

Important Dates	
Open / Close Date	2 November 2009 / 11 December 2009
Commencement Date	22 December 2009
Maturity Date	22 December 2011
Key Information	
Investment Type	Units which are warrants and securities under the Corporations Act. Investors enter into a deferred purchase agreement with the Issuer.
Underlying Index	Aquantum Pegasus Index (USD).
Issuer	RBS Group (Australia) Pty Limited.
Distribution Manager	Instreet Investment Limited.
Capital Protection	There is no capital protection.
Issue Price	\$1.18 per Unit. The notional exposure is \$10 per Unit.
Exposure to the Underlying Index	0% to 145% exposure, according to risk (or volatility) levels.
Coupons	Investors may receive a payment at the end of the first year, based on the performance of the Reference Index during this period. Any Maturity Value will depend on the performance of the Reference Index only over the second year.
Delivery Asset	Ordinary shares in BHP, CBA, WBC and WOW.
Minimum Investment	2,500 Units
Liquidity	An application has been made for the units to be listed on the ASX.
Currency hedging	Returns of the Reference Index will be calculated without reference to foreign currency so there is no foreign exchange exposure related to the Units at a payment date.
Fees & Commissions	
Reference Index Access Fee	1.40% p.a.
Reference Index Licensee management Fee	1.30% p.a.
Reference Index Licensor Management Fee	0.45% p.a.
Reference Index Performance Fee	15% subject to a high water mark. These fees are deducted from the calculation of the Reference Index Value.
Product Upfront Fees	2.0% (including GST) of the notional exposure is paid by the Issuer to financial advisers. 1.8% (including GST) of the notional exposure is paid by the Issuer to the Distribution Manager.

Various components of the product pricing are based on the Issuer's costs and option hedging prices, some of which the Issuer determines in its discretion. As is often the case with structured product pricing generally, these prices may not be transparent to the investor.

What this Rating means

The Investment Grade rating indicates that Lonsec believes that the fund or product can achieve its objectives and, if applicable, outperform some of its peers over an appropriate investment timeframe. However, compared to higher rated managers / funds, this manager has fewer competitive advantages in people, process or product design. If available, higher rated funds or products giving access to this asset class or strategy are expected to provide better long term investment outcomes.

Using this Product

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- Instreet Link ARC deferred purchase agreements (Units) provide investors with the opportunity to gain leveraged exposure to the price growth potential of a long / short commodities index. Lonsec considers the Units to be part of the Alternative Assets – Aggressive sector and most suited to Growth and High Growth investors. Maximum percentage asset class allocations for all risk profiles are outlined in Lonsec's Risk Profile Review.
- The Units **do not incorporate capital protection** so investors should fully understand the risks associated with equity-style investments. The full amount of any investment is at risk and can be lost; however losses are limited to the initial investment amount.
- Investors gain **leveraged exposure** to the performance of the Reference Index for a fraction (approximately 12%) of the notional exposure of the investment. This may be an effective means to gain leveraged commodities exposure for investors with limited funds.
- The Issuer intends to quote the Units on the ASX and provide a continuous market in accordance with the ASX Market Rules. An off market buy-back facility is also available to investors.

Product Risk Characteristics

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

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

Lonsec Opinion of this Product

- The Instreet Link ARC deferred purchase agreements (Units) provide investors with the opportunity to gain a **variable** and leveraged exposure to the performance of the Reference Index over a two year term. Any positive returns at the end of the first year are paid as a cash coupon while any positive returns during the second year are received in the form of cash or Delivery Assets at maturity. Unlike many structured products, investors' capital is **not** protected at maturity.
- Exposure to the Reference Index is governed by risk measures. The Units reduce exposure to the Reference Index when the risk of commodities in the index increases through certain levels and vice versa. Historically speaking, increasing risk has been associated with falling prices and decreasing risk with increasing prices, although the relationship may vary between commodities. Advisers should be aware when the exposure level exceeds 100% potential gains / losses in the Reference Index are magnified.
- The Reference Index represents a combined effort between the RBS Group and the skills of a well respected commodities trader. The Reference Index is rules-based and tracks the price movements of 24 commodities (as at October 2009). The Reference Index incorporates a performance fee (when the Reference Index is above a high water mark). In Lonsec's opinion performance fees are not standard for rules-based indices. Simulated data is included in Section 1 of the PDS and is net of the above mentioned fees. Advisers should note that simulated performance is not a reliable indicator of future performance.
- Any coupon payable at the end of the first year effectively acts as a profit lock-in; ensuring gains early in the life of the product will not be eroded by subsequent falls. Lonsec considers this to be an attractive feature in these types of products.
- Lonsec considers the Issuer and parent to have significant experience in structured products both in Australia and abroad.
- The Issuer may profit (or lose) from hedging arrangements undertaken when managing its contractual obligations under the structure. These amounts are "at risk" as the hedging arrangements require regular management over the term of the investment.

Issuer Profile

The Issuer of the Units RBS Group (Australia) Pty Limited (RBS), a wholly owned subsidiary of the Royal Bank of Scotland Group. The Royal Bank of Scotland Group was founded in 1727 and its operations span retail banking, corporate and commercial banking, financial markets activities, wealth management and insurance. In Asia Pacific, RBS serves corporate, institutional and public sector clients in 11 countries.

RBS and its subsidiaries have had a local presence since 1974 and work on some of the local market's largest and most complex transactions and projects for corporate, institutional and public sector clients.

The Royal Bank of Scotland plc has significant experience in structuring investment products globally and has current long term credit ratings of AA- by Fitch, A by S&P and A1 by Moody's.

Following the announcement of significant losses following the global financial crisis, the UK Government is now the largest shareholder in the Royal Bank of Scotland plc.

Underlying / Reference Index

The **Underlying Index** is the Aquantum Pegasus Index (USD), a commodity index which references a diversified portfolio of exchange traded commodity from various sectors including energy, metals, agriculture and livestock. As at October 2009, the index included 24 exchange traded commodity contracts.

The Underlying Index is a market-neutral strategy which means that its performance should not depend on the direction of the exchange traded commodities to which the index is linked.

The weights in individual commodities are restricted to ensure diversification. The weights are rebalanced monthly to ensure that diversification remains intact.

Simultaneous long and short positions are established in certain exchange traded commodities contracts with different expiry dates with the aim of generating positive returns. The Underlying Index aims to deliver absolute returns with a low level of volatility.

The Underlying Index is leveraged, for every 1 USD invested, the index will reference short positions and long positions with a total notional of 3.5 USD each position.

The **Reference Index** is the Risk Stabilised Aquantum Pegasus Strategy Index (USD) 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).

The Reference Index aims to track a notional strategy that applies a risk stabilisation overlay to the Underlying Index.

How does the Product Work?

Units are an investment in deferred purchase agreements issued by the Issuer. The Issue Price represents only a fraction of the notional Index exposure an investor achieves. A one-off investment of \$1.18 per Unit provides investors with a notional exposure of \$10 to the Reference Index.

Investors may receive a payment at the end of the first year, based on the performance of the Reference Index during this period. **Investors will not receive a Coupon if the Reference Index does not rise over the first year.** The Maturity Value will depend on the performance of the Reference Index only over the second year. **The Maturity Value will be zero if the Reference Index does not rise over the second year.** It is also possible for the Reference Index to fall in the first year but still receive a payout in the second year. The Reference Index does not have to recover the losses in year one to have a payout in year two.

This is shown in the following examples which assume an investment of \$11,800 (10,000 Units) with each Unit providing a Notional Exposure of \$10.

Year	Index Example 1	Payment \$11800 invested	Return	Index Example 2	Payment \$11800 invested	Return
0	500			500		
1	575	\$15000	27%	375	\$0	0%
2	661	\$15000	154%	450	\$20000	69%

Year	Index Example 3	Payment \$11800 invested	Return	Index Example 4	Payment \$11800 invested	Return
0	500			500		
1	375	\$0	0%	600	\$20000	69%
2	350	\$0	-100%	575	\$0	0%

It can be seen there is a very wide variance in the possible return outcomes for investors. In a worst case (example 3) an investor would lose their entire investment. This contrasts to example 1 where positive Reference Index returns are amplified and example 2 and 4 where Coupons are only received in 1 of the 2 years.

The Reference Index is calculated daily by increasing or decreasing the exposure to the Underlying Index. The relationship between exposure to the Reference Index and risk is not linear and can vary between 0 and 145%. Exposure increases if the volatility of the Underlying Index decreases to certain levels. Conversely, exposure decreases if the volatility of the

Underlying Index increases to certain levels. The volatility is calculated as the maximum realised volatility over 5 consecutive trading days. Realised volatility is defined as the volatility of the Underlying Index over the last 21 days.

The following table illustrates how exposure levels change with changes in realised volatility of the Underlying Index.

Effective Realised Volatility between:		Exposure to Underlying Index
0.00%	4.00%	145%
4.00%	5.00%	120%
5.00%	6.00%	100%
6.00%	7.50%	80%
7.50%	10.00%	60%
10.00%	15.00%	40%
15.00%	20.00%	30%
20%	30%	20%
30.00%	40.00%	10%
40.00%		0%

What Happens at Maturity?

Investors choose one of the two options:

- Accept physical delivery of the Delivery Asset; or
- Instruct the Issuer to sell the Delivery Asset on their behalf under Agency Sale Arrangement and forward the cash proceeds.

The value of the Delivery Asset received equates to the Maturity Value of the investment.

Liquidity

The Units will be quoted on the Australian Securities Exchange and the Issuer intends to provide ongoing secondary market support for the product in accordance with the ASX Market Rules.

Investors can also request an early buy-back of their Units from The Issuer. Proceeds from any early buy-back may be less than the investment amount.

Investors should have the intention of holding an investment in Units to maturity.

Risks

An investment in the Units carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers the major risks to be:

- **Performance Risk** – The performance of the Units is linked to the Reference Index performance. There is no guarantee that the performance of the Reference Index will be such that an investment in the Units will increase in value over the investment term. There is no capital protection and no minimum Maturity Value.
- **Leverage Risk** – The initial investment amount represents a fraction of the notional exposure to the Index and hence investors have a leveraged exposure. This has the effect of magnifying any exposure to movements in the Index.
- **Counterparty Risk** – Investors are exposed to the creditworthiness of the Issuer and Guarantor as Unit returns are dependent on the Issuer performing its obligations as they fall due.
- **Early Maturity Risk** – The Issuer may nominate early or late maturity date if there is an Adjustment Event or Hedging Disruption. These include but are not limited to events such as termination of the Reference Index or a material change to the way the Reference Index is calculated. Any adjustment made depends on the Issuer's judgement as to whether the event has materially interfered with its ability to hedge its obligations. In the case of an early maturity, the amount an investor receives may be significantly less than what would have been received if the Units had been held to maturity.

Taxation

Any coupons received during the investment term should generally be taxable at an investor's marginal tax rate.

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

Further Information

Further information and monthly net asset values can be obtained by contacting the Distribution Manager:

Phone: 1300 954 678

Internet: www.instreet.com.au

Analyst Disclosure & Certification

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

Date Prepared: November 2009
Analyst: Michael Elsworth
Release Authorised by: Grant Kennaway

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