AUSTRALIAN
RESEARCH
MANAGED INVESTMENTS ANALYSIS

Deutsche Xenon Alpha Plus2

March 2005

A Unique Hedge Fund Exposure

Aegis Measured by Performance

Contents

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1. Executive Summary

- Deutsche Xenon Alpha Plus2 (Xenon Alpha Plus2) is an offer to invest in redeemable preference shares in a four-year, closed-ended, leveraged product investing in two fund-of-hedge funds.
- The two fund of hedge funds used will be the Ivy RDO Access Unit Trust 1 Class A Units, (Ivy Fund) and Meridian Diversified Fund Ltd Class L Ordinary Shares (Meridian Fund).
- Based on the return objectives of each fund and the level of gearing in the product, the return objective for the product is around 15-18% pa after all fees, which will be paid as a once-only income payment at maturity in four years time.
- The Ivy and Meridian Funds are well-diversified, low-volatility funds. Ivy aims for returns of USD LIBOR +7% pa before fees, while Meridian has no express target, but aims to provide superior risk-adjusted returns. Leverage is then used to magnify returns to investors.
- Investors' funds are leveraged and initially invested such that 50 cents of each dollar, together with $1.50 of leverage, is invested in the Ivy Fund. The other 50 cents, together with $1.00 of leverage, is invested in the Meridian Fund. This leverage is known as 'Permanent Leverage'. This leverage is charged at the rate of the 90-Day Bank Bill Swap Rate (BBSW) + 2.20% pa.
- Through the 'Investment Allocation Mechanism', which is discussed in Section 2, these positions `can be leveraged further' (Additional Leverage). Total exposure can reach up to $5.25 for each $1.00 invested. This leverage is charged at the rate of the 30-Day BBSW+ 0.80% pa.
- If one of the funds performs poorly, a 'Knockout Event' could occur, whereby investment in that fund will be liquidated for the duration of Xenon Alpha Plus2. Some non-recourse leverage will still be in place and interest will remain payable. Investors should note that this is not a likely occurrence, given the nature of the underlying investments.
- Xenon Alpha Plus2 will process limited redemptions on a monthly basis. Redemptions will be subject to a declining fee of up to 4% as well as any administration or unwind costs incurred by Deutsche Bank, depending on the timing of the redemption.
- Aegis has reviewed the product and has issued an APPROVED rating.

Investment Opinion

Aegis has developed a template for rating structured product offerings in Australia. Factors considered include management, product construction, underlying portfolio construction and management, team and performance. Our rating is based on the following scale:

85 – 100 Recommended

65 – 84 Approved

0 – 64 Not Approved

We have reviewed the product and have issued an APPROVED rating.

Xenon Alpha Plus2 is quite different from many of the structured investments that Aegis has reviewed. Many structured products offer capital protection, which is expensive, then lever the remaining funds and invest in high-risk/high-return investments.

By contrast, this product invests its levered funds in two low-volatility hedge funds. The degree of leverage changes with performance in the underlying products, so that as performance improves, gearing increases, and vice versa. It does not, however, offer capital protection. This allows the offeror to provide a four-year time frame on the investment, which we believe is attractive.

Aegis believes that Deutsche Bank has undertaken significant due diligence in choosing the underlying hedge fund managers. We are satisfied that Deutsche Bank has a strong knowledge of both these funds and their competitors, and that the selection of the manager and portfolio construction within Xenon Alpha Plus2 have been carried out competently.

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The product has a high degree of Permanent Leverage, so that if the returns from the underlying funds are lower than the interest charged on leverage, then investors will note that the share price may fall. Further, the Permanent Leverage will also lead to higher volatility in Xenon Alpha Plus2 than the underlying funds. Nonetheless, if the underlying funds perform as they have in the past (or in the case of the Ivy Fund, as similar Ivy managed funds have), volatility will generally remain below the long-term average volatility of the share market. We have had Deutsche Bank prepare the scenario analysis that appears in Section 2 of this document. These results illustrate the downside potential in this product, which we believe represents the greatest risk in the product.

Investors should note that all returns will be paid in the form of an income payment at maturity of the product in 2009. Further, the product only offers redemption prior to maturity on a monthly basis and a fee will apply to early withdrawals.

Aegis believes that this product may be suitable as a medium-term savings vehicle, given that all returns will be paid at maturity (albeit as income). It may suit investors already on lower marginal tax rates, those who expect to be on lower marginal rates when the product matures in 2009, and self-managed super funds. It is not suitable for investors seeking an ongoing income stream, or those investors who seek to avoid all risk of capital erosion.

With respect to portfolio construction, it is Aegis' view that allocation should be made from the equity portion of a portfolio. Although we acknowledge that the underlying funds will be invested in an essentially market-neutral manner, we believe that the high level of gearing in the product will lead to volatility in the share price. Thus, it is more appropriate to be considered part of a portfolio's growth exposure.

This report has been commissioned and as such Aegis has received a fee for its publication. However, under no circumstances has Aegis been influenced, either directly or indirectly, in making statements and/or recommendations contained in this report.

The Prospectus was lodged on 9 March 2005 with the Australian Securities and Investments Commission. The offer of the securities is made in the Prospectus, and anyone wishing to acquire the securities should complete the application form in the Prospectus.

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2. Product Overview

Xenon Alpha Plus2 is an offer to invest in Redeemable Preference Shares in a four-year, closed-ended leveraged product. It is a 'notional' investment designed to generate returns linked to the performance of the Ivy Fund and the Meridian Fund, two international fund-of-hedge funds.

The overall return objective for the product is around 15-18% pa, which will be paid as a once-only income payment at maturity in four years. Prior to that time, returns will be reflected through an increasing net asset value.

The two hedge funds used are the Ivy Rosewood Diversified Fund Ltd Class E Shares via a feeder fund, RDO Access Unit Trust I Class A Shares, (Ivy Fund) and Meridian Diversified Fund Ltd Class L Ordinary Shares (Meridian Fund).

The Ivy and Meridian Funds are well-diversified, low-volatility funds. Leverage within Xenon Alpha Plus2 will then be used to magnify returns to investors.

All returns are hedged to Australian dollars, so investors are not expected to experience currency fluctuations.

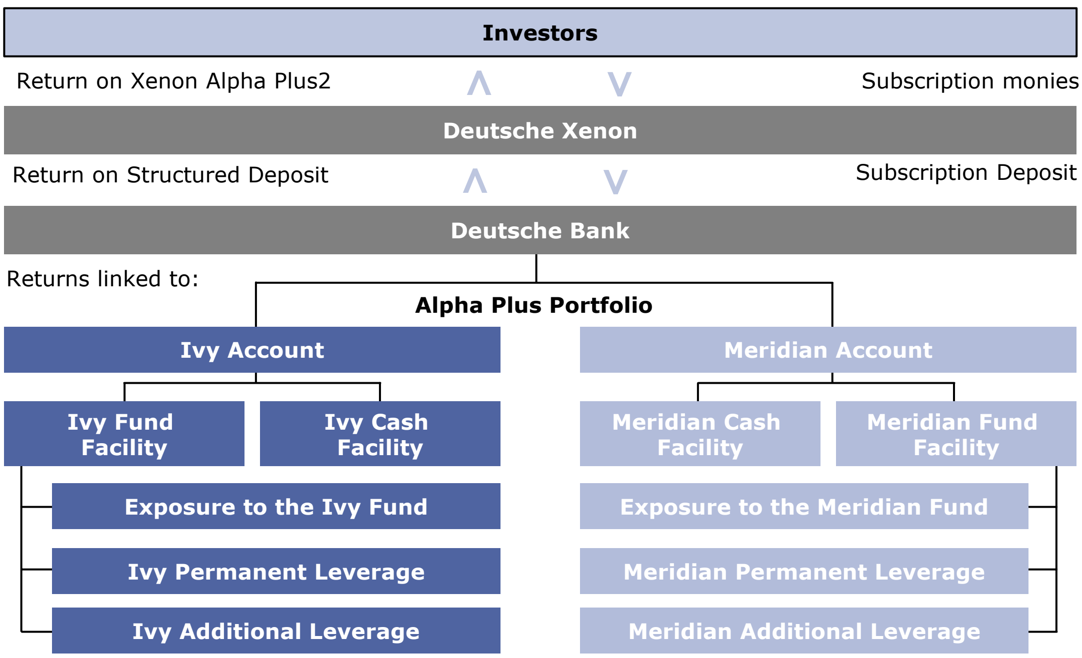
Structure of Xenon Alpha Plus2

Xenon Alpha Plus2 will invest in a structured deposit with Deutsche Bank. Deutsche Bank will then reference the leveraged returns of the Ivy Fund and the Meridian Fund for Xenon Alpha Plus2.

For each dollar initially invested, 50 cents will be invested into the Ivy Fund, along with $1.50 of permanent leverage. The other 50 cents will be invested into the Meridian Fund, with $1.00 of permanent leverage. Thus, the total initially invested will be $3.50 for each dollar invested. This reflects a 'leverage factor' of four for the Ivy Fund and three for the Meridian Fund. The leverage factors have been set by Deutsche Bank in consultation with Ivy and Meridian, and are based on the objectives and style of each manager.

Under the Investment Allocation Mechanism, described in detail below, additional leverage can be employed - up to an additional $1.00 in the Ivy Fund and an additional $0.75 in the Meridian Fund.

Fig 1. Structure of Xenon Alpha Plus2



Source: Deutsche Bank

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Investment Allocation Mechanism

The Investment Allocation Mechanism (the Mechanism) allows further leverage to be accessed if the underlying funds perform well. If they do not, leverage can fall to the level of Permanent Leverage and cash holdings can increase.

The Mechanism will be applied separately to the Ivy Fund and the Meridian Fund and is applied monthly. We will use the Ivy Fund to illustrate its operation.

The Mechanism works by applying the following formula:

Releverage/Deleverage Amount = (Leverage Factor x Investor's NAV) – Fund Value

Subject to the following limitations:

If no additional leverage is used, then (Releverage/Deleverage Amount)/Fund Value >= 5%

or

If some additional leverage is used, then (Releverage/Deleverage Amount)/Fund Value>=10%

The leverage factor for the Ivy Fund is four and the Meridian Fund is three.

The initial investment in the Ivy Fund is $2.00, being 50 cents of investor's funds (investor's NAV) and $1.50 of leverage. If the Ivy Fund increases in value by 5%, then the Fund Facility rises to $2.10. This is represented by 60 cents of Investor's NAV and $1.50 of Permanent Leverage.

The Releverage Amount is then

= (4 x .60) – 2.10

= .30 or 30 cents

The Releverage Amount/Value of the Ivy Fund Facility is

= 0.30/2.10

= 14.3%

Thus, a further 30 cents of gearing is undertaken. The new value of the Ivy Fund facility is now $2.40, being 60 cents of investor's funds, $1.50 of Permanent Leverage and 30 cents of Additional Leverage.

If the value of the Ivy Fund Facility then fell 10% to $2.16, this would comprise $1.50 of Permanent Leverage, 30 cents of Additional Leverage and 36 cents of investor's funds. The Releverage/Deleverage Amount would be

= (4 x .36) – 2.16

= –.72 or –72 cents

The Deleverage Amount/Fund NAV ratio would be

= .72/2.16

= 33.3%

Thus, the fund would be deleveraged by 72 cents, with the new value of the Fund Facility being $1.44. This would consist of $1.50 Permanent Leverage, 36 cents Investor's NAV and an offsetting cash facility of 42 cents.

If Investor's NAV falls to under 10 cents (or 7.5 cents for the Meridian Fund), a Knockout Event will occur, in which case exposure to the relevant fund will be reduced to zero, additional leverage will be retired, permanent leverage will remain in place until maturity and all other funds will be placed into the cash facility.

In effect, a Knockout Event means that no further exposure to the underlying fund will occur during the life of the investment. Investors should note that this is unlikely to occur.

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Portfolio Performance under Different Conditions

Both the Ivy and Meridian funds are low volatility fund-of-hedge funds. They generally provide small positive or negative returns on a monthly basis through most market conditions. Given the method by which they are managed, which is discussed in Section 3, we do not expect significant volatility in monthly returns. However, the leverage associated with this product will act to increase return volatility.

We include information on a series of simulations that have been carried out by Deutsche Bank, and observed the resultant performance of Xenon Alpha Plus2.

It should be noted that the worst monthly return experienced by either fund was a loss of around 5%, so the testing should be considered fairly robust.

It should be noted that under some circumstances, Ivy and Meridian's returns (and thus returns on Xenon Alpha Plus2) will be diluted due to the cost of the Permanent Leverage. The cost of the Permanent Leverage is approximately 7.9% pa at the present time and the breakeven return for the product is approximately 5.6%. Therefore, when returns fall to below this level on a consistent basis, returns to Xenon Alpha Plus2 will be negatively affected.

Further, it should be noted that the volatility of Xenon Alpha Plus2 is somewhat higher than that of the underlying funds. As a basis for comparison, the long-term volatility of the share market is approximately 15% pa. Thus, if the underlying funds behave similarly to their past performance, Xenon Alpha Plus2 should be less volatile than the share market. However, during times of shock, its volatility may become quite high due to leverage.

Nonetheless, it is only under extreme circumstances (such as three monthly falls of 20% each) that a Knockout Event will be triggered. Thus, we believe that it will be extremely unlikely to occur.

Fig 2. Return Simulation

Monthly return from each fund	**Funds pa (%)**	**Xenon Alpha Plus2 pa (%)**	**Fund Volatility pa (%)**	**Xenon Alpha Plus2 Volatility pa (%)**
1.00% per month	12.68	24.17	0.00	1.71
0.75% per month	9.38	12.78	0.00	1.50
0.50% per month	6.17	1.61	0.00	1.19
0.00% per month	0.00	-21.19	0.00	1.29
-0.50% per month	-5.84	-40.13	0.00	3.25
-0.75% per month	-8.64	-52.34	0.00	9.89
-1.00% per month	-11.36	-59.46	0.00	11.97
1.00% pm, -1.00% every 4th month	6.12	1.95	3.03	10.59
1.00% pm for the first 3 years, then 0.00%	9.37	13.73	1.52	5.06
1.5% pm, -5% every 12th month	11.91	22.63	6.29	19.02

Source: Deutsche Bank, Aegis

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Fees

Investors will pay no initial fees from funds invested. Commissions to advisers will be paid by Deutsche Bank on behalf of Xenon Alpha Plus2. These will comprise an initial fee of up to 3% and a trailing commission of up to 0.5% pa from year 2.

Permanent leverage within Xenon Alpha Plus2 will pay interest to Deutsche Bank at a rate equal to Australian 90-Day Bank Bills +2.20% pa. Additional leverage will pay interest at the rate of Australian 30-Day Bank Bills + 0.80% pa.

Both the Ivy Fund and the Meridian Fund will charge fees on funds invested. Ivy will charge a 1.5% pa management fee and an annual performance fee of 10% above a high watermark. Meridian will charge a 1.25% pa management fee and an annual performance fee of 10% above a high watermark. Part of these fees will be paid to Deutsche Bank.

An exit fee will be payable if an investor chooses to sell their investment prior to maturity. The sliding fee will be equal to $0.04 for each share repurchased in the first year, $0.03 for each share repurchased in the second year, and so forth. Investors will also be charged any administration or unwind costs incurred by Deutsche Bank.

Aegis Comments

Aegis believes that the premise underlying the structuring of Xenon Alpha Plus2 has merit. Many structured products offer investors strong capital protection, but the high cost of this protection means that funds available for investment are leveraged and invested in highly volatile investments.

Xenon Alpha Plus2 takes a different approach and levers funds into two fund-of-fund hedge funds, with low volatility and good risk-adjusted returns. In terms of Modern Portfolio Theory, there is merit in gearing into risk-efficient investments. Although there are risks associated with the strategy, this seems a logical way to offer exposure to hedge funds.

The single most important risk associated with this product is the cost of the Permanent Leverage. If fund returns are less than around 5.6% pa investors will find that the NAV will fall over time. If returns generally remain over approximately 7.5% pa, the gearing in Xenon Alpha Plus2 will act to magnify such returns for investors.

Both Ivy and Meridian have long track records, which are examined in Section 3 of this report, over which they have managed to maintain those levels of returns in AUD terms. Further, the volatility of the combination has been approximately 2.4% pa, which, under the gearing available in Xenon Alpha Plus2, should equate to a volatility of approximately 8-10% pa in the product, less than that of the stock market over time.

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3. Underlying Investments

Portfolio

Deutsche Bank has chosen the Ivy and Meridian Funds as the underlying investments in Xenon Alpha Plus2. Deutsche Bank has conducted significant due diligence on the managers, through its London and New York offices. Aegis is satisfied that Deutsche Bank has a good knowledge of both these funds, their competitors and that the manager choice and portfolio construction within Xenon Alpha Plus2 has been carried out competently.

The underlying portfolio initially will be invested such that approximately 57% of funds are in the Ivy Fund and 43% in Meridian Fund. These weightings reflect the fact that different leverage factors will be initially applied to each hedge fund by Deutsche Bank. The amount of leverage will change as the investments are releveraged with performance.

Both funds are fund-of-fund hedge funds. Each has slightly different return objectives, but both aim for very low volatility and preservation of capital. In both cases, a significant amount of the senior executives' wealth is invested in the funds, ensuring that there is strong alignment of interest.

Ivy

Based in New York, USA, Ivy is one of the largest hedge fund managers in the world, having recently been ranked seventh by InvestHedge. Currently, Ivy has more than US$15B in assets under management and 150 employees.

Ivy only manages fund-of-fund hedge funds. The fund to be used by Xenon Alpha Plus2 is the Rosewood Diversified Fund Ltd Class E shares (Ivy Fund), which began in February 2004. The fund aims to return approximately USD LIBOR Plus 7% pa before fees and be essentially market neutral with a market beta of between –0.1 and 0.1.

Ivy has an investment team of approximately 35 people and invests in around 150 different hedge funds around the world. Approximately 200 managers are actively monitored. Ivy chooses managers on a bottom-up basis, through fundamental research. Initially, it identifies managers that have achieved above-average returns through different market cycles, giving greater weight to good performance in bear markets than bull markets, as well as consistency of performance.

Ivy employs a 'top down, bottom up' portfolio construction technique. The Ivy Fund tends to hold around 26 to 30 managers, each of which must be generally market and beta neutral, in order to ensure neutrality in the portfolio. As at 31 December 2004, it held the following weightings to different strategies (all figures approximate):

17% long/short equity

18% credit

41% relative value

24% event driven

Ivy is not a 'tactical asset allocator' between hedge fund strategies and managers. Thus, strategic weightings in the Ivy Fund tend to change only by a few per cent.

Although the Ivy Fund has a limited history, Ivy runs a series of funds with similar, but not identical, objectives and strategies. The composite performance history of those funds has been used for performance analytics in this report. Investors should note it should be considered a guide only.

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Meridian

Meridian is based in New York, USA, and has been managing fund-of-fund hedge funds for more than ten years. Meridian currently has approximately US$3.2B in assets under management.

Meridian also only manages fund-of-fund hedge funds. The fund used by Xenon Alpha Plus2 is Class L Ordinary Shares in the Meridian Diversified Fund Ltd (Meridian Fund). The primary focus of Meridian is equity-oriented hedge fund strategies. The group aims to provide asset protection in negative markets, while capturing risk-adjusted returns, particularly during rising markets. Meridian invests in only certain types of hedge fund strategies, those that it believes are based on intellectual capital and offer repeatable sources of alpha generation. Meridian classifies managers into four risk classes, based primarily on performance analytics. It also conducts face to face interviews with managers on a regular basis. The portfolio of the Meridian fund contains around 20 managers, from each of the four risk profiles.

Meridian will tend to expose the portfolio to beta risk in markets when it believes they are rising, while winding this back somewhat when it believes markets will perform poorly. Increasing beta is effected in three ways: through stock price rises driving up betas within portfolio, through individual managers increasing beta further and through increasing the exposure to managers with higher betas. This tends to be a slow process, and the highest beta the portfolio has had is around 0.36.

Performance Analytics of the Hedge Funds

The Ivy Composite (discussed previously) and Meridian Funds, as well as the Combination Fund (which is 57% Ivy Composite and 43% Meridian Fund), show extremely low correlation with major asset classes, thus providing a portfolio with good diversification benefits.

The Combination Fund is similar to an ungeared version of Xenon Alpha Plus2.

Fig 3. Five-year Correlations to December 2004 in USD

Correlation	US Shares
Ivy Composite	0.18
Meridian Fund	0.12
Combination	0.17
US Shares	1.00

Source: Deutsche Bank, Aegis. Index used is the S&P500 (USD).

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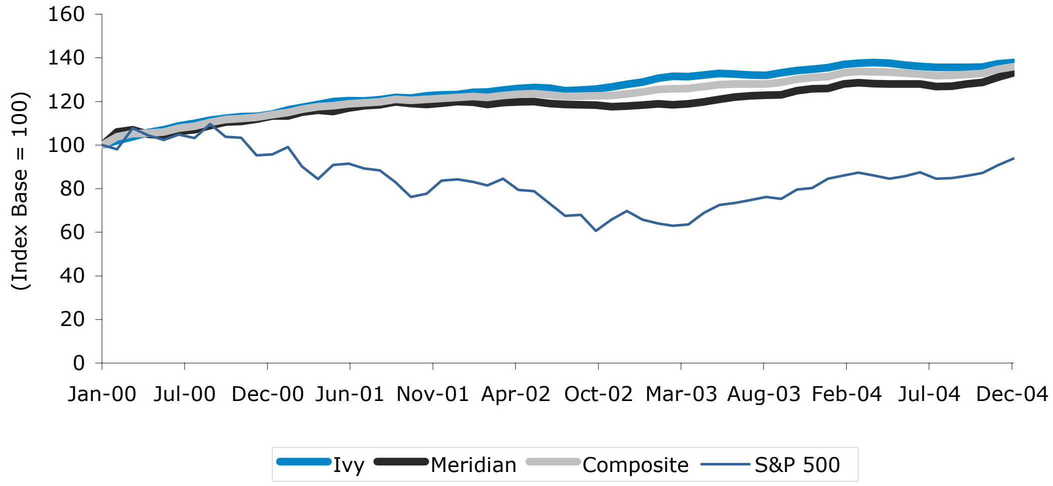
Fig 4. Performance for five years to December 2004



Notes: All returns in USD. Indices: S&P500
Source: Deutsche Bank, Aegis

The Ivy Composite and Meridian funds have performed generally in line with their objectives and, over the period shown, have outperformed the US stock market.

Fig 5. Five-year Annualised Return and Volatility

(%)	Ivy Composite	Meridian Fund	Combination	S&P500
Return	6.94	6.16	6.62	-2.30
Volatility	2.22	3.70	2.40	16.35

All returns in USD, after-fees. Data to 31 December 2004
Source: Deutsche Bank, Aegis

The Combination Fund offers investors returns which have been above those from other asset classes over the past five years (in line with hedge funds generally) and are less volatile than those from equities. The volatility associated with Xenon Alpha Plus2 will be higher than the combination, due to the effect of gearing.

Although hedge funds do tend to lag equities markets during times of strong performance, and investors should expect that there will be periods where they underperform in those conditions, they do generally display lower volatility. This is particularly the case with well-constructed fund-of-fund hedge funds.

Thus, investors should expect that the Combination Fund may exhibit lower volatility than shares and should also display returns in line with their stated objectives, and may or may not outperform other markets over time.

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4. SWOT Analysis

Strengths

- The investment has a maturity of just under four years, which is shorter than many other structured products.
- Xenon Alpha Plus2 offers exposure to two quality, low-volatility, fund-of-hedge-fund managers not normally available to Australian retail investors. Many other structured investments offer investment in more volatile assets, with capital protection.
- Unlike many other structured investments, there appear to be no Foreign Investment Fund (FIF) implications for Xenon Alpha Plus2.
- There are no direct fees payable, and the level of fees within the product is generally reasonable for this type of product. However, it should be noted that the layering of fees, charges and performance based fees can be fairly expensive, and perhaps more expensive than direct investment. However, it would be difficult for retail investors to access these managers directly.
- The Investment Allocation Mechanism will ensure that funds will be levered as the funds perform well, and will be delevered if they perform poorly.

Weaknesses

- Unlike many structured products, there is no capital protection mechanism for the return of capital at maturity. Thus, it may return less than the total amount invested at maturity.
- Redemption is available on a monthly basis only, with a sliding fee scale applicable.
- In line with many other hedge fund investments and structured products, all returns are in the form of income. Whilst investors in Xenon Alpha Plus2 will only incur a tax liability when their investment is realised or when a taxable dividend is paid, this tax structure may not be suitable for all investors.
- The key difference between Xenon Alpha Plus and Xenon Alpha Plus2 is the addition of Meridian, who is not a market neutral hedge fund manager. We believe Meridian's investment style may expose the portfolio to a greater level of volatility than the first product, particularly when markets are rising.

Opportunities

- The Permanent and Additional Leverage available may enhance returns from the underlying funds for investors.

Threats

- Leverage can rise to significantly high levels, and this will lead to higher volatility in the investor's NAV.
- If the underlying investments return less than the rate of interest on leverage, Xenon Alpha Plus2 will not provide competitive returns.
- If a Knockout Event occurs, investors will experience a significant capital loss that probably will not be recouped during the life of the investment. Further, the investment will continue to accrue interest charges associated with permanent leverage, although they will be invested in cash. This will lead to losses over the life of the investment.
- The Investment Allocation Mechanism is run monthly. Large movements in value may occur within that period that will not be correctly protected.

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5. Risks

We refer investors to Section 7, pp70-79, of the prospectus and provide the following as a summary only.

- All of an Investor's $1.00 per Share capital investment is at risk. If the Alpha Plus Portfolio loses value, investors may not recover all or any of their investment on the Maturity Date or on an early exit. There is also no guarantee that there will be an amount to distribute by way of final dividend.
- Leverage will be used as part of the Alpha Plus Portfolio. As well as magnifying positive returns, leverage can also magnify losses. Regardless of the level of leverage used, the liability of an Investor is limited to the Issue Price of the Shares (which is $1.00 per Share).
- The Investment Allocation Mechanism will determine the amount of any Additional Leverage to be used and the allocation of the Alpha Plus Portfolio between Fund Facilities and Cash Facilities.
- The Permanent Leverage will be fully used at all times regardless of the extent to which the Alpha Plus Portfolio is allocated to Fund Facilities or Cash Facilities. It is therefore possible for an Investor to have no exposure to a Fund because an Account is fully allocated to a Cash Facility and still incurs the Funding Charge.
- An investment in Xenon Alpha Plus2 is designed as a medium-term investment. Shares are only transferable with the prior agreement of Deutsche Xenon (which may be granted or withheld at its absolute discretion). Deutsche Australia will provide an Early Exit Facility, but this will be limited each month to a number of Shares equal to 5% of the Shares originally issued. There is a risk, therefore, that it may not be possible for an Investor to sell their Shares quickly should they need to do so or even be able to sell any of their Shares in any one month.
- The currency hedging calculations used in Xenon Alpha Plus2 will not completely remove the risk that exchange rate fluctuations may have a negative impact on the returns of Investors. Of course, such fluctuations may also have a positive impact.
- Investors have no right or power to take part in Deutsche Xenon's management.
- In making calculations under the Alpha Plus Portfolio and as part of the Investment Allocation Mechanism, Deutsche Australia and Deutsche Bank will be relying on the Fund Managers and certain other third parties to provide information on the Ivy Fund, the Ivy Rosewood Diversified Fund and the Meridian Fund, such as monthly valuations of these funds. Deutsche Australia and Deutsche Bank will act in good faith based on the information provided to them in calculating the monthly net asset value of Xenon Alpha Plus2.
- Deutsche Xenon will have no assets available to meet its liabilities in respect of Xenon Alpha Plus2 other than its contractual rights against Deutsche Bank under the Structured Deposit. The Structured Deposit is a limited recourse deposit, and the total payment by Deutsche Bank to Deutsche Xenon under it may result in Xenon Alpha Plus2 having an NAV per Share of less than $1.00 on the Maturity Date.
- In addition to the Early Exit Facility available, in certain circumstances Deutsche Xenon may redeem or may require Deutsche Australia to purchase, some or all of the Shares compulsorily.
- Deutsche Bank may enter into certain arrangements to hedge its exposure under the Structured Deposit. These arrangements may involve multi-jurisdictional transactions and arrangements that could expose members of the Deutsche Bank Group to withholding tax. If any withholding tax is imposed, then payments by Deutsche Bank to Deutsche Xenon will be reduced by the amount of such tax (and an investor's returns on Xenon Alpha Plus2 will be similarly reduced). At the date of the Prospectus, there is no withholding tax associated with any of the contemplated arrangements.

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- The performance of Xenon Alpha Plus2 will depend largely on the performance achieved by the Ivy Fund and the Meridian Fund. There is a risk that these Funds may perform poorly. A decline in a Fund's value will reduce the NAV per Share by an amount that is greater than the percentage decline in the value of the Fund. This is because of the use of Permanent Leverage and any Additional Leverage in the Alpha Plus Portfolio. Investors should also note that, as returns on Xenon Alpha Plus2 are linked to the performance of the Funds, the layering of fees, charges and performance-based compensation resulting from the Fund of Hedge Funds structure may result in higher aggregate costs than if Investors directly invested in the underlying funds comprising the Ivy Fund and the Meridian Fund; the Ivy Fund or the Meridian Fund may issue additional classes of shares or units in the future which may have different features to the shares and units in those funds to which the Alpha Plus Portfolio has exposure. The Ivy Fund and the Meridian Fund may employ strategies, or invest in markets or instruments, that are not described in the Prospectus and/or do not exist as at the date of the Prospectus.
- The performance of Xenon Alpha Plus2 will also depend on the volatility of the relevant share or unit price of the Funds.
- Valuations of assets of the Funds (including, in the case of the Ivy Fund, the Ivy Rosewood Diversified Fund), may involve uncertainties and require the application of business judgment. Valuations of assets are generally based on the net asset values of underlying hedge fund investments, without independent verification by the Fund Managers. These valuations may be based on unaudited financial records and, in some cases, may be only a preliminary calculation of the net asset value.
- If a Suspension Event occurs with respect to a Fund, Deutsche Bank may suspend the allocations to that Fund within the Alpha Plus Portfolio and either select a replacement fund in which to allocate 100% of that Account, or if a replacement fund cannot be found, allocate 100% of that Account to commercial paper rated A–1 or above by Standard & Poor's Rating Services or P–1 or above by Moody's Investors Service, Inc.
- The Funds are not based in Australia and are not regulated under Australian law. They are regulated under US or other laws. There is a risk that US and other laws and their regulatory environments may change adversely. In addition, there is a risk that regulatory supervision of, and internal compliance within, a fund may not be performed to an appropriate standard.
- Investors' returns may be adversely affected by market conditions.
- The Funding Charge is based on a margin over BBSW (which is an Australian dollar floating rate). Upward movements in interest rates will increase the Funding Charge.
- The returns from an investment in Xenon Alpha Plus2 may be influenced by changes in taxation laws (or their interpretation) in Australia or overseas, and if Deutsche Xenon incurs liabilities that are not anticipated or not intended. In such instances, returns to Investors on Xenon Alpha Plus2 will be adversely affected if these tax or other liabilities of Deutsche Xenon absorb its assets.
- Investors are exposed to Deutsche Bank and Deutsche Australia credit risk in that if either becomes insolvent or otherwise unable to make payments in connection with their roles as, in the case of Deutsche Bank, Structured Deposit provider, or in the case of Deutsche Australia, Early Exit Facility provider and provider of the purchase facility at maturity, then payments may not be made to Investors. No member of the Deutsche Bank Group makes any representation or gives any guarantee or assurance as to the performance of Deutsche Xenon, the payment of any dividend on Xenon Alpha Plus2, the repayment of amounts invested in Xenon Alpha Plus2, or any particular rate of overall return on Xenon Alpha Plus2.

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6. Entities Involved

Deutsche Bank AG

Deutsche Bank AG is a banking company incorporated in Germany. The group has about 1,575 branches and offices around the world. As at 31 December 2004, the Deutsche Bank Group had total assets of approximately Euro840B. Deutsche Bank provides the Structured Deposit for Xenon Alpha Plus2.

Deutsche Australia Limited

Deutsche Australia Limited is a wholly owned subsidiary of Deutsche Bank AG. It is an Australian limited liability company incorporated under the Corporations Act.

Deutsche Australia Limited has arranged, will operate and will provide, the repurchase facility at maturity and the early exit facility for Xenon Alpha Plus2.

Deutsche Xenon Alpha Plus2 Ltd

Deutsche Xenon Alpha Plus2 Ltd is the issuer of Xenon Alpha Plus2 and is an Australian limited company incorporated under the Corporations Act. It is a wholly-owned subsidiary of Deutsche Australia.

Ivy Asset Management Corp

Ivy is based in New York, USA. Ivy is one of the largest hedge fund managers in the world, having recently been ranked seventh by InvestHedge. As at 31 December 2004, Ivy had more than US$15B in assets under management.

Meridian Capital Partners Inc

Meridian is based in New York, USA, and has been managing fund-of-fund hedge funds for more than ten years. Meridian had approximately US$3.2B in assets under management as at 31 December 2004.

Board of Deutsche Xenon Alpha Plus2 Ltd

Andrew Baume has been working in the financial markets for over 20 years. He joined Deutsche Bank in 2000 in the Global Markets Division in Sydney. As a member of the Global Relative Value Group he is involved in analysing and structuring investment and debt products sourced from the Deutsche Bank Group. Prior to joining Deutsche Bank he was with Westpac for 13 years. He has a Bachelor of Economics from the University of Sydney.

John Cincotta is Chief Operating Officer of the Deutsche Bank Group, Australia and New Zealand. He first joined Deutsche Bank in 1993 as Head of Management Accounting. Prior to joining Deutsche Bank, he worked at Chase Manhattan Bank in various roles. John holds a Bachelor of Business with an accounting major from the University of Western Sydney.

Jamie Hutchinson is Deputy Head of Legal, Australia and New Zealand of the Deutsche Bank Group. He joined in 1997 and before that worked for a national Australian law firm in Sydney and London. Jamie's legal work is focused primarily on the areas of corporate, banking, global markets and derivatives. Jamie is a solicitor admitted in NSW, federally and England and holds a Bachelor of Arts and Bachelor of Laws from the University of Sydney.

Ian Martin has nearly 20 years' experience in international capital markets. He is Head of Alternative Products within Deutsche Bank Group's Global Markets Division. Prior to joining Deutsche Bank, Ian spent two years pursuing private business interests. He graduated from Victoria University of Wellington, New Zealand.

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7. The Offer

Fig 6. Offer Details

Name	Deutsche Xenon Alpha Plus2
Security	Redeemable Preference Shares
Offer Opened	21 March 2005
Offer Closes (approx)	12 May 2005
Issue Date (approx)	27 May 2005
Maturity Date	5 May 2009
Issue Price	$1.00
Initial NTA	$1.00
Minimum Investment	$5,000
Final Dividend	Return will be in the form of a final dividend, paid at maturity
Issuer	Deutsche Xenon Alpha Plus2 Ltd
Arranger	Deutsche Australia
Structured Deposit Provider	Deutsche Bank Group, London
Underlying Investments	Ivy RDO Access Unit Trust I Class A units and Meridian Diversified Fund Ltd Class L Ordinary Shares
Initial Fees	Nil to investor
Ongoing Fees	Nil to investor
Adviser Commissions	An initial fee of up to 3% and a trail commission of up to 0.5% pa. These fees are paid by Deutsche Australia, not out of investors' monies.
Early Exit Fee	A sliding fee equal to $0.04 for each Share repurchased in the first year, $0.03 for each Share repurchased in the second year and so forth. Any administration fees and unwinding costs will also be charged.

Source: Deutsche Bank

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