

Macquarie Financial Products Management Limited

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MACQUARIE FLEXI 100 TRUST

Macquarie Financial Products Management Limited ("MFPML") has attached a research report on the Macquarie Flexi 100 Trust ("Fund") prepared by Lonsec Limited ("Lonsec") and commissioned by MFPML.

The report reflects the observations and conclusions of Lonsec about the Fund. The report was prepared in part based on information provided by the relevant entities in the Macquarie Group of companies as well as Lonsec's own expertise and other information and expertise accessed by Lonsec. The report is not the work of, nor does it necessarily reflect the views of any member of the Macquarie Group of companies or MFPML, the responsible entity of the Fund. No company in the Macquarie Group of companies nor any of their respective officers or employees makes any warranty in relation to, or accepts any responsibility or liability arising in relation to, the content of the report.

The report has been prepared for the use of licensed financial advisers only. It has not been prepared for the use of individual investors, and advisers and brokers should not pass on this report or extracts or conclusions from such information to their clients. In no circumstances is it to be used by a retail client for the purpose of making a decision about a financial product or class of financial products.

An invitation to apply for interests in the Fund is made in the Product Disclosure Statement ("PDS") dated 1 October 2009. The PDS is available at www.macquarie.com.au/flexi or by phoning 1800 080 033. In deciding whether to acquire or continue to hold an investment in the Fund, any potential investor should obtain the PDS and consider its contents.

This is general advice only and does not take account of any investor's objectives, financial situation or needs. Advisers must form their own views on whether the Fund is appropriate after considering their client's objectives, financial situation and needs. We recommend advisers seek their own legal and taxation advice.

Kind regards,

Macquarie Financial Products Management Limited

Macquarie Flexi 100



Important Dates

Open / Close Date	12 October 2009 / 20 November 2009
Unit Issue Date	30 November 2009
Maturity –	
Class E	29 May 2015 (5.5 years)
Class F & G	30 November 2012 (3 years)

Key Information

Investment Type	Australian unit trust registered as a managed investment scheme.
Issuer	Macquarie Financial Products Management Limited (MFPML) as Responsible Entity for the Macquarie Flexi 100 Trust.

Security Trustee	Bond Street Custodians Limited.
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Underlying Investments –	
Class E & F	S&P / ASX 200 Price Index
Class G	MQ Asia Long Short Fund (USD)

Investment Returns –	
Class E	Fixed distributions of 4.0% p.a. in years 1-5 and 2% payable at maturity. Any gain in the Underlying Investment in excess of these amounts is paid at maturity subject to a performance cap of 90%* over the investment term.
Class F	Variable distributions between 0.0% and the performance cap of 17% p.a.*
Class G	Variable distributions between 0.0% and the performance cap of 17% p.a.

Loans	Investors must borrow 100% of the investment amount from Macquarie Bank Limited. Investors have a choice of a limited recourse or full recourse Investment Loan. An interest loan is also available.
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Redemption prior to Maturity	Quarterly from 3 March 2010. Investors can choose to “walk-away” without making any further payment [^] .
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Currency Hedging	For Class G units the return at maturity (if any) is subject to currency risk.
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Fees & Commissions

Loan Interest Rate –	
Limited Recourse	9.10% p.a.
Full Recourse (Indicative)	8.85% p.a.
	Fixed for the term of the investment. Interest payable annually in advance.

Loan Establishment Fee	2.0% (inc GST) of the investment amount.
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Management Fee	0.5125% p.a. of the investment amount.
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Adviser Fees	Macquarie may pay upfront 2.2% (inc GST) of the investment amount to advisers and a trail of 0.55% p.a. (incl GST) for Class E, or 0.275% (incl GST) for Class F and G.
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*Indicative levels. Final levels set on 18 November 2009.

[^] See Investment Loans on page 4 for circumstances where further amounts may be payable.

What this Rating Means

The Recommended rating indicates that Lonsec has conviction that the fund or product can achieve its objectives and, if applicable, outperform peers over an appropriate investment timeframe. The manager or product has a number of competitive advantages in people, process and product design. The investment is a recommended entry point to access this asset class or strategy.

Using this Product

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page. Investors are advised to read the Product Disclosure Statement prior to making any investment decision.

The product may be suitable for investors who:

- are seeking medium-term leveraged exposure to the Australian equity market (for Class E & F units). Investors should note there are performance caps for these units.
- are seeking medium-term leveraged exposure to a long/short strategy in Asian equity markets (for Class G units). Investors should note that performance caps also apply for Class G units. In particular, investors wishing to gain access to the potentially higher returns (and higher volatility) of Asian equity securities are capped at a maximum return of 17% p.a. This product is therefore less suitable for investors who have a strong belief that Asian equity markets have the potential to exceed the performance cap of 17% p.a.
- are not reliant on income and comfortable funding the annual interest payments from their own financial resources.
- are concerned about break costs associated with redeeming structured products prior to maturity.
- are comfortable with the risks associated with borrowing to invest.

Product Risk Characteristics

	Low	Moderate	High
Leverage			▲
Liquidity	▲		
Counterparty	▲		
Concentration	▲		
Volatility		▲	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the product's asset class and the risks relative to other products in the relevant Lonsec sector universe.

Lonsec Opinion of this Structure

- Macquarie Flexi 100 Trust (Macquarie Flexi 100) provides investors with the opportunity to gain leveraged exposure to the growth potential of the Australian equity markets and/or an active Asian long/short investment strategy. In order to apply for units investors must also apply for a loan for of the investment amount from Macquarie Bank Limited (Macquarie). The Investment Loan has the advantage over more traditional forms of leverage such as margin loans in that there are no margin calls. This means there is no obligation to repay the loan from an investor's own funds at maturity and investors have the option to "walk away" from their investment each year (refer section "Investment Loans"). Investor losses are thus limited to any annual prepaid interest on the Investment Loan and any payments on the Interest Loan. The "walk away" feature comes at a cost in the form a higher interest rate than more common full recourse loans.
- The performance caps used in the units have become a feature of many structured products following the extreme volatility in financial markets (relative to levels over the past several years). Investors should note the calculation to determine the pay-off at maturity for Class E units is a point-to-point calculation. This means investors receive the full benefit if the Underlying Investment increases strongly towards maturity up to the performance cap level of 90% (less the total amount of distributions received during the investment term). The calculation method also means any sharp fall close to maturity has the potential to erode earlier gains. Class F & G units distribute income (if any) as annual distributions (subject to a cap of 17% p.a.).
- Investors in the Class G Units have exposure to a active long/short strategy that invests in the potentially higher returning, but highly volatile Asian region. The impact of the performance cap of 17% p.a. means that investors may not share in all of the upside should the Asian investments perform strongly. This product is therefore less suitable for investors who hold a strong positive view of Asia as an investment.
- Lonsec considers Macquarie to be a very experienced issuer of structured investment products. The group is extremely well resourced both globally and in Australia.
- Fees are charged via the Loan Establishment Fee of 2.00% and Management Fee of 0.5125% p.a. These fees are reasonably consistent with similar style products. However, pricing of various product features such as performance caps are determined by the Issuer in its discretion closer to the Close Date. As is often the case with structured product pricing generally, these prices will not be transparent to the investor.

Issuer Profile

The Issuer is Macquarie Financial Products Management Limited (MFPML), as responsible entity of the Macquarie Flexi 100 Trust. MFPML is part of the Macquarie group of companies. MFPML is responsible for managing the Trust in accordance with the Constitution and the Corporations Act but may appoint third parties to assist it in performing those functions. MFPML also acts as the responsible entity for a number of other Macquarie originated funds.

Macquarie Bank is a licensed Australian bank, regulated by APRA and a member of the Macquarie Group. Macquarie Group Limited (MQG) is a non-operating holding company and the ultimate listed parent for the Macquarie Group under a new Macquarie Group structure that was formally implemented on 13 November 2007. MQG is listed on the ASX and is regulated by APRA as a non-operating holding company of an authorised deposit-taking institution.

Macquarie Bank has long term credit ratings of A2 by Moody's Investor Services and A+ by Fitch Ratings. Units in Macquarie Flexi 100 do not constitute deposits with Macquarie Bank.

Underlying Investments

The Underlying Investment for **Class E&F units** is the S&P/ASX 200 Index.

The S&P/ASX 200 Index is recognised as the investable benchmark for the Australian equity market. The Index Committee reviews constituents quarterly to ensure adequate market capitalisation and liquidity. Both market capitalisation and liquidity are assessed using the previous six months data.

The following table outlines the performance of the S&P/ASX Index over the various periods ending August 2009:

S&P/ASX 200 Share Price Index				
	1 Yr	3 Yrs	5 Yrs	7 yrs
Performance (% pa)	-12.8	-4.3	4.7	5.3
Standard Deviation (% pa)	24.3	17.7	15.2	13.6
Worst Drawdown	-34.9	-50.5	-50.5	-50.5

Source: Morningstar, Lonsec

In the 5 year period to August 2009, the Index produced a gross annualised return of 4.7% with a volatility of 15.2%. Over the 1 year period to August 2009, the Index returned -12.8%.

The Underlying Investment for **Class G units** is the MQ Asia Long Short Fund:

MQ Asia Long Short Fund	
Fund Objective	To achieve absolute returns with lower risk than the Asian markets.
Investment Manager	MQ Specialist Investment Management Limited, wholly owned by Macquarie Group Limited.
Fund Inception	October 2005
Fees	Management Fee of 1.5% p.a. plus performance fee of 20% of the returns over the RBA cash rate, subject to a high water mark.
Stocks in Universe	5,000+
Equity Markets	Asia-Pacific markets including but not limited to Australia, New Zealand, Japan, Hong Kong, Singapore, Taiwan, Korea, India, Philippines, Thailand, Malaysia, China and Indonesia.
Ave number of positions	>600. Median position size 0.2%. Maximum approx 1%.
Turnover	250% - 400% p.a.
Gross Exposure Range	Typically +150% to 250%.
Net Market Exposure	< 30% (typically 10% to 25%).
Derivatives	The Fund is permitted to use derivatives.
Performance since inception to Jul 09	11.57% p.a.
Volatility since inception to Jul 09	7.62% p.a.

Philosophy

The Investment Manager believes better risk adjusted returns can be delivered by adopting a “probability not perfection” approach to investing. This leads to the Fund taking on a relatively large number of small positions.

People & Resources

The Investment Manager, MQ Specialist Investment Management Limited, comprises 47 people, 14 of who are focused on international equities. There are 3 people directly responsible for the management of this Fund, however the investment team draws on the resources of the wider group. In Lonsec’s opinion the investment team has the necessary skills to manage the highly quantitative investment process.

Investment Process

The Fund seeks to systematically identify opportunities where equities deviate from fair value due to human behavioural issues. Factors are assessed based on value, sentiment, quality and momentum — e.g. selling stocks considered expensive on a range of valuation measures or buying price distressed stocks that have

good short term momentum, strong valuation scores and improving analyst sentiment. Additional non-systematic analysis is also conducted based around detailed company analysis.

From a portfolio construction perspective the following factors are then taken into account:

- Gross and net exposure management
- Country tilts
- Position weighting
- Balancing stocks and risk screens
- Futures management
- Currency Hedging

Quantitative investment managers have traditionally focussed on developed and efficient markets. In Lonsec’s experience, these investment techniques are generally less prevalent in Asian countries. This Fund has a track record of almost 4 years and enjoys the backing of a very well resourced parent. The Fund’s investment thesis is that Asian markets are becoming more suited to quantitative investment techniques for several reasons including improvements in data quality and the depth and breadth of analyst coverage. Lonsec considers the Investment Manager to be well placed to exploit the opportunities in these markets.

Asian markets

The MQ Asia Long Short Fund invests in a large number of emerging Asian markets using a long short investment strategy. These markets offer investors the potential for higher returns than investors in more developed markets such as Australia, albeit with a materially higher level of volatility.

Lonsec notes that the presence of the performance cap means that investors may not participate in full when Asian markets perform strongly. As a result, this product is less suitable for investors who are of the view that Asian markets are likely to perform in excess of the performance cap of 17% p.a. (refer “How Does the Product Work?” section).

The following table outlines the historical performance of the Eureka hedge Asia Long Short Index (in Local Currency). The Eureka hedge Asia Long Short Index is an index reflecting the performance of 282 long/short hedge funds that invest in the Asian region

Year	Performance
CY2008	-21.96%
CY2007	17.61%
CY2006	14.92%
CY2005	17.14%
CY2004	10.28%
CY2003	27.68%
CY2002	3.16%
CY2001	11.52%
CY2000	-0.46%

How Does the Product Work?

Investors apply for their choice of 3 unit classes in the Macquarie Flexi 100 Trust. In order to apply for units, investors must also apply for an Investment Loan from Macquarie to fund 100% of the purchase price. The Trust enters into a Swap Agreement and a Cash Collateral Agreement in order to achieve exposure to the Underlying Investments. The offer proceeds are deposited with the Collateral Counterparty as collateral for the Trust's obligations under the Swap Agreement. These agreements are the means by which the Trust provides investors with exposure to the Underlying Investments.

Investors have a choice of a full recourse or limited recourse loan. The limited recourse loan means Macquarie's recourse, as lender, is limited to an investor's units and cannot pursue the investor for any loss in excess of the value of the units. A Security Trustee holds the units in a separate trust for each investor. This arrangement means investors are able to walk away from 31 March 2010 with no further amounts payable (other than any Interest Loan amounts). The full recourse loan means Macquarie's recourse, as lender, is not limited to an investor's units and can pursue the investor for any loss in excess of the value of the units if the Collateral Counterparty does not fulfil its obligations.

Annual Distributions & Return at Maturity

Distributions will be set off against the interest payable on the Investment Loan for the next period. Any shortfall needs to be funded by investors. Unit Class returns can be summarised as:

Class E units

Years 1 to 5 4.0% of the investment amount.

Maturity 2.0% of the investment amount.

(A total of 22% fixed distributions will be paid over the investment term).

An investor's gain (if any) at maturity is determined by the percentage change in the Underlying Investment over the investment term and subject to a **performance cap of 90%**. This means investors cannot make a gain at maturity of more than 90% **less the total amount of distributions paid over the investment term**.

The calculation used to determine the gain (if any) is a point to point calculation (from approximately Issue Date to Maturity Date).

Class F units

Annual potential distributions equal to the positive performance of the S&P/ASX 200 Index subject to a cap of 17% p.a.

Class G units

Annual potential distributions equal to the positive performance of the MQ Asia Long Short Fund subject to a cap of 17% p.a.

The return is calculated in USD and converted to AUD at the prevailing AUD/USD exchange rate.

Investment Loans

Investors must choose between a limited recourse and full recourse Investment Loan for 100% of the investment amount. A feature of the limited recourse Investment Loan is the ability for investors to Walk-Away on a quarterly basis from 31 March 2010 without being required to pay any further amounts to the lender including loan break costs. Any prepaid interest will not be refunded. However, investors choosing a full recourse Investment Loan may have additional amounts to repay if the Collateral Counterparty does not fulfil its obligations. The full recourse Investment Loan is not available to SMSFs.

Investors who have also taken out an Interest Loan will need to pay the unpaid balance and break costs on this Loan. The Interest Loan is a full recourse loan and is not available to SMSFs.

Break Even Rates

Based on a limited recourse Investment Loan of 9.10% p.a. and 2% Loan Establishment Fee the increases required in the Underlying Investments for investors to break even are:

Class E 7.9% p.a.

Class F 9.8% p.a.

Class G 9.8% p.a.

These figures ignore the effects of tax and the time value of money.

What Happens at Maturity?

The Responsible Entity will provide investors with details of the options available at maturity closer to the date. These may include redeeming units for cash or retaining units (after repayment of the investment of the loans).

Risks

An investment in Macquarie Flexi 100 carries a number of standard investment risks associated with investment markets. These include performance, leverage, counterparty, dividend and tax risks. These and other risks are outlined in section 4 of the PDS and should be read in full and understood by potential investors. Lonsec considers the following to be the major risks:

- **Performance Risk** – The performance of the Underlying Investments is the key determinant of investment returns. There is no guarantee the Underlying Investments will increase in value over the investment term.
- **Leverage Risk** – Investment gains and losses are magnified by the use of leverage.
- **Counterparty Risk** – Investors are exposed to the creditworthiness of the Swap, Collateral and Hedge Counterparties, as product returns are dependent on these counterparties performing their obligations as they fall due. The Swap and Collateral Counterparties will be Macquarie Bank Limited (MBL). MBL has an S&P credit rating of A.

MBL may hedge its exposure under the Swap Agreement via a hedging arrangement with a third party financial institution. Investors will then be exposed to the creditworthiness of the Hedge Counterparty under any hedging arrangement. MBL will only enter into the relevant hedging arrangements with a third party financial institution if the institution has a long term credit rating (from an internationally recognised agency) which is the same as, or better than MBL's on or around 18 November 2009. Lonsec does not consider the exposure to third party financial institutions as standard for structured products. The identity of the third party institution will be disclosed on the product website on or around 18 November 2009. Investors should be comfortable with financial institutions with this minimum credit rating before investing in the product.
- **Foreign Exchange Risk (Class G units)** – Movements in the AUD/USD foreign exchange rate effect the value of any distributions and gain payable on Class G units at maturity (and the value of units prior to maturity).
- **Early Termination Risk** – The Swap Agreement may be terminated early following certain events such as a change in law or cost of hedging, or hedging disruption. For Classes F and G, the hedging arrangements will be reviewed at least annually and therefore there will be a greater risk of an early termination event occurring. Whilst an early maturity may ensue, investors will not be required to pay further amounts if the value of units does not exceed the Investment Loan amount (other than any Interest Loan amounts).

Taxation

Distributions – Distributions should be included in an investor's assessable income in the year of receipt.

Loans – Subject to an investor's individual circumstances, interest on both the Investment and Interest Loans should generally be deductible if the total assessable income an investor expect to receive exceeds the total allowable deductions an investor expect to incur.

Maturity – Any gain received by investors on redemption at maturity should be considered assessable income.

These comments constitute 'General Advice' only and Lonsec advises potential investors to consult a taxation specialist before making a decision to invest. Investors should refer to section 7 of the PDS for more information regarding the taxation of investors.

Contact Information

Further information can be found at:

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Website: www.macquarie.com/flexi

Analyst Disclosure & Certification

Analyst remuneration is not linked to the rating outcome. The Analyst(s) may hold the product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst(s) holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the financial product(s) to which this document refers.

Date Prepared: October 2009
Analyst: Lin Ngin/Michael Elsworth
Release Authorised by: Grant Kennaway

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