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29 February 2008

Kim-Ly Nguyen  
Senior Companies Officer  
Australian Securities Exchange  
Level 6  
20 Bridge St  
SYDNEY NSW 2000



Dear Kim-Ly

For Announcement to the market

### **MACQUARIE FORTRESS NOTES – NAV ANNOUNCEMENT AND IMPORTANT INVESTMENT UPDATE**

Macquarie Fortress Investments Limited (as trustee for the Macquarie Fortress Australia Notes Trust) (MFIL) wishes to advise that the net asset value (NAV) per Note as at 31 January 2008 was 53.3 cents. This NAV has not been audited.

MFIL estimates that the NAV as at 27 February 2008 was approximately 30 cents per Note (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 announcement 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\$107.5 million using the proceeds to reduce debt. As a result of these sales, the portfolio has realised losses totalling US\$15 million which represents approximately 10% of the aggregate face value of Fortress Notes (or 10 cents per Note) bringing the aggregate realised losses to 42 cents per Note. These losses are reflected in the estimated NAV of 30 cents as at 27 February 2008.

The remaining portfolio comprises Senior Loans with a face value of US\$314 million and net debt outstanding that currently amounts to US\$225 million. The current market value of the portfolio, as determined by an independent pricing service is US\$272 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 second 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.

As noted in previous announcements, the leverage for the underlying Senior Loan portfolio is provided by a combination of AAA rated notes which mature in mid-April 2008 and a US\$125 million revolving credit facility committed until mid March 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.

Despite the fact the remaining Senior Loans in the portfolio continue to generate their expected interest income the interest rate payable on Fortress Notes for the quarter ended 29 February 2008 will be zero as the cash flow generated by the portfolio will be retained as a precaution against further deterioration in Senior Loan prices. Due to the uncertainty around the refinancing MFIL is not able to provide any guidance on any potential future interest payments.

Since the date of the last announcement 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.

Yours sincerely

**Macquarie Fortress Investments Limited**



**Peter Lucas**  
Director

#### **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.

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