Product Review

ANZ Discovery Asia Fund

Recommended

Important Dates

Issue Opens/ Close Date	19 March 2008 / 13 June 2008
Allotment Date	30 June 2008
Maturity Date	29 July 2016 (8 years and 1 month)

Key Information

Investment Type	ANZ Discovery Asia Fund (ANZ DAF) is an unlisted registered managed investment scheme
Responsible Entity	HFA Asset Management Limited (HFA).
Underlying Fund Manager	Lighthouse Investment Partners, LLC (LHP)
Underlying Fund	LHP Asian Strategies Fund Ltd Class B Shares (LHP Fund).
Swap Provider	ANZ Banking Group Limited (ANZ)
Loan Provider	ANZ Banking Group Limited (ANZ). Investors must also purchase a put option from ANZ if they take up the loan
Product Objectives	The PDS does not state product objectives; however the objective of the unleveraged LHP Fund is 10% - 15% p.a. (gross of fees) with target volatility lower than Asian equity markets.
Product Leverage	ANZ DAF can provide up to 200% exposure to the underlying fund i.e. ANZ may contribute up to $1.00 of leverage for every $1.00 invested. Initial exposure to the underlying fund is expected to be 140%.
Capital Protection	Capital protection will be provided to Investors who purchase a Put Option and hold the Put option until the Maturity Date. This is in addition to any capital preservation features available through Dynamic Management.
Liquidity	No redemption for the first 12 months. Quarterly redemptions thereafter with 95 days notice.
Taxation	Refer to page 6
Initial Investment	Minimum application $10,000. Minimum investment loan $50,000.
Distributions	Distributions may be paid annually however returns are expected to be predominantly generated by capital growth.

Fees & Commissions

Management Fee:	1.33%pa of the gross asset value of the swap (total amount invested including leverage).
Performance Fee:	10.25% of the monthly increase in NAV of ANZ DAF, subject to a high watermark.
Capital Protection Fee:	1.00% p.a. on the swap amount where the allocation to LHP Fund is greater than zero. 0.10% p.a. where the allocation to LHP Fund is zero.
Put Option Fee:	Investors that choose to purchase a put option pay 0.25% p.a. annually in advance of the initial investment amount. The put option is mandatory for investors taking out an investment loan with ANZ.
Leverage Cost:	USD 3 month Libor + 1.00% p.a. on the leverage amount within the swap.
Adviser Fee:	Up to 3% of the investment amount can be paid to financial advisers.
Trail Commission:	0.25% p.a. of the net asset value of ANZ DAF, payable by HFA. 0.50% of the loan amount, payable by the ANZ.

What this rating means

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

Lonsec Opinion of this Product

➢ ANZ Discovery Asia Fund (ANZ DAF) provides investors with an exposure to a concentrated portfolio of hedge funds with capital protection at maturity. ANZ DAF is able to potentially enhance returns by providing a leveraged exposure to an underlying fund managed by a specialist fund of hedge fund manager Lighthouse Investment Partners, LLC (LHP). The inclusion of leverage in this product increases the potential for losses as well as profits.

➢ Most fund of hedge funds reviewed by Lonsec typically have exposure to between 50 and 100 underlying hedge funds invested in different parts of the world. The underlying fund, LHP Asian Strategies Fund (LHP Fund) represents a significantly more concentrated exposure with 20 to 25 underlying managers, invested in Asia. As a result, the LHP Fund is likely to have a higher degree of volatility relative to other Fund of Hedge Funds. To illustrate these greater risks, the Lonsec Peer Group within the Fund of Hedge Funds sector has experienced an average standard deviation of returns for nineteen months to the end of January 2008 of 5.36% annualised. In comparison, the LHP Fund in this product, for the nineteen months to the end of January 2008, has experienced a standard deviation of returns of 6.26% annualised. The concentrated nature of the underlying fund means there may be significant regional and strategy allocation differences to the wider fund of hedge fund community.

➢ Given the recent increases in Australian interest rates, investors utilising the ANZ Investment loan should be aware that the break-even rates of return for this product are higher than recent years. The current investment loan rates are 10.30% p.a. fixed for the term, interest annually in advance, or 10.60% p.a. variable rate set for the first year interest annually in advance.

➢ The LHP Fund is one of the few fund of hedge funds offering an exclusive focus on Asian hedge fund strategies. In the current environment, with strong economic growth combined with high volatility and structural inefficiencies, there are potentially significant opportunities for investors in the Asia region. That said, given that many hedge funds in the region are relatively new to the sector, there is not the same availability of high-quality managers with long track records and capacity as can be found in the US and Europe

➢ ANZ DAF obtains exposure to the underlying fund via a total return swap that HFA has negotiated with the ANZ Banking Group Limited. ANZ has a shorter history managing products in the capital protected space than other counterparties reviewed by Lonsec. However Lonsec considers ANZ an appropriate counterparty.

➢ Lonsec consider LHP to be a high quality fund of hedge funds manager with a number of strengths and competitive advantages. These include a strong culture that emphasises capital preservation and risk management, transparent investment objectives (covering return, risk and correlation), a strong alignment of interest with investors (through significant co-investment in funds), a commitment to maintaining returns (as evidenced by closing funds in the US and actively managing growth in FUM), and a long term track record of delivering consistent positive returns through varying market conditions with very low volatility and minor capital drawdowns.

➢ Lonsec notes that the management and performance fees of the ANZ DAF are high, particularly with the absence of a performance hurdle of the performance fee. However, the level of fees for the ANZ DAF is approximately in-line with other Hedge Fund of Funds products rated by Lonsec.

Using this Product

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

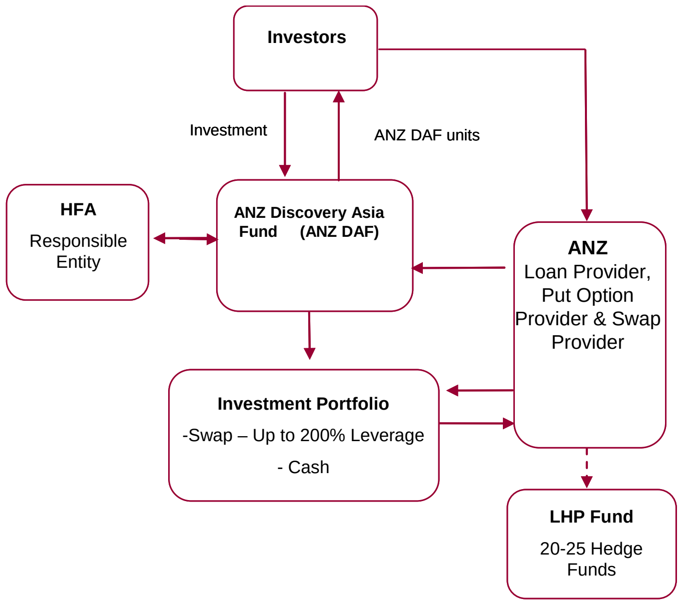
➢ Lonsec views most fund of hedge fund products as "Alternative Assets – Conservative" and suitable for defensive, conservative, balanced and growth investors. However, given ANZ DAF's leverage and concentrated nature the product is classified by Lonsec as "Alternative Assets – Aggressive" and is suitable for growth and high growth investors. Maximum percentage allocations are outlined in Lonsec's Risk Profile Review.

Investor Suitability

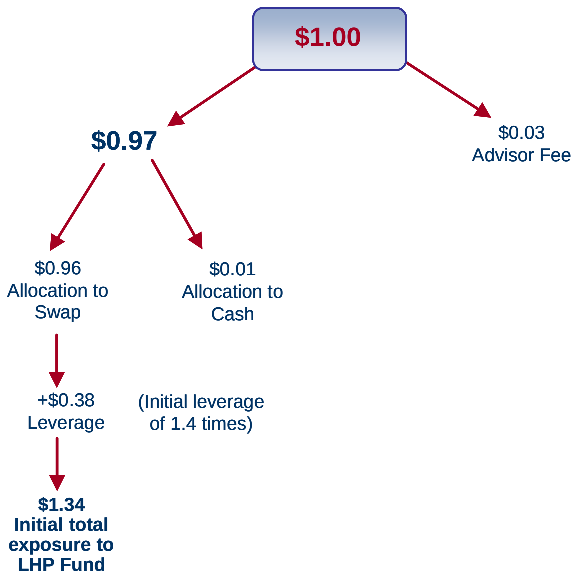
- Investors seeking access to the Asian based markets through skill based strategies
- Investors seeking capital growth who do not require the certainty of dividends.
- Investors who are comfortable with the risks associated with borrowing to invest.
- Investors seeking the potential diversity provided by fund of hedge fund style products.
- The investment is suitable for individuals and trusts with the risk profiles described above.

How this Product Works

Investors purchase units in an unlisted trust called the ANZ Discovery Asia Fund (ANZ DAF). The trust generates exposure to the underlying LHP Fund of Hedge Fund of up to 2 times the amount invested via a total return swap ("swap") with ANZ Banking Group Limited (ANZ). i.e. the swap provides up to $2.00 exposure for every $1.00 invested. The swap is managed by ANZ using a capital protection mechanism that seeks (but does not guarantee) to ensure that the value of an investment at the maturity date is at least equal to the amount initially invested (note that the capital protection does not take into account inflation).



The initial allocation of investment monies can be depicted as follows:



The values of ANZ DAF units are linked to the leveraged performance of the LHP fund. The return provided via the swap will be up to 2 times the performance of the underlying fund less the cost of leverage in the swap (initial leverage is expected to be approximately 140% of the investment funds). Under the capital protection mechanism, if the value of the swap decreases through certain trigger levels, the swap will de-leverage firstly by repaying any borrowings and secondly by selling units in the LHP Fund and buying cash or cash equivalents. There is also a re-leverage trigger which occurs when the value of the swap increases through certain levels, where borrowings may be increased or cash or cash equivalents sold in order to increase exposure to the LHP Fund.

The rules are designed to maximise exposure to the LHP Fund while at the same time aiming to preserve capital.

It is possible that the performance of the LHP Fund results in a substantial or full reallocation into cash or cash equivalents. In the event of a full reallocation to cash or cash equivalents an investor will be unable to participate in future increases in the LHP Fund. This has the potential to significantly affect returns, particularly where the reallocation occurs early in the life of the product.

ANZ has a shorter history managing products in the capital protected space than other counterparties reviewed by Lonsec. However Lonsec considers ANZ an appropriate counterparty. ANZ has long term credit ratings of AA by Standard & Poor's Investor Services and Aa1 by Moody's Ratings.

Distributions may be paid annually however returns are expected to be predominantly generated by capital growth. ANZ DAF will substantially hedge any investments denominated in foreign currencies, thereby eliminating much of the currency risk from returns.

It is important for investors to understand the implications of the use of leverage in this product. Where there is consistent positive underlying fund performance in excess of the leverage costs the returns of the leveraged instrument will exceed those that would have been obtained from a direct investment in the underlying fund. However if the underlying fund has consistent negative performance any losses are magnified. Likewise, if the performance of the underlying fund is lower than the cost of leverage, returns will be lower than those from a direct investment in the underlying fund and may even be negative.

Return Sensitivity Matrix for ANZ DAF*

ANZ DAF Returns at maturity p.a.*				
		USD Libor		
		1%	3%	5%
LHP Fund % p.a.	15%	20.1%	18.5%	17.0%
	10%	9.9%	9.0%	8.4%
	5%	3.1%	2.7%	2.5%
	0%	0.0%	0.0%	0.0%
	-5%	0.0%	0.0%	0.0%
	-10%	0.0%	0.0%	0.0%

Assumptions: Libor is flat at the above stated rates, yield curve is constant at 7.2%, initial leverage within the swap is 140%, allows for re-leveraging and de-leveraging, Starting allocation is 96% in the swap (40% Leverage within the swap) and 4% Cash, Underlying Fund Returns are assumed to be constant on a monthly basis, The product runs for 8 years, LHP returns are gross returns, product returns are net of all fees, table does not account for any taxes and AUD/USD assumed to be constant.

**The table above has been prepared by HFA at Lonsec's request. Neither Lonsec nor HFA represent that the stated returns for the LHP Fund represent the full range of possible outcomes. Given the active nature of the leverage and deleverage process, actual returns may not mirror those displayed above for any given combination of LHP Fund return and USD LIBOR rate.*

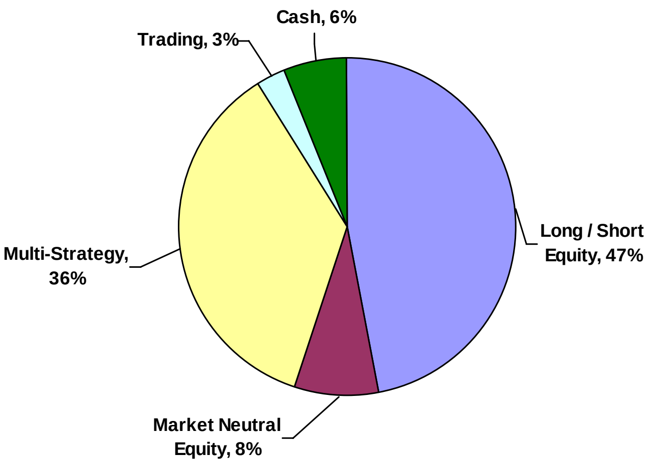
Underlying Fund

The underlying fund to which investors have exposure is the Lighthouse Asian Strategies Fund (LHP Fund) which was created in July 2006. The LHP Fund is a diversified fund of Asian hedge funds constructed to provide investors with:

- Higher alpha (non-beta) returns than traditional global investments
- Lower beta and correlation to traditional equity markets
- Target return of 10%-15% p.a.
- Lower volatility of returns than Asian equity markets.
- Approximately 20 to 25 managers (maximum allocation to single manager is 10%)

Below is the strategy allocation for the LHP Fund as at 29 February 2008.

Strategy Allocation



A 'typical' global diversified fund of hedge funds would have an allocation to Equity Long / Short of closer to 30 – 35%. This is to be expected given the far higher incidence of Equity Long / Short hedge fund managers in the region.

LHP Asian Strategies Fund (Gross Returns) 12 months ending February 2008	
Performance (%p.a.)	11.8%
LHP Fund Excess return over Cash	4.97 %
Standard Deviation (% pa)	7.69%
Worst Drawdown (%)	-4.48%

Cash - UBS Australian Bank Bill Index
Source: HFA, Lonsec

Lonsec prefers to provide commentary on Funds with track records of at least 3 years. Lonsec has rated other fund of hedge funds managed by LHP with longer track records and all have met their objectives. Note the above figures are based on the underlying fund only. It does not include leverage built into the structure, which has the potential to increase the range of returns and the risk significantly.

Issuer / Responsible Entity

The Responsible Entity of ANZ DAF is HFA Asset Management Limited (HFA). HFA is a wholly owned subsidiary of HFA Holdings Limited, a listed Australian company focused on the provision of hedge fund products. HFA has over AUD 4 billion in funds under management and 40 staff throughout Australia.

In its role as responsible entity of ANZ DAF, HFA provides due diligence on portfolio construction and ongoing investment monitoring and review services. HFA is responsible for structuring the product, selection of the swap and option counterparties, as well as portfolio administration and investor support services. HFA is also able to take less than the available level of leverage within the product after consultation with LHP if it believes it is in the best interests of investors. HFA do not provide input into the investment decisions of the LHP Fund. The Investment Strategy Committee comprises 4 experienced investment professionals, being Spencer Young (Chairman), Jonathon Pain (Executive Member), Prof. Les Balzer (Executive Member) and Darren Katz (Executive Member). Lonsec considers these members to be suitably qualified to undertake the Investment Strategy Committee function.

Underlying Fund Manager

The LHP Fund is managed by specialist fund of hedge funds manager Lighthouse Investment Partners, LLC (LHP). LHP is a 100% owned subsidiary of HFA Holdings. LHP has managed hedge fund of funds products since 1996, and in its capacity as underlying fund manager undertakes both underlying manager selection and portfolio construction for ANZ DAF.

People and Resources

LHP have a moderate sized investment team of 17, with a further 37 people responsible for non investment functions. The investment team (and overall firm) is smaller than the average manager assessed by Lonsec and LHP can be viewed as a 'boutique' hedge fund of funds manager. The key principals of the firm are Sean McGould, Robert Swan, and Kelly Perkins who each have in excess of 10 years hedge fund industry experience. The team is loosely structured along both regional and sector lines, which is understandable given its size prohibits formalisation of roles by sub strategy. All analysts report through to the Co-Chief Investment Officer Kelly Perkins, who in turn reports to the President and Co-Chief Investment Officer Sean McGould. LHP have a separate operational due diligence team comprising Chief Operating Officer Robert Swan and two investment analysts. This division of duties for back office due diligence is somewhat unexpected in a small team and is a positive structural feature that highlights LHP's strong focus on risk management.

With 54 employees and in excess of USD 8 billion in FUM across a variety of hedge fund strategies, LHP is 'boutique' in structure. Compared to larger peers reviewed by Lonsec, LHP has fewer employees and resources, but is more nimble in decision making and retains hands on contact between senior staff and hedge fund managers.

In Lonsec's view, LHP has a strong capability in operational / back office due diligence and utilises tighter risk limits in the investment process than most peers (most notably in applying 'hard' limits on the use of leverage by underlying managers).

Investment Process

From a universe of approximately 1100 Asian-focused hedge funds, LHP evaluates around 600 managers a year through meetings and interviews. The short list of all prospective managers is around 100, with a further 125 – 150 managers followed closely.

LHP believe their 'value add' comes through portfolio construction rather than strategy selection (or for that matter even manager selection). Whilst LHP do assess the outlook for strategies, and will not invest in strategies with sub-optimal opportunities for returns, the tactical movements in the portfolio tend to be driven primarily by a focus on risk exposures rather than by changes in strategy return profiles.

LHP aim to blend uncorrelated strategies that exhibit low relative volatility and low market exposure. Through identifying macro risk factors inherent in each strategy (equity, interest rate, credit), using forward looking correlations (recognising correlations break down under stress) and ensuring leverage is matched to strategy liquidity, LHP aims to preserve capital through all market conditions. Overall the portfolio construction process is very much 'risk first, return second' and is essentially a process of deciding what types of risks to take and then how much of each is desired.

Diversification is sought at a number of levels. This means that when constructing the portfolio, LHP gives consideration to diversification at the geographic region level (i.e. different countries across Asia), at the strategy level, at the market exposure level (i.e. the typical net market exposure of underlying managers), and at asset class level (i.e. Corporate Fixed Income securities, futures, corporate equities).

The primary risk factors considered in portfolio construction are the various equity, interest rate and credit beta exposures, along with leverage risk and operational risk (as determined by the operations team). Secondary risks considered include financing risk, mark-to-market risk, commodity risk, timing risk, volatility risk, length of time managing money, options selling characteristics, business structure, and counterparty risks. Portfolios will generally be optimised with forecast correlations but LHP will also look at aggregate portfolio exposures without regard to correlations. This is to assess exposures under market stress conditions when otherwise low correlations can break down and rise significantly.

A manager is redeemed if they breach any of their risk control disciplines, the risk exposures are no longer tolerable in the context of the Fund, LHP perceive the manager has lost their competitive advantage, the manager exceeds their original stated level of assets under management (if size is believed to be a limiting factor for return), or if there has been any inappropriate business or personal activity. Reinforcing this qualitative approach LHP state that 'very rarely have (we) fired a manager because of poor performance'.

Likewise, LHP rarely fire managers based on growth in FUM alone. Absolute size of FUM is not seen to be as critical as whether the manager's systems, back office, investment process and strategy can handle the growth.

Unlike a number of hedge fund of fund managers assessed by Lonsec, LHP do not try to skew the portfolio to early stage managers (in the belief that these managers deliver more alpha). That said, new/young managers are invested into and in order to manage this risk LHP often insists on establishing the investment under a managed account structure to allow daily liquidity and give total transparency.

Lonsec considers the LHP investment process to be robust and logical and in many respects 'tested' given the various macro events that the Fund has generated positive returns through since inception.

Financing the Investment

ANZ will lend investors 100% of the investment amount, subject to credit approval. Investors utilising the loan are required to purchase a put option from ANZ, allowing them to sell their units to ANZ for an amount at least equal to their initial investment amount. Indicative interest rates for the loan are approximately 10.30%p.a.fixed, interest annually in advance (other interest rate options include 10.60% p.a. interest annually in advance, indicative variable rate for the first year). Compared to margin loan and similar product offerings, these financing rates are approximately in line with the market. ANZ may also lend 100% of the first year's interest.
Given the recent increases in interest rates, the investor must consider the corresponding increase in the break even return required if they choose to take out the investment loan. With financing costs of approximately 10.30%p.a., the underlying investment must return above this rate net of fees for the investment to make a profit (this analysis excludes the impact of tax). Taking into account the investment objective of the underlying fund of 10% to 15% (gross of fees), the risks associated with borrowing to invest in this product are high.

Lonsec notes that ANZ is experienced in this capacity and has managed products using similar capital protection mechanisms.

Risks

An investment in the ANZ DAF carries a number of standard investment risks associated with international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in Section 7 of the PDS and should be read in full and understood by potential investors. Below are what Lonsec considers to be the major risks.

Performance risk

The performance of the investment is dependent on the underlying fund and leverage within the product. There is no guarantee that the underlying fund and the overall product will perform according to expectations.

Dynamic Management / Protection risk

It is possible that the performance of the LHP Fund results in a substantial or full reallocation into cash or cash equivalents. This has the potential to significantly affect returns. In addition, the Dynamic Threshold mechanism which aims to preserve capital does not constitute capital protection. Capital protection is only provided by the put option. There is potential for the value of the ANZ DAF to decrease below the initial investment at maturity where a put option is not purchased.

Early Withdrawal Risk

Borrowers who pay repay all or part of the loan before maturity date will be required to pay any unpaid interest and any loan break costs. The nature of the Dynamic Management may mean that the borrowers units prior to maturity may be valued at less than the outstanding amount of the loan. ANZ will have full recourse to the borrower for any shortfall.

Leverage risk

Leveraged exposure to the underlying fund of up to 2 times the original investment means gains and loses are substantially magnified. Also the cost of leverage will rise with any increase in USD Libor and could potentially be above the return of the underlying fund. In this scenario, despite positive underlying fund performance, the value of the investment would decrease.

Counterparty risk

ANZ DAF obtains its exposure to the underlying fund via a total return swap with ANZ. Returns are dependent on ANZ performing its obligations under the swap and the put option.

These obligations rank equally with other unsecured debt liabilities of ANZ. ANZ has long term credit ratings of AA by Standard & Poor's and Aa1 by Moody's Investor Services.

Exit Mechanism

No redemptions are permitted in the first 12 months after the allocation of units and redemption will only be available quarterly thereafter subject to a 95 day notice period. Redemption is ultimately reliant on ANZ converting its investment in the underlying fund. Unlike some other HFA products, ANZ DAF is not listed on any exchange and investors should consider an investment in ANZ DAF as illiquid. Given the nature of the underlying investment, Lonsec recommends an investment timeframe of at least 5 years.

Taxation

Any distributions made to investors should be included as assessable income in the year to which the distribution relates and are likely be taxed at the relevant marginal rate.

CGT should generally be payable on any capital gain following disposal of ANZ DAF units. Applicable discounts should generally be available where the investment has been held for more than 12 months. Any capital loss on disposal should generally be able to be used to offset other capital gains.

Due to the total return swap structure, ANZ DAF should not be regarded as a Foreign Investment Fund and as such investors should generally not have to pay tax on an accruals basis.

These comments constitute 'General Advice' only and Lonsec advises potential investors to consult a taxation specialist before making a decision to invest (or not to invest) based upon these taxation considerations. Investors should refer to Section 12 of the PDS for more information regarding the taxation of shareholders.

Fees

Establishment Costs: approx $250,000 recovered by HFA.

Other: Admin costs approx 0.20%pa of the NAV of ANZ DAF.

Contribution Fee: up to 3% of the application amount can be paid to financial advisers.

Commissions:

- HFA may pay 0.25% p.a. of the net asset value of ANZ DAF to financial advisors.
- ANZ will pay 0.50% of the loan amount to HFA.
- ANZ will pay HFA a loan placement fee of up to 0.50% of the application amount where an investor obtains a loan.

Capital Protection Fee: 1% p.a. of the swap value (incl. of GST) or 0.10% p.a. (incl. of GST) if the swap value is wholly invested in cash or cash equivalents. This is deducted from the value of the swap.

Put Protection Fee: 0.25% p.a. of the investment amount.

Leverage Fee: 3 month USD Libor + 1.00% p.a on the amount of the leverage within the swap.

Management Fee: ANZ DAF charge a fee of 1.33% pa (GST inclusive) of gross asset value. Investors should note this fee is charged on the leveraged value of investment, not the initial investment amount.

Performance Fee: is 10.25% (GST inclusive) of the monthly increase in net asset value of ANZ DAF. This fee is subject to a high water mark.

Lonsec supports the concept of performance fees as long as they are appropriately structured. An appropriate structure is one where the performance fee is in line with industry standard (in % terms), where the fee is subject to an appropriate hurdle rate of return, and where the fee is subject to a prior high water mark. Lonsec also considers that introducing a performance fee into the fee structure should be met by a reduction in the flat fees (not in addition to). To this end we note that, notwithstanding the presence or absence of performance fees, most hedge fund of funds reviewed (both open ended and structured) have very high flat fees compared to traditional asset class funds. Lonsec believes some premium is justifiable to account for access to uncorrelated, illiquid investment strategies, however we still feel there is justification for fee reduction from current levels given these funds generally target only moderate returns.

Further information can be found at:

HFA's website:

www.HFAam.com.au

And ANZ's website:

www.anz.com/Structured-Investments

or by calling 1300 30 90 92.

Analyst Disclosure & Certification

Analyst remuneration is not linked to the rating outcome. The Analyst(s) may hold the products(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.

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