NAB Re-Strike Deferred Purchase Agreement – Series 1

May 2010

Adviser Edge

For Financial Advisers Only

Adviser Edge Rating ★★★★☆

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Product Summary

NAB Re-Strike Deferred Purchase Agreement – Series 1 (the Product) is a Deferred Purchase Agreement (DPA) issued by RBS Group (Australia) Pty Limited (RBS) that aims to provide investors with income and capital gain over a seven year investment term. The Performance of the Product is linked to the Risk Stabilised SPI 200 Index Future Strategy Index (the Reference Index) which is constructed by overlaying a volatility target strategy on top of the ASX200 Excess Return Rolling Futures Index (the Underlying Index). Investors can access the Product via a 100% investment loan from National Bank of Australia Limited (NAB) or by using their own capital. The NAB investment loan is separate from the Product and Adviser Edge has not analysed the details of the loan in this report.

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

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

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

The capital protection (which includes reinvestment of the fixed coupon payments) is provided by NAB while any variable coupon during the term and capital gain at maturity are provided by RBS.

Analysis conclusion

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

Firstly, quantitative testing demonstrated that the Product has an efficient structure. The dynamic volatility target strategy takes advantage of the accepted correlation of volatility and market returns, and provides important downside protection while maintaining the potential to benefit from any rally in the Reference Asset. The potential variable coupon payments can be seen as a profit lock-in mechanism, which has the effect of gradually securing gains for investors during the investment term. The fixed coupon payments provide investors with a minimum return even if the Reference Index fails to perform. There is no explicit fee for the Underling Index and the volatility target structure. The back-testing results are good, as the Underlying Index's strong historical performance allows the Product to perform well in this structure.

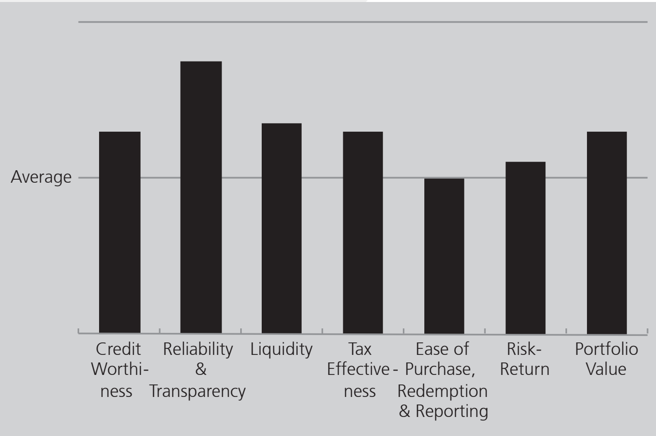
Secondly, the Product provides Australian investors with efficient access to the performance of the ASX200 Excess Return Rolling Futures Index, while providing full capital protection on the investment amount. The NAB investment loan also allows investors who currently have a loan facility tied up with another non-performing investment, such as a cash-locked structured product from previous years, to break away and regain exposure to this Reference Index.

The Product has two primary drawbacks. Firstly, the structure uses a volatility target of 14% for 100% participation, which is below the long-term historical average volatility of 16% for the Underlying Index. The realised volatility of the Underlying Index as at 28 February 2010 was 20%, resulting in a participation of

58.33%. A starting participation level below 100% is chosen in order to reduce the required total outlay for the strategy. If the volatility of the Underlying Index is sustained at this level or the long-term average, the Product is very likely to have an average exposure of less than 100% to the Underlying Index. This would limit the upside potential for investors. Secondly, the potential capital gain at maturity is affected by both the averaging technique and the final hurdle rate. While the averaging technique reduces the volatility of the returns to the investors, it also dampens the maximum potential capital growth that the Product may achieve, particularly if the Reference Index rallies exponentially at the end of the investment.

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

Rating snapshot



Investor Suitability

Adviser Edge considers the Product to be most relevant for investors who have a strong view regarding the ongoing performance of ASX200 Excess Return Rolling Futures Index, and believe that the index's volatility will remain low for the next seven years.

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

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

NAB Re-Strike Deferred Purchase Agreement (Series 1) – Product Characteristics

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

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

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

Product Details

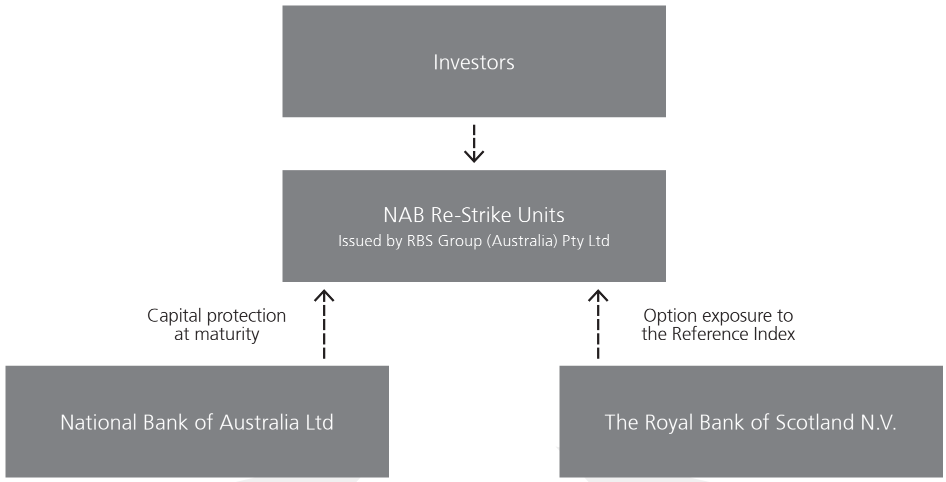
Legal Structure	
Product Name	NAB Re-Strike Deferred Purchase Agreement – Series 1
Issuer/Responsible Entity	RBS Group (Australia) Pty Limited
Custodian	RBS Group (Australia) Pty Limited
Capital Protection Provider	National Australia Bank Limited
Investment type	The units are unlisted and close-ended deferred purchase agreements.
Offer close date	23 June 2010
Maturity	10 July 2017 (approximately seven years)
Liquidity	Monthly on the last business day of each month commencing on September 2010.
Delivery	A basket of Australian shares containing equal values of shares in the following companies: BHP Billiton Limited, Commonwealth Bank of Australia, Westfarmers Limited, Telstra Corporation Limited and Woolworths Limited.
Minimum investment and loan amount	The minimum amount that an investor may invest is 20,000 Units or $16,000 with additional multiples of $800.
Economic Features	
Investment strategy	The Product provides varying levels of exposure to the ASX200 Excess Return Rolling Futures Index depending on the realised volatility of the index and the volatility targets predefined at the start of the investment.
Underlying Index	ASX200 Excess Return Rolling Futures Index
Participation	The participation rate will vary between 0% and 150% depending on the realised volatility of the Underlying Index.
Capital protection	100% of the issue price at maturity. At inception, the issue price of each unit is $1.00. Investors are only required to pay $0.80 per unit and the remaining $0.20 is paid by the investor over the investment term through the re-investment of the fixed coupon.
Distributions	The Product will pay a fixed coupon of 2.86% p.a., which must be reinvested. The investors also have the potential to receive annual variable coupons during the investment term subject to a 5% coupon hurdle rate and high water mark.
Capital gain at maturity	The Product may return a capital gain at maturity to the investors subject to the Final Reference Index Value, variable coupons paid during the term, and the 14% final hurdle rate.
Loan	An investment loan is provided by NAB. Investors can borrow up to 100% of the issue price per unit for the purpose of investing $0.8 per unit and using the remaining capital to break away from an existing non-performing investment.
Fees	
Ongoing fees	There are no ongoing fees charged by the Product in relation to both the Underlying Index and the volatility target structure.

Product Highlights

- The Underlying Index, the ASX200 Excess Return Rolling Futures Index, is intended to reflect the excess return performance of a quarterly rolling investment in the SFE SPI 200™ futures contracts. Investors who purchase futures contracts are not required to make a principal investment and only have to put up a margin. The excess return is an amount in excess of the returns which investors can achieve by retaining and using their principal amount. In an up-trending interest rate environment, the Underlying Index would experience lower performance.
- The SFE SPI 200™ futures contracts currently expire on a quarterly basis in March, June, September and December, on the third Friday of each of these months. The Underlying Index will roll the future contracts over on the business day immediately preceding a future contract expiration date by divesting the front month contract and simultaneously investing into the future contract expiring in the next quarter. The rolling future is denominated in AUD. The underlying index diverges from the ASX 200 price index due to prevailing interest rates and expected quarterly dividend yields.

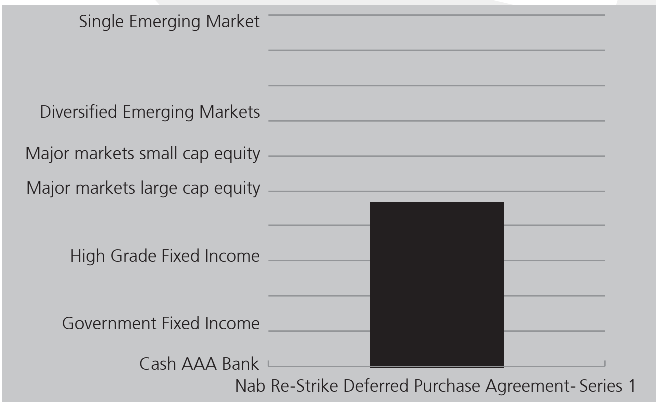
- The Reference Index, the Risk Stabilised SPI 200 Index Future Strategy Index, applies a volatility target strategy to the Underlying Index. The volatility target strategy calculates the participation to the Underlying Index on a daily basis. The participation is determined by comparing the maximum realised volatility of the Underlying Index observed on the calculation date, and the four consecutive preceding business days, to the target volatility predefined prior to the start of the investment. The Realised volatility on each business date is defined as the annualised volatility of the Underlying Index over the recent twenty business days. Participation can range from a minimum of 0% to a maximum of 150%.
- The Royal Bank of Scotland plc acts as the Index Sponsor and Calculation Agent for both the Reference and Underlying Indices.
- According to the volatility targets, the Reference Index would have more than 100% participation to the Underlying Index as long as the five-day maximum realised volatility is below 14%. If the volatility falls below 9%, the participation would increase to 150%. The historical average volatility of the Underlying Index is 16% over the backtested period since May 2000. Within this period, the volatility has been below 14% in 55% of business days. As at 28 February 2010, the five-day maximum realised volatility of the Underlying Index was 20.2%.
- Investors can potentially receive up to three forms of returns which include fixed coupon, variable coupon and capital growth at maturity. The issue price per unit at inception is $1 per unit. However, the investors are only required to pay $0.8 per unit.
- Investors will receive annual fixed coupons of 2.86% p.a., regardless the Reference Index's performance. However they will be required to reinvest all fixed coupons. The reinvestment of the fixed coupons will increase the capital protection from the initial investment of $0.8 per unit to $1 per unit at maturity. This represents a minimum return of 25% on the initial investment over the investment term. The investors are not subject to any fees in relation to the structure which could offset against the fixed coupons.
- Investors may also receive annual variable coupons during the investment term. The variable coupon is determined as 40% of the annual growth of the Reference Index above the high water mark and coupon hurdle rate. The high water mark is the highest level of the Reference Index on any of the previous annual observation dates known as the Coupon Determination Date. The Coupon Determination Dates are set annually on 10 July each year, commencing from 2011 to 2016. The coupon hurdle rate is fixed at 5% of the issue price during the term. The distribution of fixed and variable coupons does not affect the calculation of the Reference Index.
- At maturity, the investors will have a minimum product value of $1 per unit subject to NAB fulfilling its obligation to deliver the promised protection amount. Investors may potentially receive a capital growth based on the Final Underlying Index Value. The Final Underlying Index Value is the arithmetic average of the Reference Index values recorded on the five quarterly observation dates in the last year of the investment term. The increase in the Final Reference Index Value must exceed the sum of all variable coupons paid during the investment term plus the 14% final hurdle rate for the Product to deliver a final capital growth payout.
- The averaging technique used to calculate the Final Reference Index Value at maturity can have a positive or negative effect on the final return, depending on the behaviour of the Reference Index in the final year. If the Reference Index rallies in the final year then the averaging will harm the return from the Product. On the other hand, if the Reference Index falls in the final year, the averaging technique would have a similar effect as a profit lock-in mechanism.
- The capital protection is provided by NAB. Therefore, if the final value of the Product falls below the issue price, investors will be subject to the credit risk of NAB. On the other hand, since RBS is the provider of the performance contract, the investors will rely on the credit quality of RBS to deliver variable coupons and a final capital growth payout at maturity if the Reference Index performs strongly during the investment term.
- NAB is rated AA by S&P and Fitch, and Aa1 by Moody's.
- RBS is rated A by S&P, A1 by Moody's, and AA- by Fitch.
- The Deferred Purchase Agreement stipulates that the investors will receive a basket of ASX-listed shares at maturity. Alternatively, if the investors use the Agency Sale Option, the delivery assets are transferred and sold on their behalf in order to deliver cash.
- The Product offers a monthly buy-back facility. However, investors may be subject to significant break cost in the event of early redemption due to market movements. Geared investors may also be subject to loan break costs.

Transaction Flow Diagram



Asset allocation

If an investment into the Product commenced on 28 February 2010, the five-day maximum realised volatility of the Underlying Index would have roughly been 20.2%, resulting in an initial participation of 58.33% within the structure. As such, while the investors only have to invest 80% of the issue price for each unit at inception, the structure would have provided the investors with an allocation equal to 58.33% of the issue price in the Underlying Index. This effectively represents 73% exposure when compared to the initial investment.[1] The allocation within the volatility target structure can change during the term of the investment, and can reach a low of 0% or a high of 150%.



Risk-return spectrum

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

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

Fat tail view

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

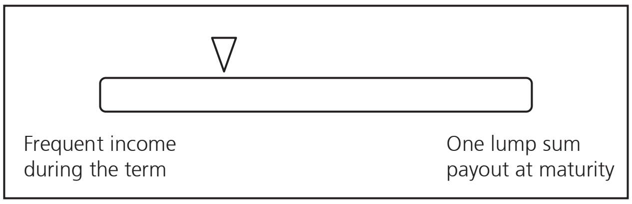
The Product is seen to have a small tail risk for non-geared investors due the fact that even in the worst scenario the Product will still return a minimum of 2.86% p.a. through the distribution of the fixed coupons. The investors are not subject to any fees in relation to the structure which could offset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

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

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

Frequency of cash flow

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



Pros

Risk and return

- The volatility target strategy ensures that investors will not be subject to cash lock. The overlay can provide leveraged exposure to the Underlying index, and reduce losses in highly volatile downward trending markets.
- The Product provides a good balance of income and capital gain. Based on the back-testing analysis, the Product would, on average, generate close to 69% of the total returns in the form of income derived from variable and fixed coupons, and 31% as capital gains.
- The variable coupon payments work as an efficient profit lock-in mechanism in periods of strong performance, securing early gains for investors.
- The back-testing of the Product showed that it would have been able to generate double-digit annual returns in 21% of the total periods analysed. The back-testing results in general have been strong as a result of robust historical performance of the Australian equity market. Adviser Edge has conducted back-testing for the purpose of examining the effectiveness of the structure when overlaid on top of the Underlying Index. Adviser Edge acknowledges that the Underlying Index's behaviour may change in the future, and that past performance should not be used as a guide for future performance.
- The strategy does not charge any fees on the Underlying Index or the volatility target structure.

Portfolio value

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

Credit worthiness

- The Product is issued by RBS with capital protection provided by NAB. The separation between the issuer and capital protection provider minimises the concentration of risk on a single counterparty. Should the Product perform strongly, investors will not lose both the capital protected amount and any positive return as a result of default of either one entity.
- The credit rating of the capital protection provider is at the high end of the current spectrum for banks. NAB is rated AA by S&P and Fitch, and Aa1 by Moody's. All three credit rating agencies place a stable outlook on their ratings.
- Reliability and transparency
- Adviser Edge considers RBS to be experienced and reliable at providing volatility target-style investment products.
- RBS Group is a well-established structured product issuer, with a presence both in Australian and overseas. It has strong resources and the capabilities to support the operations of structured products.
- The Underlying Index has a transparent and clear rules-based investment strategy operated in a highly liquid futures market.

Cons

Risk and return

- In an up trending interest rate environment, the higher interest rates present a greater headwind for the Underlying Index to deliver positive gains. The Underlying Index's returns have under-performed the S&P ASX 200 Index since May 2000.
- The Underlying Index has a historical average realised volatility of 16%. This means that if the realised volatility stays at the long-term average, the Product will only have exposure of 73.68% to the Underlying Index. According to the back-testing, the realised volatility of the Underlying Index fell below 14% (volatility target with 100% participation) only 55% of the time. If the realised volatility continues to remain above 14%, the below-100% participation could harm the Product's return in a bullish market.
- There are only two bands of participation rates above 100%. If the volatility is between 9% and 14%, the applicable participation rate would be 100%. If the volatility is below 9%, the applicable participation rate would be 150%. The fact that the participation rate increases significantly between the two bands rather than gradually between a number of bands, and the fact that the leveraged exposure will only be achieved if the volatility falls below 9%, means that the investors are very unlikely to have leveraged exposure to the Underlying Index for an extended period of time during the investment term.
- The Product has a relatively long investment term (seven years), which ties up investors for a longer period of time than their current cash-locked investment and also increases the risk of an early maturity event occurring over the term.
- The 5% coupon hurdle rate will reduce the amount of potential annual variable coupon or profit lock-in generated by the structure during the term.
- The 14% final hurdle rate can be seen as an additional 2% performance fee p.a., and will reduce the potential final capital growth at maturity.
- The fundamental theory of the volatility target strategy relies heavily on the negative relationship between realised volatility and future return. If this market behaviour breaks down, the Product may perform poorly.

Reliability and transparency

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

Tax Features[2]

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

Liquidity

- Investors may incur significant break costs due to market movements if the Product is redeemed before maturity.

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

Summary of Quantitative Testing

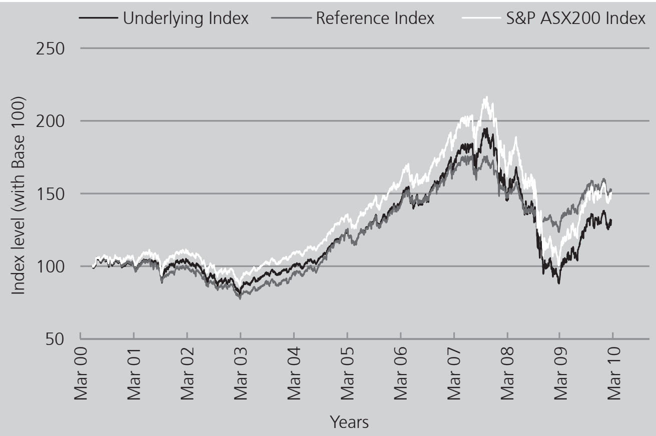
Adviser Edge has conducted a number of quantitative analyses, and has reached the following conclusions.

- The Underlying Asset has a historical average volatility of 16% over a 20-business-day period. This is higher than the 14% volatility target required to gain 100% exposure in the structure. If the volatility of the Underlying Index remains above 14% at the historical average, the structure will only have 73.68% exposure to the index. The high level of realised volatility will decrease the Product's exposure to the Underlying Index, and thus investors will benefit less from positive market movements. As with other volatility target-style products, this Product tends to reduce volatility by lowering participation to the reference asset, in order to lower the cost of structuring the investment.
- Since the start of the back-tested data in May 2000, the realised volatility of the Underlying Index has only fallen below 14% in 55% of occurrences. This means that in 45% of the historical period, the structure would have had an exposure of less than 100% to the Underlying Index. At the peak of the GFC in February 2009, the realised volatility of the Underlying Index had risen to 66%, resulting in a participation of 0%.
- The volatility of the Underlying Index is expected to oscillate as the Australian equity market goes through different market phases in the future. The Underlying Index could work well with volatility target structure by lowering exposure during a bearish market and gearing up exposure during bullish market.
- The Product would have performed well in some of the back-testing analysis and generated an average net return of 9% p.a. including coupons and capital growth at maturity. The Product would have returned more than 10% p.a. in 21% of the back-testing periods. The returns would have been sufficient to fully cover pre-tax borrowing costs of an investment loan in some cases.
- The attribution breakdown of the historical total return from back-testing of the Product indicates that 29% of the total return usually comes from fixed coupons, while variable coupons and final capital growth comprise 39% and 32% of the total return respectively.
- In calculating the annual variable coupon, the coupon hurdle rate represents a barrier for which the Reference Index must exceed the high water mark by more than 5% before the Product delivers any variable coupon. The coupon hurdle rate may not represent a cost for investors if the Reference Index rallies during the whole term, as any gain which has not been locked in by the variable coupon earlier will be returned back to the investors in the form of capital gain at maturity. However, the coupon hurdle rate can have a negative influence, particularly in an up-and-down market scenario where the investors may not receive any capital gain at maturity and would have lower variable coupons during the term as a result of the coupon hurdle rate.
- The final hurdle rate at maturity represents an implicit performance fee charged by the issuer. The final hurdle rate will lower the capital gain by a total of 14% or approximately 2% p.a.
- Scenario analysis concludes that the Product performs best when the Underlying Index gradually rises with low volatility during the term, as the Product would maximise the leveraged exposure to the Underlying Index and benefit from the consistent upswing (refer to Figure A4 on page 11 for hypothetical scenario).
- The Product also performs well if the Underlying Index falls sharply. The sudden increase in volatility would trigger the Product to lower its exposure to the Underlying Index, limiting further falls in value (refer to Figure A5 on page 12 for hypothetical scenario).
- The Product performs less favourably if the Underlying Index falls and then quickly recovers in a volatile 'v' shape manner. As the volatility remains at a high level after a big fall, the Product will benefit very little from the sudden recovery of the Underlying Index, resulting in a much worse performance compared to a direct investment in the same underlying over the positive return period (refer to Figure A6 on page 12 for hypothetical scenario).
- The Product performs worst when the Underlying Index demonstrates negative returns and low volatility at the same time. In that scenario, the Product would increase participation to the falling index value and result in a bigger loss (refer to Figure A7 on page 12 for hypothetical scenario).

Technical Appendix

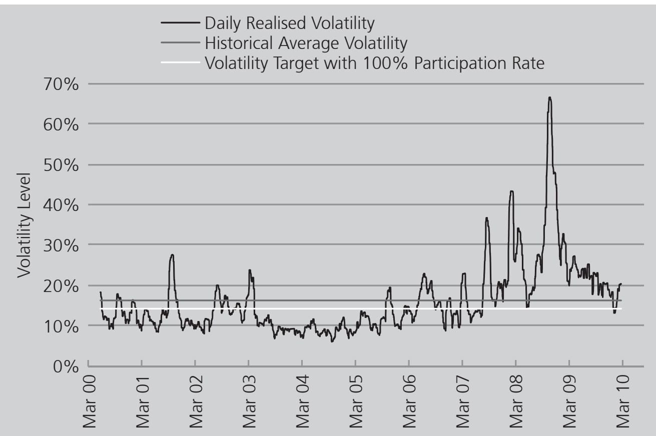
Figure A1: Historical returns of the Underlying Index and Reference Index as at 28 February 2010

	6 Months	1 Year	2 Years Annualised	3 Years Annualised	5 Years Annualised	7 Years Annualised
Underlying Index	1.9%	38.4%	-10.7%	-9.6%	1.3%	6.5%
Reference Index	-0.6%	18.3%	-1.2%	-3.9%	4.7%	9.6%
S&P ASX200 Index	3.5%	38.7%	-8.8%	-7.4%	2.1%	7.5%



As the Underlying Index reflects only the excess returns from rolling future contracts, it would under-perform the S&P ASX 200 Index in environments with high interest rates. Over the last seven years, the Underlying Index has under-performed the S&P ASX 200 Index by an annualised return of 1%. The Reference Index has performed better than the two other indices during the financial crisis, as the volatility target strategy reduces exposure to the equity market when it is experiencing a volatile downturn. The loss minimisation effect is demonstrated by the Reference Index's -1.2% annualised return over the last two years, while the Underlying Index and the S&P ASX 200 Index have returned -10.7% p.a. and -8.8% p.a. respectively during the same period.

Figure A2: Historical 20-business-day volatility of the Underlying Index



The long-term average of the 20-business-day rolling volatility is 16%, and it is higher than the 14% volatility target required for 100% participation in the Product. The historical volatility has fallen below 14% in 55% of the cases.

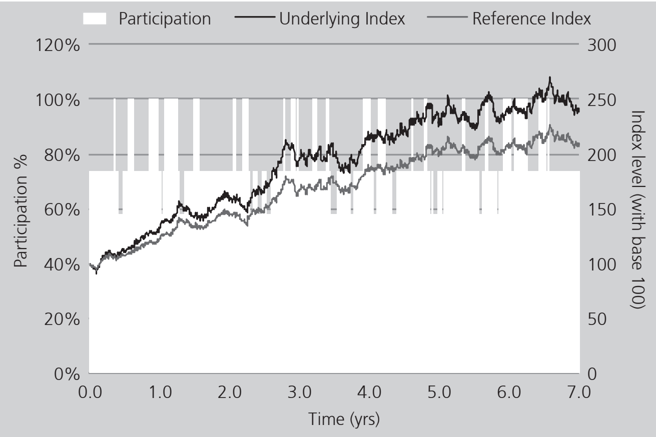
Figure A3: Back-testing of the Product

Attribution Analysis of Product Return	Total return over the whole term	Annualised return
Fixed Coupons	25.0%	3.2%
Average Variable Coupons	33.8%	4.2%
Average Capital Growth at Maturity	26.9%	3.4%
Average Total Return	85.8%	9.2%

The results of the back-testing on the above table were produced by considering 33 overlapping periods of seven years, with the first period starting on 30 June 2000 and the last on 28 February 2003.

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

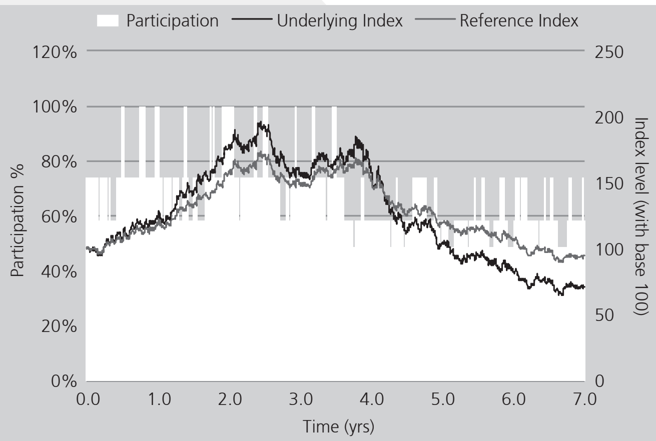
Figure A4: Scenario with strong return*



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

As demonstrated by Figure A4, the Product performs best in an environment with high returns and low volatility. The low level of volatility allows a higher participation to the Underlying Index, and therefore the Product benefits more from the upside rally. In this scenario, the Underlying Index has an average realised volatility of 16.38%, and the participation has remained between 73% and 100% for the term. Assuming that the initial investment is $80 for a non-geared investor, the total variable coupon distributed during the term is $31, or 39% of the initial investment, and the final capital growth payout at maturity is $65, or 81% of the initial investment.

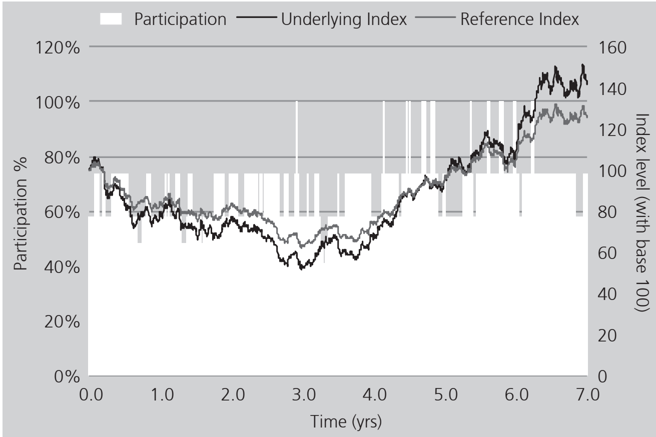
Figure A5: Scenario with fall after a rally*



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

If the Underlying Index falls dramatically, the increasing volatility will reduce the Product's participation rate and limit the extent of further drops in strategy value. In this case the Product would have returned a total variable coupon of $19, or 24% over the term. There is no capital gain at maturity, as the Final Reference Index Value has fallen below the initial value of the Reference Index at inception. The Product would have performed better than the Underlying Index, as it returns the initial investment plus the fixed coupons at maturity while the Underlying Index suffers a capital loss.

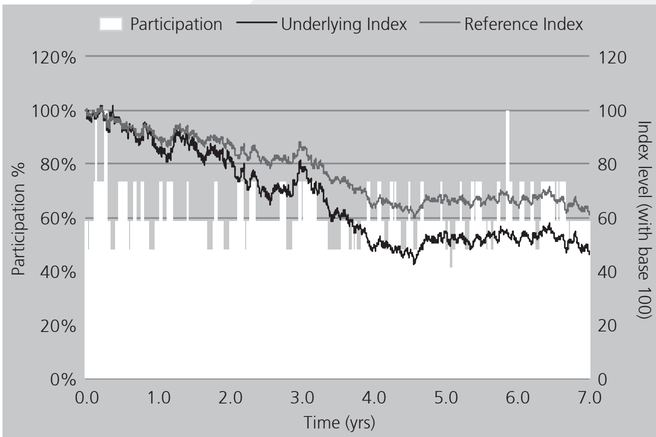
Figure A6: Scenario with recovery after a fall*



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

The Product performs less favourably than a direct investment if the Underlying Index recovers quickly after a substantial fall. As the volatility of the Underlying Index remains at a high level, the Product's exposure to the Underlying Index's upside movement would be limited. In this case, the Product would not have generated any variable coupons during the term, as the Reference Index has failed to go above the high water mark and coupon hurdle rate at all Coupon Determination Dates. The Product would have returned a capital gain of $5 at maturity after the final hurdle rate. Investors will also receive all fixed coupons with a value equivalent to 20% of the issue price.

Figure A7: Scenario with gradual fall*



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

The Product performs worst if the Underlying Index experiences gradual and consistent falls. As the Underlying Index's volatility remains at a relatively low level, the Product may have a substantial or even leveraged exposure to the falling Underlying Index, thereby amplifying the extent of loss. In this case, the

Product would not have generated any variable coupon or capital gain for the investors, as there is no profit lock-in during the term, and the Final Reference Index Value has failed to rise above the initial value at inception. Although the Product performs worst in this type of market scenario, it is still much better than a direct investment in the same Underlying Index. A direct investment would result in a capital loss. However, the Product would still return a total gain of 25% on top of the initial investment back to the investors as a result of the fixed coupons.

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Report Date
12 May 2010