

AUSTRALIAN

RESEARCH



Contents

1. Product Summary	3
2. Structure	5
3. Management & Corporate Governance	7
4. Investment Process	8
5. Performance Analytics	9
Appendix – Ratings Process	12

For Advisers Only

IMPORTANT NOTICE

Aegis has been commissioned to produce this report.

Disclaimer & Disclosure of Interests

This publication has been prepared by Aegis Equities Research Pty Limited ("Aegis") (ACN 085 293 910), an Australian Financial Services Licensee (AFSL no. 225072). Aegis has been commissioned to prepare this independent research report (the "Report") and will receive fees for its preparation. The company specified in the Report (the "Participant") has provided Aegis with information about its activities. Whilst the information contained in this publication has been prepared with all reasonable care from sources that Aegis believes are reliable, no responsibility or liability is accepted by Aegis for any errors, omissions or misstatements however caused. Any opinions, forecasts or recommendations reflects the judgement and assumptions of Aegis as at the date of publication and may change without notice. Aegis and the Participant, their officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law. This publication is not and should not be construed as, an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any opinion contained in the Report is unsolicited general information only. Neither Aegis nor the Participant is aware that any recipient intends to rely on this Report or of the manner in which a recipient intends to use it. In preparing our information, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors should obtain individual financial advice from their investment advisor to determine whether opinions or recommendations (if any) contained in this publication are appropriate to their investment objectives, financial situation or particular needs before acting on such opinions or recommendations. This publication is not for public circulation or reproduction whether in whole or in part and is not to be disclosed to any person other than the intended recipient, without obtaining the prior written consent of Aegis. This report is intended for the residents of Australia. It is not intended for any person(s) who is resident of any other country. Aegis and/or the Participant, their officers, employees or its related bodies corporate may, from time to time hold positions in any securities included in this Report and may buy or sell such securities or engage in other transactions involving such securities. Aegis and the Participant, their directors and associates declare that from time to time they may hold interests in and/or earn brokerage, fees or other benefits from the securities mentioned in this publication.

Structured securities are complex instruments, which may involve a high degree of risk, and are intended for sale to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. High-volatility investments may experience sudden and large falls in their value, causing losses when those investments are realised.

An investor considering purchasing a structured product should conduct their own investigation and analysis of the product and consult their professional advisers as to the risks involved in making such a purchase.

Aegis, its officers, employees and its related bodies corporate have not and will not receive, whether directly or indirectly, any commission, fee, benefit or advantage, whether pecuniary or otherwise in connection with making any statements and/or recommendation (if any), contained in this Report. Aegis discloses that from time to time it or its officers, employees and related bodies corporate may have an interest in the securities, directly or indirectly, which are the subject of these statements and/or recommendations (if any) and may buy or sell securities in the companies mentioned in this publication; may effect transactions which may not be consistent with the statements and/or recommendations (if any) in this publication; may have directorships in the companies mentioned in this publication; and/or may perform paid services for the companies that are the subject of such statements and/or recommendations (if any). However, under no circumstances has Aegis been influenced, either directly or indirectly, in making any statements and/or recommendations (if any) contained in this Report.

The information contained in this publication must be read in conjunction with the Legal Notice that can be located at <http://www.aer.com.au/disclaimer.asp>.

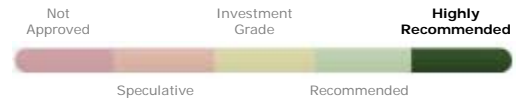
Australian Managed Investments

Structured Products

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.

Credit Suisse Principal Protected Yield Fund

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



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.

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



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.

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

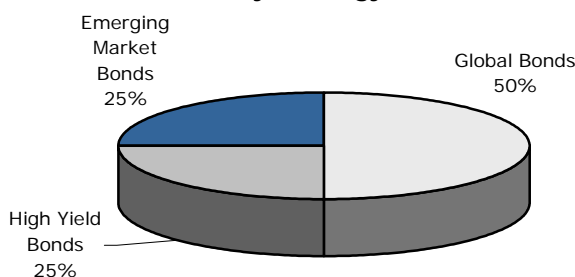
The returns of the underlying PIMCO Funds are net of advisory fees and other expenses. As at the date of the PDS, the advisory fees are 1.3% p.a. for the PIMCO Global Bond Fund; 1.3% p.a. for the PIMCO High Yield Bond Fund; and 1.45% p.a. for the PIMCO Emerging Markets Bond Fund. Other expenses for each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

Fee Commentary

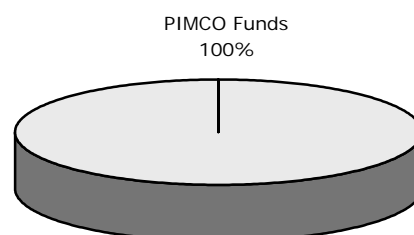
Combined with the ongoing commission fee of 0.5% p.a. attached with the available 100% lending facility offered by Leverage Equities Limited, the lending rates (fixed or variable) are comparable with those of peers, though on the high side on an underlying risk comparative basis. As fees are charged 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



2. Structure

The RE will deposit the initial amount invested into the Fund with Credit Suisse Sydney Branch (*CS Sydney*). This deposit is designed to deliver full capital protection at maturity to the RE. The RE will also initially enter into a Total Return Swap (*TRS*) with Credit Suisse International (*CSI*). Under TRS, the RE agrees to make interest payments to CSI using all the interest earned on the deposit. In return, CSI agrees to provide the Fund with a leveraged hedged exposure to the price returns of an underlying pool of PIMCO Funds (net of advisory fees and other expenses to PIMCO) and to pay semi-annual income to the Fund on the condition of positive performance (net of fees and expenses) on the initial amount invested.

The underlying pool of PIMCO Funds includes three actively managed bond funds, namely, the PIMCO Global Bond Fund (50%), the PIMCO High Yield Bond Fund (25%) and the PIMCO Emerging Markets Bond Fund (25%). The portfolio will not be rebalanced.

Leverage will be implemented via a notional loan to the Fund under the terms of TRS. The initial exposure to the PIMCO Funds will be 150%. Thereafter, the amount of notional leverage will be managed dynamically through a formula-based CPPI-like mechanism, which is driven by the performance of the PIMCO Funds. The exposure to the PIMCO Funds will be rebalanced to a Target Exposure on a daily basis and subject to a +/-5% rebalancing band. The Target Exposure is calculated as four times the distance between the portfolio value (of the PIMCO Funds) and a flat 'bond floor' of 62.5%, expressed as a percentage of the portfolio value, and subject to the minimum and maximum exposure of 100% and 200%, respectively. A positive feature of the structure is that unlike typical CPPI structures, there is no actual risk-free asset, with exposure to the underlying PIMCO Funds never falling below 100%. Positive price performance achieved by the PIMCO Funds will result in an increase in leverage, while negative performance will result in a decrease in leverage.

Under TRS, every six months, 50% of any positive performance of the Fund's portfolio, as measured by the difference between the portfolio's initial value and its value as at the relevant income distribution date, will be converted into income and paid to the Fund. The Fund will then distribute this income to investors (less any accrued fees and fund expenses). Investors do not have the right to reinvest their income. At maturity, investors receive 100% of any positive performance plus their initial investment.

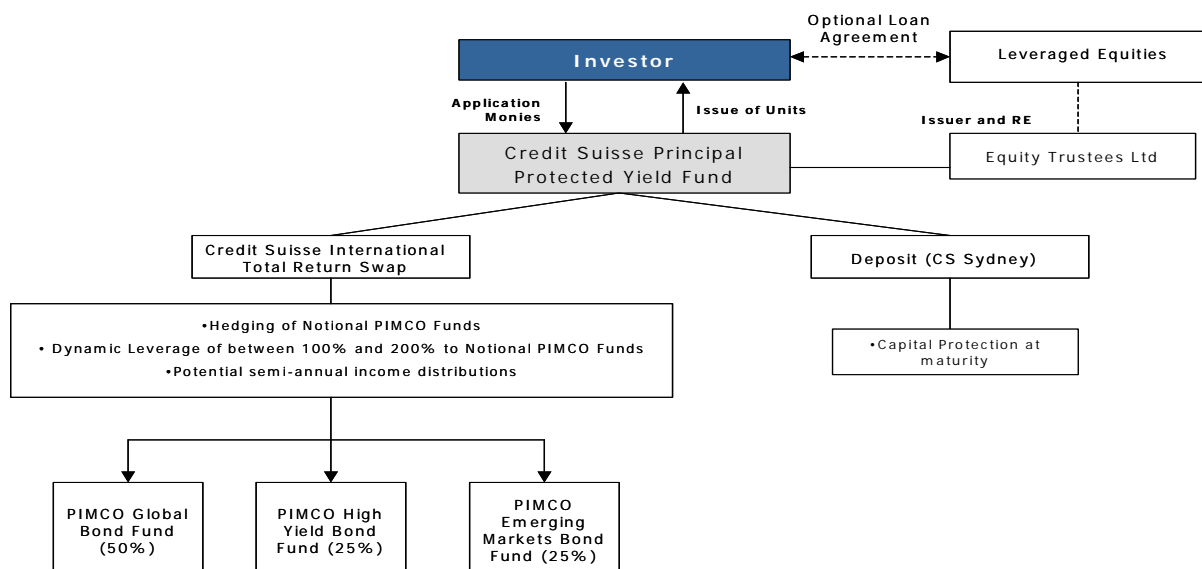
Key Exposure

Underlying Exposure:	PIMCO Global Bond Fund (50%), PIMCO High Yield Bond Fund (25%) and PIMCO Emerging Markets Bond Fund (25%).
Currency Exposure:	AUD

Exit Details

Exit Facility:	Investors should view this product as a medium-term investment, though there is early redemption available on a monthly basis. At maturity, investors receive 100% of any positive performance plus their initial investment.
Liquidity:	Monthly liquidity available.
Holder Early Redemption:	Early redemption invalidates capital protection. An early exit fee (inclusive of GST) of 3 cents per unit applies in year 1, reducing by 1 cents per unit each year after with no penalty in year 4.

For Advisers Only



Product Leverage

Used:	Initial leverage is 50%. Thereafter, leverage varies between 0% and 100%, as determined by the CPPI-like mechanism. Aegis regards this as appropriate on the basis of the historical volatility of the underlying PIMCO Funds. However, Aegis notes the risk of leveraging up in up-markets and leveraging down in down-markets, which may detract value during volatile market conditions.
Cost (incl. Fees):	As fees are charged on the gross asset value and not NAV, any leveraged exposure will be charged at the ongoing fee level. Leverage cost is US Libor + 0.50% and is imbedded within the TRS price.
Recourse:	Leveraged exposure is notional and, therefore, there is no recourse to the investor.

Capital Protection

Method:	Capital protection is provided by CS Sydney under the terms of the deposit. At an underlying level, CSI utilises the CPPI-like mechanism to manage its obligations to investors. 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.
Conditions:	Must be held to maturity. Early withdrawal invalidates capital protection.
Cost:	The principal protection fee is embedded in the price of TRS and cannot be practically determined on a stand-alone basis.
Counterparty Risk:	Yes, as CS Sydney (rated AA- by Standard & Poor's) will be providing the capital protection. The Fund is also exposed to counterparty risk with CSI (rated AA- by Standard & Poor's) under TRS.

Tax

Disclaimer:	Tax consequences depend on individual circumstances. Investors must seek their own taxation advice. The following comments show Aegis' expectation of tax for ordinary Australian taxpayers, but cannot be considered tax advice.
Capital gains:	The Fund does not provide the prospect of a capital gain or loss. Therefore, a capital gains tax (CGT) event will not apply. Investors should note that the fact that returns will be entirely on income account makes the Fund particularly well suited to low marginal tax rate investors.
Distributions:	The Fund will distribute any income it receives from TRS every six months and at maturity, which is subject to income tax.
Interest deductibility:	Interest payment on loan may be mostly tax deductible. It is likely to be 100% deductible.
Foreign Income Fund (FIF):	None

Legal Structure

Wrapper:	Unlisted Unit Trust
Custodian:	JPMorgan Chase Bank, N.A
Offer Document:	The PDS, dated 3 May 2007, has not been lodged with the Australian Securities Investment Commission (ASIC) and is not required by the <i>Corporations Act</i> 2001 to be lodged with ASIC.

Returns

Capital vs. Income:	Income return-based product, with income return (if any) received semi-annually and at maturity. Backtesting indicates a total level of income equal to 11.4% p.a. over the life of the Fund. There are no franking credits associated with income payments. No capital return is provided at maturity.
Income Frequency:	Semi-annual
Foreign Currency Risk:	None

Investor Leverage

Available:	Up to 100%.
Cost (incl. Fees):	Lending rates offered by Leverage Equities Limited range from 8.65% to 9.25% (inclusive of a 0.55% p.a. ongoing commission fee, payable by investors) depending on the interest rate option and amount invested. These rates are considered to be comparable with those of peers, though are on the high side on an underlying risk comparative basis. The backtested income returns provide a comfortable margin over after-tax loan costs beyond the second year of the Fund's term, though they are narrow and may be negative during the first two years. As at the date of this report, Aegis understands the issuer is in discussions with other margin-lending providers.
Recourse:	Full recourse

Risks

	Refer to page 13 of PDS. Key risks specific to this product are as follows:
Limitation on principal protection:	The obligation of CS Sydney under the deposit is to the Fund rather than directly to investors. Unanticipated Fund liabilities may reduce the amount received by investors.
Bond Investment Risk:	Includes interest rate risk, credit/default risk, inflation risk, high yield risk, issuer risk and market risk.
Leverage Risk:	The use of notional leverage amplifies potential losses as well as gains.
Borrowing Risk:	Borrowers are required to make ongoing interest payments regardless of the Fund's performance. Borrowers risk a maximum loss equal to the cumulative interest payments on the loan. Borrowers are also exposed to the risk that CS Sydney fails in its obligation to provide capital protection.

For Advisers Only

3. Management & Corporate Governance

Board of Directors

Aegis has reviewed the composition of the board of Equities Trustees Limited (the RE and product issuer). In our view, the board has adequate skills and experience to supervise the Fund. We note the board includes seven directors, six of whom are independent, including the Chairman. The seven members have significant experience in either the finance industry or relevant roles in publicly listed entities.

A Compliance Plan for the Fund has been lodged with ASIC, which is audited annually by an independent auditor. Adherence to the Compliance Plan is monitored by the RE internally and also through regular questionnaires to service providers. Additional monitoring of service providers is also undertaken at regular intervals.

With regards to corporate governance principles, the RE is an ASX-listed entity and, therefore, must comply with ASX guidelines.

Management Team

The Fund Linked Products (*FLP*) Group of CSI is responsible for the creation and management of the product. The FLP Group consists of 90 individuals (including 30 in front office roles), globally performing product management and marketing, risk management, product structuring and transaction management and operational support functions. Aegis sees the team as having adequate skills and resources for creating structured investment products.

PIMCO is responsible for the management of the three underlying bond funds. The management team has a long track record in active management of fixed income portfolios, with portfolio management team members located in global financial centres. Aegis sees PIMCO as having adequate experience, skills and resources for the management of the three bond funds.

Alignment of Interest

PIMCO's staff remuneration is partly based on company profitability and partly on the performance of the underlying funds, on which the return to investors in the Fund is based. Aegis believes the interests of investors and PIMCO are sufficiently aligned.

While CSI applies no discretion in the management of the Fund, Aegis believes CSI's interest in the success of the Fund is sufficiently aligned with that of investors, as management fees are based on gross assets, which, in turn, are dependent on the performance of the Fund.

Furthermore, CSI intends to undertake a staff offering to invest in the Fund, subject to appropriate compliance approvals.

Risk Management

With respect to the management of the underlying bond funds, PIMCO employs a range of quantitative and qualitative risk management tools or indicators such as monitoring of the portfolio's interest rate duration, spread duration, tracking error, geographic allocation and country betas.

Both PIMCO and CSI are Australian-regulated institutions that must report to ASIC, which requires that PIMCO and CSI maintain a minimum standard of procedures and disclosures. On the basis of the information provided, Aegis understands that the Fund has been reviewed and approved by CSI's internal business units and is comfortable with the risk management and sign-off processes in place.

For Advisers Only

4. Investment Process

Product Philosophy

The Fund's objective is to produce enhanced income returns with the benefit of 100% capital protection at maturity. The ability to generate consistent income is sourced from a portfolio of bonds that is diversified by credit quality; developed and emerging markets; and corporate and government issuers. Enhancement of income is derived from three key factors: allocation to high yield and emerging market bonds; active management of the underlying funds to improve returns within specific risk parameters; and application of leverage. Every six months, 50% of any positive performance will be distributed and the remainder reinvested. This provides a balance between the income needs of investors (to service their loans) and the income growth prospects of the Fund.

PIMCO Funds - Overview and Allocation

PIMCO Global Bond Fund – 50% initial allocation

Diversified exposure to international fixed interest markets, while maintaining a high credit quality (average AA+ at 31 December 2006) for its underlying investments. Active management, with a long-term focus encompassing interest rate management, credit analysis, relative value analysis, sector rotation and security selection.

This strategy has been weighted at 50% to act as a highly diversified, low volatility 'core' holding.

PIMCO High Yield Bond Fund – 25% initial allocation

Primarily invests in a diversified portfolio of fixed interest securities rated at least B by Moody's or Standard & Poor's. The research process involves independent, in-depth credit analysis by an in-house team of credit analysts. This fund has a greater appetite for risk than the PIMCO Global Bond Fund.

This strategy has been weighted at 25% in order to add diversification and potentially enhanced overall returns.

PIMCO Emerging Markets Bond Fund – 25% initial allocation

Exposure to fixed interest in emerging market economies. PIMCO considers the impact of its global outlook on emerging market countries, including prospects for demand from advanced economies, commodity prices and interest rate trends.

This strategy has been weighted at 25% in order to add diversification and potentially enhanced overall returns.

Aegis considers the initial allocation between the three PIMCO Funds as appropriate, providing an underlying portfolio that exhibits low volatility and is well diversified across fixed income markets.

For Advisers Only

5. Performance Analytics

The key outcomes of the performance analytics include the following:

- Average annualised internal rate of return of backtested analysis for the period 1 June 1998 to 28 February 2007 is 11.1% after all fees (including RE fees and any reimbursable fund expenses of approximately 0.338% per annum).
- Average semi-annual income distribution based on the same backtested analysis progressively increases from 2.7% in the first six-month payment to approximately 6.0% towards the end of the Fund's term, with the final at 11.1%. These figures exclude the impact of RE fees and any reimbursable fund expenses.
- The Fund is expected to generate higher returns during periods of falling global interest rates compared to returns during periods of rising interest rates. Investors should note that much of the backtesting contained in this report is based on performance data during a period of favourable interest rate market conditions (that is, predominantly falling or moving sideways).
- The three underlying PIMCO Funds displayed moderate degree of correlation over the historical period. Of the three funds, the PIMCO Emerging Markets Bond Fund performed the strongest over this period.

Historical Backtesting of the Fund

CSI has conducted backtested performance analysis of the Fund for the period 1 June 1998 to 28 February 2007. This model is based on the following information:

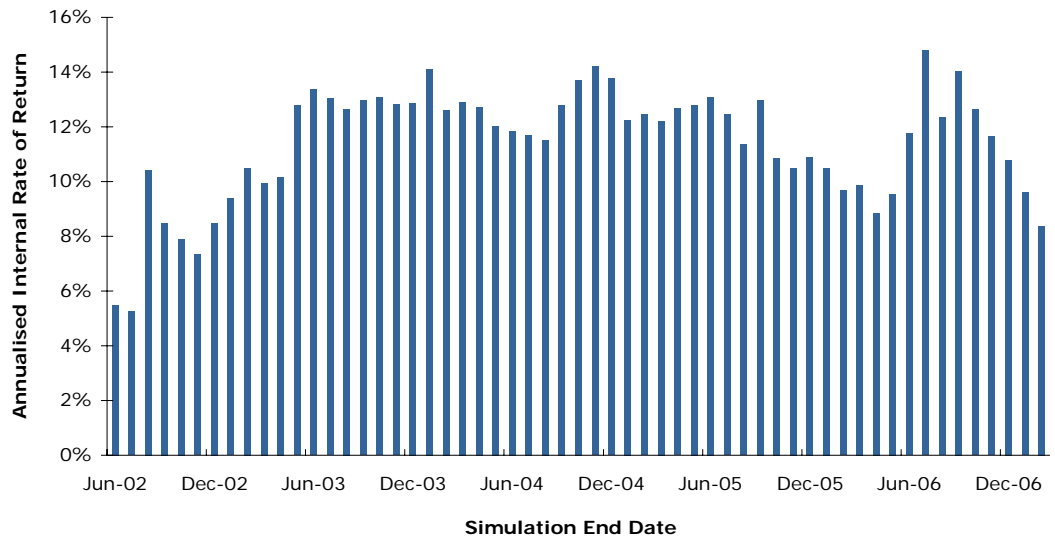
- Actual historical performance data of the underlying PIMCO Funds. However, as the share class for the Dublin-domiciled PIMCO Emerging Markets Bond Fund (one of the underlying funds) has only been in existence since 17 October 2002, actual returns for the equivalent US-domiciled PIMCO Emerging Markets Bond Fund have been used prior to this date. This fund is managed by the same investment team, using the same investment process;
- Application of the non-discretionary formula contained in TRS; and
- Deduction of swap fees and cost of leverage. However, the analysis does not include RE fees and reimbursable fund expenses (estimated at 0.338% per annum).

Aegis understands the process and methodology used by CSI in developing the model, but has not verified the data or any underlying assumptions. Investors should read this analysis with caution. The purpose of this analysis is to give investors an idea of the characteristics of risk and return of the Fund based on backtested model parameters and it is not indicative of the Fund's future performance.

Figure 1 illustrates the output of the backtested model and shows the series of hypothetical TRS scenarios generated. Each hypothetical swap scenario has a period of four years, consistent with the Fund's term. For example, the first bar represents the performance of the Fund for the period 1 June 1998 to 1 June 2002.

For Advisers Only

Figure 1. Backtested Returns (from 1 June 1998 to 28 February 2007)



Source: CSI/Aegis Equities Research

A summary of the key output parameters is presented in Figure 2.

Figure 2. Summary of Backtested Performance Results (1 June 1998 to 28 February 2007)

Performance Measure	Result, %	
Average Internal Rate of Return (after TRS fees), p.a.	11.4	
Min. Internal Rate of Return (after TRS fees), p.a.	5.3	
Max. Internal Rate of Return (after TRS fees), p.a.	14.8	
Average income distribution at:	Semi-annual Income Distributions	Equivalent Annual Income Distributions
6 months	2.7	
1 year	3.9	6.6
1.5 years	4.7	
2 years	5.6	10.3
2.5 years	6.1	
3 years	6.2	12.3
3.5 years	6.0	
4 years	11.1	17.1

Source: CSI/Aegis Equities Research

Inclusion of RE fees and fund expenses of approximately 0.338% per annum reduces the average internal rate of return (in Figure 2) to 11.1% per annum. The results in Figure 2 illustrate the progressive increase in income during the term of the Fund, partly driven by the income distribution formula where 50% of positive performance at each distribution date is reinvested, providing income growth opportunities. The final payment is approximately twice the previous income distribution at three and a half years, as the entire income is paid out to investors rather than 50% reinvested.

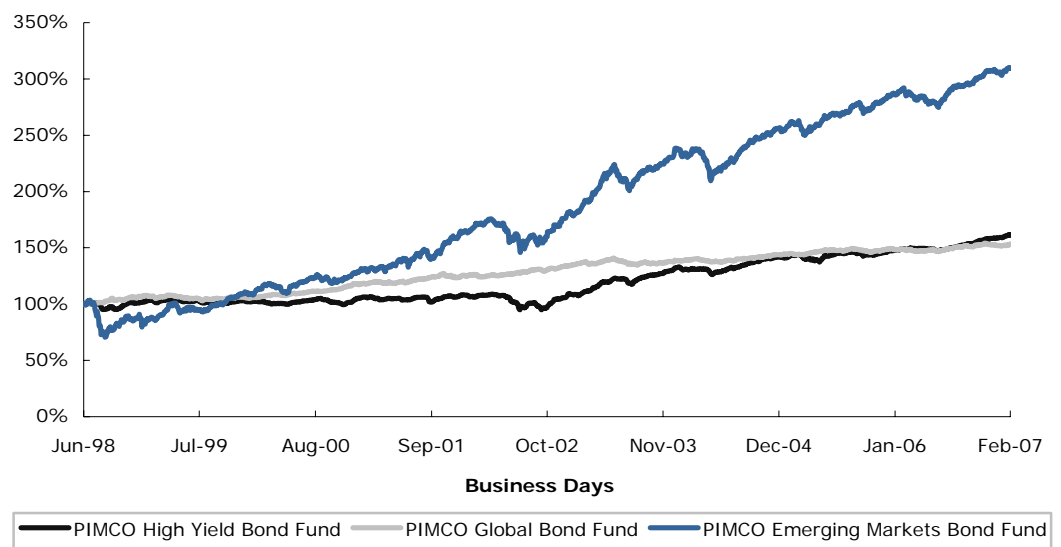
For Advisers Only

The backtesting was extended further back to 31 December 1993 using a combination of index data and proxy funds to assess performance over a longer period and to capture different interest rate cycles. At a broad level, based on this analysis, the Fund performed better during periods of falling interest rates compared to periods of rising interest rates. Furthermore, during periods of higher interest rates variability, the variability of the backtested results increased.

Historical Performance of PIMCO Funds

The figure below shows the historical performance of the three underlying PIMCO Funds since 1 July 1998. This includes performance of the US-domiciled PIMCO Emerging Markets Bond Fund prior to 17 October 2002 when performance for the underlying Dublin-domiciled PIMCO Emerging Markets Bond Fund is not available.

Figure 3. Historical Performance of the Underlying PIMCO Funds



Source: CSI/Aegis Equities Research

Over the measured period, the PIMCO Emerging Markets Bond Fund was the strongest performer of the three underlying funds. The PIMCO Global Bond Fund and the PIMCO High Yield Bond Fund performed broadly in line, though the latter performed at high volatility levels.

Aegis notes that all three funds have consistently outperformed their respective benchmarks over rolling three-year periods. Furthermore, Aegis views each fund as having performed in a manner true to style with respect to both return and risk.

The benchmarks the funds are measured against are the Lehman Aggregate Global Bond Fund hedged to USD, the JP Morgan Emerging Market Bond Index – Global and the Merrill Lynch BB - B Rated Constrained Index for the PIMCO Global Bond Fund, the PIMCO Emerging Markets Bond Fund and the PIMCO High Yield Bond Fund, respectively. Aegis considers these benchmarks as appropriate, reflecting the underlying exposure and risk-return characteristics of each fund.

The historical correlations over this period between the three PIMCO Funds range between 0.2 and 0.4. Aegis considers this as moderate.

For Advisers Only

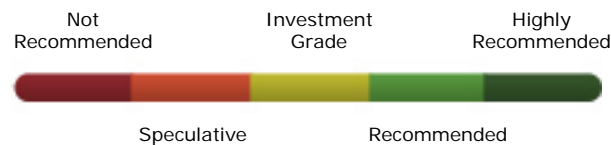
Appendix – Ratings Process

Aegis has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors.

Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

The Ratings

Our rating is based on the following scale:



Highly Recommended: indicates that Aegis believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and scored exceptionally in a number of categories. It has an attractive risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors.

Recommended: indicates that Aegis believes this is an above average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above average risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors.

Investment Grade: indicates that Aegis believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation parameters. The product may provide unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off; however, we caution that the risk/return trade-off will not be suitable for all investors. In the previous five category rating system, this category was termed 'Approved'.

Speculative: indicates that Aegis believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Aegis does not rule out investing in this product, investors should be very aware of, and be comfortable with, the specific risks. The product may provide unique diversification opportunities; however, concerns over one or more features means that it may not be suitable for most investors.

Not Recommended: indicates that Aegis believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. However, this does not mean that the product is without merit.

This report has been commissioned, and, as such, Aegis has received a fee for its publication. However, under no circumstances has Aegis been influenced, either directly or indirectly, in making statements and/or recommendations contained in this report.

The Product Disclosure Statement (PDS) was lodged on 3 May 2007 with the Australian Securities and Investments Commission (ASIC). The offer of the securities is made in the PDS, and anyone wishing to acquire the securities should complete the application form in the PDS.

For Advisers Only

This page has been intentionally left blank.

For Advisers Only

This page has been intentionally left blank.

For Advisers Only

Aegis Equities Research

Peter Leodaritsis
Managing Director
Phone: 61 2 8296 1100
peter.leodaritsis@aer.com.au

Mamun Rashid
Chief Operating Officer
Phone: 61 2 8296 1160
mamun.rashid@aer.com.au

Judith Trembath
General Counsel and
Company Secretary
Phone: 61 2 8296 1155
judith.trembath@aer.com.au

John Kessell
Group Executive
Investment Research
Phone: 61 2 8296 1152
john.kessell@aer.com.au

Glenn Mumford
Group Executive
Head of Sales
Phone: 61 2 8296 1103
glenn.mumford@aer.com.au

Pamella McIntosh
Group Executive
Head of Operations
Phone: 61 2 8296 1124
pamella.mcintosh@aer.com.au

David Heather
Group Executive
Head of Distribution
Phone: 61 2 8296 1108
david.heather@aer.com.au

Peter Rae
Head of Model Portfolios
Phone: 61 2 8296 1151
peter.rae@aer.com.au

RESEARCH

RESOURCES

Nicholas Raffan
Phone: 61 2 8296 1167
nicholas.raffan@aer.com.au

Gaius King
Phone: 61 2 8296 1139
gaius.king@aer.com.au

Tony Stepcich
Phone: 61 2 8296 1138
tony.stepcich@aer.com.au

INDUSTRIALS

Ben Brownette
Phone: 61 2 8296 1126
ben.brownette@aer.com.au

Alan Stuart
Phone: 61 2 8296 1107
alan.stuart@aer.com.au

FINANCIALS

Peter Rae
Phone: 61 2 8296 1151
peter.rae@aer.com.au

Ravi Reddy
Phone: 61 2 8296 1165
ravi.reddy@aer.com.au

David Ellis
Phone: 61 2 8296 1115
david.ellis@aer.com.au

PROPERTY TRUSTS

David Parker
Phone: 61 2 8296 1182
david.parker@aer.com.au

Glenn Fischer
Phone: 61 2 8296 1150
glenn.fischer@aer.com.au

Peter Ruskowski
Phone: 61 2 8296 1153
peter.ruskowski@aer.com.au

Nick Tsia
Phone: 61 2 8296 1157
nick.tsia@aer.com.au

HEALTHCARE

John Kessell
Phone: 61 2 8296 1152
john.kessell@aer.com.au

Dane Roberts
Phone: 61 2 8296 1170
dane.roberts@aer.com.au

STRUCTURED PRODUCTS

Rodney Lay
Phone: 61 2 8296 1106
rodney.lay@aer.com.au

Claire Aitchison
Phone: 61 2 8296 1163
claire.aitchison@aer.com.au

Sam Haddad
Phone: 61 2 8296 1123
sam.haddad@aer.com.au

Ben Brownette
Phone: 61 2 8296 1126
ben.brownette@aer.com.au

TELECOMMUNICATIONS, MEDIA & TECHNOLOGY

Radek Zeleny
Phone: 61 2 8296 1168
radek.zeleny@aer.com.au

Alan Stuart
Phone: 61 2 8296 1107
alan.stuart@aer.com.au

Ben Holgate
Phone: 61 2 8296 1133
ben.holgate@aer.com.au

EMERGING COMPANIES

Sam Haddad
Phone: 61 2 8296 1123
sam.haddad@aer.com.au

Dane Roberts
Phone: 61 2 8296 1170
dane.roberts@aer.com.au

DATA SERVICES

Radek Zeleny
Phone: 61 2 8296 1168
radek.zeleny@aer.com.au

Clara Hartono
Phone: 61 2 8296 1130
clara.hartono@aer.com.au

INFORMATION TECHNOLOGY

Evan Ferris
Phone: 61 2 8296 1116
evan.ferris@aer.com.au

Grant Drury-Green
Phone: 61 2 8296 1155
grant.drury-green@aer.com.au

Andrew Halliday
Phone: 61 2 8296 1122
andrew.halliday@aer.com.au

Andrew Duffy
Phone: 61 2 8296 1154
andrew.duffy@aer.com.au

Simon Truong
Phone: 61 2 8296 1132
simon.truong@aer.com.au

Johnny Lee
Phone: 61 2 8296 1135
johnny.lee@aer.com.au

Vijay Seevaratnam
Phone: 61 2 8296 1121
vijay.seevaratnam@aer.com.au

RESEARCH PRODUCTION

Sharon Loaiza
Phone: 61 2 8296 1131
sharon.loaiza@aer.com.au

Aireen Silva
Phone: 61 2 8296 1136
aireen.silva@aer.com.au

Renata Meleo
Phone: 61 2 8296 1129
renata.meleo@aer.com.au

Deepika Jindal
Phone: 61 2 8296 1158
deepika.jindal@aer.com.au

SALES

Craig Northey
Business Development Manager
Phone: 61 2 8296 1114
craig.northey@aer.com.au

Nigel O'Brien
Business Development Manager
Phone: 61 2 8296 1166
nigel.o'brien@aer.com.au

Ray Udabage
Business Development
Manager
Phone: 61 2 8296 1118
ray.udabage@aer.com.au

Joyce Sivris
Business Development Manager
Phone: 61 2 8296 1125
joyce.sivris@aer.com.au

Craig Sawyer
Business Development Manager
Phone: 61 2 8296 1102
craig.sawyer@aer.com.au

Connie Sammut
General Enquiries
Phone: 61 2 8296 1100
connie.sammut@aer.com.au

Carolyn Lynch
Finance
Phone: 61 2 8296 1113
carolyn.lynch@aer.com.au



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