

# Macquarie Fortress Fund

## Interim Investment Update



**29 February 2008**

Macquarie Financial Products Management Limited (as responsible entity for the Macquarie Fortress Fund) (MFPML) wishes to advise that the net asset value (NAV) per Unit as at 31 January 2008 was 53.2 cents. This NAV has not been audited.

MFPML estimates that the NAV as at 27 February 2008 was approximately 32 cents per Unit (including estimated accrued income). The actual NAV as at 29 February 2008 will be quantified and reported by the end of March 2008.

Since the investment update on 11 February 2008, the Investment Manager (Four Corners Capital Management, LLC), has sold Senior Secured Loans (Senior Loans) from the portfolio with a face value of US\$19 million using the proceeds to reduce debt. As a result of these sales, the portfolio has realised losses totalling US\$2.8 million which represents approximately 4.2 cents per Unit. Cumulative realised losses as a result of the sales undertaken since July 2007 now represent US\$26.8 million (or 42 cents per Unit outstanding), however a portion of these realised losses have been borne by redeeming investors. If all remaining Senior Loans in the portfolio repay their principal at Par the NAV would increase to 60 cents per Unit (implying realised losses to date for remaining investors of approximately 40 cents per Unit).

The remaining portfolio comprises Senior Loans with a face value of US\$131 million and net debt outstanding that currently amounts to US\$92 million. The current market value of the portfolio, as determined by an independent pricing service is US\$113 million and this value has been used in estimating NAV. However given current market conditions, the Investment Manager believes that a sale of the remaining portfolio would be unlikely to realise the current market value.

The Portfolio breached its borrowing covenants for the first time on 12 February 2008 as a result of a decrease in the market prices of Senior Loans in the portfolio. This breach was rectified by Senior Loan sales undertaken on 21 February 2008 which are included in the total sales disclosed above.

Despite the remaining Senior Loans in the portfolio continuing to generate their expected interest income there will be no distribution paid for the quarter ended 31 January 2008 as the cash flow generated by the Senior Loan portfolio will be retained as a precaution against further deterioration in Senior Loan prices. MFPML is not able to provide any guidance in relation to distributions beyond this date until there is more stability in the prices of Senior Loans.

As noted in previous investment updates, the leverage for the underlying Senior Loan portfolio is provided by a combination of AAA rated notes which mature by August 2008 and a US\$150 million revolving credit facility committed until July 2010 provided by a US financial institution. The revolving credit facility contains identical borrowing covenants to those contained in the AAA rated notes. We continue to seek to arrange a refinancing that does not have regard to the market value of the Senior Loans in the portfolio but which relies on the credit quality of the Senior Loans. There can be no assurance that such a facility will be able to be obtained. We will provide more information to investors on any progress in this regard as it becomes available.

Since the 11 February 2008 investment update the FX hedging arrangements that had been in place have been terminated due to the uncertainty surrounding the future net asset value of the portfolio. The termination of the hedging arrangements resulted in the realisation of a gain which had previously been reflected in the NAV as an unrealised hedging gain. Accordingly, the NAV is currently exposed to

movements in the exchange rate between the Australian dollar and US dollar. Reinstatement of the hedging arrangements will be evaluated if a refinancing that does not contain market value triggers is able to be successfully arranged. Given the credit risk a hedge provider would be taking against the portfolio, there is no assurance that suitable hedging arrangements will be available on acceptable terms.

### **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.

As at present 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 70 million units in the unlisted fund.