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ASX: AYT Bloomberg: AYT AU Reuters: AYT.AX **17 December 2007**

AMF: Asset Backed Yield Trust

Initiation of coverage: A high-yield fund

Event

We are initiating commissioned coverage of the Adelaide Managed Funds Asset Backed Yield Trust (AYT, the "Fund"), an Australian domiciled fund investing in securitised loan products (i.e. securities backed by margin loans), many of which are unavailable to retail or wholesale investors. The Fund is heavily focused on yield, targeting an annual pre-tax return in excess of the 30-day Bank Bill Swap Rate (BBSW) + 425bps. AYT, which was launched in August 2006 is managed by Adelaide Managed Funds (AMF), which is a subsidiary of Adelaide Bank Limited.

Implications

AYT is one of the few Australian listed funds investing in high-yield securities. AYT's point of differentiation is its focus on securities backed by pools of individual loans. AMF, in conjunction with Adelaide Bank, has broad experience in asset-backed securities, and AYT, due to its affiliation with Adelaide Bank, has access to many high-yield transactions not otherwise available to retail or wholesale investors. We believe the decline in AYT's unit price since June 2007 is primarily due to the negative investor sentiment flowing from the US subprime mortgage issues and, to a lesser extent, the combined effect of a higher domestic interest rate environment and rising arrears rates in domestic subprime mortgages. We believe there has not been a significant deterioration in domestic credit conditions since the Fund acquired the various asset-backed securities. We expect AYT will be able to sustain annual distributions in excess of BBSW +400bps for the foreseeable future, provided the underlying investments are not negatively impacted by a significant market event. **We have valued AYT at $1.88 based on the net tangible assets (NTA) of each Unit as at 30 November ($2.003), combined with a 6% discount ($0.12).**

Investment Opinion

The research on this company has been commissioned, and, as such, Aegis has received a fee for its initiation and ongoing research coverage.

We believe it is inappropriate or misleading to provide a recommendation, investment opinion and/or share price target. However, we provide a valuation and earnings forecasts, as well as other relevant information, to assist investors to form a view on the investment prospects of AYT.

Key Information

Share Price	**$1.82**
Valuation	**$1.88**

Price Performance

Market Statistics

Market Cap (M)	$179
Shares (M)	100.0
% of Market	0.01
% of Sector	0.03
12 Month Range	$1.50 - $1.98
Company Risk	★★★★☆
Share Price Risk	★★★☆☆
Ethical rating	★★★★★

Performance against indices (%)

	3 Months	6 Months	12 Months
AYT	(1.6)	n/a	n/a
Sector	0.5	(1.3)	6.5
Market	4.3	3.8	18.0

Earnings Summary

Yr to Jun	NPAT Rep $M	NPAT[1] Adj $M	EPS[1] c	EPS chg %	PER x	PER rel All Ords x	PER rel Sector x	DPS c	Yield %	Franking %	ROE %
2006A	**0.0**	**0.0**	0.0	n/a	**0.0**	0.0	0.0	0.0	**0.0**	0	n/a
2007A	**15.8**	**15.8**	15.8	n/a	**11.5**	0.6	0.7	9.2	**5.1**	0	11.2
2008F	**21.0**	**21.0**	19.9	26.0	**9.1**	n/a	n/a	20.0	**11.0**	0	10.6
2009F	**23.8**	**23.8**	20.2	1.2	**9.0**	n/a	n/a	20.5	**11.3**	0	10.7

[1] NPAT and EPS are adjusted by removing non-recurring items. All the above statistics are derived from normalised earnings.

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AMF: Asset Backed Yield Trust

Valuation: $1.88 | Company risk [1]: ★★★★☆ | Share Price risk [1]: ★★★☆☆ | Ethical rating [2]: ★★★★★

Year end Jun. All figures in A$M

Profit & loss summary	2006A	2007A	2008F	2009F
Operating revenue	**0.0**	**20.4**	**27.5**	**30.8**
Invest & other income	0.0	0.0	0.0	0.0
EBITDA	**0.0**	**19.0**	**25.3**	**28.2**
Depreciation/Amort	0.0	0.0	(1.5)	(1.5)
EBIT	**0.0**	**19.0**	**23.8**	**26.7**
Net Interest	0.0	(3.2)	(2.8)	(2.9)
Pre-tax profit	**0.0**	**15.8**	**21.0**	**23.8**
Tax expense	0.0	0.0	0.0	0.0
Minorities/Assoc./Prefs	0.0	0.0	0.0	0.0
NPAT	**0.0**	**15.8**	**21.0**	**23.8**
Non recurring items	0.0	0.0	0.0	0.0
Reported profit	**0.0**	**15.8**	**21.0**	**23.8**
NPAT add Goodwill & Pref	0.0	0.0	0.0	0.0
Adjusted profit	**0.0**	**15.8**	**21.0**	**23.8**

Cashflow summary	2006A	2007A	2008F	2009F
EBITDA	**0.0**	**19.0**	**25.3**	**28.2**
Working capital changes	0.0	0.0	0.1	0.0
Interest and tax	0.0	0.0	(2.8)	(2.9)
Other operating items	0.0	(7.0)	0.0	0.0
Operating cashflow	**0.0**	**12.0**	**22.6**	**25.4**
Required capex	0.0	0.0	0.0	0.0
Maintainable cashflow	**0.0**	**12.0**	**22.6**	**25.4**
Dividends	0.0	(3.3)	(16.4)	(23.6)
Acq/Disp	0.0	0.0	(22.0)	(24.0)
Other investing items	0.0	(190.4)	0.0	0.0
Free cashflow	**0.0**	**(181.7)**	**(15.9)**	**(22.2)**
Equity	0.0	92.6	23.1	26.4
Debt inc/(red'n)	0.0	99.7	(7.2)	(4.1)

Balance sheet	2006A	2007A	2008F	2009F
Cash & deposits	0.0	6.2	10.9	13.1
Inventories	0.0	0.0	0.0	0.0
Trade debtors	0.0	1.0	1.0	1.0
Other curr assets	0.0	98.6	0.0	0.0
Total current assets	**0.0**	**105.9**	**12.0**	**14.1**
Prop., plant & equip.	0.0	0.0	0.0	0.0
Non-curr intangibles	0.0	0.0	0.0	0.0
Non-curr investments	0.0	190.6	241.1	265.6
Other non-curr assets	0.0	0.0	0.0	0.0
Total assets	**0.0**	**296.5**	**253.1**	**279.7**
Trade creditors	0.0	0.6	0.6	0.7
Curr borrowings	0.0	98.7	37.6	37.6
Other curr liabilities	0.0	0.0	0.0	0.0
Total current liab.	**0.0**	**99.3**	**38.2**	**38.3**
Borrowings	0.0	0.0	0.0	0.0
Other non-curr liabilities	0.0	6.0	6.0	6.0
Total liabilities	**0.0**	**105.2**	**44.2**	**44.2**
Minorities/Convertibles	0.0	0.0	0.0	0.0
Shareholders equity	**0.0**	**191.2**	**208.9**	**235.5**

Ratio analysis	2006A	2007A	2008F	2009F
Revenue growth (%)	0.0	0.0	35.3	11.7
EBITDA growth (%)	n/a	n/a	32.8	11.5
EPS growth (%)	n/a	n/a	26.0	1.2
EBITDA/Sales margin (%)	0.0	93.5	91.7	91.6
EBIT/Sales margin (%)	0.0	93.5	86.4	86.8
Tax rate (%)	0.0	0.0	0.0	0.0
Net debt/equity (%)	0.0	48.4	12.8	10.4
Net debt/net debt + equity (%)	0.0	32.6	11.3	9.4
Net interest cover (x)	n/a	5.9	8.5	9.3
Payout ratio (%)	0.0	58.4	100.4	101.7
Capex to deprec'n (%)	0.0	0.0	0.0	0.0
NTA per share ($)	0.00	1.91	1.87	1.89
ROA (%)	0.0	10.1	9.3	10.0
ROE (%)	n/a	11.2	10.6	10.7

Multiple analysis	2006A	2007A	2008F	2009F
Market cap (M)		179		
Net debt ($M)		92.5		
Peripheral assets ($M)		(0.0)		
Enterprise value ($M)		**271.1**		
EV/EBIT (x)	**0.0**	**14.2**	**11.4**	**10.2**
EV/EBITDA (x)	**0.0**	**14.2**	**10.7**	**9.6**
EV/EBITDA All Ind (x)	10.2	9.1		
EV/EBITDA rel All Ind (x)	0.0	1.6	n/a	n/a
P/E (x)	**0.0**	**11.5**	**9.1**	**9.0**
P/E rel All Ind (x)	0.0	0.6	n/a	n/a
P/E rel All Ind ex banks (x)	0.0	0.6	n/a	n/a
P/E sector (x)	20.8	17.2		
P/E rel sector (x)	0.0	0.7	n/a	n/a

Assumptions	2006A	2007A	2008F	2009F
GDP growth (%)	2.92	2.50	3.02	3.64
Interest Rates (%)	5.69	6.33	7.12	7.50
Inflation (%)	3.20	3.09	2.47	2.50

Notes To Accounts

AYT was established in August 2006 and as such there are no results for financial year 2006.

Notes:1. The risk ratings are on a 12 month perspective, where five stars denotes low risk and one star denotes high risk. Company risk takes into account expected financial, strategic and execution risks associated with the company. Share price risk is a measure of the expected volatility of the price and other trading factors.
2. The Ethical rating rates a company on an ethical investment basis where five stars denote very good and one star a poor rating. The score is based on four key factors: areas of operating, environmental, corporate governance and social factors. For more information see www.aegis.com.au.

Executive Summary and Investment View

- Adelaide Managed Funds (AMF) is an Adelaide Bank–owned specialist fund manager that specialises in niche investments for a range of investors. As at 30 June 2007, AMF was responsible for the management of over $3.0B in assets. AMF, which is the responsible entity for AYT, and Adelaide Bank have broad experience in securities backed by pools of loans. AMF is also the responsible entity for the AMF Yield Fund, which was established in May 2005 to invest predominantly in residential mortgage-backed securities, asset-backed securities and appropriately rated liquid assets.
- Adelaide Bank merged with Bendigo Bank on 30 November 2007, the merger is not expected to impact the operations of the Fund or the ability of the Fund to source transactions internally.
- AYT differs from most other Australian high-yield funds by virtue of its ASX listing and its focus on asset-backed securities, which are investments backed by pools of loans and lease assets. The Australian high-yield market is dominated by funds that focus on corporate high-yield investment-grade securities for which there is typically a higher degree of liquidity than the investments into which AYT invests. Many Australian high-yield funds use leverage to increase their exposure to interest differentials, which serve to bolster returns and risk. Whilst AYT has a debt facility, it anticipates using it primarily as an interim measure to take advantage of opportunities and then paying down the debt through a subsequent increase in issued capital.
- With all high-yielding securities, investors are exposed to interest rate and default risks, with over 100% of funds invested in floating rate securities. AYT's returns are susceptible to movements in domestic interest rates. AYT investments comprise senior and subordinated debt instruments, which present both default risk and risk of a decline in the value of the underlying assets due to either a repricing of risk by the market or deterioration in the credit quality of the underlying loans. As AYT does not intend to hold securities for resale, investors are not expected to be exposed to the rise and fall in the value of the underlying securities on a regular basis.
- The proceeds from the initial and secondary placements have been fully invested in securities with a face value of $188.2M as at 27 November 2007. AYT is managed with the objective of providing a distribution yield in excess of BBSW + 425bps per annum. The annualised distribution to unitholders was 11.1% for the 10 months to 30 June 2007. This exceeded the forecast in the product disclosure statement (PDS) of 10.8%. Guidance for FY08 is for yield that is between 400bps and 450bps above the average 30-day BBSW cash rate.
- The management fee payable is based on the total tangible assets of the Fund, which is common practice in the industry. While the Fund does not have the lowest management expense ratio in the market, it is priced in line with its major competitors. Performance fees are in line with the industry standard of 20% of the amount by which the fund outperforms its target return of BBSW + 4.25%. The hurdle return before performance fees become payable by AYT is significantly higher than performance hurdles of its major competing high-yield funds.
- We believe AYT will be able to sustain annual distributions in excess of BBSW + 400bps for the foreseeable future, provided underlying investments are not impacted by a significant market event (i.e. greater than 20% fall in the domestic stock market).
- **We have valued AYT at $1.88 based on a 6% discount to AYT's net tangible assets per Unit as at 30 November 2007.**

SWOT Analysis

Strengths

- AYT, through its relationship with Adelaide Bank, enables investors to gain access to high-yield instruments (that is, assets backed by margin loans) that are not otherwise available to retail or wholesale investors. AYT also has preferential access to information on the underlying assets (performance and risks) sourced through Adelaide Bank, and, as such, is able to make informed decisions on the risk/return trade-off.
- Broad experience of Adelaide Funds Management in asset-backed securities through its relationship with Adelaide Bank, which makes extensive use of securitisation as part of its ongoing balance sheet management.
- Management of the Fund with a high degree of transparency with regard to investments, fee structure and the objectives of the Fund.
- AYT offers investors the opportunity to diversify their high-yield exposure rather than invest in a single high-yield instrument such as commercial paper.
- Convenience and transparency of an ASX listing.

SWOT Analysis (continued)

Weaknesses

- Diversification risk – the Fund has investments in four major asset classes. As such, losses in any one asset class (i.e. triggered by a sustained fall in the domestic stock market or a domestic property slump) could materially impact the Fund's earnings and net asset value.
- AYT's bias towards investing in unrated investments means that there is neither any independent assessment of the creditworthiness of most investments by an independent rating agency nor an independent party providing ongoing monitoring of the credit risk for each instrument.

Opportunities

- The Fund does not actively sell investments prior to maturity even when capital gains can be achieved. While this approach adheres to the 'income' mandate of the Fund, it also limits upside when assets have been acquired at yields above those prevailing in the market.
- The Fund could make increased use of leverage to generate arbitrage profits, given its borrowing rate is less than the yield it is achieving on its investments. Note: An increase in AYT's debt levels would also increase AYT's risk profile.

Threats

- A deterioration in domestic credit may lead to rises in loss rates, which could materially affect the Fund's NTA and prospective future distributions.
- A decline in interest spreads from their current levels could mean future investments have a different risk and return profile from that of assets currently in the Fund.
- AYT does not offer downside protection, which is available on alternate high yielding instruments in the market that utilise a buy/write strategy (i.e. using an out of the money put).
- Prolonged negative market sentiment towards debt instruments.

Fund Overview

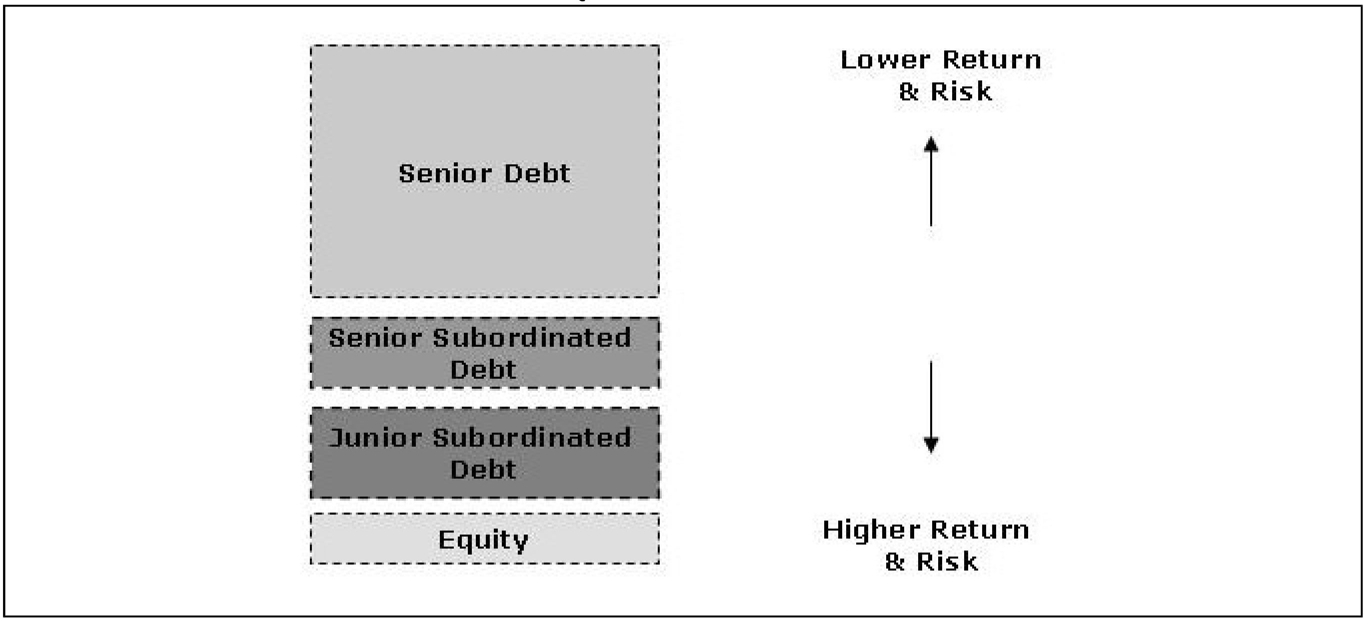
- Adelaide Managed Funds (AMF) was established in May 1998 to manage Adelaide Bank's Cash Management Trust. AMF has since grown to encompass two cash funds, two structured products and one listed fund, AYT. AMF is the responsible entity for AYT. As at 30 June 2007, AMF was responsible for the management of over $3.0B in assets. AMF is based in Adelaide and draws on the resources of Adelaide Bank for a range of management services, including investment management services, custody and administration services.
- AYT was launched on 30 August 2006 with the first $1.00 instalment for 100M units. The second $1.00 instalment was completed on 31 August 2007, bringing the unit par value to $2.00. AYT also has a $100M debt facility, which provides capital to allow the Fund to selectively add high-yield investments, pending future capital raisings.
- The total value of assets held by AYT as at 30 June 2007 was $196.8M and the annualised return for AYT in FY07 was 11.1%.
- Returns to unitholders are comprised of cash distributions (quarterly from March 2008) and any capital growth between purchase and realisation of units. Income of the Fund includes interest, any realised gains/losses from holding investments, income from equity investments and any participation fee income associated with investments.
- Major expenses of the Fund are interest on the debt facility as well as management fees and performance fees. The Fund is classified as a pass-through vehicle, and, as such, does not pay tax. However, tax is payable by individual investors according to their tax situation.

Operation of Securitisation Programs

- AYT's investment strategy targets securities issued as part of a securitisation program backed by a large number of individual debt obligations. A trust or a company issues different types of debt securities (tranches) as part of a securitisation program. In a securitisation program, the lowest-ranking securities are the first to incur losses of any principal or interest owed, and, as such, these receive a higher rate of return to compensate for the higher risk.
- Most of AYT's investments are in a combination of senior and junior (subordinated) debt instruments. These instruments pay interest and are susceptible to losses if the underlying loans in the securitisation program are not repaid by the individuals taking out those loans. The underlying loans in each program consist of mortgages secured by property; margin loans secured by shares and individuals; medical leases secured by lease assets and individuals; and MIS loans secured by individuals and agricultural investments.

- Investors at all levels in the securitisation program may incur losses if the losses on the underlying loans exceed the amount of all lower ranked notes and excess spread or profit for equity holders.
    - Senior debt is the highest-ranking and lowest-risk tranch. Senior debt also has the highest priority for payment of interest and repayment of principal.
    - Subordinated debt ranks lower than senior debt and there may be multiple layers (tranches) of subordinated debt with varying risk/return profiles. Holders of subordinated debt will incur losses to the extent the losses on the underlying loans exceed the value of any lower ranking securities.
    - Equity is the lowest ranking security in an security program. The sum of earnings accruing to equity holders, and the amount of equity in the securitisation program is known as the 'equity cushion'. Equity holders benefit from any superior performance of the underlying assets, but will be the first party to incur losses if there is a default by the underlying loans.

FIGURE 2: ILLUSTRATION OF LEVELS OF DEBT AND EQUITY IN AN UNRATED SECURITISATION PROGRAM



Source: Company/Aegis Equities

Business Operations

Fund Objectives

- AYT's objective is to invest in high-yield securities with the objective of providing investors with a regular source of income. The investment strategy and mandate of AYT encompass the following:
    - Provide investors direct access to a unique high-yielding asset class by leveraging Adelaide Bank's securitisation expertise;
    - Invest in notes issued by securitisation structures that have a granular portfolio of underlying securities;
    - Focus on lower rated notes. Investment selection is made on the basis of the risk-return profile of the investment and its place in the portfolio;
    - Investments are sourced predominantly from Adelaide Bank, with some investments coming from third parties; and
    - Objective at the time of each investment is to hold it to maturity.

Fee and cost structure

- AYT charges a 1% annual management fee (1.025% inclusive of GST), which is based on the total tangible assets of the Fund. In addition, AYT charges a performance fee of 20% (20.5% inclusive of GST) of the amount by which the annualised rate of return to unitholders exceeds BBSW plus 4.25% per annum during each half year.

Fee and cost structure (continued)

- Total unitholder return for a half year is the sum of the following:
  - The change in the market value of units in the half year;
  - The total income distribution entitlement of unitholders for the half year;
  - less any shortfall in unitholder returns (as compared to the benchmark return) carried over from preceding half years; and
  - less the amount of any instalments paid or called and payable on partly paid units in the half year.
- AYT has been established as a unit trust that will allow the fund to be treated as a ‘flow through’ entity. Provided that in each income year, unitholders are entitled to all of the income of the Fund, it will be unitholders who will be assessed for tax purposes on their respective share of the net taxable income of the Fund.

Investment Process

- A team of Adelaide Bank employees is responsible for providing investment management services to the Fund. Owing to the relationship between AYT, AMF and Adelaide Bank, special arrangements will be made when AYT considers purchasing securities issued by Adelaide Bank. Under these arrangements, the AYT investment team will represent AYT alone and observe strict information barriers between it and the team representing the Adelaide Bank in the transaction. The AYT investment team will deal with Adelaide Bank in the way it deals with third party issuers and capital market participants.
- Adelaide Bank Limited, Adelaide Managed Funds, any member of the Adelaide Bank Group or any other person do not guarantee the performance of AYT, any future yield or the return of capital.

Investment Process for Acquisition or Sale of Investments

- Transactions are typically introduced to AYT by third-party introducers or Adelaide Bank. The following three-step approach is followed for all prospective investments:
  - **Investment Team:** Perform a detailed analysis of the prospective investment and comprehensive scenario modelling. Price the investment and if it is a related party transaction, arrange for an independent expert's report. Undertake due diligence and model validation. Investments that meet prescribed criteria are forwarded to the Investment Committee for consideration;
  - **Investment Committee**: Review the investment submission and independent expert's report (as required). Consider the risk-reward trade-off and determine if it is a related party transaction. Related party transactions are reviewed by the related party transactions committee, which assesses the pricing and structure to ensure it is on arms-length terms. Investments that meet prescribed criteria are recommended to the Board of Directors for consideration; and
  - **Board of Directors:** Consider AYT’s financial capacity and directors' legal and fiduciary duties. Review investment submission and if it is a related party transaction, the independent expert's report. Investments that meet all criteria are approved.

AYT's holdings include the following securities:

Securities backed by margin lending (62.2% of portfolio)

- Adelaide Bank securitised the majority of its margin loan portfolio (through the Lighthouse No. 4 Trust), which as at November 2007, equated to around 18,000 margin loans worth over $4.1B. The Lighthouse No. 4 Trust is the primary source of financing for Adelaide Bank’s margin lending business. Margin loans are secured by a combination of approved securities, managed funds and cash, with investors able to borrow up to a specified percentage of the value of their investment portfolio. In addition to the security provided by the underlying investments, margin loans are also personally guaranteed and Adelaide Bank tops up security with margin calls when security falls below prescribed thresholds. Owing to the ranking of the securities held by AYT in the lending hierarchy, AYT has stated its returns will not be impacted until loss rates exceed 1.75% of loans outstanding. The actual loss recorded to 30 November 2007 on the securities backed by margin loans was 0.06% of loans outstanding. Excluding a major stock market crash, AYT does not expect the loss rates on the margin loan portfolio to be above 0.35%. AYT has acquired almost 50% of the issued Senior Subordinates Notes (BBSW +1.25%) and all of the Junior Subordinated Notes (BBSW + 12.5%).
- Adelaide Bank holds the equity position in this trust which is forecast to earn 175bps, which means AYT will not incur losses on its securities unless loss rates exceed 175bps. Historical loss rate for these securities is 6bps.

TABLE 2: ATTRIBUTES OF INVESTMENTS HELD BY AYT AS AT 27 NOVEMBER 2007

Name	Asset Catergory	Value ($M)	% of Portfolio	margin over BBSW (%)	Historic Loss Rate	Loss where Fund Impacted
Lighthouse No. 4 Trust	Margin Lending	75.0	39.9%	1.25%	0.06%	>1.75%
Lighthouse No. 4 Trust	Margin Lending	41.9	22.3%	12.50%		
Q10 Trust E Note	Mortgage Portfolio	14.6	7.8%	3.75%	0.06%	>1.30%
Q10 Trust F Note	Mortgage Portfolio	11.0	5.8%	6.00%		
Mortgage Program No. 1 B Note	Mortgage Portfolio	1.0	0.5%	6.00%	1.75%	> 13.0%
Program No.1 B note	Medical Financing	1.7	0.9%	3.75%	0.74%	>1.87%
Program No.1 D note	Medical Financing	13.2	7.0%	6.00%	0.29%	>4.15%
MIS Program 1C Note	MIS Investor loans	20.5	10.9%	4.50%	0.51%	>2.60%
MIS Program 1D Note	MIS Investor loans	9.3	4.9%	12.50%		
Total		**188.2**				
Weighted average margin				**5.52%**		

Source: Company/Aegis Equities

Securities backed by non-conforming mortgages (13.6% of portfolio)

- Non-conforming residential mortgages are loans that are advanced to borrowers who do not typically qualify for a standard residential mortgage offered by a bank. These borrowers usually have a poor credit history, are recently discharged bankrupts, do not have a savings history or do not have satisfactory evidence of regular income. Owing to the compromised credit history of borrowers, these loan portfolios tend to carry a higher risk than the standard securities and borrowers pay a higher rate of interest.
- AYT holds two non–investment-grade securities backed by non-conforming mortgages: the Q10 Trust E Note (BBSW + 3.75%), which is 'BB' rated (Standard & Poor's), and the Q10 Trust F Note (BBSW + 6.0%), which is 'B' rated (Standard & Poor's). The Q10 Trust has issued seven classes of notes that are backed by non-conforming mortgages that were originated by GE mortgage solutions. At the time of investment, the underlying mortgage portfolio was comprised of approximately 4,000 individual loans worth around $1.0B.
- The arrears rate on the non-conforming mortgages prior to the acquisition by the Q10 Trust in June 2006 was 1.74% of the total original portfolio face value. The portfolio of loans in the Q10 Trust will gradually decrease in size as borrowers repay or prepay their loans, which will decrease the size of the trust's 'E' and 'F' notes.
- The non-conforming mortgages had an average loan to value (LVR) ratio of 72.6% as at August 2006, this had declined to 71.4% by 30 June 2007 and 70.9% by 31 October 2007.
- The Fund holds the two lowest-ranking tranches of subordinated debt that are protected by the 130bps of profit accruing to Adelaide Bank, the equity holder. This profit is retained in a reserve account and is not released until the end of the program. AYT will incur losses if loss rates exceed 130bps; historical loss rates have been 6bps.

Securities backed by mortgages (0.5% of portfolio)

- AYT holds $1.0M in Mortgage Program #1 B Notes, which entitle the holder to receive BBSW +6.0%. These are the second lowest-ranked securities in the program, with the C Notes making up 10% of the total loan value and the equity holders receiving 3% excess profit. The B notes are not expected to incur losses unless the underlying loan loss rate exceeds 13%; the historical loss rate for these securities is 1.75%.

Securities backed by medical financing (7.9% of portfolio)

- Adelaide Bank acquired the subordinated notes in a medical financing securitisation program arranged by an independent third party. The Medical Financing Program #1 is secured by a diversified pool of leases to medical practitioners and health professionals (doctors, dentists, pharmacists, radiologists) used to finance medical equipment, motor vehicles and the fittings and fit-out of business premises. The leases are usually secured only against the leased equipment with a credit exposure to the underlying borrower. The issuer of notes in the Medical Financing Program #1 has the right to redeem the notes if the value of the underlying receivables falls below $30M. AYT has a $1.6M investment in the Medical Financing Program #1 Class B Notes, which have not been independently credit-rated.
- The Medical Financing Program #2 has an underlying portfolio of over 7,000 loans worth $430M as at November 2007. Loans are provided to medical practitioners and allied health professionals to purchase medical equipment, for fit out of practices, to acquire businesses or property and for working capital purposes. The program allows for further receivables to be brought into the program and it is expected that further receivables will be introduced into this portfolio.

Securities backed by medical financing (continued)

- The loss rate on both medical financing programs #1 and #2 is less than 0.1% of the total original portfolio face value.
  - Medical Financing Program #1 has one tranch of lower ranking notes making up 1% of outstanding loans and equity holders receive the excess spread (or profit). As a consequence, losses are not expected unless loss rates exceed 187bps.
  - Medical Financing Program #2 has three tranches of lower ranking notes making up 3% of outstanding loans and equity holders receive the excess spread (or profit). As a consequence, losses are not expected unless loss rates exceed 415bps.

Securities backed by managed investment scheme (MIS) investor loans (16% of portfolio)

- Managed investment schemes generally involve pooling of money from a range of investors to be invested in a common enterprise. The scheme is typically operated by a responsible entity, with the scheme regulated as a type of 'financial product' under the Corporations Act 2001. It is common for investors not to have day-to-day control over the operation of the scheme. Managed investment schemes cover a wide variety of investments, which include cash management trusts, property trusts and agricultural schemes (for example, horticulture, aquaculture, commercial horse breeding).
- The Australian government has recently moved to disallow certain deductions for MIS after 1 July 2007; however, the schemes arranged and approved prior to this date will not be impacted, provided the MIS continues to operate in the manner described in the application for the product ruling. All underlying loans in AYT's MIS programs are not impacted by the change in government policy.
- AYT has two MIS investments: $20.3M in the Class C note paying BBSW +4.5% and $9.2M in the Class D note paying BBSW + 12.5%; both investments were sourced through Adelaide Bank. The underlying assets of the two schemes are 95% forestry assets and 5% vineyard assets.

Business Strategy

- AYT provides unitholders with exposure to asset-backed securities, being notes in securitisation programs. The Fund has a broad investment mandate that allows it to invest in all categories of asset-backed securities, which are selected on the basis of their risk-return profile and the overall mix of investments in the AYT portfolio. However, the focus of the Fund is on assets that are unrated and sub-investment-grade, with eligible investments most likely to be sourced from Adelaide Bank. Investments considered for inclusion in the Fund include those in the following three categories: senior subordinated debt, junior subordinated debt and equity interests, with the latter not exceeding 10% of the total tangible assets of the Fund. AYT does not currently have any equity investments.
- The duration of investments considered for inclusion in the Fund is likely to vary between 6 months and 10 years, with AYT expecting a weighted average duration of 5 years. All investments held by AYT are expected to pay a floating rate of return. As such, distributions to unitholders will move in line with the changes in domestic interest rates.
- The instruments into which AYT invests are a combination of investment grade and non–investment grade (BBB- and below using Standard & Poor's rating) securities.
- AYT does not intend to actively trade its assets and is likely to hold the majority of investments to maturity. In some circumstances, it may be appropriate for the Fund to exit investments prior to their maturity. However, given the lack of liquidity of many of the instruments considered for inclusion within AYT, it may be difficult to facilitate an early exit.
- Whilst the high-yield securities may be riskier than other forms of fixed interest investments (such as government bonds and investment grade corporate debt), these offer yields typically superior to those of other forms of fixed interest investment. With current investments spread across four asset classes, AYT is not extensively diversified; however, the security for each instrument is summation of numerous individual loans, which provides some degree of natural diversification.
- AYT employs a disciplined due diligence prior to purchasing an investment for inclusion into the Fund. The management team favours securities where losses will not be incurred unless the underlying assets perform significantly worse than their historical loss rates.

Board and Management

- Mr Steven Crane is the chairman of Adelaide Managed Funds and is a member of the Advisory Council. Mr Crane joined the board of Adelaide Bank in April 2005 and is the former CEO of ABN AMRO Australia.
- Mr Jamie McPhee has worked with Adelaide Bank for 16 years, having started in Treasury. In 2003, he was appointed Chief General Manager Operations, responsible for the day-to-day banking operations of the bank and in September 2005 was appointed Chief Operating Officer, responsible for all bank operations for the Group. In May 2006, Mr McPhee was appointed a director of Adelaide Managed Funds. Mr McPhee was appointed CEO of Adelaide Bank, effective 15 December 2006 and is now Chief Executive of the wholesale banking division of the merged Bendigo Bank and Adelaide Bank Group.
- Dr Adele Lloyd joined the boards of Adelaide Managed Funds and Adelaide Bank in August 2001. She was appointed Deputy Chairman of Adelaide Bank in March 2003 and Chairman in October 2005. Dr Lloyd holds a Masters and Doctorate in Administration and Management. Dr Lloyd is a Non-Executive Director of Adelaide Managed Funds.
- Ms Nancy Fox joined the Adelaide Managed Funds Board in July 2006 and is an Independent Non-Executive Director. She is a member of the Investment Committee, Related Party Transactions Committee and the Audit and Risk Management Committee. Ms Fox was an investment banker for over 15 years and has held a number of senior positions as head of securitisation and structured finance and ABN AMRO, AIDC and Citibank. Before moving to investment banking, she was an attorney in New York. Ms Fox was a National Committee member of the Australian Securitisation Forum for 9 years and received the Australian Securitisation Forum's inaugural Distinguished Service Award in 2005.
- Mr Stephen Treanor joined the Adelaide Managed Funds Board in July 2006 and is an Independent Non-Executive Director. He is a member of the Investment Committee, Related Party Transactions Committee and the Audit and Risk Management Committee. Mr Treanor is a financial consultant, with a particular focus on credit risk assessment, debt structuring, and the securitisation of financial assets. Previously, he was a commercial banker and credit analyst in the United States and served as managing director of the Australasian operations for Moody's Investor Service.
- Mr Anthony Baum joined the Adelaide Managed Funds Board in February 2007. He is a member of the Adelaide Bank executive team and was appointed General Manager, Wealth Management in May 2007. Mr Baum joined Adelaide Bank in May 2000 from BNP Paribas in London. Mr Baum is an Executive Director of Adelaide Managed Funds.
- Mr Bruce Speirs was appointed CEO of Adelaide Managed Funds in February 2007 and also sat on the Adelaide Bank Executive Committee. Since joining the Adelaide Bank Group, Bruce has held various senior management positions and his responsibilities have included management of Adelaide Bank and third party originated securitisation transactions. Prior to joining the bank, Bruce spent nine years with the audit and corporate finance divisions of Ernst & Young with a financial services industry focus. This position included secondments to the United Kingdom and the United States. Bruce is a chartered accountant and an associate of Finsia.
- Mr Kym Masters, Chief Investment Officer of AYT. Mr Masters joined Adelaide Bank in 2005 in the Portfolio Funding Team. He has ten years' experience in investment banking, including roles in structured finance, equity capital markets and Australian Equities Research. Previous roles include head of research at Taylor Collison.

Industry Review

- There is a broad spectrum of participants in the high-yield sector, with issuers typically comprised of retail banks, investment banks, managed funds and more recently hedge funds. Major purchasers of high-yield securities are superannuation funds and insurers who are attracted to the long-term investment horizon and premium yields on offer. Minor investors tend to be high-yield funds and individuals.
- There are a range of Australian high-yield products available to investors that are either listed or unlisted. Unlisted products tend to have entry and exit fees, whereas listed products provide investors with exposure to rises and falls in the value of the units. Other distinguishing features include the following:
  - Extent of gearing in the fund/trust;
  - Interest profile of fund: fixed versus floating;
  - Risk profile of underlying investments – investment grade through to unrated; and
  - Investment mandate of the fund: Hold to maturity versus high turnover.

TABLE 3: HIGH YIELD FUNDS - PERFORMANCE AS AT 30 JUNE 2007

Fund	Ongoing Fees	Perf. Fees	Fund Size	Performance Hurdle	CODE	Fund Performance 1yr	2yr	3yr
Austock High Yield Fund	1.0250%	15.4%	$24.5M	UBS Bank Bill Index + 2%	unlisted	14.12%	13.01%	12.67%
Allco Max	1.4500%	20.0%	$860M	BBSW + 1%	AXQ	< 2.0%	< 2.0%	< 2.0%
AYT - Asset Backed Yield Trust	1.0000%	20.0%	$190M	BBSW + 4.25%	AYT	11.10%	na	na
AMP - Capital Structured High yield	0.9738%	na	$1,800M	UBSW Bank Bill Index	unlisted	9.63%	na	9.72%
AMP - Capital Enhanced Yield Fund	1.1693%	na	$1,549M	Cash Rate	unlisted	8.86%	8.38%	8.09%
Challenger - High Yield Fund	2.1100%	20.0%	$93M	UBS All Bond Composite	unlisted	7.96%	7.49%	8.67%
Hastings High Yield	0.7500%	20.0%	$220M	5% per half year	HHY	7.35%	na	na

Source: Company/Aegis Equities

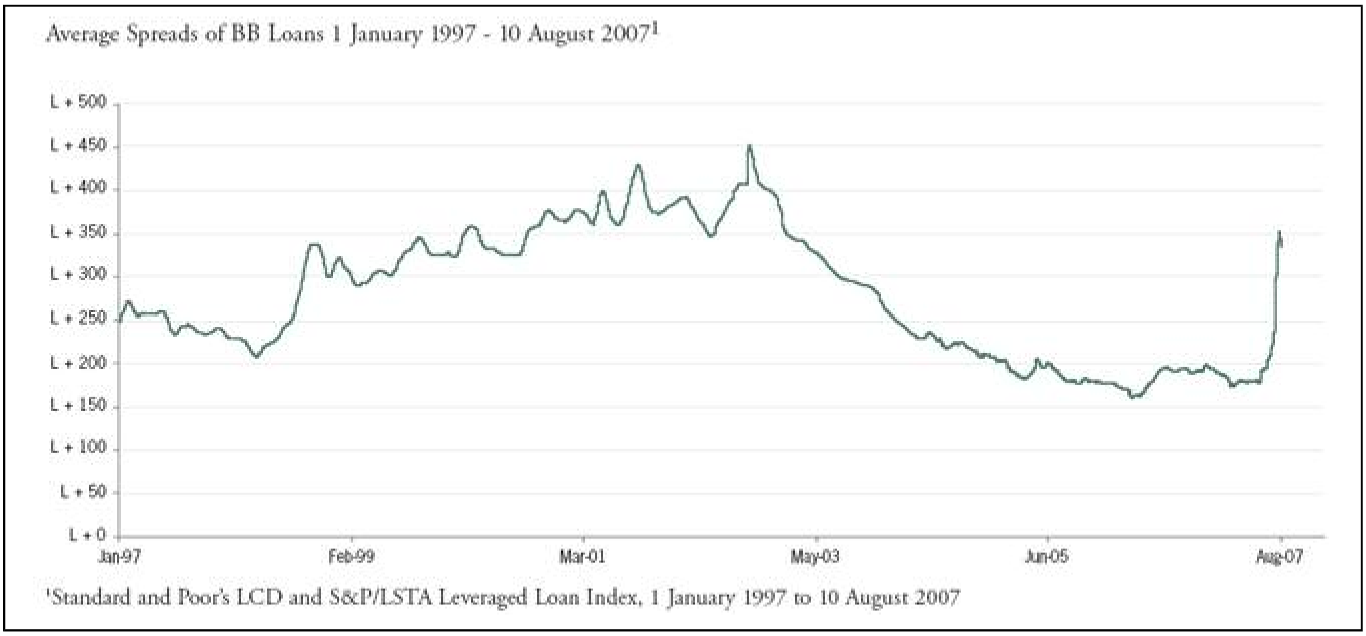
Industry Review (continued)

- While there are a number of other AUD-denominated high-yield funds, they do not parallel the investment strategy or portfolio of AYT, with the main differentiator being AYT's preferential access to high-yield transactions sourced from Adelaide Bank. The other listed high-yield funds are HHY, AYF, AXQ and MFN, all of which have different target assets (that is, rated securities), performance benchmarks, gearing levels and underlying investment strategies.
-
    - Hastings High Yield Fund (ASX code: HHY) is a listed fund that invests in unrated and non–investment-grade securities that also provide for potential gains flowing from re-rating, early repayment and equity participation. HHY's strategy is to invest early in transactions to generate participation fee income and positively influence terms of investment. HHY holds investments for the medium to long term, preferring interest income over realisation gains. HHY is targeting FY08 distributions inclusive of tax credits of 18.5cpu, which, based on the $1.90 unit price, equates to a pre-tax yield of 9.7%.
    - Allco Max (ASX code: AXQ) runs a credit arbitrage model using internal investment criteria. Allco Max's investment model requires all acquired assets to be investment-grade-rated. As at 14 September 2007, Allco Max's lending portfolio was valued at $860M.
    - Macquarie Fortress Notes (ASX code: MFN) are variable interest rate, unsecured, limited recourse debt notes. Macquarie Fortress Notes provide investors with exposure to a diversified, actively managed leveraged portfolio, consisting primarily of US senior secured loans.

- There is a large range of unlisted investment products, the majority of which make extensive use of leverage to boost returns, which is tantamount to betting on credit spreads.
    - AMP - The Structured High Yield Fund maintains a diversified private debt portfolio that invests in infrastructure assets such as gas distribution networks and airports. All assets are floating rate assets sourced locally and internationally. Fund size exceeds $1.8B.
    - AMP Capital Enhanced Yield Fund invests in a diversified combination of private debt via exposure to the AMP Capital Structured High Yield Fund, government bonds, corporate debt, hybrid, mortgage and asset-backed securities, converting preference shares, infrastructure debt, cash and cash-like securities. Corporate bonds and listed hybrids make up around 50% of the portfolio.
    - Challenger High Yield Fund invests primarily in a diversified portfolio of high-yielding, fixed interest and hybrid debt/equity investments. The fund is designed for investors seeking to diversify the income-producing segment of their investment portfolio and are willing to accept some additional risks in return for the potential for higher performance. The fund's objective is to outperform both the UBS Bank Bill Index and the UBS Composite (All Maturities) Bond Index over any 12-month period.
    - Austock High Yield Fund invests in a diverse range of high-income-yielding assets, including cash, fixed and floating rate hybrid securities, hybrid securities with equity delta, property and infrastructure securities. The fund is targeted at investors seeking a strong income stream with the potential for some capital growth and who are prepared to hold their investment for at least three years. Performance hurdle is the Bank Bill Index plus 2% per annum, before tax, but after fees and expenses.

The figure below illustrates the historical spreads that prevail for non–investment-grade leveraged loans, which are ostensibly loans made to speculative-grade borrowers. While not an exact representation of the spreads on the loans in which AYT invests, it serves to illustrate the sharp uplift in spreads that has occurred for non–investment-grade loans since August 2007. The spike in interest spreads from August 2007 is a flow-on effect of the contagion in the US sub-prime mortgage sector. We expect that the widening of sub-prime credit spreads to their long-term average of 325+bps will bode well for future investments of AYT, which would be expected to be priced at margins greater than the BB spreads, which are two notches below investment grade.

FIGURE 3: AVERAGE CREDIT SPREADS ON NON–INVESTMENT-GRADE SECURITIES



Source: Standard and Poor's

Key Business Risks

- **Default or credit risk:** AYT is susceptible to loss of contractual interest payments and capital and may incur losses if issuers of securities held by the Fund are unable to satisfy their obligations under the terms of the securities.
- **Decline in credit quality and realisation risk:** While AYT anticipates holding purchased securities to maturity, the Fund is exposed to a decline in the value of the investments it holds if these need to be sold prior to maturity. AYT is susceptible to a deterioration in the credit quality of the receivables in the underlying pools of assets held by the fund. A decline in the credit quality of the investment may occur, even though the issuer is meeting its obligations. This could occur in the event that the borrowers in the underlying pool of loans begin to default or if market movements cause the value of the security held (that is, medical equipment) to decrease.
- **Liquidity and realisation:** As many of AYT's investment are illiquid, the Fund may have limited ability to vary its portfolio in a timely fashion. As AYT invests in securities for which there is not a readily available market, AYT's ability to obtain reliable information about the value of such investments may be limited. There is no guarantee that investments when sold will be at a price equal to or more than the price paid by AYT.
- **Reinvestment risk:** While AYT is currently fully invested, there is a risk that in the future the Fund may not be able to source suitable high-yield securities to replace the maturing assets. The future availability of assets will determine if AYT's future investment portfolios have a level of risk that is similar to the risk associated with its initial investments.
- **Margin lending exposure:** AYT has a significant exposure to equity markets, with 62% of investments in assets currently, where the underlying receivables are margin loans. A very significant fall in the equity markets over a few days may trigger calls on the underlying margin loans that are not honoured. With the strong run-up in Australian equity prices over the past few years and higher volatility in international equity markets, future loss rates may exceed the relatively low loss rates that have historically been incurred by this asset class.
- **Volatility of domestic interest rate:** With 100% of Fund currently invested in floating rate instruments, a sustained decline in the domestic Bank Bill Swap Rate (BBSW) would unfavourably impact returns.
- **Leverage:** AYT has a $100M debt facility that is used to fund investments, pending future capital raisings. The use of leverage increases the exposure of AYT to credit risk.

Key Financial Issues

AYT has fully invested the proceeds of the two instalments, with all investments sourced through Adelaide Bank. AYT's distributions are intricately linked to BBSW, with all investments paying a premium over BBSW. AYT generated an FY07 return of 9.282cpu, which translated into an annualised yield of 11.1%. The Fund has not operated in a prior period, and, as such, there are no prior period comparisons.

Last Result

- The Fund raised $100M from the first instalment of $1.00 and incurred issuance costs of $7.4M, which have been capitalised. AYT's capital raising costs will be deductible over five years from the year they are incurred by the Fund.
- AYT generated interest income for FY07 of $13.8M. The profit before tax for AYT unitholders from the period of registration on 31 August 2006 to 30 June 2007 was $9.3M, all of which is distributable income.
- Management expense for the period to 30 June 2007 was $1.3M, which is based on the total value of assets of $196.8M as at 30 June 2007.
- AYT did not record any unrealised gains or losses on investments in FY07.
- Losses in the non-conforming mortgage portfolio were 0.01%, which was below the forecast loss rate of 0.74% in the prospectus. AYT is impacted when the losses exceed 1.3% of loans outstanding.
- The net tangible asset backing per security as at 30 June 2007 was $0.927, excluding the unpaid distribution of $0.0591. This net tangible asset figure was based on $1.00 of issued capital, the current NTA as at 30 November 2007 is $2.003 per unit.

Dividend Policy

- AYT paid an interim dividend of 3.33cpu on 12 February 2007 and a final distribution of 5.91cpu on 10 August 2007. AYT resolved to pay quarterly distributions from March 2008.
- AYT has a policy to pay out all distributable income.

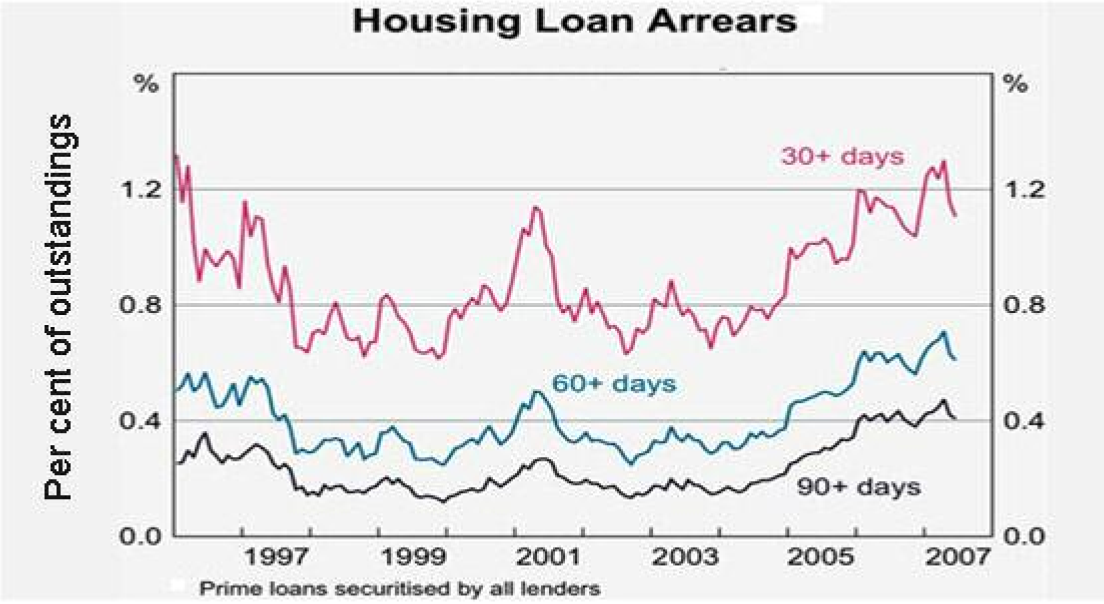
Capital Structure

- AYT has an established debt facility totalling $100M with ABN AMRO Australia, which provides the Fund with an additional source of capital to fund investments and to potentially enhance the yields payable to unitholders. As at 30 June 2007, AYT had drawn down $98.7M of the $100M facility. As at 30 November 2007, AYT was not utilising the $100M debt facility.
- AYT has indicated that it does not intend to operate the Fund with a material amount of permanent debt, with debt levels expected to average less than $25M between successive capital raisings.

Earnings Outlook and Forecasts

- AYT has provided guidance of FY08 distributions of at a yield between 11.2% and 11.7% based on a forecast yield of between 400 bps and 450 bps above the 30-day Bank Bill Swap Rate (BBSW) of 7.20%.
- Due to its relationship with Adelaide Bank, we expect AYT to continue to increase the size of its investment portfolio by acquiring assets sourced predominantly though Adelaide Banks various securitisation programs.
- AYT currently trades as discount of around 10% to its Net Tangible Assets (NTA). The negative market sentiment coming out of the USA in relation to the sub-prime write-downs is likely to be a significant factor in the recent decline in AYT's unit price given it has extensive holdings in securities backed by margin loans and non-confirming mortgages.
- The loss rates on the mortgage-backed securities are tracking significantly below the point where the Fund will be impacted (refer to Table 2). The percentage of prime homeloans over 30 days in arrears (refer to Figure 4) is relatively stable at 1.03% as at August 2007. However, lower quality loans have experienced some deterioration as illustrated by the percentage of subprime loans in arrears over 30 days increasing to 13.4% as at August 2007 from 11.5% as at September 2006. The bulk of AYT's mortgage-backed notes are non-conforming loans in the Q10 Trust, which had total arrears of 10.93% as at August 2007, indicating their arrears characteristics are closer to subprime loans than prime loans. We have not seen a sufficient rise in the markets roll to loss rates or a widespread drop in home values to indicate imminent losses on the mortgage-backed securities held by AYT. Regardless, we believe the risk of losses is increasing due to likely future rises in domestic interest rates, combined with the declines in property value for some homeowners, particularly those who bought at the peak of the property boom.
- Barring a major meltdown in share or property prices, we believe AYT's portfolio of investments, which currently generates a weighted average yield of BBSW +552bps, will enable the Fund to make distributions in excess of BBSW +400bps for the foreseeable future.

FIGURE 4: AUSTRALIAN HOUSING MARKET - ARREARS ON PRIME LOANS



Source: Standard and Poor's

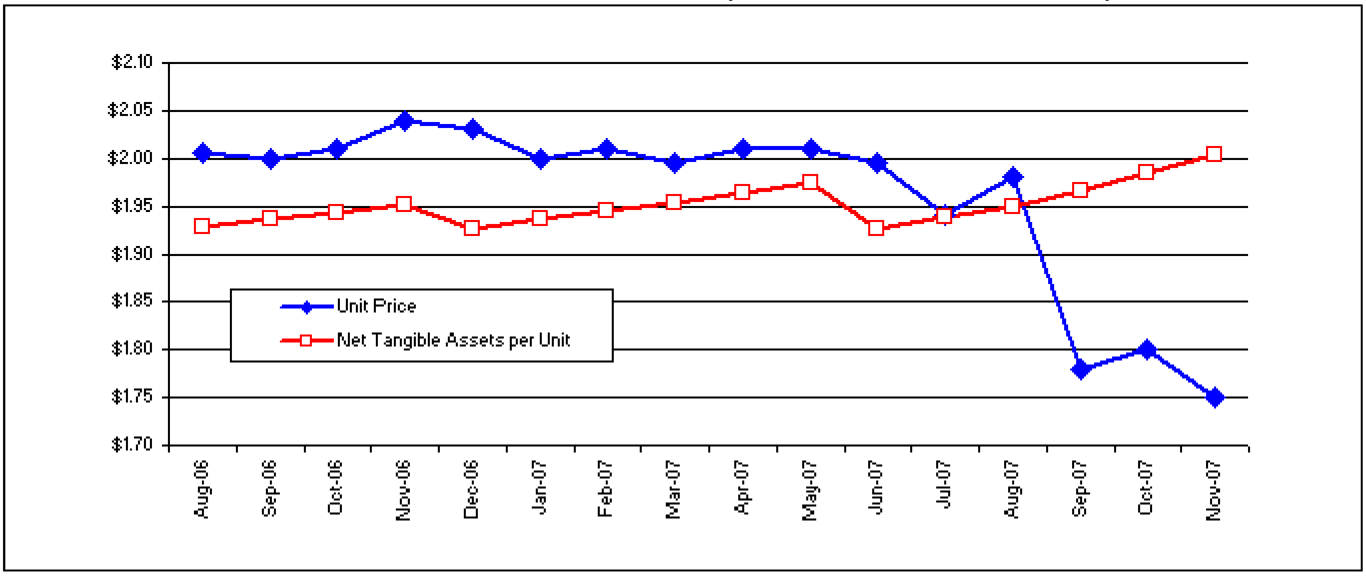
Valuation

We have valued AYT at $1.88 based on the net tangible assets (NTA) of the Fund as at 30 November ($2.003) combined with a 6% discount ($0.12).

Factors that we have taken into account in determining the discount to NTA include the following:

- The outlook is for at least one 25bps increase in domestic interest rates over the next year, which could result in higher default rates on the mortgage-backed securities held by AYT. In addition, the 90+ day arrears rates for Australian subprime mortgages have increased, which is an indicator of higher loss rates going forward in AYT's securities, which are backed by non-conforming (not subprime) mortgages;
- We believe the market views the risk and return trade-off favourably for the investments selected by management for inclusion in the Fund, and prices the product accordingly;
- AYT is currently trading at around $1.80, which is a 10% discount to the NTA as at 30 November 2007. We believe this discount is primarily due to subprime fears;
- The market's perception of the valuation approach used by AYT to determine the NTA;
- Prior to the US subprime fears and the widening of credit spreads, AYT traded at a small premium to the Fund's NTA, which is indicative of the positive view the market has of the Fund and incumbent management; and
- Interest spreads for non-investment grade securities have widened since AYT made its investments; investments of a commensurate risk profile may be priced at higher yields in the near future.

FIGURE 5: AYT'S UNIT PRICE AND NET TANGIBLE ASSETS PER UNIT (INCLUSIVE OF ACCRUED INTEREST)



Source: Company/Aegis Equities