

Adviser Edge Rating ★★★★★

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Product Summary

NAB Re-Strike Deferred Purchase Agreement – Series 2 (the Product) is a Deferred Purchase Agreement (DPA) issued by RBS Group (Australia) Pty Limited (RBS) that aims to provide investors with income and capital gain over a six-and-a-half year investment term. The performance of the Product is linked to the Risk Stabilised Aquantum Pegasus EL1 Strategy Index (the Reference Index), which is constructed by overlaying a volatility target strategy on top of the Aquantum Pegasus EL Excess Return Index (the Underlying Index). Investors can access the Product via a 100% investment loan from National Bank of Australia Limited (NAB), or by using their own capital. The NAB investment loan is separate from the Product and Adviser Edge has not analysed the details of the loan in this report.

The Underlying Index is a commodity market-neutral index linked to the performance of a quantitative commodities strategy. The strategy is simple and constant, relying on a repeating pattern of changes in the shape of the forward curve of commodity futures contracts. It has only been a live traded index for nine months, although the strategy is robust in back-tested data. Hedge funds have used a similar strategy successfully in live trading over the past years. 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 is \$1 per unit. However, investors are only required to pay \$0.80 per unit upfront. The Product will distribute a fixed coupon of 3.08% p.a., which will be reinvested back into the Product 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 that is at least equal to 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 coupon during the term and capital gain at maturity are provided by RBS.

Analysis conclusion

In summary, cash-locked geared investors, and investors using their own funds, may find this a low-risk product with the potential for good growth if the underlying futures strategy continues to function for much of the next six-and-a-half years. The product is unlikely to be attractive to investors seeking strong growth as for a direct equity product. Adviser Edge rates the Product well for three reasons.

Firstly, the quantitative testing demonstrated that the Product has an efficient structure which operates well with the Underlying Index. The dynamic volatility target strategy takes advantage of the accepted correlation of volatility and returns of the Underlying Index, 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. The Underlying Index has an average historical realised volatility of 3.9% p.a.¹ If the volatility stays below 6% p.a., the Product would have a participation of more than 100% to the Underlying Index. Compared to other volatility target-style investment products, where the structure tends to limit volatility by reducing the average exposure to below 100%, this product actually increases exposure and enhances investors' potential returns. The back-testing results are good, as the Underlying Index's strong historical performance and low volatility allows the Product to perform well in this structure.

Secondly, the Product provides Australian investors with unique and efficient access to the performance of the Aquantum

¹ The Underlying Index has been live since 1 July 2009. The historical performance back to August 1997 was back-filled using back-tested data.

Pegasus EL Excess Return Index (without any foreign exchange exposure), 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.

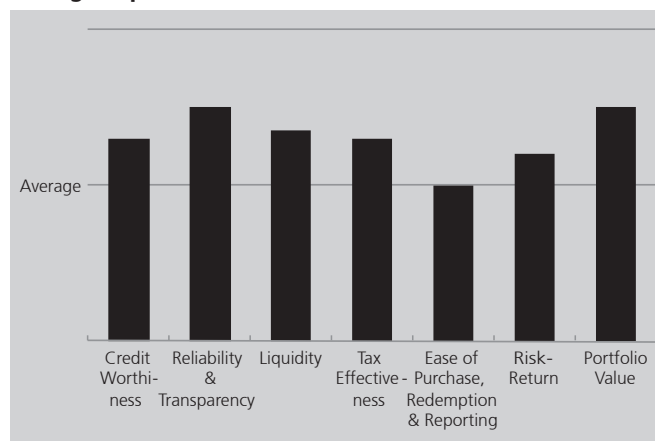
Thirdly, the Product provides significant diversification benefit in a portfolio setting. By applying a volatility target overlay on top of a market-neutral absolute return strategy, the Product can potentially deliver consistent absolute returns while maintaining low correlation to other asset classes.

The Product has three primary drawbacks. Firstly, the Product has a complicated payoff structure. The Product has multiple layers of calculation, which make it difficult for investors to understand the behaviour and pricing of the Product in different scenarios. There are multiple parties involved and they are vital for the continuation of the Reference Index. These entities include the index creator, RBS, and the hedging counterparty. Should any of these entities be unable to continue fulfilling their role, the Product may be subjected to early termination with no guarantee of the minimum final value. 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 Product may achieve. In the case of this low volatility index, that drawback should be as significant as with standard equity underlyings. The third main difficulty for investors is the uncertainty surrounding the longevity of the underlying futures strategy. It is based on a long-standing anomaly in the commodity market which does not appear to be changing currently. However, it is a strategy which is easily replicable by other hedge funds or traders, leaving the possibility that in the future there may be such a large volume of transactions following the same strategy that excess returns will be reduced or removed. If this occurs, it will become necessary to change the Product's strategy, the success of which will depend on Aquantum in particular.

Investors should acknowledge that fees of up to 3.65% p.a. (excluding the 15% performance fee) are charged on the Underlying Index and incorporated into the calculation of the Reference Index. Of the 3.65% fees, there are 1.20% p.a. Access Cost which can vary from 1.00% to 1.75% p.a.; 1.15% p.a. Licensee Management Fee which can vary from 1.00% to 1.40% p.a.; and 0.35% p.a. Licensor Management Fee which can vary from 0.30% to 0.50% p.a. The 15% performance fee is charged only on the outperformance above the high water mark. Although the Product does not explicitly charge any other fees on the volatility target structure, the fees have been implicitly built into the Product, 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 final value of the Product. The analysis in this report takes these fees into account, including the performance fee, finding nonetheless a promising return potential for the level of risk.

Rating snapshot



Investor Suitability

Adviser Edge considers the Product to be most relevant for investors who have a strong view regarding the ongoing performance of the Aquantum Pegasus EL Excess Return Index, and who believe that the index's volatility will remain low around the long-term average for the next six and a half years.

Investors with an existing geared investment in another cash-locked structured product are suited to this Product, as the loan facility provided by NAB will fund up to 20% break cost from the existing investment and thereby allow investors to make a new investment with an equal notional exposure. The Product also offers all borrowed investors an efficient means of gearing into the Reference Index with a medium-term investment horizon. The Product represents an attractive investment for cash investors as the structure provides a definite limit to the risk of downturns in the Underlying Index, while providing a potential high income and growth investment profile. Investors with an existing portfolio may consider investing in this Product to achieve greater diversification.

In summary, cash-locked geared investors and investors using their own funds may find this to be a low-risk Product with the potential for good growth if the underlying futures strategy continues to function for much of the next six –and-a-half years. The Product is unlikely to be attractive to investors seeking strong growth in the manner of a direct equity product.

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

NAB Re-Strike Deferred Purchase Agreement (Series 2) – 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
Interim Cash Flow	Net cash outflow ¹		No cash flow		Net cash inflow ²¹	
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 Product 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 Product, yet investors will be liable to pay income tax in relation to the fixed coupons. If the Product does not distribute any variable coupons, investors would experience a net cash outflow for the tax paid on fixed coupons. A 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 Agreement – Series 2
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	23 June 2010
Maturity	10 January 2017 (approximately six-and-a-half years)
Liquidity	Monthly on the last business day of each month commencing on September 2010.
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 1,000 units, or \$800.

Economic Features

Investment strategy	The Product provides varying levels of exposure to the Aquantum Pegasus EL Excess Return Index depending on the realised volatility of the index and the volatility targets predefined at the start of the investment.
Underlying Index	Aquantum Pegasus EL Excess Return Index. The FX risk of the Underlying Index is fully hedged.
Participation	The participation rate will vary between 0% and 145% 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 Product will pay a fixed coupon of 3.08% p.a. which must be re-invested. The investors also have the potential to receive annual variable coupons during the investment term, subject to a 5% coupon hurdle rate and high water mark.
Capital gain at maturity	The Product may return a capital gain at maturity to the investors subject to the Final Reference Index Value, variable coupons paid during the term and 6.5% 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 \$0.80 per unit, and using the remaining capital to break away from an existing non-performing investment.

Fees

Ongoing fee	There is no other ongoing fee charged by the Product apart from those charged on the Underlying Index. The Underlying Index may charge fees of up to 3.65% p.a. (excluding the 15% performance fee). Of the 3.65% fees, there are 1.20% p.a. Access Cost which can vary from 1.00% to 1.75% p.a.; 1.15% p.a. Licensee Management Fee which can vary from 1.00% to 1.40% p.a.; and 0.35% p.a. Licensor Management Fee which can vary from 0.30% to 0.50% p.a. The 15% performance fee is charged only on the outperformance above the high water mark.
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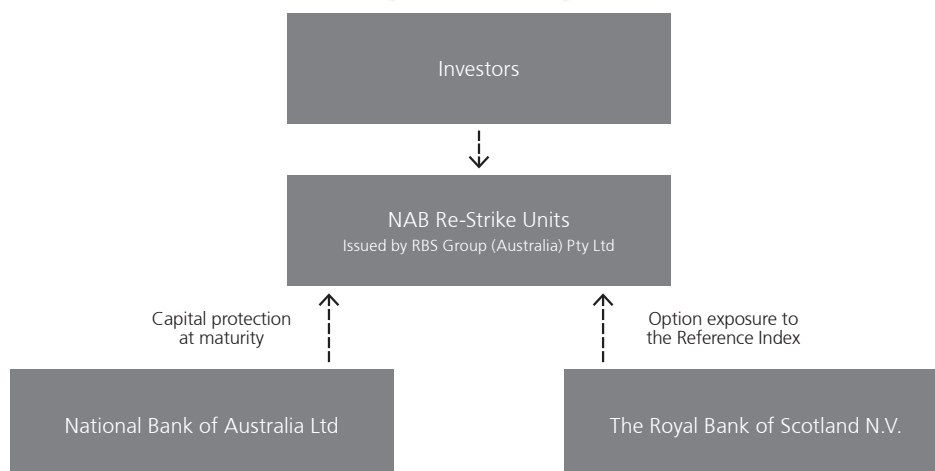
Product Highlights

- The Underlying Index, the Aquantum Pegasus EL Excess Return Index, references a diversified portfolio of 24 commodity futures from various sectors including energy, metals, agriculture, and livestock. Based on two complementary systematic trading programs, simultaneous long and short positions are established in certain futures contracts with the aim of benefiting from convenience yield and liquidity premiums. The index is denominated in USD and published daily.
- The Underlying Index uses 3.5 times leverage on both long and short positions for every US\$1 invested. Although the notional leverage is substantial, the two trading programs have offset positions in those months where both are able to be employed together, and where the typical price movement of the underlying strategy is small.
- The two programs within the strategy are strictly rule-based, and are consistent over time. Program one (P1) takes long and short positions in all commodities in the Underlying Index, and aims to generate returns from liquidity premium. The program achieves this by shorting a near-term contract and buying a longer-dated contract to create a net position, which profits from a steepening positive (contango) futures curve. On the other hand, program two (P2) takes positions in certain commodities at certain times of the year to generate returns from the convenience yield. The program achieves this by buying a spot-month contract and shorting the next contract on the futures curve to create a position which profits from a flattening or a movement towards a negative shaped futures curve (backwardation). The two programs are operating in tandem to create a more neutral position and to reduce the effect from the overall shape of the futures curve.
- The Underlying Index has only been live since 1 July 2009, and therefore has less than a one-year track record. The historical performance of the Underlying Index is back-filled by applying the same rules-based strategy to the commodities. The back-filled historical performance starts in August 1997.
- The Underlying Index is created by Aquantum Algorithmic Ltd. RBS Sempra Energy Trading LLC acts as the hedging counterparty for the Underlying Index. Future Value Consultants Limited undertakes the role of Calculation Agent for the Reference Index. RBS acts as the Index Sponsor for the Reference Index.²
- A committee comprised of members from RBS, RBS Sempra Energy Trading LLC and Aquantum Algorithmic Ltd, is responsible for ensuring that the strategy of the Underlying Index continues to perform in accordance to its investment mandate. The committee meets semi-annually, or on an ad hoc basis in urgent circumstances, to review the liquidity and suitability of the commodity futures. The committee may replace or change allocations in some of the commodities if appropriate. This has not been necessary during the live period of the index.
- The Reference Index, the Risk Stabilised Aquantum Pegasus EL1 Strategy Index, applies a volatility target strategy to the Underlying Index after deducting the access cost, the licensee management fee, the licensor management fee and the performance fee, which may reach a total of 3.65% p.a. (excluding the 15% performance fee which is charged only on the outperformance above the high water mark). 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 that specific calculation date, and the previous four consecutive 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 145%.
- 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 of the Underlying Index is below 6%. If the maximum realised volatility falls below 4%, the participation would increase to 145%. The historical average realised volatility of the Underlying Index is 3.9% over the past 12.5 years of live and back-tested periods. Since August 1997, the realised volatility has remained below 6% in 91% of occurrences. As at 28 February 2010, the five-day maximum realised volatility of the Underlying Index was 1.9%.

² Refer to the technical appendix for details of the role of each entity.

- Investors can potentially receive up to three forms of returns, which include fixed coupon, variable coupon and capital growth at maturity. The issue price per unit at inception is \$1 per unit. However, the investors are only required to pay \$0.80 per unit.
- Investors will receive annual fixed coupons of 3.08% 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 \$0.80 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 as 40% of the annual growth of the Reference Index above the high water mark and coupon hurdle rate. 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 are set annually on 10 July each year, commencing from 2011 to 2016. The coupon hurdle rate is fixed at 5% of the issue price during the term. The distribution of fixed and variable coupons does not affect the calculation 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. 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 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 final hurdle rate for the Product to deliver a final capital growth payout.
- The averaging technique used to calculate the Final Reference Index Value at maturity 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 Product. 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 foreign currency exposure of the Product is fully hedged. The hedging cost is built in the structure and the investors are not required to pay any fees in relation to the hedging.
- The capital protection is provided by NAB. Therefore, if the final value of the Product falls below the issue price, investors will be subject to the credit risk of NAB. On the other hand, since RBS is the provider of the performance contract, investors will 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 Agreement stipulates 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 Product offers 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



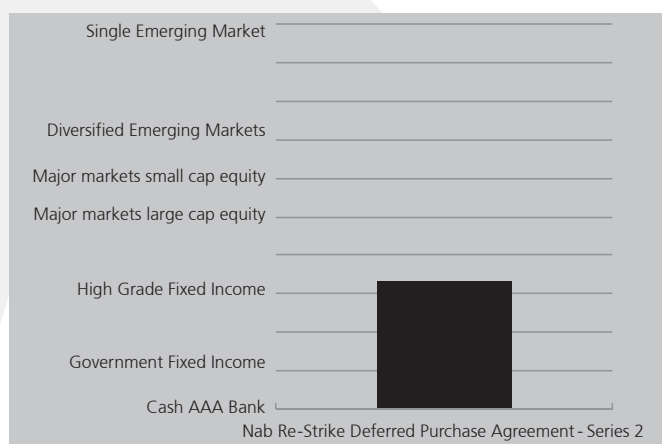
Asset allocation

If the Product had commenced on 28 February 2010, the five-day maximum realised volatility of the Underlying Index would have roughly been 1.9%, resulting in an initial participation at the maximum level of 145% 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 145% of the issue price in the Underlying Index. This effectively represents over 180% leverage if compared to the initial investment. The allocation within the volatility target structure can change during the term of the investment, and can reach a low of 0%.

Risk-return spectrum

The returns from the Product in most market environments are much less risky than a direct investment in a well-diversified, large capitalisation equity portfolio, and slightly more risky than high grade fixed income securities due to the following reasons:

- The Underlying Index is an absolute return market neutral strategy with a very low level of volatility.
- The volatility target overlay further limits the volatility of the Product although it can have a maximum geared exposure of 145% to the Underlying Index.
- The foreign currency exposure of the Product is fully hedged.
- The reinvestment of the fixed coupons during the term will increase the capital protection from \$0.80 per unit to \$1 per unit.
- The Product may lock in interim profit through the distribution of variable coupons.



Fat tail view

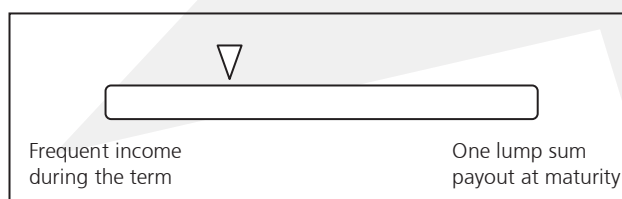
In the fat tail section, Adviser Edge focuses on the downside fat tail of the Product, which is the probability of the Product returning 0%, or below -20%. Adviser Edge believes that the Product has a low tail risk for non-geared investors, and an above average tail risk for geared investors who apply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

The Product is seen to have a small tail risk for non-geared investors due the fact that even in the worst scenario the Product will still return a minimum of 3.08% p.a. through the distribution of the fixed coupons. The 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, the investors will receive a minimum of \$1 per unit at maturity (\$0.80 from initial investment, and \$0.20 from the fixed coupons). This represents a minimum return of 25% on the initial investment over the investment term.

A geared investment in the Product 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 six-and-a-half year term, which could be substantial on a pre-tax basis.

Frequency of cash flow

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



Pros

Risk and return

- The Underlying Index has a transparent and clear rules-based investment strategy. The strategy would have performed remarkably well if it was applied to market over the last 12 years. The simultaneous long and short positions taken by the strategy will create a market-neutral position, which will minimise the volatility.
- The Product's structure fits well with the Underlying Index. The volatility target strategy ensures that investors will not be subject to cash lock. Furthermore, the overlay can provide leveraged exposure to the Underlying Index, and reduce losses when the Underlying Index experiences highly volatile downward trend. The strategy operates most efficiently on underlyings with low and stable volatility, and steady positive performance. Over the past twelve years of back-tested and live performance, the Underlying Index has exhibited an extremely low average realised volatility of 3.9%, and the daily realised volatility has remained below 6% in 91% of occurrences. The low volatility would increase the structure's exposure to the Underlying Index to above 100%. Unlike some other volatility target products, which tend to reduce the volatility of the reference asset by lowering the participation, this Product actually increases the volatility by having geared exposure to the Underlying Index.
- The Product provides a good balance of income and capital gain. Based on the back-testing analysis, the Product would, on average, generate close to half of the total returns in the form of income derived from variable and fixed coupons, and the other half 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 Product showed that it would have been able to generate strong returns during most periods analysed. This is a result of robust historical performance and low volatility from the Underlying Index. Adviser Edge has conducted back-testing to examine 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.

Portfolio value

- The Product provides a means for cash-locked investors to regain market exposure, with the NAB loan facility funding up to 20% break costs.
- The Product provides innovative and unique market access to the Underlying Index. The volatility target strategy is also a well-known trading strategy to many advisers and investors.
- The Product could be used as a direct substitute for other absolute return strategies in a portfolio setting, as it could offer good returns with limited downside risk.
- The Underlying Index is an alpha-focused strategy that provides strong diversification benefits due to non-correlated returns.
- The diversification of the Product is further improved by the currency hedging within the structure.

Credit worthiness

- The Product is issued by RBS with capital protection provided by NAB. The separation between the issuer and capital protection provider minimises the concentration of risk on a single counterparty. Should the Product perform strongly, investors will not lose both the capital protected amount and any positive return as a result of default of either one entity.
- 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. All three credit rating agencies place a stable outlook on their ratings.

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 is supervised by a committee which includes members from the Index Creator, RBS, and the hedging counterparty. The committee meets semi-annually and is responsible for supervising the current operations and ongoing viability of the strategy.
- The underlying strategy itself is extremely transparent, and has performed in highly liquid markets.
- Although Aquantum is a relatively young firm, its founder has extensive previous experience in managing systematic trading programs and alpha-type strategies.

Cons

Risk and return

- The Underlying Index's strategy is simple and relatively easy to replicate. There is a possibility in future that the Underlying Index may not perform as strong as it would have in the past, due to the crowding-out effect created by large trading positions taken by other investors or funds adopting similar strategy.
- The Underlying Index does not incorporate a self-enhancing mechanism. This means that the strategy does not automatically evolve over time to adapt to new market environments. The back-testing shows that the strategy would have performed well in the past twelve years, but there is a possibility that a change in market conditions may make the strategy inefficient and obsolete. There is no clear replacement strategy available if this occurs, and a new solution would need to be found at that time.
- The Product has a relatively long investment term (six-and-a-half 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 5% coupon hurdle rate will reduce the amount of potential annual variable coupon or profit lock-in generated by the structure during the term.
- The 6.5% final hurdle rate can be seen as an additional 1% 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 Product may perform poorly.

Credit worthiness

- The investment is subject to the credit risk of a number of parties. Although the performance is provided by RBS, should either the Underlying Index Creator (Aquantum® Algorithmic Ltd) or the hedge provider (RBS Sempra Energy Trading LLC) cease to be able to perform their roles investors may be subject to an early maturity event, and in turn the risk of receiving redemption less than the minimum final value.

Reliability and transparency

- The Underlying Index Creator, Aquantum® Algorithmic Ltd, is a young entity. It was established in 2009 by two key individuals, Thomas Morrow and Daniel Bain.
- If the strategy of the Underlying Index becomes inefficient or impractical at some point in time, the committee may need to formulate a new trading system to replace the existing strategy. The ongoing performance of the Underlying Index may then be influenced by the discretion of the committee, and remains subject to the key person risk of the Index Creator.
- 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 Features³

- 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

- The Reference Index will have a less liquid market compared to a major market index. This increases the likelihood of the Product suffering closure or illiquidity. Furthermore, investors may incur significant break costs due to market movements if the Product is redeemed before maturity.

³ 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 Product. The comments throughout this product assessment assume that the investor is an Australian resident individual 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 3.9% over a 20-business-day period. This is much lower than the 6% volatility target required to gain 100% exposure in the structure. If the volatility of the Underlying Index remains below 4% at the historical average, the structure will have 145% exposure to the index. The low level of realised volatility will increase the Product's exposure to the Underlying Index, and thus investors will benefit more from positive index movements. Unlike other volatility target-style products, which tend to reduce volatility by lowering participation to the reference asset in order to lower the cost of structuring the investment, this Product leverages the exposure and increases the volatility.
- Since the start of the back-tested data in August 1997, the realised volatility of the Underlying Index has only risen above 6% in 9% of occurrences. This means that in 91% of the historical period, the structure would have had an exposure of more than 100% to the Underlying Index. At the peak of the GFC in February 2009, the realised volatility of the Underlying Index had only risen to 6.8%, resulting in a participation of 80%.
- The Underlying Index is expected to have low volatility as long as the strategy continues to have offset positions for each commodity. The market-neutral strategy should continue to work well with the volatility target structure, and should benefit investors through the leveraged exposure.
- The Product would have performed very well in most of the back-testing analysis, generating an average net return of 21% p.a. including coupons and capital growth at maturity. The returns would have been sufficient to fully cover borrowing costs of an investment loan in most cases.
- The attribution breakdown of the historical total return from the Product indicates that 10% of the total return usually comes from fixed coupons, while variable coupons and final capital growth comprise 34% and 56% 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% before the Product delivers 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 6.5% or approximately 1% p.a.
- Scenario analysis concludes that the Product performs best when the Underlying Index gradually rises with low volatility during the term, as the Product would maximise the leveraged exposure to the Underlying Index and benefit from the consistent upswing (refer to Figure A4 on page 11 for hypothetical scenario).
- The Product also performs well if the Underlying Index falls sharply. The sudden increase in volatility would trigger the Product to lower its exposure to the Underlying Index, limiting further falls in value (refer to Figure A5 on page 12 for hypothetical scenario).
- The Product performs 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 Product 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 A6 on page 12 for hypothetical scenario).
- The Product performs worst when the Underlying Index demonstrates negative returns and low volatility at the same time. In that scenario, the Product would increase participation to the falling index value and result in a bigger loss (refer to Figure A7 on page 12 for hypothetical scenario).

Technical Appendix

Aquantum Pegasus Index

Aquantum Algorithmic Limited is an Isle of Man-based specialist provider of absolute return strategy indices. Aquantum developed the Pegasus indices, which are USD-denominated commodity market-neutral investment products that track the performance of an advanced commodity futures trading strategy. Each index references a large portfolio of commodity futures from various sectors. The Aquantum Pegasus EL Excess Return Index is an extra-liquid version of the Aquantum Pegasus Index. It relies on RBS Sempra Energy Trading LLC,⁴ which acts as the hedging counterparty.

The Aquantum Pegasus EL Excess Return Index has demonstrated consistent and strong historical performance over the back-tested period since August 1997. Since then, the index has generated a total growth of 700%, or a compound return of 17% p.a. Over the past two years, the index has performed well against the financial crisis, and has generated an annualised return of 8.8%. The index has returned a total of 6.2%, or 8.6% p.a. over the nine-month live period to April 2010.

Volatility targeting strategy

The Risk Stabilised Aquantum Pegasus EL1 Strategy Index (USD)⁵ is calculated and maintained by Future Value Consultants Limited (Reference Index Calculation Agent), based on a methodology developed by The Royal Bank of Scotland plc (Reference Index Sponsor). Future Value Consultants Limited is a United Kingdom-based independent organisation that specialises in structured products and derivatives strategies, and acts as the index calculation agent for this index as well as 47 other indices. The volatility target strategy aims to deliver out-performance by increasing exposure to the Underlying Index in upward trends and decreasing exposure in downward trend (see PDS page 12 for details regarding the realised volatility level and exposure). Success of this strategy is hugely influenced by the correlation between future return and realised volatility. Fees of up to 3.65%p.a. (excluding the 15% performance fee which is charged only on the outperformance above the high water mark) are incorporated into the calculation of the Reference Index. These fees are deducted from the return on the Underlying Index (Aquantum Pegasus EL Excess Return Index).

Investors are reliant on Aquantum for the continued management of the strategy of the Underlying Index, on RBS Sempra Energy Trading LLC for the liquidity provision, and on Future Value Consultants Limited for Reference Index calculation. Should any of these organisations cease to be able to provide their respective services, this may trigger an early maturity event.

⁴ The Royal Bank of Scotland (RBS) acquired Sempra Commodities in April 2008. At the date of this report, RBS Sempra Commodities has agreed to sell its global metals, global oil and European power and gas businesses to J.P. Morgan. The execution of the Underlying Index may be taken in-house by RBS in the future.

⁵ The Reference Index is expressed in USD. However, in calculating the returns of the Product, the absolute value at the Reference Index is used and the currency is ignored. The Coupon and Maturity Value of the Product are calculated with reference to the absolute value increase in the Reference Index over the relevant investment term and, therefore, there is no exposure to any foreign currency.

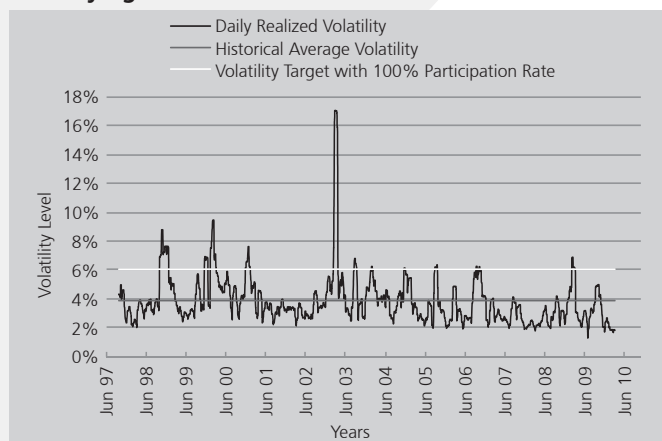
Figure A1: Historical returns of the Underlying Index and Reference Index, as at 28 February 2010

	6 Months	1 Year	2 Years Annualised	3 Years Annualised	5 Years Annualised	7 Years Annualised
Underlying Index	4.1%	6.3%	8.8%	10.5%	15.6%	20.6%
Reference Index	3.3%	3.9%	6.8%	9.0%	14.2%	17.9%
S&P GSCI Total Return Index	5.6%	29.0%	-27.1%	-8.4%	-5.9%	-0.5%
S&P 500 Index	8.2%	50.3%	-8.9%	-7.7%	-1.7%	4.0%

The Underlying Asset has performed well during the financial crisis. Over the last seven years, the strategy has returned an annualised return of 21% p.a. Although the Reference Index with the volatility target structure has a leveraged exposure to the Underlying Index in most circumstances, the performance was lowered by various fees which may total up to 3.65% p.a. (excluding the 15% performance fee which is charged only on the outperformance above the high water mark).

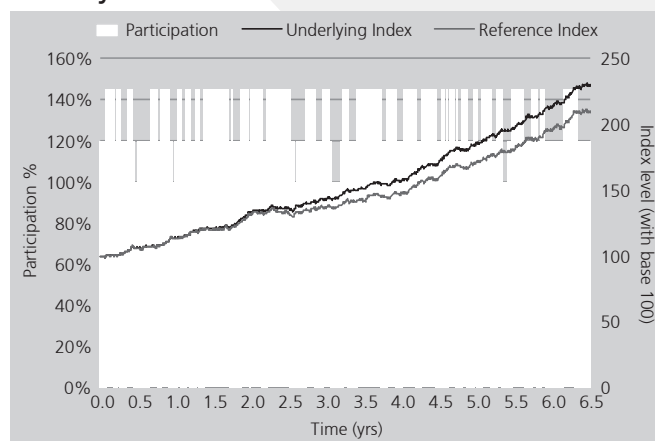
The table shows the breakdown of average back-testing return from the Product for a non-g geared investor. The analysis assumes that investors will only be required to invest 80% of the issue price per unit at inception. At maturity, the investors will receive an increase in protection equal to 20% of 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 A2: Historical 20-business-day volatility of the Underlying Index



The long-term average of the 20-business-day rolling volatility is 3.9%, which is much lower than the 6% volatility target required for 100% participation in the Product. The historical volatility has risen above 6% in only 9% of cases.

Figure A4: Scenario with strong return and low volatility*



* This figure represents a hypothetical case specifically chosen by Adviser Edge to demonstrate the behaviour of the Product in different scenario. It is not taken from the past performance of the Underlying Index.

Figure A3: Back-testing of the Product

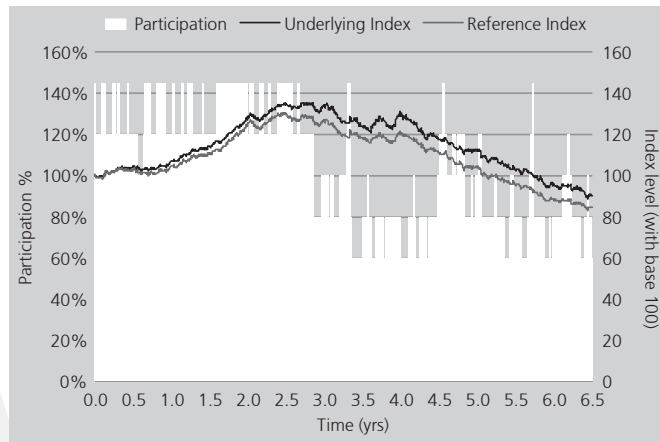
Attribution Analysis of Product Return	Total return over the whole term	Annualised return
Fixed Coupons	25.0%	3.5%
Average Variable Coupons	83.2%	9.7%
Average Capital Growth at Maturity	137.7%	14.2%
Average Total Return	246.0%	20.9%

The results of the back-testing on the above table were produced by considering 71 overlapping periods of six-and-a-half years, with the first period starting on 31 October 1997 and the last on 31 August 2003.

As demonstrated by Figure A4, the Product performs 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 Product benefits more from the upside rally. In this scenario, the Underlying Index has an average realised volatility of 3.96% and the participation has remained above 100% for the whole term. Assuming that the initial investment is \$80 for a non-g geared investor, the total variable coupon distributed during the term is \$27, or 34% of the initial investment, and the final capital growth payout at maturity is \$62, or 78% of the initial investment.

Note that the Reference Index still under-performs the Underlying Index in a favourable scenario because the Reference Index takes into account all the fees, whereas the Underlying Index does not.

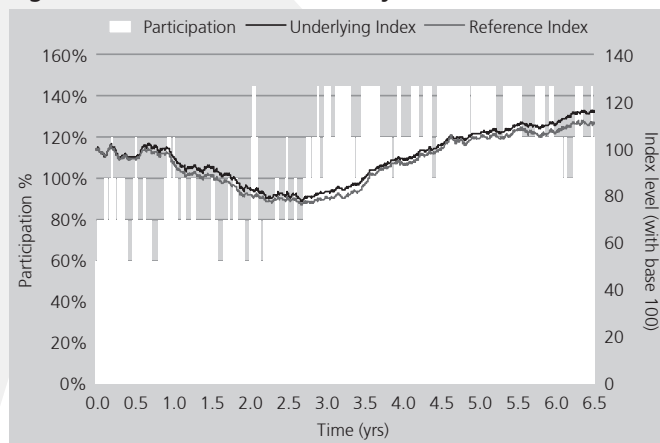
Figure A5: Scenario with fall after a rally*



* This figure represents a hypothetical case specifically chosen by Adviser Edge to demonstrate the behaviour of the Product in different scenario. It is not taken from the past performance of the Underlying Index.

If the Underlying Index falls dramatically, the increasing volatility will reduce the Product's participation rate and limit the extent of further drops in strategy value. In this case the Product would have returned a total variable coupon of \$6, or 8% 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 Product would have performed better than the Underlying Index after fees as it returns the initial investment plus the fixed coupons at maturity while the Underlying Index suffers a capital loss.

Figure A6: Scenario with recovery after a fall*

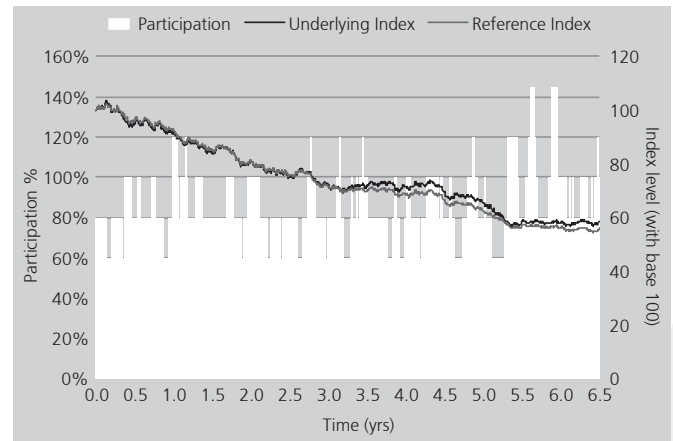


* This figure represents a hypothetical case specifically chosen by Adviser Edge to demonstrate the behaviour of the Product in different scenario. It is not taken from the past performance of the Underlying Index.

The Product performs less favourably than a direct investment if the Underlying Index recovers quickly after a big fall. As the volatility of the Underlying Index remains at a high level, the Product's exposure to the Underlying Index's upside movement would be limited. In this case, the Product 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 Product would have returned a capital gain of \$2 at maturity

after the final hurdle rate. Investors would also receive all fixed coupons with a value equivalent to 20% of the issue price.

Figure A7: Scenario with gradual fall*



* This figure represents a hypothetical case specifically chosen by Adviser Edge to demonstrate the behaviour of the Product in different scenario. It is not taken from the past performance of the Underlying Index.

The Product performs worst if the Underlying Index has gradual and consistent falls. As the Underlying Index's volatility remains at a relatively low level, the Product may have a substantial or even leveraged exposure to the falling Underlying Index, thus amplifying the extent of loss. In this case, the Product 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 Product performs 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 Product would still return a total gain of 25% on top of the initial investment to the investors as a result of the fixed coupons.

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Report Date

12 May 2010