



QUARTERLY REPORT – 31 DECEMBER 2007

Performance Summary

Investment objective

The Unhedged Fund – seeks to outperform the MSCI Emerging Markets Index after fees over the long term, in US dollar terms. The Unhedged Fund invests predominantly in securities that provide exposure to emerging market economies with a particular focus on Brazil, Russia, India and China (BRIC). Globalis will actively manage that portfolio in US dollar terms. Globalis may also invest up to 100% of the Unhedged Fund in US dollar denominated cash deposits and may short sell.

The Hedged Fund – holds units in the Unhedged Fund and substantially hedges the US Dollar value of those units back to Australian Dollars.

Investment style

Globalis uses a top-down thematic approach to investing in emerging market securities. Globalis believes it can make more liquid, flexible and scalable short, medium and long term value investments in emerging markets by focusing on fundamental country analysis within the broader global macroeconomic and geopolitical environment.

Unhedged Fund performance

Fund	Gross fund return (USD terms)	Net fund return (USD terms)	Benchmark return (USD terms)	Net fund return vs benchmark** (USD terms)	Net fund returns (AUD terms)
3 months	3.77%	3.39%	2.29%	1.10%	4.31%
6 months	21.03%	20.13%	17.58%	2.55%	16.20%
Since inception*	54.62%	52.06%	51.71%	0.35%	34.21%

*Inception date: 2 November 2006.

**The benchmark is the MSCI Emerging Markets Index.
Gross returns are quoted before fees and tax.

Hedged Fund performance

Fund	Net fund returns (AUD terms)
3 months	3.15%
6 months	18.87%
Since inception*	49.91%

*Inception date: 2 November 2006.

**The benchmark is the MSCI Emerging Markets Index.
Gross returns are quoted before fees and tax.

Unit prices

Fund	Entry price	NAV price	Exit price
Unhedged Fund	1.2742	1.271	1.2678
Hedged Fund	1.4257	1.4221	1.4185

Fund Report

Fund highlights

- Volatility persisted throughout the quarter as fears relating to the US sub-prime market remained.
- The US Federal Reserve responded with rate cuts, giving some respite to the markets. This was short lived, however, as investors worried that policy reactions were too little too late and that further losses would be reported by financial institutions around the world.
- Brazil, Russia and India, amongst the largest exposures in the Unhedged Fund, were some of the best performing equity markets in the world during the December quarter.
- The Unhedged Fund retained its exposure towards Asia, with almost 50% of its investments located in that region.

Key contributors to performance

The key contributors to performance during the December quarter included:

- **Russia** was the largest contributor to performance this quarter, with the wireless operators leading the way. Both Mobile TeleSystems and Vimplecom were strong performers during the period as domestic demand remained buoyant.
- **India** was the second largest generator of gains for the Unhedged Fund during the quarter. Inflation concerns that plagued the Indian market for much of the first half had dissipated leaving wholesale inflation well within the comfort bands of the Reserve Bank of India's target.
- **Chinese** equities, which have been one of the best performing markets all year, finally saw some profit taking and this caused some losses to performance. Chinese officials have made repeated attempts to curb excess liquidity in the market as well as to limit stock market tension, and the latest announcements have appeared to have had the desired effects to date.

Fund Profile

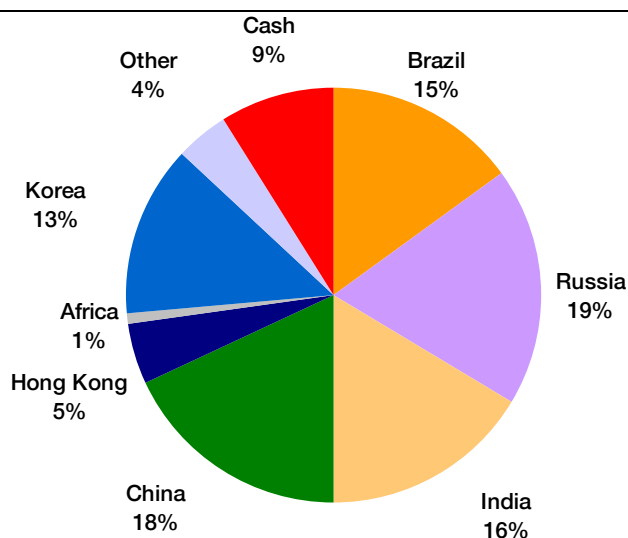
Unhedged Fund size

\$196,363,989

Hedged Fund size

\$22,140,618

Unhedged Fund Portfolio Allocation



Market Report

Overview

Following on the heels of a strong September, the fourth quarter started off with some solid performance. Risk appetite across the globe remained strong, bolstered by stronger currencies, rising commodity prices and expectations of a calmer US interest rate outlook. However, investor confidence soon proved fleeting as credit events that stirred the markets back in July resurfaced. Banks reported additional losses and write-downs, rekindling fears of a global credit crunch. In addition, the US Dollar continued to slide, bonds rallied to levels akin to a recession, gold pushed to new highs, and oil approached US\$100 per barrel (as measured by West Texas Intermediate). On the back of the US Federal Reserve's October 31st assessment, risk aversion set in as markets began pricing in a recession despite the US Federal Reserve calling for a slowdown. Volatility remained the theme as market participants were unsure where the next write-downs resulting from mortgage related losses would come from. As such, the final month of 2007 saw volatile trading with investors reducing risk in order to preserve the strong gains made over the course of the year.

Despite the solid fundamentals surrounding emerging markets, risk appetite remained somewhat subdued throughout much of the period as investors looked for shelter from the sub-prime related volatility. The fundamental issue surrounding the global financial markets during the period was one of confidence. As the volume of defaults on mortgage collateral continued to increase, write-downs encompassing investment banks to hedge funds were announced, leaving investors with a sense of unease as to where the next losses might be posted. In addition, the coordinated policy responses by the US Federal Reserve and central banks around the world failed to restore investor confidence. At the same time, banks had opted to shore up their own balance sheets, electing to reserve cash rather than lend it. As a result, the short term money and bank lending markets remained frozen, creating a cash and credit crunch. Against this backdrop, investor risk appetite began to waver, resulting in risk reduction around the world and increased volatility.

Country highlights

BRAZIL

The Brazilian stock market hit a record high during the fourth quarter. The Bovespa was propelled higher by gains from Petrobras, which benefited from its Tupi field find as well as higher oil prices. The offshore Tupi field, located in Brazil's Santos Basin, was estimated to have a potential oil and gas reserve of between five billion to eight billion barrels.

The Brazilian economy continued to reap the benefits from lower interest rates as consumer demand remained strong during the period. Buoyed by rising employment, increasing real wages, growing disposable income, benign inflation, and growing credit, consumer demand has been robust, supporting domestic growth which is spilling over into increased capital expenditure plans. Brazil's economy grew by 5.7% for the year to September 2007, the country's strongest single quarter in over three years and the 23rd consecutive quarter of economic growth. Domestic consumption, which accounts for roughly 60% of that GDP calculation, expanded by 6.8% during the 12-month period ending in September.

On the inflation front, Brazil's Central Bank kept its benchmark overnight rate steady at 11.25%. The recently released minutes from its December monetary policy committee meeting indicated increased concerns surrounding inflationary pressures. The committee made it clear that should inflation start to increase, it would have no problems raising interest rates. The Central Bank also recognized that the full impact on the economy of recent rate cuts has yet to be felt and expected consumer demand to remain robust. These strong tailwinds should continue to support Brazil's growth as domestic demand is expected to remain a key driver in the near term, coupled with increased capital expenditures from the private sector.

Country highlights**RUSSIA**

Russian stocks came to life this quarter as investors looked to build positions in names that had recently lagged the market's rally. However, the political conditions took centre stage. Firstly, the United Russia party led by President Putin swept to a landslide win in the Lower House of Parliament Elections, taking 64% of the vote. This was seen as a sign of overwhelming support for President Putin, solidifying his political capital for the near term. Secondly, Dmitry Medvedev, First Deputy Prime Minister and Chairman of Gazprom, emerged as the official front-runner for the role of Russia's third president. Medvedev subsequently announced that should he be elected to the Kremlin, he would invite Putin to become Prime Minister. This move helped to eliminate much of the uncertainty surrounding the transition to the next presidency.

In addition, the approval of the 25% domestic gas tariff hike in early December dispelled reservations many observers had about the government's determination to follow through on the ambitious timeline for rebalancing domestic energy prices. As a result, the natural gas sector enjoyed a smart rally with Gazprom and Novatek jumping on the news. The energy sector in general in Russia has been quite lacklustre, and this move brought to life these quiet names.

However, inflation remains a key concern as the most recent data indicate that price increases could be pushing double digits. The rise in inflation comes from Russia's easy money policies. The 16% appreciation of the ruble versus the US Dollar over the past two years has not been enough to offset rising gold, food and commodity prices globally. The Central Bank of Russia has been facing inflows on both the current and capital accounts and has been a large buyer of foreign exchange in an attempt to stabilise the currency. As a result, these inflows have expanded the monetary base and liquefied the local economy, helping to fan inflation.

INDIA

India was one of the best performing stock markets globally during the quarter as it appeared to be regarded as a 'flight to safety' from the US sub-prime woes. At its quarterly monetary policy review at the end of October, the Reserve Bank of India raised its cash reserve ratio in an effort to control excess liquidity. It kept its other rate unchanged. Despite signals from the Reserve Bank of India noting continued inflationary risks from oil prices, food prices, and capital inflows, the broader market Nifty index crossed the 6,000 mark for the first time.

Having spent much of the first half of the year in the midst of a tightening cycle, wholesale inflation has come under control following a tightening campaign put forth by the Reserve Bank of India. With wholesale price inflation arguably well under control, the case for monetary easing has been growing, especially with recent economic releases indicating some softening. The GDP numbers released at the end of November indicated a soft landing for the economy with the GDP growth in the July-September quarter slowing to 8.9% year on year versus 10.2% in the same quarter in 2006 and 9.3% year over year in the April-June quarter.

CHINA

The Chinese equity market finally saw some profit taking as concerns over inflation combined with the global volatility pushed investors to lock in some substantial gains. Consumer price inflation registered a 6.9% increase for the year to November 2007, fuelled largely by increases in the prices of food. Energy and fuel prices have also seen an uptick more recently. Also, in an attempt to curb excess liquidity in the market, the central bank raised both its one year deposit and lending rates while also raising its required reserve ratio several times during the period. This marks the 6th rate hike and the 10th required reserve ratio increase this year. At 14.5%, the required reserve ratio is now at a record high. However, while monetary policy is obviously being tightened, there appears to be no desire to engineer a significant slowdown in growth.

On the domestic front, China's Premier Wen, along with heightened noise from Beijing, suggested that the capital account liberalization process might proceed at a slower than expected pace than previously thought by the markets. At the same time, China also announced a freeze on loan growth across the country, sparking concerns over a lack of credit growth to spur on the economy. These announcements, coupled with concerns that the US Federal Reserve may not cut rates again, led to some sharp profit taking as investors looked to lock in some of their most profitable gains.

Outlook

With much of the volatility witnessed in the markets during the fourth quarter coming from US sub-prime related issues, emerging equity markets have remained quite resilient. Emerging economies have become more organically growth oriented. Robust capital expenditure plans coupled with increasing domestic demand as well as infrastructure build-outs have provided a cushion against a global slowdown. Current account surplus, significant foreign exchange reserves build-up, prudent fiscal and monetary policies, and active and aggressive liability management have all helped to reduce these economies' dependence on global growth. However, emerging equity markets will still remain hostage to global risk appetite and any increase in risk aversion will certainly impact these markets.

Global credit markets remain the key driver of sentiment in the near term. We expect the investment climate to remain volatile until credit markets fully normalise and investors become comfortable with risk once again. Financial companies will need to see their write-downs stabilize. Until the true amount of losses is fully recognized and understood, the markets will go through sustained periods of fits and starts. This process will still take time to work its way through, resulting in additional losses being posted by credit holders.

The markets are currently of the view that the US Federal Reserve is 'behind the curve' – being too reactionary rather than being proactive in terms of cutting rates. The markets are looking to global central banks to help inject some much needed liquidity into strained short term money markets. Until further additional losses are understood and recognized and lending institutions are recapitalized, confidence in counterparties will remain and the current stalemate will persist.

Despite this global backdrop, domestic liquidity conditions in emerging markets remains favourable. Many emerging countries are now net creditors and are no longer vulnerable to a withdrawal of financing from developed market banks. For the most part, inflation and interest rates in most emerging markets have been suppressed below equilibrium levels because of strong currencies and vast savings. While this bodes well for the decoupling theme, risk appetite will still continue to bring volatility to emerging markets. Chinese growth remains the key. While all indications point to a concerted effort to cool off the economy, there also appears to be no desire to engineer a significant slowdown. China's growth may slow from 11.5% to 9.5%, but this should be enough to sustain the uptrend in emerging markets for the near term.


Emerging market equities should continue to present attractive investments in 2008. As the BRIC economies are being driven largely by investment and domestic demand growth, we believe these major powerhouse economies should continue to perform, providing exciting opportunities over the next three months.

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For more information, contact Macquarie Capital Products.

 **1800 080 033**

 **capitalproducts@macquarie.com**

 **www.macquarie.com.au/globalis**

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