

AUSTRALIAN

RESEARCH

MANAGED INVESTMENTS ANALYSIS

Emerging Markets +

February 2008

Principal-protected warrants providing leveraged exposure to emerging markets and uncorrelated income stream

Contents

1. Product Summary	3
2. Structure	5
3. Investment Process	7
4. Performance Analytics	9
Appendix – Ratings Process	14

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 are 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.aegis.com.au/disclaimer.asp>.

For Advisers Only

Australian Managed Investments Structured Products

Emerging Markets +

Principal-protected warrants providing leveraged exposure to emerging markets and uncorrelated income stream

Offer Overview

Product Summary

Emerging Markets + (*EM+* or the *Product*) is being issued by JPMorgan Investments Australia Limited (*JPMIAL* or the *Issuer*). The product aims to provide capital growth through long-only exposure to publicly traded securities in Emerging Markets and enhanced income return derived from uncorrelated and unrelated long/short trading strategies. Return of the Product is derived from two non-correlated components: (1) The New York Stock Exchange (NYSE)-listed iShares MSCI Emerging Markets Index Fund (*EEM US*) forms the *Growth Component* and provides capital growth at maturity; and (2) The *Income Component* comprises two equally weighted absolute return indices, JPMorgan Yield Alpha 8 USD Index (*Yield Alpha 8*) and JPMorgan Efficiente Index USD (*Efficiente*), and aims to provide income return of 8% per annum. Participation in both components ranges from 20% to 200%, and will be separately managed according to the *Dynamic Portfolio Rules*, derived from Constant Proportion Portfolio Insurance (*CPPI*) mechanism. Investors have three funding options: (1) a fully funded version; (2) taking a 100% investment loan; or (3) an instalment structure (*Geared EM+*) tailored to suit Self Managed Super Funds (*SMSF*). *EM+* is capital-protected at expiry (five years) and has monthly liquidity. The delivery security at maturity will be ASX-listed iShares MSCI Emerging Markets Index Fund (*IEM AU*) and the default settlement option is cash.

Investment View

Investor Suitability

EM+ is a strong and distinct market play and will suit investors with a medium-term bullish view on equities markets in emerging economies. The inclusion of non-correlated absolute return income component is designed to generate relatively stable income stream to cover majority of the loan cost. In essence, the product is designed to generate a more attractive risk/return profile, with asymmetry to upside. The maximum loss (equals total net interest) for investors who utilize gearing is likely to be less than the maximum loss from other 100% loan products. The instalment structure provides a tax-effective investment for investors who want to gain exposure to emerging markets with minimum capital outlay, including investors who are high-income but cash-poor and *SMSFs*. However, investors should note the following two major risks: (1) use of *CPPI* methodology can result in the product to perform poorly in a volatile market; and (2) the income component lacks operating history, thus ability of the two absolute return strategies to generate annual coupon is yet to be tested.

Recommendation

Aegis has assigned Emerging Markets + with a **Recommended** rating.

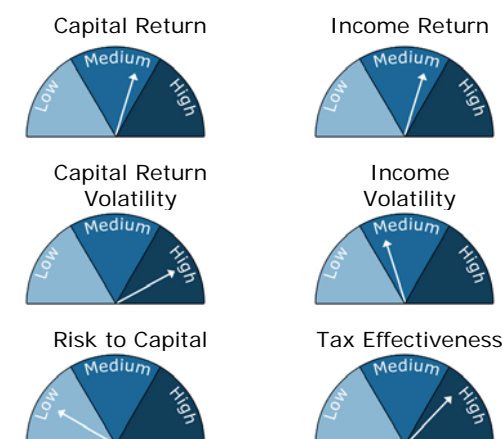
Note: This report is based on the Emerging Markets + PDS, dated **12 February 2008**, together with other information provided by JPMorgan Investments Australia Limited as at **February 2008**.



Offer Details

Offer Period	25 Feb – 11 Apr 2008
Issue Date	24 Apr 2008
Expiry	5 Years
Issue Price	A\$100 per EM+
Min. Investment	100 EM+ 300 Geared EM+
Liquidity	Monthly
Distributions	Yearly

Risk/Return Profile



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

Up-front*	3.3
Ongoing	Nil

* Represents maximum adviser fee. A distribution fee of up to 1.1% (GST inclusive) may be paid to distributors by JPMIAL and not paid for directly by investors.

For Advisers Only

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 structure is designed to provide medium-term capital growth from a distinct market, while potential income derived from uncorrelated absolute return strategies serves to reduce overall risk and covers most of loan cost.
- A strong market play provides dynamic exposure to Emerging Markets Listed Securities. The Growth Component has performed very strongly since inception in April 2003, and has delivered an average annual return of 38.9%.
- Minimum exposure of 20% to both Growth Component and Income Component pre-eliminate the risk of the Product being 'cash-locked'.

Weaknesses

- Exposure to both Growth and Income Components are subject to de-leverage risk (20% minimum exposure). As of most CPPI structures, overall return will also be path-dependent, that is, significant underperformance in the early stage of the investment will have a greater impact on reduction in capital growth and/or income return.
- Both strategies in the Income Component are recently introduced and lack operating history. Performance backtesting is theoretically simulated; the ability of the strategies to generate risk-adjusted return is yet to be tested.

Opportunities

- Flexibility for investors to choose a funding option that suits their risk profile, capital availability and ability to service net borrowings.
- The opportunity to access an investment with limited downside risk and the potential to generate leveraged returns in strong markets

Threats

- Although the Product is principal-protected at expiry, investors utilising gearing will suffer loss of investment should the rate of return of the product be less than the borrowing cost.

Product Fees (paid by investors)

	Product	Sector Avg.
Base Fees, % of Assets		
Up-front ¹	3.3	2.1
Ongoing ²	1.8 & 1.4	1.8
Exit	0.0	0.2
Average, p.a.	3.8	2.2

1. Assumes maximum advisor commission. Actual commissions may be less or nil.
 2. Annual asset fee of 1.8% (for the Equity Portfolio) and 1.4% (for the Coupon Portfolio) of the higher of the notional exposure to the return components and the Portfolio Net Asset Value (NAV), payable indirectly to JPMIAL, deducted from the relevant portfolio's NAV daily.

Total Fees, % of Expected Total Return*

Up-front	4.6	2.9
Ongoing	24.6	15.6
Exit	0.0	0.3
Total	29.2	18.6

* Assume an annual return of 13% for the period of 5 years

Performance Fees

There are no performance fees.

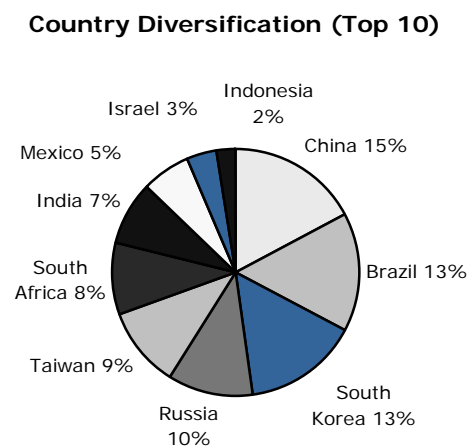
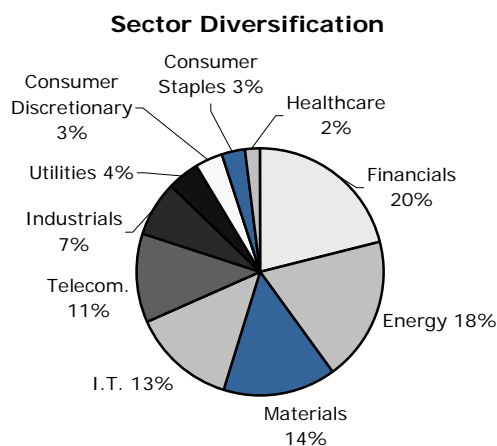
Indirect Fees

The Fund Manager of EEM (Barclays Global Fund Advisers) charges an MER of 0.74% p.a. of NAV, and JPMorgan charges a strategy fee of 1% p.a. of NAV on Yield Alpha 8.

Product Costs

Total asset fee can be up to 6.4% p.a. of the initial investment value; however, some of the asset fees charged serve as part of structural cost of the Product to gain leveraged exposure to both the Growth Component and the Income Component. The absolute amount of ongoing fees is directly linked to the level of exposure to return components. It is indicated by JPMIAL (not verified by Aegis) that the net fee income for the issuer from this product will be approximately 1% per annum of the application amount.

Equity Asset Sector and Country Allocation (as of Dec. 31 2007)



Source: www.ishares.com/Aegis Equities Research

Product Leverage

Method:	Within the Equity Portfolio and the Coupon Portfolio, participation in return components are dynamically managed according to Dynamic Portfolio Rules (deviation of CPPI).	
Key Parameters:	Equity Portfolio	Coupon Portfolio
Minimum Participation:	20%	20%
Maximum Participation:	200%	200%
Initial Participation:	100%	150%
Allocation to Cash:	0-100%	0-100%
Crash Size:	25%	17.5%
Rebalance Trigger:	The target exposure to Growth Component or Income Component varies 15% or more from the actual exposure.	
Cost (incl. Fees):	Prevailing wholesale market interest rate.	

Capital Protection

Method:	CPPI
Conditions:	Must be held to expiry.
Cost:	Not explicitly stated, incorporated in the ongoing fee.
Counterparty Risk:	Yes, the risk that the Issuer (JPMIAL) and/or the guarantor (J.P. Morgan Australia Limited, <i>S&P Credit Rating: AA</i>) fail to fulfil their obligations.

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:	Capital gains tax (<i>CGT</i>) is likely to apply upon sale of the delivery securities. Investors will likely be eligible for the 50% CGT discount upon sale of the delivery securities, if held for more than 12 months.
Distributions:	Coupon distributions will likely be assessable as income in the year it is earned.
Interest deductibility:	Interest payments (up to the RBA unsecured rate of 13.85%), as a consequence of acquiring a warrant, will be deductible in the year they are incurred.
Foreign Income Fund (<i>FIF</i>):	n/a

Legal Structure

Wrapper:	Unlisted Warrant
Registry:	Registries Limited
Trustee:	J.P. Morgan Portfolio Services Limited
Offer Document:	The PDS, dated 12 February 2008, has not been lodged with the Australian Securities Investment Commission (<i>ASIC</i>) and is not required by the <i>Corporations Act</i> 2001 to be lodged with <i>ASIC</i> .

Returns

Capital vs. Income:	EM+ provides a combination of capital and income returns. Capital return (if any) is provided at maturity. Conditional coupon (capped at 8% p.a.) is paid yearly throughout the investment term.
Income Frequency:	Yearly
Foreign Currency Risk:	Hedged

Investor Leverage

Available:	Emerging Market + Investment loan provided by Leveraged Equities Limited (<i>LE</i>) and BT Financial Group (<i>BT</i>) Loan Value Ratio (<i>LVR</i>): Up to 100% of issue price	G geared Emerging Market + Investment Loan facility provided by JPMIAL. <i>LVR</i> : Up to 100% (initial 70.85% of issue price). First Instalment by investor: A\$35 per warrant including A\$5.85 Interest in Advance
Cost (incl. Fees):	To be set on the day of funding. <i>LE</i> indicative fixed interest rates for 5 years (as of 26 February 2008): 10.55% p.a. (monthly in arrears), or 10.35% p.a. (annually in advance)	8.25% p.a. Fixed for 5 Years. Interest capitalised to loan balance annually in advance, income distribution from the investment will be used to reduce loan balance.
Recourse:	Full Recourse Loan	Limited to the Product value at expiry

Key Risks

Portfolio Risk:	The returns of the Product depend upon the performance and participation rates of the underlying assets; poor performance and/or decreased participation of the underlying assets will negatively affect the Product's ability to deliver enhanced income return and capital growth.	
De-leverage Risk:	The Product has a minimum exposure of 20% to both the equity and the coupon assets. Increased volatility may cause decreased exposure and adversely impact the value and coupon of the Product.	
Gearing Risk:	Investors who invest in the Geared EM+ or use the investment loan should understand that gains and losses on the investment are magnified when gearing is used. Although the Product is principal-protected at expiry, investors may experience loss up to entire initial outlay (approximately A\$35 per warrant) for the Geared EM+, and accumulated interests for funding with 100% loan.	
Alignment of Interest:	Aegis believes the interests of investors and the Issuer are aligned, partly through the fee structure in which the absolute amount payable to JPMorgan are directly related to the performance of the Product. Additionally, the Issuer also has a strong interest in the general success of the Product.	

For Advisers Only

3. Investment Process

Investment Objective

The main objective of EM+ is to provide investors with medium-term capital growth by investing in equities markets of emerging economies. This is achieved through a long-only exposure to the Growth Component, the iShares MSCI Emerging Markets Index Fund. To enhance the ability for EM+ to generate regular income, instead of passing on distributions from EEM US (approximately 1-2% per annum), EM+ provides investors with conditional coupons derived from the uncorrelated Income Component, a basket of two equally weighted long/short strategies. Investment in EM+ is currency hedged to limit the impact of exchange rate movements.

The Growth Component

iShares MSCI Emerging Markets Index Fund forms the Growth Component of EM+. The fund was established and traded on NYSE in April 2003, and aims to track the performance of the MSCI Emerging Markets Index. The index was developed by MSCI Inc. as an equity benchmark for emerging market stock's performance. It is a capitalisation-weighted index that aims to capture 85% of the total market capitalisation. The index was established in December 1987 and is reviewed by MSCI quarterly.

The iShares MSCI Emerging Markets Index Fund (EEM US and IEM AU) is managed by the US-based Barclays Global Fund Advisers (*BGFA*). BGFA is a wholly-owned subsidiary of Barclays Global Investors (*BGI*), which, in turn, is a majority-owned subsidiary of Barclays Bank PLC. As of September 30, 2007, BGI and its affiliates, including BGFA, provided investment advisory services for assets in excess of US\$2.0 trillion. BGFA serves as an adviser to the iShares funds, the most extensive group of Exchange Traded Funds (ETFs). As of 1 February 2008, the fund had a total net asset of US\$24 billion and 174 million shares outstanding. The expense ratio is approximately 0.74% per annum.

The value of EM+ is directly linked to the NAV of the Equity Portfolio value, the sum of the Growth Component's NAV and cash asset value incorporating their perspective participation rate.

For investors who chose to take physical delivery upon expiry, EM+ will convert the EEM US holdings into shares in IEM AU using the prevailing AUD/USD exchange rate. IEM AU is simply EEM US, quoted in Australian dollar (unhedged) and traded on the Australian Securities Exchange. The physical delivery provides investors with the option to continuously hold the iShares MSCI Emerging Markets as ASX-listed security; however, investors taking this option will be exposed to the impact of movement in the AUD/USD, and gains or losses as a result of IEM AU price movement after maturity of EM+.

The Income Component

The Income Component aims to generate absolute return that can be distributed as yearly coupons (capped at 8% per annum for the first four years) regardless of the general market conditions and performance of the Growth Component. It is comprised of two equally weighted long/short trading strategies managed by JPMorgan, Yield Alpha 8 and Efficiente. JPMorgan Securities Limited (*JPMSL*) acts as calculation agent for both Yield Alpha 8 and Efficiente. While both strategies are rule-based, the calculation agent's determinations in respect of the strategies and interpretation of Yield Alpha 8 and Efficiente Index rules will be final. JPMSL is a London-based, fully owned subsidiary of JPMorgan.

Yield Alpha 8

JPMorgan Yield Alpha 8 USD Index is a carry strategy that aims to return 8% per annum, with a volatility of less than 8%. The Yield Alpha 8 Strategy Value represents the returns of an equally weighted basket of four individual strategies as follows:

- Bond Alpha 8: Borrowing at short-term interest rates and investing in long term bonds.
- Equity Alpha 8: Borrowing at short-term interest rates and investing in equity market for high earnings yield.

For Advisers Only

- FX Alpha 8: Buying currencies of countries with high interest rates and simultaneously selling currencies of countries with low interest rates.
- Variance Alpha 8: Sale of one-month variance swap on the S&P 500 Index to profit, should the actual volatility be less than the volatility implied by the options pricing

Carry strategy is a popular arbitrage strategy used in the FX market in which an investor trade currencies to capture the difference between the rates. JPMorgan Research has developed the quantitative "Carry-to-Risk" ratio (potential profit/potential volatility) to rank carry opportunities on a risk-adjusted basis, and implement notional trades based on the rankings in the four selected asset classes to generate Alpha from systematic market mis-pricings. The strategy rebalances monthly and JPMorgan charges a strategy fee of 1% per annum.

Efficiente

JPMorgan Efficiente Index USD applies the Modern Portfolio Theory and uses the concept of "efficient frontier" in order to define the asset allocation with the optimum return of the portfolio for any given amount of risk (volatility below 8%). Efficiente is a notional dynamic basket of nine global indices representing four sectors and covering major asset classes and geographic regions, summarised in the table below. Efficiente tracks the excess return of the basket above the JPMorgan Cash Index and is rebalanced quarterly.

Figure 1. Sector and asset allocation parameters of Efficiente

Sector	Sector Cap	Asset (Index)	Asset Cap
Developed Equity	50%	MSCI North America Index	25%
		MSCI Europe Index	25%
		MSCI Asia (Inc. Japan) Index	25%
Global Debt	50%	JPMorgan Global Govt. Bonds (USD Hedged) Index	25%
		JPMorgan 2 Month USD Cash Index	
Alternative Investments	50%	GPR / JPMorgan Global Property Index	25%
		DJAIG Commodity Index	25%
Emerging Markets	50%	MSCI Emerging Market Equity Index	25%
		JPMorgan Emerging Market Bond Index	25%

Source: JPMIAL

The Coupon Portfolio's NAV on each coupon entitlement date (year one to year four) in excess of A\$97 per EM+ will be paid to investors as annual coupon, capped at 8%, with surplus retained in the Coupon Portfolio. For the first three years, the coupon is only payable, provided the participation in the Income Component stays at or above 50% after payment. Upon expiry, the final Coupon Portfolio's NAV in excess of A\$100 per EM+ will be paid to investors as a final coupon.

For Advisers Only

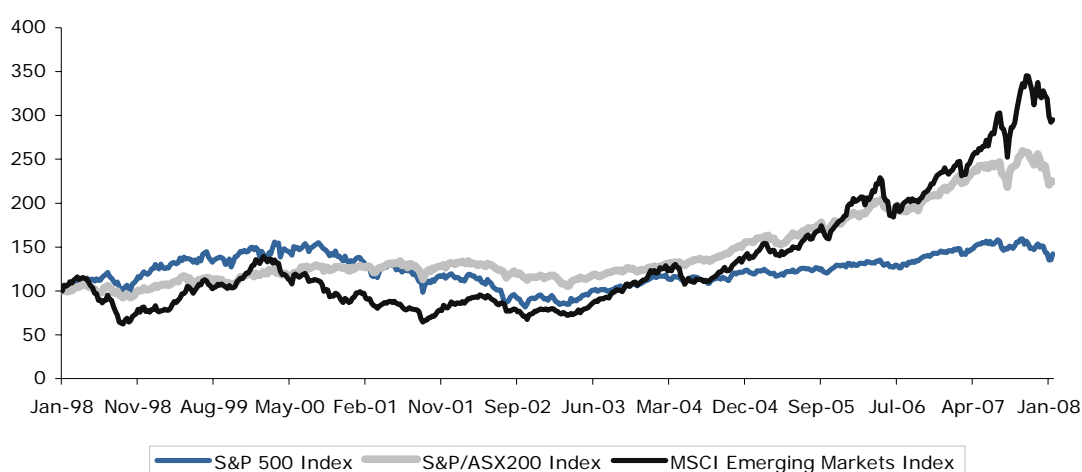
4. Performance Analytics

Back Tested Performance

The Equity Portfolio

Figure 2 represents a 10-year (30 January 98 to 30 January 2008) historical price performance for the MSCI Emerging Markets Index (USD). The S&P 500 Index (USD) and the S&P/ASX 200 Index (AUD) price performance are also presented for comparative purposes. Key performance metrics is summarised in Figure 3. Investors should note that backtesting is not indicative of potential future performance.

Figure 2. Historical Performance of MSCI Emerging Markets Index (USD) (Jan 98 to Jan 08)



Source: Bloomberg / Aegis Equities Research

Figure 3. Key Performance Metrics (Jan 98 to Jan 08)

	S&P500 Index	S&P/ASX 200 Index	MSCI Emerging Markets Index
Returns (% p.a.)			
3-Year	6.8%	13.4%	30.1%
5-Year	11.1%	15.2%	33.1%
10-Year	5.1%	9.2%	13.9%
Risk (% p.a.)			
Standard Deviation (10-year)	16.9%	12.1%	21.2%

Source: Bloomberg / Aegis Equities Research

For the backtested 10-year period, MSCI Emerging Equities Markets can be characterized as high risk/high return. The MSCI Emerging Markets Index outperformed both S&P500 and S&P/ASX200 as a direct result of significant growth experienced by emerging equities markets over the past five years. It is worth noting that through the 10-year period, the MSCI Emerging Markets Index consistently displayed higher level of volatility compared to Global Equities (S&P500) and Australian Equities (S&P/ASX200), with an average standard deviation of around 20% per annum.

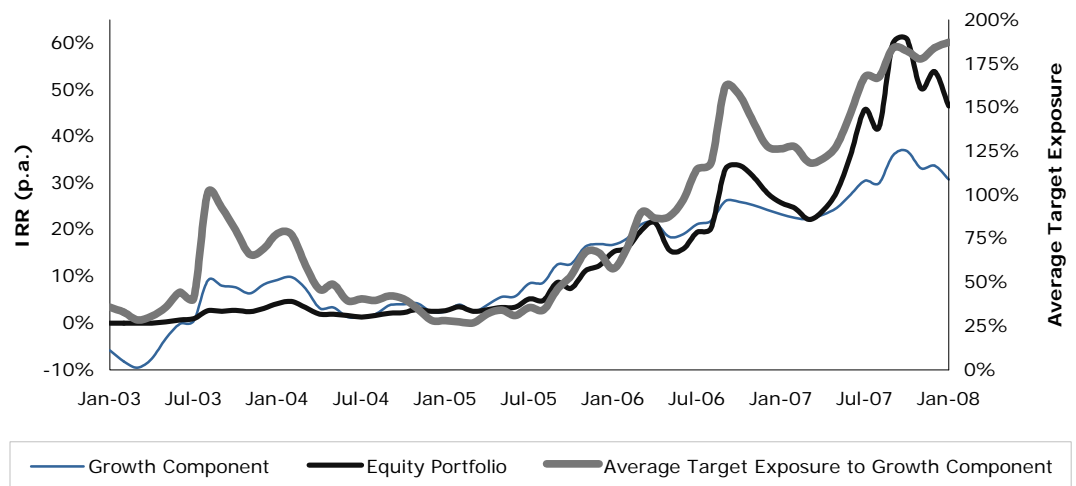
For Advisers Only

For Advisers Only

Figure 4 represents the backtested historical performance of the Equity Portfolio, the Growth Component and the average target participation rate. Each data point represents the annual internal rate of return (IRR) and average target participation rate for the previous five years. For example, the data point at 01 January 2004 is the simulated IRR for EM+ investment expiring 01 January 2004. The IRR is calculated net of fee for the Equity Portfolio and does not include any coupon payment. Before the inception of the Growth Component (EEM US) in April 2003, price returns of the MSCI Emerging Markets Index were used to simulate the performance of the Growth Component and the Equity Portfolio. Figure 5 represents the distribution of the historical IRR of the Equity Portfolio and the Growth Component. Key observations include:

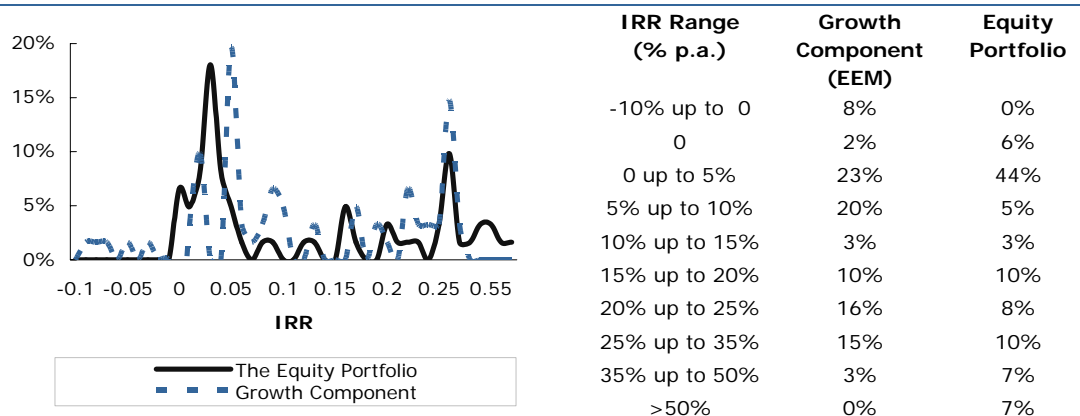
- Deleveraging risk is significant for a CPPI structure with a high-volatility underlying, such as the iShares MSCI Emerging Markets Index Fund, as evident in the first half of the backtested period, where exposure to the Growth Component declined significantly. However, the minimum 20% participation rule eliminates the risk of 'cash-lock'.
- For the backtested period, there is a concentration of IRR distribution in the range of 0% to 10%; the Equity Portfolio slightly underperformed the Growth Component in that period. However, when the underlying performed strongly, the Equity Portfolio demonstrated significant outperformance due to the leveraged exposure (up to 200%) to the Growth Component.
- The overall return of the Product will be path-dependent. Strong performance during the early stage of the investment will serve to significantly reduce the deleveraging risk and enhance total return.

Figure 4. Historical IRR of the Equity Portfolio (rolling 5-year period ending Jan 2003 - Jan 2008)



Source: Bloomberg/JPMIAL/Aegis Equities Research

Figure 5. Distribution of Historical IRR (rolling 5-year period ending Jan 2003 – Jan 2008)

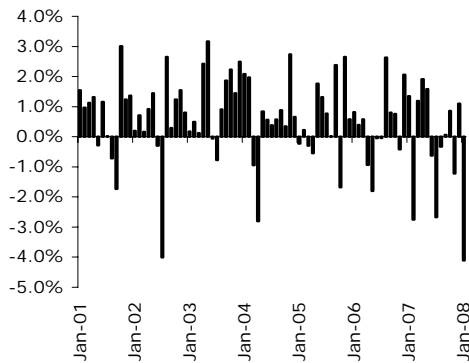


Source: Bloomberg/JPMIAL/Aegis Equities Research

The Coupon Portfolio

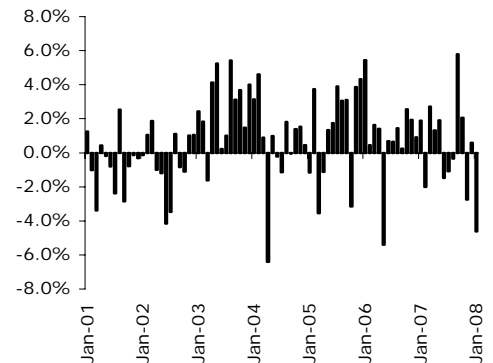
Figures 6 and 7 represent simulated monthly performance of the two Indices (Yield Alpha 8 and Efficiente) forming the Income Component for the period. Figure 8 summarises the simulated net of fee coupon performance for the same period. The data were provided by JPMorgan, but not verified by Aegis. As mentioned in previous sections, both Yield Alpha 8 and Efficiente are recently constructed and lack operating history. The simulated performance may be subject to selection bias and should not be used as indication of potential future performance. The ability of the strategies to generate absolute return (target of 8% per annum) within defined risk parameters (that is, volatility within 8% per annum) is yet to be tested. The ability of the Coupon Portfolio to deliver annual income will rely on the actual performance of the two strategies and participation in the Income Component.

Figure 6. Simulated Monthly Performance of Yield Alpha 8 (Jan 2001 – Jan 2008)



Source: JPMIAL

Figure 7. Simulated Monthly Performance of Efficiente (Jan 2001 – Jan 2008)



Source: JPMIAL

Figure 8. Historical Coupon Performance (rolling 5-year period between Jan 2001 and Jan 2008)

	Coupon Year 1	Coupon Year 2	Coupon Year 3	Coupon Year 4	Coupon Year 5	Total Distribution
Maximum	8.00%	8.00%	8.00%	8.00%	30.44%	62.44%
Minimum	0.00%	0.00%	5.26%	3.91%	1.52%	10.68%
Average	2.42%	5.94%	7.90%	7.45%	9.32%	33.03%

Source: JPMIAL

For Advisers Only

Sensitivity Analysis

In order to compare the payoff for EM+ and Geared EM+, we simulated the after-tax returns of A\$105,000 initial investor contribution into EM+ (Figure 9) and Geared EM+ (Figure 10) for investors with different marginal tax rates. The payoff figures shown are total returns (in A\$) for the investment period of five years, generated from capital growth and coupons. For the purpose of sensitivity analysis, we assume investment is held until maturity and investors are taking cash delivery as settlement.

With the same initial outlay of A\$105,000, investors choosing EM+ would acquire investment with a face value of A\$105,000, while investors using Geared EM+ instalment structure would be able to acquire investment with a face value of A\$300,000. Instalment investors would not be required to pay for net interest as any difference from the interest payable and coupon income will be capitalised in the loan balance. As evident in the comparison, Geared EM+ provides a better after-tax payoff, should the total return exceed borrowing cost. This effect is magnified with the increase in the capital growth rate. From a risk-return perspective, Geared EM+ would be more suitable to higher marginal tax bracket investors. For example, the maximum loss for a super fund (15% tax rate) is A\$89,097, compared to A\$57,651 for a top marginal rate investor.

Figure 9. EM+ Payoff (Non-Gearing) - A\$105,000 contribution to acquire 1,050 EM+

		Marginal Tax Rate (15%)					
		Annual Coupon Rate					
Annual Capital Growth		0%	2%	4%	6%	8%	
0%		0	8,925	17,850	26,775	35,700	
4%		19,425	28,350	37,275	46,200	55,125	
8%		38,850	47,775	56,700	65,625	74,550	
12%		58,275	67,200	76,125	85,050	93,975	
16%		77,700	86,625	95,550	104,475	113,400	
20%		97,125	106,050	114,975	123,900	132,825	

		Marginal Tax Rate (45%)					
		Annual Coupon Rate					
Annual Capital Growth		0%	2%	4%	6%	8%	
0%		0	5,775	11,550	17,325	23,100	
4%		16,275	22,050	27,825	33,600	39,375	
8%		32,550	38,325	44,100	49,875	55,650	
12%		48,825	54,600	60,375	66,150	71,925	
16%		65,100	70,875	76,650	82,425	88,200	
20%		81,375	87,150	92,925	98,700	104,475	

Source: Aegis Equities Research

Figure 11 represents the total return for investors with highest marginal tax rate taking 100% investment loan to acquire EM+ with a face value of A\$300,000. Compared to the instalment structure, investors who chose to take 100% investment loan would require no initial capital outlay. As a trade off, interest payment would be required during the term of the investment as the coupon (capped at 8%) would not be sufficient to cover the borrowing amount. Maximum loss for investors taking 100% loan would be greater and the overall return would be less compared to instalment investors with same marginal tax rate. This is simply a result of increased borrowing amount and higher borrowing cost.

For Advisers Only

Figure 10. Geared EM+ Payoff - A\$105,000 contribution to acquire 3,000 Geared EM+

		Marginal Tax Rate (15%)				
		Annual Coupon Rate				
Annual Capital Growth		0%	2%	4%	6%	8%
0%		-89,097	-58,617	-34,381	2,333	32,644
4%		-33,597	-3,117	21,119	57,833	88,144
8%		21,903	52,383	76,619	113,333	143,644
12%		77,403	107,883	132,119	168,833	199,144
16%		132,903	163,383	187,619	224,333	254,644
20%		188,403	218,883	243,119	279,833	310,144

		Marginal Tax Rate (45%)				
		Annual Coupon Rate				
Annual Capital Growth		0%	2%	4%	6%	8%
0%		-57,651	-37,929	-22,246	1,510	21,123
4%		-11,151	8,571	24,254	48,010	67,623
8%		35,349	55,071	70,754	94,510	114,123
12%		81,849	101,571	117,254	141,010	160,623
16%		128,349	148,071	163,754	187,510	207,123
20%		174,849	194,571	210,254	234,010	253,623

Source: Aegis Equities Research

Figure 11. EM+ Payoff (100% Gearing) - A\$0 contribution to acquire 3,000 EM+

		Marginal Tax Rate (45%)				
		Annual Coupon Rate				
Annual Capital Growth		0%	2%	4%	6%	8%
0%		-85,388	-68,888	-52,388	-35,888	-19,388
4%		-38,888	-22,388	-5,888	10,613	27,113
8%		7,613	24,113	40,613	57,113	73,613
12%		54,113	70,613	87,113	103,613	120,113
16%		100,613	117,113	133,613	150,113	166,613
20%		147,113	163,613	180,113	196,613	213,113

Note: Assume fixed-rate interest-only loan for 5 Years, interest rate: 10.35% p.a.

Source: Aegis Equities Research

For Advisers Only

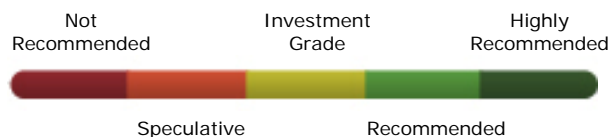
Appendix – Ratings Process

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 offer of the securities is made in the Product Disclosure Statement (PDS), and anyone wishing to acquire the securities should complete the application form in the PDS.

For Advisers Only

Aegis Equities Research

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

Mamun Rashid
Chief Operating Officer & General Counsel
Phone: 61 2 8296 1160
mamun.rashid@aegis.com.au

RESEARCH

Sharon Loaiza
Head of Research
Phone: 61 2 8296 1131
sharon.loaiza@aegis.com.au

Ravi Reddy
Head of Equities Analysis
Phone: 61 2 8296 1165
ravi.reddy@aegis.com.au

Rodney Lay
Head of Managed Investments
Phone: 61 2 8296 1106
rodney.lay@aegis.com.au

SALES

Craig Northey
Head of Sales
Phone: 61 2 8296 1114
craig.northey@aegis.com.au

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

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

Joanna Judd
Business Development Officer
Phone: 61 2 8296 1102
joanna.judd@aegis.com.au

SALES – IMPLEMENTED RESEARCH MODELS

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

CLIENT SERVICES

Pamella McIntosh
Manager Client Services
Phone: 61 2 8296 1124
pamella.mcintosh@aegis.com.au

INFORMATION TECHNOLOGY

Evan Ferris
Chief Technical Officer
Phone: 61 2 8296 1116
evan.ferris@aegis.com.au

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 are 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.aegis.com.au/disclaimer.asp>.



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