to investment risk, including possible delays in repayment and loss of income and principal invested. None of Macquarie Bank, Macquarie Fortress Investments Limited, or any other member company of the Macquarie Group, or Four Corners Capital Management, LLC, or Permanent Trustee Company Limited ABN 21 000 000 993 guarantees any particular rate of return, or the performance of Fortress Notes, nor do they guarantee the repayment of capital from Fortress Notes.

Investments in the Macquarie Fortress Fund (Fund) are not deposits with, or liabilities of, Macquarie Bank Limited (Macquarie), MFPML or of any Macquarie Group company, and are subject to investment risk, including possible delays in repayment and loss of income or principal invested. None of Macquarie, MFPML, or any other member companies of the Macquarie Group or the Portfolio Trustee or Four Corners Capital Management, LLC guarantees any particular rate of return, the performance of, or the repayment of capital from, the Fund, the Portfolio Trust or any other Fund investments.

Further Information concerning the Macquarie Fortress investments

In the various Fortress investment products the proceeds subscribed by investors were leveraged to acquire a portfolio of senior secured loans with an objective to pay distributions to investors on a quarterly basis equal to the bank bill rate plus 4.5% per annum. Senior secured loans are syndicated loans made to corporate borrowers primarily used to finance capital acquisition programmes, mergers and acquisitions, stock repurchases and internal growth. Senior secured loans generally hold the most senior position in a borrower's capital structure and are typically secured by a first-ranking security interest in the borrower's assets which may include assets such as cash, accounts receivable, inventory, property, plant and equipment, shares in subsidiaries, and intangible assets including trademarks, copyrights, patent rights and franchise value.

Macquarie Fortress Notes were issued and listed on the Australian Stock Exchange on three occasions between May 2005 and April 2006. Macquarie New Zealand Fortress Notes were issued and listed on the New Zealand Debt Exchange in May 2005. The proceeds of Macquarie Fortress Notes issued in Australia and New Zealand were, in turn, invested in the Knight Portfolio Trust. Currently, the notes listed in Australia are entitled to 84.9% of the Knight Portfolio Trust and the notes listed in New Zealand are entitled to 15.1% of the Knight Portfolio Trust. These proportions will vary with movements in exchange rates and to the extent any notes are cancelled following on market buy backs.

Units were issued in the unlisted Macquarie Fortress Fund between June 2004 and September 2004. The proceeds of issuing units in the Macquarie Fortress Fund were invested in the Fortress Portfolio Trust.

As at the present date there are 144.1 million notes listed on the ASX with a face value of A\$1 each, 28.7 million notes listed on the NZDX with a face value of NZ\$1 each, and 77 million units in the unlisted fund that were originally issued at a price of A\$1 each.

As at 3 August 2007, the Knight Portfolio Trust had a total par value of senior secured loans of US\$772.2 million and the Fortress Portfolio Trust had a total par value of senior secured loans of US\$326.7 million. In the period since 30 June 2007, the Investment Manager has made sales of senior secured loans with a par value of US\$157.1 million out of the Knight Portfolio Trust and sales of senior secured loans with a par value of US\$130.7 million out of the Fortress Portfolio Trust.

The realised and unrealised reduction in value across all of these portfolios is approximately US\$12.2 million and US\$39.8 million respectively for a total reduction in value of US\$52 million, not \$300 million as has been suggested in some reports.

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