NAB Re-Strike Deferred Purchase Agreements – Series 3 and 5
August 2010

Adviser Edge

For Financial Advisers Only

Adviser Edge Rating ★★★★☆

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Product Summary

NAB Re-Strike Deferred Purchase Agreements – Series 3 and 5 (the Products) are Deferred Purchase Agreements (DPAs) issued by RBS Group (Australia) Pty Limited (RBS) that aim to provide investors with income and capital gain over a seven-year investment term. The Products' performance is linked to the RBS VC Australia 200 Index (AUD) ER 12% (the Reference Index), which is constructed by overlaying a volatility target strategy on top of RBS Australia 200 Index (AUD) ER (the Underlying Index). Investors can access the Products via a 100% investment loan from National Bank of Australia Limited (NAB) or other external lenders, or by using their own capital. The investment loan is separate from the Products and Adviser Edge has not analysed the details of the loan in this report.

The Underlying Index is a rolling future index designed to reflect the excess return performance of a quarterly rolling future strategy on the S&P ASX 200 Index. Excess return relates to return earned through trading future contracts, which is in excess of the returns an investor can achieve by retaining and using the principal investment amount. The simple buy and roll strategy will behave in a similar manner to a long S&P ASX 200 equity index strategy. The volatility target structure within the Reference Index will vary the level of exposure to the Underlying Index on a daily basis, depending on the maximum realised volatility of the Underlying Index observed on that specific calculation date and the last four consecutive calculation dates. The realised volatility on each business day is defined as the volatility of the Underlying Index over the previous twenty business days.

At inception, the issue price per unit is $1. However, investors are only required to pay $0.8 per unit upfront. The Products will distribute a fixed coupon of 2.86% p.a. which will be reinvested back into the Products to increase the protection level at maturity, thereby equalling the issue price. Investors will also have the potential to receive annual variable coupons during the investment term subject to the performance of the Reference Index, a high water mark and a coupon hurdle rate.

At the end of the term, each unit of investment will have a final value equal to at least the issue price, plus any increase in the Reference Index above the sum of all variable coupons paid during the term and the final hurdle rate. The calculation of the Final Reference Index Value is subject to quarterly averaging in the final year of the investment term. At maturity, the issuer intends to deliver a basket of ASX listed securities equal to the final value per unit. Alternatively, investors can choose to receive cash via the Agency Sale Option.

The capital protection (which includes reinvestment of the fixed coupon payments) is provided by NAB, while any variable coupons during the term, as well as capital gain at maturity, are provided by RBS. Although the Products have NAB as the capital protection provider, the investors are still subject to the joint credit risk of both RBS and NAB under the legal structure.

Analysis conclusion

In summary, cash-locked geared investors and investors using their own funds may find these to be medium-risk Products, with potential for good growth if the Underlying Index performs well for the next seven years. Adviser Edge rates the Products above average for two reasons.

Firstly, quantitative testing demonstrated that the Products have an efficient structure. The dynamic volatility target strategy takes advantage of the accepted correlation of volatility and market returns, and provides important downside protection while maintaining the potential to benefit from any rally in the Underlying Index. The potential variable coupon payments can be seen as a profit lock-in mechanism, which has the effect of gradually securing gains for investors during the investment term. The fixed coupon payments provide investors with a minimum return even if the Reference Index fails to perform. There is no explicit fee for the Underling Index and the volatility target structure. The back-testing results are good, as the Underlying Index's strong historical performance allows the Products to perform well in this structure. Investors should acknowledge that while the volatility structure indicated in the current Products' offer is less favourable compared to the Series 1 in the June 2010 offer, the difference in the pricing of the Products is a result of adverse market movements during recent months. Investors should expect most option-based products currently available on the market to be more expensive in pricing relative to the ones offered during the May/June period.

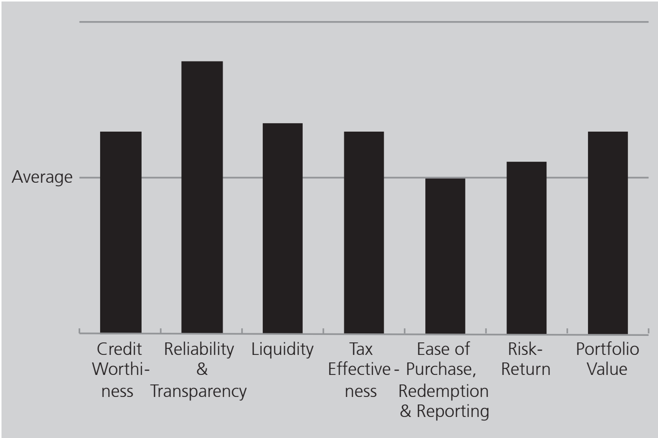
Secondly, the Products provide Australian investors with efficient access to the performance of the RBS VC Australia 200 Index (AUD) ER 12%, while providing full capital protection on the investment amount. The NAB investment loan also allows investors who currently have a loan facility tied up with another non-performing investment, such as a cash-locked structured product from previous years, to break away and regain exposure to this Reference Index.

The Products have two primary drawbacks. Firstly, the structure uses a volatility target of 12.0% for 100% participation, which is below the long-term historical average volatility of 15.6% for the Underlying Index. The realised volatility of the Underlying Index as at 29 July 2010 was 19.9%, which would translate to a participation of 54.55%. A structure with a starting participation level below 100% has the effect of reducing the overall cost of the Products. However, investors may have lower upside potential if the Underlying Index experiences robust growth. If the volatility of the Underlying Index is sustained at the current level or the long-term average, the Products are very likely to have an average exposure of less than 100% to the Underlying Index. Secondly, the potential capital gain at maturity is affected by both the averaging technique and the final hurdle rate. While the averaging technique reduces the volatility of the returns to the investors, it also dampens the maximum potential capital growth that the Products may achieve, particularly if the Reference Index rallies exponentially at the end of the investment.

Investors should acknowledge that, although the Products do not explicitly charge any fees on the volatility target structure and the Underlying Index, the fees have been implicitly built in, and have been affected by other features including the coupon hurdle rate for variable coupon, and the final hurdle rate and averaging technique used to calculate the Products' final value.

Investors should also acknowledge that the capital protection provider, NAB, only has a contractual relationship with the issuer in relation to the capital protection hedge. Investors do not have a contractual relation with NAB. Therefore, if the issuer becomes insolvent at maturity, the investors will become unsecured creditors of the issuer and they will not have the right to directly receive the capital protected amount from NAB.

Rating snapshot



Investor Suitability

Adviser Edge considers the Products to be most relevant for investors who have a strong view regarding the ongoing performance of the RBS Australia 200 Index (AUD) ER, and who believe that the index's volatility will remain low for the next seven years.

These Products are suitable for investors with an existing geared investment in another cash locked structured product, as the loan facility provided by NAB will fund up to 20% break cost from the existing investment and will allow investors to create a new investment with an equal notional exposure. Investors in that situation can use the Products to regain access to equities, but must have a bullish outlook for share prices, especially in the first few years in order to outperform interest costs. The Products also represent an attractive investment for cash investors, as the structure provides a definite limit to the risk of market downturns while providing a potential high income and growth investment profile. The Products may not be suitable for normal geared investors as they have a lower chance of outperforming the borrowing cost due to the low participation and hurdle rates. In summary, cash-locked geared investors, and investors using their own funds, may find these to be medium-risk Products with minimum fixed income and the potential for strong growth if the Underlying Index performs well over the next seven years.

Adviser Edge is not a taxation expert and does not advise on the tax effectiveness of these Products. However, this will be an important pre-condition for investors borrowing to invest. Investors should seek professional taxation advice regarding their specific circumstances.

NAB Re-Strike Deferred Purchase Agreements (Series 3 and 5) – Product Characteristics

Asset Class	Australian Equity		International Equity		Commodity	Hedge Fund
	Foreign Exchange		Volatility	Property	Fixed income	
Borrowing	No	Partial	Full	Choice	Internal	
Investment Horizon	< 1 year	1–3 years	3–5 years	5–7 years	> 7 years	> 10 years
Market Outlook	Short-term bullish	Short-term bearish	Short-term neutral	Long-term bullish	Long-term bearish	Long-term neutral
Interim Cash Flow	Net cash outflow[1]		No cash flow		Net cash inflow[1]	
Counterparty Risk	Low		Medium		High	
Market Risk*	Low growth – low risk		Medium growth – medium risk		High growth – high risk	
Self-managed Super Funds	Yes			No		

* This refers to the Products in isolation, not the investor. The suitability to a particular investor depends on the investor's overall portfolio construction. A Low Risk product is closer to high grade fixed income, whereas a High Risk product is closer to direct equity.

[1] Fixed coupons are required to be reinvested back into the Products, yet investors will be liable to pay income tax in relation to the fixed coupons. If the Products do not distribute any variable coupons, investors would experience a net cash outflow for the tax paid on fixed coupons. A net cash inflow will occur when the variable coupon amount is greater than the individual investor's tax liability derived from the fixed coupon payment.

Product Details

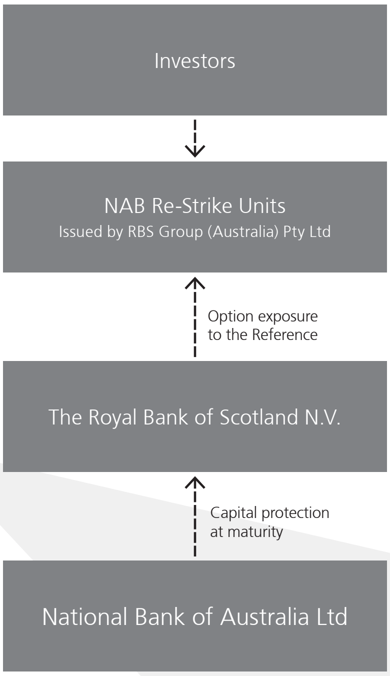
Legal Structure	
Product Name	NAB Re-Strike Deferred Purchase Agreements – Series 3 and 5
Issuer/Responsible Entity	RBS Group (Australia) Pty Limited
Custodian	RBS Group (Australia) Pty Limited
Capital Protection Provider	National Australia Bank Limited
Investment type	The units are unlisted and close-ended deferred purchase agreements.
Offer close date	30 September 2010 for Series 3, and 30 November 2010 for Series 5
Maturity	14 October 2017 for Series 3, and 14 December 2017 for Series 5 (approximately seven years)
Liquidity	Monthly on the last business day of each month commencing March 2011.
Delivery	A basket of Australian shares containing equal values of shares in the following companies: BHP Billiton Limited, Commonwealth Bank of Australia, Westfarmers Limited, Telstra Corporation Limited and Woolworths Limited.
Minimum investment and loan amount	The minimum amount that an investor may invest is 20,000 Units, or $16,000 with additional multiples of $800.
Economic Features	
Investment strategy	The Products provide varying levels of exposure to the RBS Australia 200 Index (AUD) ER depending on the realised volatility of the index and the volatility targets predefined at the start of the investment.
Underlying Index	RBS Australia 200 Index (AUD) ER
Participation	The participation rate will vary between 0% and 150% depending on the realised volatility of the Underlying Index.
Capital protection	100% of the issue price at maturity. At inception, the issue price of each Unit is $1.00. Investors are only required to pay $0.80 per Unit and the remaining $0.20 is paid by the investor over the investment term through the re-investment of the fixed coupon.
Distributions	The Products will pay a fixed coupon of 2.86% p.a., which must be reinvested. The investors also have the potential to receive annual variable coupons during the investment term subject to a partial growth percentage, coupon hurdle rate, and a high water mark.
Capital gain at maturity	The Products may return a capital gain at maturity to the investors subject to the Final Reference Index Value, variable coupons paid during the term, and the 14% final hurdle rate.
Loan	An investment loan is provided by NAB. Investors can borrow up to 100% of the issue price per Unit for the purpose of investing $0.8 per Unit and using the remaining capital to break away from an existing non-performing investment. Investors also have the option to obtain a loan from external lenders to invest in the Products.
Fees	
Ongoing fees	There are no ongoing fees charged by the Products in relation to both the Underlying Index and the volatility target structure.

Product Highlights

- The Underlying Index, RBS Australia 200 Index (AUD) ER, is intended to reflect the excess return performance of a quarterly rolling investment in the SFE SPI 200™ futures contracts. Investors who purchase futures contracts are not required to make a principal investment and only have to put up a margin. The excess return is an amount in excess of the returns which investors can achieve by retaining and using their principal amount.
- The SFE SPI 200™ futures contracts currently expire on a quarterly basis in March, June, September and December, on the third Friday of each of these months. The Underlying Index will roll the future contracts over on the business day immediately preceding a future contract expiration date by divesting the front month contract and simultaneously investing into the future contract expiring in the next quarter. The rolling future is denominated in AUD. The Underlying Index diverges from the S&P ASX 200 price index due to prevailing interest rates and expected quarterly dividend yields.
- The Reference Index, the RBS VC Australia 200 Index (AUD) ER 12%, applies a volatility target strategy to the Underlying Index. The volatility target strategy calculates the participation to the Underlying Index on a daily basis. The participation is determined by comparing the maximum realised volatility of the Underlying Index observed on the calculation date, and the four consecutive preceding business days, to the target volatility predefined prior to the start of the investment. The realised volatility on each business date is defined as the annualised volatility of the Underlying Index over the recent twenty business days. Participation can range from a minimum of 0% to a maximum of 150%.
- Both the Reference Index and the Underlying Index are calculated and maintained by Future Value Consultants Limited (Calculation Agent) based on methodologies developed by the Royal Bank of Scotland plc (Index Sponsor)
- According to the volatility targets, the Reference Index would have more than 100% participation to the Underlying Index as long as the five-day maximum realised volatility is below 12%. If the volatility falls below 8%, the participation would increase to 150%. The historical average volatility of the Underlying Index is 15.6% over the back-tested period since May 2000 to August 2010. Within this period, the volatility has been below 12% in 42.4% of business days. As at 29 July 2010, the five-day maximum realised volatility of the Underlying Index was 19.9%.
- Investors can potentially receive up to three forms of returns which include fixed coupon, variable coupon and capital growth at maturity. The issue price at inception is $1 per Unit. However, the investors are only required to pay $0.8 per Unit.
- Investors will receive annual fixed coupons of 2.86% p.a., regardless the Reference Index's performance. However, they will be required to reinvest all fixed coupons. The reinvestment of the fixed coupons will increase the capital protection from the initial investment of $0.8 per Unit to $1 per Unit at maturity. This represents a minimum return of 25% on the initial investment over the investment term. The investors are not subject to any fees in relation to the structure which could offset against the fixed coupons.
- Investors may also receive annual variable coupons during the investment term. The variable coupon is determined by multiplying the partial growth percentage with the annual growth of the Reference Index above the high water mark and coupon hurdle rate. The partial growth percentage is determined by the issuer on the commencement date and will be set between 5% and 80%. As at the date of the PDS (16 August 2010), the partial group percentage would have been 40%. The high water mark is the highest level of the Reference Index on any of the previous annual observation dates known as the Coupon Determination Date. The Coupon Determination Dates for Series 3 are set annually on 14 October each year, commencing from 2011 to 2016. On the other hand, the Coupon Determination Dates for Series 5 are set annually on 14 December each year, commencing from 2011 to 2016. The coupon hurdle rate is determined by the issuer on the commencement date and will be between 0% and 10%. As at the date of the PDS (16 August 2010), the coupon hurdle rate would have been set at 5%. The distribution of fixed and variable coupons does not affect the daily valuation of the Reference Index.
- At maturity, the investors will have a minimum product value of $1 per Unit subject to NAB fulfilling its obligation to deliver the promised protection amount. The capital protected amount will be passed on from NAB to the investors through RBS as the capital protection hedge is a contractual relationship between the issuer and the capital protection provider. In the event that the issuer became insolvent, there is possibility that investors will not receive the full capital protected amount at maturity even if NAB fulfils its obligation, as the issuer would not be able to distribute the capital protected amount to the investors.
- Investors may potentially receive a capital growth based on the Final Reference Index Value. The Final Reference Index Value is the arithmetic average of the Reference Index values recorded on the five quarterly observation dates (also known as the maturity averaging dates) in the last year of the investment term. The increase in the Final Reference Index Value must exceed the sum of all variable coupons paid during the investment term plus the 14% final hurdle rate for the Products to deliver a final capital growth payout.

- The five maturity averaging dates occur on a quarterly basis, starting from 12 months prior to the maturity date, and finishing at the maturity date. The averaging technique can have a positive or negative effect on the final return, depending on the behaviour of the Reference Index in the final year. If the Reference Index rallies in the final year then the averaging will harm the return from the Products. On the other hand, if the Reference Index falls in the final year, the averaging technique would have a similar effect as a profit lock-in mechanism.
- The capital protection is provided by NAB. Therefore, if the final value of the Products falls below the issue price, investors will be subject to the credit risk of NAB to provide the capital protection and the credit risk of RBS to deliver the capital protected amount from NAB to the investors. On the other hand, as RBS is the provider of the performance contract, the investors will only rely on the credit quality of RBS to deliver variable coupons and a final capital growth payout at maturity if the Reference Index performs strongly during the investment term.
- NAB is rated AA by S&P and Fitch, and Aa1 by Moody's.
- RBS is rated A by S&P, A1 by Moody's, and AA- by Fitch.
- The Deferred Purchase Agreements stipulate that the investors will receive a basket of ASX-listed shares at maturity. Alternatively, if the investors use the Agency Sale Option, the delivery assets are transferred and sold on their behalf in order to deliver cash.
- The Products offer a monthly buy-back facility. However, investors may be subject to significant break cost in the event of early redemption due to market movements. Geared investors may also be subject to loan break costs.

Transaction Flow Diagram



Asset allocation

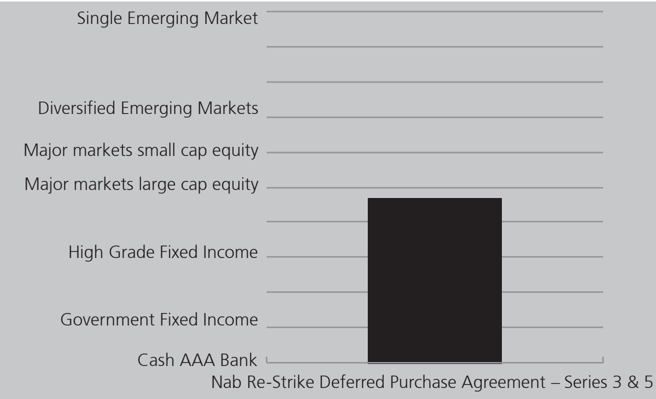
If an investment into the Products commenced on 29 July 2010, the five-day maximum realised volatility of the Underlying Index would have roughly been 19.9%, resulting in an initial participation of 54.55% within the structure. As such, while the investors only have to invest 80% of the issue price for each unit at inception, the structure would have provided the investors with an allocation equal to 54.55% of the issue price in the Underlying Index. This effectively represents 68.19% exposure when compared to the initial investment.[1] The allocation within the volatility target structure can change during the term of the investment, and can reach a low of 0% or a high of 150%.

Risk-return spectrum

The returns from the Products in most market environments are less risky than for a direct investment in a well-diversified, large capitalisation equity portfolio due to the following reasons:

- The volatility target overlay reduces the Products' volatility, although it has a maximum geared exposure of 150% to the Underlying Index
- The reinvestment of the fixed coupons during the term will increase the capital protection from $0.8 per Unit to $1 per Unit
- The Products may lock in interim profit through the distribution of variable coupons

[1] Assuming that an investor invested $0.80 of the $1.00 issue price. Leverage would be further compounded for geared investors.



Fat tail view

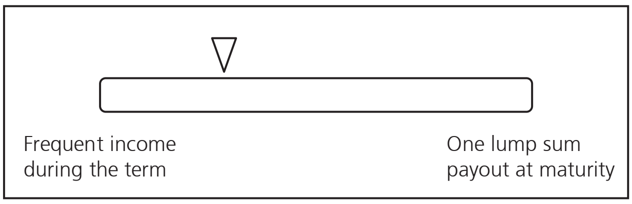
In the fat tail section, Adviser Edge focuses on the Products' downside fat tail, which is the probability of the Products returning below 0%, or below -20%. Adviser Edge believes that the Products have a low tail risk for non-geared investors, and an above average tail risk for geared investors who are using an investment loan.

The Products are seen to have a small tail risk for non-geared investors due the fact that even in the worst scenario the Products will still return a minimum of 2.86% p.a. through the distribution of the fixed coupons. Investors are not subject to any fees in relation to the structure which could offset against the fixed coupons. As long as the capital protection provider fulfils its obligation and the issuer remains solvent, the investors will receive a minimum of $1 per Unit at maturity ($0.80 from initial investment and $0.20 from the fixed coupons), which represents a minimum return of 25% on the initial investment over the investment term.

A geared investment in the Products would still have an above average tail risk. In the worst scenario, investors may only receive the capital protected amount at maturity without any variable coupons during the term. The geared investors may lose all the interest expenses over the seven-year term, which could be substantial on a pre-tax basis.

Frequency of cash flow

The Products present investors with the opportunity to receive cash inflows during the investment term and at maturity. Investors have the potential to receive cash in relation to annual variable coupon in the first six years of the investment. At maturity, the Products will return the initial investment, all fixed coupon payments, and any potential final capital growth payout to the investors.



Pros

Risk and return

- The volatility target strategy ensures that investors will not be subject to cash lock. The overlay can provide leveraged exposure to the Underlying Index, and reduce losses in highly volatile downward trending markets.
- The Products provide a good balance of income and capital gain. Based on the back-testing analysis, the Products would, on average, generate close to 73% of the total returns in the form of income derived from variable and fixed coupons, and 27% as capital gains.
- The variable coupon payments work as an efficient profit lock-in mechanism in periods of strong performance, securing early gains for investors.
- The back-testing of the Products showed that the results in the last seven years have been particularly strong due robust performance of the Australian equity market. Over a longer period since May 2000, the back-testing results in general have been more moderate, returning an average total return of 7.6% p.a. Adviser Edge has conducted back-testing for the purpose of examining the effectiveness of the structure when overlaid on top of the Underlying Index. Adviser Edge acknowledges that the Underlying Index's behaviour may change in the future, and that past performance should not be used as a guide for future performance.
- The strategy does not charge any fees on the Underlying Index or the volatility target structure.

Portfolio value

- The Products provide a means for cash-locked investors to regain market exposure, with the NAB loan facility funding up to 20% break costs.
- The Products provide innovative market access to the Underlying Index. The volatility target strategy is also a well-known trading strategy to many advisers and investors.
- The Products could be used as a direct substitute for other balanced strategy funds in a portfolio setting, as it offers equity exposure and fixed incomes with limited downside risk.

Credit worthiness

- The credit rating of the capital protection provider is at the high end of the current spectrum for banks. NAB is rated AA by S&P and Fitch, and Aa1 by Moody's.

Reliability and transparency

- Adviser Edge considers RBS to be experienced and reliable at providing volatility target-style investment products.
- RBS Group is a well-established structured product issuer, with a presence both in Australian and overseas. It has strong resources and the capabilities to support the operations of structured products.
- The Underlying Index has a transparent and clear rules-based investment strategy operated in a highly liquid futures market.

Cons

Risk and return

- In an up-trending interest rate environment, the higher interest rates present a greater headwind for the Underlying Index to deliver positive gains. The Underlying Index's returns have under-performed the S&P ASX 200 Index since May 2000.
- The Underlying Index has a historical average realised volatility of 15.6%. This means that if the realised volatility stays at the long-term average, the Products will only have exposure of 70.59% to the Underlying Index. According to the back-testing, the realised volatility of the Underlying Index fell below 12% (volatility target with 100% participation) only 42.4% of the time. If the realised volatility continues to remain above 12%, the below-100% participation could harm the Products' returns in a bullish market.
- There are only two bands of participation rates above 100%. If the volatility is between 8% and 12%, the applicable participation rate would be 100%. If the volatility is below 8%, the applicable participation rate would be 150%. The fact that the participation rate increases significantly between the two bands rather than gradually between a number of bands, and the fact that the leveraged exposure will only be achieved if the volatility falls below 8%, means that the investors are very unlikely to have leveraged exposure to the Underlying Index for an extended period of time during the investment term.
- The Products have a relatively long investment term (seven years), which ties up investors for a longer period of time than their current cash-locked investment, and also increases the risk of an early maturity event occurring over the term.
- The coupon hurdle rate will reduce the amount of potential annual variable coupon or profit lock-in generated by the structure during the term.
- The 14% final hurdle rate can be seen as an additional 2% performance fee p.a., and will reduce the potential final capital growth at maturity.
- The fundamental theory of the volatility target strategy relies heavily on the negative relationship between realised volatility and future return. If this market behaviour breaks down, the Products may perform poorly.

Credit worthiness

- The capital protection hedge is a contractual relationship between the issuer and the capital protection provider. Investors do not have a contractual right to receive benefits directly from NAB. Therefore, the investors may not be able to receive the full protection benefit in the event that the issuer becomes insolvent.

Reliability and transparency

- Although the Reference Index's volatility target strategy is governed by pre-defined rules and formulae, the calculation methodology is complicated and difficult for investors to comprehend.

Tax Features[2]

- The investors will be required to fully reinvest the fixed coupons. As such, the investors will not receive any cash inflow in relation to the fixed coupons until maturity. However, investors would still incur income tax liabilities during the term, and may have to fund the amount using other sources of revenue.

Liquidity

- Investors may incur significant break costs due to market movements if the Products are redeemed before maturity. The break costs are common to most of the closed-ended structured products in the market, and are not specific to these Products.

[2] Adviser Edge does not purport to be a taxation specialist and the comments made here are of a general nature based on the knowledge of Adviser Edge from previous publicly available structured products. All investors should seek specialised and personalised taxation advice regarding the Products. The comments throughout this product assessment assume that the investor is an individual Australian resident not carrying on a business in trading investments.

Summary of Quantitative Testing

Adviser Edge has conducted a number of quantitative analyses, and has reached the following conclusions.

- The Underlying Asset has a historical average volatility of 15.6% over the back-tested period since May 2000. This is higher than the 12% volatility target required to gain 100% exposure in the structure. If the volatility of the Underlying Index remains above 12% at the historical average, the structure will only have 70.59% exposure to the index. The high level of realised volatility will decrease the Products' exposure to the Underlying Index, and thus investors will benefit less from positive market movements. As with other volatility target-style products, these Products tend to limit volatility by lowering participation to the Reference Index, in order to lower the cost of structuring the investment.
- Investors should acknowledge that, while the volatility structure indicated in the current product offer is less favourable compared to Series 1 in the June offer, the difference in the pricing of the Products is a result of adverse market movements during recent months. Investors should expect most option-based products currently available on the market to be more expensive than the ones offered during the May/June period.
- Since the start of the back-tested data in May 2000, the realised volatility of the Underlying Index has only fallen below 12% in 42.4% of occurrences. This means that in 57.6% of the historical period, the structure would have had an exposure of less than 100% to the Underlying Index. At the peak of the GFC in November 2008, the realised volatility of the Underlying Index had risen to 64%, resulting in a participation of 0%.
- The volatility of the Underlying Index is expected to oscillate as the Australian equity market goes through different market phases in the future. The Underlying Index could work well with volatility target structure by lowering exposure during a bearish market and gearing up exposure during bullish market.
- The Products would have performed strongly in the past seven years due to the robust Australian equity market. During the whole back-tested period since May 2000, the Products would have generated an average net return of 7.6% p.a. (including all coupons and capital growth at maturity) for a non-geared investor. The returns would have been sufficient to fully cover pre-tax borrowing costs of an investment loan in some cases.
- The attribution breakdown of the historical total return from back-testing of the Products indicates that 37% of the total return usually comes from fixed coupons, while variable coupons and final capital growth comprise 36% and 27% of the total return respectively.
- In calculating the annual variable coupon, the coupon hurdle rate represents a barrier for which the Reference Index must exceed the high water mark by more than 5% (indicative coupon hurdle as at the date of the PDS) before the Products deliver any variable coupon. The coupon hurdle rate may not represent a cost for investors if the Reference Index rallies during the whole term, as any gain which has not been locked in by the variable coupon earlier will be returned back to the investors in the form of capital gain at maturity. However, the coupon hurdle rate can have a negative influence, particularly in an up-and-down market scenario where the investors may not receive any capital gain at maturity and would have lower variable coupons during the term as a result of the coupon hurdle rate.
- The final hurdle rate at maturity represents an implicit performance fee charged by the issuer. The final hurdle rate will lower the capital gain by a total of 14% or approximately 2% p.a.
- Scenario analysis concludes that the Products perform best when the Underlying Index gradually rises with low volatility during the term, as the Products would maximise the leveraged exposure to the Underlying Index and benefit from the consistent upswing (refer to Figure A5 in the Technical Appendix for hypothetical scenario).
- The Products also perform well if the Underlying Index falls sharply. The sudden increase in volatility would trigger the Products to lower their exposure to the Underlying Index, limiting further falls in value (refer to Figure A6 in the Technical Appendix for hypothetical scenario).
- The Products perform less favourably if the Underlying Index falls and then quickly recovers in a volatile 'v' shape manner. As the volatility remains at a high level after a big fall, the Products will benefit very little from the sudden recovery of the Underlying Index, resulting in a much worse performance compared to a direct investment in the same underlying over the positive return period (refer to Figure A7 in the Technical Appendix for hypothetical scenario).
- The Products perform worst when the Underlying Index demonstrates negative returns and low volatility at the same time. In that scenario, the Products would increase participation to the falling index value and result in a bigger loss (refer to Figure A8 in the Technical Appendix for hypothetical scenario).

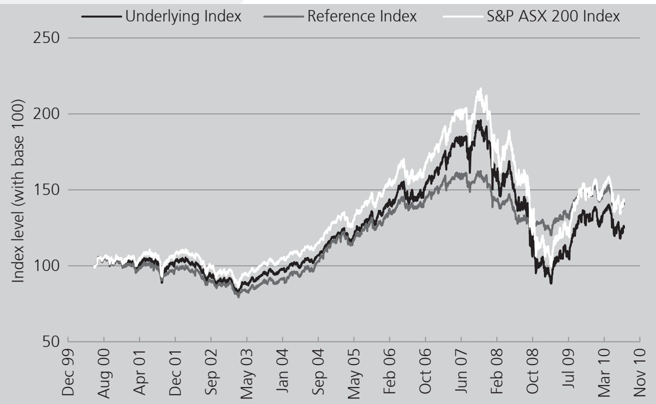
Technical Appendix

Figure A1: Participation Rate and Volatility as at 13 August 2010

Lower	Upper	Participation Rate
0.00%	8.00%	150.00%
8.00%	12.00%	100.00%
12.00%	17.00%	70.59%
17.00%	22.00%	54.55%
22.00%	27.00%	44.44%
27.00%	32.00%	37.50%
32.00%	42.00%	28.57%
42.00%	52.00%	23.08%
>52.00%		0.00%

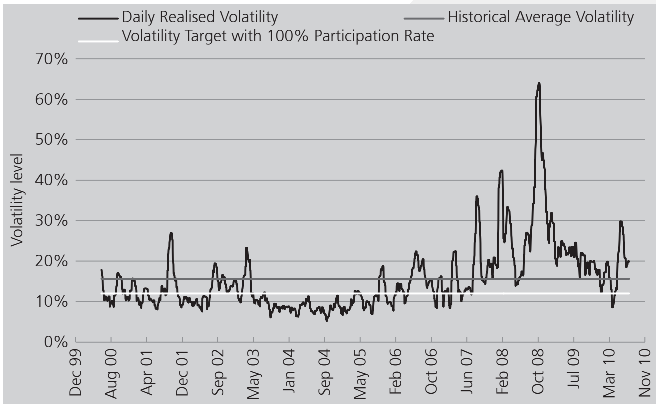
Figure A2: Historical returns of the Underlying Index and Reference Index as at 29 July 2010

	6 Months	1 Year	2 Years Annualised	3 Years Annualised	5 Years Annualised	7 Years Annualised
Underlying Index	-2.2%	5.6%	-5.7%	-10.9%	-0.3%	4.4%
Reference Index	-3.4%	2.1%	5.0%	-2.7%	3.0%	6.7%
S&P ASX200 Index	-1.0%	6.6%	-4.7%	-9.7%	0.6%	5.4%



As the Underlying Index reflects only the excess returns from rolling future contracts, it would underperform the S&P ASX 200 Index in environments with high interest rates. Over the last seven years, the Underlying Index has underperformed the S&P ASX 200 Index by an annualised return of 1%. The Reference Index has performed better than the two other indices during the financial crisis, as the volatility target strategy reduces exposure to the equity market when it is experiencing a volatile downturn. The loss minimisation effect is demonstrated by the Reference Index's -2.7% annualised return over the last three years, while the Underlying Index and the S&P ASX 200 Index have returned -10.9% p.a. and -9.7% p.a. respectively during the same period.

Figure A3: Historical 20-business-day volatility of the Underlying Index



The long-term average of the 20-business-day rolling volatility is 15.6%, and is higher than the 12% volatility target required for 100% participation in the Products. The historical volatility has fallen below 12% in 42.4% of the cases.

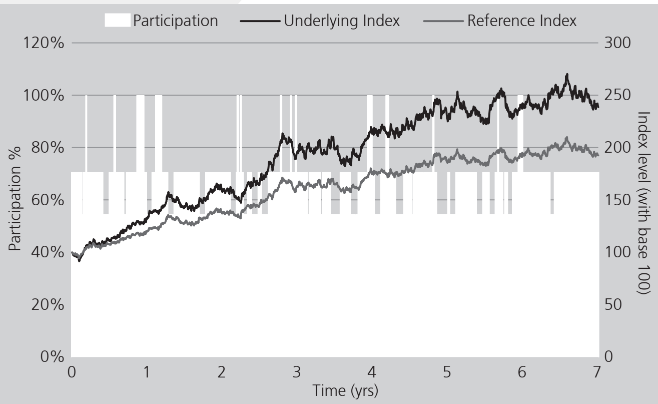
Figure A4: Back-testing of the Products

Attribution Analysis of Products' Return	Total return over the whole term	Annualised return
Fixed Coupons	25.0%	3.2%
Average Variable Coupons	24.2%	3.1%
Average Capital Growth at Maturity	18.3%	2.4%
Average Total Return	67.5%	7.6%

The results of the back-testing on the above table were produced by considering 38 overlapping periods of seven years, with the first period starting on 30 June 2000 and the last on 31 July 2003.

The table shows the breakdown of average back-testing return from the Products for a non-geared investor. The analysis assumes that investors will only be required to invest 80% of the issue price per unit at inception. At maturity, investors will receive an increase in protection equal to 20% of the issue price as a result of reinvestment of the fixed coupons. Therefore, relative to the initial investment, the total return from fixed coupons is 20/80, or 25%. The total return is the sum of returns from fixed coupons, variable coupons, and capital growth at maturity.

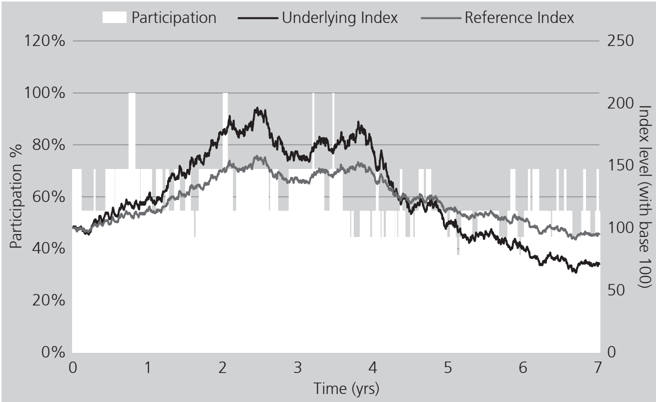
Figure A5: Scenario with strong returns*



* This figure represents a hypothetical case specifically chosen by Adviser Edge to demonstrate the behaviour of the Products in different scenarios. It is not taken from the past performance of the Underlying Index. A partial growth percentage of 40% and a coupon hurdle rate of 5% are used in the payoff calculation.

As demonstrated by Figure A5, the Products perform best in an environment with high returns and low volatility. The low level of volatility allows a higher participation to the Underlying Index, and therefore the Products benefit more from the upside rally. In this scenario, the Underlying Index has an average realised volatility of 15.80%, and the participation has remained between 54.55% and 100% for majority of the term. Assuming that the initial investment is $80 for a non-geared investor, the total variable coupon distributed during the term is $26, or 32% of the initial investment, and the final capital growth payout at maturity is $56, or 70% of the initial investment.

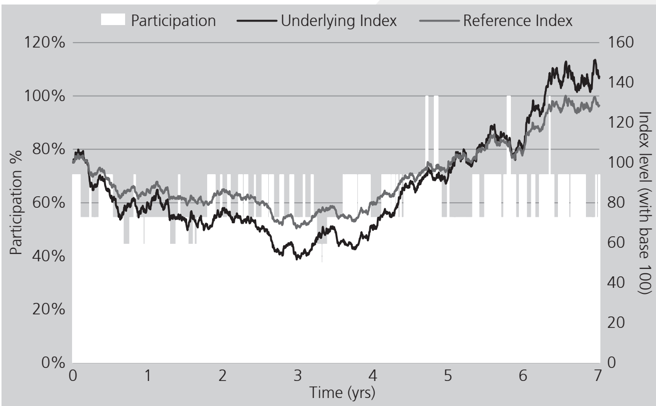
Figure A6: Scenario with fall after a rally*



* This figure represents a hypothetical case specifically chosen by Adviser Edge to demonstrate the behaviour of the Products in different scenarios. It is not taken from the past performance of the Underlying Index. A partial growth percentage of 40% and a coupon hurdle rate of 5% are used in the payoff calculation.

If the Underlying Index falls dramatically, the increasing volatility will reduce the Products' participation rate and limit the extent of further drops in strategy value. In this case the Products would have returned a total variable coupon of $15, or 19% over the term. There is no capital gain at maturity, as the Final Reference Index Value has fallen below the initial value of the Reference Index at inception. The Products would have performed better than the Underlying Index, as it returns the initial investment plus the fixed coupons at maturity while the Underlying Index suffers a capital loss.

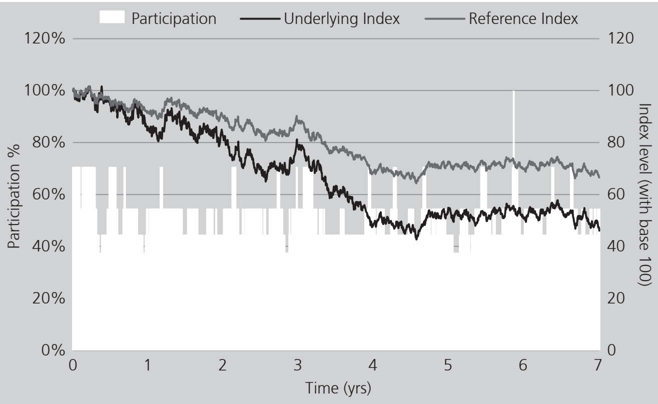
Figure A7: Scenario with recovery after a fall*



* This figure represents a hypothetical case specifically chosen by Adviser Edge to demonstrate the behaviour of the Products in different scenarios. It is not taken from the past performance of the Underlying Index. A partial growth percentage of 40% and a coupon hurdle rate of 5% are used in the payoff calculation.

The Products perform less favourably than a direct investment if the Underlying Index recovers quickly after a substantial fall. As the volatility of the Underlying Index remains at a high level, the Products' exposure to the Underlying Index's upside movement would be limited. In this case, the Products would not have generated any variable coupons during the term, as the Reference Index has failed to go above the high water mark and coupon hurdle rate at all Coupon Determination Dates. The Products would have returned a capital gain of $7 at maturity after the final hurdle rate. Investors will also receive all fixed coupons with a value equivalent to 20% of the issue price.

Figure A8: Scenario with gradual fall*



* This figure represents a hypothetical case specifically chosen by Adviser Edge to demonstrate the behaviour of the Products in different scenarios. It is not taken from the past performance of the Underlying Index. A partial growth percentage of 40% and a coupon hurdle rate of 5% are used in the payoff calculation.

The Products perform worst if the Underlying Index experiences gradual and consistent falls. As the Underlying Index's volatility remains at a relatively low level, the Products may have a substantial or even leveraged exposure to the falling Underlying Index, thereby amplifying the extent of loss. In this case, the Products would not have generated any variable coupon or capital gain for the investors, as there is no profit lock-in during the term, and the Final Reference Index Value has failed to rise above the initial value at inception. Although the Products perform worst in this type of market scenario, it is still much better than a direct investment in the same Underlying Index. A direct investment would result in a capital loss. However, the Products would still return a total gain of 25% on top of the initial investment back to the investors as a result of the fixed coupons.

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Report Date

27 August 2010