



Quarterly Update

Macquarie New Zealand Fortress Notes (Fortress Notes)

Up to 30 October 2009

Macquarie New Zealand Fortress Notes provides investors with exposure to a leveraged portfolio of U.S. senior secured loans (Senior Loans). Four Corners Capital Management, LLC is the portfolio manager for Fortress Notes (Portfolio Manager).

Net Asset Value (NAV)

The NAV of Fortress Notes as at 30 October 2009 was NZ\$0.296 per Note. It is important to note that notwithstanding the fall in the market value of the Senior Loans in the portfolio, there is still an obligation for the borrowers to repay the Senior Loans in the portfolio at par. The final return to investors continues to depend on the default and recovery rates of Senior Loans in the portfolio. The NAV is updated monthly and available at www.macquarie.co.nz/fortress

Month Ended	NAV Per Note in NZ\$	Interest Payment Per Note in NZ\$	Fortress Accumulation Index [^] in NZ\$
30 October 2009	\$0.296	-	\$0.591
30 September 2009	\$0.296	-	\$0.591
31 August 2009	\$0.248	-	\$0.543
31 July 2009	\$0.214	-	\$0.509
30 June 2009	\$0.121	-	\$0.416
29 May 2009	\$0.032	-	\$0.327
30 April 2009	\$0.000	-	\$0.295
31 March 2009	\$0.000	-	\$0.295
27 February 2009	\$0.000	-	\$0.295
30 January 2009	\$0.000	-	\$0.295
31 December 2008	\$0.000	-	\$0.295
28 November 2008	\$0.000	-	\$0.295
31 October 2008	\$0.000	-	\$0.295

[^] This column shows the aggregate of the NAV plus all interest payments received on Fortress Notes since issue on 17 May 2005.

Distributions

As part of the financing arrangements for the Fortress portfolio, all cash flows from the portfolio must be used to meet interest payments, expenses and to reduce the principal outstanding. There will be no distributions made until the new financing has been fully repaid, which currently is not expected to be before 2012. Consequently, it is not expected investors will receive any distributions from the Notes during this period.

¹ Source of statistical information: Standard & Poor's Leveraged Commentary & Data

Market update from the Portfolio Manager

Senior Loan Market Overview¹

The loan market continued to strengthen in the third quarter as improved technical conditions drove loan prices higher. With steady repayments from new high yield bond and equity issuance, limited new supply from the primary market, no significant forced selling, and continued inflows into retail senior loan and high yield bond funds, the S&P/LSTA Leveraged Loan Index (the "Index") increased 14% in the third quarter, bringing year-to-date returns through October to 46.9%. This compares favourably with Index returns of negative 28% in 2008.

Over the first ten months of 2009, repayments exceeded new-issue Senior Loan volume by US\$38bn, reducing the outstanding pool of loans by 7% since the end of 2008. The high yield bond market played a major roll in these repayments, as US\$12.7bn of bond-for-loan take-outs were undertaken by companies in the third quarter of 2009, bringing the total in 2009 to US\$37.6bn. The equity market has, and is expected to continue to be, a source of loan repayments, as companies like Select Medical, Talecris Biotherapeutics, KAR Holdings, Sabre Holdings, Wynn Resorts and Las Vegas Sands have either executed offerings or have been reported to be planning offerings.

Despite recent signs of life in the new issuance market, issuance volumes remain very low, further improving the technical picture. For the first three quarters of 2009 new loan volume is down 72% from the same period last year, and arrangers expect the new-issue market to remain light in the months ahead.

In addition to a shrinking supply of outstanding loans and limited creation of new loans, broadly increased demand for risky asset classes has caused a significant decline in forced selling across these asset classes, including loans. While deleveraging in 2008 was a significant contributor to market weakness, as leveraged loan funds had to sell assets to avoid or meet margin calls on their financing, 2009 has been largely devoid of forced sellers. Additionally, retail loan funds have had approximately US\$2.7bn of year-to-date inflows in 2009, in stark contrast to the US\$5.6bn that investors withdrew from retail loan funds in 2008.

Dramatically improved technical conditions are being accompanied by the worst default rates in history. The lagging 12-month ("LTM") default rate by principal amount climbed to a record-high 10.71% at the end of October 2009, from 9.75% in September 2009 and from 3.75% at the end of 2008. Likewise, by number of loans the rate now stands at 8.22%, barely inside the all-time high of 8.23% from December 2000, but up from 7.17% at the end of September 2009 and from 4.35% at the end of 2008.

Lagging 12-Month Default Rates

	Jan-09	Apr-09	Jul-09	Oct-09	Historical average**
By principal amount	4.95%	8.03%	9.57%	10.71%	3.58%
By number of loans	4.18%	5.39%	6.87%	8.23%	3.24%

**Measured from December 1998 to October 2009.

On the bright side, while the absolute level of LTM defaults is at record high levels, the recent pace of defaults has declined. In the first quarter of 2009, the annualised default rate by principal amount was 19.5% when liquidity was completely drained from the system and three of the top 20 Senior Loan issuers, LyondellBasell, Charter Communications and Idearc, fell into bankruptcy. The annualised rate fell to 8.7% in the second quarter and declined further to 4.8% in the third quarter of 2009. By number of loans, the annualised third quarter default rate was 8.0%, compared to 9.3% in the second quarter and 7.7% in the first quarter of 2009.

In recent months, the volume of downgrades to the lowest credit rating tiers has slowed after the rapid pace in the first quarter of 2009. From June to September 2009, S&P downgraded 2.4% of the Index to CCC+ or lower, the lowest level since 2.2% from August through October 2008. Senior Loan covenant amendment volume also slowed in the third quarter of 2009 as 30 issuers sought covenant amendments during the quarter, the fewest since the third quarter of 2008. However, year-to-date amendment volume of 332 loans through October 2009 is extremely high compared with 104 for the same period in 2008, which reflects challenging economic conditions combined with high leverage levels within companies.

Although the pace of credit rating downgrades and amendment requests has slowed, a significant percentage of issuers in the Index are still working through fundamental issues. Approximately 9.5% of the non-defaulted issuers in the Index were rated CCC+ or below as of 30 October 2009. This percentage does not include the 12.4% of the Index that are in default or the non-rated names which comprise 12.2% of the Index.

In summary, while the growth rate of default activity has slowed, there are still a meaningful number of borrowers with high debt levels who are still facing fundamental challenges. Consequently, while we are encouraged by the recent slowdown in defaults, it is expected that default rates will remain above historical averages for the foreseeable future. While there may be some volatility in the default rate as large defaults “anniversary” and roll out of the LTM data, the persistent trend appears to be for above-average default rates as the underwriting excesses of the pre-2007 credit bubble get wrung out of the system. While there is optimism that the fixed income and equity markets will continue to heal and real signs of recovery will continue to materialise, the US consumer spending is still weak, the US unemployment rate is high and the US housing market is still extremely fragile.

Credit Spreads

Driven by the stronger technical conditions in the Senior Loan market as discussed above, the Index's average price has increased and the average secondary spread to maturity was Libor+6.58% and the average three-year discounted spread² was Libor+7.74% as of 30 October 2009. These spread levels have tightened significantly from the end of 2008, when the average spread to maturity was Libor+16.41% and average three-year discounted spread was Libor+23.73%.

Repayment Rates

\$16.02bn of Senior Loans (representing 2.86% of the market) were repaid in the third quarter of 2009. This compares to \$11.72bn (2.00% of the market) that was repaid in the third quarter of 2008. Issuers have repaid a total of \$64.39bn of Senior Loans in 2009. This represents a repayment rate of 11.20% compared with a repayment rate of 8.54% for all of 2008.

US Economic Outlook

The U.S. economy drifted out of a recession as third quarter GDP rose 3.5% from the second quarter, which is the first quarterly growth since the second quarter of 2008. The main source of growth was personal consumption, which grew 3.4%. The robust gain was concentrated in durable goods consumption, which surged 23%. This chiefly reflected motor vehicle sales boosted by the U.S. government's Cash for Clunkers program. Private investment jumped 11.5% for the quarter. This was primarily driven by a 23.4% increase in residential investment, which was positively impacted by the tax incentive to new homebuyers. Inventory gains also added nearly one percentage point, which was largely driven by a moderation in the pace of inventory liquidations.

Most of the GDP gain was on the back of the government stimulus, which brought forward demand. Federal spending stimulus will likely continue to add to growth in the fourth quarter of this year and the first quarter of next year. However, sustainable consumer spending ultimately requires job and wage gains. The unemployment rate is 10.2% and latest jobless claims data suggest that jobs remain scarce. Wage gains are likely to be limited as well. While the current economic data are clearly positive, we are cautious that a muted recovery is likely in the coming quarters.

Portfolio Overview

The Portfolio Manager has established a set of investment guidelines designed to manage risk which covers factors such as the number of issuers within the portfolio, the type of borrowers and industry concentrations and the level of leverage employed. As at 30 October 2009, all guidelines for the portfolio were being satisfied. It is important to note that it is expected that as the Senior Loans in the portfolio repay and or default and are not replaced, the percentage holdings in the portfolio will be distorted and will no longer satisfy the guidelines.

2 Average discounted spread assumes a three year repayment at par.

Portfolio Summary as at 30 October 2009*

	Start balance at time of refinancing	Current balance
Par value of Senior Loans	US\$512.9m	US\$384.84m
Net senior financing outstanding	US\$397.5m	US\$296.5m
Net par value of Senior Loans	US\$115.4m	US\$88.34m

From the date of the refinancing in April 2008 to 30 October 2009, the amount of net financing outstanding has been reduced by approximately US\$101m. This has been possible due to Senior Loan principal repayments with par value of US\$70.1m, proceeds from Senior Loan sales of \$20.2m (par value of approximately US\$58m) with the remaining US\$10.6m received as net income.

Number of issuers in the portfolio	142
Largest industry concentration	8.60%
Average credit spread above LIBOR	2.64%
Average mark to market value of Senior Loans**	89.06%
Current financing margin on leverage facility above LIBOR	1.25%

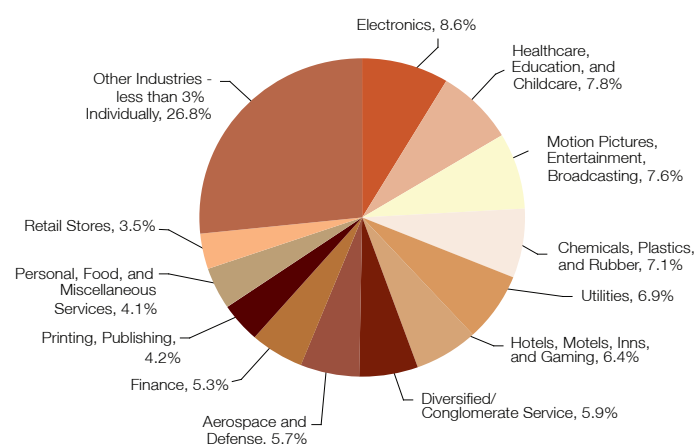
Number of Notes/Units on issue	Notes/Units	% allocation of Portfolio
AU Fortress Notes	141.50m	61.06%
NZ Fortress Notes	28.70m	10.86%
AU Fortress Fund Units	60.20m	28.08%

Legal Maturity Profile of Senior Loans in the Portfolio	
Next 12 months	1.04%
1 to 2 years	5.25%
2 to 3 years	17.95%
3 to 4 years	34.04%
4 to 5 years	38.57%
5 to 6 years	3.15%

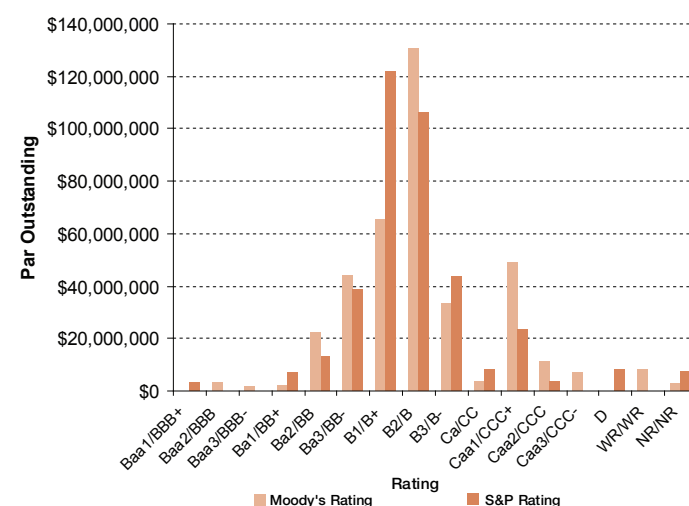
* These figures represent the now combined Fortress Fund and Fortress Notes portfolio.

** Weighted average market bid prices of all loans held in the portfolio.

Portfolio Breakdown by Industry as at 30 October 2009**



Portfolio Breakdown by S&P Credit Ratings and Moody's Credit Ratings as at 30 October 2009**



Baa/BBB and above is considered Investment Grade in the financial markets.

** These figures represent the now combined Fortress Fund and Fortress Notes portfolio.

Fortress Scenario Analysis

To provide investors with more information about the potential outcomes from their Fortress investment, the scenario analysis prepared at the time of the refinancing in April 2008 has been updated to reflect the performance of the Fortress portfolio to date, including any Senior Loan repayments as well as any defaults and realised losses on sale of Senior Loans.

The key assumption that we have varied from the April 2008 table is to use the legal maturity profile of the Fortress Portfolio (as set out above in the Portfolio Overview) as the period over which Senior Loans will repay plus a 10% p.a. additional prepayment rate in the next 3 years to better reflect the prepayment rates witnessed in the market, whereas the scenario analysis prepared in April 2008 assumed Senior Loans would be prepaid evenly over the preceding 5 years.

The key things to note from the table below are that the ultimate NAV (in cents per Note) has deteriorated from the April 2008 scenario analysis due to defaults and realised losses in the portfolio to date. In addition, the more extended repayment assumption means that for the higher default scenarios, consecutive years of high defaults will have a larger impact due to the fact that in the early years there is more of the Fortress Portfolio still on foot and subject to the default assumption.

		Recovery Rate				
		90.00%	80.00%	70.00%	60.00%	40.00%
Annual Default Rate	-%	0.7364	0.7364	0.7364	0.7364	0.7364
	2.00%	0.7173	0.7025	0.6876	0.6728	0.6428
	4.00%	0.6995	0.6708	0.6418	0.6094	0.5442
	6.00%	0.6828	0.6407	0.5938	0.5468	0.4523
	8.00%	0.6671	0.6095	0.5491	0.4884	0.3665
	10.00%	0.6524	0.5804	0.5073	0.4338	0.2861
	12.00%	0.6377	0.5532	0.4683	0.3830	0.2111

The scenario analysis assumes that the Annual Default Rate in the table persists for the next 5 years.

Note that this scenario analysis is not a forecast of outcomes and 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.

For more information on your investment in Macquarie New Zealand Fortress Notes, speak to your financial adviser or contact Macquarie.



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This information has been prepared by Macquarie Fortress Investments Limited ACN 113 113 214 as trustee of the Macquarie New Zealand Fortress Notes Trust (MFIL). Some of the information was prepared on the basis of information provided by Four Corners Capital Management, LLC (FCCM), the US based investment manager of the Knight Portfolio Trust.

Invitations to apply for Fortress Notes were made by MFIL under Investment Statement and Prospectus dated 14 March 2005. In deciding whether to acquire or continue to hold an investment, investors should obtain a copy of the Investment Statement and Prospectus and consider its contents. Investors should also consider all updated information announced to the NZDX.

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Past performance is not a reliable indication of future performance.

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