

AUSTRALIAN

RESEARCH



Australian Managed Investments

Structured Products

Credit Suisse Principal Protected Yield Fund

Exposure to a pool of PIMCO bond funds with 100% capital protection and option of 100% financing

Note: This report is based on the Credit Suisse Principal Protected Yield Fund PDS, dated **3 May 2007**, together with other information provided by Equities Trustees Limited.

Offer Overview

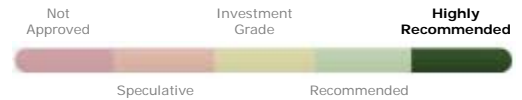
The Credit Suisse Principal Protected Yield Fund (the *Fund*), being offered by Equities Trustees Limited (the Responsible Entity (*RE*)), provides a notional leveraged exposure to a portfolio of bond funds managed by PIMCO (the *PIMCO Funds*) with the safeguard of 100% capital protection at maturity. The PIMCO Funds comprise three actively managed bond funds: Global Bonds (50% weighting), High Yield Bonds (25%) and Emerging Market Bonds (25%). Through the application of leverage, exposure to the PIMCO Funds may vary from 100% to 200%, with the initial exposure being 150%. The Fund is designed to produce enhanced semi-annual income returns, but investors will receive no capital gains at maturity. The level of leverage applied to the PIMCO Funds and the Fund's obligation to pay income to investors will be managed through a formula based mechanism similar to the constant proportion portfolio insurance (*CPPI*) method. The Fund has a capital-protected term of four years, provided by funds held on deposit with Credit Suisse Sydney branch. Investors may, however, redeem their investment early via a monthly liquidity feature.

Investor Suitability

The Fund is a pure income play, with the investor receiving no capital gains at maturity. Broadly, Aegis regards the Fund particularly well suited to income-seeking, relatively risk-averse investors on low marginal tax rates. As such, the Fund may be suitable to self-managed super funds and retirees, for example, or, more broadly, as a means of diversifying a larger investment portfolio. With respect to the 100% financing facility, Aegis regards this as best suited to investors who are relatively asset-poor (and unable to secure alternative lower cost finance) but relatively income-secure (and able to service interest costs and receive the greatest tax deductibility benefits). The income sourced from the Fund should assist in servicing loan costs.

Investment View

Aegis has reviewed the Fund and issued a **Highly Recommended** rating. Aegis generally regards the Fund as a well-structured product. The underlying PIMCO Funds provide the prospect of enhanced income returns through a well-balanced allocation between high and low credit quality bonds, which, when combined, create a low- to moderate-risk diversified portfolio. In terms of performance, the Fund is expected to generate higher returns during periods of falling interest rates compared to returns in periods of rising interest rates. Structurally, Aegis believes the Fund has appealing characteristics. The CPPI-like mechanism provides an appropriate level of leverage that provides further income-enhancing potential, while still maintaining a minimum possible exposure to the underlying PIMCO Funds at 100% throughout the investment term. The structure provides an appropriate split between income distribution and income reinvestment such that the income needs of investors are balanced with income growth prospects. While fees within the product are comparable with those for similar products, Aegis notes that the cost of the optional margin loan facility compared to the cost of alternative margin loans is on the high side on an underlying risk comparative basis.



Offer Details

Offer Period	4-May-07: 29-Jun-07
Issue Date	11 July 2007
Maturity (years)	11 July 2011 (4 years)
Min. Investment	A\$20,000 without loan; A\$50,000 with loan
Liquidity	Monthly Withdrawal*
Distributions	Semi-annual

* Subject to early withdrawal fees.

Risk/Return Profile



Fees (paid to advisors), incl. GST, %

Up-front	Up to 1.75
Ongoing	Up to 0.5% p.a. without loan; Up to 1.05% p.a. with loan

Note: All advisor/broker fees are paid by Credit Suisse International with the exception of the additional 0.5% ongoing commission fee attached to the loan facility, which is paid by the investor.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

SWOT Summary

Strengths

- The CPPI-like structure provides the benefit of leverage without the cost of typical CPPI structures, specifically the risk of being less than 100% exposed to the underlying asset.
- The income calculation method provides a balance between the prospects of regular, and relatively high, income and income growth.
- The PIMCO Funds are diversified by credit quality; developed and emerging markets; and corporate and government issuers.
- PIMCO is well recognised for active management of fixed income assets with a solid investment team and sound investment process.

Weaknesses

- For high marginal tax rate investors, the Fund may be relatively tax-inefficient, as returns are expected to be entirely on income account.
- The underlying bond portfolio lacks diversification by manager. The Fund is subject to risks that may stem from research and risk management practices common to all three funds.

Opportunities

- Declining interest rates may positively impact returns of the underlying PIMCO Funds.
- Potential to earn enhanced income from an allocation to high-yield and emerging market bonds; the active management of the underlying funds; and the application of leverage.
- Investors have the option of up to 100% financing with the certainty of knowing their maximum downside, specifically the cumulative interest costs on the loan amount.

Threats

- Rising interest rates may adversely impact returns of the underlying PIMCO Funds.
- During volatile market conditions, the increase in leverage in up-markets and the decrease in leverage in down-markets may detract value. Due to the Fund's leverage, volatility is especially detrimental to CPPI-related performance.

Product Fees (incl. GST)

	Product	Product (with loan)	Sector Avg.
Base Fees, % of Gross Assets			
Up-front	0.0	0.0	2.2
MER ¹	1.74	2.29 ²	2.0
Performance	0.0	0.0	0.0
Exit	0.0	0.0	0.1

1. Based on a management fee of 0.338% p.a. plus an indicative swap fee of 1.40% p.a.

2. Based on a loan ongoing commission fee of 0.55% p.a. (incl. GST).

Total Fees, % of Expected Total Return

Up-front	0.0	0.0	2.9
Ongoing	14.0	18.5	15.6
Exit	0.0	0.0	0.1
Total	14.0	18.5	18.6

Product Costs

Costs of running the Fund, capital protection, structural fees and commission fees attached to the loan facility payable by investors all are included in the fees analysis above. Investors wishing to use the loan facility with Leveraged Equities Limited will incur additional loan costs, ranging from 8.15% to 8.75% (exclusive of a 0.5% trail commission to the lender) depending on the interest rate option and amount.

Indirect Fees

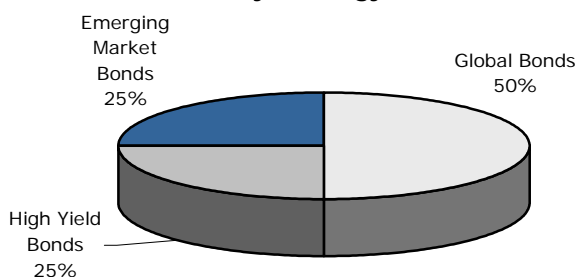
The returns of the underlying PIMCO Funds are net of advisory fees and other expenses. As at the date of the PDS, the advisory fees are 1.3% p.a. for the PIMCO Global Bond Fund; 1.3% p.a. for the PIMCO High Yield Bond Fund; and 1.45% p.a. for the PIMCO Emerging Markets Bond Fund. Other expenses for each fund are estimated to be between 0.1% and 0.2% p.a.

Fee Commentary

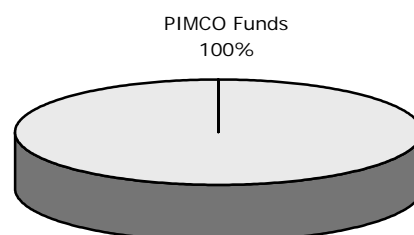
Combined with the ongoing commission fee of 0.5% p.a. attached with the available 100% lending facility offered by Leverage Equities Limited, the lending rates (fixed or variable) are comparable with those of peers, though on the high side on an underlying risk comparative basis. As fees are charged on the gross asset value and not NAV, any leveraged exposure will be charged at the ongoing fee level. An early exit fee (inclusive of GST) of 3.0% applies in year 1, reducing by 1.0% each year after.

Portfolio Diversification

By Strategy



By Product Component





Level 6, 33 York Street
Sydney NSW 2000 Australia
Locked Bag 7 Australia Square
Sydney NSW 1215
Phone 61 2 8296 1100
Fax 61 2 9299 3777
ABN 72 085 293 910
www.aer.com.au