

# Macquarie Fortress Fund

## Interim Investment Update



8 April 2008

Macquarie Financial Products Management Limited (MFPML) as Responsible Entity of the Macquarie Fortress Fund ARSN 107 933 700 (Fund) wishes to announce that a refinancing of the borrowings for the underlying portfolio of US Senior Loans (the Portfolio) was successfully completed on 4 April 2008 US time.

### Summary

The new financing differs from the previous financing in a number of important ways including:

- the new financing is committed for 8 years (although it may be repaid earlier at MFPML's discretion);
- the new financing will not have to be repaid early if the market value of the Portfolio declines; and
- all cash flows generated by the Portfolio (including all interest and principal repayments from the underlying Senior Loans) must be used to meet interest and ongoing Portfolio expenses with any excess cash flow being applied to reduce the principal outstanding on the new finance. Therefore it is not anticipated that there will be any further distributions on Macquarie Fortress Fund units (Units) until the new financing has been fully repaid (distributions paid to investors to date total 37.4 cents per Unit).

The Fund is illiquid<sup>1</sup> and the terms of the new financing, whereby all excess cash from the Portfolio must be first applied to pay down the new financing, are expected to mean that the Fund will continue to be illiquid until such time as the new financing is repaid in full. This means that investors are, and will remain, unable to redeem their Units in the Fund unless MFPML offers investors a withdrawal offer from an identified source of funds. An offer of a withdrawal opportunity will be sent to all investors by MFPML and it is very important that investors carefully read the terms of the withdrawal offer and that investors seek financial advice before deciding whether or not to make a withdrawal request to participate in the offer.

The date by which the new financing will be fully repaid, and hence when distributions and regular redemptions from the Fund can recommence, depends on a range of factors affecting the Portfolio including default and recovery rates, prepayment rates on the Senior Loans in the Portfolio, and underlying interest rates. Although it is not possible to state with certainty when distributions and regular redemptions will recommence, currently it is not expected to be within 4 years.

The final return to investors is uncertain and also depends on the range of factors affecting the Portfolio including those that are listed above as well as the AUD:USD foreign exchange rate. If the Portfolio has no defaults, which should not be assumed to be the case, the Net Asset Value (NAV) could recover to 87 cents per Unit in due course (see table below).

### Withdrawal (redemption) offer

In the next few days a withdrawal offer will be dispatched by MFPML that will give investors the opportunity to withdraw from the Fund to the extent of the Fund's available cash. The withdrawal offer will be open for at least 21 days, and the withdrawal price will be based on the Fund's NAV as at the close of the offer. The

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<sup>1</sup> The Corporations Act provides that a fund is illiquid unless (among other things) cash or marketable securities (unless the responsible entity cannot reasonably expect to realise them within the time for meeting redemption requests) or other assets that can be realised within the time for meeting withdrawal requests account for at least 80% of the value of the Fund's property. The loan notes issued by the Fortress Portfolio Trust no longer meet this requirement.

number of Units for which withdrawal requests can be satisfied is limited to the amount of identified available cash. If total requests exceed the amount of identified available cash then requests will be satisfied and withdrawals made pro rata to requests. Investors will be paid their withdrawal proceeds within a further 21 days after the offer closes.

Details of the withdrawal offer and the withdrawal request form will also be available on the Fund's website at [www.macquarie.com.au/fortressfund](http://www.macquarie.com.au/fortressfund).

In light of the Fund's illiquidity, MFPML will not be able to accept the redemption requests it has received for the 30 April 2008 quarter. Redemption requests received to date by MFPML will not be taken to constitute requests to participate in the withdrawal offer. Investors will have the opportunity to assess the new financing information and decide whether they wish to lodge a withdrawal request to participate in the withdrawal offer. Withdrawal requests will only be considered if they are in the form that will be sent to investors with the withdrawal offer.

After the withdrawal offer is concluded, it is not anticipated that future withdrawal offers would be made unless there are available proceeds (for instance from new applications (if any) for investment).

### Further information

Because the new financing allows the Portfolio to be stabilised and protected from further sales if Senior Loan prices decline, MFPML has reinstated the foreign exchange hedging arrangements to reduce the exposure of Units to foreign exchange rate movements.

As an example of possible outcomes, MFPML has calculated the following table (NAV in cents per Unit), based on various annual default and recovery rates, and assuming:

- all financing costs and expenses are taken into account;
- the Portfolio repays evenly over 5 years;
- there are no acceptances under the withdrawal offer \*; and
- all distributions paid on the Units to date have been excluded.

Annual Default Rate	Recovery Rate			
	90%	80%	70%	60%
0.00%	0.87	0.87	0.87	0.87
2.00%	0.85	0.84	0.83	0.82
4.00%	0.84	0.81	0.79	0.76
6:00%	0.82	0.79	0.75	0.71

There is no guarantee or assurance of any particular outcome or that the actual outcome will be within the range of outcomes listed in the table above.

\*To the extent there are acceptances under the withdrawal offer which are met out of the cash balances currently held by the Fund, it is anticipated that the possible outcomes noted above would be enhanced as the figures in the table above assume that the current cash balances earn the current bank bill rate for the next 5 years (which at the relevant default and recovery rates specified has a dilutive effect on the potential earnings from the portfolio).

## Further Information Concerning Macquarie Fortress

Macquarie Fortress is an investment product which represents less than 0.5% of assets under management by the Macquarie Group.

In the various Fortress investment products the proceeds subscribed by investors were leveraged to acquire a portfolio of Senior 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 Loans are syndicated loans made to corporate borrowers primarily used to finance capital acquisition programmes, mergers and acquisitions, stock repurchases and internal growth. There is an active secondary market in Senior Loans. These 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 quoted on the Australian Securities Exchange on three occasions between May 2005 and April 2006. Macquarie New Zealand Fortress Notes were issued and quoted on the New Zealand Debt Exchange in May 2005. Units were first issued in the unlisted Macquarie Fortress Fund in June 2004. Total interest payments on Fortress Notes or income distributions on Fortress Fund, expressed as cents per note/unit since inception are as follows:

Macquarie Fortress Fund (AUD)	37.4 cents per unit
Macquarie Fortress Notes (AUD)	25.4 cents per note
Macquarie New Zealand Fortress Notes (NZD)	29.5 cents per note

As at the current date there are 141.5 million notes quoted on the ASX with a face value of A\$1 each, 28.7 million notes quoted on the NZDX with a face value of NZ\$1 each, and 68 million units in the Fund.

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