Zenith
Investment Partners Pty Ltd

Highly Recommended
Recommended
Approved
Not Approved
Redeem

Product Assessment

Xenon Alpha Plus 2

7 April 2005

Xenon Alpha Plus 2 (XAP2) is the second Australian leveraged hedge fund offering under the Deutsche Xenon brand. The issuer, Deutsche Xenon Alpha Plus2 Limited (Deutsche Xenon), is part of the Deutsche Bank Group. XAP2 aims to achieve a target return of 15-18% p.a. while having a low correlation to traditional investment markets. Unlike the product's closed end, leveraged hedge fund competitors, XAP2 differentiates itself by not having a capital protection facility and having a considerably shorter investment term of just under 4 years. A further point of differentiation is that the product is highly transparent in terms of its associated costs and potential risks, which makes a refreshing change for these types of products.

The methodology behind the product structure is to seek managers with consistently stable above cash historical returns, leverage into their funds and actively manage the leverage levels on an ongoing basis to produce extremely attractive returns for investors. Zenith believes the product is an appealing proposition in the current market environment, given equity markets appear reasonably priced and low but rising interest rates are dampening returns of traditional fixed interest investments.

The managers chosen to be linked to the Alpha Plus Portfolio (APP) (the performance of which determines investors' returns) are Meridian Diversified Fund Management, LLC (Meridian) and Ivy Asset Management Corp. (Ivy), which are both US based fund of hedge fund managers. Both have solid long term track records of delivering consistent above cash returns with very low volatility and therefore are ideally suited to this product. Zenith has reviewed both managers and is impressed with each manager's track record, the calibre of each investment team and the robustness of their investment processes. While transparency is often an issue when reviewing hedge fund managers, Zenith has directly dealt with the key investment personnel from both organisations.

In terms of the product structure, for every $1 invested, Deutsche Bank will also provide permanent leverage of $2.50, meaning investors will initially have $3.50 exposure to APP. In addition to this, Deutsche may provide additional exposure of up to $1.75 for every $1.00 invested if pre-determined performance targets are met during the course of the investment. Therefore for every dollar invested, investors can potentially have up to $5.25 exposure to APP. If both managers can repeat their longer term performance numbers, Zenith expects additional leverage to be utilised.

While investors do not pay an application fees or management fees for this product, Deutsche Xenon is primarily remunerated via receiving a margin of 2.20% p.a. above the 3 month bank bill swap rate (BBSW) for providing the permanent leverage facility and 0.80% p.a. above the 1 month BBSW for the additional leverage facility. Zenith believes the lending rates represent challenging, but achievable hurdle rates for the underlying managers to meet, prior to generating positive returns for investors. Furthermore, the borrowing rates compare favourably to products offering non-recourse lending and margin lending rates. As investors gain exposure to the after fee returns of Meridian and Ivy, it is important to also mention that the management fees charged by these managers are fair and reasonable and compare similarly to other fund of hedge fund managers we have reviewed.

Zenith believes XAP2 is an attractive product for high risk tolerant investors that understand the risks of leveraged investments. That is, given that the allocations to each manager are highly geared, both the positive and negative performance of the managers will be heavily magnified. Given the highly leveraged nature of the product, the overall returns are sensitive to the performance of the underlying managers and the borrowing rate. Zenith also believes the product particularly suits investors with low marginal tax rates in the year of maturity of this product (such as self-managed superannuation funds or retirees), as all positive performance generated will be paid to investors in the form of a dividend at maturity, which is treated as income. This means the final dividend is taxable at an investor's marginal tax rate and will not be treated as a capital gain meaning capital gains concessions will not apply.

Overall, Zenith believes the managers chosen are suitable for a product of this nature and should their strong performance continue, will provide a strong chance that the fund's investment objective is attained. As such we have rated the product RECOMMENDED.

Key Features	Description
Asset Class	Hedge Funds
Investment Type	Redeemable Preference Shares
Investment Objective	15 – 18% p.a. (after fees)
Issuer	Deutsche Xenon Alpha Plus 2 Limited
Investment Managers	1. Ivy Asset Management Corp. 2. Meridian Diversified Fund Management, LLC
Minimum Investment	$5000 (in $1000 lots thereafter)
Issue Price	$1.00
Income Payment Dates	At maturity
Offer Opens	21 March 2005
Offer Closes	12 May 2005
Issue Date	27 May 2005
Investment Term	Just under 4 years
Maturity Date	5 May 2009

Overview

Xenon Alpha Plus 2 (XAP2) aims to achieve a return target of 15-18% p.a. over a period of just less than 4 years, regardless of the movements in traditional markets.

The Alpha Plus Portfolio (APP) uses leverage to increase investors' exposure to the funds. The amount of the leverage and exposure to the Funds is actively adjusted through the term of the investment. Although the leverage increases the exposure of the overall investment, investors should acknowledge that their liability is limited to the $1.00 initially invested.

APP provides exposure to Ivy Asset Management Corp. (Ivy) and Meridian Diversified Fund Management, LLC (Meridian) and their funds the Ivy Fund, which is a feeder fund into the Ivy Rosewood Diversified Fund, and the Meridian Fund, respectively.

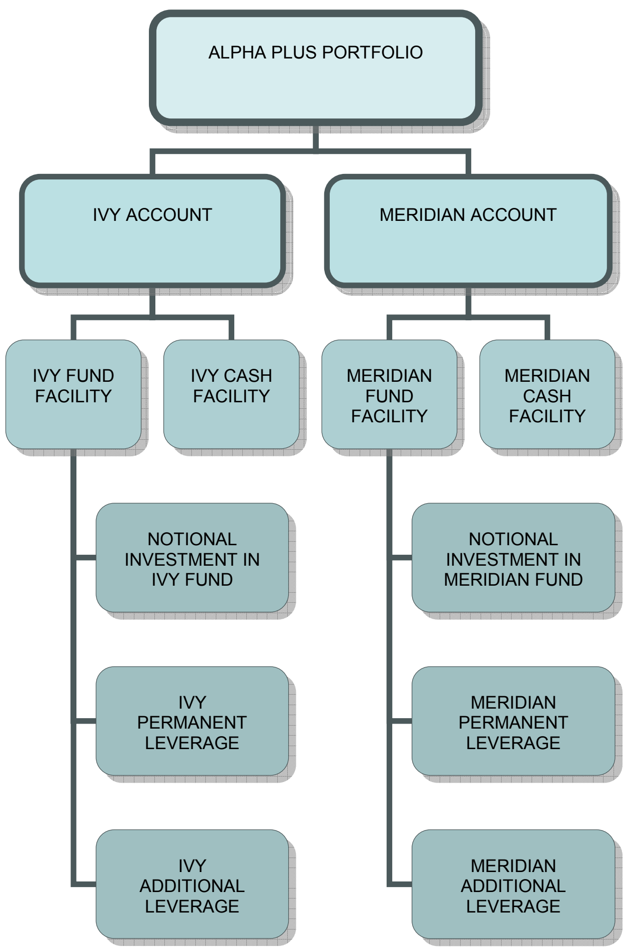
Currency exposure will be hedged on a monthly basis. This will minimise the effect of exchange rate fluctuations.

Investors will only receive returns at the maturity date of the investment, unless investors realise their shares prior to maturity. No income will be paid during the term of the investment.

Investment Structure

The investment structure works in the following way:

1. Investors subscribe for XAP2, being redeemable preference shares issued by Deutsche Xenon.
2. Deutsche Xenon will place the full amount it raises from the Offer in the Structured Deposit with Deutsche Bank. Deutsche Xenon will receive a return on the Structured Deposit linked to the performance of the APP.
3. The APP is a notional portfolio consisting of two accounts, the Ivy Account and the Meridian account. Each account comprises two facilities, a Fund Facility (providing leveraged exposure to the relevant Fund) and a Cash Facility (providing exposure to cash in certain circumstances).



4. The APP will be allocated between the Fund Facilities and the Cash Facilities according to an Investment Allocation Mechanism. Initially, the APP will be allocated 100% to the Fund Facilities.
5. On the maturity date, investors will receive an amount for their XAP 2 equal to the value of the APP per Share at that time. The value of the APP will be the sum of the value of the two Accounts at that time.

Why Redeemable Preference Shares?

Deutsche has developed this structure by issuing the product via redeemable preference shares. An attraction of this structure is that it appears not to have the usual taxation consequences of investing in overseas registered funds (i.e. Foreign Investment Fund (FIF) taxation regulations). The key issue potential investors need to be aware of with the redeemable preference share structure is that upon maturity, all returns generated for the product are deemed to be income for taxation purposes and therefore will be assessable at the investor's marginal tax rate.

Use of Leverage

For every $1 invested, an equal share of $0.50 will be allocated to both Ivy and Meridian. Deutsche Bank will also provide permanent leverage (debt funding) of $1.00 for Meridian and $1.50 for Ivy from the beginning of this investment. These amounts are based on a maximum leverage factor of 3 for Meridian and 4 for Ivy. This means investors will initially have $3.50 exposure to the APP, based on their initial $1 investment ($1.50 allocated to Meridian and $2.00 allocated to Ivy). The leverage factors have been set by Deutsche Bank in London in consultation with both underlying investment managers.

In addition to the permanent leverage, Deutsche Bank may provide additional exposure to the APP of up to $1.75 for every $1.00 invested if pre-determined performance targets are met. This $1.75 is split between $1.00 for Ivy and $0.75 for Meridian, based on the above mentioned leverage factors. Therefore for every dollar invested, investors can potentially have up to $5.25 exposure to the APP ($3.00 allocated to Ivy and $2.25 allocated to Meridian). If both managers can repeat their longer term performance, Zenith expects additional leverage to be gradually utilised, although the full extent of the additional leverage is unlikely to "kick in" in the early period of the investment.

This additional leverage facility will be managed by an Investment Allocation Mechanism. That is, in certain circumstances, where a manager has performed well, the Investment Allocation Mechanism increases exposure to that manager. Conversely, if a manager has performed poorly, the Investment Allocation Mechanism decreases the exposure to the manager. Zenith believes this is a sensible approach to managing leverage, as it only exposes investors to very high levels of leverage if the managers are meeting their performance targets and therefore not overexposing investors to underperforming managers. Reallocations for releveraging and deleveraging occur on the 5th business day before the end of each calendar month. The following examples display how the Investment Allocation Mechanism works:

Example 1: *Value of Meridian Facility increases by 5%, from $1.50 to $1.575 (and no additional leverage is being used).*

INVESTORS' NAV
Investors' NAV ($1.575 less permanent leverage $1.00): $0.575

↓

TARGET ALLOCATION
Target Allocation (0.575 * 3) = $1.725

↓

CURRENT ALLOCATION
Current Allocation ($1.5*1.05) = $1.575

↓

LEVERAGE AMOUNT
Leverage Amount (1.725 – 1.575) = $0.15

↓

RELEVERAGING AND DELEVERAGING
Releveraging will occur

Result: As additional leverage is not being used and the Releverage Amount relative to the Current Allocation is greater than 5.0%, releveraging will occur. As a result, Additional Leverage will be used to increase investors' exposure to the Meridian Fund (by the releverage amount of $0.15 per share), bringing investors' exposure to the Meridian Fund to $1.725 per share (being $0.575 Investor NAV, $1.00 Permanent Leverage, plus the additional leverage amount of $0.15).

Example 2: *Value of Meridian Facility then decreases by 6%, from $1.725 to $1.6215.*

INVESTORS' NAV
Investors' NAV ($1.6215 less permanent leverage $1.00 and additional leverage of $0.15): $0.4715

↓

TARGET ALLOCATION
Target Allocation (0.4715 * 3) = $ 1.4145

↓

CURRENT ALLOCATION
Current Allocation ($1.725*0.94) = $1.6215

↓

LEVERAGE AMOUNT
Leverage Amount (1.4145 – 1.6215) = -$0.207

↓

RELEVERAGING AND DELEVERAGING
Deleverage will occur

Result: As some additional leverage is being used and the Deleverage Amount relative to the Current Allocation would cause a downward adjustment of more than 10.0%, deleveraging will occur. As a result, investors' exposure to the Meridian Fund will decrease (by the Deleverage Amount of $0.207 per share), reducing the Additional Leverage to zero and increasing the Cash Facility to $0.057. Investors' exposure to the Meridian Fund will now be $1.4145 per share (being $1.6215 less the deleveraged amount of $0.207).

To gain a more realistic impact of movements in leverage, Zenith has modelled the monthly performance history of both Meridian and Ivy over the four years ending Dec-04, Dec-03 and Dec-02 under XAP2's leverage structure. Based on this analysis, additional leverage would have been applied to both managers over each of these periods. As such, investors should be aware that the average gearing level of this product should gradually rise above its initial level of 3.5 times towards its maximum of 5.25 times, should each manager perform in line with expectations.

The analysis also demonstrated that the average exposure to each manager over each of these four year periods consistently remained within a range of 40-60%. This dilutes our initial concern that the product may be significantly more biased to Ivy based on its higher maximum leverage amount (4 times versus Meridian's maximum leverage of 3 times). Furthermore, the analysis indicates that the changes to the exposures of each manager are more dependent on manager performance and the consistency of performance than the leverage factor utilised.

Investment Manager Selection Process

Deutsche Bank has selected the Ivy Fund and Meridian Fund for inclusion in the APP.

Deutsche has a dedicated team in London that focuses on identifying conservative, low volatile fund of hedge fund managers that have very low correlation to investment markets and have historically coped well with market shocks (e.g. September 11). The reason that Deutsche focuses on this sector of the market is that they typically offer leveraged or capital guaranteed products to investors, which tend to suit more conservatively managed funds.

Deutsche conducts due diligence on many managers in the sector, however they have a very strong relationship with around five managers, which include Ivy and Meridian. We believe Deutsche's long term relationship with both managers adds a further layer of oversight to the overall structure of XAP2.

Investment Managers

Ivy

Ivy has operated for over 20 years and is based in New York, USA, and focuses only on Fund of Hedge Fund activities. Ivy currently manages over USD15.0 billion in client assets as of December 31, 2004, which ranks them in the top 10 fund of hedge funds managers globally in terms of funds under management.

Ivy was founded by Lawrence Simon and Howard Wohl, both of whom are still heavily involved in the management of the business, which we view as a significant positive.

In terms of personnel Ivy has more than 150 full time employees dedicated to its hedge fund business based in New York, San Francisco and London. Within this team there are 33 personnel within its Investment Group. This team is structured into 4 broad divisions:

- Manager Discovery and Due Diligence
- Manager Monitoring
- Quantitative Analysis & Risk Management
- Portfolio Management

In terms of its investment strategy, Ivy only invests with managers utilising strategies that produce reasonably predictable returns with actively monitored and hedged risks. The 3 broad categories the fund invests in include:

- Event Driven[1] (e.g. Merger Arbitrage, Distressed Investing etc).
- Equity Long/Short[2]
- Market Neutral (e.g. Convertible Arbitrage, Statistical Arbitrage).

In terms of the due diligence undertaken, Ivy tries to understand each manager's competitive edge, determines whether their investment process is repeatable, evaluates whether their business model is scalable and realistic, verifies qualitative work via quantitative analysis and background checks and also negotiates accessibility to key persons and the portfolio. Ivy's portfolio management team, which includes the business's co-founders actively take part in this due diligence process.

The construction of portfolios is primarily driven by a bottom-up basis. Manager allocations typically range from 2.5% to 7.5%, depending on Ivy's internal risk analysis.

Risk of the underlying funds is closely monitored with respect to personnel, assets under management growth, changes in leverage, risk-adjusted performance and style drift. Exposure to regions, sectors as well as other quantitative measures are undertaken to ensure the portfolio does not contain any unintended risks.

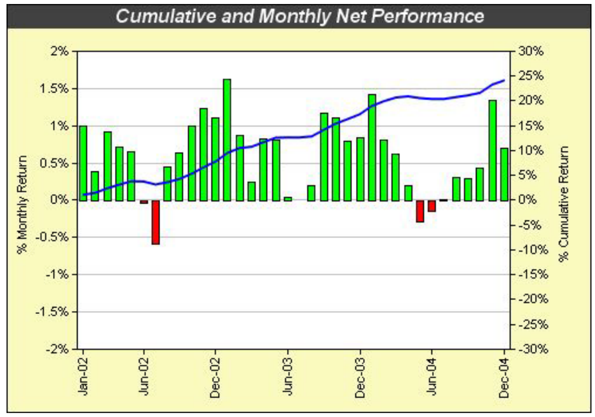
Historical Performance

Ivy manages a number of Fund of Hedge Funds. The Ivy Rosewood Diversified Fund (to which XAP2 investors have exposure to via the Ivy Fund) is Ivy's newest market neutral, low volatility Fund of Hedge Funds. The Fund's investment objective is to return 7.0-9.0% in USD terms above cash investments (before fees), with very low correlation to traditional markets and a volatility of between 4.0-5.0% p.a.

Due to the limited performance history of the Rosewood Diversified Fund, Zenith has utilised a composite stream of returns Ivy manages that to represent the historical performance of their dedicated market neutral, low volatility investment vehicles. It should be noted however that the Ivy Fund's target return is higher than that of the Ivy Composite.

Performance Statistics As at 31-Dec-04	5 Yrs	3 Yrs	1 Yr
Ivy Composite $A (%p.a.)	9.45	7.74	5.80
UBS Bank Bill Index (%p.a.)	5.36	5.10	5.62
Positive Months (%)	88.83	86.11	83.33
Negative Months (%)	11.67	13.89	16.67
Sharpe Ratio	2.06	1.41	0.10
Standard Deviation (%pa)	1.98	1.75	1.78

As displayed above, the performance of the Ivy Composite stream is strong over the longer term, but weaker over the past 1 and 3 years. This downturn in performance is a concern, as under XAP2's structure, these returns would have largely been eroded by the interest payments attached to the leveraged exposure to this fund. As such, performance will have to improve from more recent levels for investors to receive the targeted returns from XAP2.



Ivy has consistently returned above the cash rate, although this proportion of positive months has fallen over recent years.

Based on the fund's consistently low volatility, Ivy ranks highly as measured by the risk adjusted measure of Sharpe Ratio.

While Ivy is renowned as one of the world's leading fund of hedge fund managers, Zenith is concerned with the relatively poorer recent performance as opposed to its longer term returns.

Meridian

Meridian is a hedge fund of fund manager, based in New York, which focuses on equity oriented hedge fund strategies.

Meridian is 100% internally owned by the firm's key investment professionals, which is important as it aligns the interest of investment managers with those of the clients. In total there are 35 employees - 10 of these are investment professionals.

Assets under management were approximately $US 3.2 billion as at 31 December 2004. As Meridian is an institutional investment firm, focussed solely on hedge fund investing, these assets are invested in only 2 strategies. Zenith believes current assets under management should not restrict the scope of out performance targeted by Meridian. This is further supported by Meridian's focus on targeting strategies that invest in deep, public markets (i.e. equity markets) are those which are not highly leveraged. While these markets have better liquidity than immature and emerging markets targeted by some hedge fund managers, the scope for outperformance may, however, be restricted by the relatively higher efficiency of these markets.

In our assessment of Meridian's investment approach, Zenith particularly noted their strong focus on risk management. This focus on risk is illustrated by the fact that Meridian's first step of their investment process is dividing the potential investment strategies into risk classes. Investment ranges (% amount of total portfolio) are then allocated to each of these risk classes, based on risk / return outcome for which Meridian is targeting. This approach should ensure investors' portfolios are not excessively exposed to high risk strategies. The investment team structure is a further example of the firm's focus on risk as each member of the investment team is assigned to reviewing funds that fall within in a certain risk category.

[1] **Event driven** managers focus on identifying and analysing securities that may benefit from extraordinary corporate events
[2] **Equity long/short** or **equity market neutral** managers seeking to take profit by taking advantage of pricing inefficiencies among equity securities and by combining offsetting long and short equity positions to eliminate or reduce overall market direction risk.

The strategies focused on by Meridian include relative value[3], event driven, equity market neutral and hedged equity[4]. The reason Meridian avoids highly leveraged strategies is because they believe "not every investor can get out of the door" when there are shocks to markets which are highly leveraged, as liquidity can reduce significantly in negative environments.

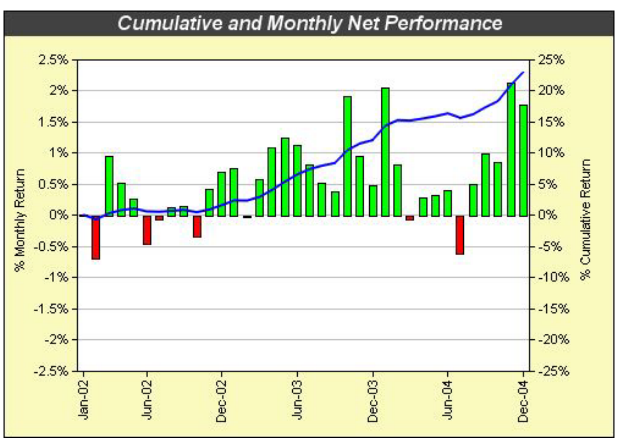
As at 31-Dec-04, the portfolio contained 20 managers. Hedged equity (39.4%) and Relative Value / Event Driven (23.5%) represent the portfolio's biggest exposure.

Historical Performance

Performance Statistics As at 31-Dec-04	5 Yrs	3 Yrs	1 Yr
Meridian $A (%p.a.)	8.69	7.14	9.77
UBS Bank Bill Index (%p.a.)	5.36	5.10	5.62
Positive Months (%)	78.33	80.56	83.33
Negative Months (%)	21.67	19.44	16.67
Sharpe Ratio	0.92	0.86	1.48
Standard Deviation (%pa)	3.62	2.36	2.80

Meridian's performance over the long term is sound, returning 8.69% over the past five years in AUD terms. However, this return has been achieved with higher volatility than Ivy and is an output of the manager's focus on equity based strategies. Disappointing performance throughout 2002 and the first half of 2004 has dragged returns over the past three years, although performance over the past year is impressive.

Importantly, returns over all periods would have been sufficient to cover the cost of permanent leverage, which is the most important benchmark for this fund.



This higher volatility of returns has also resulted in a higher amount of negative months, displayed by the chart above.

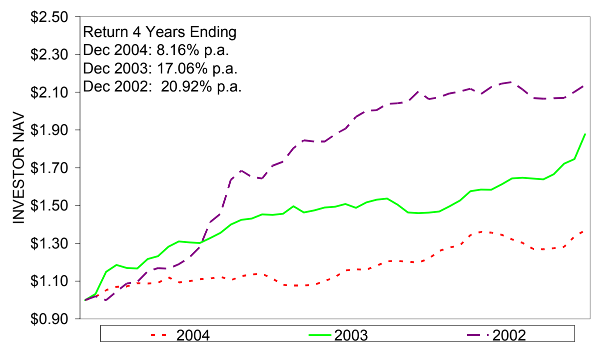
In risk adjusted terms performance is relatively sound over the three and five years with the fund's Sharpe ratio close to 1.0. A ratio above 1.0 indicates the manager is producing relatively greater excess returns per every unit of risk the portfolio is exposed to.

Expected Returns

In an effort to provide investors with a guide to the expected returns of this product, Zenith has used returns for each of the managers for the four year periods ending 2004, 2003 and 2002 and applied Xenon's leverage structure to ascertain what performance would have been generated over these periods.

4 Years Ending	Dec-04	Dec-03	Dec-02
Return (% p.a.)	**8.16**	**17.06**	**20.92**
Standard Deviation (% p.a.)	5.81	8.17	9.58
% Positive Months	68.75	72.92	77.08
Return from Leveraged Ivy Exposure (% p.a.)	9.74	19.32	20.18
Return from Leveraged Meridian Exposure (% p.a.)	6.51	14.09	21.64
Return from underlying Ivy Fund ($A) (% p.a.)	7.90	10.39	10.54
Return from underlying Meridian Fund ($A) (% p.a.)	7.20	8.42	11.96

Historical Return Analysis
4 Years Ending 2004, 2003 & 2002



Zenith believes that this analysis displays that there is a strong chance that the targeted returns can be achieved by XAP2 if both managers can repeat their long term returns (i.e. > 8.5% p.a.).

While over the four year period to 2004, the objective of XAP2 would not have been achieved, this period of returns is uncharacteristically poor for both managers, relative to their longer term returns.

Risks of the Investment

Leverage

The use of leverage will magnify both positive and negative returns. The use of leverage also requires borrowing costs to be paid, which must be met before any positive performance is paid to investors. It should also be noted that some of the funds in which Meridian and Ivy invests, may also contain leverage.

Liquidity

XAP2 is designed to be a medium term investment for investors that can hold the investment for the full term. While Deutsche Australia will provide a monthly **Early Exit Facility**, this will be limited to a number of Shares equal to 5% of the Shares originally issued.

Exchange Rate Fluctuations

The AUD/USD exchange rate will be hedged on a monthly basis, however this does not completely remove the risk that the exchange rate may have a negative impact on returns to investors, should there be intra-month volatility.

Underlying Fund Performance

The performance of XAP2 will largely depend on the performance achieved by Ivy and Meridian over the

[3] **Relative value** managers attempt to profit from the mispricing of securities

[4] Meridian defines **hedged equity** managers as those who focus on strategies where net exposure to equity markets is generally maintained in a range of 20-70% net long or net short.

investment term. While historical performance of both managers is excellent, this may not continue in the future.

In the event that either fund performs poorly and as a result on adjustment date the prevailing value of investors' Net Asset Value falls below a knockout level (20% in the case of Ivy and 15% in the case of Meridian), a **knockout event** is deemed to have occurred. Where a knockout event occurs, all relevant investments in the relevant underlying fund will be reduced to zero, and the proceeds applied to first repaying the outstanding Additional Leverage and then if funds remain, to the relevant cash facility. From that point to the maturity date, the account that has experienced the knockout event will be allocated 100% to the Cash Facility.

Fund Volatility

The volatility of both managers is important, as the relevant share price may result in frequent reallocations between the Fund Facilities and Cash Facilities under the Investment Allocation Mechanism which may erode the value of XAP2.

Interest Rate Movements

Ivy has a target to outperform USD cash rates by a set objective and so would expect its returns to adjust as US interest rates move. Similarly, Meridian has shown its ability to consistently produce higher returns in an environment where interest rates are rising. Furthermore, based on the currency hedging approach adopted by Deutsche Xenon, as USD returns produced by the underlying managers are hedged back into AUD, the AUD returns from the underlying managers should adjust to Australian interest rate movements. However, there is a risk that returns of the Funds may not increase proportionally with interest payments, which may negatively impact returns.

Fees & Expenses

There are no application or management fees applicable to Deutsche Xenon. However the performance of APP, which determines Investors' returns, will be reduced by fees charged to the Funds:

- The Ivy Fund will charge a management fee of 1.50%p.a. of the Ivy Fund's Net Asset Value (NAV) and an annual performance fee equal to 10% of any increase in the Ivy Fund's NAV above a prior high watermark. Of this, Deutsche Bank will receive 0.60% p.a. of the Ivy Fund's NAV and 3% of any increase in the Ivy Fund's NAV above a prior high watermark. Deutsche's payment does not further affect the returns of the APP.
- Meridian charges a management fee equal to 1.25% p.a. on the Meridian Fund's NAV and a performance fee equal to 10% of the annual increase in the Meridian Fund's NAV. Of this, Deutsche Bank will receive a fee rebate equal to 0.50% p.a. of the Meridian Fund's NAV. Deutsche's payment does not further affect the returns of the APP.

Deutsche Bank will also receive the benefit of the Funding Charge equal to the 3-month BBSW +2.20% p.a. on the Permanent Leverage and the 1-month BBSW +0.80% p.a. on any Additional leverage. The funding charge is deducted when calculating the performance of the APP.

The initial borrowing rate of the 3 month BBSW + 2.20% p.a. (approximate borrowing cost of 8.03%) is higher than most internally geared products Zenith has reviewed however this is largely attributable to Deutsche Bank covering the cost of the 3.0% initial commission and trail commission rather than this being deducted from the investor's initial investment amount. While this ensures that investors have 100% of their investment invested in the product, the higher borrowing cost "raises the bar" for the underlying managers to achieve a higher hurdle rate to repay the interest levels, prior to generating positive performance for shareholders.

Applications of the Investment

XAP2 aims to achieve a target return of 15-18%p.a. while having a low correlation to traditional investment markets. Unlike the product's closed end, leveraged hedge fund competitors, XAP2 differentiates itself by not having a capital protection facility and having a considerably lower investment term of just under 4 years.

Another point of differentiation is that XAP2 provides access to two leading global fund of hedge fund managers, in Ivy and Meridian, which are not available to Australian retail investors in any other form. Zenith believes the managers chosen are suitable for a product of this nature and should their strong performance continue, they will provide a strong chance that the fund's investment objective is attained.

While we believe XAP2 is an appealing product, it is only suitable for high risk tolerant investors that understand the risks of leveraged investments. That is, given that the allocations to each manager are highly geared, both the positive and negative performance of the managers will be heavily magnified.

Zenith believes one of the major attractions of hedge fund investment is that it offers "downside protection" during volatile bear markets due to their low correlation with mainstream asset classes. Historical returns for both managers exhibit little correlation with traditional asset classes and therefore investors will gain diversification benefits from blending this product with a portfolio of traditional funds. Zenith believes the product is also an attractive proposition in the current market environment, where equity markets appear reasonably priced and low but rising interest rates may dampen the return on traditional fixed interest investments.

Taxation

Deutsche Xenon has an obligation to redeem or purchase the Shares on the maturity. As such, the shares should be classified as debt interests in Deutsche Xenon for tax purposes.

On maturity date, investors will receive a dividend on the Maturity Date equal to any positive performance of the Alpha Plus Portfolio. Deutsche Xenon will also redeem, or arrange to purchase each Share on the maturity date for $1.00.

The final dividend paid on a share is a debt interest for tax purposes and cannot be franked, and therefore cannot pass on imputation credits to Investors. Investors will be required to include the final dividend in their assessable income in the year in which the final dividend is paid is declared and paid and is dividend received is subject to the marginal tax rate of the investor in that year.

As a result, the product ideally suits those investors who are on low marginal tax rates at maturity of the product and therefore will not lose as much of their return through income tax. To this extent, the product

Product Assessment

is particularly applicable to self-managed superannuation funds where the tax rate is typically much lower than investors' marginal tax rates.

Investors should also acknowledge that the final dividend is not treated as a capital gain and therefore any positive performance generated is not subject to any capital gains tax concessions. Accordingly, investors in the top tax brackets will be disadvantaged significantly on an after tax basis.

If positive performance has not been generated by the product at maturity, which means the net assets are less than the $1.00 per share, investors will only receive that lesser amount and will not receive any final dividend. The loss incurred by an investor in this instance will be treated as a capital loss and may be offset by capital gains experienced by an investor in the year of maturity.

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