

Analyst(s): Simon Scott; Greg Barr

Product Facts

Name:	Celsius New Zealand Income Fund Series 1	Open date:	Nov. 28, 2007	Issue price:	NZ\$1.00
Offshore fund:	New Zealand Income Fund	Close date:	Dec. 21, 2007	Min. investment:	NZ\$5,000
Investment manager:	Barclays Bank PLC	Maturity:	Mar. 12, 2013	Multiples:	NZ\$1,000
Trustee:	Perpetual Trust Ltd.	Issue date:	Dec. 28, 2007	Units on offer:	NZ\$150million

Standard & Poor's View

Standard & Poor's has assigned a 'Strong' rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has scored strongly in a number of categories but may not be suitable for all investors.

The share basket that underlies this product will be selected from a shortlist taken from the Dow Jones STOXX Global Select Dividend 100 Index. This index is well-established and uses a sound methodology to rank global shares with a high dividend yield. Although this could have been done in-house by Barclays, using the index gives investors a stronger degree of transparency and structure to the product. The quarterly rebalance is optimal and allows implementation of the investment strategy while also providing for changes in the value of the underlying stocks. Using a collar to create extra income and control downside exposure helps reduce volatility and provide greater consistency of income. A fall in the stock price will harm NAV and consequently income as the target distribution is paid on the current NAV. However a bear market would be the main driver for this as a consistent quarter on quarter drop in the share price of a number of stocks would be needed for serious NAV erosion.

The structure that has been placed around this basket of stocks is relatively complicated but this is due to the entities that need to be involved to ensure the product complies with the new regulations in New Zealand. In this context, the number of entities has been kept to a minimum and there are no related party issues with the structure. While there are some fees involved they are fair and do relate to specific tasks performed by the different parties. This does reduce some of the extra gains that the new regulation offers but is not too detrimental and investors are still better off than under the previous regulations.

Benchmark correlations are likely to be low although there may be some concentrations of assets within an industry or country. The on and off market liquidity, product transparency and tax effectiveness of the structure all combine within the legal framework to clearly allow the structure to enhance the underlying offering.

Investor Suitability

This product is suitable for those investors seeking:

- A product designed specifically for New Zealanders;
- The potential for a regular income from global equity markets, but with lower volatility and minimal currency exposure;
- An investment in blue-chip global equities;
- An opportunity to reallocate some-fixed income exposure;
- To avoid or reduce credit markets, debenture, direct-equity, or deposit exposures;
- Attractive income levels, but with lower risk by using a tax-efficient structure;
- Liquid investments with the ability to exit at NAV;
- The chance for distributions to be paid after tax; and
- A reduced exposure to growth investments for security of capital and potential of income.

Product Characteristics

	Low	Medium	High
Income Potential			
Income Risk			
Benchmark correlation			
Asset diversity			
Leverage			
Cost			
Liquidity			
Transparency			
Tax efficiency			
Capital	Unprotected	Protected	Guaranteed

Key Features

- Product aims to take advantage of new fair dividend rate (FDR) and portfolio-investment entity (PIE) regulations;
- Two liquidity options for investors;
- The potential for increased income levels with lower volatility;
- Quarterly rebalancing will help remove underperforming shares;
- Allowing for greater investment in global equities, and an alternative to debentures, structured credit, and direct equities without sacrificing returns;
- Income may be paid after tax, so does not need to be included in annual returns; and
- Allowing for leverage and currency hedging in a tax-effective form.

Key Concerns

- There is no guarantee of income stream;
- Upfront costs will erode net asset value (NAV) at inception;
- The price of the individual shares may fall, but a number of shares need to fall for a continuous period to result in a large capital loss;
- The product provides income but is subject to equity market risk although the collar around each share and the rebalancing will help control the volatility; and
- Although listed, there is not guarantee of trading at NAV or in sufficient depth. The off market redemption facility at NAV should mitigate this and keep the market price close to the NAV.

Investment Aim

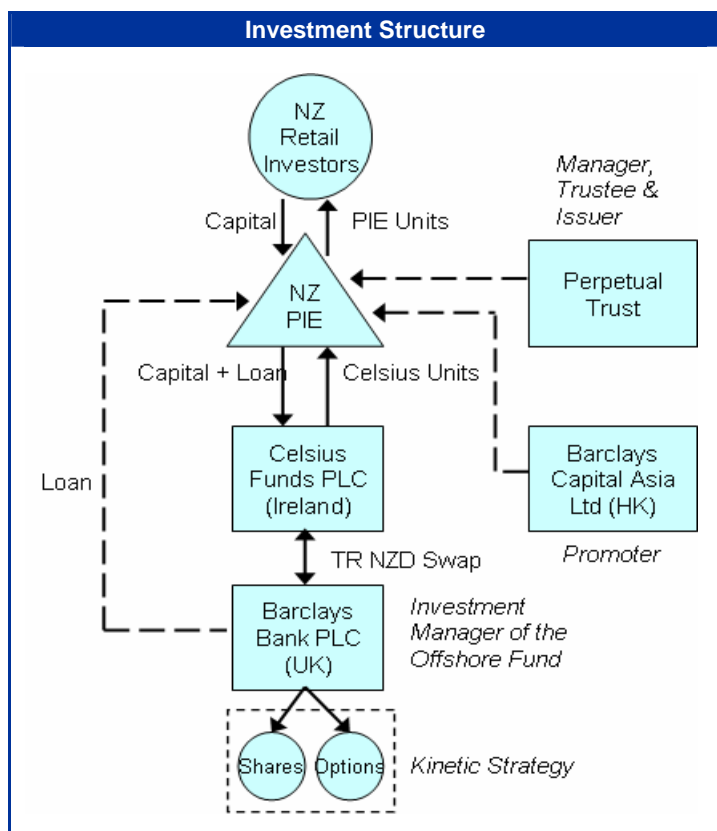
The fund is an investment designed specifically for the New Zealand market. It is intended that the fund be a listed PIE investment that aims to provide after-tax income through exposure to global equities through an investment in an offshore fund. The offshore fund enters into a swap providing exposure to the global shares, and the investment strategy that increases income and manages downside risk.

Interested Parties

Interested Parties	
Entity	Role and responsibility
Perpetual Trustee Ltd.	Trustee, manager and issuer. Also performs management functions.
Celsius New Zealand Income Fund (offshore fund)	A fund of Celsius Funds PLC, an open-ended investment company domiciled in the Republic of Ireland. It currently manages 27 products.
Barclays Capital Fund Solutions	Investment manager of the offshore fund
Barclays Capital Asia Ltd.	Promoter, director of the product
Macquarie Equities New Zealand Ltd.	Lead manager. Places and distributes the product in New Zealand.

Investment Strategy

To be eligible for FDR status (see taxation section for more details), the fund will invest in global shares issued by the offshore fund, which has been created as a PIE investment. The fund, through the investment strategy, aims to achieve a net quarterly distribution equal to 9% p.a. of current NAV. For any distribution to be paid depends on the performance of the investment strategy.



The offshore fund will have only one asset, which is a derivative contract. This contract is a total-return swap that contains the cash flows from the dynamic loan, the shares themselves, and the options. It aims to generate the investment objectives through the investment strategy. This strategy is well known, and has been applied in various forms in virtually all global equity markets. The strategy will comprise of three events, and the value derived from the strategy will depend on the performance of a basket of shares selected from the Dow Jones STOXX Global Select Dividend 100 Index (DJ GD100), any dividends paid on the shares in the basket, the cash components, and any net option premium derived from the purchase or sale of options.

1. Purchase of a basket of shares

Each quarter, the strategy selects and purchases 20 shares from a universe of shares according to predetermined criteria. The strategy will reference a notional (i.e. not physically hold) basket of shares, and will receive any dividends paid on the stocks in the basket. The average dividend yield paid on a stock is about 4%-6% p.a. To increase income to the target level, the strategy places a collar around the shares using options.

Selection Criteria

The basket will always contain 20 shares from the universe, which is defined as the listed shares that make up the DJ GD100. The strategy will employ a share-selector mechanism, which involves two stages.

The first stage is a liquidity screen, which removes shares with a market capitalisation of less than US\$1 billion, or those that have a daily turnover of less than US\$10million from contention.

The second stage ranks shares that are expecting a dividend in the coming quarter are ranked according to their expected dividend yields (expected dividend/current closing price). It ranks those shares remaining by their historical dividend yields. The historical dividend yield is the sum of all dividends that would have been paid if the share had been held for the prior 12 months divided by the closing price of the shares.

The strategy then selects the top 20 shares from the ranking. Should two shares have the same dividend rank, it chooses the larger of the two by market capitalisation. This selection is subject to a single-issuer limit that allows only one share class of an organisation to be chosen.

If the ranking results in less than 20 shares, the missing shares are replaced by a NZ-dollar cash deposit that will accrue interest at the same rate as the term cash component. This is known as a deemed basket constituent, and will have no option strategies placed around it.

The swap will build a currency hedge into the strategy to manage any risk from holding foreign shares, and it hedges the investment strategy monthly into New Zealand dollars. Each quarter, the strategy repeats the process to ensure that it holds the best stocks.

Because each stock will be no more than 5% of total assets, even in the unlikely scenario that that company went out of business, the maximum loss to the portfolio would be 0.5%.

2. Selling a Call Option

To gain extra income, the strategy will sell call options over each share. The minimum price will be struck at 102% for the market price for a duration of roughly three months. Therefore, if a share is trading at US\$100, the strategy will sell a call option at a minimum price of US\$102. Because the strategy is selling an option for the period, it receives a premium from the other party for giving it the right to buy the option at US\$102 in three months; the strategy adds this extra income to the dividend received from the stock.

If the stock rises to US\$105, the strategy must give the share to the other party, and receive US\$102 for it, so it is losing US\$3 over the current market price. The strategy is therefore giving up some potential upside for a known income level. It is receiving US\$2 and the premium that it received for the option though. If the share price was to remain at US\$100, then only the premium from the option would be received by the investor.

By keeping the strike between 102% and 105% of the current share price when setting the strategy, the strategy is keeping the probability high that the share price will move above the strike price, and that the other party will be able to buy the share from the strategy at a price cheaper than in the open market. Therefore, the option is of greater value to the counterparty, and it is willing to pay a higher price to obtain the option than it would if it was struck at 120% of the market price of the share. Investors will also benefit (lose) from increases (decreases) in volatility for the sale of the call option.

3. Buying a Put Option

The share in the above example may have fallen in price instead. To counter this, the strategy will also take insurance by purchasing a put option at a strike price of 90% of the current market price. What this means is that the strategy is locking in a maximum loss of 10%, because if the share falls by 10%, the strategy can deliver the share to another party. The strategy will still receive the premium for selling the call option, and in most cases this should cover the cost of buying the put option. The duration will also be for roughly three months, which matches the duration of the share-basket-rebalancing process.

Should the worst case scenario occur, and the market experiences large moves in volatility, the income received will be in the 2%-4% range while the downside is capped at 10%. If this happened for a number of shares for a number of investment periods, the NAV would fall quite steeply, exposing investors to a large capital loss.

Each quarter, the strategy uses a competitive bid process to ensure that all prices paid and received for the options are at market and fair.

Allocation of income received

The manager will allocate any income received by the strategy to one of the following strategy cash components:

- Term cash component: this will contain any premiums received from selling the options. This will earn income at a rate of 1 month NZ LIBOR less 0.2% p.a.
- Daily cash component: this will contain any dividends received and any residual cash. This will accrue at a rate of the overnight deposit rate for New Zealand dollars less 0.2% p.a.
- Balancing cash component: this will contain dividends declared for shares invested before the ex-dividend date, but not yet received. Once received, they are reallocated to the daily cash component.

Although sitting in cash for up to three-months, the sub-cash rates are not ideal for investors' compared to the rates that may be achieved with local on-call accounts.

Example of How Income Is Generated

1. The dividends from the shares may provide a return of about 4%-6% on the current NAV.
2. Option premiums from the sale of calls may generate between 13% and 16% on the current NAV.
3. The costs of buying the put options may be in the range of 6%-8% on the current NAV.
4. Overall, this would give a pretax, prefee income of 11%-14% on the current NAV.

DJ GD100

The index comprises high-dividend-yielding stocks from the U.S., Asia-Pacific and Europe. The index selects from each region separately, and they contain 40%/30%/30% of components respectively. The selection process for the index is as follows:

1. For each region, the index sorts the companies by country, and ranks them in descending order of indicated annual net dividend yield, with only one stock per company allowed.
2. It then calculates an outperformance factor for each company. This is done by taking the net dividend yield and dividing by the net dividend yield of the respective country total-market index (TMI) minus 1. For Asia, if there are fewer than 20 stocks for a country, the index uses the regional Asia-Pacific yield to calculate the outperformance factor.
3. It then sorts all countries sorted by their outperformance factor.
4. All components ranked 80/60/60 (U.S./Europe/Asia) or higher are eligible for the index.

5. The index adds the highest ranked components are added until it reaches a 40/30/30 count (U.S./Europe/Asia).
6. It implements a maximum of 30 companies per country in the Americas and 10 companies in Asia.

Because the strategy chooses the components according to their dividend growth, there is no sector or regional theme. Indeed, there may be large weightings to certain industries at various points. By using stocks that exhibit high dividend growth, the investment strategy becomes a more valid proposition, because most of the components are uncorrelated. This results in lower volatility and, therefore, option prices. Additionally, most of the constituents are large blue-chip shares that generate consistent levels of cash flow.

An examination of the risk/reward and total performance of the index over the past 10 years shows that it has performed strongly against global equity markets. It also held up well in the bear market of 2000-2002, although for the purposes of this product, investors are more concerned with the low volatility than the total returns of the index. However they also need to be aware that large consistent falls in the index will gradually erode their capital and income will reduce as the target objective is based on the current NAV.

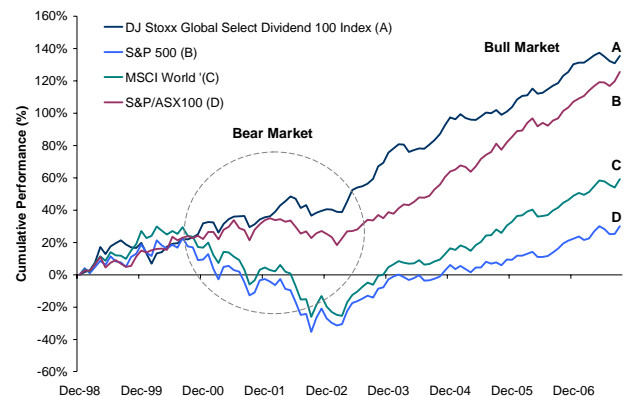
The table overleaf shows the current top 10 components per region. This gives an indication of the types of companies that are likely to be included in the strategy.

Risk and Return (December 1998–September 2007)

	DJ GD 100	S&P/ ASX 100	MSCI World	S&P 500
Compound annual growth rate (% p.a.)	15.68	14.50	5.97	2.48
Total return (%)	135.37	125.60	59.12	30.03
Annualised return (% p.a.)	15.32	14.35	6.76	3.43
Volatility (% p.a.)	10.83	10.29	13.25	13.85

Source: Barclays Capital, Bloomberg.

The Index vs. Global Equity Indices (at Sept. 30, 2007)



Source: Barclays Capital, Bloomberg.

Leverage

To increase exposure to the strategy, if circumstances permit, the fund may purchase extra shares in the offshore fund. This will only occur if the difference between the cost of borrowing and the target distribution rate is greater than 3% p.a.

At inception, there will be leverage of 20% of the NAV. This will be used to purchase offshore-fund shares, and will vary upward and

downward during the term. The maximum amount that can be borrowed is 50% of the NAV.

The fund will only use leverage in these circumstances, and not to increase returns unnecessarily or as a means of NAV support.

DJ GD 100 –

Top 10 Components Per Region (at Sept. 28, 2007)

Company	Sector	Net dividend yield (%)	Market cap (bils. €)
United States			
New York Community Bancorp Inc.	Financials	3.67	3.81
Southern Copper Corp.	Basic Materials	3.62	6.39
Verizon Communications	Telecoms	2.72	90.25
DTE Energy Co.	Utilities	3.06	5.81
Washington Mutual Co.	Financials	4.44	21.47
Bank of America	Financials	3.56	159.00
Bank of Montreal	Financials	3.23	23.02
Toronto-Dominion Bank	Financials	2.24	38.89
AT&T Inc.	Telecoms	2.35	181.45
US Bancorp	Financials	3.44	39.49
Europe			
Vodafone Group	Telecoms	3.83	134.05
Lloyds TSB	Banks	6.40	43.86
United Utilities	Utilities	6.42	8.83
France Telecom	Telecoms	3.83	44.45
Statoil	Oil & Gas	3.72	15.02
Deutsche Telekom	Telecoms	4.12	41.05
RWE Essen Pref	Utilities	3.50	3.08
ENI	Oil & Gas	3.51	63.72
Belgacom	Telecoms	4.36	5.11
DSG International	Retail	6.57	3.52
Asia-Pacific			
Citic Pacific Ltd.	Industrials	3.43	3.36
Telstra Corp.	Telecoms	6.42	9.81
CBA	Financials	4.54	45.22
Singapore Telecom	Telecoms	2.76	10.10
Singapore Technologies Engineering	Industrials	1.03	2.42
Westpac	Financials	4.32	32.49
ANZ Group	Financials	4.41	33.75
Suncorp-Metway	Financials	5.27	11.66
BOC Hong Kong	Financials	4.44	6.36
Insurance Australia Group	Financials	5.62	5.86

Returns

The fund aims to pay a quarterly distribution equal to a post-tax net income of 9% p.a. (roughly 2.25% per quarter). This is an aim, is based on the current NAV and is not guaranteed. The manager intends to pay these distributions six weeks after the first day of March, June, September, and December. The manager expects to distribute all net income received by the trust each year. It expects to pay the first distribution on April 11, 2008.

Unit holders may also benefit (suffer) from an increase (decrease) in the market price of their units.

Taxation

The following is a summary from the investment statement and prospectus (ISP), and does not constitute tax advice. Investors must consult a registered tax advisor to discuss their personal circumstances before making any investment.

From October 2007, new taxation legislation is in place creating new investment vehicles called PIEs. PIE investments have features making them more attractive than managed funds.

Before October 2007, all funds were taxed at 33% regardless of the marginal tax rate of the investor. PIE investments will have any taxable income earned within the PIE taxed at 33% (30% after April 2008). Barclays has received a letter of comfort from the Inland Revenue in New Zealand regarding the likely tax treatment of the product.

- The fund intends to pay out all net income each year, and will be taxed as a PIE investment at 33% (30% after April 2008).
- Investors on 19.5% marginal tax rate will pay 19.5% tax on any taxable income in a PIE investment. Investors on a 33% or 39% marginal tax rate will pay 33% tax on the PIE investment, reducing to 30% after April 2008.
- Payments made from the PIE investment to investors will be made after tax, so no tax returns are needed.
- Investors may elect to be taxed on the distributions to the effect that they are fully imputed. This is of most benefit to investors on a 19.5% marginal tax rate.
- Investors who are not individuals will only be taxed on distributions to the extent that they are fully imputed, and will receive the benefit of any attached imputation credits. These credits should fully offset the tax on the distribution for most investors.
- Nonindividual investors on a 33% tax rate will be subject to a residual 3% tax liability on fully imputed distributions from April 2008.
- PIE investments can also net off fees against taxable income.

The FDR has been chosen as the method to tax non-New Zealand-resident companies or unit trusts. The FDR rate is set at 5% and aims to reflect the average level of dividends paid from overseas shares. Investors will pay a maximum of 5% of the opening market value of the overseas shares at the start of the year. If the total return is less than 5%, investors will pay tax on the lower amount. They may also be able to deduct expenses from taxable income. This is beneficial for global equities, but not so for debt products, which are still taxed at marginal rates.

- Income from the offshore fund will be calculated using FDR, and the fund will pay on its deemed amount and not its actual amount of income.
- There are no foreign-investment fund (FIF) implications.
- When investors sell their units, any gain or loss will be on the capital account and charged at the appropriate rate.

Examples of Yield Pickup Within a PIE-investment

Assuming that:

- The product aims for a target return of 9% p.a. (similar to debentures and higher than local deposits).
- The investor is on a 39% marginal tax rate.

Then:

- A non-PIE investment before FDR would distribute a net income of 5.5% ($9\% \times (1 - 0.39)$).
- A post FDR PIE-investment would distribute 7.5% of net income. (Taxable income is capped at 5% and the post-April 2008 PIE investment will be taxed at 30%. So tax payable is 1.5%, leaving a 7.5% distribution.)
- Investors on higher marginal rates of tax will therefore receive a yield pickup of about 2% over a return in a non-PIE investment.
- To obtain a net 9% return on a 39% marginal tax rate would normally require a return of 14.8%, which is obviously a much more risky investment. PIE helps investors keep an attractive income level, but at more conservative risk levels.

Applications/Redemptions

The fund will be listed on the New Zealand Exchange (NZX). After the listing date, parcels of greater than NZ\$250,000 will be available for purchase each week from the trustee at NAV. Brokerage fees of 2% will be payable on that amount.

The fund may trade on the exchange at above or below NAV, and there will also be brokerage charges to pay should an investor wish to redeem through the exchange. There will be no formal support for the shares, other than the requirement to make a reliable bid/offer spread. There is no guarantee that investors will be able to exit their entire investment at the quoted price.

Investors may also redeem units weekly by application to the trustee. This will be at the NAV per unit less 1%, and there is a minimum of 5,000 units. Any proceeds from redeeming under this option will be paid two days after the sale date.

Fees

As the product offers a tax-effective solution they are more entities involved than would normally be the case. The fund had to be created and located offshore, which means more counterparties are involved than would normally be the case for a non-tax-effective product. Although total costs may seem high, investors must consider this in terms of their expectations; that is, if the fund delivers its stated objectives of a consistent income level, and there is no NAV erosion, detailed examination of each fee item will be less relevant than if expectations are not met. Indeed the management of the underlying fund is within the boundaries of similar products offered.

NAV at Inception

The application price will be NZ\$1.00 per unit. Due to brokerage fees and lead manager fees being taken from capital raised, the NAV at inception will be a minimum of NZ\$0.97. The 0.25% difference will be made up by the promoter.

Fund-Level Fees

Most of the fees in this section relate to professional entities involved in the creation, administration, or placement of the fund.

- The lead manager will receive 1.25% from the total capital raised. Of this, 1% will come from the capital raised with the balance coming from the promoter. This fee is for the lead manager's role in promoting and raising capital for the product
- Up to 2% of the total capital raised for "firm allocations", and up to 1.5% for all others, will be paid to the NZX primary market participant, the lead managers, or other intermediaries stamped on the application form. This is an upfront advisor fee and may be rebated in part or in full. If no stamp is placed on the application form, the lead manager will receive the fee.
- The trustee and statutory supervisor fees are reasonable and in line with similar products. From time to time, the trustee may deduct further costs that are required as perform its duties under the trust deed. These will be taken from any potential distributions from the fund.
- For any additional borrowings, the fund will charge a fee of the bank-bill rate plus 0.85% p.a., although this is subject to change so cannot be verified before application. Barclays will be borrowing funds at the rate applicable to its current 'AA' credit

rating. Therefore, S&P would expect the spread to remain constant, although the underlying bank-bill rate may vary.

- There are also other ongoing fees and costs, which at inception are indicated to be about 0.14% p.a. This will be for administrative tasks and custody services, and will be taken from distributions. This number is variable, and is not capped.
- A redemption charge of 1% of NAV per unit redeemed will be charged for off-market redemptions. On exchange redemptions will incur a brokerage charge which is broadly equivalent. This will cover all break and unwind costs of the structure.

Offshore Fund

- The offshore fund will pay a management fee to the investment manager of 1.83% p.a. of the NAV of the offshore fund. This fee will be on the total NAV including any leverage amount (likely to be 20% at inception). This is in the range for similar managed funds. The manager is UCITS III compliant, oversees the operations of the fund, performs the quarterly share rebalance, and provides daily valuations. The fee will be payable out of the assets of the offshore fund.
- The offshore fund will also charge up to a further 0.20% p.a. of its NAV to cover any reclaimable ongoing expenses.

Product Fees

Fee type	Details	Purpose/entity
Upfront fees		
Lead-manager fee	For promoting and capital raising, 1.25% of the total capital raised.	Macquarie Equities New Zealand
Brokerage fee	2% for firm allocations, 1.5% for all others. This is rebatable.	Financial advisor/other intermediary
Fund-level fees		
Trustee/Statutory supervision fee	NAV < NZ\$50million - 0.12%; NZ\$50million < NAV < NZ\$100million - 0.0975%; NAV > NZ\$100million - 0.065%.	Perpetual Trust Ltd/New Zealand Trustees Ltd.
Borrowing costs	Bank bill rate plus 0.85% p.a.	Barclays Bank PLC
Other fees	Indicative 0.14% p.a. uncapped	Various
Redemption charge	1% of NAV per unit redeemed outside of the exchange.	Barclays Bank PLC / Lead Manager
Offshore-fund fees		
Management fee	1.83% p.a. of the NAV of the offshore fund.	Barclays Bank PLC
Fixed fee	Up to 0.2% p.a. of the NAV of the offshore fund.	Barclays Bank PLC

Analyst(s): Simon Scott; Greg Barr.

Release authorised by: Mark Hoven.

Rating Philosophy

A structured product rating combines a qualitative assessment of the structures ability to provide exposure to the underlying asset class(es) and a view on the management of the underlying exposure the product is replicating/delivering.

OVERALL RATING VERY STRONG	S&P has assigned a very strong rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has scored exceptionally in a number of categories but may not be suitable for all investors.
OVERALL RATING STRONG	S&P has assigned a strong rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has scored strongly in a number of categories but may not be suitable for all investors.
OVERALL RATING SOUND	S&P has assigned a sound rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has scored satisfactorily in a number of categories but may not be suitable for all investors.
OVERALL RATING PASS	S&P has assigned a pass rating to the product based on its conviction that it can meet its objectives over the stated time period. The product has passed a number of categories but may not be suitable for all investors.
OVERALL RATING WEAK	S&P has assigned a weak rating to the product based on its conviction that it can not meet its objectives over the stated time period. The product has scored weakly in a number of categories and may not be suitable for most investors.
OVERALL RATING ON HOLD	An On Hold designation is a suspension of a rating pending further analysis of a material change in the characteristics of a product.

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