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Dear Adviser,

MACQUARIE FORESTRY INVESTMENT 2011

Macquarie Alternative Assets Management Limited ("MAAML") and Macquarie Financial Products Management Limited ("MFPML") have enclosed a research report on the Macquarie Forestry Investment 2011 prepared by Adviser Edge Research Limited ("Adviser Edge") and commissioned by MAAML and MFPML.

The report reflects the observations and conclusions of Adviser Edge about the Macquarie Forestry Investment 2011. The report was prepared in part based on information provided by the relevant entities in the Macquarie group as well as Adviser Edge's own expertise and other information and expertise accessed by Adviser Edge. The report is not the work of, nor does it necessarily reflect the views of, MAAML (the responsible entity of the Macquarie Eucalypt Project 2011), MFPML (the responsible entity of the Macquarie Timber Land Trust 2011) or any other member of the Macquarie group. No company in the Macquarie group nor any of their respective officers or employees makes any warranty in relation to, or accepts any responsibility or liability arising in relation to, the content of the report.

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

An invitation to apply for interests in the Macquarie Eucalypt Project 2011 is made by MAAML and an invitation to apply for units in the Macquarie Timber Land Trust 2011 is made by MFPML (together the "Macquarie Forestry Investment 2011") in the Product Disclosure Statement ("PDS") dated on 21 April 2011. The PDS is available at www.macquarie.com.au/forestry or by phoning 1800 080 033. In deciding whether to acquire or continue to hold an investment in the Macquarie Forestry Investment 2011, any potential investor should obtain the PDS and consider its contents.

Kind regards
Macquarie Alternative Assets Management Limited

Neither Macquarie Financial Products Management Limited ("MFPML") nor Macquarie Alternative Assets Management Limited (" MAAML") is an authorised deposit-taking institution for the purposes of the Banking Act (Cth) 1959 and neither MAAML's nor MFPML's obligations represent deposits or other liabilities of Macquarie Bank Limited ABN 46 008 583 542 (" Macquarie Bank"). **Macquarie Bank provides a limited guarantee to the Australian Securities and Investments Commission in respect of MAAML for up to AUD5 million.** Macquarie Bank does not otherwise guarantee or provide assurance in respect of the obligations of MFPML or MAAML.

Adviser Edge

Macquarie Forestry Investment 2011

INDEPENDENT ASSESSMENT

This report has been prepared for financial advisers only

10 March 2011

Scope

Adviser Edge independent assessments are conducted by Barik Pty Ltd trading as Adviser Edge Investment Research (Adviser Edge) which has developed a key industry sector review process that follows a methodology developed specifically for this asset class.

Key Principles

The underlying principles of the assessment process are to:

- identify the long term commercial potential of the project;
- evaluate project management's capabilities, previous performance in the specific industry and the stability of the organisation;
- evaluate identified markets (domestic and international – existence, stability and growth potential);
- benchmark key performance assumptions and variables against industry and other MIS projects;
- weigh up the relevant risks of the project against projected returns;
- assess project structure and ownership;
- compare and substantiate project fees and expenses;
- determine if the project is structured in such a way as to protect investor's interests; and
- allow an opinion to be formed regarding the investment quality of the project.

Site Assessment

Adviser Edge conducts a detailed site inspection of the project, meets with all levels of project management and inspects the project's infrastructure and market accessibility.

The site assessment considers the following areas:

- suitability of the project site for the purpose intended;
- performance of previous project stages located within close proximity to the proposed site;
- management skills, qualifications, capabilities and experience; and
- associated project risks and their management.

Star Rating

Projects are awarded a star rating out of a possible five stars and placed on the Adviser Edge web site www.adviseredge.com.au

The Adviser Edge web site provides a service to subscribers, allowing them to view the final assessment reviews. Only subscribers are permitted access to download completed assessment reviews.

Star ratings applied to 2009/10 projects are independent of previous year's star ratings.

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- provide general financial product advice only, for the following classes of financial products:
  - interests in managed investment schemes excluding investor directed portfolio services limited to:
    - primary production schemes to wholesale clients.

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General Financial Product Advice

This advice will not take into account your, or your clients, objectives, financial situation or needs and will not be provided in respect of any other financial products. Accordingly, it is up to you and your clients to consider whether specific financial products are suitable for your objectives, financial situation or needs.

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Disclosure

Adviser Edge (or any associated persons) does not have any material interest in the financial products (or product issuer advised upon) that are subject to this report. This assessment has been undertaken by Adviser Edge on an independent basis and does not constitute an investment recommendation. It is designed to provide investment advisers with a third party view of the quality of this project, as an investment option.

Adviser Edge charges a standard and fixed fee for the third party review of MIS projects. This fee has been paid under the normal commercial terms of Adviser Edge. Adviser Edge (or any associated persons) has not or does not expect to receive any further benefit or compensation as a consequence of writing this report.

Report Date

10 March 2011

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Adviser Edge Rating

Low Medium High

Recommended Client Risk Tolerance

Project Details		
Project Name	The Macquarie Forestry Investment 2011	
	Macquarie Eucalypt Project 2011 (Tree Project)	Macquarie Timber Land Trust 2011 (Land Trust)
Type of Investment	Forestry Managed Investment Scheme	Unlisted Unit Trust
Responsible Entity	Macquarie Alternative Assets Management Ltd	Macquarie Financial Products Management Ltd
Key Management Counterparties	Midway Pty Ltd and McEwens Contracting Pty Ltd	N/A
Investment Details		
Investment Term	Approximately 11.5 years	
Investment Unit Size	0.25ha (one Interest)	0.25ha (475 units)
Application Fee	$2,350 (excluding GST) per Interest	$1.00 per Unit
Ongoing Fee Structure	Deferred and paid as a percentage of harvest proceeds	No ongoing fees
Minimum Investment	Four Interests	1,900 Units (Additional units must be applied for in multiples of 475)
Close Date for FY2010	30 June 2011	
Investor Finance	Available through Macquarie Bank Limited	
ATO Product Ruling	PR 2011/2^	
Investor Returns		
Potential Investment Returns (p.a.)	Pre-tax	Post-tax*
Tree Project	(3.40%) – 5.30%	(3.40%) – 5.30%
Land Trust	14.85% –17.10%	13.05% – 15.25%
Combined Investment	2.55% – 7.95%	4.30% – 8.65%

* The post-tax IRR range provided by Adviser Edge assumes that the investor in the Tree Project is an individual and maintains the same marginal tax rate of 46.5% throughout the investment term. In addition to this, Adviser Edge assumes that an investor in the Land Trust is a self-managed superannuation fund, is subject to a tax rate of 15% and is eligible for a 33% CGT discount.

^ Product Ruling PR 2011/2 only applies to investors in the Tree Project. Investors who wish to rely on the part of the Product Ruling that confirms that they are carrying on a business of primary production will be required to take out insurance for the Tree Project.

Key Points:

Strengths of Project

- The risk of insolvency associated with the RE, MAAML and the Project Manager, MFS, is low.
- The Project's operational managers, Midway and McEwens, have good track records in the establishment and management of plantations.
- A combined investment in the Tree Project and the Land Trust provides diversified returns, and reduces the investment risk.
- The Project incorporates a number of features which reduce the potential impact of a manager insolvency event.
- The trees are to be planted in established plantation regions.

Weaknesses of Project

- The Tree Project's fee structure is considered to be high when compared to the cost of establishing and managing the plantations, and there is a low level of risk apportionment between investors and the RE, with the majority of the fees paid on application.

Other Project considerations

- A liquid secondary market does not currently exist for MIS forestry investments, although this may change in the future.
- While the investment is not stapled, Adviser Edge strongly advises that investors consider an investment in both the Tree Project and the Land Trust.

Investor suitability

As a general note, investment in agribusiness should represent a balance between the various potential risks and the forecast returns. This Project offers a moderate risk profile over the medium-term, with reasonable pre-tax returns across the estimated range. This Project should be considered as part of a well-diversified portfolio.

Investment Specifications	Tree Project	Land Trust
Target subscription	3,000ha	Limited by how many Tree Project Interests are sold
Location	Geelong and Green Triangle regions of Victoria and South Australia	
Investment unit size	0.25ha (one Interest)	0.25ha (475 Units)
Minimum application	Four Interests	1,900 Units
Liquidity	Illiquid – no established secondary market	
Insurance	Available*	
Investor finance provider	Macquarie Bank Limited	

* Product Ruling PR 2011/2 only applies to Investors in the Tree Project. Investors who wish to rely on the part of the Product Ruling that confirms that they are carrying on a business of primary production will be required to take out insurance for the Tree Project.

Key Points

- The investment is not stapled, but Adviser Edge strongly recommends that investors invest in both the Tree Project and the Land Trust.
- There are no ongoing fees or costs for either the Tree Project or the Land Trust.
- The Tree Project will lease the Project land from the Land Trust, which will receive annual lease income.
- The Project incorporates security accounts to provide for tree planting and establishment, ongoing tree maintenance, and rental payments.
- The Land Trust will be geared, with the loan principal expected to be reduced over time.

The Macquarie Forestry Investment 2011 (the Project) provides investors with the opportunity to participate in the plantation pulpwood industry through the offer of Interests in the Macquarie Eucalypt Project 2011 (the Tree Project). Investors may also subscribe to units in the Macquarie Timber Land Trust 2011 (the Land Trust), providing ownership of the land on which the Tree Project will be planted. Macquarie will aim to establish approximately 3,000ha under the offer, with the potential to establish up to approximately 4,500ha.

Macquarie Alternative Asset Management Limited (MAAML) is the Responsible Entity (RE) for the Tree Project, while Macquarie Financial Products Management Ltd (MFPML) is the RE for the Land Trust.

The Project is not a stapled investment. However, Adviser Edge strongly advises that investors consider an investment in both the Tree Project and the Land Trust.

Tree Project

The Tree Project involves the establishment and management of eucalypt hardwood plantations in the Geelong and Green Triangle regions, for the production of hardwood chips for export and, potentially, domestic pulp markets.

The Project has an expected term of 10 years from the time of planting, which is intended to occur between June and August 2012. The plantations are forecast to be harvested in 2022. However, the Project agreements appear to provide some flexibility regarding the timing of the harvest.

MAAML will outsource the management of the plantations to Macquarie Forestry Services Pty Ltd (MFSPL), which will in turn engage Midway Pty Ltd (Midway) and McEwens Contracting Pty Ltd (McEwens) to provide the forestry management services in the Geelong and Portland regions respectively. Under their respective Management Agreements, Midway and McEwens will provide a stocking guarantee of 90% of the initial planting, for a period of 12 months following establishment.

MAAML has entered into an off-take agreement with Midway for the purchase of the timber grown in the Project, excluding any residual timber.

MAAML will lease the land on which the Tree Project is to be planted from MFPML, acting as RE for the Land Trust. MAAML will then sublease the land to investors. Under the head-lease agreement, MAAML will be required to pay an annual lease payment, and any deferred rent payable. If, for any reason, MAAML defaults on its annual lease payments, investors will still have access to the land for the purposes of the Tree Project, and will be required to pay a nominal amount of $1 p.a. in rental to the Land Trust, with MAAML continuing to have the remaining rental obligation.

In addition, MAAML will deposit into a Land Rental Security Account (established with MBL) an amount that, together with interest, is estimated to be sufficient to cover the rental payments due under the leases from years two to maturity (inclusive). This represents approximately 95% of the total rental payments due. In the event that MAAML defaults, the Land Trust RE can enforce its security and use the funds in the Land Rental Security Account to satisfy (in whole or in part) the rental payments due under the leasing arrangement.

MAAML will also grant Sub-leases to the Tree Project Custodian. The Custodian will hold the Sub-leases for the benefit of the investors in the Tree Project with respect to their individual Plantation Lots.

The Projects' structure provides strong security over the lease, therefore providing strong protection for investors to be able to maintain continued access to the land on which their trees are grown.

Investors in the Project will have direct and indirect counterparty exposure to MAAML (Responsible Entity) and Macquarie Forestry Services (MFS, Project Manager), in respect to the provision of management services over the life of the Project, as defined under the Project agreements.

At the commencement of the Tree Project, MAAML and MFS will establish separate accounts with Macquarie Bank Limited (MBL), called the 2011 Forestry Accounts. An amount will be deposited into these separate accounts, equal to the estimated amount required to complete the planting and establishment activities, and to meet the annual maintenance and management expenses of the Project. In the event that either MAAML or MFS becomes insolvent, the Tree Project may access the funds that are in the insolvent party's 2011 Forestry Account and use such funds for the ongoing expenses and costs of the Tree Project.

Given that the Project fees are collected upfront, investors are reliant on the ongoing solvency of MAAML and MFS to provide management services throughout the life of the Project. While the establishment of the 2011 Forestry Accounts provides investors with a level of security that initial establishment services will be completed and annual maintenance costs met, there is a risk that the initial amount estimated by MAAML to cover these future expenses may be insufficient. In the event that there is a shortfall, as the Project RE MAAML will still be responsible for undertaking its obligations regarding the Tree Project. However, the occurrence of a shortfall in an insolvency event may mean that investors will be required to make up the difference. A shortfall event notwithstanding, Adviser Edge considers these safety measures to be in the best interests of investors.

Land Trust

MFPML, as RE for the Land Trust, will acquire the land to be leased to the Tree Project.

The average value of the land to be purchased by the Land Trust is expected to be between $6,000 and $6,100 per plantable hectare.[1] Under the structure of the Land Trust, the purchase cost of the land, including stamp duty, will be covered by the Land Trust application proceeds ($1,900/ha) and from borrowings from Macquarie Bank Limited of up to $4,776/ha.[2] This represents an expected maximum initial gearing level of approximately 80%.

Under the Lease, the Land Trust will receive annual rental payments from MAAML. Rent proceeds will be applied to interest and principal repayments in the Land Trust loan, and, where possible, distributed to investors. Macquarie has indicated that it intends to limit to 80% the amount of rental proceeds required to be re-invested into the Land Trust, which will be used to pay down the loan. Any remaining rental income is expected to be paid to investors via an annual cash distribution. Where reinvestment occurs, investors will be required to fund any tax payable on distributable income from the distributed amount, if any, which has not been reinvested, and through investor funds.

The interest rate on the Land Trust loan from Macquarie Bank is fixed at a rate of 7.65% p.a. Following harvest, the Land Trust will receive proceeds from the deferred rent fee component of the Tree Project, equal to 4.50% (excluding GST) of net sales proceeds.

The Land Trust land is expected to be sold following the harvest of the Tree Project trees. Proceeds from the sale of the land will be used to cover any outstanding loan balance, and the remaining proceeds will be distributed to investors on a pro-rata basis.

An account similar to the 2011 Forestry accounts, called the Land Rental Security Account, will be established with MBL by MAAML. MAAML will deposit an amount estimated to be sufficient to cover annual rental payments under the lease from years two onwards. This provides security to investors in the Land Trust in the event that MAAML defaults in its rental payments under the lease, as the Land Trust RE will be able to enforce its security and access the funds in this account. If this was to occur, investors in the Tree Project will still have access to the land and will be required to only pay a nominal amount of $1 p.a. in rental to the Land Trust.

The Land Trust is dependent on MAAML making annual lease payments. Therefore there is a risk that if MAAML defaults, the Land Trust may become insolvent, or that existing investors may be called upon to top up the required principal and interest payments. The implementation of Land Rental Security Account largely mitigates this risk.

Project structure and agreements

When investors are accepted into the Project, they will be bound by a number of legal agreements that outline the rights and responsibilities of each party involved in the investment scheme. These agreements are outlined in the Project's Product Disclosure Statement (PDS). It is recommended that each potential investor and their adviser read and understand these agreements and the PDS to ensure that the investment is suitable for the investor's objectives.

Fee Schedule

The fees outlined in the following tables relate to an investment made on or before 30 June 2011.

[1] The Land Trust will only purchase plantable land. Any land unsuitable for planting will be purchased by Macquarie Bank Limited using the company's own capital.
[2] MAAML expects to pay stamp duty of 5.5% of the purchase price.

Tree Project

Initial Cost to the Investor – Tree Project	
Payment Type	Cost per Interest (ex. GST)
Application Price (Tree Project)	$2,350

Investors into the Tree Project are required to pay an application price of $2,350 per Interest (excluding GST), which is payable under the management agreement for the provision of establishment services. These services include land preparation, procuring the supply of seedlings, and planting in accordance with good silvicultural practice.

Deferred Fees – Tree Project	
Payment Type	Cost Per Interest (ex. GST)
Deferred Rent	4.50% of Net Sales Proceeds^
Management Fee	5.00% of Net Sales Proceeds^
Productivity Performance Fee	15.0% of the amount by which the Net Sales Proceeds exceeds $4,000 per Interest*

^ Net Sales Proceeds means the net proceeds of sale received by MAAML on behalf of the Tree Project investors under the Offtake Agreements, less the cost of harvest, handling, loading, transport, processing shipping and delivery costs which are payable by MAAML.
* For the Productivity Performance Bonus to be payable, the average amount of timber produced per Interest must exceed 60 green metric tones (GMT).

Management and rental fees will be deferred and paid as a percentage of Net Sales Proceeds (see above). All timber produced from the Project is expected to be sold on a stumpage basis, and proceeds will be distributed to investors after deferred fees are deducted.

A Productivity Performance Fee is also charged if performance targets are reached. This fee equates to 15% (excluding GST) of the amount by which the net sales proceeds from the sale of the timber exceed $4,000 per Interest. In order for the incentive fee to become payable, the average amount of timber (excluding residual timber) produced must be greater than 60GMT per Interest for plantation lots in that region. Volumes of timber produced from harvest residuals, and proceeds generated from the sale of residual timber, will not be included in the performance fee calculation.

Land Trust
Each unit in the Land Trust costs $1.00. The minimum investment into the Land Trust is 1,900 units, which is equivalent to 1ha. Additional units applied for must be in multiples of 475. While no further ongoing or deferred fees are applicable to the Land Trust, MFPML will charge an investment management fee of up to $33.25 per 475 units, which will be deducted from any interest earned by the Land Trust capital prior to being invested in the land.

The Land Trust RE, MFPML, will be entitled to a Land Acquisition fee of up to $50 per 475 units, which is only payable if the weighted average purchase price of the Land Trust's interests in land is below $6,300 per plantable hectare. Macquarie has advised that this fee may be used to pay any costs associated with purchasing the land on behalf of the Land Trust (for example legal costs associated with acquisition or any subdivision).

MFPML will also be entitled to reimbursement for any reasonable costs and expenses incurred while managing the Land Trust for those investors who remain in the Land Trust after 30 June 2022.

Fee analysis

In Adviser Edge's opinion, the Tree Project and Land Trust should be considered as a 1:1 combined investment (equivalent to one Tree Project interest and 475 Land Trust units). All analysis has been based on such an investment.

With any forestry MIS project, the application fee is generally dictated by the actual development cost incurred in establishing the plantation, other administration costs such as corporate overheads, marketing and PDS development expenses, and the profit margin taken by the Project manager.

The application fee for the 2011 Tree Project offering has increased by less than 2% on its previous offering, to $2,350 per unit (excluding GST). This establishment fee equates to $9,400/ha, which is relatively high when compared to similar investments. However, the application fee incorporates a significant amount of rent, therefore making the application fee artificially high. As Adviser Edge is only considering a stapled investment in both the Tree Project and the Land Trust, this rent fee effectively becomes redundant.

Under the Project structure, MAAML will be required to make annual rental payments to the Land Trust over the life of the Project. Discounted at the 10-year Government Bond Rate of 5.50%, the net present value (NPV) of the annual rental payments over the life of the Project is equal to approximately $4,928/ha. The rent due under the lease equates to a rental yield of approximately 9.45% and, as the Land Trust is the owner of the underlying land, Unit-holders in the Land Trust receive the benefit of that lease rate.

Adviser Edge views the rental yield of less than 10% as being reasonable for both parties (Tree Project investors and unit-holders in the Land Trust), considering both the rural land market and the default risk associated with the MIS encumbrance.

When the NPV of total rent paid to the Land Trust over the life of the Project is compared to the application price for the Tree Project, it can be seen that rent accounts for approximately 48% of the initial monies paid by Tree Project investors, with the remaining $5,412 payable to MAAML in consideration for managing the Tree Project. Of this amount, a portion is paid to the contractor in consideration for providing the establishment services, and a portion is held in a security account to be used for the ongoing maintenance of the plantations. The remainder is attributable to Project development expenses and manager profit.

The deferred fees incorporate a deferred rent fee and a deferred management fee, aligning some of the production risk with the managers. The deferred rent fee is paid to the Land Trust, while the deferred management fee is paid to MAAML. The deferred management fee of 5% of net sales proceeds is low when compared to peer projects; however, the fact that an initial management fee is also charged must be considered.

Adviser Edge considers that the Project is reasonably priced for investors who invest in both the Tree Project and the Land Trust. The application fee should provide sufficient revenue for MAAML to manage the plantations and to meet the rental payments over the life of the Project.

The Project incorporates a productivity performance fee, which is set at 15% (excluding GST) of the amount by which the net proceeds exceed the benchmark. The benchmark incorporates both a dollar per Interest benchmark, and a productivity benchmark. This prevents the performance fee being paid due to increases in the market price for woodchips, over which the manager has minimal control. The productivity benchmark of 240GMT/ha is approximately 7% above the PDS benchmark yields, and is considered to be an appropriate benchmark.

Performance fees are calculated on a regional basis, not the average production across all regions. MAAML has advised that 50% of any performance fee will be paid to the operational managers of the respective regions, Midway and McEwens, with the remainder to be split between the MAAML and MFS, thereby aligning investor and manager interests.

The performance fee appears to be set at a reasonable level and the fee is well structured, with both yield and price targets needing to be met before this fee is payable. The incorporation of this fee provides both MAAML and the operational contractors with an incentive to seek positive Project outcomes.

Risk apportionment

Risk apportionment refers to the level of risk that the Project Manager/RE shares with investors as a consequence of the Project fee structure. When ongoing Project fees are linked to harvest proceeds, and therefore Project performance, the risk sharing between investors and the Project manager is considered to be more evenly aligned. It also provides a measure of risk mitigation in the event of the RE's insolvency by providing the potential for adequate compensation for a replacement RE.

Only a small proportion of the fees payable under the Project are linked to harvest proceeds, with the majority of fees included as part of the application fee. As a result, the fee structure of the Tree Project is inadequately apportioned, resulting in investors bearing significantly more risk than the RE.

However, this needs to be balanced with the structural safeguards put in place, including the provisioning for tree planting and establishment, annual maintenance, and rent costs.

Additional Information

Taxation

The Project has been issued a product ruling, PR 2011/2, which provides certainty in relation to the taxation consequences of investing in the Project.

Adviser Edge does not conduct detailed analysis on the implications of the Project's product ruling, and it is advised that investors seek appropriate professional advice in relation to the full financial and taxation implications of their investment.

Insurance

Insurance is available to cover damage or destruction of the Project trees from the time of planting until the end of the term. MAAML will organise insurance on behalf of investors, and charge a handling fee per insurance policy of $10 p.a. (excluding GST).

Insurance is required if investors wish to rely on the part of the PR 2011/2 that confirms that the investor is carrying on a business of primary production, or where investors take out a loan with Macquarie Bank Limited for a term of more than one year.

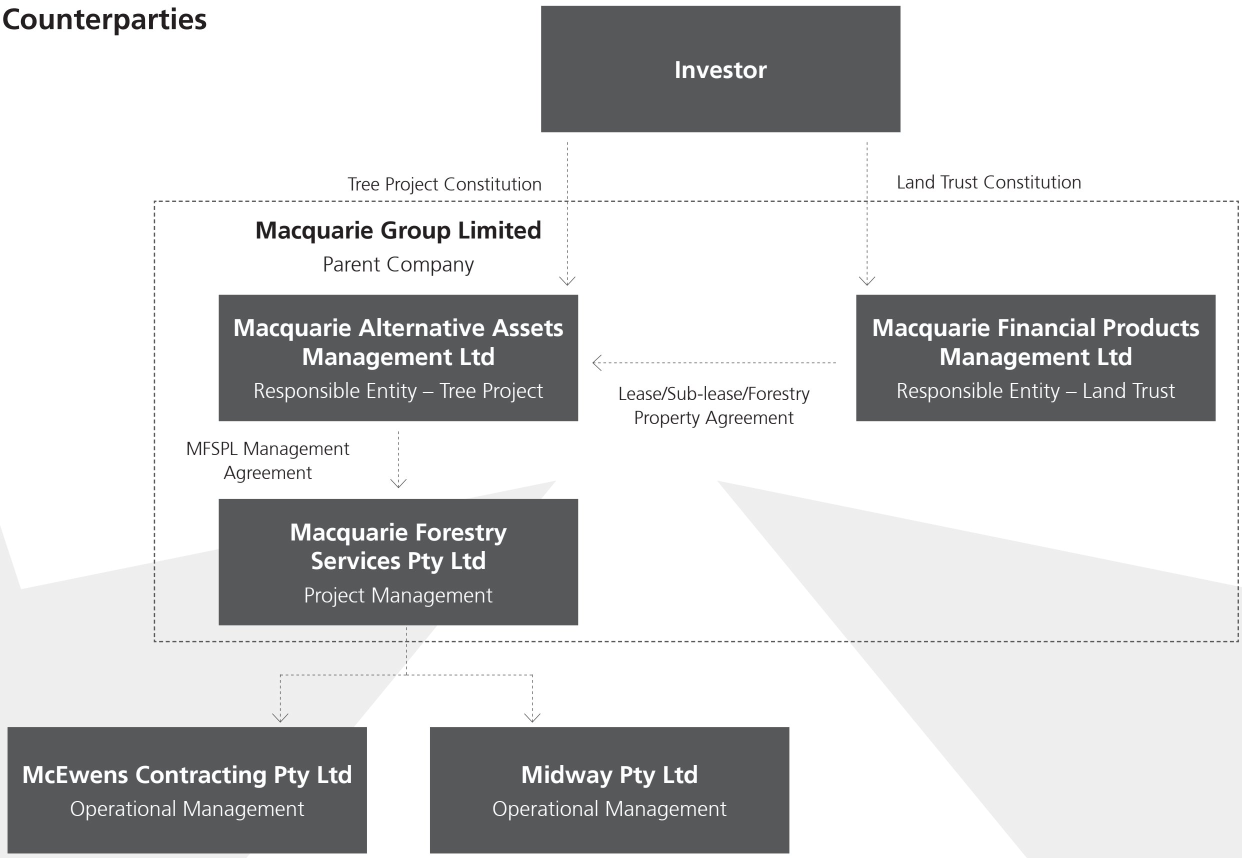
Finance Options

Financier	Term	Indicative interest rate (p.a.)	Repayment Option	Application Fee
Macquarie Bank Limited	12 months	Interest free	Equal monthly principal payments	1% of loan amount
	5 years	10.99%	Equal monthly principal and interest payments	Nil
	7 years	12.99%		

Finance

Finance is available from Macquarie Bank Limited to approved applicants. Basic loan details are provided below, and interested investors should contact the finance provider for full loan terms and conditions.

Key Counterparties



Macquarie Group Limited (Parent Company)
Macquarie Group Limited (Macquarie Group) (ASX: MQG) is a Sydney-based global provider of banking, financial advisory, investment, and funds management services. The group was founded in 1969 and now operates in over 70 office locations in 28 countries, employing more than 15,500 staff worldwide. As at 30 September 2010, Macquarie Group had $317 billion of assets under management.

On 13 November 2007, Macquarie was restructured following shareholder approval for the creation of Macquarie Group Limited, a non-operating holding company and the ultimate listed parent for the Macquarie Group. Macquarie Group Limited consists of businesses across a range of investment, commercial and selected retail financial services.

Prior to the restructure, Macquarie Bank Limited (MBL) was the listed parent of the Macquarie Group. MBL is now a subsidiary of Macquarie Group Limited and remains regulated by the Australian Prudential Regulation Authority (APRA) as an Authorised Deposit-Taking Institution (ADI). Macquarie Group Limited is licensed by APRA as the non-operating holding company of an ADI.

Unless otherwise stated, throughout this report Macquarie will be used when referring to the parent company or any underlying subsidiary.

Key Points

- The Project is offered by MAAML and MFPML, which are both subsidiaries of The Macquarie Group, one of Australia's largest banking, finance and investment advisory providers.
- The operational managers, Midway and McEwens, have proven records in the establishment and management of plantations.

Board of Directors
The Macquarie Group Board of Directors is comprised of nine members, seven of whom are independent. However, it is noted that the Macquarie Group's Chairman David Clarke is not independent. It should also be noted that the Macquarie Group's corporate governance practices are in line with all recommendations of the ASX Principles of Corporate Governance except for Principal Two, which recommends that the company chair should be independent.

The structure, skill balance and experience of the board members are appropriate to the nature and extent of company operations. While it should be noted that an independent chair is highly recommended, the skill and experience that Mr Clarke brings as Chairman are crucial to the ongoing performance of the Macquarie Group.

Financial performance – Macquarie Group Ltd

Key Financial Data* – As at 30 June		
Financial Profitability	2010	2009
Revenue ($m)	6,638	5,526
Net profit ($m)	1,050	871
Profit margin (%)	15.8	15.8
ROE (%)*	7.6	9.1
Market measures	2010	2009
EPS (basic/cents)	320.0	309.6
P/E ratio*	15.1	8.7
DPS (cents)	186.0	185.0
Dividend yield (%)*	3.8	6.8
Dividend payout ratio (%)	58.1	59.8
Franking (%)	0	76
Capital Adequacy	2010	2009
Tier 1 Capital Ratio (%)	11.5	11.4
Total Capital Ratio	13.3	15.8
Equity to Assets	9.4	6.4

Source: Macquarie Group Limited. Directors' report for the year ended 31 March 2010; consolidated financial statements.
Past performance should not be used as a guide for future performance.

Corporate governance
The approach taken by Macquarie in terms of corporate governance is aimed at delivering outcomes through four key steps:

- Reviewing developments in corporate governance
- Taking into account corporate governance obligations (APRA and ASX guidelines)
- Developing a sound corporate governance framework
- Ongoing monitoring of the governance framework and processes

The main elements of Macquarie's governance system follow the ASX Principles of Corporate Governance closely and appear to be consistent with all but one of the ASX recommendations as already outlined in relation to the board composition.

Adviser Edge has reviewed the corporate governance practices in place at Macquarie, and believes that they are broadly in line with its publicly traded peers.

Due to the fact that Macquarie has a year-end of 31 March, Adviser Edge has reviewed the financial statements of Macquarie for FY2010 and half-year FY2011. FY2010 saw a solid increase in revenue and profit, with operating income for the year increasing to a healthy level of 20%, driven by improving market conditions, growth in existing businesses along with contributions from new businesses, gains from listed fund initiatives, and a reduction in the level of write-downs and provisions compared with the previous year.

For the half-year ended 30 September 2010, Macquarie's first half profit fell by 16%, as a result of higher operating costs on the back of a subdued market environment, which particularly affected the fixed income, currencies and commodities, and the Macquarie Securities and Macquarie Capital divisions. Macquarie remains reasonably well capitalised, maintaining its capital ratio above the 8% stipulated by APRA, at 10.8%, which is slightly down compared to the first half of FY2010.

In terms of expected full-year results, Macquarie warned in February that it expected second half earnings to fall by around 5% due to depressed equity markets and the effect of this on trading income, with the bank's full-year profit expected to be just below $1 billion.

Macquarie Alternative Assets Management Ltd (Responsible Entity – Tree Project)

Macquarie Alternative Assets Management Ltd (MAAML), a wholly owned subsidiary of Macquarie Bank Limited, is the Responsible Entity (RE) for the Tree Project. MAAML has significant experience acting as the RE in a number of forestry and almond projects since 2003.

Key Financial Data – MAAML – As at 31 March		
Financial Profitability	2010	2009
Revenue ($m)	14.88	24.73
Net profit ($m)	(1.31)	(1.21)
Profit margin (%)	(8.8)	(5%)
ROCE (%)	(9.5)	(4%)
ROE (%)	(9.8)	(6%)
Financial Liquidity/Solvency	2010	2009
Net working Capital ($m)	13.4	24.03
Current Ratio	1.31	1.75
Quick Ratio	0.00	0.00
Net Debt to equity ratio	3.2	0.5%
Interest Cover	(2.4)	(1.32)

As MAAML reports the year end as being 31 March, Adviser Edge has analysed the FY2010 reports as opposed to FY2011, which have not yet been finalised.

MAAML is a wholly owned subsidiary of Macquarie Bank Limited (MBL) and as such the company has no cash balances. MAAML typically remits a payment of cash to MBL each year out of surplus cash in the form of a dividend or internal group service charge. In FY2009, MAAML paid MBL an internal group service charge of $9.875 million. When adjusted for this internal charge, MAAML posted an adjusted net profit for the financial year ending 31 March 2009 of $8.849 million. MAAML does not employ any external financial leverage, and the main credit risks to MAAML are its long-term obligations in relation to existing MIS forestry and almond projects. MAAML maintains financial provisions for these projects, and these are monitored regularly.

MAAML had a net asset position of $13.45 million as at 31 March 2010. MAAML is required to maintain a minimum of $5 million in adjusted net assets under it AFSL obligations. The company does not carry any external debt. It is noted that income from agricultural managed investment scheme sales represent a significant proportion of MAAML's operating income. However, as the company sets aside financial provisions for its obligations under existing projects, the company does not rely on new agricultural managed investment scheme sales to be able to perform its obligations under existing managed investment schemes.

Adviser Edge believes that MAAML is in a sound financial position enabling it to fulfil its obligations as RE.

Board of Directors – Macquarie Alternative Assets Management Ltd

Director	Credentials	Industry	MIS
Anthony Abraham – Executive Director	★	★	★
Peter Lucas – Executive Director	★	★	★
Antony Clubb – Executive Director	★	★	★

The MAAML board members possess a wide range of capabilities in the areas of finance, law, and administration. Simone Mosse has recently resigned from Macquarie, and as such she is no longer a director of MAAML. She has been replaced on the board of MAAML by Antony Clubb, an associate director of MBL who is primarily responsible for the development and management of structured capital products in the Investment Lending division. Adviser Edge believes that the directors of MAAML are suitably experienced and credentialed to provide effective leadership and management of the company, and to fulfil the company's role as Responsible Entity of the Tree Project. However, Adviser Edge would prefer to see the addition of a number of non-executive directors, in line with good corporate governance principles.

Compliance Committee

Macquarie has established a Compliance Committee for the Project, as required under the Corporations Act. The Compliance Committee is required to monitor the extent to which the RE complies with the Project Compliance Plan, and to report any breaches to the directors of the RE and, if necessary, ASIC.

The Compliance Committee is comprised of two external members, Chartered Accountant Brendan Howell, and James McNally, as well as one representative of the RE, Joe Flex, who has recently replaced Simone Mosse.

The oversight of the Compliance Committee will be critical to achieving sound corporate governance for the Project, given the relationship between the Responsible Entities and the contracted parties, namely Macquarie Forestry Services Ltd, which all share a number of common Directors.

Macquarie Financial Products Management Ltd (Responsible Entity – Land Trust)

Macquarie Financial Products Management Ltd (MFPML), a member of the Macquarie Group of companies, is the Responsible Entity (RE) for the Land Trust. MFPML is the RE of a number of managed investment schemes operated by Macquarie.

Board of Directors – Macquarie Financial Products Management Ltd

Director	Credentials	Industry	MIS
Peter Lucas – Executive Director	★	★	★
Antony Clubb – Executive Director	★	★	★
Bill Fox – Executive Director	★	★	★
Jason King – Executive Director	★	★	★

Antony Clubb has recently replaced Simone Mosse on the board of MFPML, for reasons discussed previously. The board of MFPML shares two common directors with MAAML. However, this is not expected to present any conflicts. Adviser Edge believes that the MFPML board has a sufficient base for the RE to execute its administrative responsibilities at an appropriate level. However, Adviser Edge believes that the addition of one or more non-executive directors would be a positive step for the MFPML board. Adviser Edge has inspected the MFPML Annual Report for FY2010, and although it posted a loss, it maintains a strong balance sheet.

Macquarie Forestry Services Pty Ltd (Project Management)

MAAML has engaged Macquarie Forestry Services Pty Ltd (MFSPL) to administer the operational obligations of the Tree Project, including establishing and managing plantations for the forestry business, and reporting to the RE. MFSPL was incorporated in July 2000 and is a wholly owned subsidiary of the Macquarie Group. Anthony Abraham, Jason Slim and Johnele Blackledge are the directors of MFSPL. The company is also able to make use of Macquarie Group employees to perform tasks when required. MFSPL has been responsible for the project management of Macquarie's forestry operations since 2003.

Darren Shelden joined Macquarie in January 2010 as the General Manager of Forestry, having previously worked as Senior Manager – Treefarm Operations for Timbercorp. Mr Shelden holds a Bachelor of Forest Science, and has 14 years' experience in the management of both softwood and hardwood plantations across Australia. He is based in Hamilton, Victoria, and is responsible for the national operations of the Macquarie Forestry projects.

MFSPL engages independent forestry contractors to perform the establishment and ongoing maintenance duties of the Tree Project.

Operational Management (Independent Contractors)

MFSPL has engaged Midway Ltd (Midway) and McEwens Contracting Pty Ltd (McEwens) to provide the forestry management services for the Tree Project, including the land preparation, plantation establishment, and plantation maintenance.

Company	Role	Location
Midway Ltd	Plantation Management	Geelong Region
McEwens Contracting Pty Ltd	Plantation Management	Green Triangle Region

Midway Ltd
Midway Ltd (Midway) has been engaged to manage the establishment and maintenance of plantations in the Geelong region. Established in 1980 by a group of 16 Victorian hardwood sawmillers, Midway has expanded to become a fully integrated forestry company. Midway manages over 26,000ha of hardwood and softwood plantations in the Gippsland and Geelong regions (including the entire Macquarie forestry estate in these areas), of which approximately 10,700ha is owned by the company, with a further 3,400ha on leased land throughout Victoria managed through a joint venture. Midway harvests all of its own plantations, and owns a processing, chipping, stockpiling and loading facility located on Geelong Harbour.

In August 2009, Midway commissioned its newly built $30 million static woodchip processing facility in Heywood, Victoria, located near the Portland region. With its subsidiaries and joint venture partners, in 2009 Midway processed and exported over 1 million green metric tonnes (GMT) of woodchips (hardwood and softwood) from Geelong, Portland and Brisbane.

McEwens Contracting Pty Ltd
McEwens Contracting Pty Ltd (McEwens) has been engaged to manage the establishment and maintenance of plantations in the Green Triangle region. McEwens is a privately owned company based in Mount Gambier, South Australia, and was originally established by the McEwen family as a plantation contracting business. McEwens has experience in land acquisition, leasing and subdivision, plantation establishment and ongoing maintenance. McEwens has been involved in the establishment of approximately 20,000ha of plantations across South Australia and Victoria, and currently sub-contracts to several listed forestry plantation managers (including Macquarie), superannuation companies, and individual growers.

Adviser Edge believes that Midway is suitably experienced and qualified to perform the operational responsibilities of the Tree Project. McEwens is also considered to be a competent plantation contractor, although it does not share the same technical forestry expertise as Midway. For this reason, MAAML has engaged the independent forester (Geddes Management) to have a more active role in the identification of suitable land, and the establishment and management of plantations in the Green Triangle. Adviser Edge believes that the involvement of Geddes Management will complement McEwens' experience in the Green Triangle, and it is expected that this should benefit productivity outcomes in the region.

Independent Experts

Macquarie has engaged three parties to prepare independent verification of the assumptions made in the offer documents, and to provide an overview of the global pulpwood market.

Independent Experts

Name	Company	Focus
David Geddes	Geddes Management Pty Ltd	Forestry
John Welsford	Pöyry Management Consulting (Australia) Pty Ltd	Pulpwood
Alex Thamm	Colliers International Consultancy and Valuation Pty Ltd	Property appraisal

Geddes Management Pty Ltd (Geddes Management) is an independent forestry-consulting firm that is headed by David Geddes. Mr Geddes holds a Bachelors degree in forestry and is a qualified forester with more than 37 years of forestry experience in Australia.

In addition to providing an independent forestry report for the PDS, Geddes Management has been engaged to provide additional technical expertise over the term of the Project for the Green Triangle region. Geddes Management will act as the independent forester for all of the plantations managed by Midway. His role will include assisting with land acquisition and providing annual reviews on the performance of the plantations. Geddes Management will also act as the Expert Forester for all plantations managed by McEwens. Mr Geddes' role with McEwens will be more intensive than his work with Midway, as the firm will assist with site assessment and acquisition, and will provide site development and stand management plans for selected properties.

Pöyry Management Consulting (Australia) Pty Ltd (Pöyry) is one of the world's leading advisors in the forest products industry. Pöyry has offices in Melbourne, as well as around 50 countries worldwide, employing more than 8,000 industry professionals. Pöyry's Australian office has over 25 years' experience in the Australian and international forestry sectors, covering all aspects of the forestry project cycle.

MAAML has engaged Colliers International Consultancy and Valuation Pty Ltd (Colliers) to prepare a report for inclusion in the PDS, for the purpose of estimating land availability and the potential growth in value of rural land located generally within a 200km radius from the Port of Portland and the Port of Geelong. Alex Thamm is the National Director – Rural and Agribusiness at Colliers, with a vast range of experience in rural valuations across a broad range of agricultural industries. Mr Thamm is an associate of the Australian Property Institute, and a Certified Practising Valuer. He will also provide independent valuations on selected properties.

Key Points

- Plantations will be established within the Portland and Geelong port zones, in Victoria.
- The site development and management procedures appear to be conducted to industry standards.
- The site selection protocols are detailed and appropriate to ensure positive investor outcomes.

Adviser Edge toured Macquarie's operations in the Portland region on 16 February 2011. Accompanying Adviser Edge during the visit was the Macquarie Forestry Services' General Manager of Forestry, Darren Shelden and Peter Conomos, from Macquarie Agricultural Funds Management. The inspection provided an opportunity to assess the health of a range of plantations throughout the Portland region of western Victoria.

Over the course of the site inspection, Adviser Edge inspected plantations ranging from 6 months to three years old. All plantations appeared to be in generally good condition, reflecting improved seasonal conditions over the past 12 months. Some cockatoo damage was apparent in the plantations inspected, necessitating replants, although overall survival rates appeared to be within reasonable tolerance levels. The major issues for MFS has been the impact of frost on one of the larger 2005 project sites, as well as widespread below average rainfall over the past decade, which has influenced growth rates. The strong La Niña climate cycle currently in play will give all plantations the opportunity to regain ground with respect to productivity.

The site visit also provided Adviser Edge with the opportunity to visit land currently being developed in preparation for planting in July 2011 under the 2010 Project. This demonstrated to Adviser Edge the strict site selection criteria employed and the comprehensive process of preparing the land for planting.

The site inspection provided Adviser Edge with confidence in the site selection and plantation management capabilities of McEwens and MFS, with all sites viewed appearing to display good growth.

Planting regions

MAAML has indicated that Project plantations will be established in the Geelong and Portland regions of Victoria, with the majority expected to be located within the Portland region. This is mainly due to the higher price of land in the Geelong region.

The Geelong region covers a wide area, with viable forestry land mainly concentrated around the Otways and districts near Ballarat. The Portland region forms part of the Green Triangle forestry area, which is now considered to be the most important forestry region in Victoria and South Australia.

Livestock grazing, cropping and viticulture account for the majority of land-use in both these regions, although the forestry industry has grown significantly over the past decade, particularly in the Green Triangle. These regions are considered to have the necessary climate, rainfall and soil to successfully grow pulpwood, and also have reasonable access to existing or proposed pulpwood processing and exporting facilities.

Both regions experience a temperate climate, with warm summers and cool winters. The southern reaches of both regions tend to be slightly cooler and wetter. Rainfall is winter dominant, with average annual rainfall ranging from more than 900mm along the coast to 600mm in northern parts.

Site selection

MAAML, along with the respective forestry contractors, has employed strict site selection protocols. These stipulate that identified sites are to be capable of producing an estate average of 220 to 230GMT/ha over the Project term. The forestry contractors, McEwens in the Green Triangle (Portland region) and Midway in the Geelong region, will primarily be responsible for the selection of suitable sites for the Project, in association with MAAML and the Independent Expert. In addition to the main requirements relating to productivity, the key site criteria that are evaluated when selecting land for the Project are as follows.

- Sites will be restricted to cleared land
- Mean annual rainfall must be more than 650mm, with a growing season of greater than six months
- Unless frost-tolerant species are utilised, areas prone to heavy frost must be avoided
- Soils must exhibit adequate depth so as not to prevent root growth

- Soils must have sufficient capacity for water retention; however, waterlogged soils will be avoided, along with deep sands and saline soils

- Sites are to be established within a viable transport distance (less than 150km) of existing or potential processing or export facilities. Adequate access to the public road network and internal site access are also required.

Based on the comprehensive site selection criteria employed by MAAML, and on previous land selection, Adviser Edge is confident in the ability of the contracted companies to select sites that can achieve the yield objectives outlined in the PDS.

Species and seedling supply

The Project will be planted with Eucalyptus globulus (Tasmanian blue gum) in both regions, while Eucalyptus nitens (shining gum) may also be established in the Geelong region on sites with higher rainfall and greater susceptibility to frost. Tasmanian blue gum is widely used as a plantation species in Australia, and has shown strong growth rates across a broad range of sites. Shining gum is known for its greater tolerance of frost, while exhibiting similar growth patterns to that of the Tasmanian blue gum. These two species have been the most widely planted in Australia over the last ten years.

Midway and McEwen will be responsible for sourcing the seedlings required for planting. Only nurseries who are members of the Australian Nurseryman's Association will be utilised and any uncertified seed or seed of lower breeding values than Level 4 and Level 5 will be avoided. MAAML hopes to use a minimum of 40% Level 5 seed. Level 5 seed has a predicted gain in volume of 16.4% compared to unimproved native forest seed, while Level 4 seed has a comparable gain of 12.6%.

Seed for the Portland region will be sourced from the Southern Tree Breeders Association (STBA) in Mount Gambier, South Australia, which manages the Australian tree improvement programs for Radiata pine and blue gum. MAAML has access to the superior genetics offered by STBA due to Midway's membership of the alliance.

Although a small amount of shining gum has been planted under previous Macquarie projects, it is anticipated that Tasmanian blue gum will be the dominant species planted in this year's project, which Adviser Edge considers to be appropriate given the intended planting regions.

Site development and maintenance

Macquarie has engaged Midway (Geelong) and McEwens (Green Triangle) to perform site development and management operations over the investment term.

Site development methods for the two regions will be similar, although there will be some variation to account for differences in soil types, as well as the pest and weed spectrum.

Following the clearing of any debris from the site, the planting lines will be deep-ripped and mounded during the summer and autumn, and various measures will be employed to minimise weed growth prior to planting.

Planting will only occur once the soil contains sufficient moisture to allow for successful establishment, with the majority of planting expected to occur in July and August 2011. Sites in both regions will be established at the rate of 1,000 stems per hectare (spha). Under the respective Management Agreements, Midway and McEwens are required to maintain a minimum stocking guarantee of 90% of the original stocking rate for a period of approximately one year from planting. It is expected that any replanting will be carried out once a survival count has been performed across the plantations in autumn 2012. Any replanting that Midway or McEwens is obliged to carry out under the agreements will occur at each company's own cost. It should be noted that in a previous Macquarie Forestry Project a severe drought resulted in large areas being replanted, but at no additional cost to investors.

Following establishment, Midway and McEwens will monitor the plantations and will implement appropriate control measures if insect damage and weed invasion adversely affect the development and growth of the plantations. Each site will be analysed for nutrient deficiencies, and suitable fertilisers will be appropriately applied when necessary.

As under previous projects, Midway and McEwens will develop permanent sample plots (PSPs) on every plantation to monitor the performance of the site, and to improve growth models for predicting yields in future projects. An inventory of each plantation will be conducted at one, three, five, seven and nine years from planting, with trees from the PSPs measured from year five for height and diameter in order to provide a prediction for final harvest yields. These yield predictions and the one and three-year survival rates will be provided to investors through the Macquarie investor newsletters.

Both Midway and McEwens are experienced forestry managers, and Adviser Edge is confident in each company's ability to manage the Project plantations. Adviser Edge has reviewed the development and maintenance procedures for the Project and believes that they are in line with industry best practice, with the stocking guarantee viewed as being highly desirable from the investors' point of view. In addition to this, the frequent collection of inventory data from the plantations and the provision of this information to investors provides the Project with a high level of transparency.

Harvesting and processing

Midway, which has entered into an off-take agreement with MAAML for the purchase of the Project timber, will be responsible for the harvesting of all plantations established under the Project. Midway currently undertakes the harvesting of its own plantations as well as other plantations owned by third parties.

While the trees are anticipated to be harvested at ten years of age, market opportunities and site productivity will dictate the harvesting windows for the plantations. Once harvested, it is expected that the harvested timber will be processed and chipped in one of Midway’s facilities in either Geelong or Portland, depending on the zone in which the plantation is located.

Market Overview	
Product type	Eucalypt hardwood timber
Primary use	Pulpwood
Key target market	Japanese pulp and paper manufacturers
Major competitors	Other major producers of hardwood woodchips are Brazil, Chile and South Africa
Product Sales Agreements	Off-take agreement with Midway Limited

Key Points

- An off-take agreement has been entered into with Midway for the harvested timber
- MAAML is in negotiations with a third party for the off-take of any residual timber following harvest.
- Due to the relatively small domestic pulpwood market, the majority of Australian hardwood chips are exported.
- Japan is the major export market, accounting for 80% of all Australian hardwood chip exports.

Marketing strategy

MAAML has entered into an off-take agreement with Midway to purchase all standing timber grown under the Project. The off-take agreement excludes the residual timber, which shall remain the property of the investor. This Project is the ninth Macquarie MIS timber project on which Midway has formed an off-take agreement for the harvested resource. It is expected that the timber will be processed at facilities in the Geelong and Portland regions, and sold to Japanese and Chinese companies that produce pulp and paper products.

Under the off-take agreement, Midway will offer MAAML a stumpage price for the harvested timber. The stumpage price is the price paid by Midway on the assumption that it will be responsible for the harvest, transport, processing and marketing of the timber.

The stumpage price offered by Midway will be based on the prevailing market price. MAAML can elect to accept the price offered by Midway, or can negotiate a higher price if it does not accept the initial offer. In the event that Midway and MAAML disagree on the stumpage price offer, an independent consultant will be engaged by both parties to identify an appropriate price.

The off-take agreement appears to provide a level of market security for the timber to be produced from the Project.

MAAML has also indicated that it is currently in negotiation with a third party for the off-take of any residual timber following harvest. Residual timber includes harvest residue such as leaves, tops, limbs and undersized trees generated and left following the logging of the merchantable timber.

The residual timber may be acquired by an off-taker for the purpose of bio-energy production by converting the residual timber into biomass in the form of wood pellets to be used as a renewable fuel source.

Australia's first large scale wood pellet production plant has recently been constructed in Albany, Western Australia, with the capacity to export more than 250,000 tonnes of densified biomass fuel (DBF) pellets per annum. A second manufacturing facility is currently being developed near Portland, with a planned production capability of approximately 500,000 tonnes. This facility may be supplied with the residual timber from the Tree Project and other MIS forestry projects.

The off-take agreement with Midway appears to provide a level of security for the sale of the timber produced from the Project. And while there is a growing domestic demand for hardwood plantation residues as a renewable source of energy and for export, the industry is still in its infancy in Australia.

Midway

Midway has exported hardwood and softwood woodchips since 1986 and during this time has developed close relationships with a number of buyers in the Asian region. The company currently has contracts to supply woodchips to buyers in Japan and China. One of the main customers for Midway woodchips is the Japanese company Nippon Paper, with Midway also having a good relationship with the Japanese trading house Mitsui.

MAAML has indicated that the harvested timber will be processed and chipped in facilities owned or partly owned by Midway in the Geelong and Portland regions. Midway currently operates a chipping, stockpiling and loading facility on the Geelong Harbour, which has direct access to the export loading facility. An expansion of this facility was completed in 2009, significantly increasing the capacity of the site. The target land areas for the Project in this region are expected to be approximately 100km to 150km from this facility.

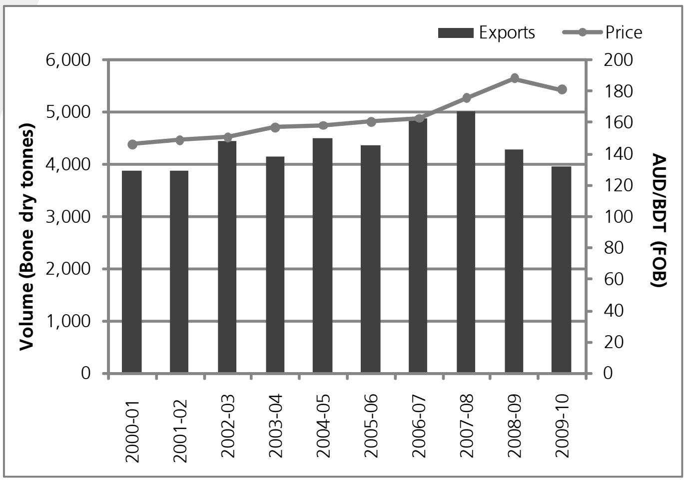
In regards to the Portland region, Midway is the majority shareholder in a joint venture (with South West Fibre) that currently exports woodchips from the Portland Port. This joint venture recently completed construction of a woodchip mill at Myamyn, which is located approximately 45km from Portland. Chipping at the facility began in August 2009, and it has the capacity to process 1.4 million green metric tonnes per year. Land expected to be acquired in the Portland region is anticipated to be located approximately 100km from the mill.

Market overview

While the area of plantations continues to increase, the Australian forestry industry continues to rely mainly on native resources, with native forests accounting for around 99% of Australia's 149.4 million hectares of forests. (ABARE, 2010) The total plantation estate has increased by around 50% over the past ten years, covering a total area of approximately 2.02 million hectares in 2009. (DAFF, 2010) Hardwood plantations account for around 49% of this total area, which is in stark contrast to 1994, when hardwood plantations accounted for only 15% of all plantations. The majority of this growth in hardwood plantings can be attributed to the presence of MIS in the sector over the last decade, with approximately 68,700ha of hardwood plantations established on average each year between 2005 and 2008. However, after peaking in 2008, annual hardwood plantings have declined significantly in the past two years, largely as a result of the recent decline of investment within the MIS sector. Because of this high establishment rate of hardwood plantations since 2000, it is expected that hardwood supply will progressively increase in the future. (ABARE, 2010)

The majority of Australian hardwood is utilised as pulpwood, accounting for around three quarters of the annual hardwood harvest, with saw and veneer logs account for the remaining 25%. While there is a reasonable level of domestic demand for hardwood saw and veneer logs from the construction and furniture sectors, the local market for hardwood pulpwood is relatively constrained. As a result, the industry has become increasingly reliant on export markets for woodchips. Exports of hardwood chips exceeded native forest chip exports for the first time in FY2008-09, with hardwood chips sourced from native resources declining by 17.3% in the same year. (ABARES, 2010)

Hardwood chip exports grew by over 40% in volume over the ten-year period to FY2007-08, with hardwood chips accounting for over 80% of total woodchip exports by value in these later years. However, as a result of the economic slowdown in major export markets, especially Japan, Australia's woodchip exports declined by nearly 9% percent in FY2008-09, and fell by a further 11% in FY2009-10. (ABARES, 2010)



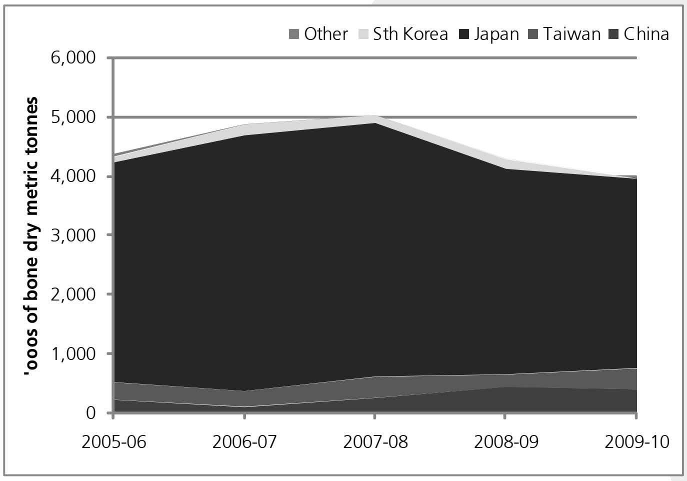
Source: ABARES, 2010.

Although the volume of exports has declined considerably over the past two years, the export price for woodchips has remained relatively stable. (ABARES, 2010)

Although Europe and North America account for the bulk of global hardwood demand, the most important export market for Australian-grown hardwood chips is the Asia-Pacific region. The major markets for Australian hardwood chips are pulp and paper producers in Japan, South Korea, China, and Taiwan.

Japan has traditionally dominated the Asia-Pacific woodchip trade, consuming nearly 90% of the pulpwood traded throughout the region. South Korea and Taiwan are the other major pulpwood importers, with China set to become increasingly prevalent in the pulpwood market over the next decade. The current market dominance of Japan is reflected by the fact that it is the main market for Australian hardwood chips, with approximately 81% of Australian hardwood chip exports shipped to Japan in FY2009-10 for the second year running. (ABARES, 2010)

The Japanese pulpwood market is structured in a way that requires pulpwood buyers to source one third of their requirements from natural forests and two thirds from plantation forests. Of the two thirds to be sourced from plantations, one third, or around 22% of the total pulpwood requirement, is to come from Japanese-owned plantations that are located overseas. The remainder, 44% of the market, is available to foreign owned plantation supply, such as Australia.



Source: ABARES, 2010.

In 1998, Australian hardwood chip shipments accounted for 27.1% of the Japanese market. Over the ten years to 2008, this market share has increased to 36.4%, shipping a total volume of 4.5 million bone dry tonnes in 2008. (Japan Imports, 2009) During this time, Australia effectively appropriated all of the growth in the Japanese market. (Industry Edge, 2009)

Australia's main competitors in regards to the Japanese market are Chile and South Africa, accounting for 18.7% and 17.8% of the market volume respectively. (Japan Imports, 2009) The United States' share of the Japanese market has fallen from 2.4% to

0.01% over the period 1998 to 2008, while total import volumes for Japan have increased. Due to limited plantation development and increased onshore demand, South African exports are likely to slow into the future. FAO estimates that exports from Chile are likely to stabilise in the near future due to limited new plantings, declining native harvests, and rising domestic consumption.

The amount of Australian hardwood pulpwood being sold to countries other than Japan is increasing. Demand for hardwood chips is expected to increase in Taiwan and China especially, providing continued growth opportunities for Australian exporters, while demand from South Korea appears to be declining.

Market outlook

As an increasing area of hardwood plantations approaches maturity into the medium-term, Industry Edge forecasts the local plantation hardwood supply to increase dramatically from just 4.4 million cubic metres in FY2007-08 to around 13.5 million cubic metres by FY2019-20. This substantial increase may be partially offset by a continued decline in native hardwood production. With a relatively tight domestic pulpwood market, this increased supply and the resulting surplus will require a larger export market with greater opportunities.

While Japan remains the major export market for Australian hardwood chips, this market is unlikely to meet the required increase in exports. Because of the framework of the Japanese pulpwood market, for Australian pulpwood producers to further increase their share of the market they would have to take market share from other suppliers. Further restricting the potential of increasing market share in Japan is the fact that Japanese-owned plantations located overseas are beginning to approach maturity, with the wood progressively being shipped back to Japan. (Industry Edge, 2009) As a result of the restrictive Japanese market, Australian pulpwood producers will need to increase exports into other Asian-Pacific markets, develop new export markets, and expand the current markets in the Asian-Pacific region.

The global financial crisis has caused a major consolidation of the global pulp industry, with a number of mills closing in North America and Europe, while production has increased in recently commissioned mills in China and South America. (ABARES, 2010) China is expected to be of particular importance to the Australian industry, and is considered to be the major emerging market in the hardwood chip sector, with solid demand growth in paper, board and panels. Although China's plantation output is expected to grow considerably, China's imports of hardwood chips are also anticipated to increase significantly in the next five to ten years. Australian exporters of hardwood chips possess significant comparative advantages over their competitors, and as such are well positioned to take advantage of the growing market, provided that production efficiencies are maintained.

Hardwood chip prices are an important consideration for exporters and growers. However, due to escalating domestic and global production coupled with uncertainty surrounding several export markets, a prudent and conservative price outlook should be maintained.

Certification

While the woodchip export industry has historically relied on native forest timber, these woodchip markets are beginning to show a preference for ethically and environmentally accredited plantation woodchip resources. Two recognised forestry accreditation systems currently exist in Australia: the Forest Stewardship Council (FSC) and the Australian Forestry Standard (AFS). At present, there is little evidence to suggest that a price premium can be obtained from forestry accreditation. However, many export customers are indicating a preference for certified products, and it is likely that it will become a barrier to entry for non-certified woodchip exports.

To further substantiate the sustainability credentials of plantation timber, chain of custody certification can be obtained to the Australian standard (AS4707-2006). This certification provides users with certainty regarding the origin of the product as it moves through the value chain.

Midway has an environmental management system in place, which is accredited to ISO 14001 and the Australian Forestry Standard.

The following section provides an analysis of the potential investment returns for the Project. Please note that this analysis is based on Adviser Edge estimated performance assumptions, after taking into account assumptions provided by MAAML, which may change over the Project term. Investors need to be aware of the way in which these assumptions may influence investment returns, and should seek additional professional advice to determine whether or not this investment is suitable for their own risk and return objectives.

Adviser Edge Returns Modelling	Tree Project		Land Trust		Combined Investment[4]	
	Pre-Tax	Post-Tax[3]	Pre-Tax	Post-Tax[3]	Pre-Tax	Post-Tax[3]
Adviser Edge Base Case[1]	2.28%	2.28%	15.70%	13.91%	5.75%	6.78%
IRR Range[2]	(3.40%) – 5.30%	(3.40%) – 5.30%	14.85% – 17.10%	13.05% – 15.25%	2.55% – 7.95%	4.30% – 8.65%
Median Return	1.25%	1.25%	15.95%	14.10%	5.20%	6.40%
Percentage of results that are break even or better	59.51%	59.51%	100%	100%	95.24%	99.58%
Percentage of results with an IRR of 10% or better	2.76%	2.76%	100%	100%	6.88%	9.19%

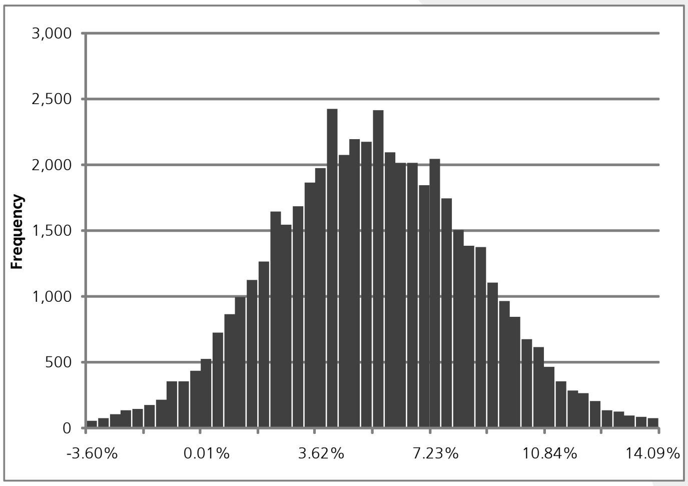
[1] The Adviser Edge Base Case return reflects the base return using static investment modeling, based on the key performance assumptions outlined below.
[2] The IRR range represents the range of results that occur within the 20th and 80th percentile in the simulated model. The range is based on Adviser Edge's modelling of potential outcomes for the Project using Monte Carlo simulations. These are subject to a number of limitations, which are discussed below. Accordingly, the range is provided as a guide only. Investors should seek additional professional advice regarding the impact of changes in key variables on Project returns given their individual financial circumstances. The analysis does not consider investor finance arrangements.
[3] This analysis assumes a 46.5% marginal tax rate for the Tree Project, and assumes that the Land Trust units are held in a self managed super fund with a tax rate of 15%. The analysis assumes that investors are registered for GST and that all GST is rebated in the year paid.
[4] Based on a 1:1 investment of 475 Units in the Land Trust for every 1 Interest purchased in Tree Project.

Scenario testing

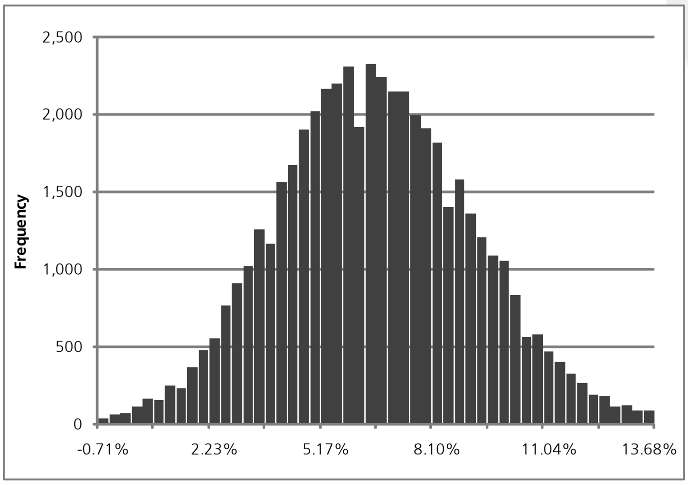
In reviewing the Project, Adviser Edge has undertaken scenario testing of potential Project returns using Monte Carlo simulations. The scenario testing is based on variations to key assumptions relating to price, yield, costs, and the potential for severe adverse events to occur, as well as the relative impact of these events on returns. Investors should be aware of the limitations associated with this kind of scenario testing. The model used incorporates a number of subjective judgements made by Adviser Edge, which may not be empirically verifiable and do not include all the variables that affect returns. Accordingly, the predictive capability of financial modelling is limited. Nonetheless, Adviser Edge believes that the use of such modelling practices provides an improved insight on the risk-return profile of a particular investment when compared with static investment modelling techniques.

Returns modelling undertaken by Adviser Edge suggests that a combined investment in the Tree Project and the Land Trust displays a median internal rate of return of 5.20% p.a. on a pre-tax basis and 6.40% on a post-tax basis, assuming that an investor maintains the same tax rate throughout the life of the Project. The reduction in risk as a result of the investment structure is further demonstrated by the percentage of results which are above break-even, at 99.51% after tax for a combined investment.

Pre-tax investor returns



Post-tax investor returns



Key Investment Analysis Performance Assumptions

The estimated Project returns provided by Adviser Edge have been calculated using various performance assumptions. The key assumptions adopted by Adviser Edge and MAAML are presented in the following section. These assumptions have been determined from information provided in the PDS, directly by MAAML, from the independent expert reports, and from independent research performed by Adviser Edge.

Performance Assumptions	Adviser Edge	Macquarie
Age of trees at harvest	10	10
Woodchip yield	220GMT/ha	220 – 230GMT/ha
Average pulpwood stumpage price ($/GMT)	$45.53	$46.00
Residual timber yield	0	58.9GMT/ha
Residual timber stumpage price ($/GMT)	0	$29.50
Nominal land price inflation factor	4.50%	4.5%
Stumpage Price Inflation	2.9%	2.9%
Cost Inflation	2.9%	2.9%

Yield assumptions

Macquarie will target and establish sites that have an overall average weighted pulpwood yield capacity of 220 to 230 green metric tonnes (GMT) per hectare over a 10-year rotation. Based on standard conversion factors, this will require the plantations to achieve an average mean annual increment (MAI) of 21.8m3/ha/year at age 10, assuming an average final harvest of 225GMT/ha.

The final average yield achieved by the blue gum plantations grown under the Tree Project will ultimately depend on the quality of the land selected and the ability of Midway and McEwens to effectively manage the plantations. Climatic conditions will also be a major factor in the performance of the plantations over the investment term.

The independent forestry expert has stated that the growth estimates adopted by Macquarie are realistic, provided that average climatic conditions occur during the rotation and that plantation management is undertaken in accordance with the management agreements.

It is critical that productivity growth rates are achieved in order for the Project to meet estimated returns, as the rent paid on the land will cease after 30 June 2022. With the deferred rent component compensating for an additional year of rent, this means that the trees need to be harvested within 11 years of planting. While an arrangement can be made with Land Trust lenders to extend borrowing terms or for further payments made to reduce debt, investors should be aware that it may be difficult for the Project to continue past June 2023 should productivity targets not be met.

As the land for the Project has not yet been secured, it is difficult accurately forecast the potential yield performance of the Project. Adviser Edge has instead relied on past performance, site selection criteria, and the quality of management when assessing potential yields. For investment modelling purposes, Adviser Edge has assumed a ten-year rotation, with all trees to be planted in the winter of 2012. Adviser Edge has adopted Macquarie's yield estimate of 220GMT/ha over the ten-year rotation. To achieve the targeted yield, the plantations will need to reach an average mean annual increment (MAI) of 21.85m3/ha/year at age ten, based on standard weight to volume conversion factors for blue gums in the region.

Macquarie's past plantations have displayed mixed performance, with inventory showing that the 2003, 2004 and 2005 Projects are under-performing initial targets, while the top end of 2006 Project inventory came in at the lower end of initial target (220GMT/ha). Although this inventory data is generally lower than initial forecasts, Adviser Edge takes the view that these plantations have largely been affected by below average rainfall in the early years of growth. Therefore, Adviser Edge's assumed yield is based on a return to more consistent climatic conditions for the planting regions.

Adviser Edge believes that the two operational contractors are suitably experienced and qualified to carry out the management of the plantations in accordance with the management agreements, thus giving the Tree Project every chance of achieving target yields.

Adviser Edge has adopted Macquarie's pulpwood yield estimates for investment modelling purposes.

Residual timber

Macquarie has estimated a yield of 58.9GMT/ha of harvest residue at maturity. This estimate is based on a literature review conducted by Pöyry. Pöyry estimates that a eucalyptus plantation producing 225GMT/ha woodchips at clearfell is capable of yielding roughly 39.3 bone dry metric tonnes per hectare (BDMT/ha), or 58.9GMT/ha with a moisture content of 33.3%, of harvest residues following clearfell. The 33.3% moisture content is based on the assumption that harvest residue would be allowed to dry out before collection in order to increase its calorific value.

Adviser Edge has not considered the possibility of generating returns from the sale of the residual timber from the plantation in this report. While it is possible that returns will be generated from the residual timber, given that no current market exists, and given the lack of empirical data to support yield and price estimates, Adviser Edge has not included potential returns in the investment modelling process. This is consistent with other peer pulpwood projects assessed by Adviser Edge.

When returns from the sale of residual timber are included in the model, using the yield and price estimates outlined in the Pöyry market report, the base case return for a combined investment increases from 5.75% to 7.21% pre-tax, and from 6.78% to 8.37% post-tax.

Adviser Edge has not incorporated the potential for returns from the sale of the residual timber in the investment modelling process.

Past performance

MAAML offered its first hardwood plantation forestry MIS project in 2003. Planting for this project began in mid-2004. MAAML indicated that inventory measurement data for the two earliest projects (established in 2004 and 2005) was collected in July 2007 and July 2008 respectively. Projections made from this inventory measurement data suggest that both projects were on target to exceed PDS yield forecasts. The 2003 and 2004 projects were forecast to achieve average yields of 228GMT and 258GMT over a 10-year period respectively, compared to initial PDS assumptions of 225GMT. Further inventory measurements were conducted on these projects in 2009 and 2010 respectively. Under these most recent inventories, the projected yield at harvest was estimated at 204GMT for the 2003 project and 200-215GMT for the 2004 project.

However, subsequent inventory measurements on the 2003 project, conducted in 2009 at an average tree age of 4.7 years, resulted in reduced 10-year yield forecasts to a forecast average yield of 204.4GMT. A similar scenario occurred with the 2004 project, with the 2010 inventory forecasting yields to be in the range of 200-215GMT. Macquarie indicated that the reduced yield forecasts are the result of below average rainfall conditions experienced across a number of project sites. The impact of the dry conditions has been exacerbated as the trees have grown, resulting in increased transpiration rates and demand on the sites. Under the inventory, the 2003 Project is forecast to fall below initial PDS yield forecasts, with a forecast average yield of 204.4GMT.

Inventory measurements were conducted on the 2004 Project in 2010, with yields predicted to range between 200GMT and 212GMT at final harvest.

Severe drought and frost conditions in 2006 had a significant impact on the survival of trees planted in this year for the 2005 project. These trees were established on sites in the far eastern part of the Green Triangle near Dunkeld. Approximately 70% of these plantations were affected by drought or frost, and most of this area was re-planted at no additional cost to investors. Due to ongoing drought and frost events, some areas of these replanted seedlings have continued to perform poorly, and MFS have advised Adviser Edge that a proportion of these plantations will not be economical to harvest.

It is important to note that MAAML and McEwens have decided that they will no longer plant in the area around Dunkeld due to the perceived higher growing risks in this region.

Macquarie has previously indicated that survival checks made for the 2006 and 2007 Projects in 2008 showed that these plantations were demonstrating survival rates of approximately 92.6% and 100% of target respectively. Inventory measurements were conducted on these plantations in 2009. However, due to the young age of the plantations (two years old), this inventory data is not considered to be an accurate guide to long-term performance. Initial indications are that the 2005 project is performing below initial PDS forecasts, with the next inventory to be conducted in 2011.

Based on the information provided to Adviser Edge, it appears that the majority of the plantations under MAAML's management are performing reasonably well given the recent drought conditions. This excludes the 2006 planting year, which has been set back due to the large area of replanting required and the challenging growing conditions experienced. A continuance of the significant rainfall received in both regions throughout 2010, and the beginning of 2011, will go a long way to restoring much of the reduced levels of growth experienced in recent years.

Price assumptions

The FOB price received for Australian hardwood woodchips is determined by a variety of factors, including the prevailing market supply and demand conditions, exchange rates, production costs, transport costs, and the prices offered by competitor countries.

The hardwood plantation woodchip export industry is relatively young in Australia, with export volumes only beginning to increase in recent years. Based on the development of short rotation hardwood plantations, the export volume for plantation woodchips is expected to climb significantly over the next decade. As such, a study of the industry trends for native hardwood woodchip exports is the best way to assess the long-term trends for plantation woodchip export prices. The average FOB export price for native woodchips is based on the price paid by Japan for non-plantation woodchips shipped out of Tasmania by Australia's largest woodchip processor, Gunns Limited. This price is referred to as the Leading Australian Hardwood Chip Export (LAHCE) price, and is used as a benchmark for Australian hardwood woodchip industry exports.

It is important to note that the LAHCE reflects the price being received by exporters of native woodchips, with prices for plantation hardwood woodchips selling at a premium. This premium reflects the lower pulping costs of plantation timber as a result of its pale and uniform characteristics. This characteristic reflects the comparatively higher price received for woodchips sold from the plantation-based woodchip production in the Green Triangle, where the GTP Chip Index was set at $207.40/BDMT until the end of 2010. The GTP Chip Index has been set at this level since 2008. This reflects an approximate 12% premium on the LAHCE price for native forest woodchips.

Negotiations for the 2011 price are ongoing. Industry expectations are that prices will remain relatively flat in nominal terms, with the high value of the Australian dollar meaning there is some potential for a small decrease.

Adviser Edge has adopted a pulpwood stumpage price estimate of $45.53/GMT. This is based on the current FOB price of $207.40/BDMT for plantation-grown woodchips, and worked back to an average stumpage price based on the costs of harvesting, processing and transport, and by incorporating the relevant conversion factors.

In determining the average stumpage price, Adviser Edge has assumed an average haulage distance of 95km to the nearest processing facility. Adviser Edge has incorporated variations in woodchip prices, as well as harvest, processing, and transport costs, into its investment modelling process in order to determine the potential returns range.

Due to the time until harvest, Adviser Edge has assumed that woodchip prices will increase in line with its inflation forecast of 2.9%. This reflects long-term price trends, which show no real price increases.

Land Trust

Land Trust returns will be determined by a number of key variables, including rental income, land price appreciation, and interest rates on borrowings.

Rental income
The Land Trust receives annual land rental payments from the Tree Project RE, MAAML, as well as a deferred rent of 4.50% (excluding GST) from net sales proceeds of the timber following harvest. MAAML is required to pay an annual rent of $560/ha, indexed at 3% p.a. Investors will receive distributions from the rental proceeds, although a high proportion of these payments will be re-invested into the Land Trust where required to make principal and interest re-payments under the Land Trust Loan with Macquarie Bank Limited. The Land Trust RE expects to be able to limit the required reinvestment to an average of approximately 80% of the Land Trust's distributable income.

Any remaining rental income not re-invested into the Land Trust will be distributed to investors by way of an annual cash payment, meaning that Land Trust investors may potentially earn annual income distributions from their investment in the Land Trust.

The Land Trust is not expected to be subject to any ongoing costs (other than interest under the loan) as the Leaseholder is responsible for the payment of all outgoings associated with owning the Land. However, nominal sub-lease costs may be incurred by the Land Trust should the Lease be terminated.

Land Trust returns
The Land Trust will earn annual revenue from the lease fees paid by the Tree Project, with returns potentially available from the appreciation in the price of the plantation land.

The lease fees will be paid by MAAML at a fixed rate of $560/ha, increasing at a rate of 3% p.a. This represents a yield of between 9.18% and 9.33% on the expected cost of acquisition of the land upon commencement of the lease. This rate is fixed, irrespective of the purchase price of the land, which means that there is scope for the yield on the land to be higher if the purchase price on the land is less than the forecast $6,000/ha to $6,100/ha. If the final weighted average purchase price is less than $6,300/ha, the Land Trust RE, MFPML, will be entitled to a land acquisition fee equal to the difference between the weighted average purchase price per hectare, and $6,300/ha. However, the land acquisition fee is only charged up to a maximum of $200/ha, or $50 per 475 units.

In the event that the final weighted average purchase price is less than $6,100/ha, MFPML may elect to either draw down a lower amount under the Land Trust Loan or to provide a capital return to investors, or a combination of both. For investment modelling purposes, Adviser Edge has assumed that MFPML will elect to lower the amount under the Land Trust Loan.

Following the expiry of the leases to the Tree Project, investors in the Land Trust are expected to receive any excess returns from the sale of the land, in excess of the outstanding loan amount.

Historical analysis shows that there is a reasonable level of volatility in the growth in land values. Colliers has indicated that, between 1981 and 2010, rural land values in the Project regions have displayed nominal year on year growth of between 6.4% and 7.4%. However, Colliers has noted that this data period was characterised by strong economic growth and bullish sentiment within global investment markets. In addition to this, much of the growth in recent years can be attributed to the heightened demand from MIS companies for the establishment of hardwood plantations.

Colliers has formed the view that the next decade (the period of the Project) will likely see a lower level demand for plantable land than has been experienced in recent years, due to the general demise of the MIS sector and general economic considerations.

Adviser Edge has taken a relatively conservative view regarding the growth in land values within the regions, and has adopted a land price inflation factor of 4.50%, which is in line with that adopted by Macquarie.

Investors need to be aware that the characteristics of the land will change considerably over the term of the rotation, and this should be factored in when estimating the resale value of land. Following harvest, the land will be covered in harvesting debris and remnant stumps, which may affect the market resale value, particularly if this land is not purchased for the intention of establishing a second rotation plantation.

For investment modelling purposes, Adviser Edge has assumed that the plantation land will be sold to parties intending to establish a second rotation plantation crop.

Other assumptions

As well as assessing the key variables of yield, price, harvesting and processing costs, and land price inflation, Adviser Edge has incorporated the potential for RE insolvency and its expected impact on the investment modelling.

In assessing the likelihood of an insolvency event, Adviser Edge has taken into account MAAML's balance sheet, its access to capital, and its ability to generate, and certainty with respect to, future cash flow. Adviser Edge has applied a relatively low default rate in its investment modelling, due to the view that it is possible for MAAML to be supported by the wider Macquarie Group.

The Project incorporates a number of features which reduce the potential impact of manager insolvency. This includes the Land Rental Security Account, which is designed to provide sufficient funds for the ongoing rental payments, and the 2011 Forestry Accounts, which are expected to provide sufficient funds for tree planting and establishment and the ongoing management of the Tree Project. In addition to these measures, the incorporation of ownership of the underlying land through the Land Trust further reduces the potential impact of an insolvency event. As a result Adviser Edge has assumed that, in the unlikely event of the RE's insolvency, a replacement RE will be appointed at a small additional cost to the investors in that particular year.

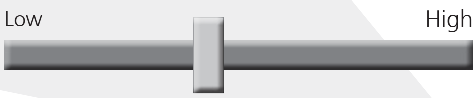
The modelling of Project returns has also incorporated the cost of insurance, the probability of an insurable event occurring, and the proceeds should an insurable event occur.

It is difficult to estimate the probability and impact of these assumptions regarding investment returns due to the limited information available to verify the underlying assumptions. However, Adviser Edge believes that by including its judgment on the potential impact of these events, investment returns modelling will be more reliable when compared to less sophisticated assessments.

Sensitivities

The Project's ability to achieve key assumptions is a function of both the inherent volatility of the underlying activity as well as the assumption risk, which is the accuracy of the initial estimate. Accordingly, the volatility used in Adviser Edge's modelling depends on the quality of the data supporting the assumptions, and an assessment of the expected volatility of the underlying activity during the course of the Project.

Yield



As the land for the Project has not yet been selected, there remains a moderate level of risk associated with forecasting yields. There is also a degree of risk associated with forecasting yields due to the normal variations in rainfall, frost and other seasonal condi-tions, as well as the impact of pest and diseases.

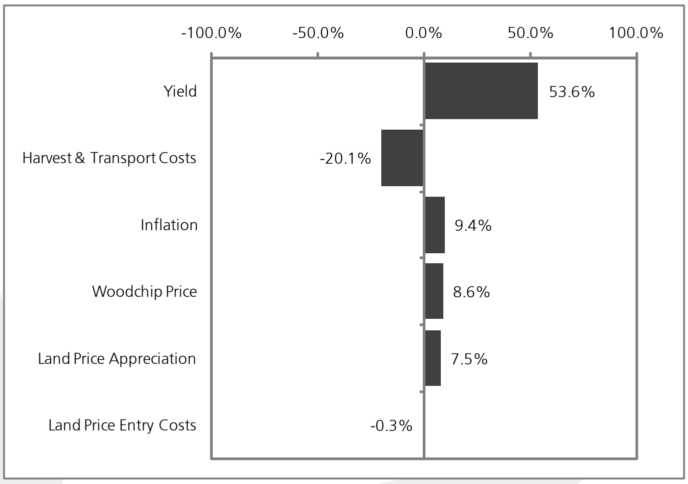
Price

Price risk is affected by changes in the global price of woodchips and the relative demand/supply dynamics in the paper production industry. Historically, the FOB woodchip price has demonstrated limited volatility, although stumpage price is expected to demonstrate slightly higher volatility due to the impact of variations in harvesting costs over time and across different regions and plantation yields.

Costs

Ongoing management and rent are deferred and deducted as a percentage of harvest proceeds, and as such the risk of achieving the budgeted cost outcomes is substantially mitigated. However, the cost of harvesting, processing and transport will affect the stumpage price that is offered to investors, and will therefore affect returns.

IRR sensitivity



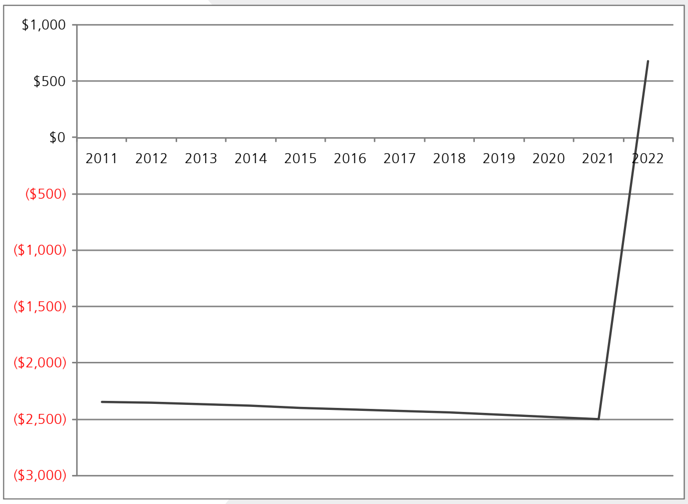
The table above indicates the resulting sensitivity of investment returns to the various assumptions used in Adviser Edge's financial model. This table indicates that variations in harvest yields, haulage costs, woodchip prices and inflation, and land price appreciation account for the majority of the variance in modelled returns. The sensitivity to transport costs is a reflection of the importance of haulage costs in determining the net return to growers, as well as the potential variation due to haulage distances.

Pre-tax Cash Flow per Woodlot

The Macquarie Forestry Investment 2011 aims to generate investor returns through the establishment, growth and sale of eucalypt hardwood plantations, and through the ownership in the underlying land via an investment in the Land Trust. Macquarie intends to harvest the plantations in the Tree Project at approximately age 10, with the land in the Land Trust to be sold following harvest. The Land Trust is expected to generate returns throughout the life of the investment through annual rent payments from the Tree Project, as well as from the sale proceeds of the land at the end of the Tree Project term.

An indicative cumulative pre-tax cash flow for a combined 1:1 investment is presented in the following chart. These cash flows have been calculated using the performance assumptions adopted by Adviser Edge.

Cumulative pre-tax cash flow per unit



Investors in the Macquarie Forestry Investment 2011 will be subject to the risks associated with short to medium-term forestry investments. All potential investors should carefully consider the risks outlined in the Project PDS, and the specific risks outlined in the Adviser Edge research report.

Management, structure, and fees risks

MIS management encompasses not only the operational capabilities of the project counterparties, but also the corporate abilities of MAAML to monitor operational performance, and to meet the regulatory and statutory responsibilities required of it as Project RE.

For all MIS projects there is a risk that, if the financial position or performance of management deteriorates, asset condition, project outcomes and/or regulatory outcomes may be temporarily or permanently compromised.

The Project incorporates a number of features which reduce the reliance on the ongoing solvency of MAAML, including the Land Rental Security Account and the 2011 Forestry Accounts, as well as the ownership of the underlying land. While the continued solvency of MAAML is required to ensure that ongoing maintenance and rental fees are paid, the security deposits will help to ensure that there are sufficient funds available to cover these costs in the unlikely event of the RE's insolvency.

The fee structure of the Project means that investors are protected from unexpected increases in plantation management costs over the Project term.

Site and silvicultural risks

Investors should be aware of the risks associated with the site and management of the Project. Key areas of risk identified by Adviser Edge are as follows.

Site selection

There is a risk that the selected land may not be suitable for the selected species or the targeted growth rates. Even where strict controls are placed on land selection, there is a risk that the land may not perform to expectations.

Pests and weeds

Insect damage and weed invasion can have an adverse impact on yield. Weeds can also affect growth rates through competition for water and nutrient supplies, or may introduce unwanted insects or diseases to the plantation site. While the operational manager endeavours to limit the impact of pests and weeds, there is a risk that these control measures could fail to prevent damage to a plantation.

Environment

Forestry is exposed to similar risks as those that are inherent in other agricultural production systems. Risks relevant to the timber industry include climate-related issues such as low rainfall, excessive heat, frost and wind, and seasonal aspects such as fire, pests and diseases. These threats can be mitigated through good site selection.

Performance risks

Information risk

In addition to the site and silvicultural risks discussed, investors' returns can be adversely affected if the assumptions used to estimate returns and determine sites are incorrect due to incomplete information and/or lack of knowledge. As blue gum is a well-recognised plantation species, and the Green Triangle and Geelong are well established hardwood plantations regions, this risk is largely mitigated.

Price and costs

Investors' returns will be directly affected by the price received for the Project resources, and indirectly by the costs of harvesting and processing. While prices and costs are generally dictated by the dynamics of supply and demand, changes in certain macro-economic factors can also have an impact. Such factors include exchange rates, interest rates, and inflation. Investors need to be aware that these factors can negatively affect investor returns.

Marketing

As with any MIS project, there is a risk that the market for the Project resources will encounter a significant downturn at the time of harvest. This may be due to factors such as competition, regulation and/or market preferences. The effect of reduced demand may have an impact on resource prices, which could potentially reduce investors' returns.

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