Product Review

LONSEC

Credit Suisse Principal Protected Yield Fund

Highly Recommended

Important Dates

Open / Close Date	4 May 2007 / 29 June 2007
Issue Date	11 July 2007
Maturity Date	11 July 2011 / 4 years

Key Information

Investment Type	Units issued by a closed ended, unlisted, registered managed investment scheme (or Australian unit trust) called the Credit Suisse Principal Protected Yield Fund
Responsible Entity	Equity Trustees Limited
Manager of Underlying Funds	PIMCO LLC (PIMCO)
Underlying Funds	3 PIMCO Bond Funds – PIMCO GIS Global Bond Fund, PIMCO GIS High Yield Bond Fund, PIMCO GIS Emerging Markets Bond Fund
Swap Counterparty	Credit Suisse International (CSi)
Loan Provider	Third party financing is available
Product Leverage	Initial exposure to the underlying funds of 150%, with a maximum of 200% and minimum of 100%.
Capital Protection	100% capital protection at maturity
Income Distributions	Potential semi-annual income distributions: 50% of the cumulative positive performance since inception will be paid out every 6 months, with payment of 100% of remaining positive performance at maturity.
Minimum	AUD 20,000
Liquidity	Monthly withdrawals available subject to an early withdrawal fee
Taxation	See Taxation on page 6

Fees & Commissions

Responsible Entity Fees:	0.338% pa on the gross asset value (amount including internal leverage)
Swap Fee:	1.1% pa to 1.7% pa to be fixed on the issue date. Currently estimated to be 1.40%pa.
Leverage Fee:	USD 1 month Libor + 0.50% pa on the amount of borrowing
Adviser Fee:	Up to 1.5% on the investment amount and trail of up to 0.5% pa. Credit Suisse pay these fees out of its own funds.
Underlying Fund Fees:	1.3% pa of the gross asset value of the Global and High Yield Bond Funds and 1.45% pa of the gross asset value of the Emerging Markets Bond Fund
Early Withdrawal Fees:	Up to 3% of the initial investment amount based on the time of withdrawal

What this Rating Means

- The Highly Recommended rating indicates that Lonsec has high conviction in the manager's capabilities within these strategies. Lonsec does not have any issues or concerns with the manager's expected ability to outperform peers on a risk-adjusted basis and achieve its performance targets over a full economic cycle

Lonsec Opinion of this Product

- Credit Suisse International (CSi) has partnered with PIMCO to offer investors the Credit Suisse Principal Protected Yield Fund (PPYF). Each of the 3 underlying funds and their weightings in the product has been selected to provide investors with attractive income returns from a diversified range of bond markets. Leverage is obtained via a total return swap and is aimed at enhancing these potential returns. The structure effectively converts all positive returns from PPYF into income for investors. Lonsec believes CSi to be highly experienced in structuring investment products with investors' interests in mind

- Lonsec has a very high regard for the resources, investment process and calibre of the PIMCO investment team. PIMCO is the largest global fixed interest team assessed by Lonsec with 320 investment professionals spread over several financial centres, with most based at Newport Beach, California in the US. The size of PIMCO's global footprint allows for a high degree of specialisation with teams dedicated to specific segments of the market. The credit assessment process is comprehensive, with a specialist team of credit analysts undertaking quantitative and qualitative research of debt issuers. Portfolio managers combine credit research and top down themes to derive the final portfolios that make up the 3 underlying funds

- PIMCO has stated a commitment to growing their retail presence in Australia and are seeking to achieve this via alliances. The PPYF combines the complementary strengths of PIMCO and CSi

- The structure created by CSi is innovative and well suited to the underlying funds. At no time can an investor be less than 100% exposed to the underlying funds, a feature providing a significant advantage over other structured products in the market. This is provided at a cost to investors and is reflected in higher underlying fund fees than would ordinarily be charged on those funds in stand-alone form

- Fees are transparent and broadly consistent with other structured products offering capital protected exposure to actively managed funds. The leverage fee, although effectively "in-house" appears competitively priced. The underlying fund fees are higher than those charged for the funds in stand-alone form.

➢ Lonsec has assigned its highest rating of Highly Recommended to PPYF, reflecting the level of confidence we have in the investment manager, underlying fund manager and structure which has been put in place

Using this Product

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

➢ Lonsec generally views bond funds as suitable for defensive, conservative and balanced risk profile investors. However, given the product contains a combined 50% exposure (unlevered) to emerging markets and high yield bonds as well as the in-built leverage, albeit within a risk controlled environment, the product is suited to those conservative and balanced investors comfortable with greater volatility than traditional bond funds.

Investor Suitability

- Investors seeking an enhanced income return and comfortable with a higher volatility of returns with the benefit of principal protection at maturity
- Investors using an investment loan should be comfortable with the risks associated with borrowing to invest
- Investors seeking the diversity provided by emerging markets and high yield bond funds
- The investment is suitable for individuals, trusts and SMSFs with the risk profiles described above

Relevant Parties

The Responsible Entity is Equity Trustees Limited, which has been investing on behalf of clients since 1888. Equity Trustees Limited's responsibilities and obligations are governed by PPYF's constitution, the Corporations Act and general trust law.

The swap counterparty, providing the structure, is Credit Suisse International (CSi), part of the Credit Suisse group. The Credit Suisse Group was founded in 1856 and is active in investment banking, asset management and private banking. The Credit Suisse Fund Linked Product Group is a global structuring and trading group mandated to provide structured products linked to portfolios of hedge funds and mutual funds. The group has structured over USD 26 billion of fund linked products since 1998. Lonsec considers the Fund Linked Group's capabilities very highly in terms of structuring investment products of this type.

Credit Suisse Sydney Branch (CS Sydney) holds the investment funds under a deposit agreement forming the basis of the capital protection.

Investment Adviser

People & Resources

Size and Experience

One of the most impressive features of PIMCO's operation is the size and calibre of its investment team. PIMCO has the largest team in the universe reviewed by Lonsec, with 320 investment professionals located throughout PIMCO's multiple offices managing USD 668 billion as at December 2006. This includes a considerable team dedicated to credit analysis, quantitative research and portfolio management.

In Australia, PIMCO has 15 staff, including four portfolio managers dedicated to managing fixed interest portfolios for Australian and Asian (ex-Japanese) clients. The Portfolio Manager for Australian investors is Rob Mead, who has 17 years of investment experience and is supported by Julian Foxhall who has 15 years of investment experience.

Team Structure

PIMCO's organisational structure is logical with dedicated specialist teams that focus on each specific segment of the market. This enhances the clarity in the organisational structure and provides accountability for investment decisions throughout the process. This structure also ensures staff are motivated and assessed as 'smaller teams' with specific objectives, within the larger structure.

PIMCO has offices located in Newport Beach California USA (Head Office), New York, Hong Kong, London, Munich, Singapore, Sydney, Tokyo and Toronto, although most investment staff are based in the USA. In contrast with other global fixed interest managers reviewed by Lonsec, a number of portfolio managers are located in regional offices along client relationship lines, rather than being centrally based at head office.

Lonsec views the Australian portfolio manager location positively for a number of reasons. Firstly, it confirms the manager's commitment to servicing Australian clients directly. Secondly, it ensures that an Australian-based portfolio manager is fully accountable for Australian investors, while being supported by a global fixed interest network. Lonsec would qualify this assessment by pointing out that the success of this arrangement relies heavily on the effectiveness of communications between different members of the investment team, given the separate locations of team members. Lonsec's observation is that PIMCO's process and internal systems provide an appropriate framework for Australian-based team members to gain insights to 'global themes' and maintain a high level of interaction with other offices.

The investment team is broadly segmented into sector specialists and generalist portfolio managers. There are five specialist sector teams, consisting of four major credit sectors (government, mortgages, investment grade credit and high yield/emerging markets) as well as group risk management. This ensures a clear line of separation between fundamental research of credit issuers, and the management of portfolios for clients. The Investment Committee, which consists of 7 senior investment professionals, supported by a Shadow Investment Committee of 11 investment professionals, decides the key strategies in the Funds.

The large size of the global team helps reduce the manager's key person risk, given the deep pool of available talent across various countries. In addition, PIMCO actively rotates staff between offices, which helps ensure the mobility of skill sets globally if required.

Remuneration / Alignment of Interests

Lonsec considers PIMCO's alignment of interests as moderate, and in line with peers. Staff remuneration is partly based on company profitability as well as performance of the underlying funds, which Lonsec views positively.

Investment Style

PIMCO is an active fixed interest manager, seeking to add value through duration strategies, yield curve positioning, credit selection, country and industry sector allocation. The manager believes excess returns can be achieved in the fixed interest sector due to the inefficiencies that exist in the pricing of assets. PIMCO uses the same investment style in managing the 3 underlying Funds.

PIMCO's investment style can best be described as a 'risk controlled approach that seeks outperformance from a variety of uncorrelated sources'. The manager adopts a 'risk budget' methodology in portfolio management - allocating a predetermined amount of risk across different investment strategies. Each position, whether it be duration, yield curve, country or credit selection, contributes an amount of risk that adds to the total budget. By diversifying the sources of value added, PIMCO aims to achieve consistent excess returns over time, rather than experiencing brief periods of significant outperformance from say, a large interest rate bet.

PIMCO's sole business is investing in fixed interest securities. Lonsec feels this is a major differentiating factor, particularly from an Australian investor's perspective. Without any other asset sectors to manage, PIMCO directs all of its capital and resources to managing and developing its fixed interest capabilities. On the flipside, this also means that PIMCO does not have its own team of equity analysts which are often drawn upon in other fund manager organisations by the fixed interest team for additional research insights from an 'equity perspective'. Thus PIMCO's credit analysts are responsible for forming judgments on any 'credit signals' from the equity market.

PIMCO manages a wide range of fixed interest portfolios with different risk and return profiles. In Australia, PIMCO offers a range of global fixed interest portfolios including 'traditional' global bonds, global high yield (including emerging markets) and global real (inflation-linked) securities. Lonsec believes that by managing a wide range of fixed interest portfolios, PIMCO is well positioned to develop its expertise across the fixed interest risk spectrum.

Investment Process

There are both top-down and bottom-up themes in the PIMCO investment process. Duration decisions and country/sector allocation is based largely on top-down macroeconomic assessments while security selection is determined by bottom-up credit assessment of bond issuers.

Lonsec believes PIMCO has a logical and disciplined framework to establish 'big picture' views – the top down decisions set the scene for portfolio construction. Each year, a one-week 'Secular Forum' is attended by all investment staff to establish the long-term (three to five year) house view of key economic variables such as interest rates. The Secular Forum also sets the parameters for overall risk in the portfolio, in a duration sense.

Furthermore, each quarter a Cyclical Forum is held to establish a short-term (one year) view for interest rate markets. A forward looking view for different sectors, based partly on historical spread relationships, is determined at the Cyclical Forum. Between forums, specific staff are appointed with the responsibility of monitoring developments in the market and economy to ensure that the house view remains relevant and up-to-date.

With both the secular and cyclical framework established, the Investment Committee establishes a model global portfolio. Lonsec considers the Investment Committee to be a crucial part of the process, as the economic themes identified at the forums are translated into specific strategies covering duration, country allocation, currency, sector allocation and credit quality.

Rather than being based purely on top-down analysis, the Investment Committee also considers the input of major specialist teams, who are in turn, responsible and best equipped to provide analysis and stock selection in their respective sectors. Portfolio managers meet with sector teams prior to the Investment Committee meeting, allowing sector specific issues to be brought to the table as the model portfolio is constructed.

Country allocation and yield curve strategies are set out in the global model portfolio, with the former being determined by ranking the risk-adjusted yield for each bond market as assessed by the manager. This requires PIMCO to make subjective judgements on key macroeconomic variables to quantify country risk factors and the inflation rate.

The decisions made by the Investment Committee are based mainly on internal PIMCO research - approximately 80% of research is generated in-house. This includes economic, credit, industry and quantitative analysis, and explains PIMCO's relatively large team of research analysts. The research capabilities of PIMCO are supported by the use of over 30 modelling tools, many of these developed in-house. The modelling tools are particularly useful in risk analysis, pricing and the 'stripping down' of securities in to their separate components for more accurate pricing and risk assessment.

Lonsec believes PIMCO has particular strengths in credit assessment. The credit team is relatively large, with a clear separation in duties between credit analysis and portfolio management. This enhances the independence of the credit assessment process and ensures analysts are not distracted by the day-to-day responsibilities of managing portfolios. Both quantitative and qualitative research is undertaken in order to avoid 'bad credits' and identify those issuers with improving credit profiles and most likely to be upgraded by major ratings agencies. Credit analysts are required to assess each issuer's balance sheet to determine their cash flow and any change in 'net debt'. Peer review of issuers with other 'like' issuers is another feature of the process, in order to provide a comparative industry credit rating. All bond issues in the portfolio are rated and assessed according to a consistent set of financial ratios.

The credit assessment process includes forward-looking assessments on industry growth, company strategy and quality of management. Given the negative credit events over the last few years, Lonsec considers it a positive that the industry is applying greater scrutiny of management integrity and corporate governance. Lonsec draws comfort that PIMCO is increasing its focus in this regard.

Each PIMCO portfolio is assigned a Generalist Portfolio Manager, who is accountable for ensuring that each client portfolio reflects the model portfolio as defined by the Investment Committee, within specified client guidelines. This ensures that the investment strategies are adopted universally, irrespective of the location of the Generalist Portfolio Manager.

Risk Management

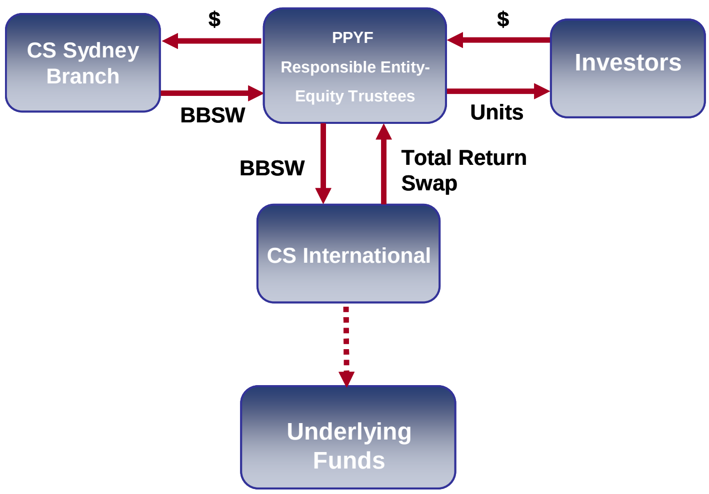
PIMCO applies hard limits on portfolio construction to ensure diversification of holdings and avoid excessive concentrations of risk. For example the maximum weighting to any one issuer in the Global Bond Fund (excluding government and agencies) or industry is 5%, while the minimum credit rating for any issuer in the portfolio is B-.

PIMCO's Australian office has a dedicated Trade Compliance team member (who has a global reporting line), which Lonsec views favourably. The position is responsible for independent monitoring of post-trade compliance. PIMCO's in-house systems, some of which were developed by portfolio managers in the organisation, allows automated pre-trade compliance, 'what if' testing, real time valuations of portfolio positions, and other risk management applications.

How Does the Product Work?

Investors apply for units in the Credit Suisse Principal Protected Yield Fund (PPYF), an Australian registered unit trust. The Responsible Entity of PPYF deposits the funds raised with CS Sydney and enters into a total return swap with CSi to provide exposure to the underlying funds. Under the swap the Responsible Entity pays the interest received on the deposit to CSi in return for a leveraged exposure to the underlying funds. The return to PPYF investors is determined by the unit prices of the underlying funds and the amount and cost of leverage (adjusted for fees). Under the terms of the deposit, CS Sydney must pay 100% of the deposit back to PPYF at maturity. This is the basis of the capital protection at maturity.

This can be depicted as:



PPYF has an initial exposure to the underlying funds of 150%. That is for every $100 invested, CSi effectively borrows another $50, providing total exposure of $150. The amount of leverage is adjusted up or down on a daily basis by a non-discretionary formula under the terms of the swap and is driven by the performance of the underlying funds. Leverage has the effect of magnifying both gains and losses. The maximum exposure to the underlying funds will be 200% and the minimum will be 100% (no leverage). This means, unlike many structured products, investors have the benefit of always being at least 100% exposed to the performance of the underlying funds. The volatilities of the underlying funds are such that CSi is able to provide this feature to investors for a fee. This fee is taken via swap fee. Lonsec sees this feature as a significant advantage over more conventional leverage mechanisms as the flat bond floor feature means that the value of the underlying funds has to fall before there is a deleverage (except following the payment of a semi-annual distribution). Traditional zero coupon bonds and CPPI mechanisms deleverage when the underlying funds do not rise faster than the rising bond floor.

Income distributions of 50% of any net cumulative positive movement in PPYF's Portfolio, measured from the issue date, are paid to investors on a semi-annual basis. For example, if PPYF's Portfolio had increased by net 6% over the first 6 months (from $100 to $106), then an income distribution of $3 would be made and PPYF's Portfolio would have a value of $103 at the start of the next distribution period. At maturity, the full amount of any remaining positive performance since inception would be paid to investors, along with 100% of principal.

Underlying Funds

Fund Name	Weight	Role	Estimated Yield	Average Maturity	Ave Credit Rating
PIMCO GIS Global Bond Fund	50%	Core Holding	4.86%	8.03 years	AA+
PIMCO GIS High Yield Bond Fund	25%	Return Lever	6.53%	11.57 years	BBB
PIMCO GIS Emerging Markets Bond Fund	25%	Return Lever	7.38%	6.52 years	BA+

The Global Bond Fund has a diversified exposure to international fixed interest markets and is designed to act as a low volatility, core holding within PPYF. The Fund has a 50% weighting.

The High Yield Bond Fund seeks greater long term performance than the Global Bond Fund by investing in a diversified range of international fixed interest securities rated at least B by Moody's and Standard & Poor's (securities rated less than BBB- are sub investment grade).

The Emerging Markets Bond Fund seeks higher returns than the Global Bond Fund by investing in a diversified range of emerging market economies.

The High Yield Bond Fund and Emerging Markets Bond Fund have a combined weighting of 50% (25% each) and have been selected to add diversification and potentially enhance the returns of PPYF.

CSi has modelled simulations using historical performance data of the underlying funds and the non-discretionary formulae of the total return swap. A series of 4 year hypothetical PPYF returns were generated over June 1998 to February 2007 (a total of 57 simulations). Details of the simulations follows:

Simulation Returns Summary*	
Average annualised return:	11.4%
Maximum:	14.8%
Minimum:	5.3%
Average Volatility:	9.2%
Average Distributions -	
6 months	2.7%
12 months	3.9%
1.5 years	4.8%
2 years	5.6%
2.5 years	6.1%
3 years	6.2%
3.5 years	6.0%
4 year Pay-off	11.1%

The minimum return of 5.3% pa is notable as it illustrates the effects of a significant fall in the underlying funds early in the investment term. In this case the Emerging Markets Bond Fund suffered a fall of approximately 27% in the first month of the simulation while the High Yield Bond Fund suffered a fall of approximately 7%.

* These results are net of all fees except the responsible entity fees of approximately 0.338% pa. Investors should note past performance should not be taken as a guide to future performance.

Financing the Investment

Credit Suisse do not provide direct financing but have arranged with Leveraged Equities to lend against the security of PPYF. Credit Suisse is also arranging similar financing with other third parties.

Exit Mechanism

PPYF will not be listed on the Australian Stock Exchange or any other exchange. Due to the nature of the underlying funds, investors should have the intention of holding an investment in PPYF to maturity. However, redemption requests for at least $5,000 can be made at any time. Withdrawals are generally effected at the end of each month and proceeds will usually be paid within 12 business days of the withdrawal date.

The benefit of capital protection is lost in the event of early withdrawal.

Risks

An investment in PPYF carries a number of standard investment risks associated with international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in Section 4 of the PDS and should be read in full and understood by investors. Lonsec considers the major risks to be:

Underlying Fund risk

There is no guarantee regarding the performance of the underlying funds managed by PIMCO. Movements in interest rates, inflation and defaults of bond issuers, amongst other factors, can influence the performance of the underlying funds. It is possible that the 150% initial exposure to the underlying funds falls due to poor performance of the underlying funds. However, exposure to the underlying funds cannot fall below 100% under the leverage mechanism provided by Credit Suisse.

Leverage risk

Leveraged exposure to the underlying funds of up to 200% is achieved via the leverage mechanism provided by Credit Suisse and means gains and loses are magnified. Also the cost of leverage will rise with any increase in USD Libor and could potentially be above the return of the underlying funds. In this scenario, despite positive underlying fund performance, the value of the investment could decrease.

Counterparty risk

Investors are exposed to the creditworthiness of CSi and CS Sydney, as PPYF returns are dependent on these organisations performing their obligations under the total return swap and deposit agreement. These obligations rank equally with other unsecured debt liabilities of CSi and CS Sydney. CSi and CS Sydney both have long term credit ratings of AA- (stable outlook) by Standard & Poors.

Tax risk

Changes in government taxation policy may adversely affect the tax implications of an investment in PPYF. The total return swap may also be terminated for a number of reasons relating to changes in taxation law. General taxation advice is contained in Section 8 of the PDS.

Taxation

Any distributions received during the investment term will generally be taxable at an investor's marginal tax rate.

At maturity any amounts received in excess of the cost base of an investment should be included in an investor's assessable income.

Investors should generally be able to claim a tax deduction for interest incurred on any loan used to fund the acquisition of units in PPYF, provided the interest was incurred for the purposes of deriving assessable income.

These comments constitute 'General Advice' only and Lonsec advises potential investors to consult a taxation specialist before making a decision to invest based upon these taxation considerations. Investors should refer to Section 8 of the PDS for more information regarding the taxation of shareholders.

Fees

Responsible Entity Fees: 0.338% pa on the gross asset value (amount including leverage). Comprises a responsible Entity Fee of 0.082% pa and reimbursable expenses of 0.256% (based on funds raised of $100 million)

Swap Fee: 1.1% pa to 1.7% pa to be fixed on the issue date. Expected to be 1.40% pa.

Cost of Leverage: USD 1 month Libor + 0.50% pa on the amount of borrowing

Adviser Fee: Up to 1.5% on the investment amount and trail of up to 0.5% pa. Credit Suisse pay these fees out of its own funds.

Underlying Fund Fees:

Global Bond Fund - 1.3% pa of the gross asset value.

High Yield Bond Funds – 1.3% of the gross asset value.

Emerging Markets Bond Fund - 1.45% of the gross asset value.

Early Withdrawal Fee: 3% of the initial investment amount in year 1, 2% in year 2, 1 % in year 3 and nil in year 4.

Further information and daily PPYF pricing can be found at: www.credit-suisse/structuredretailproducts

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Date Prepared: May 2007
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