Adelaide Managed Funds

ASX Release **8 April 2009**

ADELAIDE MANAGED FUNDS ASSET BACKED YIELD TRUST PROPOSAL UPDATE/ ANNOUNCEMENT OF ON-MARKET UNIT BUY-BACK

- **Proposed acquisition of all Units by Bendigo and Adelaide Bank will not proceed**
- **APRA's decision was not related to the credit performance of the Fund, and did not consider the credit worthiness of the individual assets**
- **Independent Expert Valuation of between $1.692 and $1.832 per Unit**
- **FY2009 yield forecast confirmed at upper end of target range of between BBSW + 4.00% and BBSW + 4.50%[1]**

Proposed Transaction will not Proceed

Adelaide Managed Funds Limited (**Adelaide Managed Funds**), as responsible entity of the Adelaide Managed Funds Asset Backed Yield Trust (**AYT** or the **Fund**), today confirmed that the proposal from Bendigo and Adelaide Bank Limited (**BEN**) to acquire all of the Units in AYT (the **Proposal**) will not proceed.

Adelaide Managed Funds has received formal notification from BEN that the Australian Prudential Regulation Authority (**APRA**) will not approve the Proposal as it does not, in APRA's view, comply with BEN's prudential requirements.

According to the Chairman of Adelaide Managed Funds, Ms Jenny Dawson, the decision by APRA was based on BEN's compliance with its prudential requirements and did not consider the credit worthiness of the Fund's investments.

"The Fund's investment portfolio remains sound with current losses and arrears levels lower than expected and it continues to generate stable, predictable cash distributions for Unitholders," she said.

"While the termination of the Proposal is disappointing, the Board and Management of Adelaide Managed Funds remain focused on maximising value for all Unitholders. We remain very comfortable with each of the Fund's assets and believe the AYT offers investors a unique investment opportunity," said Ms Dawson.

Transaction Costs

In appropriately assessing the Proposal from BEN, AYT has incurred approximately $1.6 million in corporate, legal and independent expert costs. These expenses represent a cost to Unitholders of approximately $0.017 per Unit, which was reflected in the reduced March quarter distribution announced on 20 March 2009.

Adelaide Managed Funds does not anticipate that there will be any further material costs associated with the Proposal.

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[1] Prior to the impact of estimated transaction costs

Independent Expert Valuation

In considering the Proposal from BEN, Adelaide Managed Funds engaged KPMG to independently evaluate the Proposal including a valuation of the Fund. A copy of the Independent Expert's Report is attached at Annexure A.

KPMG has assessed, as at 31 December 2008, the total value of the Fund to be in the range of $160.6 million and $173.9 million. This equates to a value of between $1.692 and $1.832 per Unit.

On-market Unit Buy-back

The Directors of Adelaide Managed Funds also announced today that it intends to undertake an on-market buy-back of Units in the AYT.

The Chairman of Adelaide Managed Funds said that a number of alternatives were considered, but that the Directors of Adelaide Managed Funds believe an on-market buy-back of Units is the most appropriate form of capital management at this time.

"Following confirmation that the Proposal would not proceed, we examined the capital management options available to the Fund and focused on those that created the most value for all Unitholders," said Ms Dawson.

"A buy-back reflects the confidence that the Board has in the underlying performance and credit quality of the AYT," she said.

"The other options considered by the Directors required Adelaide Managed Funds to utilise the Fund's debt facility and in the current credit environment, introducing refinance risk on behalf of Unitholders was not regarded as a prudent approach."

Up to 10 per cent of the issued Units in the AYT may be bought back over the next 12 months (based on regulatory limits). However, the total amount that the AYT may spend on the buy-back is subject to the prevailing market price and availability of Units on ASX.

The AYT proposes to use cash derived from the repayment of principal from its investment portfolio to finance the buy-back of Units. Principal repayments are forecast to total $8.2 million over the next 12 months. The Directors expect the buy-back to increase the overall yield for Unitholders.

The number of Units in the AYT held by Adelaide Managed Funds Limited and its associates is 108,223.

Credit Suisse Equities (Australia) Limited will act on behalf of AYT in relation to the buy-back.

Forecast FY2009 Yield

Despite the Proposal not proceeding, the Chief Executive Officer of Adelaide Managed Funds, Bruce Speirs, confirmed that, pre-Proposal costs, AYT remains on track to deliver Unitholders a floating rate return that is at the upper end of the current guidance of 4.00% to 4.50% above the average 30-day BBSW for FY2009.

"We are confident that, based on our current expectations of interest rates, the Fund will deliver to Unitholders a June 2009 quarter cash distribution of approximately $0.036 per Unit," he said.

This forecast distribution will result in a cash yield for Unitholders equal to BBSW + 4.57%, based on the average 30-day BBSW for the year[2], and at $1.53 per Unit, a running yield for FY2009 of 12%, pre-Proposal costs.

"This forecast FY2009 yield is at the upper end of our guidance, despite the global market volatility, and continues the Fund's strong history of performance established since listing in 2006," said Mr Speirs.

For further information, please contact:

Mr Bruce Speirs
Chief Executive Officer
Adelaide Managed Funds
08 8300 6194

Mr Kym Masters
Chief Investment Officer
Adelaide Managed Funds
08 8220 7258

About Adelaide Managed Funds

Adelaide Managed Funds, a wholly owned subsidiary of Bendigo and Adelaide Bank, is the responsible entity of the Adelaide Managed Funds Asset Backed Yield Trust.

For further information about Adelaide Managed Funds and the AYT, please visit: www.adelaidemanagedfunds.com.au

[2] Assumes an average 30-day BBSW for FY2009 equal to 4.7723%. Actual average 30-day BBSW for the year-to-date equals 5.4362%

ANNEXURE A

Important Notice

This report was prepared by KPMG solely for the purposes of Unitholders assessing whether the superseded transaction announced to the market on 16 February 2009, under which Bendigo and Adelaide Bank Limited would have acquired all of the units of in the Adelaide Managed Funds Asset Backed Yield Trust ("Trust"), was fair and reasonable and, therefore, in the best interests of Unitholders.

The report is not investment advice in respect of interests in the Trust. In making any decision in respect of interests in the Trust you should consider all information that has been disclosed to the Australian Securities Exchange and your particular financial position, needs and objectives. You should also consult a licensed financial or other professional adviser.

KPMG Corporate Finance (Aust) Pty Ltd
Australian Financial Services Licence No. 246901
151 Pirie Street
Adelaide SA 5000

GPO Box 2499
Adelaide SA 5001
Australia

ABN: 43 007 363 215
Telephone: +61 8 8236 3111
Facsimile: +61 8 8236 3395
DX: 456 Adelaide
www.kpmg.com.au

The Independent Directors
Adelaide Managed Funds, as Responsible Entity for the
Adelaide Managed Funds Asset Backed Yield Trust
169 Pirie Street
Adelaide SA 5000

25 March 2009

Dear Madam and Sir

SUPERSEDED TRANSACTION

Independent expert report & Financial services guide

1 Introduction

On 16 February 2009, Adelaide Managed Funds Limited (AMF), as Responsible Entity for the Adelaide Managed Funds Asset Backed Yield Trust (the Fund), announced it had entered into a conditional agreement with Bendigo and Adelaide Bank Limited (BEN or the Bank) whereby BEN will acquire all of the units in the Fund (the Units), via a trust scheme (Proposal). Under the Proposal, BEN has offered all unitholders in the Fund (Unitholders) consideration in the form of 0.01835 mandatory BEN convertible preference shares (BEN CPS), with a face value of $100 per share, equating to $1.835 per Unit (Consideration). Unitholders will also receive a quarterly cash distribution from the Fund in April 2009 estimated at $0.016, for each Unit held.

The Proposal is subject to a number of conditions including the approval by Unitholders and certain regulatory approvals and exemptions.

Ms Nancy Fox and Mr Stephen Treanor (collectively the Independent Directors) of AMF have requested KPMG Corporate Finance (Aust) Pty Ltd (KPMG) to prepare an independent expert report indicating whether, in our opinion, the Proposal is fair and reasonable and therefore in the best interests of Unitholders.

This report should be considered in conjunction with and not independently of the information set out below.

The Fund

The Fund is an Australian registered managed investment scheme listed on the Australian Securities Exchange (ASX) with assets under management (AUM) of $186 million as at 31 December 2008. It invests in high yielding securities (Investment Notes) sourced from BEN and third parties backed by a range of assets, including margin loans, agricultural managed investment scheme (MIS) investor loans, non-conforming mortgages and medical equipment financing loans and leases.

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KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative

The Fund began trading on the ASX on 31 August 2006 after successful completion of an Initial Public Offering (IPO) which raised $200 million through the issue of 100 million units. AMF is the Responsible Entity which manages the Fund and three other fixed income retail funds which are distributed by partners such as stockbrokers and financial planners as well as through BEN's retail branch network.

On 13 February 2009, being the last trading day prior to the announcement of the Proposal, the Fund had a market capitalisation of approximately $111 million.

BEN

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BEN provides banking and financial services primarily to retail customers and small to medium enterprises (SMEs) across Australia in two main business segments, Retail and Partner Advised Banking.

BEN's principal activities are the provision of a range of banking and other financial services including; retail banking, third party mortgages, business lending, margin lending, business banking and commercial finance, funds management, treasury and foreign exchange services (including trade finance), superannuation, financial advisory and trustee services.

The Bank had an asset base of $48.2 billion and approximately 78 thousand shareholders as at 31 December 2008, with a wide distribution of both retail and institutional shareholders. The market capitalisation of the Bank as at 13 February 2009, being the last day of trading prior to the announcement of the Proposal, was approximately $2.8 billion.

2 Summary of Proposal

BEN is proposing to acquire all of the issued Units via a trust scheme in accordance with Takeovers Panel Guidance Note 15 (Guidance Note 15). The trust scheme is to be implemented by amendments to the Constitution of the Fund (Constitution) which are approved by Unitholders in accordance with Section 601GC of Corporations Act 2001 (Cth) (the Act). BEN has offered Unitholders 0.01835 shares in BEN CPS for each Unit held. Unitholders will also receive a cash distribution from AMF, as Responsible Entity for the Fund, estimated at $0.016, which reflects a Unitholder's ordinary distribution entitlement calculated with reference to any increase in the net tangible assets (NTA) of the Fund for the March 2009 quarter, less AMF's estimated transaction costs associated with the Proposal.

BEN and AMF (as Responsible Entity for the Fund) have entered into a Scheme Implementation Agreement dated 16 February 2009 (SIA) setting out the terms and conditions of each party's obligations in connection with the implementation of the Proposal.

2.1 Conditions precedent

The Proposal is subject to a number of conditions as set out in the SIA between BEN and AMF (as Responsible Entity for the Fund) including, inter alia:

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- all regulatory and other approvals required to implement the Proposal are granted or obtained and are not withdrawn, cancelled or revoked

- approval by ASX for quotation of the BEN CPS prior to 8:00am on the date of the second court hearing (Second Court Date), subject to any conditions that ASX may reasonably require

- the Independent Expert concluding that the Proposal is fair and reasonable and therefore in the best interests of Unitholders and the Independent Expert does not change its conclusion or withdraw its report before 8:00am on the Second Court Date

- Unitholders approving the Proposal by the requisite majorities under the Act and in accordance with Guidance Note 15

- execution and lodgement of the Supplemental Deed and lodgement with ASIC

- no restraints issued by any court or other governmental agency of competent jurisdiction prohibiting, materially restricting, making illegal or restraining the implementation of the Proposal

- no "AYT Regulated Event" or "BEN Regulated Event" as defined in the SIA occurring

- no "AYT Material Adverse Change" occurring as defined in the SIA

- the representations and warranties provided by BEN and AMF in the SIA being true and correct in all material respects

- the Independent Directors unanimously recommending the Proposal in the absence of a superior proposal.

Further details in relation to conditions precedent are set out in Section 1.6 of the Explanatory Memorandum.

2.2 Other considerations

Termination

The SIA may be terminated in certain circumstances, by either party where:

- the conditions precedent are not satisfied or waived

- the other party is in material breach of the SIA.

The SIA may be terminated in certain circumstances, by AMF where:

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- there has been an occurrence of a "BEN Regulated Event" as defined in the SIA and the event continues to exist for five business days

- all Independent Directors do not publicly recommend the Proposal or they withdraw their recommendation.

The SIA may be terminated in certain circumstances, by BEN where:

- a competing proposal in relation to the Fund is announced, made or becomes open for acceptance

- there has been an occurrence of a "AYT Regulated Event" and the event continues to exist for five business days

- any Independent Director does not publicly recommend the Proposal or they withdraw their recommendation.

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Termination events are set out in Schedule 3 of the SIA and summarised in Section 5.3 of this report.

Break fee

BEN and AMF (in its capacity as Responsible Entity for the Fund) are entitled to receive a break fee of $1.7 million in certain specified events which are set out in Schedule 3 of the SIA and summarised in Section 5.4 of this report

Exclusivity

AMF agreed to certain exclusivity provisions in the SIA which are set out in clause 11 of the SIA and summarised in Section 5.5 of this report.

Issuing BEN CPS as consideration to foreign Unitholders

BEN will not be obliged to issue BEN CPS as consideration under the Proposal to Unitholders whose registered address is not in Australia unless BEN is satisfied that it is lawful to do so, or that an issue may be undertaken on such terms that BEN reasonably regards as acceptable and not unduly onerous or practical.

In the event that BEN CPS are not issued to relevant foreign Unitholders, their entitlement will be issued to a nominee appointed by BEN who will procure the sale of those BEN CPS. BEN will distribute the net proceeds of such sales to the relevant foreign Unitholder.

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3 Scope of the report

This report has been prepared by KPMG for inclusion in the Explanatory Memorandum to accompany the Notice of Meeting convening a meeting of Unitholders to be held by AMF on or about 30 April 2009 in accordance with the Constitution and/or Section 252A of the Act. The purpose of the meeting will be to seek approval of the Proposal by Unitholders.

The sole purpose of this report is an expression of KPMG's opinion as to whether the Proposal is fair and reasonable and therefore in the best interests of Unitholders. This report should not be used for any other purposes or by any other party.

3.1 Technical requirements

BEN is proposing to acquire all of the Units in the Fund. Section 606 of the Act expressly prohibits the acquisition of units in a listed entity if the transaction increases a party's voting power from 20 percent or below to more than 20 percent of the issued units of a listed entity. Whilst BEN does not currently have any voting power in the Fund, the Proposal, if implemented, will increase the voting power of BEN to 100 percent and is thus a prohibited acquisition under the Act.

Section 611 of the Act permits an acquisition such as the Proposal, providing the acquisition is approved under Section 611 Item 7 of the Act (as modified), by a resolution passed at a general meeting of Unitholders at which no votes are cast in relation to any party who is associated with the acquirer. To achieve this all Unitholders must be appropriately informed of the details of the Proposal.

The Proposal will be effected by way of a trust scheme. Under the trust scheme, Unitholders will be asked to approve the amendment of the Constitution, in accordance with Section 601GC of the Act, to permit AMF to effect the transfer of Units from Unitholders to BEN. Guidance Note 15 requires that the scheme notice should also contain a report by an independent expert that states, whether, in the expert's opinion, the terms of the trust scheme are "fair and reasonable" for the unitholders of the target trust.

The Independent Directors of AMF, as Responsible Entity for the Fund, have requested KPMG to prepare an independent expert report pursuant to Guidance Note 15 providing an opinion as to whether, in the opinion of the expert, the Proposal is "fair and reasonable" to Unitholders.

Australian Securities and Investments Commission (ASIC) Regulatory Guide 111 outlines the following definitions of "fair" and "reasonable":

- an offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer (this comparison is required to be undertaken assuming 100 percent ownership of the target and irrespective of whether the consideration is scrip or cash)

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- an offer is "reasonable" if it is fair. An offer may also be reasonable if, despite not being fair, the expert believes that there are sufficient reasons for the security holders to accept the offer in the absence of any higher bid before the close of the offer.

Further, the Independent Directors of AMF, as Responsible Entity for the Fund, have requested KPMG to consider whether the Proposal is in the best interests of Unitholders.

Regulatory Guide 111 indicates an independent expert would be able to conclude that a proposal for a scheme of arrangement was in the best interests of members if they consider a proposal "fair and reasonable".

If an expert were to conclude that the proposal was "not fair but reasonable", ASIC indicates that it is still open to the expert to conclude that the scheme is "in the best interests of the members".

Therefore, in considering whether the Proposal is in the best interests of Unitholders, we have considered the fairness and reasonableness of the Proposal having regard to the assessed value of a Unit, as well as the advantages and disadvantages that will emerge for Unitholders as a result of the Proposal, consistent with the consideration required to opine on a scheme of arrangement.

3.2 Factors considered in determining our opinion

In forming our opinion, we have considered in particular the following issues:

- the assessed value of a Unit compared with the value of the Consideration to be received by Unitholders
- the extent of any implied premium to be "received" by Unitholders based on the proposed exchange ratio
- the key terms and conditions of the Units compared to the key terms and conditions of the BEN CPS to be received as consideration under the Proposal
- other advantages and disadvantages which may impact Unitholders if the Proposal proceeds
- the consequences of not approving the Proposal
- the likelihood of an alternative transaction
- any taxation consequences for Unitholders.

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4 Summary of opinion

In our opinion, having regard to the matters set out in this report, and in the absence of a superior proposal, on balance, the Proposal is fair and reasonable to Unitholders and therefore in the best interests of Unitholders

The primary matter considered by us in forming this opinion was whether the Consideration offered under the Proposal being the equivalent of 0.01835 shares in BEN CPS, which have a face value of $100, equating to $1.835 per Unit, reflects a fair consideration to the Unitholders.

Further details of the key factors we have considered are summarised below.

4.1 The Proposal is fair to Unitholders

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The Consideration to be received by Unitholders of 0.01835 shares in BEN CPS per Unit is fair

Having regard to the terms of the Proposal, Unitholders will receive 0.01835 shares in BEN CPS, with a face value of $100, equating to $1.835 per Unit, as Consideration.

Unitholders are also entitled to receive an estimated cash distribution of $0.016 per Unit, based on any increase in the Fund's NTA for the March quarter (net of AMF's estimated costs of completion). We have not included the estimated cash distribution in our assessment of the fairness of the Consideration to be received by Unitholders as it reflects a Unitholder's ordinary distribution entitlement and will be received by Unitholders regardless of whether the Proposal is implemented or not.

We have assessed the underlying value of a Unit to be between $1.692 and $1.832 as set out in Section 12. We have then assessed the underlying value of a BEN CPS to be between $100.29 and $102.42 as set out in Section 13. Based on our assessed underlying value of a BEN CPS, the implied value of the Consideration per Unit to be received by Unitholders is between $1.84 and $1.879 as summarised below.

Table 1: Implied value of the Consideration to be received per Unit based on underlying values

	Reference	Value ($)	
	Section	Low value	High value
Assessed value per Unit	**12.4**	**1.692**	**1.832**
Assessed value of BEN CPS	**13.4**	100.29	102.42
Exchange ratio (no. of BEN CPS)		0.01835	0.01835
Implied value of the BEN CPS to be received by Unitholders per Unit		**1.840**	**1.879**

Source: KPMG analysis

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The above analysis indicates that, on the basis of underlying values, the implied value of Consideration to be received by Unitholders under the Proposal is higher than our range of assessed value per Unit.

Accordingly, we consider that the Consideration is fair to Unitholders.

4.2 The Proposal is reasonable to Unitholders

Regulatory Guide 111 states that an offer is reasonable if it is fair. As we have concluded that the Proposal is fair to Unitholders, accordingly, the Proposal is also reasonable to Unitholders. Unitholders may, however, also wish to consider the following matters.

The acquisition premiums to historical traded prices for Units implied by the implied value of Consideration per Unit is reasonable

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The implied premiums of our implied value of the Consideration per Unit and the volume weighted average price (VWAP) of the Units at various points prior to the announcement of the Proposal on 16 February 2009 are set out below.

Table 2: Assessment of the implied premiums of the Consideration per Unit

Period	VWAP of period	Implied value per unit		Implied premium	
		Low value	High value	Low value	High value
Period prior to and including 13 February 2009 (Pre-announcement period)					
12 months[1]	$1.39	$1.840	$1.879	32.0%	34.8%
6 months[2]	$1.39	$1.840	$1.879	32.7%	35.5%
3 months	$1.22	$1.840	$1.879	50.4%	53.6%
1 month	$1.19	$1.840	$1.879	54.7%	58.0%
1 week	$1.16	$1.840	$1.879	59.1%	62.5%

Notes

1 *During this period the Fund bought back 5,118,154 of its Units for total consideration of $7,621,891, equating to a VWAP of $1.49*

2 *During this period the Fund bought back 3,666,776 of its Units for total consideration of $5,461,755, equating to a VWAP of $1.49*

Source: Bloomberg, IRESS, ASX announcements, KPMG analysis

The above analysis indicates that, based on market prices, a premium in the range of 32 percent to 62.5 percent is being “received” by Unitholders under the Proposal. The 12 and 6 month VWAPs calculated above were impacted by the buy back of Units by the Fund as detailed above in the notes to Table 2.

We have also undertaken an analysis of data over the period 3 December 1998 to 2 December 2008 in order to assess a reasonable range for implied acquisition premiums in Australia. Our analysis indicated that twenty day acquisition premiums ranged from those with negative

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premiums to 142.9 percent with an average and median of approximately 23.3 percent and 17.4 percent respectively after excluding those with negative premiums and those with premiums greater than 150 percent.

It is apparent from a review of these transactions that there is a wide dispersion of observed acquisition premiums. This is not unexpected given that acquisition premiums can be affected by a wide range of factors. Having considered these factors and the nature of the distribution of our observed data we consider on balance it reasonable to suggest that in Australia, successful transactions are typically likely to complete within an acquisition premium range of 25 percent to 40 percent.

In relation to the Proposal the implied premiums are above or within this range for the periods set out above.

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The change in the nature and risks of a Unitholder's investment

The nature and risks of a Unitholder's investment will change if the Proposal is successful. Currently Unitholders have an interest in a perpetual security in a well-defined portfolio of assets with a high degree of visibility. Pursuant to the Proposal being implemented, this investment will change to a preference share which is expected to mandatorily convert into BEN ordinary shares. BEN is a corporate entity regulated by APRA with significantly more diverse operations and accordingly less visibility than the Fund. A comparison of the key terms of the BEN CPS and the Units is set out overleaf.

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Table 3: Comparison of the key terms of BEN CPS and the Units

Term	Description	
	BEN CPS	**Units in the Fund**
Security	Fully paid mandatory convertible preference shares in the capital of BEN	Units in the Fund
Issuer	BEN	AMF as Responsible Entity of the Fund
Issuer Rating	BBB+ / A2 (Standard & Poor's/Moody's)	N/a - the Fund is unrated
Issue Rating	Baa1 - this is the rating assigned by Moody's	There are no ratings for the Fund. Underlying investments range from BB to unrated and sub-investment grade
Issue Price	$100 per BEN CPS	$2
Quotation on ASX	The Issuer will apply for the BEN CPS to be quoted on ASX	Currently quoted on the ASX
Term	BEN CPS are perpetual instruments, until such time as Conversion, Redemption or Resale occurs. However, BEN CPS are expected to convert into ordinary shares of the Issuer 12 months after the date of issue (the Mandatory Conversion Date), provided that the Mandatory Conversion Conditions are satisfied	No fixed term - perpetual instruments
Expected term	12 months after issue	Indefinite
Dividends / distribution	Non-cumulative, fully franked dividends commencing 15 September 2009	Untaxed distributions commencing 31 December 2006
Dividend rate / yield	(90 Day bank bill rate[1] + Margin) x (1 – Tax Rate[2])	30 Day BBSW + Margin
Margin	450 basis points per annum	400 - 450 basis points per annum[3]
Dividend / distribution frequency	Quarterly, commencing on 15 September 2009, each 15 March, 15 June, 15 September and 15 December until the date on which a Redemption, Conversion or Resale occurs - subject to the satisfaction of the conditions outlined in Clause 3.3 of Annexure D of the SIA	Quarterly - periods ending 31 March, 30 June, 30 September and 31 December
Franking	Dividends are expected to be fully franked. If any Dividend has a franking rate of less than 100%, the Dividend will be grossed up by the unfranked amount of the Dividend	Distributions are unfranked - Unitholders assessed on their respective share (assuming they are presently entitled) of the net taxable income of the Fund

Notes

1 *Means the Bank Bill Rate on the first Business Day of a Dividend Period*

2 *The Australian corporate tax rate as at the relevant Dividend Payment Date – currently 30 percent*

3 *Current market guidance from AMF*

Source: The Fund's ASX announcement: Recommended Proposal from Bendigo and Adelaide Bank, 16 February 2009 and the Fund's PDS

The key differences between the two securities include:

- *Investment rating:* The Fund is currently unrated and with the exception of the non-conforming mortgage portfolio notes, which are rated B and BB (by Standard & Poor's)

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respectively, all of the Fund's underlying assets are unrated. The BEN CPS has been granted a credit rating of "Baa1" by Moody's, equivalent to a Standard & Poor's rating of BBB-

- *Term:* Whilst both instruments are perpetual in nature, the BEN CPS will convert into ordinary BEN shares after 12 months providing certain conversion conditions are met. Testing of the conversion conditions indicates a circa 90 percent probability of conversion after 12 months

- *Taxation of dividends:* As the Fund is a unit trust, it is treated as a 'flow through' entity for tax purposes. Accordingly, Unitholders currently receive pre-tax distributions and are assessed annually for tax on their respective share of the Fund's income. The BEN CPS is not a unit trust. BEN CPS holders will receive dividend payments reduced by the corporate tax rate, however holders will be entitled to receive franking credits equivalent to this amount. We note the franking credits cannot be accessed until BEN CPS holders file their tax return. Whilst the after tax distribution (assuming a consistent margin) will be consistent between the two securities, there will be a timing difference of payments to investors in favour of Unitholders

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- *Yield:* On a fully franked basis the BEN CPS margin of 450 basis points is at the higher end of the Fund's current yield guidance of 400 to 450 basis points[1]. The Fund's margin is based on the 30 day BBSW and the BEN CPS margin will based on the 90 day BBSW.

4.3 Other factors relevant to Unitholders

Advantages of the Proposal

The Proposal is expected to provide the following benefits to Unitholders:

- *Yield:* The BEN CPS are expected to pay a yield of 450 basis points over the relevant reference rate being the 90 day BBSW (including franking credit benefits). This yield is at the upper end of the current Fund yield guidance of between 400 and 450 basis points over the 30 day BBSW[2]. Typically there is a positive spread between the 30 and 90 day BBSWs providing a slight yield advantage in favour of the BEN CPS. Furthermore as discussed above, the taxation of the dividend differs to that of the Fund's distribution and Unitholders need to consider this in determining whether or not to vote in favour of the Proposal

- *Liquidity:* The terms of the BEN CPS provide for mandatory conversion into BEN ordinary shares after 12 months, providing the mandatory conversion conditions are satisfied. Based on our analysis, there is a likely 90 percent probability of the mandatory conversion conditions being met after 12 months. Under the terms of the Proposal, Unitholders will

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[1] Source: AMF

[2] Source: AMF

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receive 0.01835 BEN CPS for each Unit. Accordingly on conversion approximately 1.74 million BEN CPS will be issued, which is approximately double that of BEN's most comparable listed security, BENPA. In our view it is likely that liquidity of the BEN CPS will be relatively consistent with that of the Fund and BENPA, which have demonstrated similar levels of liquidity over the past 12 months. However as BEN shares have historically traded at demonstrably higher levels of liquidity than either the Units or BENPA, providing the conversion conditions are met, Unitholders will likely be provided with higher liquidity in 12 months following the issue of BEN CPS

- *Increased certainty of value:* The terms of the BEN CPS provide for a fixed dollar conversion of BEN CPS to BEN ordinary shares, whereby a BEN CPS convert at a 2.5 percent discount to the 20 business day VWAP of BEN ordinary shares. This provides Unitholders with greater certainty of value, regardless of the BEN CPS trading price. Should Unitholders wish to exit their holdings of BEN ordinary shares completely following conversion, Unitholders will be able to sell the BEN ordinary shares on the ASX

- *Enhanced credit profile:* Moody's have provided a credit rating of Baa1 (equivalent to a Standard & Poor's rating of BBB-) for the BEN CPS, which is an investment grade rating. This compares favourably to the Fund which is unrated as are most of its Investment Notes

- *Exit from a diminishing investment portfolio:* There have not been any new investments made by the Fund in over two years and the current Investment Notes are approaching maturity. As each Investment Note reaches maturity or meets its call conditions, the Fund is becoming increasingly less diverse and its concentration risk is increasing for Unitholders. The Fund's longest expected asset is its MIS loan portfolio, which has an expected maturity of four years. The Proposal provides Unitholders with an opportunity to exit the Fund and cease their exposure to the increasing risk associated with the Fund, resulting from the Fund's reducing investment diversification

- *Possibly reduced discount to face value:* BENPA have historically traded at a lower discount to face value than units in the Fund. As the most comparable security to the proposed BEN CPS, it is likely the discount to face value will also be lower than that of the Units.

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Possible disadvantages of the Proposal

The possible disadvantages of the Proposal to Unitholders include:

- *Tax consequences:* Exchange of Units for BEN CPS will give rise to a capital gains tax (CGT) event and will not qualify for capital gains tax rollover relief. Consequently this may result in capital gains tax being payable by some Unitholders. Further information relating to the tax consequences for Unitholders is detailed in Section 14.6
- *Certain Unitholders may not value the franking credits:* Unitholders who are unable to utilise all or some of the benefit from franking credits may receive lower after tax returns from the BEN CPS compared to those from the Units. The specific tax implications for each Unitholder will depend on the particular circumstances of the person or entity. Unitholders should seek and rely on their own advice where appropriate
- *No cash alternative:* Unitholders are not being offered a cash alternative to the BEN CPS as consideration under the Proposal. This represents a potential limited disadvantage for those Unitholders wishing an absolute or partial exit from their investment. BEN will apply for quotation of the BEN CPS on the ASX so Unitholders will be able to exit their investment (providing BEN CPS are accepted to ASX quotation) by selling their BEN CPS on the ASX, however, transaction costs will be incurred
- *No certainty of mandatory conversion value:* Due to the time value of money, the use of a BEN VWAP in the calculation of the number of BEN shares into which the BEN CPS will convert and the rounding down of the BEN conversion number, the estimated mandatory BEN conversion value of $102.56 may vary from the market value at the date of conversion
- *Foreign Unitholders may not be eligible to receive BEN CPS:* Unitholders who are deemed to be Ineligible Foreign Unitholders will not be issued the BEN CPS as consideration under the Proposal, instead, their entitlement will be issued to a nominee appointed by BEN who will sell all of the BEN CPS on the ASX and remit the net proceeds to them. This represents a disadvantage for those Ineligible Foreign Unitholders who are seeking ongoing investment exposure in BEN. However, they have the flexibility to reinvest the cash they will receive in BEN CPS or in BEN, albeit they will have to incur transaction costs.

On balance, we consider that the disadvantages of the Proposal do not outweigh the advantages

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see the important notice on page 1 of Annexure A.

4.4 Other considerations

No alternative proposals for the Fund have emerged

Since the announcement of the Proposal on 16 February 2009, no alternative formal proposal to acquire the Fund has been received by AMF.

In any event, following the announcement of the Proposal, potential alternative acquirers have had the opportunity to make competing offers for the Fund. The Independent Directors have advised that no such offers have yet been made for the Fund.

We note that approximately seven weeks will lapse between the date of this report and Unitholders' meeting to consider the Proposal. In the event that an alternative offer emerges within this timeframe on better terms, Unitholders could elect to vote against the Proposal.

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4.5 Implications if the Proposal is not approved

In the event the Proposal does not proceed, amongst other things:

- the Independent Directors of AMF anticipate that the Fund will continue as a stand alone entity and continue to remain listed on ASX. The Fund will continue to focus on its current business plan and strategy. The rights of Unitholders will remain unchanged

- the Units are likely to trade at lower levels than current market prices in the absence of an alternative proposal. We note that following the announcement of the Proposal on 16 February 2009 to 27 February 2009, the Units have traded in the range of $1.52 to $1.60 (based on closing prices). This range compares with the one month and three month VWAPs of the Units prior to the announcement of the Proposal of approximately $1.19 and $1.22 respectively. It is not possible to accurately predict the prices at which the Units might trade in the future in the absence of the Proposal or an alternative offer. However, in the absence of any unexpected events impacting the Fund, it is likely that the price of the Units on the ASX will fall below current market prices

- the expected benefits of the Proposal will not be realised. However, some of the possible disadvantages and risks of the Proposal will not arise

- the Fund may, in certain circumstances, become liable to pay BEN a break fee of $1.7 million under the SIA

- the Fund will have incurred the costs estimated to be in the order of $1.64 million (excluding any break fee which may be payable) and expended management time in planning for implementation of the Proposal without achieving an outcome.

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4.6 Tax implications of the Proposal

Unitholders should refer to Section 8 of the Explanatory Memorandum in relation to the tax implications arising from approval of the Proposal. Under current Australian taxation laws, the exchange of Units in the Fund for BEN CPS will give rise to a CGT event and will not qualify for capital gains tax rollover relief. Consequently this may result in capital gains tax being payable by some Unitholders. Disposal of the BEN CPS by an Australian Holder will also give rise to a CGT event which may result in capital gains tax being payable by some Unitholders. The redemption of BEN CPS may result in the redemption proceeds being treated as an assessable dividend and will also give rise to a CGT event for Australian Holders which may result in capital gains tax being payable by some shareholders. The conversion of each BEN CPS into one BEN ordinary share should not result in a CGT event. The issue of additional BEN ordinary shares in relation to the BEN CPS should not be treated by an Australian Holder as a dividend or assessable income.

SUPERSEDED TRANSACTION

The specific tax implications for each Unitholder will depend on the particular circumstances of the person or entity. Unitholders should not rely solely upon the taxation information set out in the Explanatory Memorandum for taxation purposes, and should seek and rely on their own advice where appropriate.

4.7 General Advice

In forming our opinion, we have considered the interests of Unitholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual Unitholders. It is not practical or possible to assess the implications of the Proposal on individual Unitholders as their financial circumstances are not known.

The decision of Unitholders as to whether or not to approve the Proposal is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual Unitholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it.

As an individual's decision to vote for or against the proposed resolutions may be influenced by his or her particular circumstances, we recommend that individual Unitholders including residents of foreign jurisdictions seek their own independent professional advice.

This report has been prepared solely for the purpose of assisting Unitholders in considering the Proposal. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose. Our opinion should not be construed to represent a recommendation as to whether or Unitholders should vote for the Proposal.

Our report has also been prepared in accordance with the relevant provisions of the Act and other applicable Australian regulatory requirements. We recommend residents of foreign jurisdictions who are entitled to receive this report and who are uncertain as to the consequences of this seek their own independent professional advice.

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4.8 Other

Our opinion is based solely on information available as at the date of this report as set out in Appendix 2. It is noted that we have not undertaken to update our report for events or circumstances arising after the date of this report.

All currency amounts in this report are denominated in Australian dollars ($) unless stated otherwise.

This letter is a summary of KPMG's opinion as to the merits or otherwise of the Proposal. This letter should be considered in conjunction with and not independently of the information set out in the remainder of our report, including the appendices.

SUPERSEDED TRANSACTION

Yours faithfully

Don Manifold
Executive Director

Lilian Look
Executive Director

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Financial services guide

Dated 25 March 2009

KPMG Corporate Finance (Aust) Pty Ltd ABN 43 007 363 215 (**KPMG** or **we** or **us** or **our** as appropriate) has been engaged to issue general financial product advice in the form of a report to be provided to you.

Financial Services Guide

In the above circumstances we are required to issue to you, as a retail client, a Financial services guide (FSG). This FSG is designed to help retail clients make a decision as to their use of the general financial product advice and to ensure that we comply with our obligations as financial services licencees.

This FSG includes information about:

- Who we are and how we can be contacted
- The services we are authorised to provide under our **Australian Financial Services Licence, Licence No: 246901**
- Remuneration that we and/or our staff and any associates receive in connection with the general financial product advice
- Any relevant associations or relationships we have
- Our complaints handling procedures and how you may access them.

Financial services we are licensed to provide

We hold an Australian Financial Services Licence, which authorises us to provide financial product advice in relation to:

- Interests in managed investments schemes (excluding investor directed portfolio services)
- Securities (such as shares and debentures).

We provide financial product advice by virtue of an engagement to issue a report in connection with a financial product of another person. Our report will include a description of the circumstances of our engagement and identify the person who has engaged us. You will not have engaged us directly but will be provided with a copy of the report as a retail client because of your connection to the matters in respect of which we have been engaged to report.

Any report we provide is provided on our own behalf as a financial services licensee authorised to provide the financial product advice contained in the report.

General Financial Product Advice

In our report we provide general financial product advice, not personal financial product advice, because it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of this general advice having regard to your own objectives, financial situation and needs before you act on the advice. Where the advice relates to the acquisition or possible acquisition of a financial product, you should also obtain a product disclosure statement relating to the product and consider that statement before making any decision about whether to acquire the product.

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Benefits that we may receive

We charge fees for providing reports. These fees will be agreed with, and paid by, the person who engages us to provide the report. Fees will be agreed on either a fixed fee or time cost basis.

Except for the fees referred to above, neither KPMG, nor any of its executive directors, directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of the report.

Remuneration or other benefits received by our employees

All our employees receive a salary. Our employees are eligible for bonuses based on overall productivity but not directly in connection with any engagement for the provision of a report.

Referrals

We do not pay commissions or provide any other benefits to any person for referring customers to us in connection with the reports that we are licensed to provide.

Associations and relationships

Through a variety of corporate and trust structures KPMG is controlled by and operates as part of KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). Our executive directors may be partners in the KPMG Partnership.

From time to time KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership may provide professional services, including audit, tax and financial advisory services, to financial product issuers in the ordinary course of its business.

Complaints resolution

Internal complaints resolution process

As the holder of an Australian Financial Services License, we are required to have a system for handling complaints from persons to whom we provide financial product advice. All complaints must be in writing, addressed to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213.

When we receive a written complaint we will record the complaint, acknowledge receipt of the complaint within 15 days and investigate the issues raised. As soon as practical, and not more than **45 days** after receiving the written complaint, we will advise the complainant in writing of our determination.

Referral to External Dispute Resolution Proposal

A complainant not satisfied with the outcome of the above process, or our determination, has the right to refer the matter to the Financial Ombudsman Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001 or Toll free: 1300 78 08 08 or by Facsimile: (03) 9613 6399

Contact details
You may contact us using the contact details set out at the top of the letterhead on page 2 of this report.

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5 Outline of the Proposal

5.1 Overview

On 16 February 2009 AMF, as Responsible Entity for the Fund, announced it had entered into a SIA with BEN whereby BEN will acquire all of the Units, via a trust scheme, which if approved would result in the Fund becoming wholly owned by BEN.

The following resolutions require approval from Unitholders in order for BEN to implement the Proposal:

- a special resolution to approve amendments to the Constitution as set out in the Supplemental Deed (set out in Annexure A to the SIA) and to authorise AMF to execute and lodge with ASIC the Supplemental Deed to give effect to those amendments
- an ordinary resolution for the purpose of Item 7 of Section 611 of the Act to approve the acquisition of all of the Units by BEN
- an ordinary resolution approving for all purposes, the steps required to implement the Proposal.

SUPERSEDED TRANSACTION

Further, the Proposal is conditional on AMF receiving judicial advice from the Supreme Court of New South Wales or another competent court (the Court) confirming that, if Unitholders approve the Proposal, AMF would be justified in implementing it.

Under the Proposal, Unitholders will receive consideration of 0.01835 BEN CPS, with a face value of $100 per share, for each Unit held. Unitholders are also entitled to the March 2009 quarterly cash distribution expected to be paid in April 2009 estimated to be $0.016 for each Unit held, which is to be paid by the Fund. The Proposal is subject to a number of conditions including the approval by Unitholders.

BEN and AMF (as Responsible Entity for the Fund) have entered into the SIA which sets out the terms and conditions of each party's obligations in connection with the implementation of the Proposal.

5.2 Conditions precedent

The Offer is subject to a number of conditions as set out in the SIA including, inter alia:

- all approvals, consents, authorisations, registrations, filings, lodgements, permits, franchises, agreements, notarisations, certificates, permissions, licenses, directions, declarations, authorities, waivers, modifications or exemptions from by or with a government agency that are required to implement the Proposal are granted, or obtained and are not withdrawn, cancelled or revoked

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- approval by the ASX for quotation of the BEN CPS prior to the Second Court Date, subject to any conditions that ASX may reasonably require
- the Independent Expert concluding that the Proposal is fair and reasonable and therefore in the best interests of Unitholders and the Independent Expert does not change its conclusion or withdraw its report before 8:00am on the Second Court Date
- Unitholders approving the Proposal by the requisite majorities under the Act and in accordance with Guidance Note 15
- execution and lodgement of the Supplemental Deed and lodgement with ASIC
- no restraints issued by any court or other governmental agency prohibiting, materially restricting, making illegal or restraining the implementation of the Proposal remain in effect at the Second Court Date
- no "AYT Regulated Event" or "BEN Regulated Event" occurring as defined in the SIA
- no "AYT Material Adverse Change" occurring as defined in the SIA
- the representations and warranties provided by AMF and BEN in the SIA being true and correct in all material respects
- the Independent Directors unanimously recommending the Proposal in the absence of a superior proposal.

SUPERSEDED TRANSACTION

Further details in relation to conditions precedent are set out in Section 1.6 of the Explanatory Memorandum.

5.3 Termination

Termination by either party

The SIA may be terminated by either party prior to the Second Court Date if, inter alia, any of the following applies:

- the conditions precedent are not satisfied or waived, and the parties are unable to reach agreement on an alternative approach or extension of the date for satisfaction of the relevant condition precedent, the date of each application to the Court or by 30 June 2009 (End Date)
- the other party is in material breach of the SIA and the breach is not remedied within five business days.

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Termination by AMF

The SIA may be terminated by AMF prior to the Second Court Date if, amongst others, any of the following applies:

- there has been an occurrence of a "AYT Regulated Event" and the relevant circumstances continues to exist for five business days or until the Second Court Date
- all Independent Directors publicly change or withdraw their statement that they consider the Proposal to be fair and reasonable and therefore in the best interests of Unitholders or publicly change or withdraw recommendation of the Proposal, or publicly recommend, promote or otherwise endorse a competing proposal.

Termination by BEN

SUPERSEDED TRANSACTION

The SIA may be terminated by BEN prior to the Second Court Date if, amongst others, any of the following applies:

- an Independent Director publicly changes or withdraws their statement that they consider the Proposal to be fair and reasonable and therefore in the best interests of Unitholders or publicly changes or withdraws recommendation of the Proposal, or publicly recommends, promotes or otherwise endorses a competing proposal
- an "AYT Material Adverse Change" occurs (as defined in the SIA) and continues to exist for five business days
- there has been an occurrence of a "BEN Regulated Event" and the relevant circumstances continue to exist for five business days or until the Second Court Date
- a competing proposal in relation to the Fund is announced, made or becomes open for acceptance.

5.4 Break fee

BEN is entitled to receive a break fee of $1.7 million in certain specified events, including those outlined below:

- if any of the Independent Directors fail to make, change or withdraw their recommendation of the Proposal except where:
  - if the Independent Expert concludes the Proposal is not fair and reasonable and therefore not in the best interests of Unitholders (provided that the reasons for the Independent Expert's conclusions do not include the existence of a Superior Proposal); and

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- all of the Independent Directors consider in good faith that the Proposal is not fair and reasonable and therefore not in the best interests of Unitholders

- if a competing proposal is announced or made and recommended or otherwise endorsed by the Independent Directors, or if a competing proposal is announced or made prior to the End Date and completed prior to 16 February 2010 in circumstances where, as a result of the competing proposal, a third party acquires control of the Fund

- in circumstances where AMF is in material breach of the SIA and BEN terminates the SIA for that breach.

The break fee is not payable if the Proposal becomes effective, nor if AMF is entitled to terminate the SIA.

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AMF, in its capacity as Responsible Entity for the Fund, is also entitled to receive a break fee of $1.7 million if BEN is in material breach of the SIA and AMF terminates the SIA for that breach.

5.5 *Exclusivity*

At the date of the SIA, AMF represented and warranted that it was not in discussions regarding a competing transaction to the Proposal. AMF agreed that where any confidential information had been provided to a third party pursuant to a confidentiality agreement for consideration of a possible competing proposal that it was or will request the immediate return or destruction of that information.

Further, the SIA provides that AMF and its representatives will not directly or indirectly:

- solicit, invite, facilitate, encourage or initiate any competing proposal or any enquiries, negotiations or discussions, or communicate or any intention to do any of these things, with a view to obtaining any competing proposal (No Shop)

- enter into negotiate or enter into, continue, participate in negotiations or discussions, enter into any agreement, arrangement or understanding with any other party regarding a competing proposal, even if:

  - the competing proposal was not directly or indirectly solicited, invited, facilitated, encouraged or initiated by AMF any of its representatives; or

  - the competing proposal has been announced

  except where all of the Independent Directors acting in good faith to satisfy their fiduciary duties determine a competing proposal to be a superior proposal or that, where there is not

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already a competing proposal, the steps the Independent Directors propose to take may reasonably lead to a competing proposal being made that is a superior proposal (No Talk)

- without prior written authority, provide any non-public information to a third party in relation to that third party using the information in connection with that party formulating, developing or finalising a competing proposal (or assisting in doing so) (No Due Diligence).

In addition, AMF must notify BEN of any such approaches from third parties in relation to competing proposals and must also identify to BEN the third party and all material details of the proposal (Notification).

The obligations in relation to No Talk, No Due Diligence and Notification do not prevent the Independent Directors of AMF complying with their fiduciary or statutory responsibilities.

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AMF must not enter into an agreement in relation to any superior proposal from a third party unless it notifies BEN and allows BEN five business days to submit a counterproposal. If the Independent Directors determine that BEN's counterproposal would provide a superior outcome to a third party proposal or that it is on terms no less favourable than the third party proposal, AMF must use their best endeavours to proceed with BEN's proposal.

5.6 Issuing BEN CPS as consideration to ineligible foreign Unitholders

BEN will not be obliged to issue BEN CPS as consideration under the Proposal to Unitholders whose address as shown on the Fund's Unitholder register is outside of Australia unless BEN is satisfied that it is lawful to do so, or that an issue may be undertaken on such terms that BEN reasonably regards as acceptable and not unduly onerous or impractical.

In the event that BEN CPS are not issued to relevant foreign Unitholders, their entitlement will be issued to a nominee appointed by BEN who will procure the sale of those BEN CPS. BEN will distribute the net proceeds of such sales to the relevant foreign Unitholder.

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6 Scope of the report

This report has been prepared by KPMG for inclusion in the Explanatory Memorandum to accompany the Notice of Meeting convening a meeting of Unitholders to be held by AMF on or about 30 April 2009 in accordance with the Constitution and/or Section 252A of the Act. The purpose of the meeting will be to seek approval of the Proposal by Unitholders.

The sole purpose of this report is an expression of KPMG's opinion as to whether the Proposal is fair and reasonable and therefore in the best interests of Unitholders. This report should not be used for any other purposes or by any other party.

6.1 Technical requirements

BEN is proposing to acquire all of the Units in the Fund. Section 606 of the Act expressly prohibits the acquisition of units in a listed entity if the transaction increases a party's voting power from 20 percent or below to more than 20 percent of the issued units of a listed entity. Whilst BEN does not currently have any voting power in the Fund, the Proposal will increase the voting power of BEN to 100 percent and is thus a prohibited acquisition under the Act.

Section 611 of the Act permits an acquisition such as the Proposal proposed by BEN, providing the acquisition is approved under Section 611 Item 7 of the Act, by a resolution passed at a general meeting of unitholders at which no votes are cast in relation to any party who is associated with the acquirer. To achieve this all unitholders must be appropriately informed of the details of the proposal.

The Proposal also involves a trust scheme under Section 601GC of the Act. Guidance Note 15 requires that the scheme notice should also contain a report by an independent expert that states, whether, in the expert's opinion, the terms of the trust scheme are "fair and reasonable" for the unitholders of the target trust.

The Independent Directors of AMF, as Responsible Entity for the Fund, have requested KPMG to prepare an independent expert report pursuant to Guidance Note 15 providing an opinion as to whether, in the opinion of the expert, the Proposal is "fair and reasonable" to Unitholders.

ASIC Regulatory Guide 111 outlines the following definitions of "fair" and "reasonable":

- an offer is "fair" if the value of the offer price or consideration is equal to or greater than the value of the securities that are the subject of the offer (this comparison is required to be undertaken assuming 100 percent ownership of the target and irrespective of whether the consideration is scrip or cash)

- an offer is "reasonable" if it is fair. An offer may also be reasonable if, despite not being fair, the expert believes that there are sufficient reasons for the security holders to accept the offer in the absence of any higher bid before the close of the offer.

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Further, the Independent Directors of AMF, as Responsible Entity for the Fund, have requested KPMG to consider whether the Proposal is in the best interests of Unitholders.

ASIC Regulatory Guide 111 indicates an independent expert would be able to conclude that a proposal for a scheme of arrangement was in the best interests of members if they consider a proposal "fair and reasonable".

If an expert were to conclude that the proposal was "not fair but reasonable", ASIC indicates that it is still open to the expert to conclude that the scheme is "in the best interests of the members".

Therefore, in considering whether the Proposal is in the best interests of Unitholders, we have considered the fairness and reasonableness of the Proposal having regard to the assessed value of a Unit, as well as the advantages and disadvantages that will emerge for Unitholders as a result of the Proposal, consistent with the consideration required to opine on a scheme of arrangement.

6.2 Factors considered in determining our opinion

In forming our opinion, we have considered in particular the following issues:

- the assessed value of a Unit compared with the value of the Consideration to be received by Unitholders
- the extent of any implied premium to be "received" by Unitholders based on the proposed exchange ratio
- the key terms and conditions of the Units compared to the key terms of issue of the BEN CPS to be received as consideration under the Proposal
- other advantages and disadvantages which may impact Unitholders if the Proposal proceeds
- the consequences of not approving the Proposal
- the likelihood of an alternative transaction
- any taxation consequences for Unitholders.

6.3 Limitations and reliance on information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. Nothing in this report should be taken to imply that KPMG has verified any information supplied to us, or has in any way carried out an audit of the books of account or other records of the Fund or BEN for the purposes of this report.

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Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of AMF management. In addition, we have also had discussions with the management of AMF in relation to the nature of the Fund's business operations, its specific risks and opportunities, its historical results and its prospects for the foreseeable future. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG included budgeted/prospective financial information prepared by the management of AMF, as Responsible Entity for the Fund. Budgeted/prospective results are by their nature uncertain and are dependent on a number of future events that cannot be guaranteed. Accordingly, achievement of budgeted/prospective results is not warranted or guaranteed by KPMG. Actual results may vary significantly from the budgeted/prospective results relied on by KPMG. Any variations from budgeted/prospective results may affect our valuation and opinion either positively or negatively.

It is not the role of the independent expert to undertake the commercial and legal due diligence that a company and its advisers may undertake. The Directors of AMF, as Responsible Entity for the Fund, together with the AMF's legal advisers, are responsible for conducting due diligence in relation to BEN. KPMG provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process, which is outside our control and beyond the scope of this report. We have assumed that the due diligence process has been and is being conducted in an adequate and appropriate manner.

The opinion of KPMG is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

6.4 Valuation approach adopted

Regulatory Guide 111 indicated that it is appropriate for an independent expert to consider following valuation methods:

- the discounted cash flow method (DCF)
- the capitalisation of future maintainable earnings or cash flow (Capitalisation of Earnings)
- the amount that would be distributed to shareholders in an orderly realisation of assets

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- the amount which an alternative acquirer might be prepared to pay, or
- the most recent quoted price of listed securities.

Each of the above methodologies is applicable in different circumstances. In selecting the appropriate methodology by which to value a Unit of the Fund, we have considered which of these methodologies a potential purchaser would most likely adopt. A summary of each of the approaches considered in preparing this report is set out in Appendix 3.

The value of the Fund has been assessed by aggregating the estimated market value of the various investments of the Fund and other assets and deducting external borrowings and other liabilities. The market value of the underlying investments were assessed using a DCF methodology. The book value of other assets and liabilities were used as proxies for market value.

We have tested the reasonableness of our assessed value of the Fund using the above approach to, inter alia, the NTA of the Fund and the market prices of the Units on the ASX.

The BEN CPS being received as part of the Consideration, was ascribed a value of $1.835 per Unit under the Proposal. To assess whether the ascribed value of $1.835 fairly represents what we consider market value, we have utilised a Monte Carlo simulation to arrive at a value per BEN CPS (based on a face value of $100).

Unitholders are also entitled to receive an estimated cash distribution of $0.016 per Unit, based on any increase in the Fund's NTA for the March quarter (net of AMF's estimated costs of completion). We have not included the estimated cash distribution in our assessment of the fairness of the Consideration to be received by Unitholders as it reflects a Unitholder's ordinary distribution entitlement and will be received by Unitholders regardless of whether the Proposal is implemented or not.

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7 Overview of the asset securitisation industry in Australia

7.1 Introduction

The Fund invests in high yielding securities backed by a range of assets such as margin loans, residential mortgages, medical equipment financing loans and leases and MIS investor loans. Such securities are principally created by asset securitisation. Accordingly, this section provides an overview of the asset securitisation industry in Australia.

If the Proposal is approved, Unitholders will exchange Units for BEN CPS (in addition to receiving an estimated cash distribution of $0.016 per Unit). The BEN CPS are expected to convert to ordinary shares in BEN 12 months after the date of issue. BEN is an authorised deposit-taking institution (ADI) which is also authorised under the Banking Act 1959 to carry on banking business in Australia. For this reason, Section 8 provides an overview of the banking industry in Australia

7.2 Background

Asset securitisation, a form of structured finance popular in Australia since the mid-1980s, is the process of converting a pool of underlying non-traded illiquid assets, such as residential mortgages, into tradeable securities. The asset securitisation process can be summarised as follows:

- the loan originator sells a portfolio of loans to a special purpose vehicle (SPV), usually a company or trust
- the SPV raises funds to purchase the loans by issuing debt securities (bonds or commercial paper) to investors
- the loans' cash flow is used to meet the principal and interest repayments on the debt securities.

Any asset with a stable, predictable cash flow may be securitised. While residential mortgages are most commonly used, commercial mortgages, leases, personal loans, credit card receivables and trade receivables have also been utilised as underlying assets.

Securitisation also assists in the transfer of credit risk (i.e. the risk of default). Although most securitised assets are not externally rated due to their illiquid nature, they may be repackaged into tranches of similar credit rating profiles, and then on-sold to investors who have a similar risk appetite. There are typically three levels of debt tranches:

- *Senior debt*: interest and principal repayments have the highest priority. In the event of liquidation the repayment of principal has the highest priority

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- *Subordinated debt*: interest and principal repayments have a lower priority than senior debt. In certain circumstances subordinated debt is split into senior and junior subordinated debt, with senior subordinated debt having the higher ranking

- *Equity interest:* equity has an equivalent ranking to ordinary shares and only takes the residual amount after all other commitments have been met. Typically equity is the first to absorb any losses resulting from default.

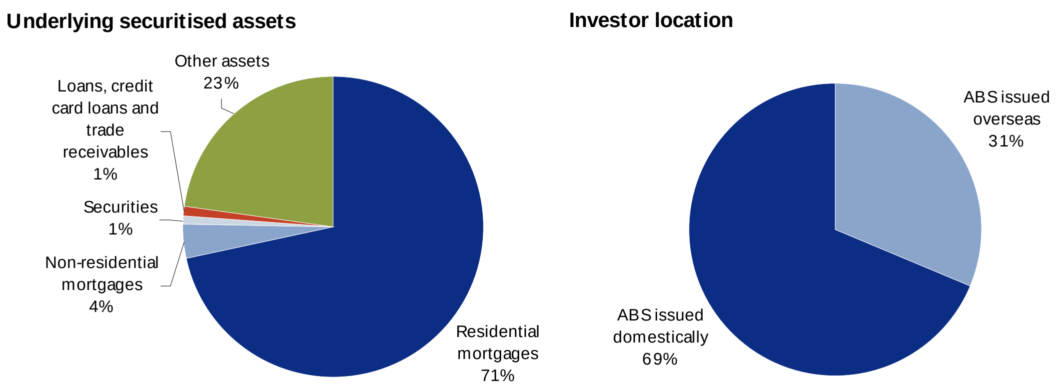
7.3 The Australian asset securitisation market

The Australian asset securitisation market has existed for over 20 years and is one of the most active markets outside the United States (US). Traditionally in Australia, as has been the case with other countries with active securitisation markets, residential mortgage-backed securities (RMBS) have comprised the majority of asset-backed securities (ABS). Other underlying assets used by securitisation vehicles include commercial mortgages, trade receivables, other loans, asset-backed bonds, leases, personal loans, medical financing and credit card receivables.

Commercial and investment banks are the main market originators of securitisation vehicles, typically employing securitisation schemes to remove assets from their balance sheets in order to reduce capital requirements. A bank may also sponsor securitisation schemes to remove assets from a client’s balance sheet. Securitisation also provides a means whereby future cash flows are realised earlier, thereby facilitating liquidity.

Retail and institutional investors invest in ABS including fund managers and superannuation funds. While the majority of ABS in Australia are issued to domestic investors, offshore investors comprise a significant portion as set out below.

Figures 1 and 2: Underlying securitised assets and investor locations as at 30 September 2008



Source: Australian Bureau of Statistics

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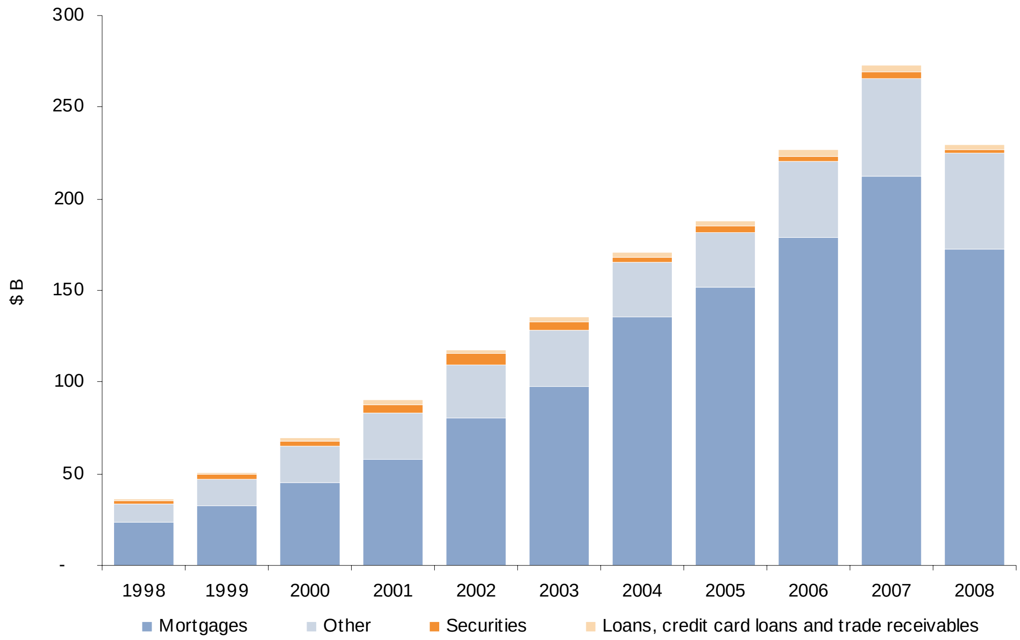
7.4 *Performance of the asset securitisation industry*

Mid-1990s to late 2007

The asset securitisation market performed strongly from the mid-1990s until late 2007, with total AUM growing at a compound annual growth rate of approximately 31 percent between 30 September 1995 and 2007. As at 30 September 2007, total AUM of Australian securitisation vehicles was approximately $272 billion as set out in Figure 3.

A major contributor to the market's growth in this period was residential mortgages which as at 30 September 2007 comprised approximately 74 percent of the total assets of Australian securitisation vehicles. An increase in the number and size of residential mortgages securitised throughout this period reflected the rapid economic growth experienced in Australia. The value of securitised residential mortgages increased from approximately $5 billion as at 30 September 1995 to $202 billion as at 30 September 2007.

Figure 3: Australian ABS industry – total AUM



Source: Australian Bureau of Statistics

Fund managers fuelled much of the market's growth through their considerable demand for ABS. While this sector typically sought mortgage-backed securities, they began to diversify their holdings with underlying assets such as credit cards and other receivables becoming more prevalent.

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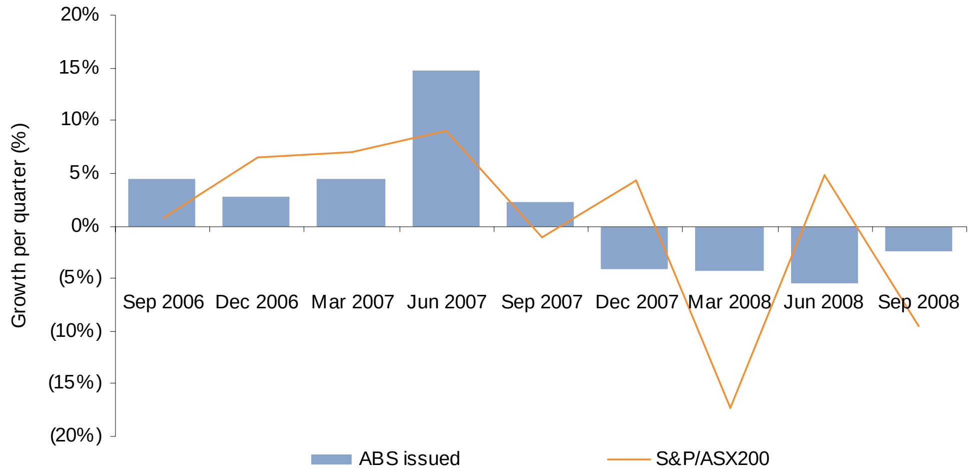
Mid-2007 to present

The US sub-prime mortgage crisis during the latter half of calendar 2007 and the resulting global financial crisis had a significant impact on the Australian ABS industry, with consumer confidence and liquidity in securitisation markets plummeting both locally and abroad.

The total value of ABS issued by Australian securitisation vehicles dropped for four consecutive quarters over the 12 months to 30 September 2008, decreasing by an average of 4 percent per quarter to $215 billion. This compares with the S&P/ASX200 which decreased by an average of 4.5 percent per quarter over the same period as set out below.

In contrast, the average growth per quarter over the 12 months to 30 September 2007 was 6.6 percent, representative of the strong domestic and global economic environment.

Figure 4: Performance of ABS issued relative to the S&P/ASX200 from 1 September 2006 to 2008



Source: Bloomberg and IRESS

The majority of the fall in Australia's securitisation market from 1 July 2007 can be attributed to a rapid decline in activity on the global market. The total value of ABS issued to overseas investors decreased approximately 32 percent from $100 billion as at 30 June 2007 to $68 billion as at 30 June 2008. The total value of domestic ABS issues rose in September 2007 to $165 billion before gradually declining to $146 billion as at 30 September 2008 as set out below.

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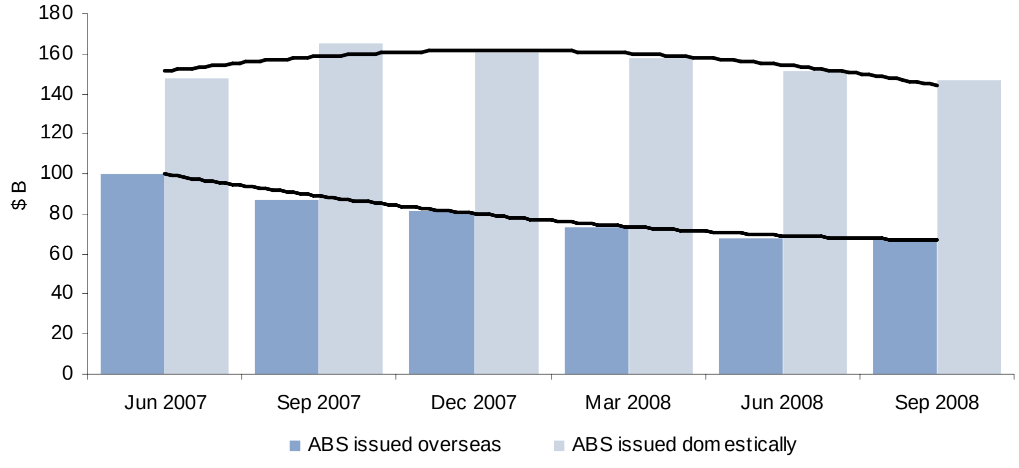
Figure 5: Recent ABS issuance – overseas and domestic issues



Source: Australian Bureau of Statistics

The Global Joint Initiative to Restore Confidence in the Securitisation Markets (The Global Joint Initiative), cited the following factors that, inter alia, contributed to the current crises faced in global (and in particular the US) financial and securitisation markets:

- deteriorating loan underwriting standards undermined the quality of the underlying securitised assets such as residential mortgages
- credit ratings for securities were overly optimistic and heavily relied upon by the market
- losses in the US sub-prime mortgage market triggered a crisis in confidence affecting consumer confidence in ABS and other financial products which spread to Europe and Asia (including Australia).

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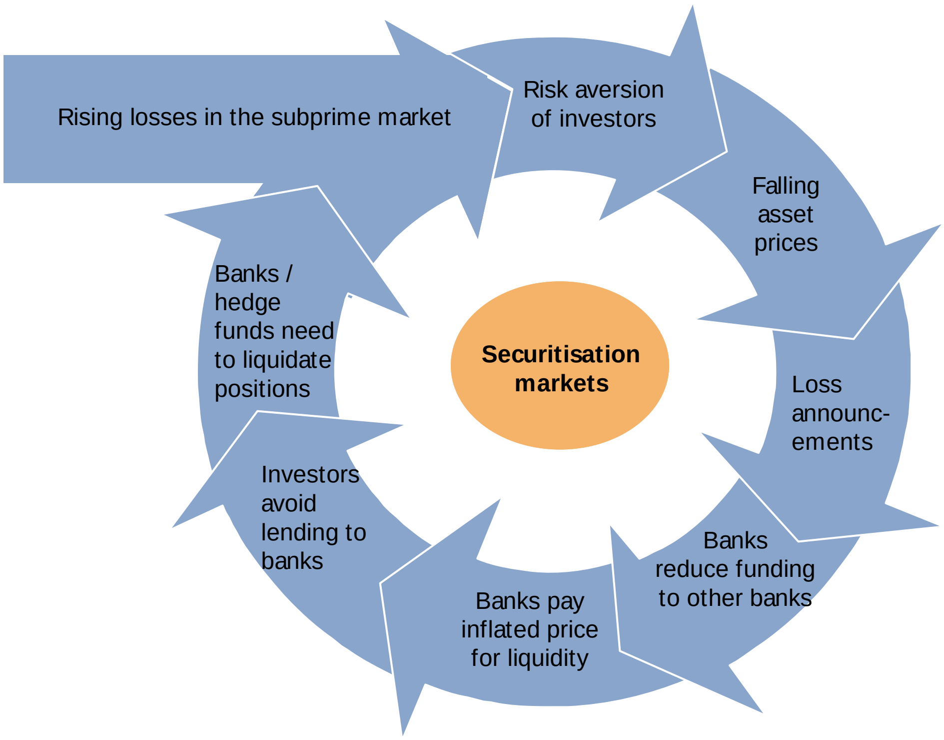
The cycle that led to the current crisis is set out below:

Figure 6: Cycle led by the sub prime market collapse



Source: Global Joint Initiative, 'Restoring Confidence in the Securitisation Markets' – McKinsey & Company

While the impact of the global financial crisis has been more severe in the US, the Australian securitisation market has contracted dramatically as a result with financial institutions forced to use alternative sources to raise additional funds. Australia's securitisation industry continues to struggle with a lack of investor confidence and stifled demand for securitised assets, which has severely curtailed competition across bank and non-bank mortgage providers. Information relating to measures implemented by the Australian Federal Government (Government) to address market concerns are detailed in Section 7.6.

There have been a number of credit downgrades of RMBS and ABS over the past 12 months, including notes issued by vehicles associated with Allco Finance Group and Mobius. However, to date, there have been no defaults in Australia of publicly issued and rated RMBS or ABS.

Recent domestic RMBS issues in Australia have been for smaller amounts at a higher cost (as a result of the market contraction) including St. George's $1 billion RMBS facility privately placed in September 2008 for which pricing was undisclosed.

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7.5 Asset securitisation regulation

While formal regulation of the industry currently exists, there have been initiatives introduced by industry representative bodies to increase self-regulation in an attempt to restore consumer confidence and ultimately restore the industry to a normal level of functionality as a result of the global financial crisis.

Formal regulation

The Australian securitisation market is formally regulated by APRA in accordance with Prudential Standard 120 - Securitisation (APS 120). APS 120 aims to ensure that ADIs adopt prudent practices in managing the risks associated with securitisation and that appropriate regulatory capital is held against those risks.

The key requirements of APS120 include that an ADI must:

- hold regulatory capital against all securitisation exposures that it retains or acquires
- stand clearly separate from a securitisation with the extent of the institution's obligations to the securitisation set out in legal documentation
- ensure that there is clear disclosure that its involvement in a securitisation does not extend beyond any specific undertakings to which it has formally committed itself.

Self regulation

The Australian Securitisation Forum (ASF) is an industry body which represents over 120 organisations including Australia's largest banks, non-bank mortgage providers, investment managers, ratings agencies and other organisations within the securitisation market in Australia. The ASF's role involves increasing awareness and knowledge of the securitisation industry through education of the government, regulators, the public and investors.

In an effort to restore consumer confidence in global securitisation markets as a result of the sub-prime and global financial crises, the ASF along with the Securities Industry and Financial Markets Association, the American Securitisation Forum and the European Securitisation Forum launched the Global Joint Initiative. The Global Joint Initiative was formed to develop and publish, actionable industry-developed recommendations aimed at revitalising the securitisation market and consumer confidence. Its goals include improving the operation and function of these markets in ways that enhance market discipline and transparency, while preserving the role that securitisation plays in funding consumer and business credit needs.

7.6 Outlook for the asset securitisation industry

Whilst the current uncertainty in the economic environment makes it difficult to predict future market performance, the Government and the Reserve Bank of Australia (RBA) have

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introduced measures to support competition and increase liquidity in Australia's mortgage markets.

On 26 September 2008, the Government announced a decision to invest temporarily in Australian RMBS to support competition from a diverse range of lenders during the present market dislocation. As a result, the Australian Office for Financial Management (AOFM) will invest $8 billion into Australian RMBS with at least $4 billion to be allocated to issuers that are non-ADIs.

The AOFM has invested a total of $1.996 billion to date across four mandates, for issue on behalf of Members Equity Bank Pty Ltd, FirstMac Ltd, Challenger Mortgage Management Pty Ltd and RESIMAC Ltd. Of this amount, $1.496 billion has been invested in securities of non-ADI issuers.

On 8 October 2008, the RBA announced the expansion of its domestic market facilities to provide ADIs greater flexibility to manage their liquidity. Under the expanded mandate, the RBA has a broader range of securities eligible for its repurchase operations (repos) which aim to provide liquidity in the market. The expanded mandate includes domestically issued RMBS, commercial mortgage-backed securities and securities backed by auto loans / leases and credit card receivables provided they have a public rating of AAA or equivalent from a major credit ratings agency.

The acceptance of ABS under repo (except for RMBS) is scheduled to remain in place until 30 June 2009 with the RBA expected to make a decision on the on-going nature of these agreements prior to this deadline.

It is expected that the following factors will continue to influence the performance of the Australian ABS industry resulting in lower future growth:

- deterioration in asset quality. Although problem loans of Australian financial institutions are low relative to both international and historical standards, impairments in personal lending, mortgages and the corporate sector are expected to rise as the economic downturn continues

- consumer credit becoming more expensive. Historically, securitisation has had tangible benefits for consumers through the reduction in cost and an increase in the availability of credit. Current and potential future uncertainty surrounding the underlying risk of ABS may reduce availability, and in turn increase the cost of consumer credit. The market perception of securitisation as a mechanism that creates securities with low risk is an important factor for the long-term viability of the industry

- continued global uncertainty. Continued deterioration in world economies could cause greater stress on asset classes that have not experienced a decline such as credit cards and student loans. This may continue to affect international investment in Australian issued ABS.

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8 Overview of the banking industry in Australia

8.1 Background

The Australian financial services industry is comprised of retail and non-retail banks, investment banks, credit unions, building societies, superannuation funds, managed funds, insurance offices, securitisation vehicles and various other financial corporations and financiers. The industry has grown considerably at a compound annual growth rate of 15.1 percent over the four years to 30 September 2008, with financial service providers holding total assets of approximately $4.6 trillion at the end of September 2008, up from $2.6 trillion four years ago. In the year ended 30 September 2008 growth slowed to 6.7 percent.

BEN is an ADI which is authorised under the Banking Act 1959 to carry on banking business in Australia. ADIs include Australian banks, foreign banks that have been granted an ADI authority, building societies and credit unions. With the exception of the RBA, ADIs are the only bodies corporate authorised to carry on banking business in Australia.

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ADIs comprise a significant share of the Australian financial services industry, with assets comprising 55.9 percent of Australian financial institution assets as at 30 September 2008.

8.2 Banking industry overview and key participants

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The Australian banking sector is comprised primarily of the four major banks, regional banks and branches of foreign banks.

Major banks

The four major banks, Australia and New Zealand Banking Group Limited (ANZ), Commonwealth Bank of Australia (CBA), National Australia Bank Limited (NAB) and Westpac Banking Corporation (WBC), provide full banking services. The major banks dominate the banking industry in Australia across retail, business and institutional segments and have a strong national presence and extensive branch networks. As at 31 December 2008 the major banks' (including St George Bank Limited (St George)) combined market share of total Australian banking assets was approximately 71.2 percent and 73 percent of total Australian banking deposits.

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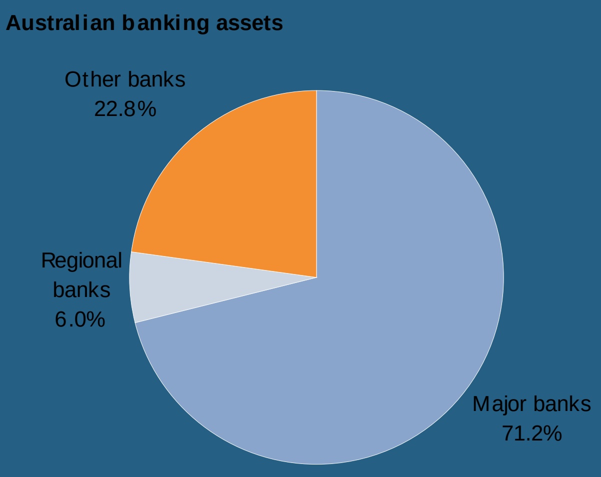
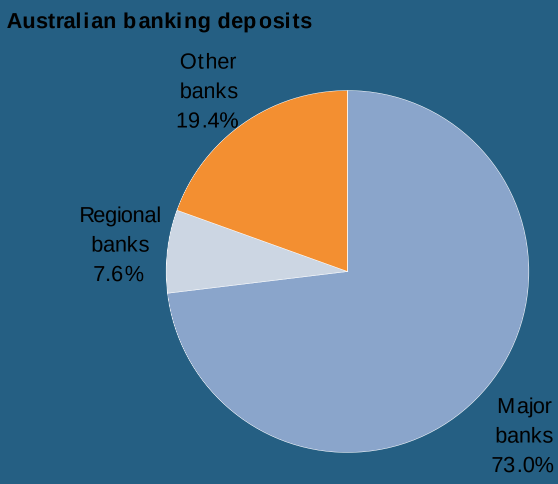
Figures 7 and 8: Market share of Australian banking assets and Australian banking deposits





Source: APRA

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Regional banks

Following the merger of Bendigo Bank Limited (Bendigo Bank) and Adelaide Bank Limited (Adelaide Bank) in November 2007 and Westpac's acquisition of St George in November 2008, there are currently three major regional banks in Australia: Suncorp-Metway Limited (Suncorp), BEN and the Bank of Queensland Limited (Bank of QLD).

Regional banks are smaller than the majors and generally have a higher geographic focus which can be traced to their state or region of origination, with most having been formed from state based building societies and/or operations owned by state governments. Regional banks tend to compete primarily in the retail and mid size corporate sectors. The regional banks differ in terms of size and business model employed. As at 31 December 2008 the regional banks' (excluding St George) combined market share of total Australian banking assets was approximately 6 percent and 7.6 percent of total Australian banking deposits.

Other banking institutions

In addition to major banks and regional banks, foreign-owned banks also operate in Australia. Foreign-owned banks operate primarily in specialist financing, corporate lending and advisory. Most foreign-owned banks do not have a retail presence, however Citibank and HSBC Bank Australia provide retail branches in Australia.

Non-banking financial institutions such as building societies and credit unions also compete with banks, primarily in deposit-taking and housing finance. Combined they comprise less than 2 percent of total assets of the Australian financial services industry.

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8.3 Bank ownership

Most Australian banks are listed on the ASX and have a diverse shareholder base. The Financial Services Sector (Shareholding) Act prevents shareholdings in Australian banks in excess of 15 percent, although the Federal Treasurer may approve a higher ownership level where it is considered in the national interest. The Federal Treasurer also has the power to limit shareholdings that are less than 15 percent on national interest grounds or where it would result in practical control of that bank.

The Federal Government has a ‘four pillars’ policy which prevents any merger between the four major banks. Any mergers between regional banks are required to be considered by the Australian Competition & Consumer Commission (ACCC) as to whether competition is materially lessened in a substantial market. The ACCC has previously indicated that it considers Australia’s regional banks as providing vigorous competition to the four major banks and accordingly it would carefully consider any proposed acquisitions of regional banks.

The prudential supervisor of banks in Australia, APRA also has general guidelines against any single shareholder of a bank being in a position to exercise undue control over a bank’s policies and approval, without approval from APRA.

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8.4 Performance of the banking industry

The banking industry has undergone significant changes since financial deregulation commenced in the 1970s. Changes to Australia’s financial system from deregulation included:

- interest rate controls were removed over time
- interest rates on government securities were freed up
- the exchange rate was floated
- foreign banks were permitted to enter the Australian financial system.

Performance of the banking industry has been particularly strong since the mid-1990s (until late 2007), reflecting the ongoing expansion of the Australian economy. The banking industry has outperformed the wider market since 1994 as demonstrated overleaf. The impact of the global credit crisis during the second half of 2007 has had a significant impact on both the banking sector and the Australian equities market. The following graph shows the performance of the banking sector, represented by the S&P/ASX 200 Banks Index relative to the S&P/ASX 200 Index.

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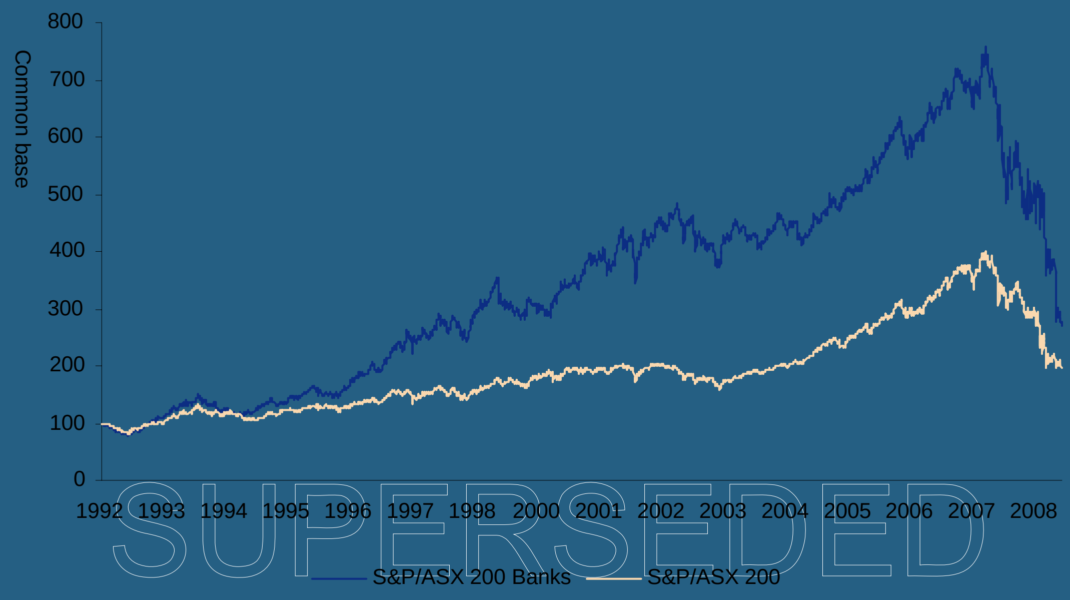
Figure 9 : Relative performance of banks to the ASX 200 from June 1992 to 27 February 2009



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Source: IRESS

Despite the current difficulties experienced by many other banking systems around the world, the Australian banking system continues to be profitable. Both the majors and the regional banks continue to report solid profits on their banking activities, underpinned by increased net interest income driven primarily by the strength of lending volume growth, particularly in housing. Performance has also been driven by increased fee income and a focus on cost rationalisation. Interest rate margins have continued to contract as they have done over much of the past decade. Recent margin contraction reflects in part the fact that lenders did not immediately pass on all of the higher funding costs arising from the global credit crisis. Recent increases in provisioning charges have also impacted the banking sector, although total charges as a ratio of average assets remain low relative to historical levels.

The key drivers of bank performance are discussed in further detail below.

Credit growth

Credit growth is a key driver of banking sector performance and has underpinned the earnings of the sector. Significant growth in credit occurred following the recession of the early 1990s. Credit growth is linked to the strength of the Australian economy, which can be represented by nominal gross domestic product (GDP) growth.

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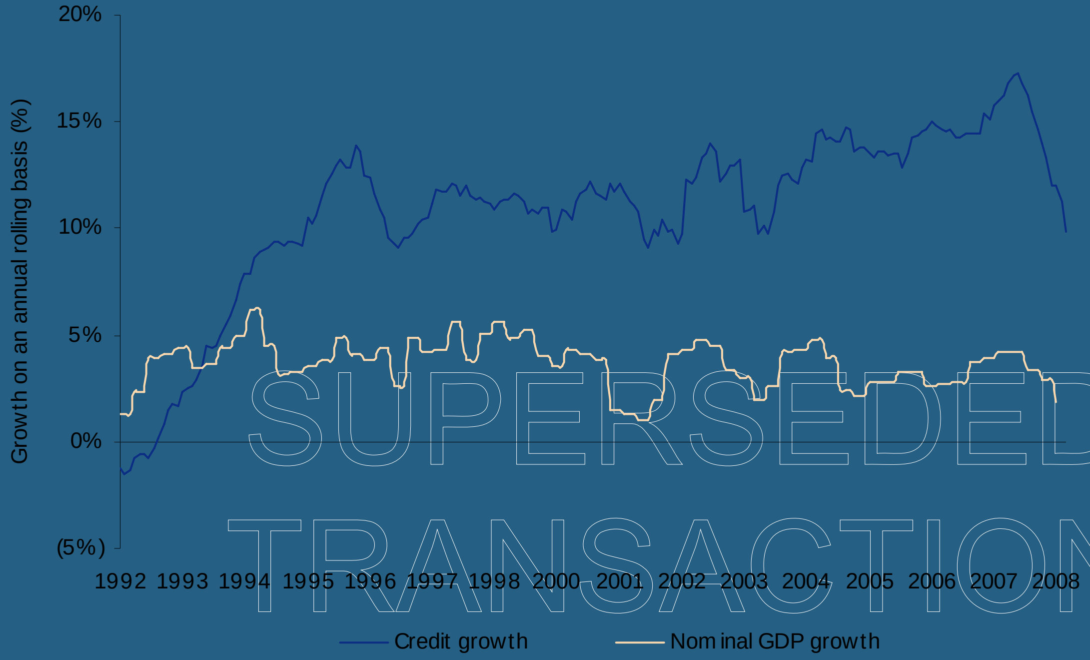
Figure 10: Credit and GDP growth from June 1992 to November 2008



Source: RBA

Credit growth has largely outperformed nominal GDP growth since 1994, principally due to the expansion in housing and personal lending since this time. Following the slowdown in property from mid-2004, housing credit declined, however business lending increased following the boom in the resources industry. Annual credit growth peaked in January 2008 at 17.3 percent but has since declined to growth of 9.8 percent in November 2008 with the effect of the global financial crisis, interest rate increases and high fuel prices. To assist in stimulating the economy, the RBA has reduced the target cash rate by 400 basis points since September 2008, down to a cash rate of 3.25 percent as at the date of this report, the lowest cash rate in decades.

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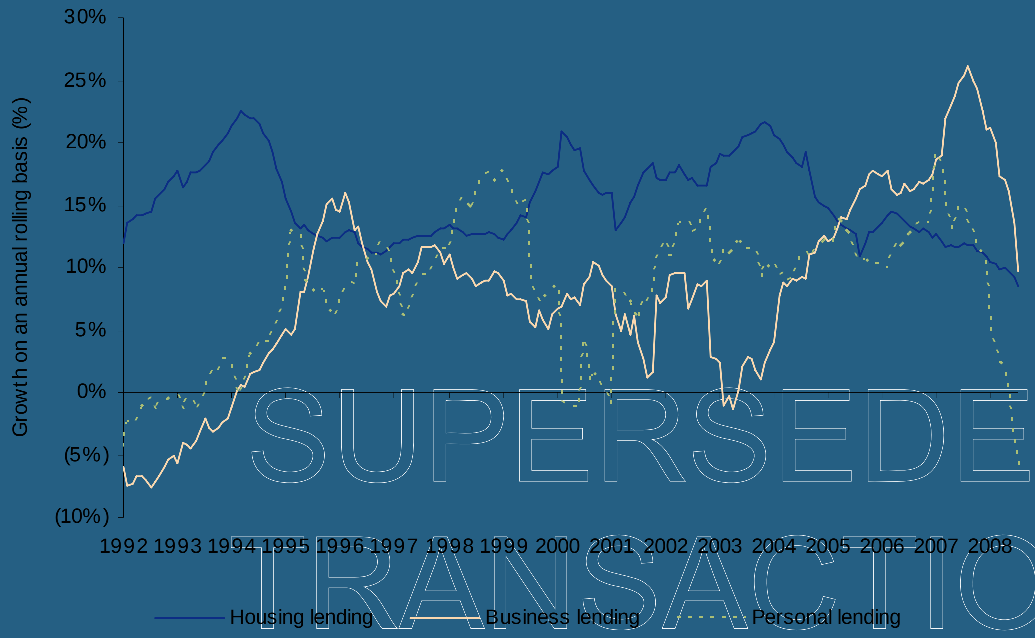
Credit growth for housing, personal and business lending is set out below.

Figure 11: Credit growth by type from June 1992 to December 2008



Source: RBA

Growth in housing and personal lending increased considerably from 1994 until late 2007 and was driven by strong economic conditions, low employment levels and positive consumer sentiment. With relatively low interest rates, debt grew to represent circa 160 percent of annual income by late 2006 and has continued at around this level since. This ratio of debt to annual income is more than double what it was a decade ago. The leverage of the household sector has increased to a debt to asset ratio of 19.3 percent in September 2008, up from 17.3 percent in September 2007 and 11 percent during the mid 1990s. Growth in housing credit slowed to 8.5 percent in December 2008 (on an annual rolling basis), which is the lowest level of growth in over 20 years.

Personal credit grew strongly during the latter half of 2006, peaking at 19.2 percent (on an annual rolling basis) in June 2007. This growth was particularly strong in margin lending to fund the purchase of shares and managed funds as a result of the buoyant share market, characterised by the 26 percent growth in the S&P/ASX 200 from August 2006 until the end of June 2007. In December 2008 personal credit had contracted by 5.8 percent from the previous year.

Growth in business lending was still strong during the second half of 2007 at an average growth rate (on an annual rolling basis) of 23 percent despite the credit crisis, due in part to re-intermediation whereby banks honoured lines of credit including companies previously funding themselves in the commercial paper market. Lending to businesses has since slowed

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significantly with measures of confidence now weaker than during the recession of the early 1990s. Many businesses have also adopted a more conservative approach to gearing, credit terms and conditions have been tightened and there is reduced willingness of lenders to lend to riskier borrowers. Growth in business lending slowed to 10 percent in December 2008 from the previous year.

Asset quality

The asset quality of banks has improved significantly since the early 1990s as a result of the strength of Australia's economy, improved credit and lending policies and a shift toward lower risk lending. Australian banks' problem loans remain relatively low by historical and international standards, despite the effects of the global financial crisis. Australian banks have limited exposure to the US sub-prime related assets or to market risk from trading activity.

Impairment losses for regional banks (including Elders Rural Bank) in 2008 totalled $414 million, an increase of 64 percent over the previous year. Whilst the increase is high in relative terms, impairment losses remain low relative to risk-weighted assets at 0.29 percent[3].

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Major banks' impairment losses were up 192 percent to $6.5 billion in 2008. Impairment losses as a percentage of average risk-weighted assets was approximately 0.6 percent, double that of regional banks[4].

The Australian financial system is considered to be well placed to deal with the global financial difficulties. Non-conforming loans (which are the closest Australian equivalent to sub-prime mortgages) comprise less than 1 percent of Australian mortgages outstanding, which compares to 12 percent of United States' mortgages. Arrears rates on prime mortgages have also been historically low in Australia, in comparison to the United States and the United Kingdom. However, in a sustained economic downturn, impairment charges are likely to trend upwards.

Net interest margins

Net interest margins have declined over the past decade, reflecting the intense competition for both deposits and loans in the financial market and that the financial sector is increasingly sourcing funds from the more expensive wholesale markets. More recently the increased cost of wholesale funding following the global financial crisis and the delay from many banks in initially passing on increased funding costs to borrowers has caused further contraction of net interest margins. The decline in net interest margins has been partly offset by a significant growth in non-interest income, reflecting a shift in approach to how banks charge their customers.

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[3] Source: KPMG FIPS Regional Banks: 2008
[4] Source: KPMG FIPS Regional Banks: 2008

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The ratio of net interest income to average interest-earning assets for the five largest banks (CBA, NAB, ANZ, WBC and St George) declined by 13 basis points over the year to September 2008 to around 2 percent, down from around 4 percent last decade[5]. The margin decline is evidence of the wholesale funding market difficulties and continued competition from retail deposits. Some banks did indicate some relief was provided during latter 2008 with mortgage lending rates in particular ceasing to be strictly aligned with the RBA cash rate.

Cost to income ratios

Banks have become increasingly focused on costs in order to counter declining net interest margins, increasing bad debt expenses and a slowdown in asset growth. Due to regional banks' smaller size and lower economies of scale, they have tended to have a higher cost to income ratio than the major banks. Major banks have announced programs to rationalise costs at an aggregate cost of circa $923 million.

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The aggregate cost to income ratio of regional banks (including St George and Elders Rural Bank) fell to 49.8 percent in 2008, down from over 54 percent in 2006. Major banks' cost to income ratios ranged from 48.9 percent (CBA) to 45.1 percent (WBC) in 2008.

8.5 Banking regulation

APRA is charged with regulating the Australian financial services industry, including ADIs, and for developing administrative practices and procedures (i.e. prudential standards) to give effect to its regulatory role, in a manner that balances financial safety and efficiency, competition, contestability and competitive neutrality.

Deposit-taking institutions are regulated by APRA under a single licensing regime. The Banking Act 1959 gives APRA power to authorise and revoke authorities of ADIs, to make prudential standards or issue enforceable directions, and to inspect ADIs. In addition ADIs which are permitted to accept retail deposits, are covered by the 'depositor' protection provisions of the Banking Act 1959. These provisions provide APRA with the power to act in the interests of depositors, including the power to appoint a statutory manager to an ADI in difficulty to take control of the institution.

In response to the global financial crisis, the Government announced on 12 October 2008 that all deposits of Australian banks, building societies and credit unions and Australian subsidiaries of foreign-owned banks would be guaranteed for a period of three years, and wholesale term funding of Australian incorporated banks and other ADIs would be guaranteed on application, in return for a fee. On 24 October 2008, the Government announced that as of 28 November 2008, a guarantee threshold of $1 million would apply to deposits, after which a fee would be charged to receive the benefits of deposit guarantee. The deposits and wholesale term funding

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[5] Source: RBA Financial Stability Review, September 2008

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guarantees are provided pursuant to the Financial Claims Scheme (FCS) legislation passed in October 2008, which APRA is charged with responsibility for administering.

In addition to APRA supervision, ADIs must comply with the Act and are therefore also regulated by ASIC. ADIs are required to hold an Australian Financial Services Licence under the Financial Services Reform Act.

As required by APRA, ADIs must comply with various prudential standards. The principal prudential standards that apply to ADIs are shown below.

Capital adequacy

ADIs are required to maintain a minimum level of capital (Tier 1 and Tier 2 capital) as a proportion of their risk-weighted assets. This ratio is referred to as the capital adequacy ratio (CAR) and aims to ensure ADIs retain sufficient levels of capital to absorb any losses associated with the quality of balance sheet assets without seriously threatening their solvency.

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APRA requires ADIs to maintain a CAR of at least eight percent. The minimum capital required is calculated by multiplying risk-weighted assets (including both on and off balance sheet assets) by the required ratio as well as adding capital requirements for operational risk and other risks. The weighting of assets is determined by the relative credit risks as set by APRA or internal risk measurement models if approved by APRA.

The capital adequacy prudential standards are based on the International Convergence of Capital Measurement and Capital Standards (Basel II), introduced in 2008 as a replacement of the 1988 Bank Capital Accord (Basel I). Basel II is a global approach to assessing the capital adequacy of banks and is an effort by international banking supervisors to make international capital regulations more consistent, increase the risk sensitivity of regulatory capital and promote enhanced risk-management practices following advances in risk-management techniques, technology and banking markets.

Basel II was introduced in Australia from 1 January 2008 and comprises three 'pillars' as set out below:

- Pillar 1: Determines the minimum capital requirements for credit, market and operational risk. It has a greater sensitivity to risk than Basel I and allows ADIs to use internal risk models to calculate minimum capital requirements if qualifying criteria are satisfied

- Pillar 2: Focuses on the supervisory review process. It requires the capital targets of banks to be consistent with their overall risk profile and current operating environment

- Pillar 3: Relates to market disclosure and provides for enhanced market discipline through a disclosure regime.

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APRA advised that as a result of Basel II, some banks will need to hold more regulatory capital and others less. The four major banks have reported under Basel II with all but NAB reporting reduced risk-weighted assets compared to Basel I. Following the introduction of Basel II on 1 January 2008:

- fundamental Tier 1 capital (largely comprising ordinary shares and retained earnings) is the highest form of capital and must constitute at least of 75 percent of net Tier 1 capital (which is the sum of fundamental Tier 1 capital and residual Tier 1 capital less any deductions)

- residual Tier 1 capital (other capital which qualifies for Tier 1 status) must be limited to 25 percent of net Tier 1 capital, with any excess counted as upper Tier 2 capital and comprises:

  - non-innovative residual Tier 1 capital (perpetual non-cumulative preference shares)

  - innovative residual Tier 1 capital (all other residual Tier 1 capital which satisfies APRA requirements), which must be limited to 15 percent of net Tier 1 capital

- net Tier 1 capital must comprise at least 50 percent of a bank's required capital base.

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Liquidity risk

APRA agrees with each ADI on a liquidity policy, which places significant emphasis on an ADI's internal liquidity management practices. ADIs without approved risk management models must satisfy liquidity requirements by maintaining at least nine percent of liabilities in high quality liquid assets (HQLA), which aims to ensure that financial obligations can be met as and when they fall due.

Asset quality and credit exposure

APRA requires ADIs to have an effective credit risk management system to meet the needs of that ADI. APRA must be advised of impaired assets and requires these to be disclosed in published financial statements.

8.6 Outlook for the banking industry

Whilst in this volatile economic environment it is difficult to make any predictions, it is expected the following factors will continue to influence the banking industry's performance in the future and result in lower growth for the Australian banking industry:

- funding is likely to remain a key risk for the sector. Although initiatives such as the offshore funding guarantee to Australian banks and RBA securitisation repurchase agreement facilities aim to reduce funding costs and ease funding pressures, the ongoing global market volatility is likely to see market conditions remain difficult in the near term. This is expected to result in a continued credit rationing from the major banks and a widening of credit spreads

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- banks are expected to pursue capital management strategies such as capital raisings, divestment of under-performing businesses, share purchase plans and dividend reinvestment programs to fund the demand for capital asset growth. Despite the relative strength of Australian banks to their global peers, it is possible APRA will follow other regulators around the world and review the current Tier 1 capital requirements

- reduced levels of competition in the lending market. Deteriorating conditions in the credit markets have had a significant impact on competition, in particular affecting those lenders heavily reliant on funding through securitisation. Difficult funding conditions have seen a shift in customer preferences to the safety offered by banks as some non-bank lenders and second tier lenders have come under pressure. With a flight to quality evident, the major banks have increased their market share and this is a trend likely to continue, as a result of better access to funding and reduced competition

- declining local economic conditions. Credit growth is expected to be at much lower levels than in the previous 10 years, with negative global economic conditions, falling commodity prices and increasing fears of an extended Australian economic downturn reducing investments made by Australian business. Increased unemployment levels will also see a continued tightening of the home loan market. It is anticipated that these factors will result in reduced balance sheet and earnings growth for the Australian banking sector

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- deterioration in asset quality. Although problem loans of Australian financial institutions are low relative to both international and historical standards, impairments in personal lending, mortgages and in the corporate sector are expected to rise as the economic downturn continues. Increases in bad debts are not expected to be catastrophic however, due to the quality of the loan books of Australian banks

- further market consolidation. The recent merger of St George and WBC and the recently announced CBA acquisition of BankWest highlights an increasing trend toward consolidation that is expected to continue, particularly involving regional banks and non-bank lenders, strengthening the current two tier banking system

- continued focus on cost management and reduction. A slowdown in credit growth and increasing levels of bad debts may negatively impact industry profitability. Accordingly, banks are expected to explore cost reduction opportunities, such as outsourcing of information technology and collections and increased centralisation of administration and shared service areas.

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9 Profile of the Fund

9.1 Overview

The Fund is an Australian registered managed investment scheme listed on the ASX with AUM of $186 million as at 31 December 2008. It invests in high yielding securities sourced from BEN and third parties backed by a range of assets.

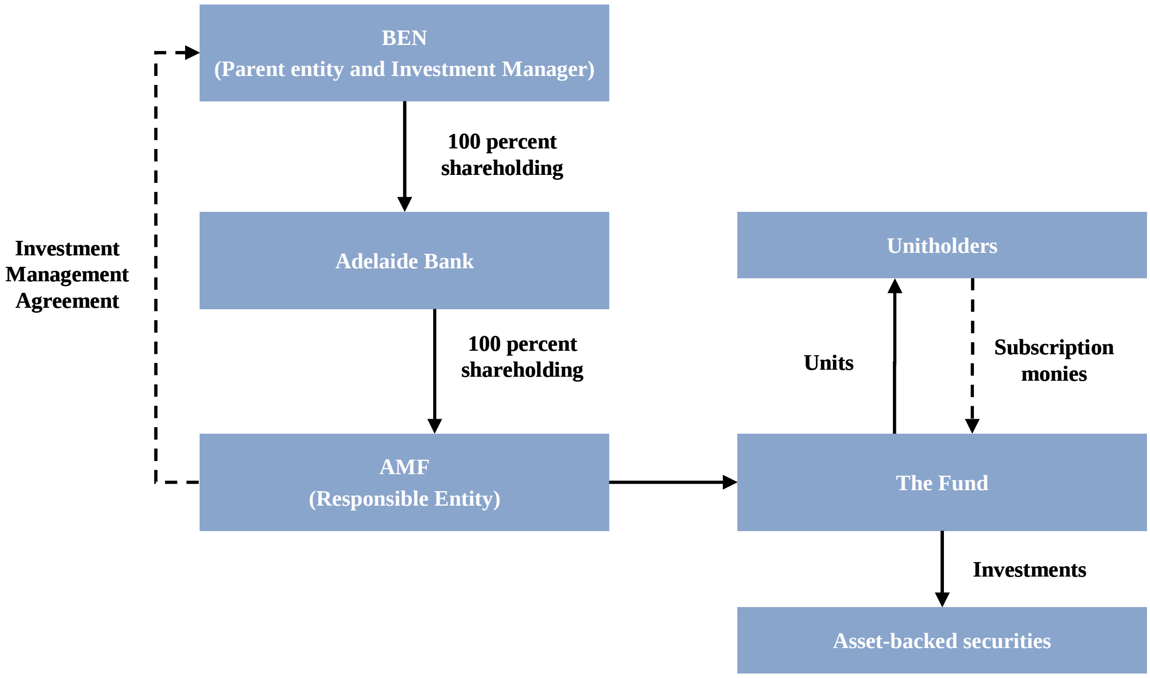
The Fund began trading on the ASX on 31 August 2006 after successful completion of an IPO which raised $200 million through the issue of 100 million units. As per the Product Disclosure Statement (PDS), the offer price was paid by Unitholders in two instalments, the first instalment of $1.00 on application and the second instalment of $1.00 paid on 31 August 2007.

AMF is the Responsible Entity which manages the Fund and three other retail funds which are distributed by partners such as stockbrokers and financial planners as well as through BEN's retail branch network. As at 31 December 2008, AMF had total AUM of approximately $1.0 billion.

9.2 Relationship between the Fund, AMF, Adelaide Bank and BEN

The diagram below sets out the corporate relationship between the Fund, AMF, Adelaide Bank and BEN.

Figure 12 : Corporate relationship



Source: AMF

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AMF is a wholly owned subsidiary of Adelaide Bank which is a wholly owned subsidiary of BEN. Both AMF and Adelaide Bank are part of the BEN group. AMF and BEN have entered into an Investment Management Agreement (IMA) and a Custody and Administration Agreement under which BEN will provide investment management, administration and custody services to AMF. Under the IMA, BEN will provide specified investment management services for an initial period of 10 years ending in 2016 with the option to extend for a further 10 years, subject to the approval of Unitholders.

For each potential investment, the investment team (which has been appointed by BEN) is required to follow an investment approval process. For all transactions of assets between BEN and the Fund, the AMF Related Party Transaction Committee reviews relevant documents to ensure the transaction is conducted on an arms-length basis between the two parties.

9.3 The Fund's investment strategy

The Fund has a broad investment mandate which allows it to invest in all categories of asset-backed securities. Investment selection is based on the risk-return profile of the investment and the overall mix of investments in its portfolio. The focus of the Fund's investments is lower rated, unrated and equity tranches of securitisation programs including senior subordinated debt, junior subordinated debt and equity interests. The Fund targets a portfolio mix of approximately 35 percent senior subordinated notes and 65 percent junior subordinated notes with equity interests limited to 10 percent of total tangible assets. The Fund also holds a small proportion of cash and relatively liquid investments as appropriate. Some of the investments made by the Fund are in underlying assets which retail investors would otherwise be unable to access, such as margin loans and residential mortgages.

The Fund has individual investments that vary between six months and 10 years in duration, with the weighted average duration expected to be approximately two years. The Fund has not participated in the active trading of its assets and intends to hold the majority of its investments to maturity.

In assessing whether to make particular investments, the Fund's strategy is to consider both the attractiveness of the individual investment and the impact the proposed transaction would have on its portfolio. In particular, the Fund typically has regard to the following characteristics of its portfolio:

- the level of diversification across asset classes
- the level of exposure to a single borrower or asset, with consideration given to the expected loss of each program and the level of diversification in the underlying portfolios of the investments
- the level of exposure to a single originator (with the exception of BEN, which is expected to be the originator of a number of securitised loans in the Fund's portfolio).

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The assets underlying the Fund's Investment Notes are primarily margin loans, which account for over 67 percent of the portfolio. Other investments include non-conforming mortgage loans, medical equipment financing loans and leases and MIS investor loans. Historically, these assets have had low default rates.

In FY2008, AMF management focused on minimising the portfolio's credit risk, eliminating refinancing risk and prudently managing capital as a result of the credit market dislocation which reduced AMF's opportunities for new investments. As a result, AMF commenced an on-market buyback of Units, purchasing 5.1 million Units to date of the 10 million Units approved by the Board.

9.4 Investment Notes

A summary of the Fund's Investment Notes as at 31 December 2008 is set out below.

Table 4: Summary of investments held by the Fund

Name	Asset category	Investment grade	Ranking	Balance ($M)	Margin over BBSW (%)
Lighthouse No.4 Trust	Margin lending	Unrated Investment Grade	Senior Subordinated Note	75.0	1.25
Lighthouse No.4 Trust	Margin lending	Unrated Sub-investment Grade	Junior Subordinated Note	50.1	12.50
Q10 Trust E Note	Mortgage portfolio	Rated Sub-investment Grade	Senior Subordinated Note	10.5	3.75
Q10 Trust F Note	Mortgage portfolio	Rated Sub-investment Grade	Junior Subordinated Note	11.0	6.00
Program No. 1 B Note	Medical financing	Unrated Sub-investment Grade	Mezzanine Note	0.8	3.75
Program No. 2 D Note	Medical financing	Unrated Sub-investment Grade	Mezzanine Note	13.2	6.00
MIS Program 1 C Note	MIS investor loans	Unrated Sub-investment Grade	Senior Subordinated Note	17.6	4.50
MIS Program 1 D Note	MIS investor loans	Unrated Sub-investment Grade	Junior Subordinated Note	8.0	12.50
Total				**186.2**	

Source: The Fund's investor presentation for half year results, 16 February 2009

Approximately 40 percent of the invested funds are in the Senior Subordinated Note in the Lighthouse No.4 Trust margin lending program. The remainder of the Fund's investments are in other Senior Subordinated Notes, Mezzanine Notes and Junior Subordinated Notes.

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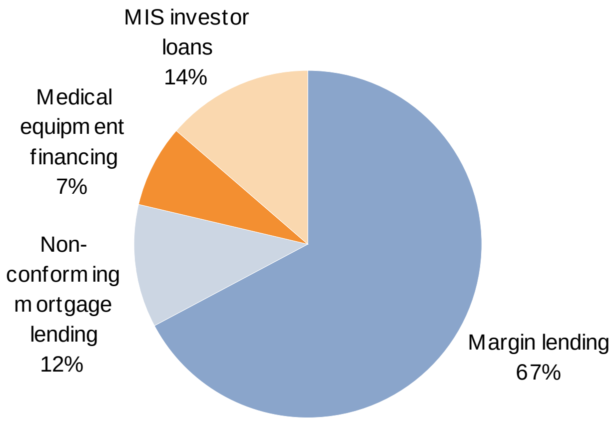
9.5 Asset classes

The composition of the Fund's asset portfolio as at 31 December 2008 is shown below.

Figure 13: Asset portfolio composition



Source: The Fund's investor presentation for half year results, 16 February 2009

The four distinct asset classes are described below.

Margin lending

Margin lending comprised approximately 67 percent of the Fund's invested funds as at 31 December 2008. Over the 12 months to 31 December 2008, there was an average of 2,207 margin calls valued at $92 million and 46 forced sales per month.

Margin lending is the practice of lending to retail investors for the purpose of purchasing a portfolio of shares or other financial products. In Australia, margin lending is undertaken by the major bank groups, some smaller bank groups, investment firms and securities brokers.

RBA statistics indicate that the Australian margin lending industry has grown from approximately 84 thousand client accounts with a value of $6.7 billion at 30 September 2000 to 205 thousand client accounts with a value of $21.1 billion at 31 December 2008. The average account size increased 29 percent, from $79,968 to $102,989 over the same period.

Over the 12 months to 31 December 2008, the total value of margin loans decreased by circa 44 percent from $37.8 billion at 31 December 2007, to $21.1 billion at 31 December 2008.

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The number of margin loans peaked in June 2008, at 206 thousand accounts with a value of $31.9 billion while the average margin loan account size peaked in June 2007 at $194,265, decreasing 47 percent to $102,989 in December 2008.

In the September 2008 quarter, the total number of margin loan accounts decreased for the first time since June 2003, from 206 thousand to 202 thousand accounts. As at 31 December 2008, the total number of margin loan accounts was 205 thousand.

Margin lending undertaken by banks in Australia is traditionally a lower risk activity. As at 4 June 2008, Australian banks had reported to APRA that they had not incurred any material losses in their retail margin lending activities. While recent market volatility has led to significant increases in the number of margin calls, banks have indicated to APRA that borrowers are normally able to satisfy the margin calls.

Non-conforming mortgage lending

Non-conforming mortgage (NCM) lending comprised approximately 12 percent of the Fund's invested funds as at 31 December 2008. As at 31 December 2008, the portfolio had an average loan-to-value ratio of 68.8 percent and a 40 month average seasoning.

NCMs are those mortgages lent to individuals who are outside the lending criteria of the mainstream mortgage market. Individuals may fail to meet the lending criteria of mainstream lenders because they are self-employed, working on a contract or casual basis, credit impaired, have a record of bankruptcy, aged over 55 or are a temporary resident of Australia. In addition, individuals may be unwilling or unable to supply verification of their income in which case they may be granted a low-documentation mortgage. As a result, non-conforming loans generally carry higher interest rates to compensate for the higher default risk.

The NCM market has a relatively short history in Australia dating back to 1999 and the completion of a $100 million securitisation by Liberty Financial. Non-conforming lenders typically fund their lending via securitisation, allowing large volumes of NCMs to be funded at rates that are closer to those offered in the mainstream mortgage market.

The size of the current Australian NCM market may be estimated by the total outstanding balance of residential mortgage loans underlying Australian prime and sub-prime RMBS as compiled by Standard & Poor's[6].

Prime loans are residential mortgages that would generally be made by traditional residential mortgage lenders in the Australian market and would usually be eligible to be covered by a primary lenders' mortgage insurance policy from a non-associated and rated mortgage insurer.

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[6] Standard & Poor's Australian RMBS Performance Watch Part 2

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As at 30 September 2008 the value of prime RMBS issued in the Australian market was $130.1 billion.

Sub-prime loans are residential mortgage loans to borrowers who would not typically qualify for a loan from a traditional prime lender and generally not be eligible for lenders' mortgage insurance. Sub-prime loans include nonconforming loans and loans to borrowers with prior credit impairments. They may also include low-doc loans. As at 30 September 2008 the value of sub-prime RMBS issued in the Australian market was $5.4 billion.

Medical equipment financing

Medical equipment financing comprised approximately 7 percent of the Fund's invested funds as at 31 December 2008. The size of the current market in Australia is unknown.

Broadly, medical equipment financing programs provide funding to an entity that originates receivables by providing specialist funding to medical practitioners and allied health professionals such as doctors, dentists, radiologists and pharmacists. The receivables consist of loans and leases which are used to finance medical equipment, motor vehicles, fixtures and fit-outs for professional premises and health practices.

The leases are usually secured only against the purchased or leased equipment and as a result there is exposure to the creditworthiness of the underlying borrower. To ensure that the chances of borrower default and accordingly losses to the programs are minimised, the originator conducts extensive analysis on each lending application.

MIS investor loans

MISs are offered to the public as tax effective investments, and are primarily targeted at agricultural industries such as forestry and farming. MIS investor loans comprised approximately 14 percent of the Fund's invested funds as at 31 December 2008. As at 31 December 2008, the average loan size was approximately $46 thousand while the portfolio has a 32 month average seasoning.

The MIS investor loans have been made to individual investors for the purposes of investing in a variety of agricultural MIS products including forestry, olive, vineyard and cattle projects. We understand that in excess of 80 percent of the underlying investments are in the forestry industry.

Investors are generally allowed to claim an immediate tax deduction for 100 percent of their contributions to MISs in agribusiness projects and generally hold the investments until the underlying agricultural business, such as a forest, is ready for harvest, at which point they are entitled to the cash flows from their holding.

The MIS industry is reliant upon rulings by the Australian Taxation Office (ATO) regarding the eligibility of a particular investment to be treated as a MIS for taxation purposes. In recent

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years, uncertainty has surrounded the treatment of MISs, significantly reducing new investment in MISs.

On 17 October 2007, the ATO clarified its position in relation to MISs through Taxation Ruling 2007/8 (TR 2007/8). The ruling had the effect from 1 July 2008 of denying an upfront tax deduction for agribusiness projects excluding those relating at least 70 percent to forestry. However, on 19 December 2008, the Full Federal Court of Australia overturned the precedent in TR 2007/8 by unanimously allowing a test case appeal which again allowed an upfront tax deduction for agribusiness MISs.

Due to the nature of the investment, the majority of the individuals who invest in MISs are high net worth individuals who are attracted to the tax-deductibility of the investments. Therefore, the risks associated with loans made for the purpose of investing in MISs relate to the risk of these high net worth individuals defaulting on the loans. In most cases, the loans are secured against the assets underlying the MIS investment.

To the extent that the MIS investors are in default, the Fund has secondary exposure to the industries underlying the MIS investments.

The MIS market in Australia has been negatively affected by uncertainty surrounding the tax treatment of MIS investments and the current global financial crisis. Timbercorp Limited (Timbercorp), one of Australia's largest MIS managers, acknowledged there has been an increase in the number of investors defaulting on their loan repayments, with overdue loan amounts increasing by approximately 42 percent in FY2008.

9.6 Financial overview

We summarise in this section the Fund's historical financial performance and financial position.

Financial performance

The Fund's income statements for each of the two financial years ended 30 June 2008 and the six months ended 31 December 2008 are set out in the table below. FY2007 represents the first year of financial reporting for the Fund and covers only 10 months of operations.

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Table 5: The Fund's income statements

$'000	Notes	10 months ended 30 Jun 2007 Audited Actual AIFRS	12 months ended 30 Jun 2008 Audited Actual AIFRS	6 months ended 31 Dec 2008 Audited Actual AIFRS
Income from investments		13,910	24,712	11,958
Interest income		1	107	-
Capitalised costs		(80)	(125)	-
Interest income from second instalment		6,528	1,365	-
Total operating income		**20,359**	**26,059**	**11,958**
Operating expenses		(1,323)	(2,219)	(1,155)
EBIT		**19,036**	**23,840**	**10,803**
Net interest revenue/(expense)		(3,226)	(1,429)	(217)
Net profit attributable to unitholders		**15,810**	**22,411**	**10,586**
Finance costs - distribution to unitholders		(9,282)	(21,046)	(10,586)
Change in net assets attributable to unitholders		**6,528**	**1,365**	**0**
Distribution paid per unit (cents)	1	9.24	21.10	11.00

Notes:
1 Total units on issue as at 30 June 2007, 30 June 2008 and 31 December 2008 was 100,000,000, 98,820,622 and 94,881,846 respectively

**Numbers may not add due to rounding*

Source: The Fund's 2008 Annual Report and 2009 Half Year Financial Report

In relation to the income statements outlined above, we note that:

- in FY2007, annualised Unitholder yield was 11.1 percent for the 10 months to June 2007 with cumulative cash returns of 9.24 cents per Unit (excluding accrued distribution payable of 0.04 cents per unit) representing an effective yield of 4.8 percent above the average 30-day BBSW for the financial year

- in FY2008, annualised Unitholder yield was 11.5 percent with cumulative cash returns of 21.1 cents per Unit representing an effective yield of 4.4 percent above the average 30-day BBSW for the financial year

- finance income including income from investments grew in FY2008 by approximately 78 percent to $24.7 million. The growth was largely attributable to the Fund calling its second instalment as outlined in the PDS on 31 August 2007 and being fully invested for the majority of the period

- interest income grew in FY2008 to $107 thousand due to increased interest rates

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- for the half year to 31 December 2008, distributions totalling of 11 cents per Unit were paid to Unitholders, representing a cash yield of 11 percent per annum.

Financial position

The Fund's balance sheets at 30 June 2007, 30 June 2008 and 31 December 2008 are summarised in the table below.

Table 6: The Fund's balance sheets

As at $'000	30 Jun 2007 Audited Actual AIFRS	30 Jun 2008 Audited Actual AIFRS	31 Dec 2008 Audited Actual AIFRS
Cash and cash equivalents	6,217	6,656	5,786
Trade and other receivables	99,670	1,285	1,037
Investment Notes	190,581	191,023	186,564
Total assets	**296,468**	**198,964**	**193,387**
Trade and other payables	569	584	577
Interest bearing liabilities	98,700	1,250	2,500
Distribution payable	5,952	6,344	5,413
Total liabilities	**105,221**	**8,178**	**8,490**
Net assets	**191,247**	**190,786**	**184,897**
Unitholders' funds	184,719	182,894	177,005
Undistributed income	6,528	7,892	7,892
Net assets attributable to unitholders	**191,247**	**190,786**	**184,897**

Source: The Fund's 2008 Annual Report and 2009 Half Year Financial Report

In relation to the balance sheets outlined above, we note that:

- Investment Notes are maintained on a "held-to-maturity" basis and are not required to be marked to market

- cash and cash equivalents include cash at bank, bank deposits held at call and short term investments with original maturity of three months or less

- trade and other receivables of approximately $100 million at 30 June 2007 resulted from the Fund calling its second instalment of $1.00 per unit of the offer price on 31 August 2007. Proceeds received from the second instalment were used to repay the majority of the Fund's interest bearing liabilities during FY2008

- there was no material change in the Fund's asset mix during FY2008 with 49 percent of assets shadow rated investment grade and 51 percent of assets non-investment grade

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- net assets attributable to Unitholders are represented by the residual interest in the Fund's assets after deducting its liabilities

- Unitholders' funds decreased by $1.8 million in FY2008 and $5.9 million for the six months to 31 December 2008 as a result of an on-market Unit buy-back by the Fund announced on 4 March 2008.

Changes in net assets attributable to Unitholders

The Fund's statements of changes in net assets attributable to Unitholders are set out in the table below.

Table 7: The Fund's statements of changes in net assets attributable to Unitholders

As at $'000	30 Jun 2007 Audited Actual AIFRS	30 Jun 2008 Audited Actual AIFRS	31 Dec 2008 Audited Actual AIFRS
Net assets attributable to unitholders at the beginning of the year	**-**	**191,247**	**190,786**
Units issued - first instalment	100,000	-	-
Second instalment	92,107	-	-
Unit buy back	-	(1,797)	(5,889)
Capitalised issue costs	(7,388)	(29)	-
Net profit attributable to unitholders	15,810	22,411	10,586
Distribution to unitholders	(9,282)	(21,046)	(10,586)
Net assets attributable to unitholders at the end of the year	**191,247**	**190,786**	**184,897**

Source: The Fund's 2008 Annual Report and 2009 Half Year Financial Report

In relation to the statements of changes in net assets outlined above, we note that:

- costs directly attributable to the issue of the Units are shown in net assets attributable to Unitholders as a deduction from the proceeds of issuance

- net assets attributable to Unitholders decreased marginally by approximately 0.2 percent in FY2008 and by circa 3 percent in the six months to 31 December 2008.

Cash flow statement

The Fund's cash flow statements for each of the two financial years ended 30 June 2008 and for the six months ended 31 December 2008 are summarised in the table below. FY2007 represents the first year of financial reporting for the Fund and covers only 10 months of operations.

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Table 8: The Fund's cash flow statements

$'000	10 months ended 30 Jun 2007 Audited Actual AIFRS	12 months ended 30 Jun 2008 Audited Actual AIFRS	6 months ended 31 Dec 2008 Audited Actual AIFRS
Interest received on investments	12,634	23,928	12,019
Interest received on cash deposits	265	630	189
Interest expense on borrowings	(3,173)	(1,445)	(208)
Manager fee paid	(854)	(2,167)	(1,096)
GST refunded	72	169	64
Payments to service providers	(271)	(233)	(105)
Net cash flows from operating activities	**8,673**	**20,882**	**10,863**
Investments acquired	(195,443)	(8,685)	-
Investments repaid	5,005	8,120	4,422
Net cash flows used in investing activities	**(190,438)**	**(565)**	**4,422**
Receipts from unitholders	100,000	100,000	-
Unit buyback	-	(1,774)	(5,889)
Payment for issue costs	(7,388)	-	-
Distributions to unitholders	(3,330)	(20,654)	(11,516)
Proceeds from borrowings	104,200	8,100	5,000
Repayment of borrowings	(5,500)	(105,550)	(3,750)
Net cash flows from financing activities	**187,982**	**(19,878)**	**(16,155)**
Net increase/(decrease) in cash and cash equivalents	**6,217**	**439**	**(870)**
Cash and cash equivalents at the beginning of the year / half year	-	6,217	6,656
Cash and cash equivalents at the end of the year / half year	**6,217**	**6,656**	**5,786**

Note
**Numbers may not add due to rounding*

Source: The Fund's 2008 Annual Report and 2009 Half Year Financial Report

In relation to the table above, we note that:

- growth of approximately 140 percent in net cash flows from operating activities in FY2008 was primarily due to an increase in interest received on investments
- the decrease in net cash flows from financing activities in FY2008 was largely due to the repayment of approximately $105 million in borrowings which was financed primarily using $100 million received from the second instalment paid by Unitholders.

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9.7 Net tangible asset backing

At 31 December 2008, the NTA backing of the Fund was $1.951 per Unit, excluding the announced distribution of 5.5 cents per Unit paid on 14 January 2009. The Fund's NTA backing per Unit since inception is set out below.

Table 9: Historical NTA backing per Unit

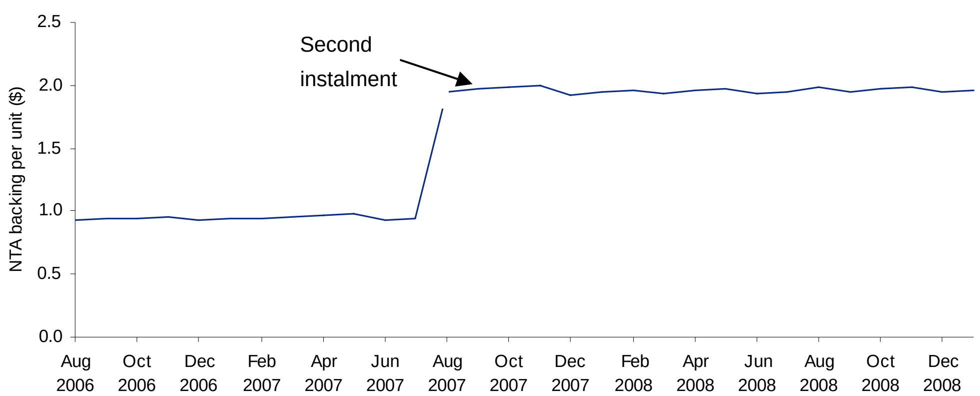
Date	NTA backing per unit ($)
Aug 2006	0.929
Sep 2006	0.936
Dec 2006	0.927
Mar 2007	0.954
Jun 2007	0.927
Sep 2007	1.967
Dec 2007	1.927
Mar 2008	1.931
Jun 2008	1.932
Sep 2008	1.953
Dec 2008	1.951
Jan 2009	1.966

Source: AMF ASX releases

In relation to the table above, we note Unitholders paid the second instalment of $1.00 per Unit to the Fund on 31 August 2007 totalling $100 million which increased the NTA of the Fund and the NTA backing per Unit.

The NTA backing per Unit since inception including the effect of the second instalment is set out below.

Figure 14: Historical NTA backing per Unit



Source: AMF ASX releases

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9.8 Asset quality

Program arrears and cumulative losses recorded to 31 December 2008 were lower than those forecast for each individual investment program except MIS investor loans, as shown in the table below. The Fund's investments are only impacted if actual cumulative losses on the underlying portfolios are substantially higher than the current loss assumption as set out below.

Table 10: The Fund program arrears and cumulative losses

Investment	Actual losses recorded to 31 Dec 2008	Current loss assumptions	Loss where Fund investment is impacted	Loss buffer multiple[1]
Margin lending	0.07%	0.35%	>1.75%	25x
Non-conforming mortgages	0.19%	0.74%	>1.30%	6.8x
Medical financing program No.1	0.82%	1.02%	>1.87%	2.3x
Medical financing program No.2	0.34%	0.49%	>4.15%	12.2x
MIS investor loans	3.15%	3.60%	>4.82%	1.5x

Notes

1 Loss buffer multiple is calculated as the loss where Fund investment is impacted divided by actual losses to date

Source: The Fund's investor presentation for half year results, 16 February 2009

9.9 Capital structure

The Fund's capital structure consists solely of Units listed on the ASX.

On 4 March 2008, the Fund announced that it would buy-back up to 10 million of its own Units over the 12 month period to 17 March 2009. Prior to the announcement of the Proposal, the Fund had bought back 5,118,154 Units for a total consideration of $7,621,891.43. Pursuant to the Proposal, the Fund will cease the buy-back of the Units.

As at 31 December 2008, there were approximately 94.9 million Units on issue.

The following table provides a breakdown of the relevant interest held by substantial Unitholders.

Table 11: Substantial Unitholders

Unitholder	Units held	% of issued equity[1]
Challenger Managed Investments Ltd	11,655,773	12.3%
Queensland Investment Corporation	8,670,046	9.1%
Total	**20,325,819**	**21.4%**

Notes

1 Based on number of Units outstanding as at 31 December 2008, being 94,881,846

Source: ASX announcements

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Directors' and managements' interests

As at 27 February 2008, the directors and management of the Fund held the following Units (directly or indirectly).

Table 12: Directors' and managements' relevant interest as at 27 February 2008

Name	Position	Number of units held	% of issued units
J. Dawson	Chairman	-	-
J. McPhee	Director	90,723	0.10%
N. Fox	Director	7,500	0.01%
A. Baum	Director	10,000	0.01%
S. Treanor	Director	-	-
B. Speirs	Chief Executive Officer	10,000	0.01%
K. Masters	Chief Investment Officer	50,000	0.05%
Total		**168,223**	**0.18%**

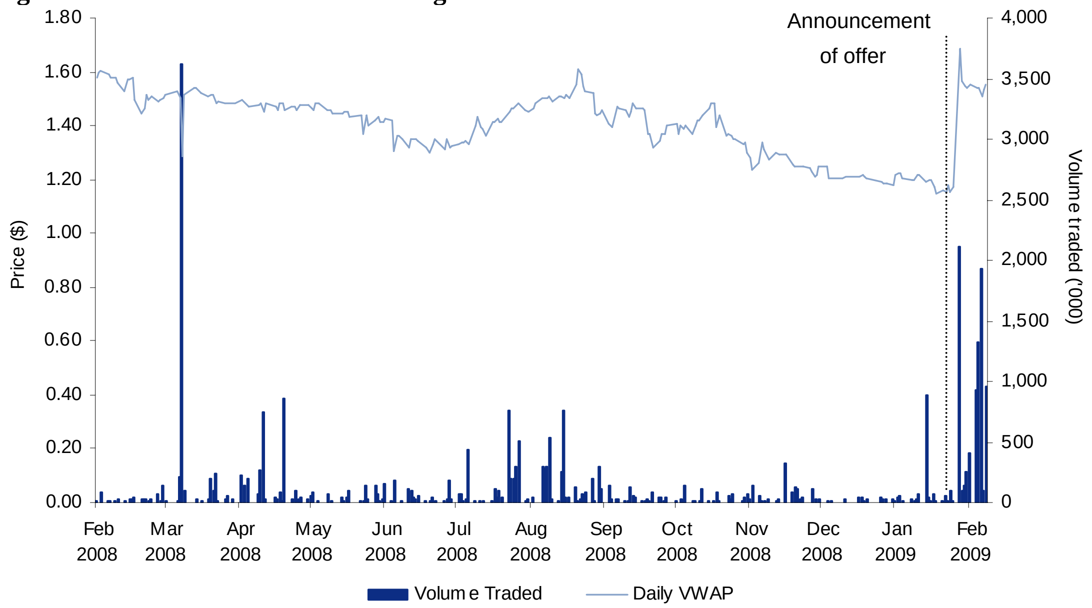
Source: The Fund's 2008 Annual Report and ASX announcements

9.10 *Trading performance*

Recent market trading

The Fund's price history and volume of trading for the one year period from 20 February 2008 to 27 February 2009 are set out below.

Figure 15: Prices and volume of trading in the Units



Source: Bloomberg, IRESS

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For the 12 months prior to the announcement of the Proposal, the highest closing price for the Units was $1.61 on 9 September 2008. During this period the Fund bought back 5,118,154 Units for a total consideration of $7.6 million.

Announcements made for the 12 months prior to 16 February 2009 that may have influenced trading in the Units are noted in the table below.

Table 13: The Fund's announcements

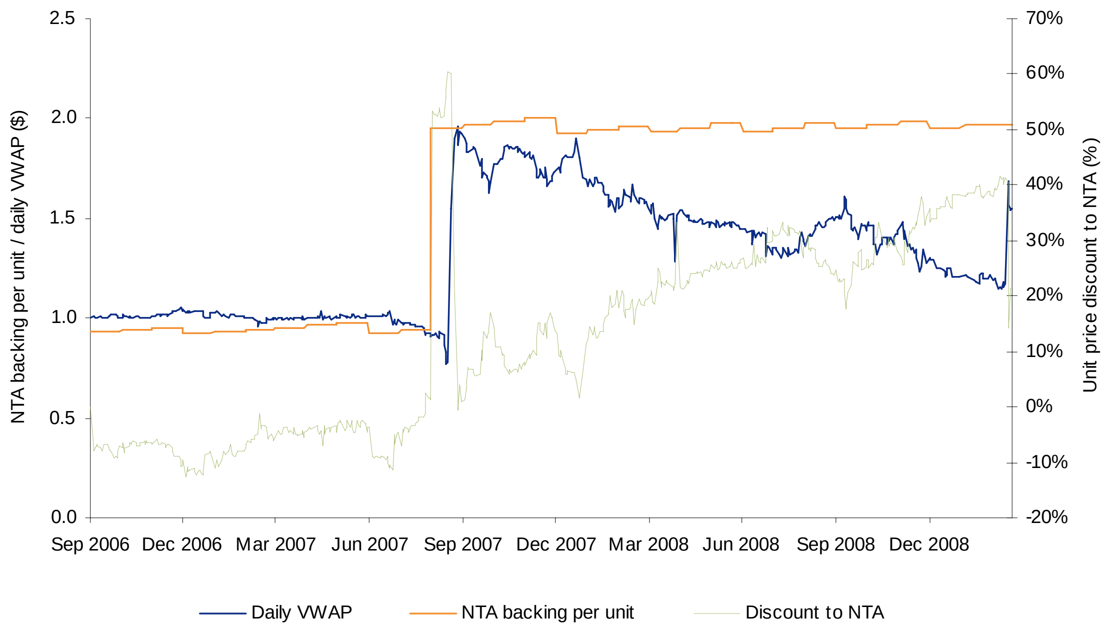
Date	Announcement / publication
16 February 2009	Half year report and accounts released
5 November 2008	Unitholder briefing detailing strong asset performance
28 October 2008	Re-iteration that FY2009 forecast yield will be met
1 August 2008	Annual financial report and investor presentation released
11 April 2008	Change in Chairman of AMF Board
28 March 2008	The Fund raises the FY2008 cash distribution forecast
4 March 2008	Announcement of unit buy-back by the Fund

Source: FinAnalysis

Trading discount to NTA

The following graph shows the daily VWAP relative to the NTA per Unit from the date of initial trading on 31 August 2006 and the relative discount.

Figure 16: Relative performance of the Units to the Fund's NTA since IPO



Source: Bloomberg and AMF ASX media releases

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In relation to the graph above, we note that:

- the highest daily WVAP throughout the period was approximately $1.96 in August 2007
- since the second instalment on 31 August 2007, the Units have been trading at a discount to their NTA backing with the daily Unit VWAP trending downward over this period
- the average discount to NTA backing over the period was approximately 13 percent while the discount at 13 February 2009, the last day of trading prior to announcement of the Proposal, (assuming the January NTA backing) was 40 per cent.

We note that over the same period as that set out in Figure 16, the spread between an aggregate of 3 year BBB bond prices (as a proxy for the Fund's underlying assets) and the 30 day Bank Bill Rate has increased significantly, demonstrating an inverse relationship to the trend of the Fund's trading price relative to its NTA as demonstrated below. The increasing spread in financial markets has contributed to the downward trend of the Fund's trading price relative to its NTA and therefore the market's assessment of the Fund's value.

Figure 17 : Spread of the 3 year BBB bond prices to the 1 month BBSW compared to the discount of the Fund's daily VWAP to NTA

Source: CBA Spectrum, Bloomberg

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Trading after the announcement of the Proposal

The Proposal was announced before trading commenced on 16 February 2009. The immediate result was an increase in the Fund's unit price, from its close of $1.17 on 13 February 2009, to $1.60 at the close of trading on 16 February 2009, an increase of 36.7 percent. Subsequently, the Fund's Unit price has traded between $1.52 and $1.58, closing at $1.56 on 27 February 2009.

Relative share price performance

The figure below details the trading performance of the Fund's Units from the date of initial trading on 31 August 2006 to 27 February 2009, relative to the S&P/ASX200 index.

Figure 18: The Fund's relative Unit price performance

Source: Bloomberg and AMF ASX media releases

In relation to the figure above, it is noted that over the period, the S&P/ASX 200 outperformed the Units. The S&P/ASX index decreased by 30.4 percent from 31 August 2006 to 13 February 2009 (the day prior to the announcement), while the Fund's Unit price decreased by 42 percent over the same period.

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Unit distributions

Distributions made by the Fund to Unitholders are set out below.

Table 14: Unit distributions

Announcement Date	Balance Date	Distribution Type	Cents per Unit	Record Date	Pay Date
14/12/2006	30/06/2007	Interim	3.33	29/12/2006	12/02/2007
19/06/2007	30/06/2007	Final	5.91	29/06/2007	10/08/2007
18/12/2007	30/06/2008	Interim	9.50	31/12/2007	14/01/2008
14/03/2008	30/06/2008	Q3	5.25	31/03/2008	14/04/2008
16/06/2008	30/06/2008	Q4	6.35[1]	30/06/2008	11/08/2008
17/09/2008	30/06/2009	Q1	5.50	30/09/2008	14/10/2008
18/12/2008	30/06/2009	Q2	5.50	31/12/2008	14/01/2009

Notes

1 This distribution was estimated to be 6.25 in the ASX announcement on 16 June 2008

Source: ASX announcements

Liquidity analysis

An analysis of the volume of trading in the Fund's Units prior to the announcement of the Proposal, in addition to the VWAP for the period following the announcement of the Proposal on 16 February 2009 to 27 February 2009, is set out in the table below.

Table 15: Liquidity analysis

Period	Price (high) $	Price (low) $	VWAP $	Cumulative volume	% of issued capital	Issued capital	Average number of shares in non-free float	Volume of shares traded as a % of shares outstanding during period[1]
Period 1 - 14 Feb 08 to 13 Feb 09 - Pre takeover proposal announcement period								
1 week	1.18	1.15	1.16	193,760	0.20%	94,881,846	20,759,894	0.26%
1 month	1.23	1.15	1.19	1,619,445	1.71%	94,881,846	20,774,755	2.19%
3 months	1.35	1.15	1.22	3,155,964	3.33%	94,881,846	20,790,229	4.26%
6 months[2]	1.61	1.15	1.39	8,978,391	9.42%	95,265,227	21,002,214	12.09%
12 months[3]	1.68	1.15	1.39	21,375,097	21.98%	97,226,186	24,033,726	29.20%
Period 2 - 16 Feb 09 to 27 Feb 09 - Post takeover proposal announcement period								
2 weeks	1.60	1.52	1.58	3,441,293	3.63%	94,881,846	20,524,277	4.63%

Notes

1 Excludes non-free float interests

2 During this period the Fund bought back 5,118,154 of its Units for total consideration of $7,621,891, equating to a VWAP of $1.49

3 During this period the Fund bought back 3,666,776 of its Units for total consideration of $5,461,755, equating to a VWAP of $1.49

Source: Bloomberg, IRESS, ASX announcements

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In relation to the table above, it is noted:

- the one week VWAP to 13 February 2009 was $1.16, with a high of $1.18 and a low of $1.15, based on closing prices
- the three month VWAP to 13 February 2009 was $1.22, with a high of $1.35 and a low of $1.15, based on closing prices
- the 12 month VWAP to 13 February 2009 was $1.39, with a high of $1.68 and a low of $1.15, based on closing prices
- in the 12 month period to 13 February 2009, 21.98 percent of the Units or approximately 21.38 million Units were traded
- the two week VWAP following the announcement was $1.58, with a high of $1.60 and a low of $1.52, based on closing prices.

It is noted that prior to the announcement of the Proposal, the Fund had bought back 5,118,154 Units for a total consideration of $7.6 million, which is highlighted by the reducing balance of the cumulative value in the table above.

In assessing the liquidity in the trading of the Units, it is noted that approximately 21.4 percent of the Units are held by two substantial Unitholders who have engaged in minimal trading of the Units over the last 12 months. Therefore, the balance of the Unitholders, who accounted for 78.6 percent of the Unit register, had an effective turnover of approximately 22 percent of total issued Units in the 12 months to 13 February 2009 or 29.2 percent excluding the non-free float interests.

Based on this analysis, the Fund’s Units have demonstrated a low level of liquidity.

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10 Profile of Bendigo and Adelaide Bank

10.1 Overview

BEN provides banking and financial services primarily to retail customers and SMEs across Australia in two main business segments, Retail and Partner Advised. The Bank has headquarters in both Bendigo and Adelaide, with the registered office based in Bendigo.

BEN's principal activities are the provision of a range of banking and other financial services including; retail banking, third party mortgages, business lending, margin lending, business banking and commercial finance, funds management, treasury and foreign exchange services (including trade finance), superannuation, financial advisory and trustee services.

The Bank had an asset base of $48.2 billion and approximately 78 thousand shareholders as at 31 December 2008, with a wide distribution of both retail and institutional holders. The market capitalisation of the Bank as at 13 February 2009, being the last day of trading prior to the announcement of the Proposal, was approximately $2.8 billion.

SUPERSEDED TRANSACTION

BEN has more than 400 branches across Australia which includes 227 Community Bank branches. In FY2008, BEN generated total operating income of $815 million and profit after tax before significant items was $233.4 million. Profit after tax and before significant items for the six months to 31 December 2008 was $118.8 million. Cash earnings were up 72.8 per cent to $122.2 million, representing growth in cash earnings per share of 3 percent to 44.3 cents form the previously reported corresponding period.

Set out below is a summary of the key events in both Bendigo Bank's and Adelaide Bank's history.

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Table 16: History of Bendigo Bank's and Adelaide Bank's operations

Bendigo Bank		Adelaide Bank	
Date	**Event**	**Date**	**Event**
1858	Bendigo Permanent Land and Building Society was founded	1900	Co-op Building Society of South Australia was founded
1978	Merged with Eaglehawk Building Society	1990	Acquired REI Building Society
1983	Merged with Sandhurst Building Society	1992	Merged with Hindmarsh Adelaide Building Society to become the largest building society in Australia Divested non-core businesses Barrett & Barrett Real Estate and Versace Business Services
1985	Merged with Sunraysia Building Society		
1992	Acquired Compass Building Society and Capital Building Society Merged with Sandhurst Trustees Limited	1993	Completed conversion of Co-op Performing Notes to Permanent Shares as a precursor to an ASX listing Divested non-core business JM Insurance Agencies Introduced third party mortgage distribution
1995	Converted to bank status Acquired National Mortgage Market Corporation, securitisation and mortgage management	1994	Co-op Building Society of South Australia granted a banking authority and converted into Adelaide Bank and listed on the ASX Divested non-core business Co-op Security Services
1997	Acquired Monte Paschi Australia, a commercial bank servicing the Italian community Acquired Worley Securities Pty Ltd, financial planners (disposed of in 2006)	1996	Expanded interstate lending through third party mortgage originators Regional offices established in Brisbane and Perth Divested stockbroking arm and non-core business Co-op Retirement Services of America Inc.
1998	Launched the Community Bank® concept in response to a wave of bank branch closures in regional and suburban Australia	1998	Divested 14 retirement estates located in South Australia and Queensland, owned and operated by Adelaide Bank's retirement subsidiary, Co-op Retirement Services

SUPERSEDED TRANSACTION

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History of Bendigo Bank’s and Adelaide Bank’s operations (continued)

Bendigo Bank		Adelaide Bank	
Date	**Event**	**Date**	**Event**
1999	Acquired IOOF Building Society	2000	Acquired Leveraged Equities Limited, a margin lending business ($810 million portfolio)
	Acquired Victorian Securities Corporation Pty Ltd		Divested Co-op Retirement Services, a retirement estate management and marketing operation
	Entered into Elders Rural Bank Limited 50/50 joint venture with Futuris Corporation Limited		Completed its first global securitisation issue with a $1.25 billion issue that accessed markets in both Europe and the United States
	Entered into Bendigo Bank Investment Services 50/50 joint venture with IOOF Limited, (now 100 percent owned by Bendigo Bank)		
2000	Elders Rural Bank Limited granted a banking authority	2003	Acquired Hartleys Limited margin lending book ($130 million portfolio)
	Entered into Tasmanian Banking Services Limited 50/50 joint venture to provide retail banking across Tasmania		Issued first Reset Preference Shares
	Acquired First Australian Building Society		
2002	Launched Community Sector Banking, a joint venture with the not-for-profit sector	2005	Acquired Goldman Sachs JBWere margin lending book ($890 million portfolio)
	Launched Bendigo Bank Managed Funds		Removed ten percent ownership restriction
2005	Opened 300th branch and 150th Community Bank®	2006	Adelaide Managed Funds (AMF) lodged product disclosure statement for $200 million trust
	Welcomed Bendigo Bank ’s millionth customer		
2006	Announced sale of headquarters in Bendigo Bank for $100 million in a sale-and-leaseback transaction	2007	Implemented organisational restructure
2007	Rejected Bank of Queensland’s offer to merge		
	Opened 200th Community Bank®		
30 November 2007	**Bendigo Bank and Adelaide Bank merger**		
2009	Acquired the Macquarie Group’s margin lending portfolio for $52 million		

Source: Adelaide Bank, Bendigo Bank and DatAnalysis

SUPERSEDED TRANSACTION

10.2 Merger of Bendigo Bank and Adelaide Bank

The merger of Bendigo Bank and Adelaide Bank was implemented on 30 November 2007 pursuant to Schemes of Arrangement approved by the Supreme Court of South Australia and the ordinary and preference shareholders of Adelaide Bank.

Under the terms of the Schemes of Arrangement between Adelaide Bank and its ordinary and preference shareholders, Bendigo Bank acquired all the ordinary and preference shares in Adelaide Bank, which subsequently became a wholly-owned subsidiary of Bendigo Bank. Following shareholder approval, Bendigo Bank changed its name to Bendigo and Adelaide Bank Limited effective from 31 March 2008.

The merger combined Adelaide Bank’s strength in margin lending, third-party mortgages and portfolio funding with Bendigo Bank’s community-focused retail banking business.

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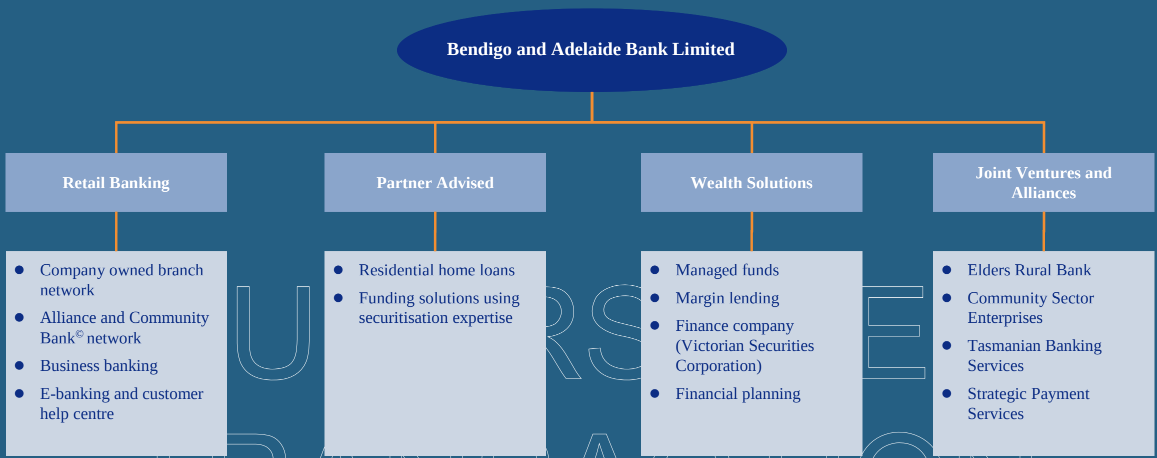
10.3 Business profile

The Bank operates along four business units which are supported by a range of corporate functions, as set out below.

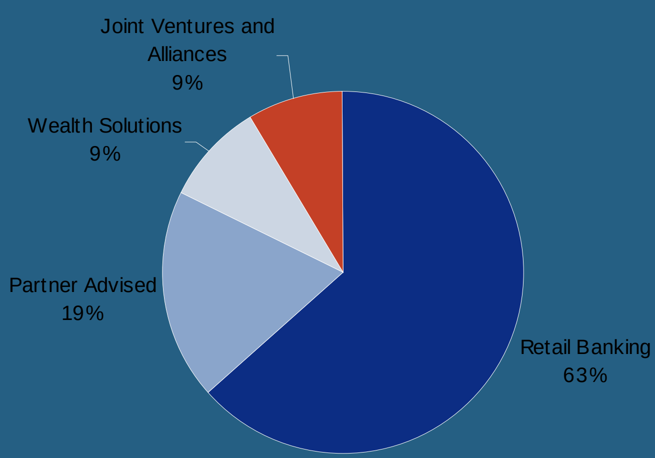
Figure 19: BEN operating structure



Source: BEN 2008 Annual Report, BEN 2009 Half Year Report

For financial reporting purposes, BEN segments its results into each of the abovementioned business units. Each of these units' relative contribution to net profit before tax (NPBT) for the six months ended 31 December 2008 is set out below.

Figure 20: NPBT by business segment – six months to 31 December 2008



Note: NPBT excludes unallocated corporate support expenses
Source: BEN

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Retail Banking

The Bank’s Retail Banking business unit provides banking, wealth, and risk management services to households and SME businesses.

The business is represented in all states and territories in Australia with a strong presence in Victoria and Queensland and an increasing presence in South Australia and Western Australia. Bendigo and Adelaide Bank products and services are available through more than 189 company owned branches, 227 community-owned Community Bank® branches and 100 agencies.

BEN supplies all banking and back office services for the community-owned branches while the community company operates the retail outlet. Revenue is shared, enabling communities to profit from their own banking and channel those profits back into community enterprise and development.

SUPERSEDED TRANSACTION

BEN also provides customers with a wide range of self-help banking options such as 24-hour telephone and electronic banking facilities.

Partner Advised

Formally known as Wholesale Banking, the Partner Advised business unit manufacturers and processes residential home loans which are distributed through mortgage brokers and mortgage managers.

The Partner Advised business unit includes the Portfolio Funding division which focuses on the provision of funding solutions to finance companies and the Specialised Lending division which predominantly focuses on lending to the aged care and retirement village sectors along with the Bank’s joint venture businesses.

Wealth Solutions

BEN’s Wealth Solutions business unit is comprised of four sub-units:

- funds management
- margin lending
- a finance company (Victorian Securities Corporation Limited) which offers a variety of lending products
- financial planning services.

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In the six months to 31 December 2008, the Wealth Solutions division contributed $15.3 million to BEN's pre-tax profit, which comprised approximately 9 percent of total NPBT before unallocated expenses.

On January 8 2009, BEN announced the purchase of a circa $1.5 billion margin lending loan portfolio from Macquarie Group Limited for consideration of $52 million.

Joint Ventures and Alliances

BEN has established numerous partnerships and joint ventures which enables the provision of specialist services to discrete customer groups. In the six months to 31 December 2008, pre-tax earnings from Joint Ventures and Alliances were $14.7 million which comprised approximately 9 percent of total NPBT before unallocated expenses.

A summary of BEN's joint ventures and alliances is set out below.

SUPERSEDED TRANSACTION

Table 17: Joint Ventures and Alliances

Entity	Ownership	Business description
Elders Rural Bank Limited	Joint venture between BEN and Futuris Corporation Limited (50 percent ownership each)	Provides specialist banking services to Australia's farming sector through 240 Elders Limited branches across Australia
Community Sector Enterprises Pty Ltd	Joint venture between BEN and Community 21 Limited (which is owned by 20 non-for-profit sector organisations)	Provides banking services to the non-for-profit sector in return for a share of the margin and fee income
Tasmanian Banking Services Limited	Joint venture between BEN and Tasmanian Perpetual Trustees Limited (50 percent ownership each)	Provides banking services across nine branches in Tasmania
Strategic Payments Services Pty Ltd	Joint venture between BEN, Customers Limited and Mastercard International	Independent payment business that will handle the processing and management of all BEN customers' automatic teller machine and EFTPOS transactions

Source: BEN 2008 Annual Report

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10.4 Business Strategy

Broadly, the Bank's strategy is built around the vision to be Australia's leading customer connected banking group.

This vision is to be achieved by providing a banking alternative by focussing on a number of key principles:

- offer brands and solutions that are relevant to the customer
- respect customer choice, needs and objectives
- build and distribute directly and via trusted relationships
- strike a balance between risk and reward for all stakeholders to produce sustainable outcomes
- strengthen its balance sheet by strengthening the balance sheet of it's customers, partners and communities.

SUPERSEDED TRANSACTION

10.5 Financial overview

We summarise in this section BEN's financial performance and financial position. We note that FY2008 incorporates 7 months of results from Adelaide Bank following the merger in November 2007. Accordingly, there are no historical statements provided prior to FY2008 as the merged entity, BEN, was not in existence and comparison with the stand-alone entities (Adelaide Bank and Bendigo Bank) is not considered meaningful.

Consolidated financial performance

BEN's consolidated income statements for the year ended 30 June 2008 and the six months ended 31 December 2008 are set out in the table below.

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Table 18: Consolidated income statement

$M	Notes	12 months ended 30 Jun 2008 Audited Actual AIFRS	6 months ended 31 Dec 2008 Audited Actual AIFRS
Net interest income		514.3	340.3
Non interest income		300.7	105.7
Total operating income		**815.0**	**446.0**
Bad and doubtful debts expense		(23.1)	(25.5)
Operating expenses		(545.3)	(336.5)
Net profit before tax (NPBT)		**246.6**	**84.0**
Income tax expense		(75.4)	(23.5)
Net profit after tax (NPAT)		**171.2**	**60.5**
Significant items after tax		35.1	58.3
After tax intangibles amortisation	1	4.8	9.3
Dividends paid on preference shares		(9.2)	(2.8)
Dividends paid on step up preference shares		-	(3.1)
Profit attributable to minority interests		(0.7)	-
Movement in general reserve for credit losses		0.7	-
Cash basis NPAT		**201.9**	**122.2**
Basic earnings per ordinary share (cents)	2	*74.8*	*19.8*
Diluted earnings per ordinary share (cents)	2	*74.7*	*19.7*
Cash basis earnings per ordinary share (cents)	3	*93.7*	*44.3*
Franked dividends per ordinary share (cents)		*65.0*	*28.0*

Notes:

1 Excludes amortisation of intangible software

2 Diluted and basic EPS calculated by dividing NPAT, adjusted for preference share dividends, by the weighted number of ordinary shares (basic and diluted)

3 Cash basis EPS calculated by dividing cash basis NPAT by the weighted number of ordinary shares

**Numbers may not add due to rounding*

Source: BEN 2008 Annual Report and 2009 Half Year Report

SUPERSEDED TRANSACTION

In relation to the income statement above, we note that:

- cash earnings for the six months to 31 December 2008 were up 72.8 per cent to $122.2 million, representing growth in cash earnings per share of 3.0% to 44.3 cents from the previously reported corresponding period
- the Bank made a record profit in FY2008 of $171.2 million which incorporated 7 months of earnings from Adelaide Bank operations following the merger in November 2007
- in FY2008, interest income of $514.3 million comprised approximately 63 percent of total operating income

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- significant items relate to Adelaide Bank derivatives which became ineffective post acquisition, ATO audit costs, integration costs, expenses relating to the proposed Bank of Queensland merger, impairment loss on equity investments, expenses for the issue of shares to employees and a shortfall relating to the Employee Share Plan.

A summary of financial performance by business segment for the year ended 30 June 2008 and the six months ended 31 December 2008 is set out in the table below.

Table 19: Business segment financial performance

$M	12 months ended 30 Jun 2008 Audited Actual AIFRS	6 months ended 31 Dec 2008 Audited Actual AIFRS
Retail banking		
Net interest income	420.7	232.3
Non interest income	172.1	96.4
Operating and other expenses	(399.7)	(221.4)
Net profit before tax	**193.1**	**107.3**
Partner Advised		
Net interest income	73.4	58.9
Non interest income	19.2	18.4
Operating and other expenses	(36.5)	(45.0)
Net profit before tax	**56.1**	**32.3**
Wealth solutions		
Net interest income	48.5	27.9
Non interest income	54.6	18.5
Operating and other expenses	(60.8)	(31.1)
Net profit before tax	**42.3**	**15.3**
Joint Ventures & Alliances		
Share of net profit of equity accounted investments	26.4	14.7
Total net profit before tax and unallocated expenses	**317.9**	**169.6**
Unallocated revenue less unallocated expenses	(71.3)	(85.6)
Total net profit before tax	**246.6**	**84.0**
Income tax expense	(75.4)	(23.5)
Net profit after tax (NPAT)	**171.2**	**60.5**

Source: BEN 2008 Annual Report and 2009 Half Year Report

SUPERSEDED TRANSACTION

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In relation to the table above, we note for the six months ended 31 December 2008:

- the Retail Banking business unit generated NPBT of $107.3 million which represented approximately 63 percent of total NPBT before unallocated expenses

- operating and other expenses as a percentage of income were the highest in the Retail Banking business unit comprising approximately 67 percent of segment income compared to 58 percent in the Partner Advised unit

- total pre-tax earnings contributed by the Banks Joint Ventures and Alliances was $14.7 million with Elders Rural Bank Limited contributing approximately $22.4 million.

Consolidated financial position

BEN's consolidated balance sheets at 30 June 2008 and 31 December 2008 are summarised in the table overleaf.

SUPERSEDED TRANSACTION

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Table 20: Consolidated balance sheets

As at $M	30 Jun 2008 Audited Actual AIFRS	31 Dec 2008 Audited Actual AIFRS
Cash and cash equivalents	1,195.9	2,918.5
Assets due from other financial institutions	412.7	125.6
Derivatives	311.8	267.9
Financial assets held for trading	1,414.8	1,776.7
Financial assets available for sale	506.6	1,178.1
Financial assets held to maturity	1,414.6	877.1
Loans and receivables – investments	517.6	523.4
Net Loans and other receivables	39,587.4	37,736.8
Investments in associates and joint ventures	185.2	183.0
Property, plant and equipment	113.5	112.8
Asset held for sale	105.5	-
Investment property	80.4	102.1
Intangible assets and goodwill	1,570.4	1,558.8
Current tax assets	-	49.6
Deferred tax assets	164.4	365.2
Other assets	468.2	433.4
Total assets	**48,049.0**	**48,209.0**
Liabilities due to other financial institutions	269.7	115.0
Deposits	31,404.9	32,844.7
Notes payable	11,292.2	9,883.3
Derivatives	72.4	718.7
Other payables	680.9	629.2
Income tax payable	11.1	-
Provisions	67.8	65.3
Deferred tax liabilities	186.8	193.3
Reset preference shares	89.5	89.5
Subordinated debt	675.8	679.7
Total liabilities	**44,751.1**	**45,218.7**
Net assets	**3,297.9**	**2,990.3**
Issued capital – ordinary	2,706.3	2,923.4
Redeemable convertible preference shares	88.5	88.5
Step up preference share capital	100.0	100.0
Employee Share Ownership Plan shares	(37.4)	(34.2)
Reserves	170.6	(305.7)
Retained earnings	269.9	218.3
Total equity	**3,297.9**	**2,990.3**

Source: BEN 2009 Half Year Report

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In relation to the balance sheets outlined above, we note that:

- cash and cash equivalents comprises cash on hand and money at call. Assets due from other financial institutions represent various inter-bank assets. These assets fluctuate depending on liquidity needs and inter-bank obligations

- financial assets held for trading, for sale and to maturity comprise negotiable securities (such as bank accepted bills of exchange, negotiable certificates of deposit and government securities) and non-negotiable securities (such as deposits with banks and other parties). These assets are held principally to meet the Bank's liquidity needs as well as to provide liquidity for the Bank's securitisation trusts

- net loans and other receivables pertain to balances for overdrafts, credit cards, term loans, margin loans, lease receivables and factoring receivables

- other assets are those that are generally non-interest bearing and are short-term in nature, and include accrued interest, deferred expenditure and sundry debtors, which predominantly comprise receivables due from securitised trusts and other securities, normally settled within 30 days

- the Bank's deposits balance consists of retail and wholesale deposits which comprises at call and term deposits, certificates of deposit, transferable deposits and fixed and floating rate transferable term deposits

- other payables are those that are generally non-interest bearing and are short term in nature, and include accrued interest, sundry creditors and prepaid interest.

Consolidated cash flow statement

BEN's consolidated cash flow statements for the year ended 30 June 2008 and the six months ended 31 December 2008 are summarised in the table overleaf.

SUPERSEDED TRANSACTION

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Table 21: Consolidated cash flow statements

$M	12 months ended 30 Jun 2008 Audited Actual AIFRS	6 months ended 31 Dec 2008 Audited Actual AIFRS
Cash flows from operating activities		
Net interest income	522.5	339.7
Receipts from customers	211.1	82.8
Payments to suppliers and employees	(510.3)	(299.5)
Dividends received	16.8	10.4
Income taxes paid	(81.9)	(75.0)
Net cash flows from operating activities	**158.2**	**58.4**
Cash flows from investing activities		
Cash flows for purchases of property, plant and equipment	(85.9)	(24.5)
Cash proceeds from sale of property, plant and equipment	6.9	1.7
Cash proceeds from the sale of assets held for sale	-	100.0
Cash paid for the purchase of intangible software	(0.2)	-
Cash paid for the purchase of equity investments	(34.4)	(47.5)
Cash proceeds from the sale of equity investments	11.8	17.6
Net decrease in the balance of loans and other receivables outstanding	768.4	1,862.8
Net (increase) / decrease in the balance of investment securities	808.6	(508.7)
Net cash received on acquisition of a subsidiary	474.4	-
Net cash flows from investing activities	**1,949.6**	**1,401.4**
Cash flows from financing activities		
Proceeds from preference share instalment	89.8	-
Proceeds from shares issued	-	191.5
Net increase in the balance of retail deposits	2,050.9	3,539.1
Net (decrease) in balance of wholesale deposits	(955.6)	(2,103.6)
Proceeds from the issue of subordinated debt	50.0	-
Repayment of subordinated debt	(56.0)	-
Dividends paid	(94.9)	(77.7)
Net (decrease) in balance of notes payable	(2,000.8)	(1,421.1)
Repayment of ESOP shares	3.0	3.1
Payment of share issue costs	(0.4)	(0.8)
Net cash flows from financing activities	**(914.0)**	**130.5**
Net increase/(decrease) in cash and cash equivalents	**1,193.8**	**1,590.3**
Cash and cash equivalents at the beginning of period	145.1	1,338.8
Cash and cash equivalents at the end of period	**1,338.9**	**2,929.1**

Note:
**Numbers may not add due to rounding*

Source: BEN 2008 Annual Report and 2009 Half Year Report

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In relation to the table above, we note that cash flows arising from loans and receivables, investment securities, retail deposits, wholesale deposits and subordinated debt are presented on a net basis.

10.6 Capital management

The Banks stated key capital management objectives are to:

- optimise the level and use of capital resources to enhance shareholder value through maximising financial performance
- maintain a sufficient level of capital above the regulatory minimum to provide a buffer against loss arising from unanticipated events
- ensure that capital management is closely aligned with the Group's businesses and strategic objectives
- achieve progressive improvement to short and long term credit ratings.

SUPERSEDED TRANSACTION

The Bank manages its capital adequacy according to APRA's Prudential Standards which require ADIs such as BEN to maintain a level of capital that is consistent with the risks stemming from the activities it undertakes. The two broad categories of capital defined by APRA are:

- Tier 1 which comprises the highest quality components of capital
- Tier 2 which includes other components of lesser quality but which still contribute to the strength of the Bank overall as a going concern.

To this end, APRA's capital adequacy framework requires all ADIs to maintain a risk-based capital ratio of at least 8 percent, and at least half of this must be from Tier 1 capital (implying a minimum Tier 1 capital ratio of 4 percent).

Further to this, credit ratings agency Standard & Poor's uses its own measure of capital, the adjusted common equity (ACE) ratio, which is calculated by deducting goodwill, intangibles and investments in non-banking subsidiaries from core shareholders' equity, and then dividing by the institution's total risk-weighted assets. This ratio has been used by most Australian banks as an additional means of measuring capital adequacy.

BEN's capital adequacy measurements for the year ended 30 June 2008 and the six months ended 31 December 2008 are set out in the table below.

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Table 22: Capital adequacy

As at		**30 Jun 2008**	**31 Dec 2008**
		Audited	**Audited**
		Actual	**Actual**
$M	**Notes**	**AIFRS**	**AIFRS**
Tier 1 capital		1,491.7	1,650.3
Tier 2 capital		576.7	575.2
Less: Deductions from capital	1	-	
Total qualifying capital base		**2,068.4**	**2,225.5**
Total risk-weighted assets		19,820.8	20,644.5
APRA's required minimum capital base	2	2,011.8	2,095.4
Capital in excess of APRA's minimum requirement		**56.6**	**130.1**
Total ACE		1,444.6	1,566.6
Capital adequacy ratio	3	*10.4%*	*10.8%*
ACE ratio	4	*7.3%*	*7.6%*

Notes
1.Investments in non-consolidated subsidiaries or associates and other banks' capital instruments
2.Based on 10.15 percent of total risk-weighted assets
3.Calculated by dividing total qualifying capital base by total risk-weighted assets.
4.Calculated by dividing total ACE by total risk-weighted assets.

Source: BEN 2009 Half Year Report

SUPERSEDED TRANSACTION

In relation to the above table we note that as at 31 December 2008:

- BEN's Tier 1 capital as a proportion of total risk-weighted assets was above the APRA minimum of 5 percent at approximately 7.99 percent
- BEN's total risk-weighted capital adequacy ratio was above its target requirement of 10.15 percent.

10.7 Capital structure

BEN's issued capital as at 27 February 2009 comprises:

- 293,692,615 listed ordinary shares
- 5,704,800 unlisted shares for employees
- 900,000 BENPB listed reset preference shares
- 1,000,000 BENPC listed step up preference shares

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- 894,574 BENPA listed reset convertible preference shares
- 750,000 BENHB listed floating rate capital notes
- 15,000 BENHC listed floating rate capital notes
- 40,000 BENHD listed floating rate capital notes
- 55,000 BENHE listed floating rate capital notes
- 1,833,181 BENAW unlisted tranched convertible preference shares with a mandatory conversion date of 9 March 2009
- 1,099,908 BENAC unlisted tranched convertible preference shares with a mandatory conversion date of 8 April 2009.

SUPERSEDED TRANSACTION

11 Overview of the Consideration

11.1 Background

Under the terms of the Proposal, Unitholders will be issued BEN CPS, a fully paid mandatory convertible preference share, which is intended to be listed on the ASX.

Convertible preference shares are hybrid securities, which combine the characteristics of debt (fixed interest) with those of equity (capital appreciation). Hybrids generally pay a fixed or floating rate of return or dividend for a set period, until a maturity or conversion date. Convertible preference shares convert into cash or the underlying security. Pricing of hybrid securities reflects movements in interest rates and default risk.

11.2 Terms

The principal commercial terms of the BEN CPS to be issued to Unitholders as Consideration are:

- an issue price of \$100
- a fully franked dividend paid quarterly calculated as
  - a 4.5 percent margin over the 90 day bank bill rate (3.16 percent as at 27 February 2009)
  - multiplied by 1 minus the corporate tax rate (currently 30 percent)

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Holders of the BEN CPS who are able to use the franking credits attached to the dividend will receive an effective pre-tax dividend rate of 4.5 percent above the 90 day bank bill rate (which would be circa 7.66 percent as at 27 February 2009)

- mandatory conversion into BEN ordinary shares twelve months after the issue date, subject to certain conditions being met

- a conversion ratio of $102.56 divided by the BEN 20 day ordinary share VWAP immediately prior to conversion for each BEN CPS held. That is, holders of BEN CPS will be issued BEN ordinary shares at a discount of 2.5 percent to BEN ordinary share 20 day VWAP.

A more detailed description of the BEN CPS is set out below.

Table 23: Key terms of BEN CPS

SUPERSEDED TRANSACTION

Term	Description
Security	Fully paid mandatory convertible preference shares in the capital of BEN
Issuer	BEN
Issuer Rating	BBB+ / A2
Issue Rating	Baa1 - this is the rating assigned by Moody's
Issue Price	$100 per CPS
Quotation on ASX	The Issuer will apply for the CPS to be quoted on ASX
Term	BEN CPS are perpetual instruments, until such time as Conversion, Redemption or Resale occurs. However, BEN CPS are expected to convert into ordinary shares of the Issuer 12 months after the date of issue (the Mandatory Conversion Date), provided that the Mandatory Conversion Conditions are satisfied (refer below)
Dividends / distribution	Non-cumulative, fully franked dividends commencing 15 September 2009
Dividend rate / yield	(90 day Bank bill rate [1] + Margin) x (1 – Tax Rate[2])
Dividend / distribution frequency	Quarterly, commencing on 15 September 2009, each 15 March, 15 June, 15 September and 15 December until the date on which a Redemption, Conversion or Resale occurs - subject to the satisfaction of the conditions outlined in Clause 3.3 of Annexure D of the SIA
Margin	450 basis points per annum
Franking	Dividends are expected to be fully franked. If any Dividend has a franking rate of less than 100%, the Dividend will be grossed up by the unfranked amount of the Dividend
Mandatory Conversion	Holders will receive $102.56 of BEN ordinary shares, based on the 20 business day VWAP of BEN ordinary shares prior to conversion, on the Mandatory Conversion Date, unless the Mandatory Conversion Conditions are not satisfied or Redemption or Resale occurs

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Key terms of BEN CPS (continued)

Term	Description
Conversion Discount	2.5 percent
Mandatory Conversion Date	The Mandatory Conversion Date will be the date 12 months from the date of issue, provided the Mandatory Conversion Conditions are satisfied. If any of the Mandatory Conversion Conditions are not satisfied on a possible Mandatory Conversion Date, the Mandatory Conversion Date will be deferred until the next Dividend Payment Date on which all of the Mandatory Conversion Conditions are satisfied, subject to Redemption or Resale
Mandatory Conversion Conditions	1 The VWAP of ordinary shares on the 25th Business Day prior to (but not including) a possible Mandatory Conversion Date is greater than 56.0 percent of the Issue Date VWAP 2 The VWAP of ordinary shares during the period of 20 Business Days prior to (but not including) a possible Mandatory Conversion Date is greater than 51.28 percent of the Issue Date VWAP 3 The VWAP of ordinary shares during the period of 10 Business Days prior to (but not including) a possible Mandatory Conversion Date (or an earlier date determined by the Issuer's directors in certain circumstances), is greater than 75 percent of the VWAP of ordinary shares during the 10 Business Day period commencing 40 Business Days before (but not including) a possible Mandatory Conversion Date 4 Ordinary shares in the Issuer remain listed or admitted to trading on ASX, and trading of such ordinary shares has not been suspended for more than five Consecutive Business Days prior to and including a possible Mandatory Conversion Date
Resale	Before a possible Mandatory Conversion Date, the Issuer may choose to arrange for all BEN CPS on issue to be acquired by a third party on the possible Mandatory Conversion Date. Should the Issuer elect Resale, BEN CPS holders will receive a cash amount of $100 on the possible Mandatory Conversion Date. The third party purchaser must have a credit rating of no less than A- from Standard and Poor's or A3 from Moody's
Redemption	In certain circumstances the Issuer will be entitled to redeem the BEN CPS for their face value

Notes

1 *Means the Bank Bill Rate on the first Business Day of a Dividend Period*
2 *Tax Rate means the Australian corporate tax rate applicable as at the relevant Dividend Payment Date – currently 30 percent*

Source: The Fund's ASX announcement: Recommended Proposal from Bendigo and Adelaide Bank, 16 February 2009

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11.3 Comparable BEN convertible preference securities

BEN's reset convertible preference shares (referred to as BENPA) are similar to BEN CPS. In this section we have described the key terms, recent market trading and liquidity of the BENPA.

Key Terms

As at 9 February 2009 BEN had 894,574 BENPA on issue. BENPA were issued as consideration to Adelaide Bank reset preference shareholders pursuant to a scheme of arrangement which formed part of the merger between Adelaide Bank and Bendigo Bank. BENPA commenced trading on the ASX on 31 March 2008.

The principal commercial terms of the BENPA are:

- face value of $100 per BENPA perpetual security with no maturity
- payment of a preferential, non-cumulative, floating rate dividend payable twice yearly in arrears on 1 May and 1 November of each year
- the dividend rate is fixed until the first reset date, being 1 November 2012, at 1.6 percent over the five year mid swap reference rate on 1 November 2007 (being 7.273 percent), multiplied by 1 minus the corporate tax rate. Holders of BENPA who are able to use the franking credit attached to the dividend receive an effective pre-tax dividend rate of 8.873 percent
- at each reset date, BEN may reset certain terms of the BENPA, such as the date of the next reset date, the dividend rate and the frequency of dividend payments
- BEN may exchange some or all of the BENPA on issue for cash or ordinary shares, or arrange for the BEN CPS to be acquired by a third party on a reset date, BEN may also exchange all BEN CPS in limited other circumstances, such as a change in tax, regulation or control
- the BENPA rank equally with the BENPB listed reset preference shares and BENPC listed step-up preference shares for payment of dividend and in the event of a winding up or liquidation
- except in limited circumstances, holders of BENPA are not entitled to vote, nor do they have a right to participate in security issues or capital reconstructions.

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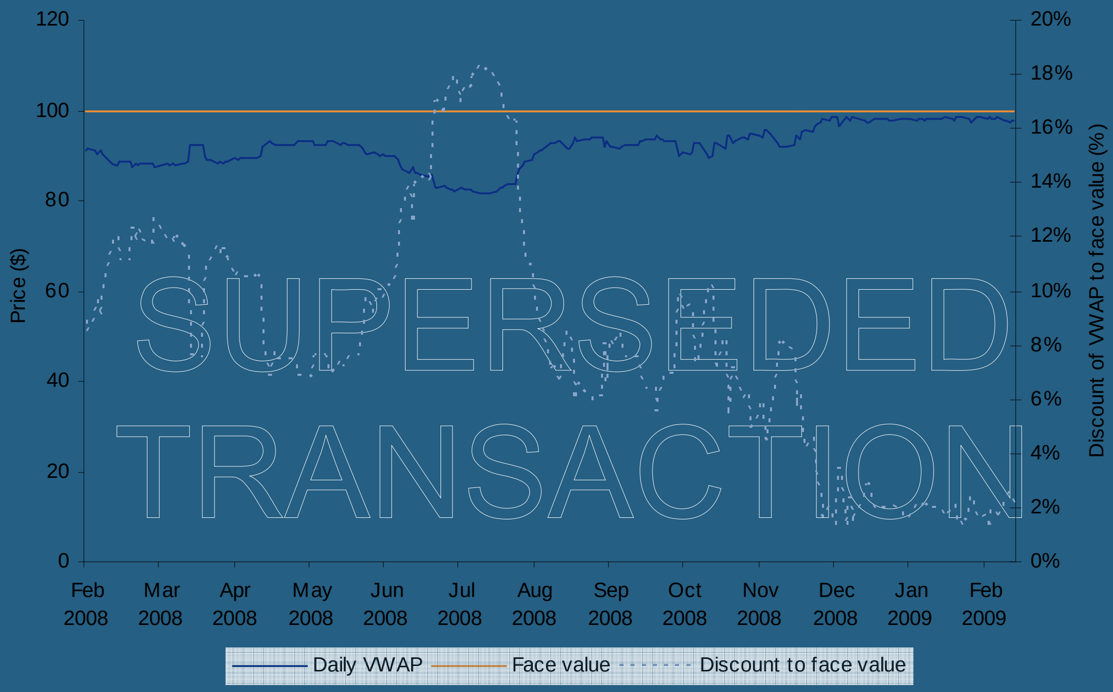
Recent market trading

The chart below graphs the daily BENPA price, represented by the VWAP, and its trading discount to face value (based on the daily VWAP) from 28 February 2008 to 27 February 2009. We have also shown the BENPA issue price on the graph for comparative purposes.

Figure 21 : BENPA – daily VWAP and discount to face value



Source: Bloomberg, IRESS

In relation to the above chart we note:

- BENPA traded at prices ranging from $81.50 to $99.40 over the 12 months to 27 February 2009
- BENPA has predominantly traded at a discount to its face value.
  - for the period 28 February 2008 to 26 June 2008 the discount to face value ranged between 6.8 and 12.7 percent
  - for the period 27 June 2008 to 13 August 2008, the discount to face value of between 13 and 18.4 percent
  - since August 2008, BENPA's discount to face value has reduced to between circa 1.5 percent to 2.5 percent

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- the decline in the BENPA daily VWAP over June 2008 to July 2008 may be attributable to the increasing uncertainty in equity and financial markets given the price of BENPA recovered to previous levels following the release of BEN's Preliminary Final Report on 11 August 2008

- BENPA closed at $97.50 on 27 February 2009.

Liquidity analysis

An analysis of the volume of trading in BENPA for the 12 months to 27 February 2009 is set out in the table below.

Table 24: BENPA volume of trading

	Cumulative volume traded ('000)	Average shares outstanding for the period ('000)	Volume of shares traded as a % of shares outstanding
BENPA	212	895	23.67%

Source: Bloomberg

For the 12 months to 27 February 2009, 23.67 percent of the BENPA were traded as a percentage of total BENPA outstanding. Accordingly we consider BENPA to have demonstrated low levels of liquidity.

11.4 Other proposed BEN convertible preference securities

In October 2008, BEN issued a prospectus to raise $75 million through the issue of BEN convertible preference shares with a face value of $100 and a credit rating of "Baa1" by Moody's (BENPD). BEN did not receive sufficient interest in BENPD and accordingly BEN did not proceed with the issue. The principal differences between the BEN CPS and the proposed BENPD which, all other things being equal, are likely to make the BEN CPS more attractive are that the:

- *the BEN CPS mandatory conversion date is twelve months from the issue date* which is shorter than the proposed BENPD's mandatory conversion date of five years

- *the BEN CPS have a floating dividend rate* compared to the proposed BENPD dividend rate which was to be fixed for five years at a margin of between 4.5 and 5 percent over the five year swap rate, multiplied by 1 minus the corporate tax rate

- *the BEN CPS dividends are paid quarterly in arrears* compared to the proposed BENPD dividends were to be payable twice yearly in arrears.

TRANSACTION

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12 Assessment of the underlying value of the Fund

12.1 Valuation methodology

We have assessed the value of the Fund as at 31 December 2008, by aggregating the value of the Fund's Investment Notes and the other assets and liabilities at this date. We have also compared our assessed value of the Fund to the Fund's NTA.

The principal assets of the Fund comprise its investments in the Investment Notes which are securities backed by a range of high yielding assets, including margin loans, agricultural MIS investor loans, non-conforming mortgages and medical equipment financing loans and leases. As discussed in Section 6.4, we have adopted the DCF method in assessing the underlying value of the Investment Notes. In this regard, we have:

- been provided with a financial model by AMF (Model) which forms the basis of our opinion
- considered the reasonableness of data items adopted
- reviewed the application of the valuation methodology in the Model including consideration of the methodology employed to derive the value of the Investment Notes and the consistency between the Model structure and the operation of the Investment Notes
- compared the key assumptions adopted for the Investment Notes and loan portfolios to industry benchmarks
- performed a sensitivity analysis to assess the effects of changes in key value drivers on the present value of the loan portfolios using the projected cash flows, a range of discount rates (BBSW plus a margin) and a range of loan loss rates
- calculated a value range for the Investment Notes having regard to the medium scenario of the sensitivity analysis and a value range based on two standard deviations around the medium scenario.

Other assets and liabilities, such as cash and trade receivables, have been valued separately as discussed later in this section.

12.2 Valuation assessment of the Investment Notes

Overview of the Model

The Model calculates the cash flows from principal, interest and fees on the entire loan portfolio transferred to the note trust and payment obligations to payables and Noteholders based on projected cash flows and the ranking of the claims on the cash flows from the loan portfolio. The projections have been rolled forward on a monthly basis over the term of the portfolio, and discounted to derive the present value of the Investment Notes.

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The Model comprises four key elements, which include:

- *inputs:* the Model includes assumptions required to model the loan portfolios. These assumptions include the loan pool size, loss rates, prepayment rates, the BBSW rate and margins for the loans, the fee structure and the loss distribution profile. The two key assumptions that materially affect the market value of the Investment Notes are the loss rates and the prepayment rates. These assumptions are discussed further below. The margins of the loans in the underlying portfolios generally do not vary during the life of the loans and, together with the other assumptions, generate the projected cash flows of the Investment Notes. The margin assumptions for the loans are different to the issued margins of the Investment Notes. The issued margins of the Investment Notes materially affect the value of the Investment Notes and these are discussed further below. The other assumptions used to model the loan portfolios are either not variable and therefore do not impact the valuation or are not material

- *pool profile:* the Model projects the future scheduled repayments, prepayments, losses and closing balances of the pool

- *cash flow projections:* the Model projects the cash flows available for each Investment Note. Cash flows are divided into various categories in order to determine the cash flows expected to be paid to Noteholders. A liquidity reserve and principal drawings are used to meet expected cash flow mismatches and shortfalls

- *present value calculations:* the present value of the cash flows to the various Noteholders are calculated by applying a discount rate (BBSW plus a margin) to the monthly expected Investment Note cash flows. As noted above, the discount rate and more specifically the margin adopted in the discount rate materially affects the market value of the Investment Notes. The margin assumptions are discussed further below.

In undertaking our assessment, we have not undertaken an audit of the Model nor have we received external sign-off from a third party on the underlying mathematical integrity of the Model.

Sensitivity analysis

The Fund’s Investment Notes are highly specialised and there is limited market data available against which to benchmark margins and loss rates for such loan portfolios. Furthermore, following the onset of the global financial crisis and the severe restrictions in the asset securitisation market, access to such information has been further restricted.

For this reason, KPMG has performed a sensitivity analysis on the Investment Notes to assess the effects of changes in the key assumptions that impact the present value of the Invesetment Notes (i.e. loss rates and prepayment assumptions of the loan portfolios and the margin used in the discount rate).

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The sensitivity analysis has three scenarios, comprising of:

- *mild scenario:* the most favourable margins and loss rates are applied to the Investment Notes based on historical issue parameters, which would generate a higher price relative to current market conditions
- *medium scenario:* this scenario adopts the average of the mild and severe margin and loss rate assumptions
- *severe scenario:* this scenario is based on the observed data, market information and conservative assumptions.

A discussion on the margins and loss rates is set out below. We have also considered and discussed below the effect of conditional prepayment rates on the Investment Notes.

Margins

The issued margins of each Investment Note is summarised in the following table:

Table 25: The Investment Note's issued margins

Name	Asset category	Balance ($M)	Shadow rating	Issued margin over 1mth BBSW (%)
Lighthouse No.4 Trust	Margin lending	75.0	BBB	1.25
Lighthouse No.4 Trust	Margin lending	50.1	BB	12.50
Q10 Trust E Note	Mortgage portfolio	10.5	BB (Standard & Poor's)	3.75
Q10 Trust F Note	Mortgage portfolio	11.0	B (Standard & Poor's)	6.00
Program No. 2 D Note	Medical financing	13.2	BB-	6.00
MIS Program 1 C Note	MIS investor loans	17.6	BBB-	4.50
MIS Program 1 D Note	MIS investor loans	8.0	Not rated	12.50

Source: AMF and KPMG analysis

The issued margins over the 1 month BBSW are lower than current margins as illustrated in the table below which provides indicative current margins for various ratings.

Table 26: Illustrative margins

Shadow rating	Notes	Current approximate margin over 1mth BBSW (%)	Source
BBB	1	4.50	RBA
BB	1	7.00	RBA
BB-	2	10.00	Market consensus
B	2	15.00	Market consensus

Notes
1 RBA Pricing Issuance Graph, 2008 data
2 Anecdotal market consensus data compiled by KPMG

Source: RBA and KPMG analysis

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KPMG determined the input data for the valuation based on available market information. In regard to the margins used in the severe scenario, we note the following:

- the BBB rated Lighthouse No.4 Trust Senior Subordinated Note and BBB- rated MIS Program 1 C Note were based on margins of comparably rated asset-backed securities

- the severe scenario margins for the Lighthouse Trust No. 4 Trust Junior Subordinated Note and the MIS Program D Note were determined by the relative movement in the BB margin between the issue dates and current dates

- as the Q10 Trust E and F Notes are the most closely related Notes to available RMBS issues, we have used their shadow ratings to establish the conservative margin range for the severe scenario based on market data

- we considered the Program No. 2 Note as likely to be lower risk than Q10 Trust F Note, given its higher rating. Nevertheless, we have adopted the same upper margin as the Q10 Trust F Note for the severe scenario to be conservative.

The range of margins used in the sensitivity analysis is set out in the table below.

Table 27: Sensitivity analysis margin ranges

Name	Balance ($M)	Shadow rating	Issued margin over 1mth BBSW (%)	Sensitivity analysis margin range over 1 mth BBSW (%)
Lighthouse No.4 Trust	75.0	BBB	1.25	1.25 - 4.50
Lighthouse No.4 Trust	50.1	BB	12.50	12.50 - 18.00
Q10 Trust E Note	10.5	BB (Standard & Poor's)	3.75	3.75 - 10.00
Q10 Trust F Note	11.0	B (Standard & Poor's)	6.00	6.00 - 15.00
Program No. 2 D Note	13.2	BB-	6.00	6.00 - 15.00
MIS Program 1 C Note	17.6	BBB-	4.50	4.50 - 10.00
MIS Program 1 D Note	8.0	Not rated	12.50	12.50 - 20.00

Source: AMF and KPMG analysis

Expected loss rate applied to the loan assets pool

The expected loss rate refers to the proportion of the pool that is expected to go into default. The loss rate adopted in the Model is estimated based on internal historical loss data and current market observations relating to the loans making up the underlying portfolio.

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KPMG adopted a range of expected loss rates in the sensitivity analysis as set out in the table below. We also performed stress tests on the loss rates in each underlying portfolio in order to ascertain at which point the Investment Notes incurred losses which we believed were material.

Table 28: Sensitivity analysis loss rate assumptions

Investment	Actual losses recorded to 31 Dec 2008 (%)	Fund loss assumptions (%)	Sensitivity analysis loss rates (%)	Loss where Notes materially impacted (%)
Lighthouse No. 4 – Senior Note	0.07	0.35	0.4	>6.90
Lighthouse No. 4 – Junior Note				>8.50
Q10 Trust E and F Notes	0.19	0.74	0.74 - 2.96	> 0.74
Program No.2 D Note	0.34	0.49	1.00 - 5.00	>5.50
MIS Program 1 C and D Notes	3.15	3.60	10.00	>15.00

Source: AMF and KPMG analysis

Conditional prepayment rates

The conditional prepayment rate (CPR) refers to the propensity for borrowers to repay their loans before the contracted term. The potential for early repayment of loans presents a risk to the lender as it introduces uncertainty in future cash flows.

We have reviewed the CPRs for the margin lending, medical financing and non-conforming mortgage portfolios and have concluded that these are reasonable.

Due to the unique nature of the MIS loan portfolios, there is no observable benchmark rates which we can compare the CPR adopted in the Model. We note that there is a material difference between the CPR and repayment schedule applied in the Model compared to those commonly observed for residential mortgage pool CPRs. In our view, this difference appears reasonable due to the fundamental differences in the expected behaviour of borrowers and general market characteristics of MIS loans compared to residential mortgages. Specifically, the borrower base underlying MIS Program 1 C and D Notes is more specialised, with borrowers largely driven by tax incentives. Further, due to a relative lack of institutions which provide loans of this nature, loans are relatively more difficult to refinance. These factors may contribute to a significantly lower prepayment rate compared to those observed for residential mortgage pools.

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Assessed value of the Investment Notes

In order to assess the market values for the Investment Notes, we established both the stressed range and reasonable range for the unit price. The lower and upper limits for the price per unit, determined from the mild and severe scenarios respectively, are interpreted as stressed representations of the market price. We assume that the probability of estimating the market value correctly is normally distributed with these two limits representing a two standard deviation confidence level. That is to say, we have a 95 percent chance of getting the market value within these limits. Based on this assumption, we estimate that the reasonable range for the market value lies within plus or minus one standard deviation of the medium scenario.

Using this method, our assessed market values of the Investment Notes as at 31 December 2008 is between $162.3 million to $175.5 million having regard to:

- an assessed value of the Investment Notes based on a plus or minus one standard deviation spread (i.e. two standard deviations) from the medium scenario for all Investment Notes other than the Program No. 1 B Note
- an assessed value of the Program No. 1 B Note of $0.8 million, which was the outstanding principal balance as at 31 December 2008. The Trust Manager of this Investment Note has indicated that it will exercise the voluntary clean-up call which is expected to occur before the end of March 2009. Accordingly, the Program No. 1 B Note is expected to be repaid in full before April 2009.

12.3 Assessment of the value of the other assets and liabilities

We set out below an overview of the other assets and liabilities of the Fund, other than the Investment Notes.

Table 29: Summary of assessed market value of the Fund's other assets and liabilities

			Value ($ million)	
Asset/Liability	**Nature**	**Description**	**Book value**	**Assessed value**
Cash	Short term asset	Cash at bank	5.8	5.8
Trade and other receivables	Short term asset	GST and accrued interest	1.0	1.0
Trade and other payables	Short term liability	Interest payable and Manager/Responsible Entity fee	(0.6)	(0.6)
Interest bearing liabilities	Short term liability	External interest bearing debt	(2.5)	(2.5)
Distribution payable	Short term liability	31 December 2008 distribution payable and accrued distribution	(5.4)	(5.4)
Total assets and liabilities (excluding Investment Notes)			**(1.7)**	**(1.7)**

Source: The Fund's 2009 Half Year Financial Report and KPMG analysis

The Fund's assets and liabilities (excluding the Investment Notes) are all short term financial assets or liabilities and accordingly we consider the book value of these assets and liabilities to provide a reasonable indication of their market value.

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12.4 Valuation summary

Based on the valuation methodology summarised in Section 12.1 we have assessed the total value of the Fund as at 31 December 2008 to be in the range of $160.6 million to $173.9 million. This equates to value per Unit of between $1.692 and $1.832, with a midpoint of $1.762 per Unit.

Table 30: Summary of assessed market value of the Fund and its Units

	Total value ($ million)	
	Low value	**High value**
Investment Notes	162.3	175.5
Add:		
Cash	5.8	5.8
Trade and other receivables	1.0	1.0
Less:		
Trade and other payables	(0.6)	(0.6)
Interest bearing liabilities	(2.5)	(2.5)
Distribution payable	(5.4)	(5.4)
Total unitholder value	**160.6**	**173.9**
Number of units (million)	94.9	94.9
Value per unit ($)	**1.692**	**1.832**

Note
**Numbers may not add due to rounding*

Source: KPMG analysis

12.5 Comparison to NTA

The assessed value per Unit of $1.692 and $1.832 as at 31 December 2008 is between $0.119 and $0.259, or between 6.1 percent and 13.3 percent, less than the Unit's NTA as at 31 December 2008 of $1.951.

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Table 31: Comparison of the assessed value of the Units with the NTA per Unit

	($ million)		
	Low value	**High value**	**NTA as at 31 Dec 2008**
Investment Notes	162.3	175.5	186.6
Add:			
Cash	5.8	5.8	5.8
Trade and other receivables	1.0	1.0	1.0
Less:			
Trade and other payables	(0.6)	(0.6)	(0.6)
Interest bearing liabilities	(2.5)	(2.5)	(2.5)
Distribution payable	(5.4)	(5.4)	(5.4)
Total Fund value	**160.6**	**173.9**	**184.9**
Number of Units (million)	94.9	94.9	94.9
Value per Unit ($)	**1.692**	**1.832**	**1.951**

Note
**Numbers may not add due to rounding*

Source: KPMG analysis and the Funds 2009 Half Year Financial Report

The difference between the value of the Units and the NTA per Unit relates to AMF's accounting policy. AMF's accounting policy is to value its investments on a held to maturity basis, based on historical cost. All of the Investment Notes were recognised at their face value for the purposes of the accounts prepared as at 31 December 2008.

We note that the Fund's NTA per Unit of $1.951 as at 31 December 2008 is greater than the ascribed value of BEN CPS consideration offered by the Proposal of $1.835 per Unit. AMF management have advised that this reflects the differing valuation perspectives (held to maturity for the financial accounts and a market value for the Proposal).

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13 Assessment of the underlying value of the Consideration

Under the Proposal, Unitholders will receive 0.01835 BEN CPS for each Unit, in addition to payment of a cash distribution of $0.016 representing the estimated increase in NTA of the Fund for the March 2009 quarter (net of AMF's transaction costs to completion).

Our approach in forming an opinion as to the value of the BEN CPS is summarised below:

- reviewed Annexure D of the SIA
- established certain assumptions required to value the BEN CPS
- selected the most appropriate valuation methodology, being the Monte Carlo simulation
- obtained the market rates required to assess the value
- calculated the market value of BEN CPS using relevant inputs and assumptions.

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13.1 Valuation methodology

The BEN CPS are mandatory convertible preference shares that must be converted at the mandatory conversion date if the mandatory conversion conditions are met (Conversion Conditions). We note that the BEN CPS are a perpetual instrument if the Conversion Conditions are not met.

We outline below the procedures undertaken to form an opinion as to the value of the BEN CPS using a Monte Carlo simulation (Refer to Appendix 3 for details of the Monte Carlo simulation method):

i. using a Monte Carlo simulation, projected the daily share price of BEN for 10 years

ii. modelled the BEN CPS dividend payments for each dividend date

iii. using the results of the Monte Carlo simulation in step (i), calculated the average price for the issue date VWAP period and each of the relevant periods defined by the Conversion Conditions (refer to Mandatory Conversion Conditions section for further details). We note that the calculation is a strict arithmetic average, as opposed to volume weighted average, as trading volumes have not been modelled

iv. determined the conversion number on each mandatory conversion date based on the definition in the SIA

v. tested whether the Conversion Conditions have been met for the first mandatory conversion date and each of the subsequent mandatory conversion dates until conversion occurs

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vi. calculated conversion value as the product of the conversion number from step (iv) and the share price at the first conversion date from step (i) on the date at which the Conversion Conditions are first met

vii. calculated a single value for the BEN CPS as the discounted value of the sum of the conversion value in step (vi) and all discount dividend payments that occurred prior to conversion

viii. repeated steps (i) – (iv) 100,000 times and averaged all outcomes to obtain an indicative mandatory conversion period.

Input parameters

The input parameters used in the Monte Carlo simulation are set out below.

Table 32: Input parameters used in the valuation of BEN CPS

Input parameters	
Valuation date	16 February 2009
Grant date	15 May 2009
Maturity date	15 June 2017
Risk free rate	2.71%
Share price (BEN) at valuation date	$8.94
Issue price	$100
Volatility	43%
BEN dividend yield	3.68%
Tax rate	30%
Dividend base rate	90 day BBSW
Dividend margin	450 bps

Source: KPMG analysis

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Mandatory conversion conditions

Pursuant to the terms of the BEN CPS, there are four mandatory conversion conditions as follows:

- the VWAP on the 25th business day on which trading in BEN ordinary shares took place immediately preceding (but not including) the Relevant Date (as defined below), is greater than 56 percent of the Issue Date VWAP (the First Mandatory Conversion Condition)
- the VWAP during the period of 20 business days on which trading in BEN ordinary shares took place immediately preceding (but not including) the Relevant Date, is greater than 51.28 percent of the Issue Date VWAP (the Second Mandatory Conversion Condition)
- the VWAP during the Relevant Period is greater than 75 percent of the VWAP during the period of 10 business days on which trading in BEN ordinary shares took place that commences on the 40th business day on which trading in BEN ordinary shares took place preceding (but not including) the Relevant Date (the Third Mandatory Conversion Condition)
- no Delisting Event applies in respect of the Relevant Date the Fourth Mandatory Conversion Condition and, together with the First Mandatory Conversion Condition, the Second Mandatory Conversion Condition and the Third Mandatory Conversion Condition.

The Relevant Date is defined as either 12 months after issue or each dividend payment date thereafter. The Issue Date VWAP is defined as the VWAP during the period of 20 business days on which trading in BEN ordinary shares took place immediately preceding (but not including) the first date on which any BEN CPS were issued. The Relevant Period is defined as the period of 10 business days on which trading in BEN shares took place immediately preceding (but not including) the appropriate Relevant Date.

Volatility

Share price volatility is generally calculated from either historical share prices (e.g. historical volatility) or implied from exchange-traded option prices (e.g. implied volatility) on the basis that these provide an accurate representation of future volatility. Although implied volatility is generally considered to better represent “expected” volatility than historical volatility, the lack of long dated traded option data for BEN required the use of historical volatility for the purposes to assess the market value of BEN CPS.

For the purposes of determining a volatility measure of the stock price for BEN, we have considered the volatility exhibited by BEN ordinary shares trading on the ASX over a period of three years (which encompasses periods prior to the merger of Bendigo Bank and Adelaide Bank).

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Dividend yield and payments

Dividend yield - BEN

Typically the dividend yield for the purpose of projecting the BEN daily share prices would be calculated as an average of the past 12 months net dividend yield prior to grant date. Current market turmoil due to the global financial crisis has contributed to a sharp fall in the share price of BEN and a sharp corresponding increase in dividend yield, which is not necessarily representative of a long-term average yield. The graph below illustrates the sharp increase in dividend yield since the beginning of 2008.

Dividend dollar values are now falling in response to the global economic downturn and accordingly dividend yields are likely to return to a level more typical of the long-term average. For this reason we have calculated a dividend yield based on 12 months of net dividend yield data prior to 1 January 2008, in a period where dividend yields were more stable and typical of the long-term yield for BEN.

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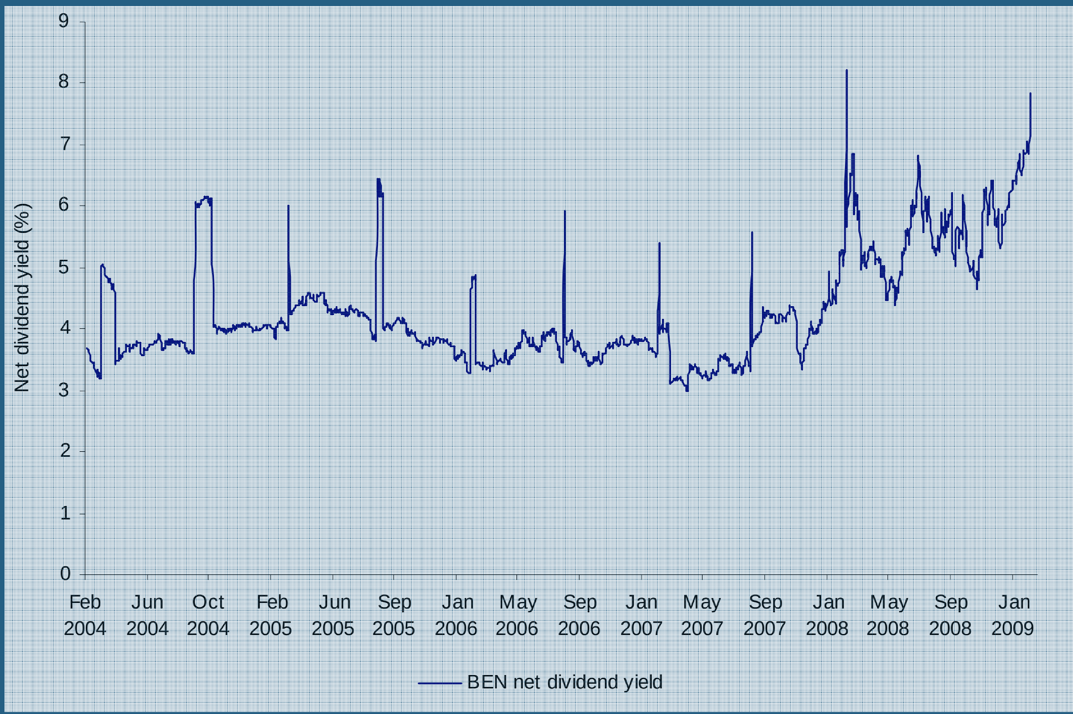
Figure 22: BEN net dividend yield over the five years to 17 February 2009



Source: Bloomberg

Dividend payments – BEN CPS

BEN CPS dividends are to be received on the relevant dividend payment date and calculated according to the formula given in the SIA.

The dividend payment dates are as follows, 15 September 2009, and then each 15 March, 15 June, 15 September and 15 December until redemption, conversion or resale.

Risk free rate

The expected rate of return used in our assessment of the value of BEN CPS is the prevailing risk-free rate, defined as the 1 year yield-to-maturity of a Commonwealth Government Bond. A short-term bond rate was used as, whilst the CPS are perpetual instruments, the majority of the CPS are expected to convert after 12 months. Whilst this valuation has not been performed for the purpose of the preparation of a financial statement, valuation techniques consistent with common market practice in the calculation of market value for accounting purposes has been applied. Accordingly, we have applied the concept of the risk free rate reflecting the implied yield currently available on zero-coupon government issues of the country in whose currency the exercise price (or conversion price) is expressed, with a remaining term equal to the expected term of the instrument being valued. This term is based on the contractual life but taking into account the effects of expected early exercise.

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13.2 Exclusions and assumptions

The exclusions to and other assumptions used in the assessment of the value of a BEN CPS are summarised below:

Redemption

We have considered the BEN CPS holders' right of redemption where mandatory conversion conditions have not been satisfied on specified dates. We firstly consider whether a Conversion Condition had been met and then consider whether it was economically favourable for the BEN CPS issuer to redeem. The test applied was whether the value of the potential converted BEN CPS at any of these points in time was greater than the redemption value.

We performed sensitivity analysis on this condition and found that the impact on the value of the BEN CPS was insignificant as the conditions described above almost never occurred.

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- *Resale*: Resale is a very unlike scenario given the nature of the transaction. This condition would also be modelled in a manner similar to that described above in the Redemption section and hence we consider that the impact on the valuation would be minimal.

- *Delisting event:* It has been assumed that BEN does not delist throughout the life of the BEN CPS.

- *Payment of dividends:* We have assumed that all BEN CPS dividends will be paid on the dividend payment date for the life of the instrument.

- *Optional exchange:* We have assumed that the three trigger events for optional exchange, being a tax event, a regulatory event or an acquisition event as defined in the SIA, do not occur.

- *Adjustments to VWAP:* We have assumed that all clauses relating to the adjustment of VWAP values have the effect of placing the BEN CPS holder in the same position that it would have been in had the event precipitating the adjustment not occurred. Under this assumption this conditions do not have to be modelled as they will have no impact on the indicative valuation.

13.3 Sensitivity analysis

To determine the sensitivity of the point value of the BEN CPS to changes in input variables and modelling assumption a number of scenarios were tested as discussed below.

Issue date

The issue date assumption was varied to bring forward the expected date of issue to 5 May 2009.

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The impact of this variance was to increase the value per BEN CPS to $101.82, which we do not consider material and is within tolerance levels for the accuracy of our Monte Carlo model.

Mandatory conversion at 12 months

The impact of the mandatory conversion conditions was tested by removing all mandatory conversion conditions and assuming that all BEN CPS would convert on the anniversary of the issue date.

The impact of this variance was to increase the value per BEN CPS to $102.42, which we do not consider material and is within tolerance levels for the accuracy of our Monte Carlo model.

Dividend yield

The impact of the dividend yield assumption was tested by using the average yield for the most recent 12 month period of 5.64 percent (rather than the 12 months of net dividend yield data prior to 1 January 2008 as discussed above).

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The impact of this variance was to reduce the value per BEN CPS to $101.45, which we do not consider material and is within tolerance levels for the accuracy of our Monte Carlo model.

Risk free rate

The impact of the risk free rate assumption was tested by using the 10-year Government Bond rate of 4.40% rather than the one year rate, to reflect the perpetual nature of the BEN CPS if the conversion are not met.

The impact of this variance was to reduce the value per BEN CPS to $100.29, which we do not consider material and is within tolerance levels for the accuracy of our Monte Carlo model.

Risk margin for BEN

The impact of the risk margin assumed for BEN was tested by varying the discount rate used for BEN CPS dividends to reflect the credit risk premium for BEN. This rate was 400 basis points above the zero coupon yield curve.

The impact of this variance was to reduce the fair market value per BEN CPS to $101.42, which we do not consider material and is within tolerance levels for the accuracy of our Monte Carlo model.

Trading volumes

The impact of trading volumes was tested by using daily trading volumes in our VWAP calculations. The volumes were modelled under a normal distribution assumption with a mean of 511,239 and a standard deviation of 488,123. These were determined using three years of

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historical daily volume data. We incorporated a correlation to the share price value of 37 percent based on the correlation analysis performed for the same time frame.

The impact of this variance was to reduce the value per BEN CPS to $101.85, which we do not consider material and is within tolerance levels for the accuracy of our Monte Carlo model.

Number of units held

The impact of the number of Units held by an individual Unitholder was tested by running the valuation based on a holding of 100 Units. The impact of reducing the number of Units held would be to increase the rounding down of the number of BEN CPS.

The impact of this variance was to reduce the value per BEN CPS to $101.76, which we do not consider material and is within tolerance levels for the accuracy of our Monte Carlo model.

13.4 Valuation summary

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Based on the valuation methodology summarised in Section 13.1 and the sensitivity analysis discussed in Section 13.3 we have assessed the value of a BEN CPS to be in the range of $100.29 to $102.42 per BEN CPS.

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13.5 Variation of the assessed value to estimated mandatory conversion value

Appendix A – Key Terms of CPS from the BEN Recommended Proposal announcement to market dated 16 February 2009 (Appendix A), states that “Holders will receive $102.56 of BEN ordinary shares on conversion of the CPS”. This value is an approximate future value for the conversion of the BEN CPS. It varies from the market value for following three reasons:

- *Time value of money:* This value of $102.56 is a future value, typically 12 months from issue date. A discount factor determined from the risk free rate and time of conversion is applied to the future value. This will decrease the value

- *BEN VWAP used in the conversion number calculation:* The number of shares into which the BEN CPS converts is given by an equation which depends on the VWAP on the day of conversion. The value of the shares on that day is dependent on this number and the actual share price on that day. The actual share price may be higher or lower than the VWAP. As both a higher and lower values are possible, this assumption has little impact on value

- *Rounding down of the conversion number:* The number of shares into which the BEN CPS converts is always rounded down from the equation given in the Agreement. This will decrease the value.

An indicative analysis of the effect of these factors on the future value of the BEN CPS is provided in the table below. This analysis assumes that the BEN CPS convert 12 months after issue.

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Table 33: Variation of market value to estimated mandatory conversion value

Description	Value ($)	Variation ($)
Value given in Appendix A	102.56	N/a
VWAP used in the conversion number calculation	102.27	(0.29)
Rounding down and maximum cap of the conversion number	100.94	(1.62)[1]
Time value of money	99.18	(3.38)
Total adjustments (including VWAP, rounding and time value)[2]	97.36	(5.20)
Present value of BEN CPS dividends	5.06	5.06
Total value of BEN CPS based on conversion at 12 months	**102.42**	**(0.14)**

Notes

1 The majority of this difference is due to the conversion number being capped at the maximum in accordance with the SIA. In most cases this is a result of forcing the conversion at 12 months as the share price would have been too low for the Mandatory Conversion Conditions to be met in these cases. When conversion is not forced this difference is significantly lower

2 The VWAP, rounding down and time value adjustments are not additive given the complex mathematical relationship governing the calculation

Source: KPMG analysis

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14 Evaluation of the Proposal

The primary matter considered by us in forming this opinion was whether the Consideration offered under the Proposal being the equivalent of 0.01835 shares in BEN CPS, with a face value of $100. We note that Unitholders are also entitled to receive an estimated quarterly cash distribution of $0.016 for each Unit held. We have not included the estimated cash distribution in our assessment of the fairness of the Consideration to be received by Unitholders as it reflects a Unitholder's ordinary entitlement and will be received by Unitholders regardless of whether the Proposal proceeds or not.

We also considered a number of other issues in forming our opinion, including, inter alia:

- the extent of any implied premium to be "received" by Unitholders based on the proposed exchange ratio
- the key terms and conditions of the Units compared to the key terms and conditions of the BEN CPS to be received as consideration under the Proposal
- other advantages and disadvantages which may impact Unitholders if the Proposal proceeds
- the likelihood of an alternative transaction
- any taxation consequences for Unitholders
- the consequences of not approving the Proposal.

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Our assessment of the key matters that we believe Unitholders should consider in deciding whether or not to vote in favour of the Proposal, are discussed below.

14.1 The Proposal is fair to Unitholders

The Consideration to be received by Unitholders of 0.01835 shares in BEN CPS per Unit is fair

Having regard to the terms of the Proposal, Unitholders will receive 0.01835 shares in BEN CPS, with a face value of $100, equating to $1.835 per Unit, as Consideration.

Unitholders are also entitled to receive an estimated cash distribution of $0.016 per Unit, based on any increase in the Fund's NTA for the March quarter (net of AMF's estimated costs of completion). We have not included the estimated cash distribution in our assessment of the fairness of the Consideration to be received by Unitholders as it reflects a Unitholder's ordinary distribution entitlement and will be received by Unitholders regardless of whether the Proposal is implemented or not.

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Based on our assessed underlying value of a BEN CPS of between $100.29 and $102.42 as set out in Section 1, the implied value of the Consideration per Unit to be received by Unitholders is between $1.840 and $1.879 as summarised below.

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Table 34: Implied value of the Consideration to be received per Unit based on underlying values

	Reference	Value ($)	
	Section	Low value	High value
Assessed value per Unit	**12.4**	**1.692**	**1.832**
Assessed value of BEN CPS	**13.4**	100.29	102.42
Exchange ratio (no. of BEN CPS)		0.01835	0.01835
Implied value of the BEN CPS to be received by Unitholders per Unit		**1.840**	**1.879**

Source: KPMG analysis

The above analysis indicates that, on the basis of underlying values, the implied value of Consideration per Unit to be received by Unitholders under the Proposal is higher than our range of assessed value per Unit.

Accordingly, we consider that the Consideration is fair to Unitholders.

14.2 The Proposal is reasonable to Unitholders

Regulatory Guide 111 states that an offer is reasonable if it is fair. As we have concluded that the Proposal is fair to Unitholders, accordingly, the Proposal is also reasonable to Unitholders. Unitholders may, however, also wish to consider the following matters.

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The acquisition premiums to historical traded prices for Units implied by the implied value of Consideration per Unit is reasonable

The implied premiums of our implied value of the Consideration per Unit and the VWAP of the Units at various points prior to the announcement of the Proposal on 16 February 2009 are set out below.

Table 35: Assessment of the implied premiums of the Consideration per Unit

Period	VWAP of period	Implied value per unit		Implied premium	
		Low value	High value	Low value	High value
Period prior to and including 13 February 2009 (Pre-announcement period)					
12 months[1]	$1.39	$1.840	$1.879	32.0%	34.8%
6 months[2]	$1.39	$1.840	$1.879	32.7%	35.5%
3 months	$1.22	$1.840	$1.879	50.4%	53.6%
1 month	$1.19	$1.840	$1.879	54.7%	58.0%
1 week	$1.16	$1.840	$1.879	59.1%	62.5%

Notes

1 *During this period the Fund bought back 5,118,154 of its Units for total consideration of $7,621,891, equating to a VWAP of $1.49*

2 *During this period the Fund bought back 3,666,776 of its Units for total consideration of $5,461,755, equating to a VWAP of $1.49*

Source: Bloomberg, IRESS, ASX announcements, KPMG analysis

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The above analysis indicates that, based on market prices, a premium in the range of 32 percent to 62.5 percent is being "received" by Unitholders under the Proposal. The 12 and 6 month VWAPs calculated above were impacted by the buy back of Units by the Fund as detailed above in the notes to Table 35.

We have also undertaken an analysis of data over the period 3 December 1998 to 2 December 2008 in order to assess a reasonable range for implied acquisition premiums in Australia. Our analysis indicated that twenty day acquisition premiums ranged from those with negative premiums to 203 percent with an average and median of approximately 23.3 percent and 17.4 percent respectively after excluding those with negative premiums and those with premiums greater than 150 percent.

It is apparent from a review of these transactions that there is a wide dispersion of observed acquisition premiums. This is not unexpected given that acquisition premiums can be affected by a wide range of factors. Having considered these factors and the nature of the distribution of our observed data we consider on balance it reasonable to suggest that in Australia, successful transactions are typically likely to complete within an acquisition premium range of 25 percent to 40 percent.

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In relation to the Proposal the implied premiums are above or within this range for the periods set out above.

The change in the nature and risks of a Unitholders investment

The nature and risks of a Unitholders investment will change if the Proposal is successful. Currently Unitholders have an interest in a perpetual security in a well-defined portfolio of assets with a high degree of visibility. Pursuant to the Proposal being implemented, this investment will change to a preference share which will mandatorily convert into BEN ordinary shares. BEN is a corporate entity regulated by APRA with significantly more diverse operations and accordingly less visibility than the Fund.

A comparison of the key terms of the BEN CPS and the Units is set out overleaf.

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Table 36: Comparison of the key terms of BEN CPS and the Units

Term	BEN CPS	Units in the Fund
	Description	
Security	Fully paid mandatory convertible preference shares in the capital of BEN	Units in the Fund
Issuer	BEN	AMF as Responsible Entity of the Fund
Issuer Rating	BBB+ / A2 (Standard & Poor's/Moody's)	N/a - the Fund is unrated
Issue Rating	Baa1 - this is the rating assigned by Moody's	There are no ratings for the Fund. Underlying investments range from BB to unrated and sub-investment grade
Issue Price	$100 per BEN CPS	$2
Quotation on ASX	The Issuer will apply for the BEN CPS to be quoted on ASX	Currently quoted on the ASX
Term	BEN CPS are perpetual instruments, until such time as Conversion, Redemption or Resale occurs. However, BEN CPS are expected to convert into ordinary shares of the Issuer 12 months after the date of issue (the Mandatory Conversion Date), provided that the Mandatory Conversion Conditions are satisfied	No fixed term - perpetual instruments
Expected term	12 months after issue	Indefinite
Dividends / distribution	Non-cumulative, fully franked dividends commencing 15 September 2009	Untaxed distributions commencing 31 December 2006
Dividend rate / yield	(90 Day bank bill rate[1] + Margin) x (1 – Tax Rate[2])	30 Day BBSW + Margin
Margin	450 basis points per annum	400 - 450 basis points per annum[3]
Dividend / distribution frequency	Quarterly, commencing on 15 September 2009, each 15 March, 15 June, 15 September and 15 December until the date on which a Redemption, Conversion or Resale occurs - subject to the satisfaction of the conditions outlined in Clause 3.3 of Annexure D ofthe SIA	Quarterly - periods ending 31 March, 30 June, 30 September and 31 December
Franking	Dividends are expected to be fully franked. If any Dividend has a franking rate of less than 100%, the Dividend will be grossed up by the unfranked amount of the Dividend	Distributions are unfranked - Unitholders assessed on their respective share (assuming they are presently entitled) of the net taxable income of the Fund

Notes

1 *Means the Bank Bill Rate on the first Business Day of a Dividend Period*
2 *The Australian corporate tax rate applicable as at the relevant Dividend Payment Date – currently 30 percent*
3 *Current market guidance from AMF*

Source: The Fund's ASX announcement: Recommended Proposal from Bendigo and Adelaide Bank, 16 February 2009 and the Fund's PDS

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The key differences between the two securities include:

- *Investment rating:* The Fund is currently unrated and with the exception of the non-conforming mortgage portfolio notes, which are rated B and BB respectively, all of the Fund's underlying assets are unrated. The BEN CPS has been granted a credit rating of "Baa1" by Moody's, equivalent to a Standard & Poor's rating of BBB-

- *Term:* Whilst both instruments are perpetual in nature, the BEN CPS will convert into ordinary BEN shares after 12 months providing certain conversion conditions are met. Testing of the conversion conditions indicates a circa 90 percent probability of conversion after 12 months

- *Taxation of dividends:* As the Fund is a unit trust, it is treated as a 'flow through' entity for tax purposes. Accordingly, Unitholders currently receive pre-tax distributions and are assessed annually for tax on their respective share of the Fund's income. The BEN CPS is not a unit trust. BEN CPS holders will receive dividend payments reduced by the corporate tax rate, however holders will be entitled to receive franking credits equivalent to this amount. We note the franking credits cannot be accessed until BEN CPS holders file their tax return. Whilst the after tax distribution (assuming a consistent margin) will be consistent between the two securities, there will be a timing difference of payments to investors in favour of Unitholders

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- *Yield:* On a fully franked basis the BEN CPS margin of 450 basis points is at the higher end of the Fund's current yield guidance of 400 to 450 basis points[7]. The Fund's margin is based on the 30 day BBSW and the BEN CPS margin will based on the 90 day BBSW.

14.3 Other factors relevant to Unitholders

Advantages of the Proposal

The Proposal is expected to provide the following benefits to Unitholders:

- *Yield:* The BEN CPS are expected to pay a yield of 450 basis points over the relevant reference rate being the 90 day BBSW (including franking credit benefits). This yield is at the upper end of the current Fund yield guidance of between 400 and 450 basis points over the 30 day BBSW[8]. Typically there is a positive spread between the 30 and 90 day BBSWs providing a slight yield advantage in favour of the BEN CPS. Furthermore as discussed above, the taxation of the dividend differs to that of the Fund's distribution and Unitholders need to consider this in determining whether or not to vote in favour of the Proposal

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[7] Source: AMF
[8] Source: AMF

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- *Liquidity:* The terms of the BEN CPS provide for mandatory conversion into BEN ordinary shares after 12 months, providing the mandatory conversion conditions are satisfied. Based on our analysis, there is a likely 90 percent probability of the mandatory conversion conditions being met after 12 months. Under the terms of the Proposal, Unitholders will receive 0.01835 BEN CPS for each Unit. Accordingly on conversion approximately 1.74 million BEN CPS will be issued, which is approximately double that of BEN's most comparable listed security BENPA. In our view it is likely that liquidity of the BEN CPS will be relatively consistent with that of the Fund and BENPA, which have demonstrated similar levels of liquidity over the past 12 months. However as BEN shares have historically traded at demonstrably higher levels of liquidity than either the Units or BENPA, providing the conversion conditions are met, Unitholders will likely be provided with higher liquidity in 12 months following the issue of BEN CPS

- *Increased certainty of value:* The terms of the BEN CPS provide for a fixed dollar conversion of BEN CPS to BEN ordinary shares, whereby a BEN CPS convert at a 2.5 percent discount to the 20 business day VWAP of BEN ordinary shares. This provides Unitholders with greater certainty of value, regardless of the BEN CPS trading price. Should Unitholders wish to exit their holdings of BEN ordinary shares completely following conversion, Unitholders will be able to sell the BEN ordinary shares on the ASX

- *Enhanced credit profile:* Moody's have provided acredit rating of Baa1 (equivalent to a Standard & Poor's rating of BBB-) for the BEN CPS, which is an investment grade rating. This compares favourably to the Fund which is unrated as are most of its Investment Notes

- *Exit from a diminishing investment portfolio:* There have not been any new investments made by the Fund in over two years and the current Investment Notes are approaching maturity. As each Investment Note reaches maturity or meets its call conditions, the Fund is becoming increasingly less diverse and its concentration risk is increasing for Unitholders. The Fund's longest expected asset is its MIS loan portfolio, which has an expected maturity of four years. The Proposal provides Unitholders with an opportunity to exit the Fund and cease their exposure to the increasing risk associated with the Fund, resulting from the Fund's reducing investment diversification

- *Possibly reduced discount to face value:* BENPA have historically traded at a lower discount to face value than units in the Fund. As the most comparable security to the proposed BEN CPS, it is likely the discount to face value will also be lower than that of the Units.

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Possible disadvantages of the Proposal

The possible disadvantages of the Proposal to Unitholders include:

- *Tax consequences:* Exchange of Units for BEN CPS will give rise to a CGT event and will not qualify for capital gains tax rollover relief. Consequently this may result in capital gains tax being payable by some Unitholders. Further information relating to the tax consequences for Unitholders is detailed in Section 14.4
- *Certain Unitholders may not value the franking credits:* Unitholders who are unable to utilise all or some of the benefit from franking credits may receive lower after tax returns from the BEN CPS compared to those from the Units. The specific tax implications for each Unitholder will depend on the particular circumstances of the person or entity. Unitholders should seek and rely on their own advice where appropriate
- *No cash alternative:* Unitholders are not being offered a cash alternative to the BEN CPS as consideration under the Proposal. This represents a potential limited disadvantage for those Unitholders wishing an absolute or partial exit from their investment. BEN will apply for quotation of the BEN CPS on the ASX so Unitholders will be able to exit their investment (providing BEN CPS are accepted to ASX quotation) by selling their BEN CPS on the ASX, however, transaction costs will be incurred
- *No certainty of mandatory conversion value:* Due to the time value of money, the use of a BEN VWAP in the calculation of the number of BEN shares into which the BEN CPS will convert and the rounding down of the BEN conversion number, the estimated mandatory BEN conversion value of $102.56 may vary from the market value at the date of conversion.
- *Foreign Unitholders may not be eligible to receive BEN CPS:* Unitholders who are deemed to be Ineligible Foreign Unitholders will not be issued the BEN CPS as consideration under the Proposal, instead, their entitlement will be issued to a nominee appointed by BEN who will sell all of the BEN CPS on the ASX and remit the net proceeds to them. This represents a disadvantage for those Ineligible Foreign Unitholders who are seeking ongoing investment exposure in BEN. However, they have the flexibility to reinvest the cash they will receive in BEN CPS or in BEN, albeit they will have to incur transaction costs.

On balance, we consider that the disadvantages of the Proposal do not outweigh the advantages.

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14.4 Other considerations

No alternative proposals for the Fund have emerged

Since the announcement of the Proposal on 16 February 2009, no alternative formal proposal to acquire the Fund has been received by AMF.

In any event, following the announcement of the Proposal, potential alternative acquirers have had the opportunity to make competing offers for the Fund. The Independent Directors have advised that no such offers have yet been made for the Fund.

We note that approximately eight weeks will lapse between the date of this report and Unitholders' meeting to consider the Proposal. In the event that an alternative offer emerges within this timeframe on better terms, Unitholders could elect to vote against the Proposal.

14.5 Implications if the Proposal is not approved

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In the event the Proposal does not proceed, amongst other things:

- the Fund will continue to be listed on the ASX and the Independent Directors of AMF anticipate that the Fund will continue as a stand alone entity and continue to remain listed on ASX. The Fund will continue to focus on its current business plan and strategy. The rights of Unitholders will remain unchanged.

- the Units are likely to trade at lower levels than current market prices in the absence of an alternative proposal. We note that following the announcement of the Proposal on 16 February 2009 to 27 February 2009, the Units have traded in the range of $1.52 to $1.60 (based on closing prices). This range compares with the one month and three month VWAPs of the Units prior to the announcement of the Proposal of approximately $1.19 and $1.22 respectively. It is not possible to accurately predict the prices at which the Fund units might trade in the future in the absence of the Proposal or an alternative offer. However, in the absence of any unexpected events impacting the Fund, it is likely that the price of the Fund's units on the ASX will fall below current market prices

- the expected benefits of the Proposal will not be realised. However, some of the possible disadvantages and risks of the Proposal will not arise

- the Fund may, in certain circumstances, become liable to pay BEN a break-fee of $1.7 million under the SIA

- the Fund will have incurred the costs estimated to be in the order of $1.64 million (excluding any break fee which may be payable) and expended management time in planning for implementation of the Proposal without achieving an outcome.

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14.6 Tax implications of the Proposal

Unitholders should refer to Section 8 of the Explanatory Memorandum in relation to the tax implications arising from approval of the Proposal. Under current Australian taxation laws, the exchange of Units in the Fund for BEN CPS will give rise to a CGT event and will not qualify for capital gains tax rollover relief. Consequently this may result in capital gains tax being payable by some Unitholders. Disposal of the BEN CPS by an Australian Holder will also give rise to a CGT event which may result in capital gains tax being payable by some holders. The redemption of BEN CPS may result in the redemption proceeds being treated as an assessable dividend and will also give rise to a CGT event for Australian Holders which may result in capital gains tax being payable by some shareholders. The conversion of each BEN CPS into one BEN ordinary share should not result in a CGT event. The issue of additional BEN ordinary shares in relation to the BEN CPS should not be treated by an Australian Holder as a dividend or assessable income.

The specific tax implications for each Unitholder will depend on the particular circumstances of the person or entity. Unitholders should not rely solely upon the taxation information set out in the Explanatory Memorandum for taxation purposes, and should seek and rely on their own advice where appropriate.

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15 Conclusion

In our opinion, having regard to the matters set out in this report, and in the absence of a superior proposal, on balance, the Proposal is fair and reasonable to Unitholders and therefore in the best interests of Unitholders

In forming our opinion, we have considered the interests of Unitholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual Unitholders. It is neither practical nor possible to assess the implications of the Proposal on individual Unitholders as we do not know their specific financial circumstances.

The decision of Unitholders as to whether or not to vote in favour of the Proposal is a matter for individuals based on, amongst other things, their views as to value and future market conditions, risk profile, liquidity preference, investment strategy and tax position. Individual Unithiolders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the Proposal may be influenced by his or her particular circumstances, we recommend that individual unitholders consult their financial adviser.

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Appendix 1 – KPMG Disclosures

Qualifications

KPMG is the holder of an Australian Financial Services Licence, No 246901, under the Corporations Act 2001 and is controlled by the KPMG partnership.

The individuals responsible for the preparation of this report are Don Manifold, Lilian Look and Paul Lichtenstein.

Don Manifold is a partner in the KPMG Partnership and is an Executive Director of KPMG. He holds a holds a Bachelor of Economics (Accounting) with honours, a Master of Business Administration from the Australian Graduate School of Management and is a Member of the Institute of Chartered Accountants in Australia. Don has over 10 years experience in the provision of merger and acquisition advice and considerable experience in the valuation of shares and businesses.

Lilian Look is a partner in the KPMG Partnership and is an Executive Director of KPMG. She holds a Bachelor of Economics and a Bachelor of Laws, is a Fellow of the Financial Services Institute of Australasia and is an Associate of CPA Australia. Lilian has over 10 years experience in the preparation of valuations and expert reports on the valuation of shares and businesses.

Paul Lichtenstein is a partner in KPMG's Risk Advisory Services practice and leads KPMG's credit risk advisory practice in Australia. Paul holds a Bachelor of Economics, a Graduate Diploma in Finance and is a member of the Institute of Chartered Accountants in Australia. Paul has an extensive background in credit risk management including credit process design and enhancement, credit quality reviews and the development of credit risk management tools and models.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG's opinion as to whether the Proposal is in fair and reasonable to Unitholders. KPMG expressly disclaims any liability to any Unitholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG nor the KPMG Partnership has been involved in the preparation of the Explanatory Memorandum. Accordingly, we take no responsibility for the content of the Explanatory Memorandum as a whole.

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Independence

KPMG is entitled to receive a fee of $130,000, excluding GST, for the preparation of this report. Except for these fees, KPMG has not received and will not receive any pecuniary or other benefit whether direct or indirect for or in connection with the preparation of this report.

In addition to this report, the KPMG Partnership is entitled to receive not more than $85,000 for the separate taxation advice on the tax implications of the Proposal for BEN.

Over the two years prior to the date of this report, KPMG and the KPMG Partnership have:

- undertaken no other work for the Fund

- undertaken various other professional assignments for BEN including an independent expert's report, a valuation of intangible assets and general corporate taxation advice.

A number of such assignments were on-going during the preparation of this report. Other than this report and separate taxation advice on the tax implications of the Proposal for BEN shareholders, none of these assignments related to any aspect of the Proposal.

Further, employees of KPMG, the KPMG Partnership and its affiliated entities may hold Units in the Fund. However, no individual involved in the preparation of this report, or review thereof, holds a material direct interest in the Units of the Fund. With the exception of these matters, neither KPMG or the KPMG Partnership will receive any other benefits, whether directly or indirectly, for or in connection with the making of this report.

During the course of this engagement, KPMG provided draft copies of this report to management of AMF, as Responsible Entity of the Fund for comment as to factual accuracy, as opposed to opinions, which are the responsibility of KPMG alone. Changes made to this report as a result of these reviews have not changed the opinions reached by KPMG.

Consent

KPMG consents to the inclusion of this report in the form and context in which it is included with the Explanatory Memorandum to be issued to the Unitholders. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG as to the form and context in which it appears.

Indemnity

AMF, as Responsible Entity of the Fund, has agreed to indemnify and hold harmless KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership against any and all losses, claims, costs, expenses, actions, demands, damages, liabilities or any other proceedings, whatsoever incurred by KPMG, the KPMG Partnership and/or KPMG entities

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related to the KPMG Partnership in respect of any claim by a third party arising from or connected to any breach by AMF of AMF's obligations.

AMF, as Responsible Entity for the Fund, has also agreed that KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership shall not be liable for any losses, claims, expenses, actions, demands, damages, liabilities or any other proceedings arising out of reliance on any information provided by you or any of your representatives, which is false, misleading or incomplete. AMF, as Responsible Entity for the Fund, has agreed to indemnify and hold harmless KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership from any such liabilities we may have to AMF/and or the Fund or any third party as a result of reliance by KPMG, the KPMG Partnership and/or KPMG entities related to the KPMG Partnership on any information provided by AMF or any of AMF's representatives, which is false, misleading or incomplete.

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Appendix 2 – Sources of information

In preparing this report, we have considered, inter alia, the following main sources of information:

The Fund

- annual reports for the years ended 30 June 2007 and 2008
- half year report for the six months ended 31 December 2008
- various ASX announcements for the Fund
- various press releases, public announcements, media and analyst presentation material and other public filings by the Fund.

BEN

- annual reports for the years ended 30 June 2007 and 2008
- half year report for the six months ended 31 December 2008
- BEN website
- various ASX announcements for BEN
- various press releases, public announcements, media and analyst presentation material and other public filings by BEN.

Industry

- various data series and publications from the Australian Bureau of Statistics and the RBA
- various publications and financial information from APRA and the Australian Office of Financial Management
- various data from CBA Spectrum
- various information from the Australian Securitisation Forum
- various KPMG Financial Institutions Performance Surveys
- various newspaper and media reports pertaining to the banking and asset securitisation industries.

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General

- latest draft copy of the Explanatory Memorandum dated 25 February 2009 in relation to the Proposal
- financial information from Bloomberg and IRESS
- financial information and reports from FinAnalysis and Connect 4
- publications from Standard & Poor's
- various broker, independent expert and analysts reports and company websites.

We have had discussions with the AMF's management team including:

- Mr Bruce Speirs, Chief Executive Officer
- Mr Kym Masters, Chief Investment Officer
- Mr Mark McKay, Portfolio Manager.

In addition, we have had discussions with AMF's Independent Directors, being:

- Mr Stephen Treanor
- Ms Nancy Fox.

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Appendix 3 – Overview of valuation methodologies

Capitalisation of Earnings

An earnings based approach estimates a sustainable level of future earnings for a business (maintainable earnings) and applies an appropriate multiple to those earnings, capitalising them into a value for the business. The earnings bases to which a multiple is commonly applied include Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA), Earnings Before Interest and Taxation (EBIT) and Net Profit After Taxation (NPAT).

In considering the maintainable earnings of the business being valued, factors to be taken into account include whether the historical performance of the business reflects the expected level of future operating performance, particularly in cases of continued development or when significant changes occur in the operating environment and when the underlying business is cyclical.

With regard to the multiples applied in an earnings based valuation, they are generally based on data from listed companies and recent transactions in a comparable sector, with appropriate adjustment after consideration has been given to the specific characteristics of the business being valued.

The multiples derived for comparable quoted companies are generally based on share prices reflective of the trades of small parcels of shares. As such, they generally reflect multiples reflective of the prices at which portfolio interests change hands. That is there is no premium for control incorporated within such pricing. They may also be impacted by the level of liquidity in trading of the particular stock. Accordingly, when valuing a business en bloc (i.e. 100 percent) it is appropriate to also reference the multiples achieved in recent transactions, where a control premium and breadth of purchaser interest are more fully reflected.

An earnings approach is effectively a proxy for the DCF valuation approach. It may be used as a primary valuation approach where the business subject to valuation is a stable business operating in a relatively mature or developed industry, or to provide a market cross-check to the conclusions reached under a theoretical DCF approach. An earnings approach is also commonly adopted when sufficiently reliable forecast information to undertake a DCF is not available.

Net assets or cost based methodology

Under a net assets or cost based approach, total value is based on the sum of the net asset value or the costs incurred in developing a business to date, plus, if appropriate, a premium to reflect the value of intangible assets not recorded on the balance sheet.

Net asset value is determined by marking every asset and liability on (and off) the company's balance sheet to current market values.

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A premium is added, if appropriate, to the marked-to-market net asset value, reflecting the profitability, market position and the overall attractiveness of the business. The net asset value, including any premium, can be matched to the "book" net asset value, to give a P/BV, which can then be compared to that of similar transactions or quoted companies.

A net asset or cost based methodology is most appropriate for businesses where the value lies in the underlying assets and not the ongoing operations of the business (e.g. real estate holding companies). A net asset approach is also useful as a cross-check to assess the relative riskiness of the business (e.g. through measures such as levels of tangible asset backing).

DCF methodology

Value is future oriented and accordingly the theoretically correct manner to assess value is to consider future earnings potential of a business. Under a DCF approach, forecast cash flows are discounted back to the valuation date, generating a net present value for the cash flow stream of the business. A terminal value at the end of the explicit forecast period is then determined and that value is also discounted back to the valuation date and added to the net present value of the cash flow stream to give an overall value for the business.

In a DCF valuation, the forecast period should be of such a length to enable the business to achieve a stabilised level of earnings, or to be reflective of an entire operation cycle for more cyclical industries. Typically a forecast period of at least five years is required, although this can vary by industry and by sector within a given industry.

Discount rate

The rate at which the future cash flows are discounted (the Discount Rate) should reflect not only the time value of money, but also the risk associated with the business' future operations. This means that in order for a DCF to produce a sensible valuation figure, the quality of the underlying cash flow forecasts is fundamental.

The Discount Rate typically employed is the Weighted Average Cost of Capital of the business, reflecting an optimal (as opposed to actual) financing structure, which is applied to unleveraged cash flows and results in an enterprise value for the business. Alternatively, in certain circumstances, it is more appropriate to apply an equity approach, which takes the business' cost of equity and applies it to leveraged cash flows to determine an equity value for the business.

Terminal value

In calculating the terminal value, regard must be had to the business' potential for further growth beyond the explicit forecast period. The "constant growth model", which applies an expected constant level of growth to the cash flow forecast in the last year of the forecast period and assumes such growth is achieved in perpetuity, is a common method. The terminal value calculation should be cross-checked for reasonableness against implied exit multiples.

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Industry specific methodology

Depending on the industry in which the business operates, an industry specific approach may be appropriate in assessing value. Industry specific methodologies typically involve the application of a 'rule of thumb', which is accepted within the industry as an appropriate basis for benchmarking value.

Industry specific methodologies typically involve the application of a multiplier to an operating metric such as revenue, customer numbers or funds under management.

The multiplier applied is determined with reference to common perception in the market, which is supported through empirical evidence from recently completed transactions.

An industry specific methodology is most appropriate as a cross-check of the value determined by applying one of the above methodologies as a primary methodology.

Enterprise or Equity Value

Depending on the valuation approach selected and the treatment of the business' existing debt position, the valuation range calculated will result in either an enterprise value or an equity value being determined.

An enterprise value reflects the value of the whole of the business (i.e. the total assets of the business including fixed assets, working capital and goodwill/intangibles) that accrues to the providers of both debt and equity. An enterprise value will be calculated if a multiple is applied to unleveraged earnings (i.e. Revenue, EBITDA, EBIT) or unleveraged free cash flow.

An equity value reflects the value that accrues to the equity holders. To compare an enterprise value to an equity value, the level of net debt must be deducted from the enterprise value. An equity value will be calculated if a multiple is applied to leveraged earnings (i.e. Net Profit after Taxation) or free cash flow, post debt servicing.

Monte Carlo simulation

This methodology is common market practice in the valuation of equity options, especially where conditions or hurdles are dependent upon the future value of the security.

The Monte Carlo method is a procedure for repeatedly sampling potential random movements in a security's price. Using this repeated random sample in conjunction with certain forecast and historical data (such as interest rates, dividend yields and volatility), it is possible to form a probability distribution of a security's price at a particular time in the future and hence estimate the average or mean security price at this time.

The underlying model of the stock's behaviour used in this method is geometric Brownian motion. The random movements in the security's price are predicted using a random draw from

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a standard normal distribution. The key inputs in a Monte Carlo simulation are the initial stock price, the drift rate (generally the risk free rate less the net dividend yield) and the volatility exhibited by the stock price.

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