

MAX TRUST UNITHOLDER UPDATE

ISSUE 4

Three months to 31

March 2011

ARSN: 115 268 669

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1. INTRODUCTION

The following Scheme Unitholder update ("Update") provides a summary of the performance of the Scheme's portfolio and management of the outstanding Notes and Hedges for the quarter ending 31 March 2011.

For background to the Scheme and a summary of the Note restructure please refer Update Issue 1 for the period ended 30 June 2010 issued to the ASX on 21 September 2010.

2. SUMMARY OF THE PASS THROUGH NOTES

Class	Note Balance	Note Balance Δ	Deferred Margin Balance	Deferred Margin Δ	Benchmark	Stated Margin	Deferred Margin
Class A1	54,646,408	(21,979,076)	18,594,832	1,093,894	BBSW	2.15%	6.00%
Class A2	159,551,556	(64,172,486)	17,133,464	1,064,617	BBSW	0.75%	2.00%
Total	214,197,964	(86,151,562)	35,728,296	2,158,511			

A payment date for the Pass Through Notes occurred on the 21st of March 2011. On this payment date, all senior expenses, interest due on the Pass Through Notes and a principal repayment of A\$86,151,562 were paid.

3. SCHEME PORTFOLIO SUMMARY

The credit risk to Noteholders and Unitholders is linked to the underlying Scheme portfolio. A summary of the Scheme portfolio as at 31 March 2011 is provided below.

Asset Type	Total # Exposures	Face Value AUD 31 March 2011	Face Value AUD 31 Dec 2010	Face Value AUD Δ
RMBS	16	78,206,593	115,728,792	(37,522,199)
Max Realty	-	-	27,233,901	(27,233,901)
CMBS	3	31,525,286	31,525,286	-
Financials & Industrials	11	131,241,506	136,241,506	(5,000,000)
CDO	5	47,567,500	47,567,500	-
Aircraft	13	55,670,651	58,474,266	(2,803,615)
Total Securities	48	344,211,536	416,771,251	(72,559,715)
Liquidity Reserve Balance	1	9,043,048	13,049,361	(4,006,313)
Expenses Reserve Balance	1	1,003,671	1,003,710	(39)
Bank Accounts Balance	4	3,242,956	11,573,456	(8,330,500)
Total Cash Balance		13,289,675	25,626,527	(12,336,852)
Total Asset Balance		357,501,211	442,397,778	(84,896,567)

Portfolio face value movement reconciliation for the period:

Description	Amount
Face value 31 December 2010	416,771,251
Principal Repayments	(17,340,332)
Asset Sale (Max Realty Gosford Notes)	(27,159,827)
Asset Sale (Mobius AMT M1)	(27,776,285)
Combined "FX Movement from unhedged positions"	(283,271)
Face value 31 March 2011	344,211,536

Pass Through Note face value movement reconciliation for the period:

Description	Amount
Face value 31 December 2010	300,349,526
Principal and asset sale proceeds	(80,510,612)
Proceeds from release of Liquidity Reserve	(4,000,000)
Excess Income Collections	(1,640,950)
Face value 31 March 2011	214,197,964

A description of each asset class and a detailed list of the securities (including those assets which are on the Investment Manager's Credit Watch List) and whether the relevant asset has an interest rate, currency or is basis hedged, is provided below.

RESIDENTIAL MORTGAGE BACKED SECURITIES

The Scheme's holding in residential mortgage backed securities ("RMBS") was reduced by \$37.52m during the period. The movement was due to the disposal of Mobius AMT M1, amortisation received and the movement in AUD / EUR and AUD / NZD foreign exchanges rates in relation to PARGN 12X B1B and SPPNZ 2007-1 MZ which are currently unhedged. The RMBS securities comprise underlying prime and non-conforming mortgages. There was no change in the RMBS securities included on the Credit Watch list in the period.

The RMBS assets held by the Scheme as at 31 March 2011 are tabled below.

Asset Name	Currency	AUD Face Value ¹	AUD Face Value Δ	WAL ²	Legal Maturity	Credit Watch List ³	Hedged ⁴
APLLO 2007-1E 1A	AUD	1,688,289	(95,362)	2.53	9-Aug-38	No	N/A
SWAN 2007-1E A2	AUD	1,979,171	(135,144)	2.63	12-Jun-38	No	N/A
PROGS 2006-1 A	AUD	3,164,687	(212,521)	0.86	10-Mar-37	No	N/A
REDS 2006-1E A2	AUD	4,845,865	(264,733)	2.43	17-Nov-37	No	N/A
SMHL 2005-2 A	AUD	3,718,554	(289,356)	3.00	12-Aug-36	No	N/A
TORR 2005-2 A	AUD	948,674	(58,705)	1.53	13-Jul-37	No	N/A
TORR 2005-3E A2	AUD	4,006,219	(333,691)	0.53	15-Oct-36	No	N/A
WBT 2005-1 D	AUD	1,231,249	(57,515)	1.46	16-Nov-36	No	N/A
PARGN 12X B1B	EUR	6,840,881	302,369	8.51	15-Nov-38	No	No
MOB NCM-03 B	AUD	2,929,938	(2,584,469)	0.31	14-Oct-50	No	N/A
MOB NCM-03 C	AUD	7,650,000	-	1.26	14-Oct-50	No	N/A
MOB NCM-04 C	AUD	12,879,571	(2,989,650)	0.58	16-Nov-51	No	N/A
MOB NCM-04 D	AUD	18,900,000	-	2.25	16-Nov-51	No	N/A
NCM-04 CLASS M	AUD	307,001	(35,317)	2.13		No	N/A
PEPAU 7 A3	AUD	2,702,132	(182,465)	1.40	15-Dec-48	No	N/A
SPPNZ 2007-1 MZ	NZD	4,414,362	(585,639)	2.32	14-Oct-41	Yes	No
Mobius AMT M1	AUD	-	(30,000,000)				
Total	AUD	78,206,593	(37,522,198)				

1. Face Value is defined as the AUD outstanding principal balance with the foreign currency denominated assets converted at their swap rate, except for Paragon and Sapphire which has been converted at the month end AUD / EUR and AUD / NZD spot rate.
2. "WAL" or "Weighted Average Life" represents the average number of years that each dollar of principal remains outstanding. Pass through securities use assumptions which may change from time to time and several securities are calculated using the "Call Date" instead of their "Legal Maturity".
3. The "Credit Watch List" is a list of securities compiled by the Investment Manager which have a greater likelihood of impairment. The list is constantly being evaluated and we make reference to the disclaimer on page 2.
4. This field indicates whether the individual security is hedged or not or is not required to be hedged under the terms of the Max Trust Hedging Policy (i.e. underlying security is AUD denominated and floating rate).

In February the Scheme accepted an offer to sell its holding in the Mobius All Mortgage Trust Class M1 Note. Settlement occurred on the 2nd of March 2011 which resulted in the receipt of \$27,776,284. This represents the payment in full of the current outstanding principal amount of the Note plus all accrued interest due. The sale of the Note satisfied the restrictions on asset sales, refer section 7.

MAX REALTY

The Scheme's holding in Gosford Loan Notes was reduced by \$27.23m during the period. The movement was due to amortisation received on the Class A Notes and disposal of the Notes. The Note sale proceeds represents the payment in full of the current outstanding principal amount of each Loan Note plus all accrued interest due plus any related interest rate hedge break costs incurred by the Scheme.

Asset Name	Currency	AUD Face Value ¹	AUD Face Value Δ	WAL ²	Legal Maturity	Credit Watch List ³	Hedged ⁴
Gosford A	AUD	-	(12,965,244)				
Gosford B	AUD	-	(2,955,224)				
Gosford C	AUD	-	(4,432,836)				
Gosford D	AUD	-	(5,417,910)				
Gosford E	AUD	-	(1,462,687)				
Total	AUD	-	(27,233,901)				

1. Face Value is defined as the AUD outstanding principal balance with the foreign currency denominated assets converted at their swap rate.
2. "WAL" or "Weighted Average Life" has not been included due to the sale of the Gosford Loan Notes in January 2011".
3. The "Credit Watch List" is a list of securities compiled by the Investment Manager which have a greater likelihood of impairment. The list is constantly being evaluated and we make reference to the disclaimer on page 2.
4. The field indicates whether the individual security is hedged or not or is not required to be hedged under the terms of the Max Trust Hedging Policy (i.e. underlying security is AUD denominated and floating rate).

The Interest rate swap hedging the Max Realty Gosford Notes was broken in January 2011 as part of the Gosford Notes sale transaction. In addition to the payment in full of the current outstanding principal amount of each Loan Note and all accrued interest, the Scheme also received \$1,039,000 which was then used to settle the swap break costs in full.

COMMERCIAL MORTGAGE BACKED SECURITIES

The Scheme's holding in Commercial Mortgage Backed Securities ("CMBS") was static during the period.

The CMBS assets held by the Scheme as at 31 March 2011 are tabled below.

Asset Name	Currency	AUD Face Value ¹	AUD Face Value Δ	WAL ²	Legal Maturity	Credit Watch List ³	Hedged ⁴
CSCS 2006-1 E	AUD	5,915,256	-	2.25	20-Jun-13	Yes	N/A
FPST 1 1	AUD	15,610,030	-	10.19	1-Sep-25	No	Yes
Rock & Rubble	AUD	10,000,000	-	2.82	15-Aug-15	No	N/A
Total	AUD	31,525,286	-				

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2. "WAL" or "Weighted Average Life" represents the average number of years that each dollar of principal remains outstanding. Pass through securities use assumptions which may change from time to time and several securities are calculated using the "Call Date" instead of their "Legal Maturity".
3. The "Credit Watch List" is a list of securities compiled by the Investment Manager which have a greater likelihood of impairment. The list is constantly being evaluated and we make reference to the disclaimer on page 2.
4. The field indicates whether the individual security is hedged or not or is not required to be hedged under the terms of the Max Trust Hedging Policy (i.e. underlying security is AUD denominated and floating rate).

FINANCIAL & INDUSTRIAL SECURITIES

The Scheme's holding in Financial and Industrial Securities was reduced by \$5m during the period. The Woolworths position matured during the period with the Scheme repaid in full.

The positions held by the Scheme as at 31 March 2011 are tabled below.

Asset Name	Currency	AUD Face Value ¹	AUD Face Value Δ	WAL ²	Legal Maturity	Credit Watch List ³	Hedged ⁴
ASSGEN5.479 02/49	EUR	16,843,536	-	5.89	Perp/Call	No	Yes
HANRUE5 06/29/49	EUR	9,824,596	-	4.20	Perp/Call	No	Yes
MQGAU 0 12/06/16	EUR	6,582,719	-	0.71	6-Dec-16	No	Yes
MS 0 03/01/13	AUD	13,000,000	-	1.95	1-Mar-13	No	N/A
MS 0 08/08/12	AUD	7,000,000	-	1.39	8-Aug-12	No	N/A
NAB 0 12/29/49	EUR	8,287,500	-	5.53	Perp/Call	No	Yes
NAB III 01/49	AUD	11,000,000	-	5.53	Perp/Call	No	N/A
SCHREI 5.252 05/49	EUR	16,703,155	-	5.18	Perp/Call	No	Yes
CFXAU 5.075 08/14	AUD	20,000,000	-	1.42	21-Aug-14	No	Yes
TABAU 6 1/2 10/11	AUD	10,000,000	-	0.56	13-Oct-11	No	Yes
TCLAU 0 09/15/11	AUD	12,000,000	-	0.49	15-Sep-11	No	Yes
WOWAU 0 03/14/11	AUD	-	(5,000,000)				
Total	AUD	131,241,506	(5,000,000)				

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2. "WAL" or "Weighted Average Life" represents the average number of years that each dollar of principal remains outstanding. Pass through securities use assumptions which may change from time to time and several securities including perpetual securities are calculated using the "Call Date" instead of their "Legal Maturity".
3. The "Credit Watch List" is a list of securities compiled by the Investment Manager which have a greater likelihood of impairment. The list is constantly being evaluated and we make reference to the disclaimer on page 2.
4. The field indicates whether the individual security is hedged or not or is not required to be hedged under the terms of the Max Trust Hedging Policy (i.e. underlying security is AUD denominated and floating rate).

COLLATERALISED DEBT OBLIGATIONS (CDO)

The Scheme's holding in CDO's was static during the period.

The positions held by the Scheme as at 31 March 2011 are tabled below.

Asset Name	Currency	AUD Face Value ¹	AUD Face Value Δ	WAL ²	Legal Maturity	Credit Watch List ³	Hedged ⁴
Belo Plc	USD	6,613,750	-	0.55	6-Oct-11	No	Yes
Belo Plc	USD	6,613,750	-	0.55	24-Oct-11	No	Yes
Silver Bell	AUD	10,000,000	-	5.76	21-Dec-16	Yes	N/A
Silver Lake	AUD	15,000,000	-	6.00	20-Mar-17	Yes	N/A
Eden 2006-3 04/07/13	AUD	9,340,000	-	1.30	7-Apr-13	Yes	Yes
Total	AUD	47,567,500	-				

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2. "WAL" or "Weighted Average Life" represents the average number of years that each dollar of principal remains outstanding. Pass through securities use assumptions which may change from time to time and several securities are calculated using the "Call Date" instead of their "Legal Maturity".
3. The "Credit Watch List" is a list of securities compiled by the Investment Manager which have a greater likelihood of impairment. The list is constantly being evaluated and we make reference to the disclaimer on page 2.
4. The field indicates whether the individual security is hedged or not or is not required to be hedged under the terms of the Max Trust Hedging Policy (i.e. underlying security is AUD denominated and floating rate).

AIRCRAFT

The Scheme's holding in Aircraft securities was reduced by \$2.80m during the period. The movement was due to amortisation received during the period.

The positions held by the Scheme as at 31 March 2011 are tabled below.

Asset Name	Currency	AUD Face Value ¹	AUD Face Value Δ	WAL ²	Legal Maturity	Credit Watch List ³	Hedged ⁴
AERCO 2X A4	USD	297,362	(448,441)	0.51	15-Jul-25	No	Yes
AMR 7.858 10/01/11	USD	6,863,418	-	0.53	1-Oct-11	No	Yes
CAL 6.545 02/02/19	USD	3,118,417	(140,266)	5.40	2-Feb-19	No	Yes
CAL 7.256 03/15/20	USD	3,925,940	(38,769)	5.39	15-Mar-20	No	Yes
LIFT 1 A3	USD	2,914,325	(1,297,244)	4.71	15-Jul-16	Yes	Yes
NWA 7.575 03/01/19	USD	9,603,552	-	5.03	1-Mar-19	No	Yes
Qantas VQS	AUD	268,107	(47,552)	0.71	13-Jul-12	No	Yes
Qantas VQP	AUD	473,418	(28,906)	1.90	14-Nov-14	No	Yes
Qantas VQR	AUD	603,671	(23,162)	2.87	15-Jul-16	No	Yes
Qantas VQQ Snr	AUD	15,007,296	(713,245)	2.40	13-Nov-15	No	Yes
Qantas VQI	AUD	456,762	(36,212)	1.49	14-Jan-14	No	Yes
Qantas VQG	USD	11,610,963	-	5.16	20-May-16	No	Yes
Qantas VQJ	AUD	527,420	(29,818)	2.03	15-Jan-15	No	Yes
Total	AUD	55,670,651	(2,803,615)				

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2. "WAL" or "Weighted Average Life" represents the average number of years that each dollar of principal remains outstanding. Pass through securities use assumptions which may change from time to time and several securities are calculated using the "Call Date" instead of their "Legal Maturity".
3. The "Credit Watch List" is a list of securities compiled by the Investment Manager which have a greater likelihood of impairment. The list is constantly being evaluated and we make reference to the disclaimer on page 2.
4. The field indicates whether the individual security is hedged or not or is not required to be hedged under the terms of the Max Trust Hedging Policy (i.e. underlying security is AUD denominated and floating rate).

4. DEFAULTED ASSETS

The table below lists the Scheme's holdings which have defaulted.

Asset Name	Currency	Type	Original Face Value	AUD Face Value	Default Date	Legal Maturity
Glitnir Bank ¹	AUD	Financial	10,000,000	-	7 Oct 2008	15 Nov 2010
Eden 2006-1 04/07/11 ²	AUD	CDO	5,000,000	-	29 Sept 2010	7 Apr 2011
Eden 2006-3 04/07/13 ³	AUD	CDO	10,000,000	9,340,000	29 Sept 2010	7-Apr-2013
Total	AUD		25,000,000	9,340,000		

1. Glitnir Bank - a claim has been lodged which has been recognised by the Winding Up Board of Glitnir Bank. We are expecting a partial recovery of the Glitnir exposure.
2. Eden 2006-1 has been fully written down with no recovery
3. Eden 2006-3 incurred a partial write down of \$660,000.

5. WEIGHTED AVERAGE LIFE (“WAL”) OF THE SCHEME PORTFOLIO

In the tables above, we have provided a base case WAL for each asset. While many assets do not have scheduled principal repayment dates but rather are pass through securities with many assumptions needed to be made in order to estimate the securities expected WAL's, these calculations are important for Unitholders. The slower the prepayment speed of the portfolio, the longer it will take for principal to be passed through to Noteholders, therefore the larger the impact of negative yield on the cash flows including the repayment of the deferred margins on the Notes. The deferred margin will be paid ahead of distributions to Unitholders.

On an aggregated basis with the exception of the sales during the period, the WAL of the portfolio reduced during the period broadly reflecting the time decay of each asset.

6. ASSET HEDGING

The Scheme's hedging policy is that each asset in the portfolio must be hedged if it:

- Is a fixed rate security;
- is denominated in a currency other than Australian dollars; or
- has payment dates less frequent than quarterly payment dates,

In these cases, the Scheme has swapped the cashflows of the asset into quarterly, Australian dollar, floating rate (referenced to 3 month BBSW) cashflows; and the term of the swap has been matched to the expected maturity of the asset.

The term of the swaps were executed to the expected maturity of the underlying asset. The Scheme holds several hedges that have a termination date shorter than the expected final maturity of the asset. This will expose the portfolio to partially hedged positions and potential swap break costs. For the purpose of cashflow modelling only for the credit rating of the PT Notes, a notional swap loss reserve has been established.

The hedges that terminated during the period are tabled below.

Asset Hedged	Asset Repaid/ Sold	Hedge Type	Swap Loss Reserve	Hedge Terminated	Date	Unhedged Asset Exposure
SPPNZ 2007-1 MZ	No	Cross currency swap	Yes	Yes	6 January 2011	Yes
Max Realty Notes	Yes	Interest Rate Swap	No	Yes	20 January 2011	No

The SPPNZ 2007-1 MZ RMBS position has extended beyond its original expected maturity date. A decision was made to continue to hold this asset whilst being unhedged.

The table below details the unhedged scheme assets:

Asset Name	Currency	AUD Face Value ¹	Coupon	WAL ²	Legal Maturity
SPPNZ 2007-1 MZ	NZD	4,414,361	3m NZD-BKBM + 2.50%	2.32	14-Oct-41
PARGN 12X B1B	EUR	6,840,881	3m Euribor + 0.24%	8.51	15-Nov-38
Total	AUD	11,255,242			

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2. "WAL" or "Weighted Average Life" represents the average number of years that each dollar of principal remains outstanding. Pass through securities use assumptions which may change from time to time and several securities are calculated using the "Call Date" instead of their "Legal Maturity".

7. ASSET SALE RESTRICTIONS

Consistent with the Scheme's revised strategy to wind down the portfolio, at the time of the restructure, restrictions were placed on the ability of the Investment Manager to purchase further assets and issue further debt. There are also strict restrictions concerning the sale of assets.

With respect to asset sales, the Investment Manager has agreed not to sell assets below certain dollar prices. In addition the execution of the sale, should not have an adverse impact on the PT Noteholders. Any asset sales likely to adversely impact the PT Noteholders must be approved by an extraordinary resolution of the PT Noteholders.

A summary of the asset sale restrictions are provided below:

Restrictions for the sale of assets not approved by extraordinary resolution:

1. Prior to the Second Anniversary Date assets are not to be sold for an amount less than 99% of par value of the asset.
2. From the Second Anniversary Date to the Fourth Anniversary Date assets are not to be sold for an amount less than 95% of par value of the asset.
3. From the Fourth Anniversary Date, Assets can be sold by tender for the purpose of redeeming the PT Pass Through Notes in full (including the payment of the Deferred Interest Amount) for an amount not less than 90% of par value of the assets
4. After the Fifth Anniversary the assets of the Max Trust can be sold as necessary for the purpose of redeeming the PT Notes in full (including the Deferred Margin Amount).

A further restriction has been placed on the sale of an asset which would not require an Extraordinary Resolution of Noteholders to approve the sale. The sale of such assets must result in an improvement in the rated loss coverage ("RLC"), or at least the RLC being maintained. If the RLC is not improved or at least maintained, the asset sale will not be able to be executed. This is a requirement for the credit rating on the PT Notes.

8. ASSET “SPOTLIGHT”

Aircraft Securities

The Scheme holds several Aircraft positions that can be classified into four different sub-types:

- Enhanced Equipment Trust Certificates (EETC)
- Asset Backed Securities (ABS)
- Qantas Lease Receivables (Loans)
- Aircraft Asset Loans (Asset Loans)

The tables below summarises the Scheme's aircraft securities:

Aircraft Asset Type	# Exposures	Currency	AUD Face Value ¹	% of Aggregate Aircraft Assets	% of Total Aggregate Assets
EETC	4	USD	23,511,327	42%	7%
ABS	2	USD	3,211,687	6%	1%
Qantas Lease Receivables (Loans)	6	AUD	17,336,673	31%	5%
Aircraft Asset Loans (Asset Loans)	1	USD	11,610,963	21%	3%
Total			55,670,650	100%	16%

1. Face Value is defined as the AUD outstanding principal balance with the foreign currency denominated assets converted at their swap rate.

Asset Name	Type	Currency	AUD Face Value ¹	WAL ²	Legal Maturity	Hedged
Enhanced Equipment Trust Certificates (EETC)						
AMR 7.858 10/01/11	EETC	USD	6,863,418	0.53	1-Oct-11	Yes
CAL 6.545 02/02/19	EETC	USD	3,118,417	5.40	2-Feb-19	Yes
CAL 7.256 03/15/20	EETC	USD	3,925,940	5.39	15-Mar-20	Yes
NWA 7.575 03/01/19	EETC	USD	9,603,552	5.03	1-Mar-19	Yes
Total			23,511,327			
Asset Backed Securities						
AERCO 2X A4	ABS	USD	297,362	0.51	15-Jul-25	Yes
LIFT 1 A3	ABS	USD	2,914,325	4.71	15-Jul-16	Yes
Total			3,211,687			

Qantas Lease Receivables (Loans)

Qantas VQS	Loans	AUD	268,107	0.71	13-Jul-12	Yes
Qantas VQP	Loans	AUD	473,418	1.90	14-Nov-14	Yes
Qantas VQR	Loans	AUD	603,671	2.87	15-Jul-16	Yes
Qantas VQQ Snr	Loans	AUD	15,007,296	2.40	13-Nov-15	Yes
Qantas VQI	Loans	AUD	456,762	1.49	14-Jan-14	Yes
Qantas VQJ	Loans	AUD	527,419	2.03	15-Jan-15	Yes
Total			17,336,673			

Aircraft Asset Loans (Asset Loans)

Qantas VQG	Asset Loan	USD	11,610,963	5.16	20-May-16	Yes
Total			11,610,963			

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2. "WAL" or "Weighted Average Life" represents the average number of years that each dollar of principal remains outstanding. Pass through securities use assumptions which may change from time to time and several securities are calculated using the "Call Date" instead of their "Legal Maturity".

Enhanced Equipment Trust Certificates (EETC)

EETC structures involve the securitisation of a pool of aircraft operated by a single airline. The aircraft are either:

- (i) owned by the airline, in which case the Airline may issue Equipment Notes to a bankruptcy remote pass-through Trust, which in-turn issues EETC securities to investors; or
- (ii) leased by the airline from a bankruptcy remote SPC which in-turn issues EETC securities to investors. (The equity in the SPC is usually owned by a large financial corporation but importantly is segregated in the case of bankruptcy of the equity owner).

EETC securities are backed by the Equipment Note repayments or the lease receivables (as the case may be), and a security interest in each of the aircraft. The securities are tranching to allow a variety of risk-return profiles whereby the more risky higher LVR tranches are more exposed to aircraft residual values.

In either the owned or lease case, EETC's are issued by bankruptcy remote vehicles and hence can survive lessee default / bankruptcy via a re-leasing process. Importantly, the provision of liquidity facilities within EETC structures work to ensure that EETC securities are serviced during this remarketing period. EETC's are primarily associated with aircraft securitisations by US airlines because of the default scenario repossession rights (section 1110) enjoyed in that jurisdiction, which allow the aircraft to be remarketed effectively subsequent to a non-payment by the lessee.

EETC securities can enjoy higher credit ratings than that of the underlying airline owing to the additional security enhancements offered to investors in EETC structures. However, the obligation of principal repayment of EETC securities rests with the airline even after the expiry of the lease. Hence, the primary risk associated with EETC securities is the credit risk of the airline, followed by aircraft residual value risk (but only in the event of a default by the airline).

The Scheme has exposure to United Airlines (through the Continental EETC), Delta Airlines (through the Northwest EETC), and American Airlines through the AMR EETC.

Asset Backed Securities (ABS)

Aircraft ABS structures involve the securitisation of a pool of aircraft operated by multiple airlines in multiple jurisdictions. Airlines lease the aircraft from the aircraft owner via an operating lease.

The existence of operating leases exposes Aircraft ABS investors to aircraft residual value risk. That is, upon expiry of each lease, the airline has no further obligation, and hence the investor relies on future cashflows generated from the aircraft which are typically created by either (i) re-lease to another airline; or (ii) sale of the aircraft.

The importance of remarketing within this structure also highlights the importance of the servicer to effectively manage the remarketing process as well as any potential downtime in which the aircraft is off-lease. Given the large lead times involved in aircraft sales/re-leases, another important function of the servicer is to monitor the performance of the lessee prior to lease expiry or default in order to maximise remarketing efficiency.

Operating leases typically involve various risk mitigants for the lessor, for example the obligation of the lessee to insure the aircraft and pay maintenance reserves. The inclusion of such mitigants in the operating leases become important for Aircraft ABS investors, as do the provision of adequate credit support in the transaction structure to cover significant expenses (such as compliance with regulations or maintenance).

Accordingly, the credit rating of Aircraft ABS is a function of many factors including (i) the quality, diversity, and age of the pool of aircraft; (ii) the LVR of securities as against the pool of aircraft; (iii) the quality, creditworthiness, and diversity of the airlines and jurisdictions related to the pool of aircraft; (iv) the lease rate factors (ie the level of the lease rentals); (v) counterparties to the transaction (eg servicer); and (vi) credit support to the transaction. Aircraft residual values tend to play a more important role in the overall security package for Aircraft ABS investors than EETC investors.

The Scheme has exposure to two Aircraft ABS, namely:

- AERCO - a portfolio consisting of 34 aircraft. The servicer to the portfolio is AerFi, and as of the Q4 2010 report, Aerco listed no aircraft as off lease; and
- LIFT – backed by a portfolio consisting of 29 aircraft managed and serviced by GE Capital Aviation Services. As of the February 2011 report, LIFT listed one aircraft as off lease.

Qantas Lease Receivables (Loans)

Each of the Aircraft Loans held by The Scheme involved the financing of a single aircraft via operating lease to a single airline (QANTAS).

Each of these bespoke transactions involved the issuance of:

- ‘Receivable Loans’ which enjoy first ranking as against the lease receivables but a subordinated ranking against the physical aircraft; and
- ‘Asset Loans’ which typically receive no cashflow until maturity of the lease, however they do enjoy a first ranking against the physical aircraft.

Accordingly, the primary risk for an Aircraft ‘Receivables Loan’ investor is the credit risk of the airline while the secondary risk is the physical aircraft value itself.

The Aircraft Loans sit within operating lease transactions, and so all of the operating lease risk mitigants mentioned in the Aircraft ABS section are also relevant here to Aircraft Loan investors. However, an Aircraft ‘Receivables Loan’ investor might focus more on the ‘airline’ and ‘payment’

provisions contained in the lease, such as the obligation of the airline to pay lease rentals or default interest for late payment.

The Scheme has exposure to six Qantas Lease Receivables Loans totalling AUD17.3mn of face value. The primary risk in these loans is the credit risk of Qantas.

Aircraft Asset Loans (Asset Loans)

Operating lease risk mitigants are also relevant here to Aircraft 'Asset Loan' investors, however the Aircraft 'Asset Loan' investor might be more concerned with 'aircraft' related provisions in the lease (such as the obligation of the lessee to insure the aircraft and maintain the aircraft) in order to preserve the aircraft value.

As mentioned above, 'Asset Loans' typically receive no cashflow until maturity of the lease, however they do enjoy a first ranking against the physical aircraft. Hence, in contrast to a 'Receivables Loan', the primary risk for an Aircraft 'Asset Loan' investor is the aircraft value. However, the security package enjoyed by an Aircraft Asset Loan investor may be enhanced by the inclusion of a Residual Value Insurance (RVI) policy.

The Scheme has exposure to one Asset Loan (VQG) which was used to finance the purchase of a A320-200 aircraft which is in service with Jetstar. This loan is backed by an RVI policy issued by Houston Casualty (HCC) which is rated AA by S&P.